A Question to Insurance Companies: How Much Is Too Much?

Recent reports by the Consumers Union (July 2010)[1] and the Kansas City Business Journal (August 13-19, 2010) examine the surplus funds of insurance companies. The surplus of a company is the difference between its assets (primarily the money it collects from premiums) and its liabilities (its costs for claims and other expenses). State insurance departments, mostly taking direction from the National Association of Insurance Commissioners, set a minimum to assure solvency, but do not set a maximum amount of surplus.

It is understandable that insurance companies need a cushion of operating funds to assure that they can reimburse claims, market their products and make improvements in technology. But the reports indicate that many non-profit insurance companies have amassed very large surpluses that go far beyond the level that regulators consider "adequate" to assure solvency for the company.

The Consumers Union report studied 10 <u>non-profit</u> BlueCross and Blue Shield (BCBS) affiliates. Seven of these plans had surpluses that were more than 3 times the minimum amount of surplus needed to assure solvency. Together they held a surplus of more than $32 billion in 2008.

The Consumers Union did not analyze and Missouri BCBS plans. But the Kansas City Business Journal[2] took the question to the local level and looked at 6 companies that operate in Missouri. Blue Cross and Blue Shield of Kansas City (a non-profit company) had a surplus almost 6 times greater than the minimum. Anthem Blue Cross and Blue Shields' surplus was about 2.5 times the minimum. UnitedHealthcare PPO, Aetna, Coventry and Humana had surpluses that were slightly less than twice the minimum that would assure solvency.

Why should Missourians care about the surplus of insurance companies? Because premium rates continue to rise in Missouri, imposing a hardship on individuals as well as businesses. Excessive surpluses could indicate that individuals are being overcharged for their premiums at a time when many families are struggling to make ends meet and small and large businesses struggle to provide health insurance as a benefit for their employees.

A significant portion of health care reform revolves around the private insurance market issues. Much of the expansion of health care reform will take place in the private market. The framework of reform passed in March requires states to make numerous decisions about implementation and offers opportunities for states to improve the rules for insurance companies.

The findings reported by Consumers Union and the Kansas City Business Journal indicate that the premium rate review process is ripe for change. The purpose of surpluses, minimum and maximum ranges, and the relationship between surpluses and affordability of rates should be examined.

If Missouri is serious about containing the costs of health care and softening the negative impact of growing health costs on businesses, the Department of Insurance should be empowered to do more than merely review rate increases.

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[1] http://www.prescriptionforchange.org/pdf/prescriptionforchange.org-surplus_report.pdf
[2] Vandyke, Aly. "Blue Cross' Rates Follow Capital Up", *Kansas City Business Journal*, August 13-19, 2010.