

Karen Ignagni  
President &  
Chief Executive Officer



March 3, 2010

The Honorable Kathleen Sebelius  
Secretary  
U.S. Department of Health & Human Services  
200 Independence Ave., S.W.  
Washington, DC 20201

Dear Secretary Sebelius:

I am writing to provide additional data about the issue of rising health care costs, what's driving them and how we can bring costs under control to assure the American people that the system can be made more affordable. Health plans know first-hand that the soaring cost of medical care is placing a heavy burden on our nation, and particularly on working families and small businesses that are struggling to make ends meet during these challenging economic times.

Our community has worked very hard to offer comprehensive solutions to bend the cost curve with the goal of providing relief to individuals and families and ensuring that health care reform will be sustainable. From the beginning of this debate, health plans have strongly supported comprehensive health care reform, and we have offered policy solutions in support of this goal. We have proposed a complete overhaul of the individual insurance market and offered far-reaching initiatives to transform health care administration. But for months health plans have been raising concerns about far more needing to be done in health care reform legislation to bring costs under control, because we were seeing disturbing increases in unit costs in the marketplace. We also have raised strong concerns about what happens when costs increase and younger and healthier people leave the pool. These concerns no longer are conjectural; they are being borne out in the data.

With respect to why premiums are increasing, we believe the data clearly show that premiums are increasing primarily because of soaring medical costs and a slowdown in the economy. In some markets underlying health care costs are increasing at double-digit rates, and some of our members report that hospitals are demanding rate increases of up to 40 percent<sup>1</sup>. The second major factor affecting costs in the individual market is the fact that younger and healthier

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<sup>1</sup> Anemona Hartocollis, "Insurer Steps Up Fight to Control Health Care Cost," *The New York Times*, January 25, 2010.

individuals are dropping coverage in a weak economy.<sup>2</sup> As healthier people leave the pool, premiums spike for individuals who are older and less healthy.<sup>3</sup>

Indeed, the Department's recently released analysis of 2009 health expenditures found that rising costs for hospitals, physicians and prescription drugs have led to the largest growth in health care spending as a share of GDP since the government started keeping track of these data 50 years ago.<sup>4</sup> Just last week Health Affairs<sup>5</sup> published an analysis that showed that hospitals and physicians have enhanced their significant bargaining clout in a way that works against consumers.

The data also put in perspective health plans' profits and administrative costs. Indeed, the Department's analysis showed that in 2009 the portion of premiums that went toward health plans' administrative costs and profits declined for a second year in a row.<sup>6</sup> Fortune Magazine's 2009 analysis of industry profits showed that health plans' profit margin was 2.2 percent, ranking it far below other health care industries.<sup>7</sup> Yahoo! Finance's latest analysis of quarterly financial data shows the average profit margin in the health insurance industry is 3.4 percent, compared to 11 percent for the entire health care sector.<sup>8</sup>

We have long advocated that a public-private process be established to develop a road map to take 1.5 percentage points off the future rate of growth in total health care costs. The Council of Economic Advisors has issued a report on how achieving that objective could help the economy, and various analyses have indicated that over a ten-year period as much as \$20,000 could be saved per family. Such an effort would help reduce the deficit, improve the stability of Medicare, and control the future cost of coverage for those under age 65, including small businesses and individuals.

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<sup>2</sup> Rebecca Vesely, "Rate hikes under fire", *ModernHealthcare.com*, February 22, 2010.

<sup>3</sup> National Public Radio, Obama Plan Would Monitor Insurance Premiums, February 23, 2010.

<sup>4</sup> Christopher J. Truffer, Sean Keehan, Sheila Smith, Jonathan Cylus, Andrea Sisko, John A. Poisal, Joseph Lizonitz, and M. Kent Clemens, Health Spending Projections Through 2019: The Recession's Impact Continues, *Health Affairs Web Exclusive*, February 4, 2010.

<sup>5</sup> Berenson, R., Ginsburg, P., and Kemper, N., "Unchecked Provider Clout In California Foreshadows Challenges To Health Reform", *Health Affairs* 29 (April 2010): 1-7.

<sup>6</sup> Truffer, February 4, 2010.

<sup>7</sup> Fortune 500, "Top Industries: Most profitable", *Fortune*, May 4, 2009.

<sup>8</sup> Yahoo!Finance, Yahoo.com, <http://biz.yahoo.com/p/5qpm.html>

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We remain ready to work with you, legislators and stakeholders in a comprehensive effort to bring costs under control and put in place best practices that will provide more transparency and accountability for the benefit of individuals, families and employers.

Recognizing the important dual responsibility of state insurance commissioners in protecting consumers and ensuring the financial stability of insurers in the marketplace, we are also committed to working with the National Association of Insurance Commissioners (NAIC) to help develop a uniformity of process and more transparency for consumers.

Far too often during the health care reform debate, sound bites and media events have taken the place of substance and thoughtful discussions. From irresponsible allegations about death panels to unsubstantiated claims about health plans' impact on costs, the process has regularly been overtaken by politics and vilification. Our members look forward to an open, fact-based discussion about rising health care costs and how to put our health care system on a sustainable path.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ka', with a long horizontal flourish extending to the right.

Karen Ignagni  
President and CEO