



Who Wants to Be a Millionaire?

**Executive compensation, lobbying and campaign finance
in the industry behind health insurance in New York State**



Distributed By:

The Mental Health Association in New York State
Citizen Action of New York
The Public Employees Federation

CORRECTION PAGE -- Please Insert into

Who wants to be a millionaire: Executive compensation, lobbying and campaign finance in the industry behind health insurance

Based upon information received after the release of *Who wants to be a millionaire: Executive compensation, lobbying and campaign finance in the industry behind health insurance*, it has come to our attention that the United States Insurance Company in the City of New York is not a health insurance company. This company was included in the information received from the NYS Insurance Department in response to a FOIL we had issued.

Please note the following corrections: corrected information is bolded.

- Anywhere in the report where reference is made to 14 health insurance companies included in this report, please note that it should read 13.
- Page 6, Para. 2 -- According to information received from the New York State Insurance Department via a Freedom of Information Law request (FOIL), **13** health insurance companies in New York State revealed on Schedule G of their Supplement for the year 2002 that they spent **\$148,407,766** on salaries for individuals who earned over \$100,000. Atlantis Health Plan represented the low end of spending, with four individuals earning over \$100,000, for a total of \$561,123 in spending. Excellus Health Plans paid out the most amount of money to individuals earning in excess of \$100,000, with total salary expenditure in this category of \$35,574,916.
- Page 6, Para. 5, 6 -- Of the **13** health plans inspected, **eleven** paid their CEO a salary in excess of the average, at an average annual salary of **\$761,691**. This means that Chief Executive Officers of New York State's health insurance companies are paid, on average, **almost** 250% higher than Chief Executive Officers throughout the state.
In addition to the **11** CEOs that earn more than the \$312,778 average annual salary, 58 other employees of these **13** firms earn a salary that is greater than the average annual income for New York's top employees. These **58** employees earned a total of **\$29,877,911**, for an average salary of **\$515,136**. This means that in New York State, **69** employees in **13** health insurance companies earn more than the average pay of New York State's CEOs.
- Page 7, Table 1.2 – Remove “United States Insurance Company in the City of New York” from the table. Adjust the “Average Salary of New York State Insurance Company CEO” to **\$761,691**.
- Page 13, para. 4 – Overall, the health insurance industry pays their top level, and even mid-level, employees handsomely, much more handsomely than in many other sectors. The **69** employees who were paid in excess of the average Chief Executive Officer salary in New York State (\$312,778), made a total of **\$39,372,271**. The average CEO salary for those in the health insurance industry amounted to **\$761,691**, **almost** 250% of the average that their counterparts in other sectors earn.
- Appendix B – Remove “United States Insurance Company in the City of New York” from the table, and adjust the “Total” line to **69** employees and **\$39,372,271**.

Introduction

For the last twenty to thirty years, the cost of healthcare has been an issue that has remained at the fore of public discussion. In the late 1970's and early 1980's, the problem reached such epidemic proportions that the system was dramatically altered. Ushered in was the era of managed care, an effort designed to cure the ills of our healthcare system.

Under the old system of health insurance, known as fee-for-service, health insurance companies would reimburse customers for any services rendered, no questions asked. As technology advanced, expensive procedures that were often unnecessary became over-utilized, possibly due to an exploitation of the system, or with an intention to decrease the possibility of medical malpractice lawsuits.

Managed care was to dramatically decrease the cost of healthcare by instituting gatekeepers and utilization review. Gatekeepers would eliminate unnecessary medical services by redirecting patients into preventive care, rather than costly emergency care. However, preventive care did not necessarily result in decreased costs. It often leads to early detection of chronic health needs. For others, it still requires an emergency or intensive treatment to immediately resolve a serious need. Because some level of emergent care will always be necessary, gatekeepers were not able to dramatically decrease costs by themselves. The drive to continue to cut costs despite such realities has led to a rationing of healthcare services.

The History of Mandates

One of the most popular cost control mechanisms put into place was, and still is, utilization review, in which health insurance companies, now referred to as managed care companies, would analyze every claim that came in, making a case by case determination as to whether or not the service was necessary. If the service was deemed necessary, then the insurance company would reimburse the provider or their customer for it. If the service was deemed unnecessary, then the insurance company would either refuse to pay for it or not approve its delivery. This led to a very large bureaucracy where non-medical professionals would make decisions as to medical necessity for the health insurance companies customers.

One problem that quickly became evident was the utilization review process was little understood outside of the industry, and whenever questions were asked about how decisions were made, it was deemed proprietary information. Suddenly, health insurance customers were being denied care for services that they needed and wanted covered. This resulted in the gradual passage of mandates, or services that insurance companies were required to provide by law. These mandates were generally passed when legislators and other public officials received enough complaints from their constituents about insurance coverage to require some level of

government action. Some of the mandates that have been passed in New York State include coverage for Cancer second opinions (1997), mammograms (2002), and supplies for those living with diabetes (1993)¹.

Now, at the fore of 2004, we find ourselves in the same position that we were in at the fore of 1980. Healthcare costs are again spiraling out of control. Only this time, doctors are not being blamed for providing unnecessary care. This time around, it is the skyrocketing cost of health insurance that is at issue.

