



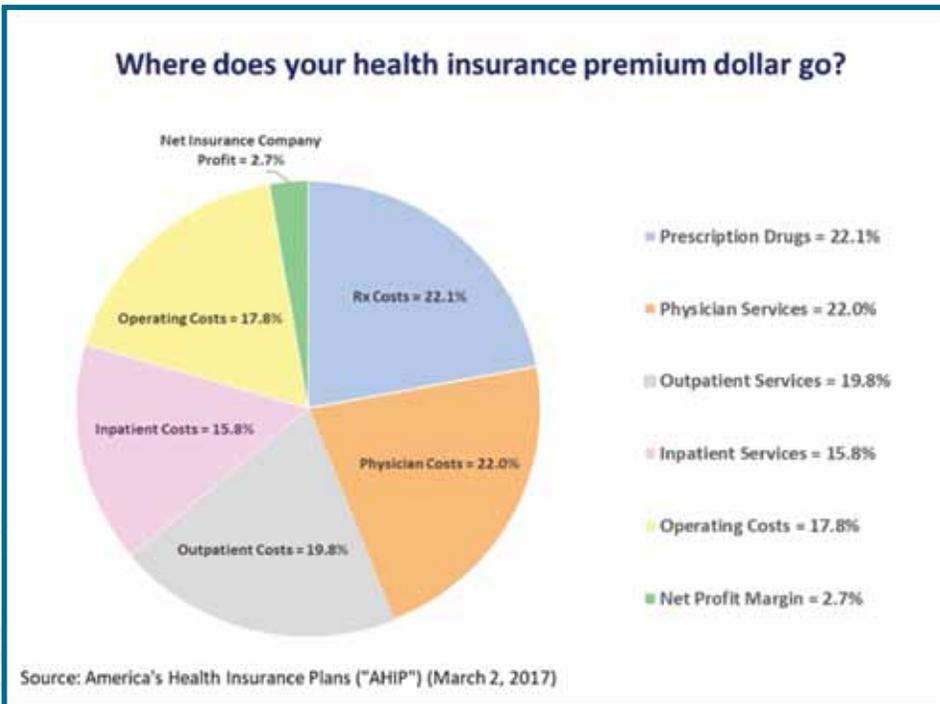
By David Leo, President of WMI Mutual Insurance Company & WMI TPA

HEALTH Insurance Premium & HEALTHCARE Spending ... where does all that money go?

If you've ever wondered how those lousy health insurance companies spend all your hard-earned premium dollars, this article might surprise you. It might also surprise you to learn how much money is spent on the healthcare of a very small segment of the population, or how expensive medical care is in general. If nothing else, I'm willing to bet it will shock you to learn just how much (or better said, how little) health insurance companies actually retain as profit out of the health insurance premium dollar (assuming they have a normal claims year and have operated profitably at all).

I've stolen the majority of the information in this article from two highly-respected and reputable sources: (1) America's Health Insurance Plans ("AHIP"); and (2) the nonprofit, nonpartisan National Institute for Health Care Management ("NIHCM") Foundation. The AHIP report and methodology can be found at www.ahip.org/health-care-dollar, and the NIHCM data is at www.nihcm.org/categories/concentration-of-us-health-care-spending. If you're interested in accurate information about healthcare cost drivers or the allocation of health insurance premiums, rather than anecdotal information and political rhetoric, I would encourage you to visit those well-documented and authoritative websites.

According to AHIP, almost 80% of every premium dollar goes to four major healthcare components: prescription drugs (22.1%); physician costs (22.0%); outpatient medical costs (19.8%); and inpatient medical costs (15.8%). That leaves about 20% to cover insurance company operating expenses (e.g., salaries and benefits, office space, operating systems, independent agent commissions, PPO network fees, etc.) and profit (see, Graph 1). If everything goes as planned and claim costs run as expected, the insurance company gets to book a whopping net profit of 2.7%. (Compare that piddly amount to Apple's recent net profit margin of 21.2%!) Of course, if an insurance company suffers an aberrant year and claims exceed expected loss ratios, it is forced to cover losses with policyholder surplus or some other funding source.



Graph 1

Graph 1



Before you dismiss these numbers, let's examine the findings of the NIHCM report that analyzed various healthcare spending metrics and trends. The first graph I'd like to focus on looks at healthcare spending in the United States and shows how a very small percentage of Americans consume an inordinate and highly inequitable amount of the healthcare dollar (see, Graph 2). More specifically, the NIHCM data indicates the top 1% of spenders account for almost one-fourth of all healthcare spending, the top 5% account for half of spending, and the top 10% account for two-thirds of spending! On a positive note, however, the bottom 50% of spenders only account for 3% of all healthcare spending!

