

US Senate bill advance sparks health care stock rally

Kate Randall
24 December 2009

Health care company shares rose sharply this week, with the Senate health care bill poised for a final vote and passage Thursday morning. The stock market rally offered one more indication that the Obama-sponsored legislation—far from offering relief from health care hardships for ordinary Americans—will boost the giant insurers' and pharmaceuticals' profits, and that the industry and Wall Street are keenly aware of this fact.

The health care sector has conducted a concerted effort over the past year to ensure that the legislation is crafted in its interests, with spending by an estimated 3,300 lobbyists expected to top \$1 billion for the past two years. (See "Health care profiteers: A billion-dollar industry") The industry has been handsomely rewarded with a bill that will deliver millions of new cash-paying customers to private insurers, while placing virtually no limits on what the insurance companies can charge.

At the same time, any fears on the part of private insurers that the final Senate bill would contain a government-run "public option" were put to rest when Senator Joseph Lieberman, independent of Connecticut, threatened to withhold his critical vote if it were included; the measure was summarily dumped. Although the public option would have at best provided only a fig leaf of reform to an otherwise reactionary piece of legislation, the insurance industry was vehemently opposed to any measure representing even the hint of a threat to its profits.

Following the 60-40 vote early Monday morning to end debate on the bill—averting a Republican filibuster and clearing the way for its passage—a number of health care stocks saw considerable gains. That day the Standard and Poor's Managed Health Care index rose 4.6 percent and the S&P Healthcare Index was up 1.4 percent, while the Morgan Stanley Healthcare Payors

stock index rose 3.6 percent.

Oppenheimer Asset Management analyst Carl McDonald commented in a research note, "All in all, relative to the last version of health reform issued by the Senate, things have turned out pretty well for the health insurance industry." He added, "In particular, all versions of a government-run health plan have largely been eliminated."

Private insurer stocks seeing significant gains Monday were: Cigna Corp., 5.3 percent; Aetna Inc., 5.84 percent; Humana Inc., 3.79 percent; UnitedHealth Group Inc., 5 percent; and WellPoint Inc., 3.8 percent.

The pharmaceutical benefits sector also saw gains, with Medco Health Solutions Inc. shares rising Monday by 3.84 percent and Express Scripts going up 5.2 percent.

Shares of Allergan Inc., maker of Botox, rose by 1.7 percent Monday after a proposed 5 percent tax on the anti-wrinkle treatment was ditched in favor of a 10 percent tax on tanning salons.

Revisions to the Senate bill also delayed a nearly \$20 billion tax on medical device manufacturers until 2011, reflected in stock gains in this sector: St. Jude Medical Inc. rose 1 percent, Stryker Corp. 0.6 percent and Zimmer Holdings Inc. 0.9 percent.

Hospital chains also saw gains, on expectations that provisions of the Senate legislation will reduce the number of uninsured patients seeking hospital care. Over the past week, Tenet Healthcare Corp. shares were up 8.4 percent; and Community Health Systems Inc. stock climbed 5.5 percent in value.

These companies will see an influx of new customers—estimated at some 30 million—resulting in increased profits. Sheryl R. Skolnick, managing director at Pali Capital, told the *Wall Street Journal* that any health care overhaul that increases the number of

people with insurance “is good reform as long as it pays more than Medicare,” and that both the House and Senate bills would do this.

Monday’s boost for stock shares followed a general rise over the past two months, beginning around the time Connecticut’s Lieberman first signaled that he would filibuster with the Republicans if the Senate bill included a public option.

The *Huffington Post* reported the following sharp gains for major health insurance companies from October 27 through December 18:

- Coventry Health Care Inc., up 31.6 percent
- Cigna Corp., up 29.1 percent
- Aetna Inc., up 27.1 percent
- WellPoint Inc., up 26.6 percent
- UnitedHealth Group Inc., up 20.5 percent
- Humana Inc., up 13.6 percent

These figures show that investors are (correctly) interpreting the Senate health plan as a massive subsidy for private insurers. Oppenheimer strategist Brian Belski remarked, “It’s like a blanket has been lifted off this sector.” (By comparison, during this same period the Dow Jones Industrial Average was up 2.3 percent and the NASDAQ rose by only 1.4 percent.)

In anticipation of the Senate bill’s passage, Gregory Nersessian of Credit Suisse raised his price targets on seven insurers—Aetna, Cigna, Amerigroup Corp., Humana, Molina Healthcare Inc., UnitedHealth Group, and Wellcare Health Plans Inc.—a prediction of greater strength of stock performance.

Central to both the House and Senate versions of the health care legislation is the legal obligation of individuals and families to obtain insurance or pay a penalty, while, on the other hand, no restrictions are placed on what the insurance companies can charge for this coverage. Private insurers are expecting to haul in as much as \$50 billion in new annual revenue, coming both from new paying customers and government subsidies.

To counteract measures in the Obama-sponsored legislation that prohibit insurers from denying coverage for people with pre-existing conditions, or from charging these customers higher premiums, the insurance companies will respond in a manner that protects every cent in their bottom line: by either raising premium prices for everyone or cutting benefits across the board.

Private insurers also fared well with a revision in the Senate bill on health insurance industry taxation. Under the original Senate bill the industry would have been taxed a fixed \$6.7 billion a year. According to the revised proposal, health insurers would be taxed \$2 billion in 2011, with increases over time rising to \$10 billion in 2017.



To contact the WSWWS and the Socialist Equality Party visit:

wsws.org/contact