



LEAGUE OF WOMEN VOTERS OF MASSACHUSETTS

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IN SUPPORT OF SB 593

An Act to Promote the Efficient Use of Health Care Revenues

Testimony submitted to the Joint Committee on Financial Services

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By Dr. Cheryl Hamlin

The League of Women Voters of Massachusetts urges that you support SB 593, “An Act to Promote the Efficient Use of Health Care Revenues.”

Included in its position on health care, the League of Women Voters believes that a basic level of quality health care at an affordable cost should be available to all residents. SB 593 addresses this goal by establishing a minimum care ratio, i.e. the percentage of premium dollars received that will be used for payment for health care services. These ratios establish 10% or 15% maximums allowed for administrative expenditures by medical insurers providing coverage to Massachusetts residents.

Because the bill would cause 85% - 90% of premiums paid by Massachusetts residents to be used for payment of health care services, the ability to use these monies for CEO salaries and benefits, lobbying efforts, campaign contributions, advertising, costs incurred to deny payment for care, and stockholder returns would be limited, and insurers would have to provide information regarding these activities to the state.

Medicare manages with a 97% medical care ratio, and Harvard Pilgrim traditionally functions with a medical care ratio of 90%, so it can be done. For-profit insurers spend up to 40% on administrative expenses, which obviously decreases the dollars available to pay for health care services.

Most medical insurers in Massachusetts operate within a few percentage points of that targeted by this bill, an average of 87% for the 10 largest. However, when one considers that over \$62 billion is spent annually for health care in Massachusetts, either through premiums or taxes, a 1% to 3% decrease in cost would be significant.

The range of medical loss ratios for Massachusetts insurance companies has been between 74% and 91%. Currently over 57% of Massachusetts health care costs are already publicly financed, and this will obviously increase with the implementation of Chapter 53. Should this bill be implemented, it is predicted it will generate over \$400,000,000 of savings to residents and businesses of Massachusetts either through decreased premiums, increased coverage, and/or expanded health care payments.

Insurance companies are mandated to maintain reserve funds. These currently amount to an aggregate of over \$2.6 billion. These funds come from policyholder premiums, are included in administrative costs, and continue to mount. The interest on these reserve funds, by the way, can be used for any purpose. Instituting a 90% minimum care share will still allow health insurers to maintain adequate reserves, while allocating a greater percentage of premium dollars for the provision of medical care to policyholders. It must also be understood, this bill does not limit profits; it only limits administrative costs.

SB 593 will have no negative fiscal impact upon the Commonwealth. The costs incurred by the Insurance Commissioner for auditing the books of the insurance companies will be paid, on a pro rata basis, by each insurance company that has done business in the Commonwealth for at least five years. In addition, reasonable fines for violating the provisions of this bill are established, as well as the threat of imprisonment for noncompliance.

Arnold S. Relamn, former Editor-in-Chief of *The New England Journal of Medicine*, says in his new Book, *A Second Opinion*, "Investor-owned insurance plans add substantial overhead costs to the health care system, without producing commensurate benefits....ten percent of total expenditures on for-profit private insurance (which is the average difference between the overhead of for-profit and private not-for-profit plans) would probably represent at least \$50 - \$60 billion, an expense that cannot be justified by any value the for-profit plans add to the health care system."

While the above reference is to the United States as a whole, it gives some idea of the magnitude of the revenue that SB 593 would reserve for actual health care.

For the sake of the health care of the people of Massachusetts and the financial health of the Commonwealth, we ask that you pass this bill out of committee with a positive vote and work to see that it is passed into law.

Thank you for your time and consideration.