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Editorial

The Lesson of Anthem Blue Cross

Clients were understandably furious when Anthem Blue Cross, the largest for-profit health insurer in California, announced huge rate increases for people who buy their own insurance: an average increase of 25 percent, and a 35 percent to 39 percent rise for a quarter of the purchasers. The move also provided a textbook example of why the nation badly needs comprehensive health care reforms.

The reform bills stalled in Congress would put a brake on such out-of-scale premium increases by broadening the pools of insured people to keep average premiums low, by setting up competitive insurance exchanges and by starting to rein in the cost of medical care that is driving up premiums everywhere.

Private insurers in several other states also have sought and won double-digit increases for policies sold to individuals. In one striking case, a Blue Cross Blue Shield plan in Michigan sought a 56 percent average increase in premiums for individually bought policies but settled for 22 percent in a compromise with regulators.

If the increases go through in California, where regulators have limited powers to control rates, Anthem's enrollees would have to choose between paying the higher price, moving to lower-cost policies, perhaps with a high deductible, switching to another insurer if they can find one to take them, or dropping coverage entirely.

The nation’s largest health insurers reported substantial profits last year over all, but Anthem claims it lost money on the individual market in California. Its parent company, WellPoint Inc., attributed the need for the huge rate increase to a changing mix of customers as the recession forces many people to cut back on expenses.

The company says that healthier customers, gambling that they won’t need much care, are disproportionately dropping Anthem coverage or choosing not to enroll. The less healthy are staying with Anthem, where their higher medical costs are driving up premiums.

WellPoint will be asked to justify the increases at hearings in Congress and the State Legislature. California’s insurance commissioner is investigating whether Anthem will be meeting regulations to spend at least 70 percent of its premium revenues on claims.

It’s hard to know which conclusion would be worse: that Anthem is trying to fleece its individual customers or that Anthem’s rates are actuarially justified by its increasingly unhealthy enrollment pool.

The salient point is that the reform bills pending in Congress could almost certainly prevent this problem from developing. The bills would require everyone to buy health insurance (many with government subsidies). That would create large pools to spread the risk over both healthy and sick enrollees and keep average premiums low. On new insurance exchanges, people who buy their own insurance could benefit from group purchasing power and could choose from an array of policies. Competition among insurers on the exchanges is expected to help keep premiums down.

How about the Republicans’ health care proposals?

They would only address a small part of the Anthem problem. The Republicans reject the idea of mandates to spread the cost of care and instead call for ways for people dissatisfied with their insurer to buy cheaper coverage elsewhere. That could help relatively healthy people but would do nothing for the chronically ill or anyone with pre-existing conditions. They would be stuck in their health plans. State high-risk pools for sick people, another Republican solution, almost always have high premiums and would not provide a safe haven from rate increases in private plans.

Unless Congress passes comprehensive reform, we should expect many more Anthems in our future.