



Fact Sheet

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August 3, 2010

Available Online: dpc.senate.gov

‘Government Takeover?’ Not According to the Health Care Industry

Shortly before introduction of the Senate health reform bill last November, *U.S. News* posted an article entitled *Why Wall Street is Bullish on Healthcare Reform*. [*U.S. News*, [11/17/09](#)] The first line summed up business and investor thoughts on the developing health reform legislation. “If reforms out of Washington are poised to wreck the healthcare industry, somebody forgot to tell the stock market – including hundreds of professional investors who own healthcare stocks and get paid to assess their prospects.”

Four months later, Congress passed and the President signed into law landmark health insurance reform legislation, the *Patient Protection and Affordable Care Act (P.L. 111-148)* and the *Health Care and Education Reconciliation Act (P.L. 111-152)*. While opponents of reform continue to assert that the *Affordable Care Act* represents a “government takeover” of health care, the industry’s businesses and investors know nothing could be further from the truth.

“Government takeover” might be a convenient Republican talking point, but the performance of health care stocks and industry behavior since passage of the *Affordable Care Act* clearly reveal that the talking point has no basis in reality.

Health Insurance Stocks Weather Recession, Post Large Profits

Even in the midst of an economic recession, health insurance stocks continue to perform. When the overall market struggled at the end of 2008, health insurance stocks outperformed the S & P 500 – not what one would expect of an industry about to be “taken over” by the government. [*U.S. News*, [11/17/09](#)] Immediately after reform was signed into law, *Forbes* reported, “Healthcare-related stocks lifted Wall Street indexes Monday as investors breathed easier now that Congress has passed a comprehensive reform of the nation’s healthcare system.” [*Forbes*, [3/22/10](#)] In fact, through the first three months of the year, nearly every large, publicly traded health plan recorded strong earnings increases. [*American Medical News*, [5/31/10](#)]

Recently-released second quarter earnings by major U.S. health insurers demonstrate continued strong performance as implementation of the *Affordable Care Act* ramps up:

- UnitedHealth Group, the largest U.S. managed-care company by revenue, reported a 31 percent increase in second-quarter net income. Second quarter profits this year were \$1.12 billion, or 99 cents a share, compared with \$859 million, or 73 cents a share, last year. [*Wall Street Journal*, [7/20/10](#)]

- Wellpoint, the nation's largest commercial health insurer based on membership, reported a four percent increase in second-quarter net income, managing to increase earnings even after cancelling plans to hike premiums on individual insurance in California, instead moving forward with a much smaller premium increase. [*Associated Press*, [7/28/10](#)]
- Aetna, the third largest insurer, reported a 42 percent increase in second-quarter profits, earning \$450.2 million, or \$1.05 per share. [*Associated Press*, [7/28/10](#)] All three insurance companies also raised their earnings guidance for the year.

Insurance companies await the release of regulations implementing new medical-loss ratios included in the *Affordable Care Act*, which determine the percentage of premium dollars insurance companies must spend on actual medical care, as opposed to administration, profit and other non-medical spending. However, in announcing their earnings, insurance plans sought to assure market analysts that regardless of what the medical-loss ratio rules are, "their companies won't take a big earnings hit." [*American Medical News*, [5/31/10](#)] Furthermore, Citigroup market analyst Carl McDonald noted, "It is going to be very difficult for plans to justify a 2011 rate increase right after having reported record profitability," an indication that the increased scrutiny placed on insurers by the *Affordable Care Act* is having the desired effect. [*Wall Street Journal*, [7/19/10](#)]

Analysts "very bullish" on Medicare Advantage

The *Affordable Care Act* reduces overpayments to private insurance companies that participate in Medicare Advantage. Payments to these private plans are, on average, 14 percent higher than the cost of insuring a beneficiary in traditional Medicare. [*MedPAC*, [3/2009](#)] Medicare Advantage plans were originally envisioned as a source of savings, due to the belief that they could deliver guaranteed Medicare benefits at a lower cost than the government could do so. Instead, Medicare Advantage plans have increased Medicare spending and advanced the date at which the Medicare Trust Fund will become insolvent by 17 months. [*GAO*, [2/2008](#); Center on Budget and Policy Priorities, [9/14/2009](#)]