Businesses are spending exorbitant sums of money to provide their employees with healthcare benefits, forcing many employers to drop coverage altogether. Individuals who do not have health insurance provided through their employer or Medicaid cannot afford the monthly fees (up to \$500) associated with buying their own coverage. All of these factors, combined with a weak economy, once again create a healthcare crisis in this country, where some estimates have the number of people going without health insurance at some point during 2002 as high as 75 million². The United States Census information for 2003 increased the number of uninsured from 40 million to 44 million³.

What Drives Health Insurance Costs?

But what is it that is fueling this new crisis in our healthcare system? For years, the health insurance industry has continually maintained that the answer is mandated benefits. Currently, the industry, represented by the New York State Health Plan Association (HPA) and the Employer Alliance for Affordable Health Care (Employer Alliance), and aided by the Business Council in New York State (BCNYS), is supporting legislation that would eliminate every mandate that has been passed by the New York State Legislature. They claim that this would dramatically decrease the cost of health insurance in New York State.

Every time a new health insurance mandate comes before the Legislature, HPA, the Employer Alliance, and others in the health insurance industry come forward and begin to speak of the dire consequences that the industry, New York State and society as a whole will face if this particular mandate becomes law.

Currently, the “call to arms” mandate that the industry opposes is mental health and substance abuse parity, which they argue will lead to dramatic price increases and a mass exodus by businesses throughout the state if it were to become law. In its Memorandum of Opposition,

¹ Novak, Donna. New York State Mandated Health Insurance Benefits. NovaRest Consulting. May, 2003. Page 10.

² FamiliesUSA. Going without health insurance: Nearly one in three non-elderly Americans. Report no. 03-103. (Washington D.C., The Robert Wood Johnson Foundation, 2003).

³ United States, Department of Commerce, Economics and Statistics Administration, Bureau of the Census. Numbers of Americans with and without health insurance rise, Census Bureau reports. United States Department of Commerce News. (Washington, D.C., U.S. Department of Commerce, Sept. 30, 2003).

the Business Council of New York State, Inc. stated that this would "...add at least \$200 million to skyrocketing insurance costs." They go on to state that the mandate will "lead to an increase of uninsured New Yorkers, a figure that already stands at more than 3 million"⁴.

But this is not a new argument, specifically aimed and targeted to the issue of mental health and substance abuse parity, it is an argument that the industry brings forward every time a new mandate is considered. Consider the Women's Health and Wellness Act, the last health insurance mandate to pass the Legislature and become law. In this instance, the New York Blue Cross and Blue Shield Plans (BCBSP) stated that mammograms would "...increase insurance costs and make health care coverage even more unaffordable to consumers"⁵.

Even though this contention has been proven unfounded, it continues to be issued by the health insurance industry and supported by their allies at BCNYS, and has led to such proposals as the previously mentioned attempt to repeal all health insurance mandates. It has also led to legislation to stem insurance mandates by requiring a fiscal analysis before any mandate may even be considered by the Senate or the Assembly.

Is it Accurate to Blame Mandates?

Upon closer examination of the current health insurance mandates that have been passed in New York, it becomes evident that the list includes crucial elements of care that are primarily preventive in nature. In addition to the Women's Health and Wellness Act, some other mandates include minimum stays for maternity visits (eliminating "drive-thru" deliveries), coverage for enternal formulas, and second opinions for medical diagnoses⁶.

Of the seventeen services that New York State requires coverage for (for a full listing, see Appendix A), no less than thirteen are for preventive care. For instance, providing prostate cancer screenings allows cancer to be detected much earlier, decreasing the amount of money that the insurance company will have to spend treating the disease. Maternity care allows mothers and newborns to receive the care that they need to avoid much more costly emergency services that often result from the lack of these benefits.

In addition, a study by the Congressional Budget Office (CBO), a government entity that conducts fiscal studies for Congress, determined that providing health plans that allowed businesses to purchase 'bare-bones' health insurance packages devoid of all mandated benefits would decrease the cost of health insurance by a mere 5% per year. The Texas Insurance

⁴ Business Council of New York State, Inc. "Memorandum of Opposition: A.8301 (Tonko): Requiring insurance coverage of mental-health services." Legislative Memo. May 29, 2003. Business Council of New York State. August 5, 2003 <http://www.bcnys.org/inside/Legmemos/2003/a8301.htm>.

⁵ Hinman, Straub, P.C. A.2006 (Glick): Memorandum in Opposition. Albany, NY: Hinman Straub, P.C. January 26, 2001.

⁶ Insure.com, <http://info.insure.com/health.lawtool.cfm>.

Department, contracting with Milliman USA, found that mandated benefits accounted for less than 6.5% of the overall cost of health insurance in the State of Texas⁷. This means that the health insurance industry's claim that health insurance mandates are driving the cost of health care in New York appears to be a falsehood. An urban legend that falls under the old saying, if you say something long enough, it becomes true.

So, while industry groups and their allies continually make the argument that mandates are driving the inordinately high cost of health care in this country, the facts lead to other questions about why the number of uninsured and the costs associated with health insurance both continue to increase. For instance:

- Why does the government funded Medicaid program, which offers more benefits than private health insurance, not see the same extreme annual cost increases?
- Why, while non-profit health insurance corporations continue to report profit margins in the hundreds of millions of dollars⁸, does the cost of insurance to employers and individuals continue to rise even more dramatically?
- Why is it that New York State is willing to accept the premise that people's desire to use their health insurance and the provision of basic medical services, such as mammograms, are the primary reasons that millions of New Yorkers are unable to afford health insurance, even though the facts show otherwise?

