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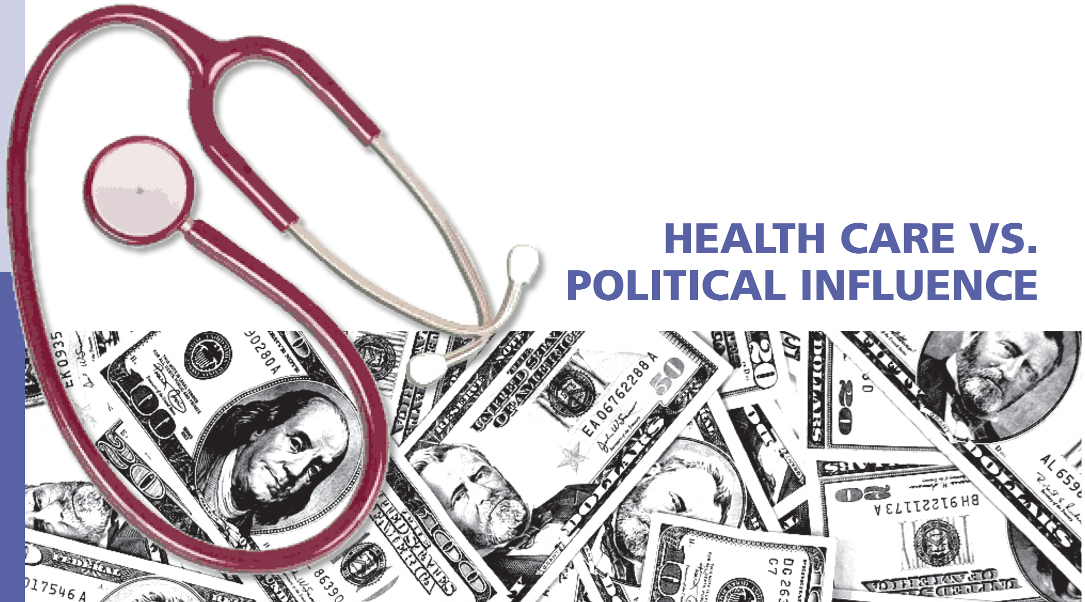

HEALTH CARE VS. POLITICAL INFLUENCE

Coventry & the Premium Dollar

Health insurers across the United States are concerned with more than the sale of health insurance. They also have an interest in influencing legislation governing the health insurance marketplace, and, accordingly, they spend millions on political donations and lobbying elected officials. Coventry Health Care, the sixth largest insurer in the country,[1] is no exception. During the 2010 elections, the insurer gave hundreds of thousands of dollars in campaign contributions to federal candidates, as well as state and local candidates in Florida.

In 2010, Congress passed major health reform legislation. One of its provisions addresses the amount of each premium dollar insurers spend delivering health care versus the amount that goes to profit and administrative costs, such as political spending. As this provision goes into effect, it has been estimated that Coventry will be required to return millions of dollars to its customers in Florida.

This report discusses this new requirement as it relates to Coventry and looks at some of the insurer's non-health care spending, most notably its use of premium dollars to influence elections and the legislative process.

BY THE NUMBERS

IN THE U.S.

$426.2 million

Total expected individual market rebates by health care insurers across the nation. Average rebate per enrollee is expected to be $126.81.

$376.7 million

Total expected small group market rebates by health care insurers across the nation. Average rebate per enrollee is expected to be $76.37.

$540.6 million

Total expected large group market rebates by health care insurers across the nation. Average rebate per enrollee is expected to be $72.31.

IN FLORIDA

$49.7 million

Total expected individual market rebates by health care insurers across the nation. Average rebate per enrollee is expected to be $152.72.

$65.3 million

Total expected small group market rebates by health care insurers across the nation. Average rebate per enrollee is expected to be $99.06.

$33.6 million

Total expected large group market rebates by health care insurers across the nation. Average rebate per enrollee is expected to be $43.68.

Source: Kaiser Family Foundation

NEW RULES ADDRESSING WHERE PREMIUM DOLLARS GO

THE "MEDICAL LOSS RATIO" RULE

The recently passed Affordable Care Act (ACA) introduces a number of new rules to provide oversight of the health insurance marketplace. One of these rules addresses the portion of each premium dollar that insurance companies spend on health care compared to profit, administrative overhead, and other non-medical costs. The rule is referred to as the "medical loss ratio" requirement. It grows out of concern that insurance companies were spending too little on health care relative to things such as marketing, profit, executive compensation, and political influence.

Under the ACA, small group and individual market insurers are now required to spend at least 80 percent of each premium dollar on health care and quality improvement. Conversely, overhead and other spending may not exceed 20 percent of premiums.[2]

REBATES AS MEDICAL LOSS RATIO REQUIREMENTS GO INTO EFFECT

When insurers fail to meet the minimum medical loss ratio described above, they will be required to provide rebates to their policyholders.[3] 2011 was the first year that insurers faced this requirement, with rebates due to consumers by Aug. 1, 2012.[4] Nationally, according to the Kaiser Family Foundation, insurers are expected to pay $1.3 billion in rebates this year, including $426.2 million for individual plans, $376.7 million for small group plans, and $540.6 million for large group plans.[5]

Coventry is among these insurers and, by one estimate, is expected to pay $50 million this year in rebates nationwide.[6] Moreover, according to a South Florida Sun Sentinel analysis of insurer filings, it is anticipated that, in Florida, Coventry will be required to return $5.3 million to its individual market enrollees.[7]

