

# State Senate panel to study Blue Cross bills

## Insurer seeks to broaden for-profit arm's selections

BY PATRICIA ANSTETT • FREE PRESS MEDICAL WRITER •  
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One of the biggest legislative battles of the year continues in Lansing today over whether a for-profit company owned by Blue Cross Blue Shield of Michigan should be allowed to sell more than workers compensation insurance.

The Senate Health Policy Committee will examine two bills designed to allow the Accident Fund, a Lansing-based subsidiary of nonprofit Blue Cross, to sell property, auto, life and casualty insurance.

The committee, chaired by Sen. Thomas George, R-Portage, will probe Blue Cross' claim that the Accident Fund expansion could hold down health insurance costs because the company would give back to Blue Cross profits it receives from its subsidiaries.

Blue Cross' new business thrust has been on a back burner as Blue Cross and its opponents focused on other aspects of four legislative bills that would allow Blue Cross to change how it prices and sets rates for its individual health insurance policies in Michigan.

About 322,000 Michiganders between the ages of 18 and 64 bought their own health insurance policies last year. That market is expected to grow from 6% of all health policies to 25% in five to seven years, as employers drop health benefits, according to Blue Cross.

The company has contributed \$784 million to Blue Cross since 1994, when Blue Cross bought it from the State of Michigan for \$262 million, Hetzel said. Jobs in Lansing have grown to 650, including 350 staffers added since 2000 in Lansing to handle national accounts, Blue Cross spokeswoman Helen Stojic said.

But a coalition of property and casualty insurance firms says the legislation will allow Blue Cross to expand its near-monopoly role in Michigan, driving away other for-profit insurers and eventually trigger higher insurance costs as fewer companies compete in the market.

Last year, the Accident Fund gave Blue Cross \$100 million, which it used to hold down rising health premium costs, said R. Andrew Hetzel, vice president of corporate communications for Blue Cross.

Blue Cross provides health insurance to some 4.6 million people, about 70% of the insured population in the state.

"This is a Trojan horse," said Kurt Gallinger with the Coalition for a Fair and Competitive Insurance Market, a group of commercial insurers opposed to the legislation. An economic analysis for the coalition done by Hillsdale College economist Gary Wolfram in January shows that Blue Cross and its subsidiaries spent \$450 million since 2005 buying insurance companies, mostly outside of Michigan.

Last year, with \$125 million Blue Cross gave the Accident Fund, the fund bought CWI Holdings, a California workers compensation company, for \$127 million.

"This isn't a battle between two special interest groups," Wolfram said. "If Blue Cross and its subsidiaries want to buy more private firms, Blue Cross should give up its tax-exempt status and go private, putting its \$6 billion in assets into a charitable fund created by the state," Wolfram said.

Nonprofit Blue Cross companies that have gone private in 15 other states have made similar contributions to their state budgets -- money cash-strapped Michigan could use, Wolfram said.

The coalition says the insurer overstates the value of its subsidiaries to Blue Cross by counting so-called unrealized capital gains --the non-cash value of the companies' stocks. It says a more accurate picture of the relationship between Blue Cross and its subsidiaries comes from the insurer's Schedule Y tax form. That document shows that the subsidiaries received \$173 million between 2004 and 2007 from Blue Cross, while giving Blue Cross only \$35.8 million.

Judy Weaver, deputy commissioner of the Michigan Office of Financial and Insurance Regulation, said that to ensure Blue Cross stays financially solvent, the state looks at both unrealized capital gains and Schedule Y, which shows capital contributions and dividend exchanges between the companies. "Both sides have a kernel of truth to them," she said Tuesday. Blue Cross subsidiaries "actually report some very good returns on their investments," Weaver added.

To some financial experts, the issue is whether Blue Cross subsidiaries will make money in today's stock market.

Anticipated earnings from unrealized capital gains "may have evaporated by now with the stock market," said Bill Lubaway, a certified public accountant with Lubaway, Masten & Co., a Novi health care financial consulting firm.

George has introduced alternative proposals, including one bill that would let the Accident Fund grow its business model if it made a one-time contribution of \$100 million to the State of Michigan. The money would establish a charitable trust to expand healthy behavior initiatives.

Contact **PATRICIA ANSTETT** at [panstett@freepress.com](mailto:panstett@freepress.com).

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