Crain's Detroit Business

Witness: Blues could move reserves to avoid rebates

By Jay Greene

Blue Shield Blue Cross Advertisement

The former COO of the **Accident Fund Insurance Co. of America** told a state Senate health committee last week that **Blue Cross and Blue Shield of Michigan** could manipulate its reserves — which would help it avoid triggering a state-mandated premium reduction process — by timing the transfer of reserves to its subsidiaries.

Mark Hogle, COO of the Blues' for-profit Accident Fund from 1997 to September 2005, contradicted testimony earlier by two Blues executives — Accident Fund general counsel Steve Hess and Blues' CFO Mark Bartlett.

Bartlett told Sen. Tom George, R-Kalamazoo, chair of the **Senate Health Policy Committee**, that the Blues do not intentionally transfer reserves to the Accident Fund or other subsidiaries to avoid triggering a rate reduction.

"We would not engage in the practice to move money around," Bartlett said.

After the meeting, George told *Crain's*, "The testimony (of Hogle and Bartlett) is at odds."

George said he planned to keep to his hearing schedule on the Blue Cross bills and would not launch an independent inquiry.

"This is not a courtroom," said George, adding, "We have been presented with very conflicting views that this committee should study very carefully."

The next hearing on the Accident Fund bills — Senate substitute for House Bill 5284 and H.B. 5285 — is set for April 30, when senators are

expected to vote on the legislation. Hearings are scheduled Wednesday and Thursday on reform bills for individual policies, H.B. 5282 and 5283.

Last Wednesday, the Senate committee heard testimony on legislation that would allow the Blues' Accident Fund to expand into insurance lines other than workers' compensation.

Under state law approved in 1993, when the state sold the Accident Fund to the Blues for $262 million, the Accident Fund is limited to workers' compensation insurance.

Mark Cook, the Blues' vice president of governmental affairs, said the Blues should be allowed to sell auto, life, marine and commercial product lines so that it can compete with other insurers that attract new customers by packaging insurance products with discounted rates.

Still, since 1995, the Accident Fund has increased its market share in Michigan from 11 percent to 27 percent.

Gary Wolfram, a **Hillsdale College** economist hired by the **Coalition for a Fair & Competitive Insurance Market**, a group of commercial insurers that opposes the Blues' bills, said he believes the Blues' $2.4 billion in reserves gives the for-profit Accident Fund an unfair advantage.

“We have become quite successful, not because we have a special advantage but because we offer good prices and good customer services,” said the Accident Fund's Hess.

George's substitute bill for H.B. 5284 asks the Accident Fund to pay $100 million into a fund that would provide subsidies to people who buy individual health insurance.

The Blues' Bartlett called that idea “a licensing fee” that no other insurer must pay. “It is a barrier to growth,” he said.

Several other committee members, including Sen. Bruce Patterson, R-Lansing, and Sen. Gilda Jacobs, D-Huntington Woods, expressed concern that the $100 million fund could lead to increased premium rates for the Blues' health insurance subscribers.

Kurt Gallinger, a spokesman for the coalition who also is vice president with **Amerisure**, a Farmington Hills-based property and casualty insurer, said the Blues already have raised premiums “quite alarmingly” the

past four years.

Since 2003, premium rates have increased 79 percent for individual policies and 92 percent for group policies, Gallinger said.

During the same period, Blue Cross has transferred $173 million in assets to allow subsidiaries to purchase companies while only receiving $35 million in dividends, Gallinger said.

By transferring money to subsidiaries and recording the purchased asset at a lower amount on the balance sheet, the Blues can manipulate what is called the risk-based capital ratio, Hogle said.

The RBC is based on a complicated formula developed by the **National Association of Insurance Commissioners** that in part measures the amount of capital (assets minus liabilities) available to the insurer.

According to state law, if the Blues' RBC ratio exceeds 1,000, the insurer must notify the state insurance commissioner and develop a process to reduce that ratio. One way would be for the Blues to reduce premiums.

Currently, the Blue's RBC stands at 688 with a target of 675, Bartlett said. “It has dropped the last two years,” he said.

During that period, Blue Cross transferred $125 million to the Accident Fund so it could purchase **CompWest**, a California-based insurer. Overall, since 2005, Blue Cross and its subsidiaries have spent more than $450 million on purchasing or starting new firms.

“They are very sensitive to that (RBC),” said Hogle, vice president with **North Pointe Insurance Co.** in Southfield. “In 2005, I attended a staff meeting where it was talked about.” At that meeting, several Accident Fund executives talked about ways to deal with “obscene profits,” he said.

According to Blue Cross, the Accident Fund since 1995 has returned to the Blues $784 million in earnings and $197 million in dividends, which amounts to a 297 percent return on investment, said spokesperson Helen Stojic.

“The positive economic impact of the Accident Fund allows us to have a downward pressure on premiums,” Bartlett said.

On that point, George pressed Hogle on whether Blue Cross can use asset purchases to "ensure the parent does not have to give (premium) rebates?"

Hogle replied: "Absolutely. It is totally within the control of the enterprise to manipulate the RBC. Yes."

Bartlett had earlier acknowledged that there could be a "small effect on RBC" on asset purchases. "It could happen," he said.

Jay Greene: (313) 446-0325, jgreene@crain.com