



Department of
Attorney General

Profits over People

**The Drive to Privatize and Destroy
the Social Mission of Blue Cross
and Blue Shield**

History of the Blues

- Nonprofit Organization Created in 1939



- Statutory Purposes Include:

(1) “[T]o secure for all of the people of this state ... the opportunity for access to health care services at a fair and reasonable price.”¹

(2) “to be a **charitable** and **benevolent** institution. . .”²

1. MCL 550.1102(2)

2. MCL 550.1102(1)



A Blues Member



Historic Agreement

Between State of Michigan and Its Healthcare Charity

- Blue Cross receives a state subsidy of at least \$75 million EACH and EVERY YEAR from its tax-exempt status. ³
- Further, Blue Cross does not pay millions more for local county, city, township, and school district property taxes.
- No other insurance company receives this benefit.
- In exchange for all these tax advantages, Blue Cross is required to provide health insurance to Michigan citizens who cannot get it elsewhere and to ensure that health insurance is accessible and affordable for everyone in Michigan.

3. Blue Cross admitted a \$75 million total annual tax benefit at the House Insurance Committee hearing on the bills. Its state "income" tax benefit alone can be approximated by applying the 1.25% premium tax rate applicable to insurers under the new Michigan Business Tax (MCL 208.1235) to BCBSM's 2006 premium revenue of over \$5.8 billion, which totals over \$72.5 million.



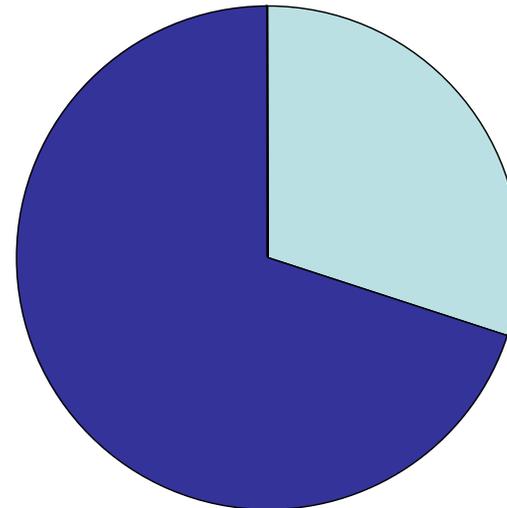
Monopoly Power

70% Market Share - Largest Health Care Corporation in Michigan

Market Share

Blue Cross and its affiliates insure over 4.2 million customers in the Michigan commercial health insurance market. ⁴

■ 70% Blue Cross Market Share
■ 30% All Other Insurance Companies



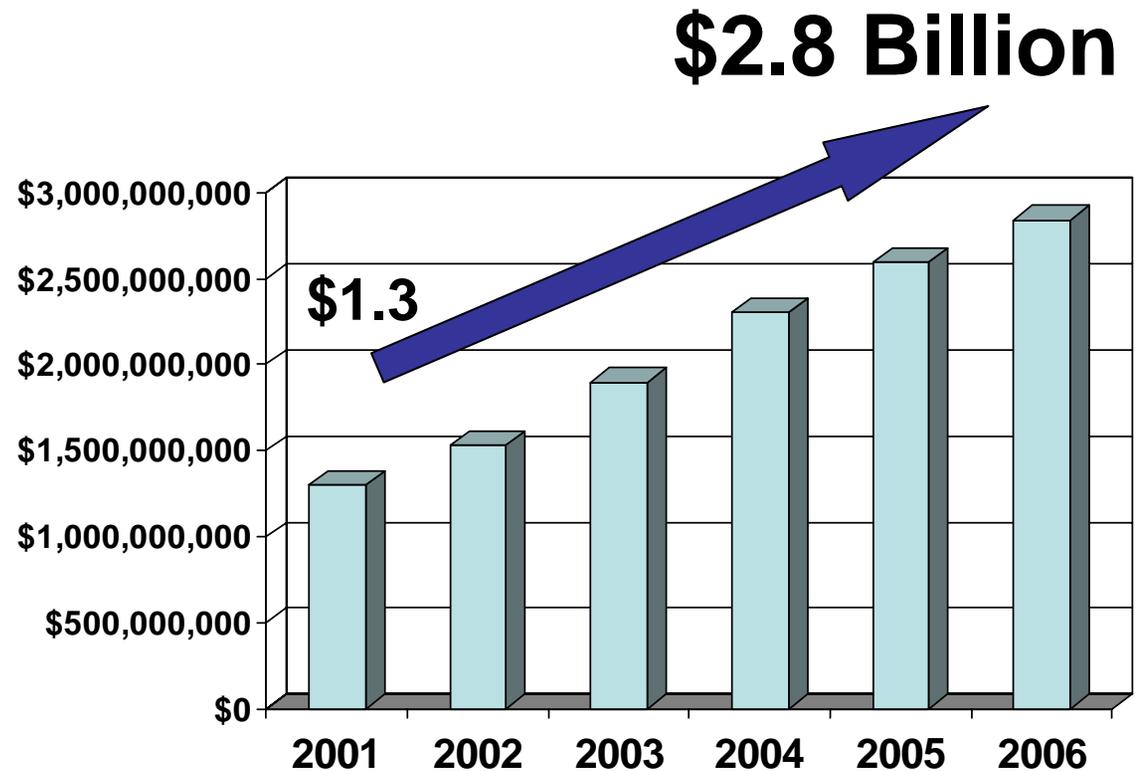
4. Percentage calculated by dividing the estimated 6,091,526 people in Michigan who have commercial health insurance (i.e., not Medicaid, Medicare, or uninsured) by the in-state, commercial enrollment of Blue Cross and its affiliates of 4,272,593. Detailed figures used in calculation and authority for those figures are contained in the attached separate document.



