



Health insurers shifting costs ahead of law: report

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By Susan Heavey

WASHINGTON (Reuters) - Some of the largest U.S. health insurers are changing their accounting practices to book administration costs as medical costs in an attempt to circumvent new industry reforms, according to a U.S. Senate panel's report released on Thursday.

Under the healthcare law passed in March, insurers must adjust their spending habits to meet new requirements. For example, large group plans must spend at least 85 cents of every premium dollar paid to them on actual medical care as opposed to administrative costs, while individual and small group plans must spend 80 cents.

Wall Street closely watches such spending levels, known as medical-loss ratios, or MLRs, as a sign of potential profits. Major health insurance stock indexes fell after the report.

"The insurance industry is beginning to consider the financial impact of the new federally required (medical) loss ratio requirements, including questionable changes in their accounting practices," the Democratic-led Senate Committee on Commerce, Science and Transportation said in a statement.

For example, WellPoint Inc "has already 'reclassified' more than half a billion dollars of administrative expenses as medical expenses," it said.

WellPoint spokeswoman Kristin Binns said the company would work with regulators to implement the MLR requirement, but did not comment on whether it had shifted any costs or changed its accounting practices.

A review of companies' expenses for 2009 shows that in some markets, insurers are spending 74 cents per dollar on care on average, according to the report, which was released on the committee's website at link.reuters.com/bas87j.

Cigna spokesman Chris Curran said it was too early to say how the new MLR rules would affect the insurer, and that methods of calculating costs were still being developed ahead of the new rules. Other insurers did not respond to requests for comment.

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Although the MLR rule does not kick in until January 1, insurers so far are "still far below" what the law will require, said Senator John Rockefeller, the committee's chairman.

"This new data makes clear that too many health insurance companies are still putting profits before people," Rockefeller said, "and they have a lot of work to do to meet the consumer protection requirements of the health care reform law by the end of this year."

Regulators at the Department of Health and Human Services, charged with implementing much of the new health reform law, are pushing to apply the MLR changes quickly.

Earlier this week, the agency called on a major health insurance organization -- the National Association of Insurance Commissioners -- to give its recommendations for specific MLR ratio regulations by June 1, six months earlier than the law's December 31 deadline.

"(The agency) is seeking to publish regulations as soon as possible to allow sufficient time for health insurance issuers to incorporate these changes," U.S. Health Secretary Kathleen Sebelius wrote in a letter the group.

The S&P Managed Health Care Index closed down 0.9 percent on Thursday. The Morgan Stanley Healthcare Payor Index, which also fell after the report was released and was largely in negative territory all day, closed up 0.4 percent.

(Reporting by Susan Heavey; Editing by Lisa Von Ahn and Tim Dobbyn)



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