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

Just How GREEDY Is My

For most people, it's a foregone conclusion that health insurance companies and their executives are greedy weasels … second only to lawyers. As an insurance company executive (and a lawyer), I'd like to ask that you indulge me a few minutes of your time to rebut that unfounded (albeit convenient) fallacy … at least insofar as its application to health insurance companies. Before we start, please take a moment to answer the following question:

Question: The average net profit of U.S. health insurance companies is ___% of revenue.

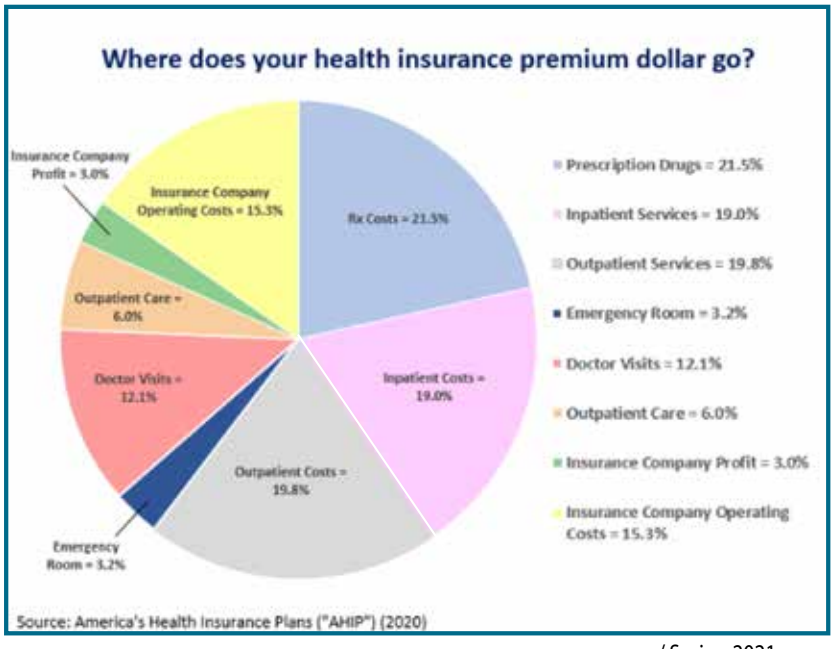
A: 3% **B:** 5% **C:** 10% **D:** 12% **E:** 15%

Hint: According to *Yahoo! Finance*, the most recent net profit margin (%) (defined as net income ÷ revenue) for Apple, Inc. (AAPL) is 21.3%; The Walt Disney Company (DIS) is 13.8%; Berkshire Hathaway, Inc. (BRK.A), Warren Buffet's conglomerate, is 12.8%; Johnson & Johnson (JNJ) is 21.0%, and Alphabet, Inc. (GOOG), the parent company of Google, is 19.0%.

I'll provide the answer to the question in due course, but I'd like to illustrate where the health insurance premium dollar goes first. I would also like to show you how much of the health insurance premium dollar is used by so few, and why health care reform must address health insurance costs for it to be effective. Finally, many years ago I heard the saying, "Health insurance is expensive because health care is expensive." I hope that once we dispatch with a few myths that are easy to believe and difficult to dispel, you will see that maybe, just maybe, health insurance companies aren't such greedy profit mongers after all.[1]

According to data compiled from America's Health Insurance Plans ("AHIP"), nearly 82% of every premium dollar goes directly to pay for the following healthcare expenses: prescription drugs (21.5%); inpatient medical care (19.0%); and other medical services (41.1%) (*see*, Graph 1). Insurance companies allocate 15.3% for overhead, which includes things like salaries and benefits, office space, agent commissions, PPO access fees, medical case management fees, prescription drug card fees, and many additional expenses that are paid to other third parties. That leaves a mere 3% for profit (in a good year) … hardly the double-digit profit enjoyed by many other industries and companies. So … the answer to the question of how much profit health insurance companies in the U.S. make on average is "A: 3%" … hardly greedy and far from weaselly. I should note this figure is consistent with the medical loss ratio ("MLR") requirements of the Affordable Care Act ("the ACA" or "Obamacare") which mandate that health insurance companies spend 85% of all premium on medical expenses, and that insurers refund premium if they don't satisfy that threshold. The 85% figure drops to 80% for individuals and small groups, but that's still a pretty stringent target! I should also note that health insurance companies that experience an adverse claims year are required to cover excess losses with policyholder surplus or some other funding source, so it's a "heads-we-win / tails-you-lose" proposition.