Profits Soar Surplus Doubles in Value

Surplus Levels

Blue Cross' surplus is at its highest level in history and has more than doubled since 2001. ⁵

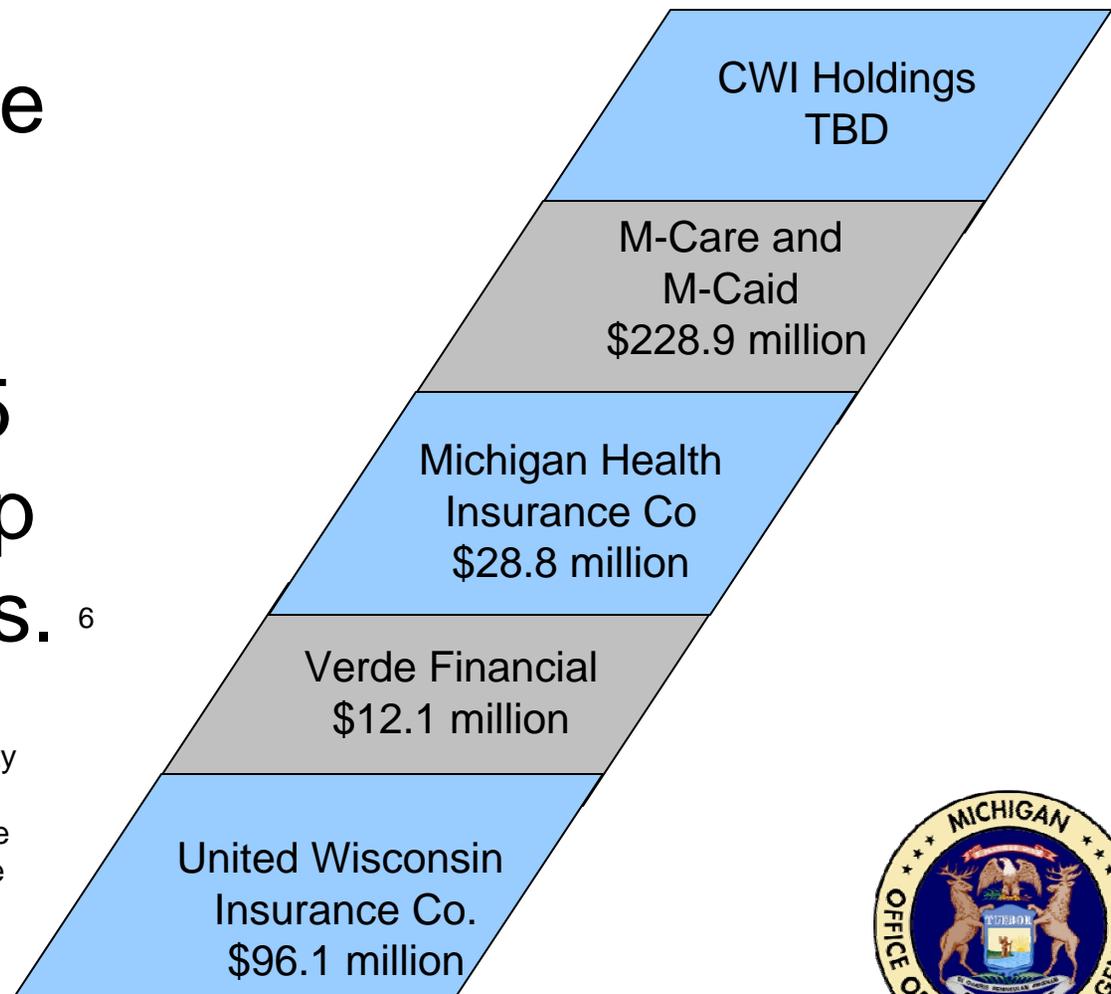


*Based upon Generally Accepted Accounting Principles ("GAAP").

5. Blue Cross Blue Shield of Michigan Annual Reports for the years 2003, 2005, and 2006 (2003 Annual Report includes figures for 2002 and 2001, 2005 Annual Report includes figures for 2004).

As Profits Soar, As Reserves Explode, this Charity goes on a Spending Spree...

Since 2005, Blue Cross and its affiliates have spent over \$365 million buying up other companies.⁶

