



## Status of our Healthcare

### Where we are

The most prominent healthcare law in place is the Affordable Care Act (ACA), more commonly known as Obamacare.

Unfortunately, financing our healthcare is still fragmented. Our nation's healthcare funding is delivered by different sources; employer sponsored plans, individual plans, Medicare and Medicaid.

Federal and State governments govern healthcare regulation. Even with the ACA in place, State control on healthcare and insurances is significant.

### AHCA - recent change failed

Elected officials often make promises they cannot keep. The Republican Congress failed miserably on its promise of improving healthcare. It is a good thing that it did not make it to the voting phase, despite a number of attempts.

The American Health Care Act (AHCA) of 2017 would have removed numerous provisions of the ACA. These provisions, such as individual and employer mandates, premium and out of pocket subsidies would have weakened financial support for those who needed it most. The AHCA would have made significant changes to the Medicaid expansion taking away coverage for millions, while putting a financial burden on states. It would have added financial extension to Health Savings Accounts, and extended the use of these pre-tax dollar savings. At the same time older Americans would have paid three times more for the same insurance.

At the end the republican majority was unable to agree parts of the replacement provisions. Some wanted more elimination, such as essential benefits, while others wanted to keep more. Perhaps over nine million people potentially losing coverage scared them enough to refuse to vote.

### There are two significant provisions that should be changed in the ACA

1. The MLR (Medical Loss Ratio)
2. Mandated presence in all markets

Below is detailed information about MLR. It needs to go return to its original calculations.

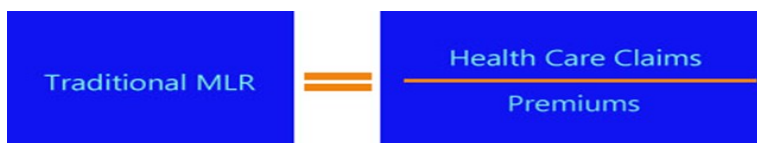
The other fix is an added line in the law. If an insurance company doing business in a specific state they must participate in all types of insurance coverage. For example if Blue Cross and Blue Shield is providing insurance for the large group market they need to be mandated to provide coverage for the individual and small group market as well.

These two additions to the ACA would force insurance companies to extend their products and trim profit.

### ACA – the good, bad, and ugly

The good part of ACA removed life time limits. It added guaranteed issue rule; removing provisions to deny coverage for pre-existing conditions, extended employer based coverage under the parent's policy for dependents until age 26, added subsidies for those with lower income, and extended Medicaid.

The bad is the redefining the Medical Loss Ratio (MLR). This change is one of the reasons why insurance companies are earning record high profits. By definition MLR is a percentage the insurance company has to pay out on medical claims. For the individual market this number is 80%. The remaining 20% can be spent by the insurance companies on business activities, such as marketing, profits, administrative costs, salaries, and payment to agent commissions. Prior to the ACA, calculating the MLR was straightforward:



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In calculating MLR, the numerator (Health Care Claims) of the ratio contains the insurance company's expenses related to health care, and the denominator (Premiums) contains the premiums collected by the insurance company. The expenses included in the numerator and the denominator greatly affect the resulting MLR.

The ACA modified how the MLR calculated:

$$\text{ACA MLR} = \frac{\text{Health Care Claims} + \text{Quality Improvement Expenses}}{\text{Premiums} - \text{Taxes, Licenses, Regulatory Fees}}$$

This change in the MLR calculation resulted in profits to insurance companies that did not exist prior to the ACA. Case in point, Anthem Inc. (ANTM) stock price and dividend history for the past 20 year:



The vertical line in the image is the effective start date, 03.23.2010, for the ACA.

Anthem started to pay dividend (\$0.25) on 03.01.2011, just about a year after the ACA has become the law. The quarterly dividend paid in 2016 was \$0.65 that resulted in \$2.60 dividend per stock for the year. While individual dividend does not seem much, the total dividend paid for ~264M shares is \$685M in year 2016. Yes, that is \$685 Million of the premiums made it to Wall Street. Anthem's Earning per Share (EPS) of \$9.21 that not used for paying medical claims is \$2.43B on the annualized basis. Yes, that is \$2.43 Billion...

Could these amounts pay for the medical claims instead of denying them? You'll be the judge...

