

MIRS Capitol Capsule, Wednesday, January 18, 2008

Blues Bills Spark Broader Debate

Blue Cross Blue Shield of Michigan (BCBSM) receives \$137 million in tax breaks and subsidies and only has a burden of \$7.7 million as the insurer of last resort in the individual market, according to a new study.

The 50-page report by the Anderson Economic Group (AEG) paid for by the anti-Blues Coalition for Access and Affordability of Michigan (CAAM) composed of private insurers claims BCBSM's benefits outweigh its burdens. The 2006 figures don't take into account the new Michigan Business Tax (MBT) surcharge, so the Blues will enjoy a better break now.

For the last 28 years, the report states the Blues' burdens have weakened while its benefits have stayed the same.

But economist Patrick **ANDERSON** stressed after a press conference today that BCBSM also is required to have a statewide network — a financial burden that benefits private insurers and citizens.

"It's in the state's interest for the Blues to be in the entire state," he said.

Still, it may be worth considering if the Blues tax breaks need to be quite so sweeping, Anderson suggested.

"The time is right to look at health care reform as a whole," he said.

This is the backdrop to the raging debate over the so-called Individual Healthcare Market Reform package (**HB 5282**, **HB 5283**, **HB 5284** and **HB 5285**) that overwhelmingly passed the House in October after just one committee hearing.

The bills would allow the BCBSM-owned Accident Fund to enter the growing individual health insurance market and make other changes to the state's health insurance regulations. One measure would force competing commercial insurance companies to basically send money to BCBSM to help subsidize the state's high-risk pool — which doesn't thrill CAAM.

Critics are wondering, increasingly loudly, why the Blues need more benefits than the substantial ones they enjoy already. After all, they pay no state or local taxes and enjoy 70 percent market share.

CAAM and its allies — including AARP, the UAW and Attorney General Mike **COX** — may also be getting nervous. Coalition spokeswoman Denise **DeCOOK** said she's hearing the package will get two hearings this month and move from the Senate Health Policy Committee chaired by Sen. Tom **GEORGE** (R-Texas Twp.)

The first hearing is set for Wednesday.

"They're anxious to pass it," she said.

Gov. Jennifer **GRANHOLM** is expected to sign legislation the Blues and its allies want to see move before the Legislature is bogged down with election year-itis.

Anderson said BCBS has converted to a private insurer in other states including New York and Wisconsin.

Given the new legislation, the report states: "Since the State of Michigan would treat BCBSM more like a for-profit insurer in its obligations and burdens to the state, it may be informative to review for-profit conversions in other states."

Anderson said the Blues bought their way out of tax exemptions "to make everybody compete on a for-profit basis."

However, he added quickly: "We're not recommending that."

The report also highlighted BCBSM's reserves had soared in five years from \$1.3 billion to \$2.8 billion — 17 percent annual growth.

"This is more than adequate for the insurance business," Anderson said, noting they did not do an actuarial analysis.

He added a nonprofit's reserves should not be at zero.

Co-author Caroline **SALLEE** said she did not believe the current legislation would reduce premiums for BCBSM individual policyholders. She also said more private insurers would leave the state, thus giving the Blues an even bigger market share.

"That would make the market less competitive," Sallee said, "and I would argue not necessarily good for consumers."

The report used data from the Office of Financial and Insurance Services (OFIS), Blue Cross financial records and tax records from local assessors' offices. Anderson said they offered to meet with BCBSM officials, but they declined.

The Blues Fight Back

OFIS came out swinging against the Anderson Economic Group (AEG) report today.

"On first read, the report appears to be a fine advocacy document, appropriately skewed toward the views of those who paid for it," said spokesman Jason **MOON**.

"To the extent that this report suggests that the passage of the bills before the Legislature amounts to a privatization of the Blues, it's certainly legitimate to question the credibility of the report, because while the bills may do many things, they don't privatize Blue Cross."

Moon said OFIS officials look forward to sitting down with interested parties to "come to a reasonable compromise."

The Blues did receive additional support this week.

On Wednesday, a new coalition supporting the legislation, Consumers for Fair and Affordable Insurance Reform (CFAIR), including the Detroit Regional Chamber of Commerce and the Small Business Association of Michigan, held a press conference (See "[Blue Cross Debate Heating Up](#)," 1/15/08).

One well-placed source told *MIRS* the report was an attempt to chip away at the Blues' credibility. Private insurers already have an advantage because they can jack up rates on those who get sick and can selectively insure healthy and young people.

Just minutes after the AEG press conference wrapped this morning, BCBSM had a press release out disputing the report's findings.

The AEG report has "flawed numbers and grossly underestimated" the \$458 million the Blues make as part of a nonprofit health care, said BSBSM spokeswoman Helen **STOJIC**.

"We take our social mission very seriously, we invest in it heavily and we return far more to the people of Michigan than the tax breaks we receive as a nonprofit corporation," said spokesman Andrew **HETZEL**.

The Blues claim their contribution comes in the form of:

- \$108 million in subsidies from Blue Cross to offset losses for its supplemental Medicare policies.
- \$25 million in subsidies for money-losing individual policies.
- \$16 million for Medicaid's MICHild program that provides health insurance to poor children.
- \$10 million in charitable giving and research, including \$1 million to free clinics.
- \$148 million to underwrite care for the poor at Michigan hospitals.

- \$151 million in contributions from its reserve fund to help keep premium costs down for senior citizens and individuals.

Of course, that just sparked another war of words.

DeCook called this "blue smoke and mirrors" and said "the numbers just don't add up."

So CAAM issued a counter-press release:

- The \$108 million in Medigap subsidies is not spending by Blue Cross; rather it represents other customers chipping in to buy-down the cost of the Medicare supplement premium.

- The \$25 million in individual coverage subsidies is a reference to the group conversion subsidy. It is not spending by Blue Cross.

- The \$16 million for MICHild subsidies is due to the fact that Blue Cross pays providers on their commercial fee schedule, not according to Medicaid rates. Other participating health plans do not lose money.

- The \$10 million in charitable giving and research, including \$1 million to free clinics cannot validate this number because the Blues' charitable giving is not disclosed in their filings to OFIS. It is true that the Blues provided \$1 million to free clinics but that ended in 2007.

- The \$148 million for uncompensated care at Michigan hospitals is based on a substantially lower rate that other insurers pay.

- The \$151 million in losses on individual policies isn't factual. In 2006, Blue Cross lost only \$6.5 million in the individual market. In 2006, Blue Cross did lose \$23.8 million in the group conversion market. Most health plans also lose money in that market. In 2006, Blue Cross claims a loss of \$92.6 million in Medicare supplement. The Blues have a \$2.8 billion surplus.

This should all make for some lively testimony in the Senate

Health Policy Committee next week.