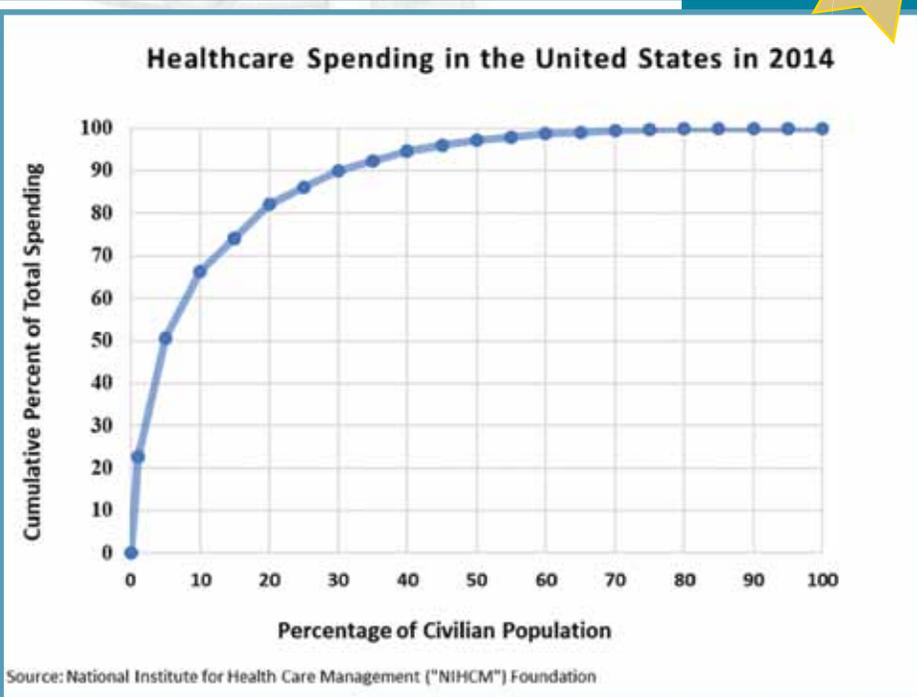
Graph 2

Now that we know a very small number of people use a highly disproportionate amount of the healthcare dollar, I'd like to explore the NIHCM data in greater detail so we can see exactly how much of the healthcare dollar is used by a relative few people. It is not my intent to disparage these individuals or to diminish the seriousness of their medical plight, but rather to present accurate information so we can better understand what is going on in this huge segment of our economy, and cut through the whitewash and sensational soundbites that play well in the media but have no basis in fact.

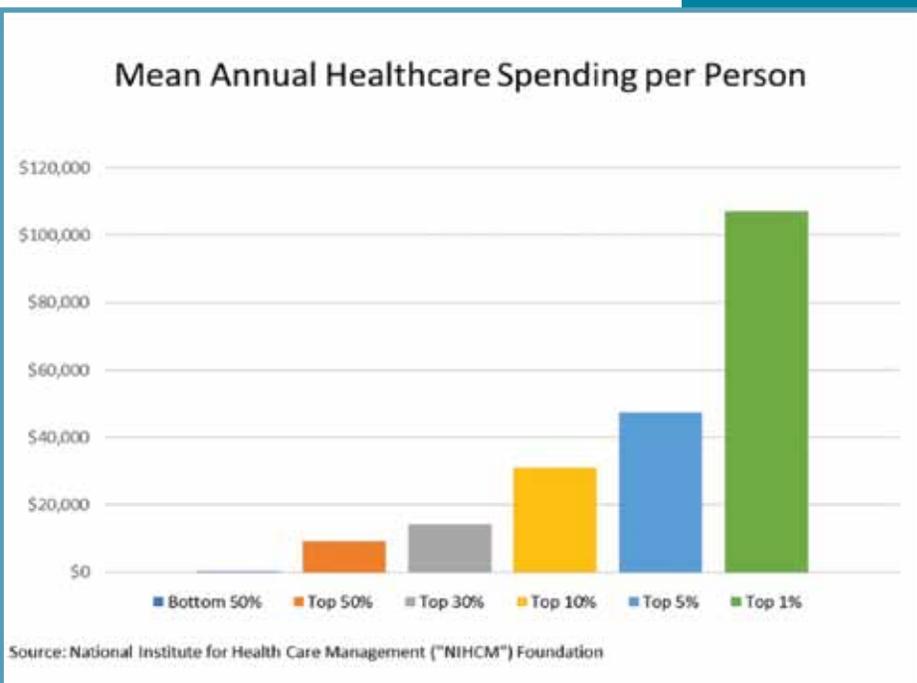
The NIHCM data in Graph 3 examines average annual healthcare spend per person. According to this data, a mere one percent (1%) of the population (3.2 million people) in any given year is responsible for a whopping \$107,130 per person of healthcare spend; 10% (31.9 million people) spend \$31,180 per person; and the bottom 50% (159.2 million people) spend less than \$300 apiece. This is a textbook case of the "80-20 rule," and it clearly indicates the need to control the healthcare costs of these highest utilizers if we are ever going to make healthcare (and health insurance) affordable to the rest of the population.

Graph 3

There are many ways (short of a single-payer universal healthcare system) to tackle the problem of healthcare affordability in the U.S. (e.g., government regulation of medical costs, aggressive management of the medical care of the sickest Americans,



Graph 2



Graph 3

subsidization or reinsurance of medical costs that exceed a reasonable threshold, etc.), but one thing is certain: unless and until we address this problem, health insurance will never appropriately reflect the actual risk of the overwhelming majority of the people who purchase it, and it will never be affordable to most Americans. Moreover, as healthcare costs (and the insurance premiums that track them) rise at hyperinflationary levels, the U.S. health insurance market will continue to struggle against the ever-present death spiral that has been an obstacle to affordable and manageable health insurance premiums for decades, and meaningful healthcare will continue to be out reach for most people.

If you have questions about this article or would like to discuss your company's health insurance program, feel free to contact me at (801) 263-8000 or info@wmimutual.com.