Healthcare Costs Spur Calls for Limits on Profits

State officials target insurers' use of funds as the debate turns from services to finances.

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Rising medical costs are sparking efforts to cap profits of California's health insurers in the same way that surging gasoline prices are fueling proposals for a windfall oil profit tax.

Two bills in Sacramento seek to limit insurers' profits as well as cap consumers' out-of-pocket payments for medical treatment. The state Department of Insurance has a separate plan to limit profits.

Such proposals, if enacted, could result in the nation's most sweeping financial reform of for-profit health plans. Other states, including Connecticut and New York, regulate how much health plans can charge in premiums, and Minnesota allows health maintenance organizations to be run only by nonprofit groups.

The California proposals may not survive industry and political opposition. Health insurers such as Blue Cross of California say these moves would kill innovation and limit the types of insurance California residents can buy. Some experts say profits are not a major factor in rising health costs.

But the proposals underscore a growing backlash against the health insurance industry from consumer advocates and lawmakers who say insurers must absorb a greater share of rising costs. The issue also is renewing calls for a government-sponsored healthcare system.

Insurance Commissioner John Garamendi held a meeting in downtown Los Angeles on Thursday to discuss his proposal to limit insurers' profits.

"The public is saying, 'Enough already,' " Garamendi said before Thursday's meeting. "Health insurance today is not about healthcare. It is about quarterly earnings for Wall Street's benefits."

The focus on insurers' profits represents a shift in the healthcare debate in California. For more than a decade it revolved around how the sick were treated, what illnesses should be covered and what types of specialists patients should have access to, among other things.

But increasingly the debate is focusing on money and who will pay the growing healthcare bills.

The federal Centers for Medicare and Medicaid Services estimated that annual health spending per person would increase from $7,110 now to $12,320 in 2015. Meanwhile, net earnings of HMOs in California have been rising as well. Profits have shot up from $640 million in 1996 to $2.7 billion last year, according to the California HealthCare Foundation.

Health insurance premiums have risen faster than inflation consistently for nearly a decade. Consumers are also being asked to pay higher deductibles and co-payments as employers struggle to maintain health benefits.

Doctors and hospitals say they are not faring much better. Dietmar A. Grellman, a lobbyist with the California Hospital Assn., told Garamendi on Thursday that 56% of the state's hospitals operate in the red. He blamed it partly on low compensation rates from health plans.

Many doctors also complain that they face pressure from the insurers to cut their fees. They would like to see more of the money flow to providers.

"Too much of the premium dollar is going to [profits and administrative costs] where it doesn't help us provide essential care," said Jack Lewin, chief executive of the California Medical Assn., a doctors' group.

The CMA has sponsored a bill that would limit administrative costs, including profits, to 15% of health insurance premiums. Current law sets a 15% limit on overhead, but it does not include profit. The bill, SB 1591, passed the state Senate on May 25 and is awaiting a vote in the Assembly.

Another bill, AB 2281, proposes to cap out-of-pocket expenses to $5,250 for individuals and $10,500 for families. It was narrowly defeated late Wednesday, getting 38 votes, three short of the majority. Seven Assembly members failed to vote and 35 opposed it.

Assemblywoman Wilma Chan (D-Alameda), who introduced the bill, said she was disappointed by the loss but heartened by the narrow vote. She said she may reintroduce the bill with a sponsor on the Senate side.

"This issue is not going away," Chan said.

Garamendi's proposal would increase the percentage of premium dollars insurers spend on medical costs rather than channeling the cash to overhead and profit. The current regulation sets the rate at 50%.

Some are proposing even more radical reform that would essentially eliminate the role of health insurers and their drive for profit by making the system itself public.

"With what is being paid into the system, there is no reason why we shouldn't be able to cover everybody" if profits are minimized, said Judy Dugan, research director for the Santa Monica-based Foundation for Taxpayer and Consumer Rights.

But insurers and some experts say the industry is being unfairly targeted and the proposed reforms do little to address the reasons healthcare costs are rising.

"At the end of the day, we are here to offer products as the market exists today," said Ann-Louise Kuhns, a vice president with Blue Cross of California, one of the state's largest health insurers. "The perception that we are contributing to the rise in costs is flat-out wrong."

That's true, said Marian Mulkey, an analyst with the California HealthCare Foundation. Generally speaking, health plan profits have been on the rise, but profits are cyclical. Overall, overhead and profits account for about 7% of healthcare costs nationwide, she said.

Much of the sentiment against the health plans is intensified by perceived excesses within the companies themselves. Minnetonka, Minn.-based UnitedHealth Group Inc., the nation's second-largest insurer and parent company of Cypress-based PacifiCare, is embroiled in a stock options probe involving Chairman and Chief Executive William McGuire. He recently held $1.6 billion in unexercised options.

Indianapolis-based WellPoint Inc., which owns California's Blue Cross operations, is being sued by former members who say the company canceled their insurance after they became ill and ran up high medical bills. The company has posted record profits since it was formed from the acquisition of Woodland Hills-based WellPoint by Anthem Inc. in 2004. Last quarter, it made $731.8 million, up 20% from a year earlier.

"The hospitals, and the doctors, and the patients have given blood and they have nothing left to give," said Jamie Court, president of the taxpayer foundation. "The only ones left to give are the insurance companies and the pharmaceutical industry."