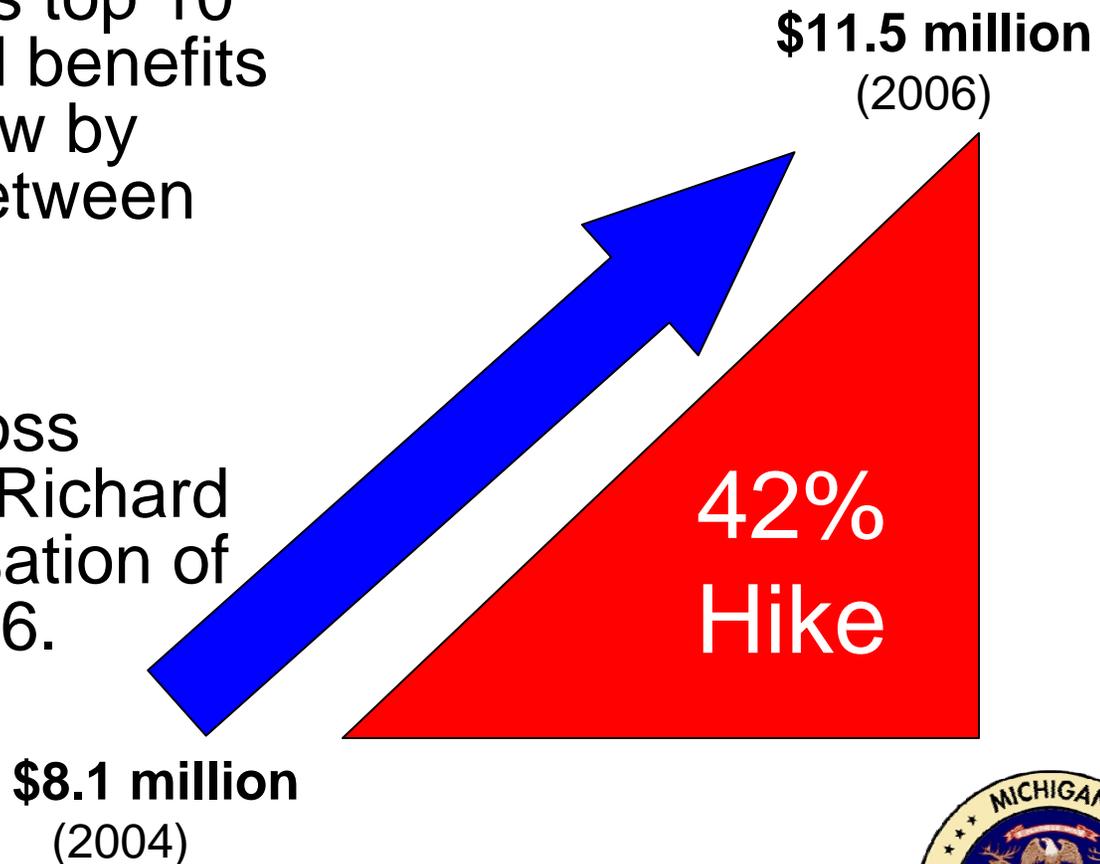


6. The attached source sheet includes authority for each purchase, including the 2006 Annual Statements of Blue Cross and its affiliates Blue Care Network, Accident Fund, and Life Secure Insurance Company and a newspaper article regarding Accident Fund's purchase of CWI Holdings.



...And Record Salary Increases

- Blue Cross paid its top 10 officers salary and benefits packages that grew by more than **42%** between 2004-2006.⁷
