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Public Fears, Plan Profits and Corporate Salaries

By Barbara Baldwin, CSA Executive Director

According to the latest Kaiser Family Foundation Health Poll Report, more than one-third of Americans (36%) are very worried that the amount they pay for health care services or health insurance will increase. The only other issue that ranked as high was worry about their income keeping up with rising prices (35% said they were very worried).

Based on a survey conducted April 3-6, 2003, the poll found that the public was also worried about a wide range of other health concerns: 34% said they were very worried that their health plan is more concerned with saving money than with their medical needs; 27% were very worried that the quality of health care they receive will get worse; 26% were very worried about affording prescription drugs; and 24% were very worried that they might not be able to get health care services they think they need.

Public fears run high, as do corporate profits and executive compensation. In comparing the for-profits to the not-for-profits, we often see less money spent on medical care by the for-profits, coupled with increasing profits and rich compensation packages for CEOs.

According to the CMA's annual report on HMOs, Blue Cross of California in 2001-2002 spent a paltry 78.9% of its revenue on patient medical care. The rest of the revenue went to administrative costs and profit. In addition to Blue Cross, CIGNA HealthCare of California, Health Net and Blue Shield were among the largest companies on the CMA's list of health plans spending the least on medical care. CIGNA spent 82.7% of revenues on medical care; Blue Shield, 85.4% and Health Net, 87%. Of these plans, Blue Shield is the only not-for-profit.

Plans spending the most money on medical care included Kaiser Foundation Health Plan (94.9%), Aetna (93.3%), Scripps (97.2%) and Sharp (94.8%). Of these plans, Aetna and Scripps are for-profit companies.

Jack Lewin, M.D., CEO of CMA qualified these results noting that other factors such as size, convenience, copayments, overall premium costs and benefit packages affect overall medical care spending levels. "Still," he says, " these differences in administration and profit levels are disturbing, considering how fast insurance premiums are rising."

Nationally, WellPoint, the Thousand Oaks-based parent group of Blue Cross, saw annual profits increase by 70 percent to $702.1 million in 2002, increasing from $414.7 million in profits the year before. In California, Blue Cross serves more than 4 million enrollees—more than any other plan except Kaiser Foundation Health Plan, which serves more than 6 million statewide.

At top managed care companies, CEOs' earnings exceed their counterparts in other industries. In 2002, top managed care CEO compensation increased an average of 17.7% to more than $3.4 million in salaries and bonuses last year. For other large publicly traded companies, the average increase in CEO compensation was 3.5%, with salaries of $2.1 million, not including long-term performance bonuses, stock options or stock awards, which can yield windfalls of tens of millions of dollars in additional income.

A comparison of hourly wages for various physician specialists, based on a 60 hour, five-day work week found physicians earning an average of around $50-100 per hour (family practice and neurosurgery, respectively), while the top managed care CEOs' hourly wage averaged $1,423.

Even CEOs of companies that perform poorly profit. CIGNA's Chair and CEO H. Edward Hanway was handsomely rewarded for taking on a turnaround situation. The company's stock price then dropped 51.2% last year as the plan felt the impact of low indemnity renewal rates, high overhead and underpricing, so Hanway didn't get a bonus. However, he received a salary of more than $1 million plus a stock grant equal to that amount. He also cashed in $3.9 million in stock options. In the company's 2003 proxy statement, board members noted disappointing results for CIGNA's health care operations but gave Hanway pluses for his "financial stewardship and integrity" and "people-building."

A recent study found that health plan conversions to for-profit status don't guarantee increased efficiency or profits. While some Blue Cross and Blue Shield plans insist that converting to shareholder-owned companies is the way to thrive, a new report finds little difference between the financial performance of for-profit and mutual nonprofit Blues. In some respects the traditional plans are more efficient. Although total revenues of the for-profit plans were moderately higher, nonprofit plans as a group had equally good profit margins and did as well or better in key measures of efficiency. Moreover, the mutual Blues had lower administrative expense ratios, an indication of how efficiently overhead is being managed.

So goes the argument that converting to a for-profit entity makes the company leaner. Meaner, maybe, but not necessarily leaner.

Abbott Laboratories Completes Initiative to Bar Code 100% of Injectables and IV Solutions

Abbott Laboratories announced today that it has completed its initiative to affix unit-of-use bar codes to 100 percent of its hospital injectable pharmaceuticals and IV solutions. The achievement, which encompasses more than 1,000 products, is part of Abbott's comprehensive, industry-leading initiative to help reduce medication errors and enhance patient safety in hospitals.

Abbott has worked for several years on this initiative and announced its commitment last July, in advance of U.S. Food and Drug Administration (FDA) hearings about the possibility of requiring bar codes on pharmaceutical products. At that time, Abbott had already bar coded about 45 percent of its large hospital injectable pharmaceuticals and IV solutions portfolio. Additionally, virtually all of Abbott's oral pharmaceuticals distributed in bottles in the United States include bar codes. Throughout the past year, Abbott also has been working to develop bar coding technology across hospital unit-dose packaging of these oral medications. Abbott's program is consistent with the preliminary guidance issued in the FDA's March 13 proposed rule to require bar code labeling on all prescription and some over-the-counter drugs and vaccines.

"Preventing medication errors is a critical part of ensuring patient safety and improving the quality of medical care in this country," said Tommy G. Thompson, Secretary of the U.S. Department of Health and Human Services. "Bar code initiatives, such as the one recently completed by Abbott, are exactly what the FDA's proposed rule is designed to achieve. I congratulate them on their efforts." (Press release, March 27, 2003.)