GRAPH 1

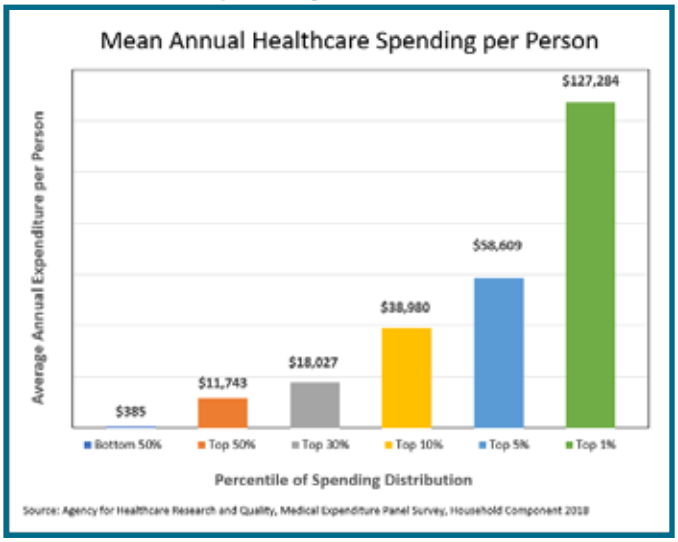


1 I've gathered the majority of my information and documentation from several reputable sources: (1) America's Health Insurance Plans ~ Where does your health care dollar go? (https://www.ahip.org/health-care-dollar); (2) the nonprofit, nonpartisan National Institute for Health Care Management Foundation (https://nihcm.org/publications/the-concentration-of-u-s-health-care-spending); and (3) The Agency for Healthcare Research and Quality (https://www.meps.ahrq.gov/data_files/publications/st533/stat533.pdf). 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.

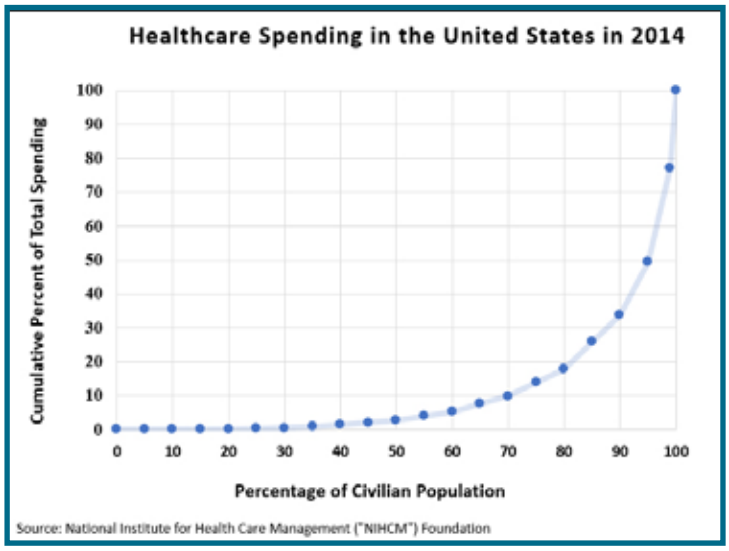
Health Insurance Company

To add perspective to healthcare spending in the U.S., I would like to take a look at data from the National Institute for Health Care Management Foundation ("NIHCM") and the Agency for Healthcare Research and Quality ("AHRQ"). This data identifies huge discrepancies between those who use very little of the health insurance premium dollars and those who use extraordinary amounts. According to the NIHCM data, nearly one-quarter of all money spent on healthcare is used by a mere one percent (1%) of the population (*see*, Graph 2). The AHRQ data pegs this figure at a whopping $127,284/person per year (*see*, Graph 3). The top 10% of individuals are responsible for using two-thirds of all healthcare spend ($38,980/person per year), while the bottom 50% only use 3% of healthcare spend at a meager $385/person per year.

GRAPH 3



GRAPH 2



According to PBS.org, there were an estimated 331 million people living in the U.S. in 2020. This means 3.3 million Americans were responsible for $421 billion of healthcare spend, while the healthiest 165 million people (50 times that population) spent less than one-sixth of that figure! This is a textbook case of the "80-20 rule," and it clearly illustrates 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.

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, 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 of reach for most people.

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