



Department of
Attorney General

PROFITS OVER PEOPLE

PART II

Michigan Boasts **4th** Most Affordable Rates in the Country

Michigan boasts the fourth most affordable individual health insurance premiums in the country.

Based on a study by the "America's Health Insurance Plans, Center for Policy and Research" as testified to by Rod Turner, AHIP's Chief Actuary, during the Senate Health Policy Committee meeting on January 23, 2008.

A Healthy & Flush Blue Cross

- ◉ Blue Cross surplus more than doubled to \$2.8 billion between 2001 and 2006;
- ◉ Executive salaries grew 42% between 2004 and 2006;
- ◉ Blue Cross and affiliates insure over 70% of the Michigan commercial health insurance market;
- ◉ Since 2005, Blue Cross and its affiliates have spent over \$493 million buying up other companies.

Two Alternatives for Healthcare Reform - One Helpful, One Harmful

- Sen. George bills would make reasonable changes that will help Blue Cross, while not hurting vulnerable Michigan citizens.
- Sen. Allen bills would drastically change a system that is not broken, with adverse consequences for Michigan's older and sicker population.

Sen. Allen Bills are Essentially a Trojan Horse for House Bills



- Enable Blue Cross to maintain its tax exemption.
- Allow Blue Cross to abandon its role as insurer of last resort.
- Grant the power to raise rates 100% over four years with NO oversight.

Oversight

Sen. George

- Retains current law:
 - Allows the Attorney General to challenge rate hike requests by Blue Cross.
 - Allows Governor Granholm's appointee, the OFIR Commissioner, to consider the Attorney General's arguments on affordability and determine a fair rate.

Oversight

Sen. Allen

- Allen's standards create a "low bar" that hollows out authority of Attorney General and OFIR.
- If certain standards are met:
 - No OFIR oversight of rate hikes.
 - No Attorney General oversight of rate hikes.

Under Sen. Allen's bills, Blue Cross rates are presumed reasonable if they meet a specified loss ratio (90% Medigap, 85% Nongroup and Group Conversion) and the amount of the rate increase does not exceed the "rating trend" plus 10%.

100% Rate Hikes in Four Years – With NO Oversight

- Sen. Allen bills allow Blue Cross to raise its premiums up to **100% over a four-year period**, without any ability by the Attorney General or OFIR to contest these increases.
- For the first time - Blue Cross will be able to raise rates regardless of how large their reserves are, i.e., cash in the bank.

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Assuming a conservative 10% rating trend and compounding, Blue Cross could raise its premiums from \$100 to \$207.36 over a four-year period – an increase of over 100% - without any ability by the Attorney General or OFIR to contest these increases.

Example for \$100 Premium:

$$\$100 \times 1.2 = \$120$$

$$\$120 \times 1.2 = \$144$$

$$\$144 \times 1.2 = \$173$$

$$\$173 \times 1.2 = \$207$$

Sen. George Bills Create More Oversight to Maintain Blue Cross's Charitable Mission

- Requires Blue Cross to file annual reports detailing:
 - How Blue Cross met its charitable & social mission & obligations;
 - The amount spent on its mission & obligations;
 - The amount of Blue Cross's tax exemption benefit.
- Requires Blue Cross to file bi-annual reports detailing:
 - All Board of Directors, Officers, Corporate Body, Committee & Advisory Council expenses (travel, lodging, food, beverage, etc);
 - All advertising expenditures;
 - All "insider" contracts between Blue Cross, its Directors/Officers, and any entity in which a Blue Cross Director/Officer has an interest; and
 - All lobbying expenses.

Sen. Allen Bills Offer Blue Cross the Best of Both Worlds



- Sen. Allen bills create a “high-risk pool” that enables Blue Cross to abandon its charitable mission & obligation as Michigan’s insurer of last resort.
- At the same time, Blue Cross would continue to benefit from its state and local tax exemption - saving **\$75-\$100 million** per year.



Double Whammy!

- ◉ Michigan citizens already pay for Blue Cross's tax exemption.
- ◉ A new high-risk pool will force individual customers to pay an additional assessment to assist an already financially healthy Blue Cross...
...**Not** to improve the health of Michigan.

Community Rating

Sen. George

- Continues “community rating,” with two modifications:
 - Lower premiums for customers who participate in wellness programs.
 - Higher premiums for smokers.



Community Rating

Sen. Allen

Eliminates “community rating,” allowing Blue Cross to charge more based on:

- **Age**
- **Health Condition**
- **Geography**

Affordable Healthcare

Sen. George

- ◉ Continues community rating.
- ◉ Addresses Blue Cross's cost concerns about "cherry picking" by requiring commercial insurers to guarantee renewal.
- ◉ Addresses Blue Cross's cost concerns by allowing it to adjust rates for smoking and participation in wellness programs.
- ◉ Provides shorter deadlines for Blue Cross rate approval and hearings.

