

## Two Lines of Business Obscure Profit Margins

**FACT CHECK: In 2009, the percentage of premiums that went towards administrative costs and profits declined for the sixth year in a row and have been consistent for decades.**

**FACT CHECK CHECKED:** AHIP *combines self-insured line of business (LOB) and insured LOB* and presents the results as if it were one homogeneous market. Nothing could be further from the truth. Size wise, the ratio of self insured LOB to insured LOB is roughly 58% / 42% of self-insured / insured or underwritten.

Insurers charge self-insured (ASO - administrative service only) groups an administrative fee that, for the top 10 health insurers, averaged 6.94% of costs. That translates to 6.5% of “premiums” which are really medical benefits plus service fee income. This “efficient” administrative expense is not evident in the insured LOB.

To identify the administrative costs and profits for the insured group, one computes and then removes the self-insured revenues and expenses from the CMS Totals as shown in the table below. Sources and stepwise methodology (top to bottom) are shown in the far right column.

Year 2008	UOM	Totals	Self insured ASO - Admin Service Only	Insured Under-written	Data Sources and Methods
Members	millions	72,411	42,015	30,397	Source: HHS Medical Expenditure Panel Survey-Insurance Component (Agency for Healthcare Research and Quality)
Members %	%	100%	58%	42%	<i>Computed (value is used to split total costs)</i>
Members	millions	94,900	54,373	40,527	Comparison data source: 2007-2008 average - top 10 health insurance companies' 10K reports
Members %	%	100%	57%	43%	<i>Computed comparison data essentially the same as HHS</i>
Costs	\$billions	691.2			Source Total Costs column: CMS National health spend - table 12 as used by AHIP
Costs	\$billions	691.2	401.1	290.1	<i>Total costs split 58% / 42% from row 2</i>
ASO Fees	%		6.94%		<i>Fees % of average costs from top 10 insurers' 10K's (assumes avg. insured cost = avg. self-insured cost)</i>
ASO Fees	\$billions		27.8		<i>ASO fees in dollars + self-insured costs = self-insured "premium" = \$428.9 Billion</i>
Premiums	\$billions	783.2			Source Total Premiums column: CMS National health spend - table 12 as used by AHIP
Premiums	\$billions	783.2	428.9	354.3	<i>Insured premium = Total premium - self-insured "premium"</i>
Premiums %		100%	55%	45%	<i>Premium split is different from cost split</i>
Margin	\$billions	92.0	27.8	64.2	<i>Computed: margin = premium - costs</i>
Margin %	%	11.75%	6.5%	18.1%	<i>Computed: margin as percent</i>
Admin Exp	%		5.9%	5.9%	Admin expense about the same for both LOB's
Profit Margin & Commissions Estimate	%		0.6%	12.2%	<i>Insured LOB incurs minor risk plus more sales &amp; marketing expense, but competition is far more intense in the self-insured LOB where customer buying power dominates</i>
MLR		88.3%	93.5%	81.9%	Medical loss ratio (100% - Margin %)

The claim that insurers' average percentage of premiums that went towards administrative costs and profits was around 11.75% (and have been consistent for decades) totally obscures two radically different lines of business with divergent expense ratios. For 2008, self-insured admin costs and profits were about 6.5% for self-insured groups, but about 18% for insured groups. Since the profit margin is VERY slim for the self insured, the bulk of profits are born on the backs of the insured groups which include small business and individuals. A reasonable question to ask is **“why are insurers satisfied with profit margins of well under 1% on 55 % of their business but feel a need to push margins well beyond 10% on 45% of their business?”** Though risk is a small factor in the insured LOB, they have to compete far harder on self-insured LOB than on insured LOB where they hold oligopoly power in local market areas and convert that market power into profits.