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Written BY JOHN SARICH // SEP 27, 2016

Aetna's right: Competition from Obamacare is a chimera

Aetna's recent announcement that it was pulling out of 11 state insurance exchange marketplaces — with United Health and Humana hot on its heels — has raised a number of questions.

First, do major insurers have a social responsibility to tough it out with the exchanges for at least a few more years? This could help address a 40-year social problem, namely that too many people are uninsured, along with a market failure for which they may be partly responsible.

My answer is: No. Insurance was never in the business of dispensing social justice. This latest round of government intervention in a system that, while not perfect, was running pretty well, is proof positive that market distortions occur when government becomes involved in what is essentially private commercial transaction. If there are lessons to be learned from 40 years of the Medicare program, the major one is that millions of people relying on government for their health care at below-market prices is not sustainable. And sadly, the number of uninsured has yet to materially change with the ACA.



The next question: Are the proposed mergers among four of the largest health insurers a good or bad idea? And, is the Justice Department right or wrong to try and block them?

Where I stand on this is that the mergers are definitely a bad idea. The new regulatory environment is moving the insurance industry away from private enterprise and toward being a government-type, mega-overarching entity.

When you have government colluding with big business, even by default, it's corporatism at its worst.

That said, the insurance industry is no stranger to anti-trust legislation. Looking as far back as 1945, when the McCarran Ferguson Act put its foot down on the egregious monopolistic practices of South-Eastern Underwriters, insurance has been a focus of great scrutiny by regulators and also within its own competitive industry. A competitive balance is key not only to the financial conduct of the insurance industry, but to its scrupulous consumer market conduct as well.

Third question: Is Obamacare imploding, with proposed premiums soaring and stable insurers dropping out? Or is this just an expected period of turmoil in a new and highly competitive marketplace in which consumers have turned out to be very price sensitive, and in which there will be winners and losers? Keep in mind that about 40 percent of returning exchange enrollees switched plans last year, and the vast majority of these people opted for cheaper coverage.

To this I'd respond that yes, the ACA is imploding, and it's no surprise. Quite simply, it's built on an untenable foundation which is political in nature, ignoring the economics of the risk market. There has *never* been an insurance program run by the government that you could call successful. The JUA — Joint Underwriting Authorities — were set up by states to handle the uninsurable driver; then came the CHIP plans — health insurance plans, again run by states, to handle the problem of uninsured children. The co-ops were doomed from the get-go. How could they hope to compete with the big, established insurance companies when they had no systems in place, no experienced underwriting talent, no cash reserves, no investment income, and very little managerial expertise in managing the delivery of health care?

In all of these cases, the actuarial soundness of the program was ignored, and all of these programs have circled the drain. When actuarial experience, the absolute quantified numbers, say you need to increase rates, and politicians in charge deny reality and let the program slide — with no rate increases that would be required to keep the program viable — claim checks start to bounce and no one appears to know why.

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My next question: Is the adverse selection issue in the exchanges — too many old, sick people and too few young healthy ones — a potentially long-term problem that's unlikely to change without major remedy? Or is that a short-term problem likely to correct itself over time, especially as tax penalties increase? Could 2017 be the turning point year when young people start to flood into the exchanges, due to the higher tax penalties, marketing and social forces?

Adverse selection is indeed a long-term problem. Hard-to-insure and uninsurable people will always exist in any insurance market, and tricky things get in the way of a real solution — demographics, individual behavior, provider capabilities, and an overall attempt to control the senior health care market. Of course those millions of people dependent on the government for health care represent millions of votes — and those millions of voters want broader insurance coverage at the same cost. And to date, the tax penalties feel akin to being whipped with a wet noodle.

And finally, what can and should be done to control premium increases in the exchanges? should benefit designs be more flexible? do the subsidies need to be increased to make coverage more affordable, or is that caving into insurers' and providers' failure to control costs?

There should be more flexibility in coverage. Just a few short years ago physicians were largely in private practice, where your doctor worked for you. Now, with the ACA, private practice physicians are disappearing and the doctor treating you likely works for a large medical practice or a hospital — not for you. There are two ways to raise insurance premiums: one is simply to raise rates, the other is to reduce coverage while keeping the price the same. Paradoxically, affordability comes at a cost that the Centers for Medicare & Medicaid Services have never figured out.

And here's one final question: How come over the last 10 years, very large big screen TV's have dropped in price by 95 percent, while during that same time period, health care has increased by over 100 percent?

Can you say, "Competition"?

End of Article

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John Sarich

As Vice President of Strategy at VUE Software, John Sarich serves a senior solutions architect, strategic consultant and business advisor with over 25 years of insurance industry experience. He uses his extensive knowledge of insurance operations, information technology (IT) systems, sales and marketing to develop and define operational strategies for the company's sales and marketing initiatives.

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