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OPINION

GUEST EDITORIAL David Hilgers

Don't be so quick to judge health care reform

Recently, the business journals network published a survey of small and midsize business owners and their attitudes regarding health care reform. In broad terms, the survey indicated that only 33 percent of the owners are somewhat supportive of health care reform while 60 percent didn't care or were not in support of health care reform.

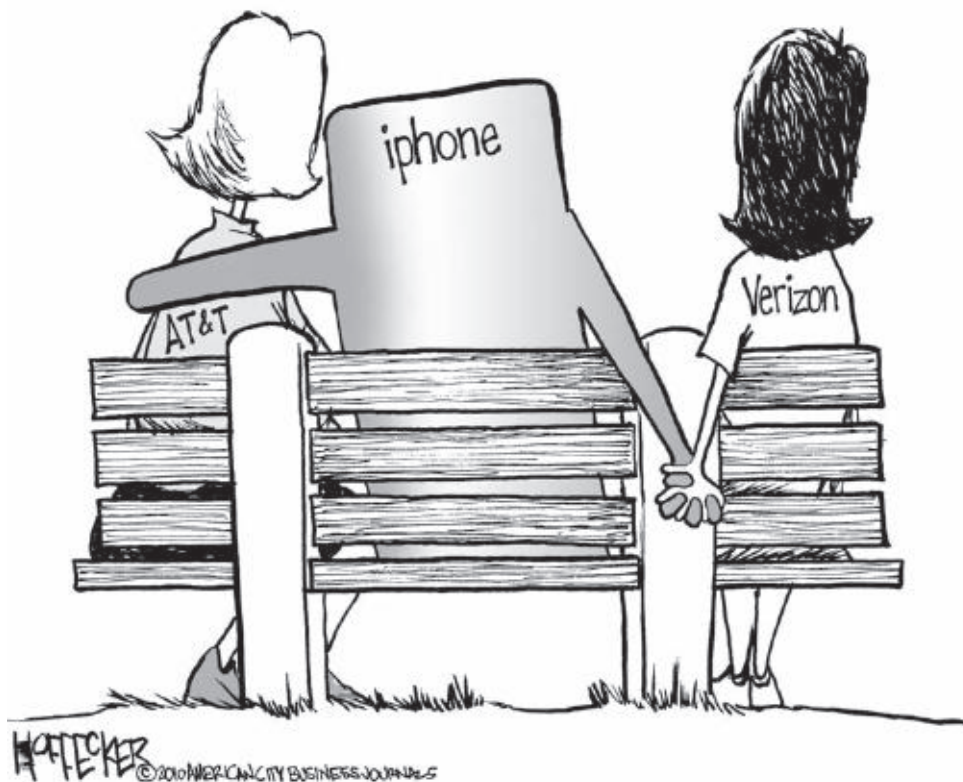
Given the confusion regarding reform, it is not surprising that a sizeable majority of these owners on the front line of the economy are skeptical. However, a recent Goldman-Sachs report regarding the insurance industry overtly stated what many expert observers of the health care industry have known for a long time — the monopolization of the health insurance industry has created a large hidden tax on small businesses that they continue to pay to their detriment.

To understand this phenomenon it is necessary to clarify some misconceptions of the health insurance industry.

First, most "health insurers" don't actually sell what we normally think of as insurance. Instead, they administer self-insured employer plans in which they take a percent off the top while the employers pay all the costs of their employees' health care. The insurers carry no risk in these policies. The employers take all the risk for the costs of their employees' health care. Presently, more than 50 percent of most major health insurers business is composed of this administrative services business which is called ASO business.