These are the questions that should be asked, for these are the questions that could provide real insight into the health care crisis taking place in this country. These are the questions that could resolve why millions of Americans go without health insurance year after year, while insurance executives make millions of dollars. These are the questions that this report will examine.

⁷ Andrews, Michelle. "Paying a price for pared-down health plans." The New York Times. June 15, 2003. The New York Times Co. June 16, 2003
<http://www.nytimes.com/2003/06/15/business/yourmoney/15heal.html?ex=10567723>.

⁸ Boyer, Jeremy. "Health insurers report profits: Rising costs blamed for restraining group's financial performance." Timesunion.com. May 16, 2003. The Times Union. May 16, 2003
<http://www.timesunion.com/apstories/storyprint.asp?storyID=134724>.

Part I: The Cost of Managed Care

Administrative Costs and Overhead

While the health insurance industry and their allies claim that mandates are the source of cost increases in managed care, one of the largest costs associated with managed care is administrative cost.

A recent report by the Sherlock Company, based in Pennsylvania, showed that, on average nationally, administrative expenses accounted for 11.7% of premiums in 2002. This means that \$21.92 of each member's monthly premium is spent on administrative overhead, rather than the provision of care. This is nearly twice the 6.5% cost of all the mandated services, as found in the Milliman Study for Texas.

The report, known as the Sherlock Expense Evaluation Report (SEER) found that Medicare + Choice programs had the cheapest overall administrative rate, at 7.16%. Conversely, Preferred Provider Organization Insured (PPO Insured) and Indemnity programs had the highest administrative overhead⁹.

According to the SEER report, on a national basis, Blue Cross Blue Shield (BCBS) plans spent on average \$8.64 per person per month (pp/pm) on account and member administration. They spent \$5.20 pp/pm on marketing. The plans spent an average of \$4.85 pp/pm on Corporate Services, and \$2.34 pp/pm on medical and provider management. This means that on average, BCBS spent \$22.46 pp/pm on administrative costs, or 18.02%, over 6% higher than the national average, and three times the cost of mandated services¹⁰.

This means that, contrary to what health insurance industry reports are saying, one of the largest drivers of health insurance rates throughout the country is administrative overhead.

Table 1.1
Average Administrative Costs of Blue Cross Blue Shield Plans Nationally¹¹

Administrative Expense	Median Cost
Account and Member Administration	\$8.64
Marketing	\$5.20
Corporate Services	\$4.85
Medical and Provider Management	\$2.34
Total Expenses	\$22.46

These numbers are transcribed directly from the SEER report. All rows represent a median expense, and therefore do not necessarily add up to the Total Expenses.

⁹ Sherlock Company. "Administrative expenses of public health plans approximate 11.7% of premiums, says Sherlock Company." Press Release. August 22, 2003.

¹⁰ Sherlock Company. Expense benchmarks for health plans. Sherlock Company. September 30, 2003 <http://www.sherlockco.com/seerbackground.htm>.

¹¹ Sherlock Company. September 30, 2003.

A Major Source of Overhead: Salary

In examining why administrative costs are so high, we turn to one of the largest administrative expenses for any business: salary. New York State requires that health insurance companies provide salary information for any employee earning over \$100,000, allowing a thorough examination of salary information on a company-by-company basis.

According to information obtained from the New York State Insurance Department via a Freedom Of Information Law request (FOIL), 14 health insurance companies in New York State revealed on Schedule G of their Supplement for the year 2002 that they spent \$157,618,732 on salaries for individuals who earned over \$100,000. Atlantis Health Plan represented the low end of spending, with four individuals earning over \$100,000, for a total of \$561,123 in spending. Excellus Health Plans paid out the most amount of money to individuals earning in excess of \$100,000, with total salary expenditure in this category of \$35,574,916.

This information, while informative, is also slightly skewed, as the reader has no point of reference for salaries in comparison to other businesses or professions. For that reason, the information gathered from the New York State Insurance Department was compared to that of other professions.

The salaries of those in the health insurance industry were set against figures published by CareerJournal.com, a resource of *The Wall Street Journal*, one of the most respected sources of news and information for the business community. According to CareerJournal.com, the average salary for Chief Executive Officers in New York State is \$312,778 per year¹².

Of the 14 New York health plans inspected, twelve paid their CEO a salary in excess of the average, at an average annual salary of \$826,888. This means that Chief Executive Officers of New York State's health insurance companies are paid, on average, over 250% higher than Chief Executive Officers throughout the state.

In addition to the 12 CEOs that earn more than the \$312,778 average annual salary, 61 other employees of these 14 firms earn a salary that is greater than the average annual income for New York's top employees. These 61 employees earned a total \$31,424,737, for an average salary of \$515,160. This means that in New York State, 73 employees in 14 health insurance companies earn more than the average pay of New York State's CEOs.

¹² Baker, Thomsen Associates Insurance Services, Inc. SalaryExpert Cobrand Reports. September 30, 2003. CareerJournal.com, The Wall Street Journal Executive Career Site. September 30, 2003 <http://salaryexpert.com/seco/index.cfm?Action=DisplayNARreport&CobrandID=95&job=1&zip=&area=360000&GetReport.x=96&GetReport.y=12>.