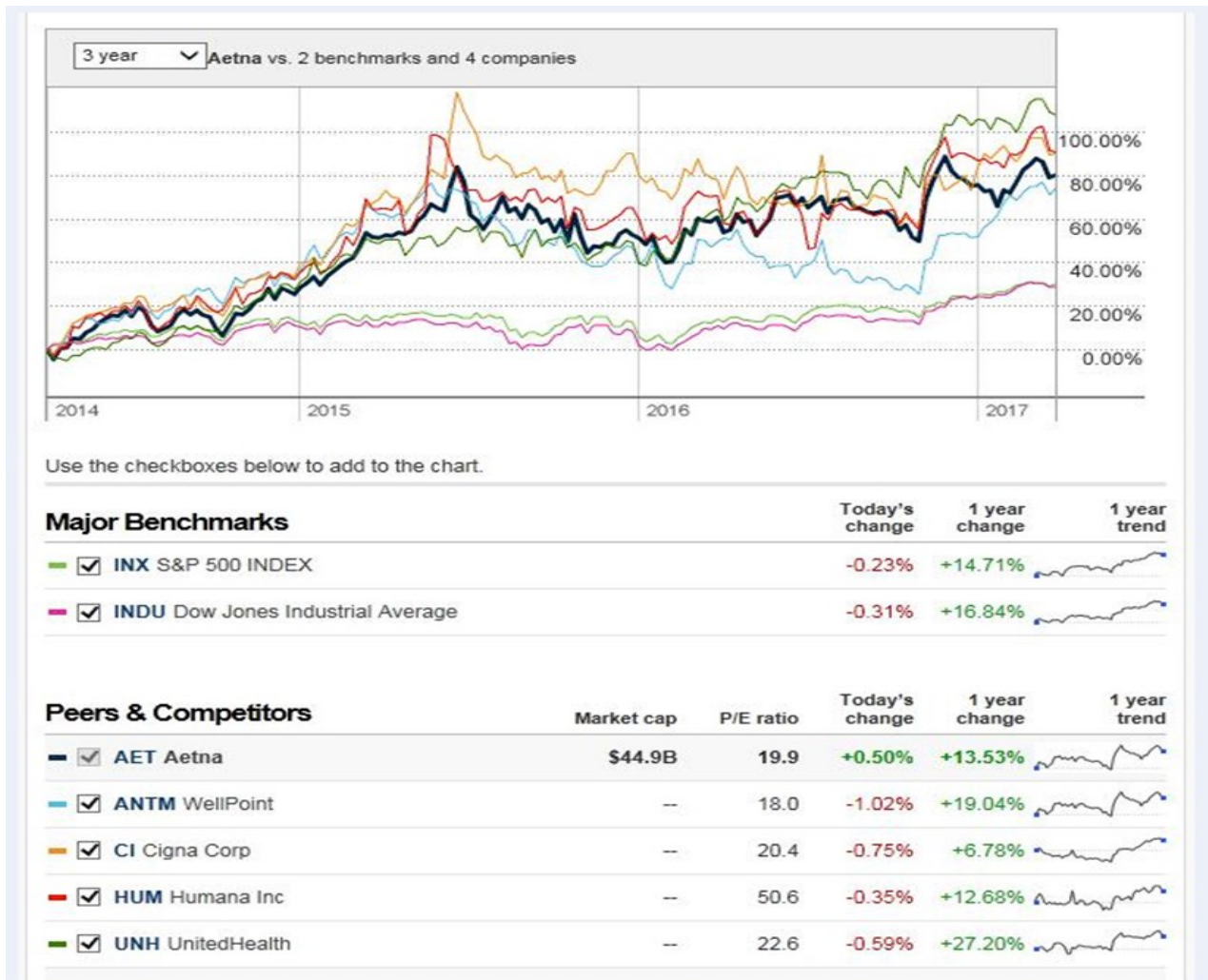
The Anthem Inc. financial data is just a sample. Other health insurance companies, such as Aetna, Cigna, United Healthcare, and others had similar level of stock and dividend increases since 2011.

One ugly part of ACA is refusing a promise to fund risk management. A risk corridor program was a promise to insurance companies to fund some of the losses resulted in higher than expected medical claims cost due to sicker enrollees. Some of the money was to come from HHS and some from especially profitable insurance companies. The Department of Health and Human Services (HHS) managed the three years program with significant shortfall. The republican congress refused to cover the shortfall from the discretionary spending. As a result startups ended up closing doors, and other insurance companies pulling out from the ACA Marketplace.

Oddly the MLR and risk corridor are closely related. It is a mystery to figure out how an insurance company can make records profits and cry of loss at the same time.

# Status of our Healthcare, cont.

Below is a 3-year history of major insurance companies' performance compared to stock market benchmarks:



All five health insurance companies outperformed the S&P 500 and Dow Jones Industrial Average by a substantial margin.

## Quality of care

Over 20 years I have not seen significant change in the quality of US healthcare. Services are delivered the same way as before. Some hospitals and physician's office may get updated and nicer looking, but ultimately it did not affect the quality of care. In my view, the quality of care delivered on the individual bases. A caring doctor, nurse and all other healthcare professionals are the bases for care.

Comparing US healthcare to other nations does not reflect on the US positively, despite the extremely high cost in the US:

We have less practicing physicians per capita than Norway, Germany, Sweden, Denmark, Australia, France, and New Zealand.

We have less hospital beds than seven other nations.

We are tenth on hospital discharge out of 13 nations.