The fate of insurance company Humana is tied to Medicare Advantage: Humana has 15 percent of the Medicare Advantage market, and more than 60 percent of its revenue comes from the program. [*Reuters*, [7/1/10](#)] Even with changes for Medicare Advantage plans starting in 2012, Humana Chief Executive Officer Mike McCallister recently said, "Medicare is actually a very good place to be... Medicare is going to be a very big business in the future, we're very well positioned, so we're feeling pretty good about where we are." [*Reuters*, [7/1/10](#)] Humana plans to get back to the Medicare Advantage program's original intent with something it calls the "15 percent solution" – administering its plans at costs 15 percent below the cost of traditional Medicare. In analyzing the future of private insurance companies participating in Medicare Advantage, John Gorman, chief executive of a consulting firm focused on government-sponsored health program, remains "very bullish" on the program. [*Reuters*, [7/1/10](#)]

Hospital Stocks Jump, Private Entities Enter Sector

Immediately after passage of the *Affordable Care Act*, the *Wall Street Journal* reported, "Hospital operators jumped on Monday suggesting investors think healthcare providers could be the big winners in the government's overhaul." [*Wall Street Journal*, [3/22/10](#)] Such big winners, in fact, that for-profit hospital companies and investment firms see opportunities in the nonprofit hospital sector. [*Kaiser Health News*, [7/13/10](#)] Reports indicate an increase in merger-and-acquisition activity that shows no signs of slowing. In the first six months of 2010, at least 50 hospitals were involved in merger-and-acquisition deals, which is on pace to beat 2009. This is certainly the opposite of the

‘government takeover’ that opponents of health reform insist is happening in the health care industry. One big reason for the revived interest of for-profit companies and investment firms in the hospital sector is that the *Affordable Care Act* extends health insurance coverage to 32 million currently uninsured people, and more insured, paying patients will substantially reduce hospitals’ uncompensated care costs.

Pharmaceutical Companies Still Look Strong, Support Reform

The *Affordable Care Act* is built on a framework of shared responsibility, the idea that the government, the American people, and the health care industry all have a role to play in transforming our health care system. Beginning in 2011, pharmaceutical manufacturers are required to provide seniors with a 50 percent discount on brand-name drugs and biologics purchased in the Part D ‘donut hole,’ and a fee will be assessed on pharmaceutical manufacturers and importers. These policies are critical to helping American seniors affordable their prescription medication and to expanding health coverage for millions of Americans. Pharmaceutical company Merck estimates that the *Affordable Care Act* will lower revenues by less than one percent in 2010 and 2011, and not one of the 25 analysts who follow Merck recommend selling the stock, and 18 still recommend buying it. [DailyFinance, [4/30/10](#)]

During Johnson & Johnson’s first quarter earnings call earlier this year, Vice President and Chief Financial Officer Dominic Caruso emphasized the pharmaceutical company’s commitment to reform. [Seeking Alpha, [4/20/10](#)] “We support this legislation recently passed by the US Congress and we believe that appropriate healthcare reform can offer potential opportunities for growth and enhanced care for millions of patients in the United States,” Caruso told investors. “We continue to feel very positive about many provisions in the legislation that will help increase patient access over time, improve the long term sustainability of the US healthcare system and at the same time provide incentives for medical progress.”

Health Care Industry Shows No Signs of ‘Government Takeover’

The performance of three major sectors of the health care industry – insurance companies (including those participating in Medicare Advantage), hospitals, and pharmaceutical companies – solidly refutes any notion that the *Affordable Care Act* is a ‘government takeover’ of health care. Their stocks continue to climb, revenues continue to increase, and for-profit entities continue their involvement in the sector. “Government takeover” might be a convenient talking point for health reform opponents, but the performance of health care stocks and industry behavior since passage of the *Affordable Care Act* clearly reveal that the talking point has no basis in reality.