Table 1.2
Insurance CEO/President Salaries in Relation to
New York State Average CEO Salary
(Information from Schedule G of New York State Supplement for the Year 2002,
obtained via FOIL from NYS Insurance Department)

Company	Salary
United States Insurance Company in the City of New York	\$1,674,445
HealthNow New York, Inc. (Also Community Blue)	\$1,514,884
Excellus Health Plan	\$1,455,079
Group Health Incorporated	\$1,478,681*
Health Insurance Plan of Greater New York	\$1,286,317
CIGNA Healthcare of New York	\$1,005,497
Oxford Health Plans	\$866,222
Average Salary of New York State Insurance Company CEO	\$826,888
MVP Health Plan	\$442,829
MDNY Healthcare, Inc.	\$419,310
Aetna Health Inc. (A NY Corp.)	\$366,308
Capital District Physician Health Plan	\$340,565
Anthem Health and Life Insurance Co. of NY	\$319,178
Average CEO Salary in New York State	\$312,778
The Americhoice of New York	\$260,000
The Atlantis Health Plan	\$147,115

* - Includes reimbursement for losses to pension plan

How Much does Administrative Overhead Contribute to Cost?

Unfortunately, no studies have as of yet been conducted to determine the impact that industry salaries have on health insurance premium costs. The Albany *Times Union* reported on the strength and profits of health insurance companies in an article originally published on May 16, 2003. The article stated that while health insurance plans throughout the state reported profits for the year 2002, “increased expenses” were still restraining their overall profits. Capital District Physician’s Health Plan (CDPHP) Chief Financial Officer, William MacBain, was quoted in the article as saying that “CDPHP's results for 2003 are on target financially and we are working to contain rising costs”¹³. Mr. MacBain did not note whether or not executive compensation packages were under review.

Lavish salaries are being provided to not only Chief Executive Officers of health insurance companies, but numerous other employees as well. Given that the industry is quick to point to the costs associated with providing such basic services as emergency care, maternity

¹³ Boyer, Jeremy. “Health insurers report profits: Rising costs blamed for restraining group’s financial performance.” [Timesunion.com](http://www.timesunion.com). May 16, 2003. The Times Union. May 16, 2003 <http://www.timesunion.com/apstories/storyprint.asp?storyID=134724>.

care, and prostate cancer screenings as the primary factor driving premium increases, it would be interesting to see an in-depth analysis of the effects of salary on premium costs. This is especially true given the crisis conditions that exist for so many New Yorkers who do not themselves have a high enough salary to afford these premiums.

Part II: The Cost of Maintaining the Status Quo

The Relationship between Government Relations and Public Approval

All successful major corporations, including the health insurance industry, must maintain an active government relations department. When it comes to success in government relations, most sources use one of two mechanisms. The first technique is to harness the power of grassroots lobbying, mobilizing a public official's constituents to lobby on behalf of the issue, putting pressure on the official at the polls.

The other technique is simpler, yet costlier. It involves recognizing that current realities in politics require that public officials have large campaign accounts for what can often be costly elections. According to information gathered from the New York State Board of Elections by Jon Bartholomew of Citizen Action of New York and the Clean Money Clean Elections Campaign, the average Assembly race costs about \$113,000. The average Senate race costs approximately \$266,000. In 2002, Governor George Pataki spent approximately \$40 million to win his reelection campaign, and was outspent by almost \$20 million by Independence Party candidate Tom Golisano. Carl McCall, who spent the least of any of the three candidates for governor, spent approximately \$15 million. Costly campaigns mean that those who have the ability to donate large sums of money to a candidate's election efforts can also influence policy in a manner that allows them to forgo popular public support.

The health insurance industry does not have the ability to influence policy by building a strong grassroots movement. Indeed, a 2003 Harris Poll shows that the health insurance industry ranks just above the tobacco industry in terms of public support. Only 40% of those polled thought that health insurance companies were doing a "good job" of serving their consumers. When the industry was limited to managed care companies, the number dropped even further, to 30%. That is not indicative of broad-based, grassroots support.

The even more interesting part of this survey is that the health insurance industry's popularity represented an 11% drop from the previous year, and was only 2% points higher than their all time low score of 38%, reached in 2001. Similarly, the managed care companies also fell, losing 3% of their support, coming only 1% point from their all time low of 29%, which they reached in both 2000 and 2001. These numbers indicate that not only are the health insurance companies poorly liked by the public, but the gains that they had made have fallen by the wayside¹⁴.

¹⁴ Taylor, Humphrey. "The Harris Poll #31: Supermarkets, food companies, hospitals, and banks top the industries doing good job for their customers: Tobacco, managed care, health insurance and oil score the worst." Harris Interactive. May 28, 2003. The Harris Poll. October 1, 2003 http://www.harrisinteractive.com/harris_poll/index.asp?PID=379.

The Best Access Money Can Buy?

With this level of contempt for the health insurance industry among the public, their government relations staff is forced to utilize the more costly approach to advocacy, that of campaign donations. Therefore, when examining the overall cost of health insurance, it is worth investigating public campaign donation records to examine the overall amount of money spent by the industry on financing their advocacy agenda.

In order to determine the amount of money spent by the insurance industry on campaign donations, this report examined records from the New York State Board of Elections Campaign Finance Database. The report looked at filings from the 14 health insurance companies mentioned in Part I, along with HPA, the New York State Insurance Association (NYSIA), the American Insurance Association in New York, Blue Cross Blue Shield and WellChoice, Inc. In order to get an accurate picture of campaign donations, all figures represent filings from January 10, 2002 until those filed for the 32- day Pre General filing deadline of October 3, 2003. This allows the report to capture spending over a typical 2 year Legislative Session, capturing a year in which all statewide offices are up for reelection as well as a non-election year.

