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Press Release

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NEW PHOENIX CENTER STUDY FINDS HEALTH INSURER PROFITS NOT DRIVING RISING HEALTHCARE COSTS

Insurer profitability is modest, stable, and consistent with competitive markets, suggesting that rising premiums are largely a function of underlying medical costs rather than insurer market power

WASHINGTON, D.C. – In a new study released today entitled *Health Insurance Profits, Cost Pass-Throughs, and the Myth of Rent Extraction*, Phoenix Center Chief Economist Dr. George S. Ford challenges the increasingly common narrative that health insurers are driving rising patient costs through excessive profits. According to Dr. Ford, insurer profitability is modest, stable, and consistent with competitive markets, suggesting that rising premiums are largely a function of underlying medical costs rather than insurer market power.

Dr. Ford examines firm-level financial data for major U.S. health insurers, comparing their profitability both to a competitive benchmark (large retail firms) and to a market power benchmark (drug manufacturers). His study spans more than a decade of data and evaluates gross, operating, and net profit margins. The results are unambiguous: health insurers consistently exhibit the lowest profit margins across all measures. Insurer margins are statistically indistinguishable from those of highly competitive retail firms and dramatically lower than those observed in pharmaceutical manufacturing, a sector widely recognized as possessing substantial market power. Moreover, given that the Affordable Care Act's Medical Loss Ratio (MLR) requirement effectively caps administrative costs and profits by mandating that the majority of premium revenues be spent on medical care, this regulatory constraint undermines the notion that insurers can freely expand margins through pricing power.

Dr. Ford's findings have important policy implications. Efforts to reduce healthcare costs that focus on insurers may be misdirected. Indeed, if policymakers are concerned about profits in the healthcare sector, then the evidence points elsewhere—particularly toward segments with demonstrably higher margins, such as drug manufacturing.

“Claims that insurers are extracting monopoly rents are not supported by the data,” said study author Phoenix Center Chief Economist Dr. George S. Ford. “Minimal Loss Ratio regulation ensures that insurance premiums largely reflect the cost of healthcare services themselves—hospital care, physician services, and prescription drugs—not excessive insurer markups.”

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A full copy of PHOENIX CENTER POLICY PERSPECTIVE NO. 26-03, *Health Insurance Profits, Cost Pass-Throughs, and the Myth of Rent Extraction*, may be downloaded free from the Phoenix Center's web page at: <https://phoenix-center.org/perspectives/Perspective26-03Final.pdf>.

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