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Attacks Can't Obscure Health Law's Valuable Benefits

After decades of trying, health care reform is finally a reality. The Affordable Care Act (ACA) is sweeping in scope (it has more than 300 sections) and takes four years to implement. Critics say Americans don't want it, but if that's true, it's only because of false claims by those who do not know what its provisions are or who are being spun by people who have an economic or political interest in blocking the law.

Health reform provides coverage to millions of people while correcting many current and serious defects. It isn't perfect, but it has countless positive elements being ignored by critics. One key example is Section 2718, "Bringing down the cost of health care coverage," which takes effect today (September 23). It brings sorely needed cost-control mechanisms while retaining health insurers' ability to innovate. The provisions of section 2718 are eminently reasonable, and if the atmosphere were not so politically charged, they would receive strong bipartisan support.

Insurance accounting used to be straightforward. The hospital sent a bill. The insurer paid most of it, and forwarded the balance to you or your employer. With the advent of for-profit insurers, which now dominate the industry, accounting and classification of costs have become creative enterprises. Accounting standards set broad rules, but each insurer retains flexibility to "do it their way." This is not unlike bank credit card practices.

The ACA set requirements for uniform cost reporting by insurers. Rather than have folks in Washington deciding how to classify costs, the legislation astutely sought broad consensus from all 50 states by assigning that task to the National Association of Insurance Commissioners (NAIC).

After months of input, pro and con, from interested parties across the nation, the NAIC last month overwhelmingly adopted reports requiring standardized cost and premium definitions. The ACA requires publishing those reports thereby dramatically increasing insurers' transparency. Why all the fuss about these definitions?

Insurers collect premiums and from them pay medical costs and other expenses. Any remainder goes to administration, executive pay, profit, or surplus. Today, there are few controls on what insurers may charge, and premiums of some insurers far exceed their medical costs. Their customers are not receiving value, but they are paying for high executive salaries, profits and wasteful administration.

Reform sets maximum reasonable profit levels through a formula called the medical loss ratio (MLR), which is the share of a health plan's premium revenue that's spent on medical costs. Under the ACA, insurers must achieve minimum MLRs or rebate the difference to customers. This will ensure that customers are getting their money's worth. The minimum MLR for large group plans is 85 percent. For small employers and individuals who buy coverage directly from health insurers, the MLR is 80 percent.

Some insurers are complaining that the minimum MLR levels are too high and are trying to lower them, but many insurers are already in compliance, signifying that they can operate profitably within these new rules. Insurers with wasteful administrative costs or excess profits will need to change to become more competitive.

Insurers lobbied forcefully to change the MLR formula to include several kinds of medical expenses that would make it easier for them to achieve minimum MLRs without changing the way they do business. NAIC allowed some expenses like those that improve health outcomes, prevent hospital readmissions, improve patient safety, reduce medical errors, and health promotion activities. These are health quality expenditures that gradually reduce medical costs.

Overall, reform is fair in not penalizing efficient insurers but does put a stop to excesses and abuses of some insurers who appear far more intent on protecting their cash flows than providing services to their customers.

The ACA also requires each hospital to annually publish a list of its standard charges for items and services. Similar to insurers, requiring charges to be in a uniform format will greatly improve transparency, and allow better cost comparisons. That will generate greater competition and lower prices than we would otherwise see.

Reasonable reforms like these can be found throughout the law, but they are being mischaracterized by political partisans and many health insurers who would prefer the status quo. It is unfortunate that critics get so much press claiming falsely that health care reform is wrong for this country. Section 2718 is representative of many provisions in the new law, and it illustrates that reform is right, it is needed and it will deliver major benefits to American businesses and families struggling to pay for soaring health insurance premiums.

Andrew Kurz is former chief financial officer of Blue Cross-Blue Shield of Wisconsin. He has done extensive research into healthcare reform issues and has been recognized and quoted for his analyses, statistical charts, and insights into reform efforts. Prior to his retirement, he was a Solutions Architect for Oracle.