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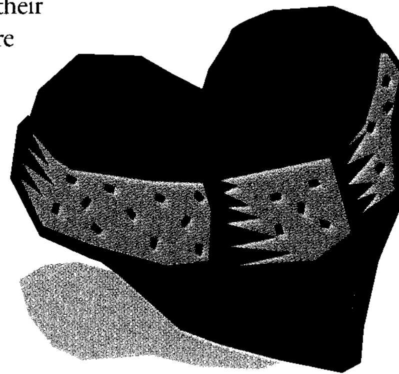
# The Need to Do Something – But SB1440 Isn't It

*by Alan Katz*

Senate Bill 1440 authored by California State Senator Sheila Keuhl would require carriers to spend 85% of the premium they take in on medical care. As originally introduced, SB 1440 would have had a devastating impact on the individual health insurance market. It would have increased costs, decreased competition, and made it nearly impossible for independent agents to help consumers find the right plan for their needs.

Fortunately, SB 1440 has been substantially amended. As it reads today, the biggest problem with the bill is that it requires carriers to segregate their Dept. of Managed Care regulated plans from those regulated by the Dept. of Insurance. While it's not surprising that regulators and legislators perceive these plans to be worthy of distinction, it's a meaningless difference from a consumer's point of view. Governor Arnold Schwarzenegger and Senator Sheila Keuhl should address this issue in their negotiations concerning the legislation. But that's not the overriding problem with SB 1440.



What's wrong with SB 1440 is that it won't lower premiums, which is the stated purpose of the bill. The Rand Corporation examined the results of similar legislation in other states. It found states with no medical loss ration legislation spend statistically the same percentage of premium as those that regulated the entire market (83% and 84%, respectively). While it's true that states limiting the loss ratio of all coverage (individual, small group, and large group) set targets at levels lower than the 85% called for by SB 1440, the report suggests consumers are unlikely to benefit from any premium savings.

Profits and administrative costs aren't the problem with skyrocketing health-care costs. The price of medical treatment drives premiums. The study found that 85% of the increase in revenue per enrollee between 2002 and 2006 was the result of medical costs.

Lawmakers could address 85% of the problem. But that's hard work. It requires examining the drivers of increased medical costs and making tough decisions on how to reduce their rate of increase. It's far easier to go after health insurance companies and HMOs. Never mind that, as reported by the Rand study, the profits of California HMOs are less than the profitability of the companies comprising the S&P 500. The reality is that, along with oil and tobacco companies, they are about as easy a political target as exists.

So lawmakers will pass SB 1440 and declare a blow against rising insurance premiums. They may not be able to pass a budget, but they can teach those insurance companies a lesson. The fact that the legislation won't have much, if any, impact on premiums is irrelevant. The fact that it won't bring medical inflation down to general inflation levels doesn't matter.

Because, while we pay them for results, we have a tendency to elect lawmakers based on appearances. Which means the underlying problem remains. ❑

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*Alan Katz is a past president of both the National and the California Association of Health Underwriters. In 2003, NAHU named Alan the Health Insurance Person of the Year, awarding him that year's Harold R. Gordon Memorial Award. To read Alan's Blog, visit http://alankatz.wordpress.com.* ❑