Meanwhile, a 2009 Senate Committee on Commerce, Science and Transportation report found that, among all insurers, Coventry delivered the least value to individual market consumers, spending 44 cents per dollar on administration and profit, grossly exceeding the standards established by the ACA a year later.[8]

WAIVER FROM THE MEDICAL LOSS RATIO REQUIREMENT

In addition to the provisions described above, the ACA allows states to request that the federal government waive the medical loss ratio requirement. To obtain the waiver, the state must show that the requirement would destabilize the individual market and limit choices for consumers.[9]

In March 2011,[10] Florida's Office of Insurance Regulation submitted a request to adjust the standard to 68 percent in 2011, 72 percent in 2012, and 76 percent in 2013,[11] citing barriers of entry and a reduction of consumer choice.[12] Had the waiver been granted, in 2011 insurers would have been allowed to spend up to 32 percent of premiums on non-health care costs in affected plans.

Coventry was among three insurers and more than 100 agents and brokers that submitted written affidavits in support of the adjustment request.[13]

In December 2011, HHS denied the request, saying most Florida individual market insurers either already meet the standard, are "sufficiently profitable," or are adequately adjusting their business models to comply with the law.[14]

In a conference call with news media, federal officials cited an "unprecedented" degree of public input in the process, and, according to one account, were "uniformly critical of the state's attempt to dodge the requirement."[15]

COVENTRY'S NON-HEALTH CARE SPENDING

If Coventry is dedicating too small a portion of premiums on health care, there may be key areas in which the insurer does not underspend. In the following sections, this report looks at three areas: executive compensation, profits, and political spending.

EXECUTIVE COMPENSATION

Part of the excessive overhead that is resulting in millions of dollars in customer rebates is exorbitant executive compensation. From 2000 through 2011, Coventry paid its CEOs nearly $122 million.[16] In 2011, CEO Allen Wise made nearly $13 million.[17]

Coventry's top executives — including its CEO, four executive vice presidents, and a senior vice president — received a combined $29 million in total compensation in 2011. This includes salary, stock options, and bonuses.[18]

According to Forbes Magazine's annual CEO compensation rankings, Wise is the 53rd highest-paid CEO in the country, and fifth highest in the health care industry.[19]

PROFITS

Coventry reported 2011 profits of $543 million, up from $439 million in 2010 and $242 million in 2009.[20] The insurer's operating profit margin nearly doubled between 2009 and 2011, rising from 3.6 percent to 7.1 percent.[21]

INVESTMENT IN POLITICAL INFLUENCE

Among all of Coventry's non-health care expenses, perhaps most troubling is the insurer's political spending, including both campaign contributions and payments to lobbyists. Both forms of spending are intended to influence the political process in favor of policies friendly to the firm's interests.

Nationally, from 1998 through the first quarter of 2012, Coventry — including affiliated political action committees, employees, and board members — and its subsidiaries contributed $853,189 to federal candidates.[24] Over the same time period, Coventry and its subsidiaries spent $6.7 million on federal lobbying trying to influence public policy.[25]

In Florida, Coventry contributed $20,000 to Florida's congressional candidates over that same time period. In the 2010 election cycle, the insurer contributed $197,494 to Florida non-federal candidates and committees. Slightly more than half of these funds ($110,000) went to the Republican Party of Florida.[26]

In 2011, Coventry spent between $100,000 and $159,994 lobbying legislators, and between $60,000 and $119,994 lobbying the executive branch of the Florida state government. In 2009, Coventry was the biggest client for one of its Florida lobbying firms, Dutko Worldwide.[27]

The lobbying disclosure reports do not include details on legislation that is the subject of the lobbying or Coventry's position on that legislation. Consequently, no record exists to about the legislative and administrative outcomes Coventry hopes to obtain through its lobbying. However, the company's support for a waiver of the medical loss ratio requirement suggests that its interests are not aligned with the interests of its policyholders.

The ACA at Work — Protecting Consumers

Rebates are not the only way that the medical loss ratio protects consumers of health insurance. The "80-20" threshold for health care vs. overhead costs also offers an incentive for insurers to raise premiums less than they would absent regulation — or to even lower premiums.

According to the Kaiser Family Foundation, this incentive has "likely produced more savings for consumers and employers than the rebates themselves."[22] A National Association of Insurance Commissioners working group found that, had the medical loss ratio provision been enacted a year earlier, American insurance consumers would have received $2 billion in rebates from insurers.[23]

A U.S. Senate report found that, among all insurers, Coventry delivered the least value to individual market consumers, spending 44 cents per dollar on administration and profit, grossly exceeding the standards established by the ACA a year later.

CONCLUSION AND RECOMMENDATIONS

The fact that insurers, despite incentives created by the ACA to keep premium hikes low, will be returning $1.3 billion to customers this year is evidence that strong oversight of insurers is needed to ensure that they provide affordable health coverage that meets people's needs.

And, as evidenced by the millions in rebates Coventry is expected to pay out, it, too, is overcharging for its insurance coverage. The company's record of spending on federal and state politics indicate that it is using part of this overcharge to influence the decisions of lawmakers. Coventry's support for postponing the medical loss ratio in Florida suggests that its interests — and the outcomes it hopes to achieve with lawmakers — run counter to the interests of patients. This points to the importance of:

- Preserving the protections provided in the ACA
- Blocking future attempts to the waive the minimum loss ratio requirement, and,
- Increasing transparency in lobbying so that the public can know how large insurers are using premium dollars to influence legislation

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