

INDIANAPOLIS BUSINESS JOURNAL

CENTRAL INDIANA'S BUSINESS AUTHORITY

VOL. 27 NO. 5 • APRIL 10-16, 2006

Legislators should address insurance costs

Members of the Indiana General Assembly resolved some contentious issues in 2006, including property tax relief, telecommunications reform and the long-term leasing of public infrastructure.



BRIAN WILLIAMS

Commentary

Unfortunately, they did not have an opportunity to debate Senate Bill 124, which, if measured on the basis of the value per page, would have exceeded the much-heralded "Major Moves" transportation initiative.

Introduced by Sen. Beverly Gard, a Greenfield Republican who has been involved in most health care policy debates since her election in 1988, the three pages of Senate Bill 124 proposed to fundamentally change the cost of health insurance in Indiana.

Nearly 60 percent of workers in Indiana receive health care through their employers, which contract with insurers to mitigate the associated risks. Insurers, in turn, negotiate the fees they will pay for health care with various providers.

Over the last few years, the health insurance market has undergone significant consolidation, creating larger carriers that have significant market share. That dominance enables insurers to negotiate the lowest cost from health care providers and the highest premiums from employers.

Unfortunately, these market forces do

not always create an environment that is hospitable for the patient. Providers are unhappy because they believe their services are undervalued. Employers are irate because their health insurance premiums are on an escalator that apparently doesn't stop. Patients are disgruntled because they can't make purchasing decisions based on quality and customer service.

This environment compromises the relationship between patient and provider and potentially leads to poor service or loss of coverage, neither of which is a desired outcome.

In most monopolies or oligopolies, the entities in control are able to extract terms from the market that are advantageous to them. This is true in health insurance in Indiana, where the dominant provider can demand the lowest price, keep that price confidential and often review all competitors' prices, too.

Senate Bill 124 would have prohibited any insurer or HMO from including such demands in its contracts with physicians, hospitals or clinics.

Like any business, doctors and hospitals have certain fixed costs. When one insurer, because of its market position, is able to demand prices that are 10 percent to 15 percent lower than others, providers must charge others more—or eliminate services to lower their costs.

Regardless, the result is that a large insurer is able to distort the market—making health care more expensive for competitors and subsequently every other employer and patient, or forcing lower quality into the health

care system. Senate Bill 124 would have provided a more dynamic, competitive market.

For employers and business owners, the measure would have restored competitive pressure to the health insurance market and forced insurers to compete on quality and service.

If insurers were all able to contract at equal pricing, they would be forced to compete on the basis of quality and service. This would prevent one (or a few) carriers from gaining a profit advantage through market share, using size as clout to extract lower pricing than other carriers.

If all parties in the health care value chain could compete on quality and service and could not force "most favored nation" clauses in their contracts, then businesses, providers, patients and the people of Indiana would realize meaningful benefits.

With \$179 million in insurance premium tax receipts collected in 2004, the three pages of Senate Bill 124 were worth nearly \$60 million per page. Major Moves' 67 pages were worth just over \$56 million each.

Hopefully, Sen. Gard will be inspired by her constituents, employers and health care providers to introduce another version of the legislation in the 2007 session.

Indiana cannot afford to not have this debate. Like Major Moves, its outcome will affect generations of Hoosiers. •

Williams is a regional venture partner at Hopewell Ventures, a Midwest-focused private equity firm. To comment on this column, go to IBJ Forum at www.ibj.com or send e-mail to bwilliams@ibj.com.