Examination of the money spent by the health insurance industry and their advocacy organizations during the period January 10, 2002 to October 3, 2003, reveals that the health insurance companies and their trade organizations spent a combined \$428,078.32. Of course, in most instances, it was not the health insurance companies themselves, as New York State Election Law does place limitations on the amount of money that a corporation can donate during one election year. Instead, donations are given through Political Action Committees (PACs), which allow these companies and trade associations to donate much larger sums of money to the campaign coffers of public officials.

Of the \$428,078.32 donated, \$92,309.32 came from HPA PAC, the political action committee for HPA. Of the 14 insurance companies represented in this report, Group Health Incorporated (GHI) spent the most, \$32,565. Out of all insurance companies, without limitations as to those included in the salary portion of this report, Prudential spent far and away the most money on campaign donations, with \$52,675 in donations made. Prudential and Wellchoice PAC, who donated \$42,500, even outspent the New York Insurance Association PAC, one of the industry trade groups.

Of those plans that donated to political campaigns, MDNY reported the least amount of money in donations, with \$500. Three health plans, Atlantis Health Plan, Anthem Health and Life Insurance Company of New York, and the United States Insurance Company in the City of New York, did not report any campaign donations. For a full listing of campaign donations by company, refer to Appendix C.

Table 2.1
Campaign Donations from Insurance Industry
(Information gathered from NYS Board of Elections Campaign Finance Database)

Company/Industry	Amount
Total from Insurance Companies	\$202,613.32
Total from Insurance Lobby	\$225,465
Total from Insurance Industry	\$428,078.32

But What Does One Do With Access?

Campaign donations merely gain an individual or organization access to those who win. Lobbying, directly contacting public officials, is what one does with access. The health insurance industry recognizes this fact, and spends generously to afford the premiere lobbyists, lobbyists that allow them an even greater degree of access and consideration, in Albany.

According to the Client Semi-Annual Reports filed with the New York State Temporary Commission on Lobbying (NYSTCL), the health insurance industry spent a total of \$1,141,515 on lobbying expenses between January and June of 2003. This represents \$561,162 of spending from nine of the fourteen health insurance plans that have been examined throughout the report. The Blue Cross/ Blue Shield Association and Wellchoice, Inc. spent another \$102,494. Spending from HPA, the Employer Alliance, the Independent Health Association (IHA), The Insurance Association of New York (IANY), and the American Insurance Association (AIA), trade groups representing the industry, make up the \$477,859 that account for the remainder of the spending.

As the trade organization for the entire industry, AIA spent by far the most amount of money lobbying, accruing a total of \$185,059. HPA spent a similar amount, with \$155,274 in lobbying expenses.

Table 2.2
Lobbying Expenditures by Health Insurance Trade Organizations
(Information gathered from NYS Temporary Commission on Lobbying Client Semi-Annual Reports)

Company	Amount
American Insurance Association	\$185,059
New York State Health Plan Association	\$155,274
Independent Health Association	\$53,066
Insurance Association of New York	\$45,812
Employer Alliance for Affordable Healthcare	\$38,648

Of individual insurance companies, The Health Insurance Plan of Greater New York (HIP) spent by far the most money on lobbying, with \$134,408 in costs. HIP outpaced their closest competition, Aetna Company, who paid \$80,625 in lobbying costs, by \$53,783. Excellus Health Plan spent \$78,269, and GHI spent \$70,730; both were close to Aetna in lobbying costs. The five health plans that did not report any lobbying expenses were The Atlantis Health Plan, Anthem Health and Life Insurance Company of NY, MDNY Healthcare, MVP Healthcare, and United States Insurance Company in the City of New York. For a full breakdown of all lobbying costs, broken out by company and expense, please refer to Appendix D.

Table 2.3
Lobbying Expenditures by Health Insurance Companies
(Information gathered from NYS Temporary Commission on Lobbying Client Semi-Annual Reports)

Company	Lobbying Expenses
Health Insurance Plan of Greater New York, Inc.	\$134,408
Aetna, Inc.	\$80,625
Excellus Health Plan, Inc.	\$78,269
Group Health Incorporated	\$70,730
Cigna Companies	\$56,022
Wellchoice, Inc.	\$52,494
Blue Cross/Blue Shield Association	\$50,000
Oxford Health Plans	\$44,716
HealthNow New York, Inc.	\$39,172
Capital District Physician's Health Plan, Inc.	\$28,719
AmeriChoice of New York, Inc.	\$28,501

Conclusion – What Really Drives the Crisis...

The Answers – What are the Real Forces Behind Escalating Costs?

The cost of healthcare continues to be a factor that drives social policy in our country. The exorbitant cost of health insurance has led to 44 million people without health insurance of any kind in this country, and over 3 million in New York State alone. In order to shelter themselves from criticism regarding this crisis, the health insurance industry has argued that the main factor driving up the cost of insurance is mandated benefits.

However, the facts dispute this claim, and expose it as an ‘urban legend’. The Congressional Budget Office has stated that the elimination of mandated benefits would result in a mere 5% savings for small businesses purchasing health insurance plans. The Texas Insurance Department went even further and made the determination that these savings would result in only 3% of small businesses adding health insurance as a benefit.