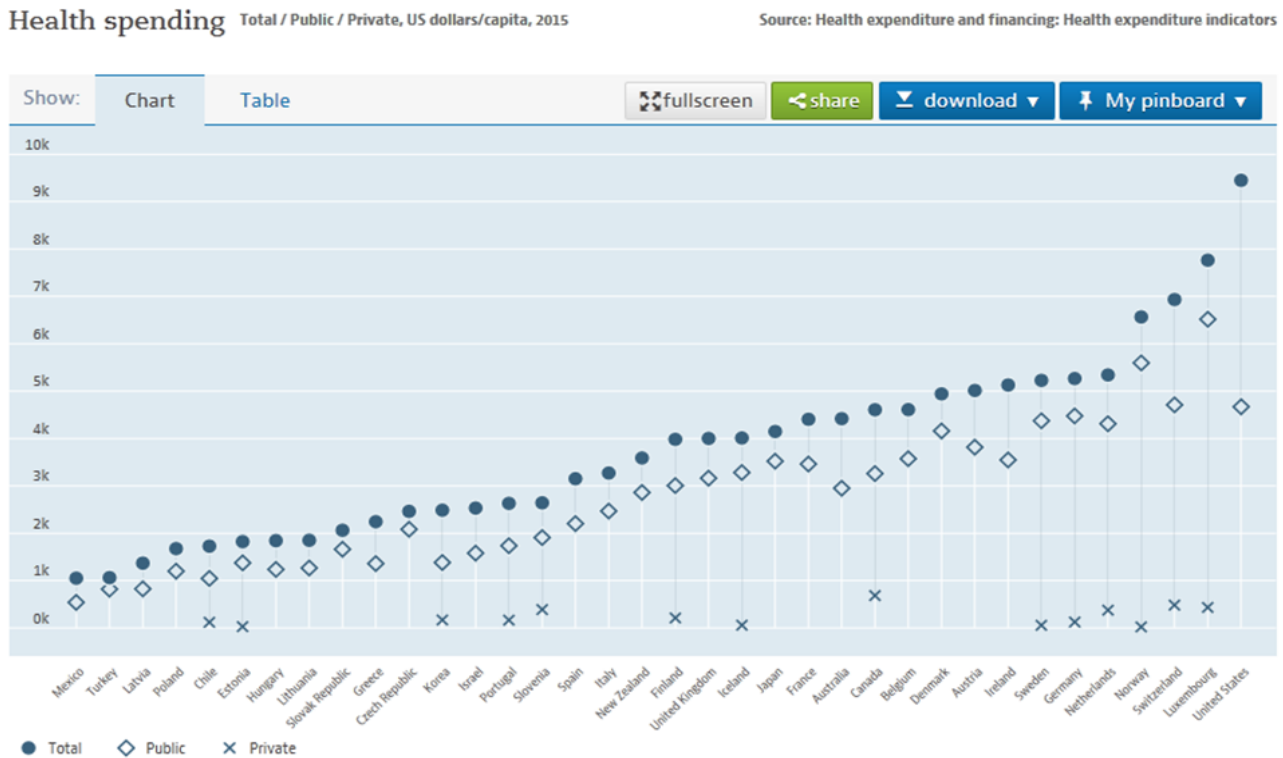
We take more prescription drugs than 10 other nations combined.

Our hospital, diagnostic and drugs cost more than all other nations.

We have the highest infant mortality rate, the highest obesity and highest two or more chronic conditions than any other nation.

# Status of our Healthcare, cont.

## Our Healthcare spending compared to other nations



The US spends significantly more per capita in healthcare than any other industrialized country. Yet, we still neither have universal coverage nor better outcomes. The reason for this is simple. The US still treats healthcare as a profit generating business.

Other nations figured out how to control cost. There is a common fee schedule across the board. Cost containment is based on monitoring spending in areas of healthcare. When a specific area is growing faster than expected the governing body steps in and lower the price for that service.

Along this line, we have to remember that our healthcare is expensive not only by premium increases by insurance companies, but by price increases for the providers' services and drugs.

### Chances for progress and change

Nope, none, nothing... In this present political climate, I cannot imagine any positive changes to our healthcare by the Federal Government. As the AHCA had showed us, if anything, our healthcare and its cost will get worse if left up to the current Congress and President.

For now, our only hope is the State Government regulations. They could correct the current ACA deficiencies and establish more favorable health insurance coverage for its citizen that limits insurance companies' profitability.

The chances are that the new State regulation would result in health insurance companies pulling out of the state. At which point the State could decide providing health insurance for all of its citizens via becoming a "self-insured" state. While this idea does sound "foreign" in the US, establishing a "single-payer" system is the only way to control healthcare cost and by proxy, eliminating the insurance companies' profits.

I have discussed the self-insured option for the State with my representative. This was the initial reaction, quote:

"Health insurance lobbying at the State Capitol would never let such regulation pass."

Of course not... Profits come before people's health...