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Unaffordable Healthcare

Sen. Allen

Without oversight or challenge:

- ⦿ Allows Blue Cross to charge older/sicker individuals up to 75% more, and
- ⦿ Allows Blue Cross to charge high-risk pool individuals up to 225% more.

Redlining

Sen. George

Prohibits Blue Cross from geographic rating,
retaining current law.

Redlining

Sen. Allen

- **For the first time - requires** Blue Cross to charge rate-payers more based on where they live.

Amazingly...

- A sick, elderly person could pay more just because they live in Okemos instead of Traverse City.
- A young, healthy person could pay more just because they live in Okemos instead of Traverse City.

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Sen. Allen bills require Blue Cross to divide the state into “up to” five geographic areas.

The minimum size of a geographic area is four counties and each county must be contiguous with at least one other county in the area.

Geographic Rating, a/k/a Redlining



- Irrational
- Unprecedented
- No correlation between premiums and individual health

What Ever Happened to Logic & Public Policy?

- ⦿ The Allen bills provide no tie between geographical areas and healthcare cost disparities.
- ⦿ What will stop Blue Cross from charging Oakland County customers more simply because they can afford it?
- ⦿ At a minimum, Blue Cross should be required to base geographical areas on healthcare costs.

Higher Premiums for the Most Vulnerable – The Old, The Sick & The Poor

- Sen. Allen bills will allow Blue Cross to charge older and sicker people up to 75% more.
- Sen. Allen bills will allow Blue Cross to charge the seriously ill up to 225% more without challenge.

The Working Poor Will Get Even Poorer

- ◉ Sen. Allen bills will allow Blue Cross to charge the seriously ill, working poor (someone making less than \$31,200/year) up to 200% more.
- ◉ For the average working poor person, this means up to 23 cents of every **pretax** dollar will be needed just to pay Blue Cross.*
- ◉ As a result, more people will become uninsured.

*An average individual premium is \$200/month. With these bills, the premium could increase to \$600/month. Annual premiums would be \$7,200. For a person making \$31,200/year – this equates to 23% of his/her gross income. $\$7,200/\$31,200 = 23\%$ or 23 cents of every dollar.

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2008 US Dept of Health and Human Services – Poverty Guidelines:

Individual $\$10,400 \times 300\% = \$31,200$.

Uninsured

Sen. Allen

Sen. Allen bills do not address Michigan's uninsured.

Uninsured

Sen. George

- Sen. George bills address Michigan's uninsured.
- Require Blue Cross to utilize its surplus to help secure coverage for Michigan's uninsured – consistent with its statutory purpose:

“secur[ing] for all of the people of this state...the opportunity for access to health care services at a fair and reasonable price.”

MCL 550.1102(2)

Limits on Blue Cross Surplus

- ◉ Sen. George bills limit the amount of surplus Blue Cross can accumulate.
- ◉ Prevent surplus levels that are “excessive” or that exceed 600% of “risk-based capital.”
- ◉ Limitations prevent Blue Cross from stockpiling unnecessary surplus at consumers’ expense, while allowing Blue Cross to operate with adequate capital.

Limits on Blue Cross Surplus... To Help the Uninsured

If enacted today, this limit would provide **\$307,704,236** to help cover Michigan's uninsured.

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Blue Cross 2007 Annual Statement reports total adjusted capital (surplus) of \$2,406,089,078 (under statutory accounting), together with an authorized control level risk-based capital of \$349,730,807. The ratio of surplus to risk-based capital is therefore 6.879, or 688%.

Sen. George bills would limit Blue Cross surplus to 600% of risk-based capital, or \$2,098,384,842. The difference between Blue Cross current surplus (at 688%) and allowable surplus under the George bills (at 600%) is \$307,704,236.

Charitable & Social Mission Fund

- Sen. George bills create a “Charitable & Social Mission Fund.”
- This Fund is designed to expand access to all Michigan citizens through subsidies for the cost of their health coverage.
- The \$307,704,236 surplus would be allocated to this Fund.

Alternative Use for Surplus

- Of course, Blue Cross could lower everyone's rates before hitting the 600% limit.
- This would lead to a \$300 million decrease in Blue Cross rates, which would make insurance more affordable for everyone.

Two Alternatives for Healthcare Reform – One Helpful, One Harmful

- Sen. George bills present a better and more well-reasoned approach that protects the vulnerable, while addressing Blue Cross's concerns.
- Sen. Allen bills propose drastic changes to a healthcare system that isn't broken, jeopardizing Michigan's 4th most affordable rates in the country.