This report indicates that the real trends driving insurance premiums are twofold: high administrative overhead resulting from utilization review and exorbitant salaries for top level employees, and government relations operations that seek to maintain the status quo in the face of growing public opposition.

Answer 1 – High Administrative Overhead Driven by Exorbitant Executive Compensation Packages

Overall, the health insurance industry pays their top-level, and even some mid-level, employees handsomely, much more handsomely than employees in many other sectors. The 72 employees who were paid in excess of the average Chief Executive Officer salary in New York State (\$312,778) made a total of \$43,382,038. The average CEO for those in the health insurance industry amounted to \$794,462, over 250% of the average that their counterparts in other sectors earn.

In addition to these outlandish salaries, the administrative overhead that was originally intended to save money has instead led to escalating costs. The SEER report, an independent study that insurance companies actually pay to take part in, found that nationally 11.7%, or \$21.92 per person per month, of every monthly insurance premium goes towards paying for administrative overhead, such as utilization review and marketing.

For Blue Cross/ Blue Shield, marketing alone cost \$5.20 per person per month. This represents approximately 3% of monthly premiums. The elimination of marketing, with some additional small administrative savings, could, by itself, offset the 5% in costs accrued due to health insurance mandates.

Answer 2 – The Cost of “Business As Usual”

One thing that the administrative overhead does not seem to include is the cost of “business as usual.” As this report found, the cost of “business as usual” is quite expensive indeed. The health insurance industry has spent \$428,078.32 in campaign contributions since January 10, 2002. Of this amount, \$202,613.32 was spent by the insurance companies. Another \$225,465 was spent by the trade groups that represent them.

In order to ensure that their campaign donations were effective, the health insurance industry also paid well for the most well connected lobbyists in Albany. The industry spent a total of \$1,141,515 on lobbying expenditures in the first half of 2003 (January- June reporting period). Of this total, insurance companies spent \$561,162. Blue Cross/ Blue Shield Association and WellChoice, Inc. spent \$102,494. \$477,859 was spent by the health insurance industry’s advocacy organizations, such as the New York State Health Plan Association, The American Insurance Association, and others.

With so many of its expenses not going toward patient care, it is no wonder that health insurance companies cannot afford to offer a good product at a reasonable rate. While health insurance companies, their trade groups, and their allies continue to cry wolf about the burden imposed upon them from insurance mandates, the facts point in a different direction. As executives continue to earn salaries that are so out of touch with their peers in other industries, as administrative expenses continue to grow, and as the industry continues to spend more and more money protecting a faulty system, the health insurance crisis in this state and this country will continue to grow.

Appendix A

Current New York Mandated Benefits¹⁵

**Text and Chart Taken Directly From: *New York State Mandated Health Insurance Benefits*
A report by Donna Novak, FCA, ASA, MAAA, MBA of NovaRest Consulting**

The State of New York has more than 30 mandated benefits for health insurance products. Following is a list of the mandated benefits, the year they were enacted, and the estimated cost of these benefits. The cost of mandated benefits can be presented as the direct cost, claims associated with the mandated benefit, or the indirect cost where the direct costs are adjusted for the elimination or reduction of other services or claims. For example, follow-up testing related to additional screenings and cost reductions due to early detection and treatment of disease. These estimates are based on studies done in other states on similar mandated benefits.

We (NovaRest Consulting) did not estimate the associated economic and social consequences of not providing treatment or care associated with the mandated benefits, such as loss of productivity, assistance costs for families, and housing support.

Mandated Benefits	Cost as a Percent of Premium	
	Direct Cost	Net Cost
Breast Cancer Length of Stay (1997)	*	*
Cancer Second Opinion (1997)	*	*
Cervical Cytological Screening (1992)	0.3%	*
Chiropractic (1997)	2.5%	2.5%
Contraceptives (2002)	0.3%	0.3%
Diabetes/ Equipment (1993)	0.5%	0.2%
EMS coverage (1976)	*	*
Enteral Formulas (1997)	0.1%	0.1%
Home Health Care (1972)	0.1%	0.1%
Infertility Coverage (1990 & 2002)	0.7%	0.7%
Licensed Nurse Midwife (1982/1998)	*	*
Mammography (1988 & 2002)	0.4%	0.2%
Mastectomy (1997)	0.2%	0.2%
Maternity care (1976)	3.6%	3.6%
Maternity Length of Stay (1996)	1.0%	0.3%
Off-label Cancer Drug (1990)	0.2%	0.2%
Osteoporosis (2002)	0.4%	0.4%
Outpatient Alcohol/Substance Abuse (limited visitations) (1983)	1.0%	1.0%
Pre-Admission Testing (1976)	*	*
Preventive and Primary Care (1993)	0.8%	0.2%
Prostate Coverage (2000)	0.7%	0.3%
Second Surgical Opinion (1976)	*	*
Social Workers (1984)	1.0%	1.0%
Total	14.7%	12.2%

(Editor's note: Although the text states that there are over 30 mandated benefits in New York State, the chart provided by the author only lists 23. This discrepancy appeared in the industry's report and was merely replicated here.)

¹⁵ Novak, Donna. New York State Mandated Health Insurance Benefits. NovaRest Consulting. May, 2003. Page 10.