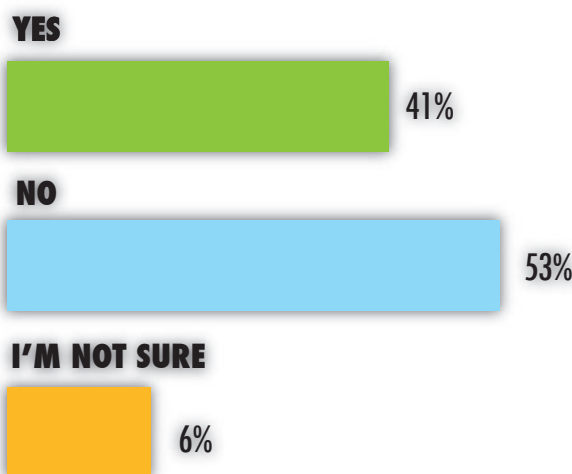
Secondly, there is very little price competition among insurers. Even in those states where there are several insurers, they compete by providing various levels of benefits, but the costs are essentially the same. Any small business that has attempted a competitive bidding process knows that the supposedly competitive bids are virtually the same in price once the variation in offered benefits is taken into account. In California, which probably has the highest competition level in the country among insurers, Anthem blithely raised its rates by 39 percent after registering a large profit for 2009.

Thirdly, although insurers claim that they have to raise insurance premiums because of the underlying inflation in health care costs of providers, they in fact are keeping 20 to 25 percent of every premium dollar they charge. Consequently, the more the premium, the more profit the insurers makes. In effect, insurance companies have no insurance risk, and charge 20 or 25 percent of the premium. This is a clearly an exorbitant tax to run a business where there is little, if any, risk. In effect small and medium businesses are paying the insurers for providing administrative



ABJ BUSINESS PULSE

Should Austin subsidize another large hotel downtown to bolster conventions? *



* Unscientific Web survey conducted March. 26-31, 2010, at austinbusinessjournal.com

services with little or no risk. This might justify a charge of 5 or 10 percent, but the present charges are exorbitant — a hidden tax of around 10 to 15 percent of every premium dollar paid.

Of course, no one expects commercial insurers to be benevolent. After all, most are organizations in the business to make a profit. What is surprising is the fact that, despite this overt monopolization of the health insurance market and the resulting hidden tax on small business, the owners continue to throw themselves into the insurance companies' camp.

Who will benefit most if health care reform fails? These same insurers. Who will suffer the most if it fails? Small and medium businesses — and their employees.

On the other hand, if health care reform happens, insurance companies will be forced to insure all citizens. In addition, reform will set up insurance exchanges that will create competition among insurers that will allow businesses to find insurance companies that take only 5 percent of administrative costs, which is Medicare's administrative charge.

In fact, health care reform will put in place an infrastructure that will immediately reduce health care costs to the small employer and reduce costs in the long run as price and benefit competition comes back to the insurance industry.

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ANOTHER VIEW Cass Grange

Keep Austin thrifty

Editor's note: The following column is in response to a Web story posted March 24 titled "Austinites biggest spenders in U.S."

Thanks to the number crunchers for confirming last week what my thrifty Nebraskan mother already suspected of us: we are hedonists, living in the spendiest city in the U.S. Grand Island, Ne., is in the bottom 10 percent, I'm sure.

However, my friends would tell my mom not to worry. I'm the thriftiest person they know. So here's how we can get Austin out of the spendiest spotlight and back to basking in our reputation as live-music loving, beer-drinking cheapskates.

First, stop shopping at super stores for groceries. Last week I went to buy a gallon of milk and came out with \$70 worth of groceries, plus a new rug and padded hangers. My aunt and uncle go to warehouse stores daily and buy cases of canned peaches and boxes of wet wipes. I think they once bought a big screen TV while shopping for a 10-pound box of cheese.

Second, don't buy your teenagers smartphones. If you have an extra \$100 a month, put it in their 529 college savings plan. If you don't save for college, they won't need a phone to keep in

touch, because they will be living with you when they are 30. If that doesn't scare you into saving, I don't know what will.

Finally, fill up those water bottles. Austin is hot, and we all spend a lot of time in our cars. (We're also home to one of the top 100 traffic bottlenecks in the country ... thanks, Exit 233). So bring water and snacks. It is healthier than the drive-thru and takes one extra minute. If you eliminated three drive-thru visits a week at \$9 each, you would save \$1,404 a year, which would be a boost to your savings account.

And, I bet you would lose weight and that would keep Austin one of the fittest cities in the country.

CASS GRANGE is a senior advisor associate with Lucien Stirling & Gray Advisory Group in Austin.

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Grange