

**Some Myths and Misconceptions About Health Insurance
 April 6, 2011**

Myths & Misconceptions	Facts
Private insurance administrative cost is 40%.	Annual filings with the state of Minnesota indicate 7.9%. ¹ Centers for Medicare & Medicaid Services data indicate about 12.25%, including taxes and assessments. ²
Medicaid health plans can be administered more efficiently and less costly than private insurance.	Non-Medicare government health plans, Medicaid and all others, spend an average of 26% to administer their programs. ² This is evidenced by the fact that only 74% of the dollars spent actually get to medical providers. Even at 26%, the actual cost is understated. The CBO reports that as many as eight federal government agencies spend funds to administer government health plans, and these administrative costs do not appear in the CMS spending tables.
Medicare administrative cost is 3-6%.	No government agency pays any Medicare claims. Claims are paid by private insurance companies and third party administrators that compete for Medicare contracts. Medicare's "3-6%" admin cost does not include the cost of collecting "premium" (the Medicare tax). CBO states that at least eight federal government departments spend money related to federal health care programs, and those costs are not reflected in CMS admin data.
Insurance companies have regularly rescinded health coverage when individuals fall ill. The new federal health care law corrected this by making rescissions illegal.	Prior to passage of the new health care law, rescissions were already illegal . The only legal cause for rescission was fraud or false statements on the insurance application, or failure to pay premiums. The same legal causes for rescission exist under the new law.
It is unfair to deny or rate coverage based on pre-existing medical conditions.	Underwriting is the process whereby healthy risk is separated from unhealthy risk. Separating risk provides protection to current policyholders against unaffordable premiums and insurance company defaults. Current policyholders went through the same underwriting process, and have been treated equally. All forms of insurance use "pre-existing conditions" to protect current policyholders. A bad driving record results in higher premiums. A house in a high risk or expensive neighborhood results in increased premium. Life insurance costs more for less healthy individuals.

¹ Minnesota Department of Health, Health Economics program 2011. Government Report - Annual. Administrative Costs at Minnesota Health Plans in 2009. Tom Major, ed.

² Dattilo, G.; Racer, D. 2009. The Congressional Budget Office Reports: COMPARING HEALTH CARE ADMIN COST PRIVATE SECTOR VS. GOVERNMENT WHO'S LESS COSTLY? St Paul, MN. P 1. <http://www.freemarkethealthcare.com/images/Admin.pdf>. Retrieved April 6, 2011

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<p>Minnesota residents with pre-existing conditions cannot purchase individual health insurance.</p>	<p>Minnesota residents have had guaranteed issue health insurance since 1976, using a high risk pool called Minnesota Comprehensive Health Association (MCHA). Individuals covered under group insurance have long had guaranteed issue coverage through the federal HIPAA law.</p>
<p>Minnesota’s uninsured population cannot afford health insurance, and therefore, need additional government subsidies. A mandate to purchase health insurance or sign up for a government plan will reduce the uninsured rate to near zero.</p>	<p>More than 60% of Minnesota’s uninsured population already qualifies for government health plans, but do not enroll. There is no evidence to suggest that they will be more prone to enroll because the law requires them to do so.³</p>
<p>Single payer health plans eliminate high administrative cost, and spend more dollars on health care instead of administrative expenses.</p>	<p>Single payer health plans are subject to the same politics of all health care systems. All health care spending, policy, and care distribution is managed through a political process.</p> <p>Single payer systems are managed by government employees. Administrative costs are dispersed across many government departments. Legislative deliberations and department rule-making, and oversight, add exorbitant cost to the health care delivery and payment systems.</p> <p>Single payer is managed with global budgets and central planning, and always results in reduced access to diagnostic and expensive care. Those with the most severe medical needs are denied care due to cost effectiveness.</p>
<p>Health care spending increases in 2010 are due to higher patient utilization – individuals using more health care services.</p>	<p>Hospital inpatient spending increased from 7.7 to 9.8 percent. Most of the increase was by average unit cost, with very little change in utilization. Hospital outpatient spending grew from 10.2 to 11.6 percent mostly because of increased average unit costs. Hospital outpatient care resulted in the highest growth in spending for the second year in a row.</p> <p>Physicians’ annual rate of increase declined from 6 to 5.2 percent.</p> <p>Of Pharmacy’s 6.1 percent increase, 17 percent was due to utilization, while 83 percent of the increase is due to average unit cost increases.⁴</p>

³ Staff. (2009). Health Insurance Coverage in MN, Early Results from the 2009 MN Health Access Survey. Minnesota Department of Health, Health Economics Program; University of Minnesota School of Public Health.

⁴ Milliman, Inc. (2010). 2010 Milliman Medical Index. Research Firm. Staff, ed. Milliman, Inc., May 2010. Seattle, WA. 12 pages. P 3.

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<p>Medicare and Medicaid are more efficient in that they can purchase health care at less cost than private insurance does. Medicare and Medicaid reimburse doctors and hospitals at a fair rate.</p>	<p>Most medical providers report that at best, they break even on Medicare reimbursements, and lose money on Medicaid reimbursements. For this reason, private health insurance and individuals that must pay for care out of their own pocket end up paying for the government health plans' underpayment – called cost shifting, a hidden tax on private pay insured individuals.</p>
<p>The federal government will underwrite costs of Medicaid expansion.</p>	<p>The federal government intends to underwrite the cost of Medicaid expansion, but lacks the funds to do so.</p>
<p>Mandated insurance benefits protect individuals from the cost of paying for health services for a broader range of health risks.</p>	<p>Minnesota currently has 64 insurance mandates, compared with an average of 43 across all other states. Each mandate adds cost to insurance premiums. The greater the number of mandates, the greater the cost of health insurance. As health insurance premiums increase, fewer people are able to afford coverage. Fewer mandates, those that are vitally important to most Minnesotans, will reduce cost of coverage and allow more people to afford insurance.</p>
<p>People with consumer-directed health plans (high deductible health plans) will not receive medical treatment because of the deductible. They will forgo preventive care to save money.</p>	<p>The American Academy of Actuaries did an extensive study of trends related to consumer-directed health plans. It concluded, "Generally, all of the studies indicated that cost savings did not result from avoidance of inappropriate care and that necessary care was received in equal or greater degrees relative to traditional plans. All of the studies reviewed reported a significant increase in preventive services for CDH participants."⁵</p>

⁵ Emerging Data on Consumer-Driven Health Plans, May 2009. American Academy of Actuaries. P 1.