Appendix B*
Salaries in excess of Average
New York State CEO Salary (\$312,778)¹⁶

Company	Job Title	Salary
Excellus Health Plan		\$12,866,615
	Regional President Excellus Health Plan	\$1,630,385
	Chief Executive Officer Excellus	1,455,079
	President and Chief Operating Officer, Excellus, Inc.	1,075,440
	Executive Vice President and Chief Financial Officer, Excellus, Inc.	\$1,055,271
	Consultant LTH, Inc.	\$1,024,949
	Executive Director for Corporate Relations and Community Suppliers	\$794,417
	President, Excellus Health Plan	\$722,716
	Senior Vice President Excellus Services	\$507,920
	President MedAmerica LTC Insurance	\$497,292
	Executive Vice President Healthcare Affairs, Excellus Health Plan	\$476,232
	Executive Vice President and Corporate General Counsel	\$448,763
	Senior Vice President and Consultant	\$428,283
	Senior Vice President and Medical Director, Excellus, Inc.	\$378,863
	Regional President – Rochester Excellus Health Plan	\$358,831
	Senior Vice President for Corporate Relations, Excellus, Inc.	\$354,684
	Senior Vice President and General Counsel, Excellus, Inc.	\$343,807
	Senior Vice President of Human Relations, Excellus, Inc.	\$337,941

¹⁶ Baker, Thomsen Associates Insurance Services, Inc. SalaryExpert Cobrand Reports. September 30, 2003. CareerJournal.com, The Wall Street Journal Executive Career Site. September 30, 2003 <http://salaryexpert.com/seco/index.cfm?Action=DisplayNAResults&CobrandID=95&job=1&zip=&area=360000&GetReport.x=96&GetReport.y=12>.

Excellus Health Plan (cont'd)		
	Executive Vice-President – Plan Operations	\$333,438
	Retirement Plan Administrator IV	\$325,051
	Senior Vice President/ Legal Affairs and Central New York General Counsel	\$317,253
The Oxford Health Plans (NY), Inc.		\$8,828,087
	“Employee”	\$1,924,167
	“Employee”	\$1,231,988
	Director / Chief Executive Officer and President	\$866,222
	Director / Chief Financial Officer	\$564,829
	“Employee”	\$528,942
	“Employee”	\$492,692
	“Employee”	\$492,293
	“Employee”	\$449,624
	Director / Executive Vice President Chief Medical Officer	\$448,799
	“Employee”	\$410,330
	“Employee”	\$403,779
	“Employee”	\$349,422
	“Employee”	\$340,000
	“Employee”	\$325,000
Health Insurance Plan of Greater New York		\$7,324,579
	Chairman, Chief Executive Officer and Director, HIP NY	\$1,286,317
	President, Chief Operating Officer and Director – HIP NY	\$762,581
	Executive Vice President / Chief Financial Officer, General Counsel and Corporate Secretary	\$589,566
	Senior Vice President/ Medical Affairs and Chief Medical Officer	\$540,157
	Executive Vice President / Operations and Chief Information Officer	\$477,471
	Senior Vice President / Public Affairs and Operations Advisory Chairman	\$420,569
	Vice President / Commercial Sales	\$387,428
	Senior Vice President and Chief Operating Officer, CLS	\$377,102

Health Insurance Plan of Greater New York (cont'd)		
	Senior Vice President/ Underwriting and Account Services / Chief Actuary	\$375,454
	Senior Vice President / Information Technology and Chief Technology Officer	\$373,681
	Senior Vice President Delivery Systems Management and Strategy	\$357,377
	Senior Vice President / Product Coordination and Oversight	\$356,604
	Senior Vice President / Public Policy and Regulatory Affairs	\$342,213
	Senior Vice President / External Affairs and Corporate Control	\$340,643
	Senior Vice President / Human Resources	\$337,416
HealthNow New York, Inc.		\$3,790,766
	President and Chief Executive Officer	\$1,514,884
	Senior Vice President – General Counsel/ Corporate Secretary	\$423,152
	Senior Vice President / Chief Operating Officer Albany Market	\$411,426
	Executive Vice President of Health Services and Marketing Management	\$374,208
	Senior Vice President and Chief Information Officer	\$361,702
	Executive Vice President of Operation Support Services and Chief Financial Officer	\$356,776
	Senior Vice President and Chief Operating Officer Buffalo Market	\$348,618
United States Insurance Company in the City of New York		\$3,221,271
	President and Chief Executive Officer	\$1,674,445
	President and Chief Executive Officer – Group Benefits/ Finance	\$699,679
	Senior Vice President	\$479,942
	Sales Vice President	\$367,205

Group Health Incorporated		\$2,298,421
	President and Chief Executive Officer	\$1,478,681**
	Executive Vice President and Chief Operating Officer	\$488,953
	Senior Vice President and Chief Medical Director	\$330,787
CIGNA Healthcare of New York, Inc.		\$1,666,536
	Geographic Market Leader^	\$1,005,497
	Strategic Sales Manager	\$345,239
	Vice President Network Operations Officer	\$315,800
MVP Health Plan, Inc.		\$793,193
	President / CEO	\$442,829
	Vice President of Medical Affairs	\$350,364
Anthem Health and Life Insurance Company of New York		\$678,401
	Treasurer	\$359,223
	President^	\$319,178
MDNY Healthcare, Inc.		\$419,310
	Chief Executive Officer	\$419,310
Aetna Health, Inc. (A New York Company)		\$366,308
	President^	\$366,308
Capital District Physicians' Health Plan, Inc.		\$340,565
	President and Chief Executive Officer	\$340,565
The AmeriChoice of New York, Inc.		\$0^^
The Atlantis Health Plan		\$0^^
TOTAL	73	\$42,594,052

* All salary information obtained via FOIL from NYS Insurance Department from Schedule G of The New York Supplement.

**includes \$235,292 in reimbursement for compensation to "Secular Trust...to compensate for value of diminished pension benefits due to length of service."

^ used as CEO for company, as no CEO exists

^^no salary compensation in excess of New York State Average Compensation for CEO

Appendix C*
Campaign Donations by Company

Company	Total in Campaign Donations (January 10, 2002 – October, 2003)**
New York State Health Plan Association PAC	\$92,309.32
American Insurance Association New York PAC	\$76,229
Prudential New York Political Action Committee	\$52,675
WellChoice PAC	\$42,500
New York Insurance Association PAC	\$34,075
Group Health Incorporated State Political Committee	\$32,565
Oxford Health Plans, Inc. New York Committee For Quality Health Care	\$24,400
Capital District Physicians Health Plan (CDPHP)***	\$16,700
Cigna Corporation Political Action Committee	\$15,000
MVP Health Plan ^	\$13,325
Aetna, Inc. Political Action Committee	\$12,000
AmeriChoice of New York^^	\$9,650
Blue Cross Blue Shield ^^	\$4,150
Excellus Companies	\$2,000
MDNY	\$500
Total	\$428,078.32

* - All information gathered from The New York State board of Elections Campaign Finance Database.

** - does not include bank fees, postage, and miscellaneous expenses. Does include reimbursements to individuals and corporations for services rendered on behalf of PAC, as well as fines paid to NYS Board of Elections

*** - Includes references in database to Capital District Physicians' Health Plan, Capital District Physicians' Healthcare Network, because both share same address and information. Includes Capital District Physicians Health Plan from 17 Columbia Circle as well due to same name.

^ - Includes MVP Health Plan and MVP Service Corporation, which share addresses in Schenectady.

^^ - Includes all references to AmeriChoice of New York, Inc. and AmeriChoice Health Services, the larger national corporation.

^^^ - Includes Blue Cross Blue Shield, Inc., Blue Cross Blue Shield Association, Blue Cross Blue Shield of Central New York.

Appendix D*
**Lobbying Expenditures by Insurance Companies
and Trade Groups**

Table A: Lobbying Expenditures By Health Insurance Companies

Company	Entity	Amount
Health Insurance Plan of Greater New York		\$134,408
	Bolton St. Johns, Inc.	\$40,000
	Pinsky and Skandalis	\$45,000
	Andrew S Roffe, P.C	\$45,000
	Employee Lobbying	\$3,999
	Total Expenses	\$409
Aetna, Inc.		\$80,625
	Capital Public Affairs	\$80,000
	Susan Tully Abdo	\$625
Excelsus Health Plan, Inc.		\$78,269
	Hinman Straub P.C.	\$75,000
	Total Expenses	\$3,269
Group Health Incorporated, Inc.		\$
	Manatt, Phelps & Phillips, LLP	\$45,000
	Hodgson Russ, LLP	\$23,745
	Employee Lobbying	\$1,961
	Total Expenses	\$24
Cigna Companies		\$56,022
	Hinman Straub P.C.	\$50,000
	Employee Lobbying	\$5,000
	Total Expenses	\$1,022
WellChoice, Inc.		\$52,494
	Hinman Straub P.C.	\$37,500
	Plunkett & Jaffe P.C.	\$12,000
	Total Expenses	\$2,994
Blue Cross/ Blue Shield Association		\$50,000
	Wilson, Elser, Moskowitz, Edelman & Dicker, LLP	\$50,000
Oxford Health Plans		\$44,716
	Kevin Cleary Government Relations, LLC	\$40,000
	Employee Lobbying	\$2,394
	Total Expenses	\$2,322

Table A (Cont'd)

Company	Entity	Amount
HealthNow New York, Inc.		\$39,172
	Buley Public Affairs, LLC	\$24,000
	John C. Rossi & Associates	\$15,000
	Total Expenses	\$172
Capital District Physicians' Health Plan, Inc.		\$28,719
	Hodes Associates	\$27,500
	Employee Lobbying	\$750
	Total Expenses	\$469
AmeriChoice of New York, Inc.		\$28,501
	Employee Lobbying	\$28,234
	Total Expenses	\$267
Total by Insurance Companies		\$663,656

Table B: Lobbying Expenditures By Health Insurance Trade Organizations

Company	Entity	Amount
American Insurance Association		\$185,059
	Wilson, Elser, Moskowitz, Edelman & Dicker, LLP	\$105,000
	Featherstonhaugh, Wiley, Clyne & Cordo, LLP	\$30,000
	American Insurance Association	\$29,000
	Couch White, LLP	\$16,500
	Total Expenses	\$4,559
New York State Health Plan Association, Inc.		\$155,274
	Couch White, LLP	\$87,500
	Employee Lobbying	\$56,828
	Total Expenses	10,946
Independent Health Association, Inc.		\$53,066
	Hodes Associates	\$53,001
	Total Expenses	\$65
Insurance Association, Inc. (NY)		\$45,812
	Employee Lobbying	\$41,160
	Total Expenses	\$4,652
Employer Alliance for Affordable Health Care		\$38,648
	Total Expenses	\$38,648
Total by Trade Organizations		\$477,859

* - All information gathered from Client Semi-Annual Reports filed with the New York State Temporary Commission on Lobbying.