- Including Blue Cross President & CEO Richard Whitmer compensation of \$4,253,558 in 2006.

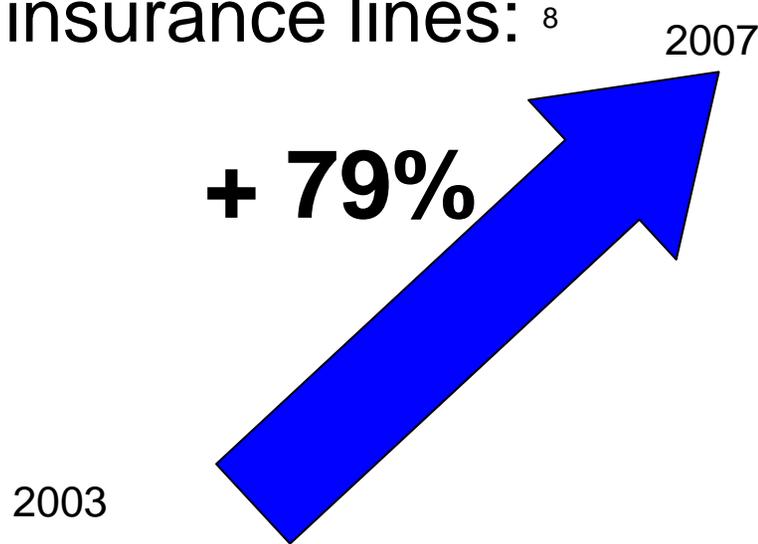


7. BCBSM Supplemental Compensation Exhibit for the year ended December 31, 2006, filed with OFIS.

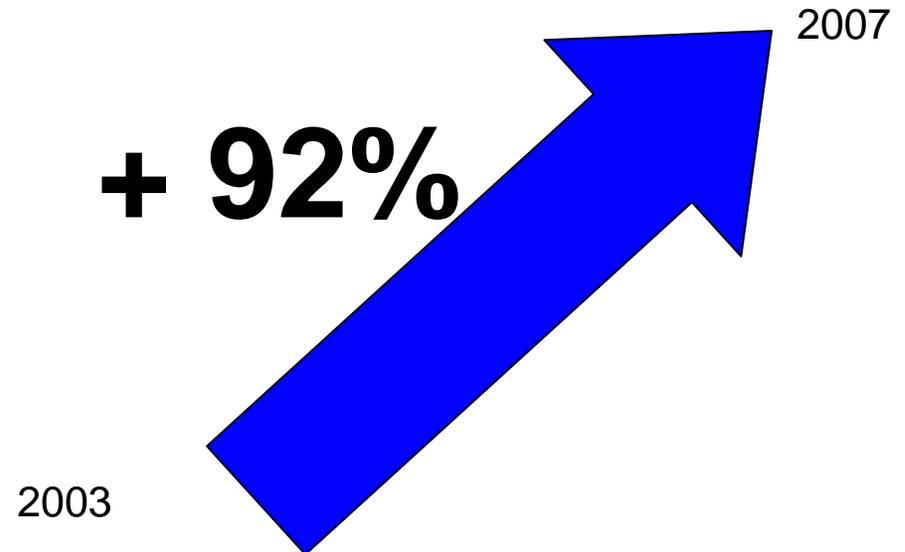


Good Times for Blue Cross, Bad Times for Ratepayers

Although its surplus keeps growing, Blue Cross continues to raise premium rates for its individual insurance lines: ⁸



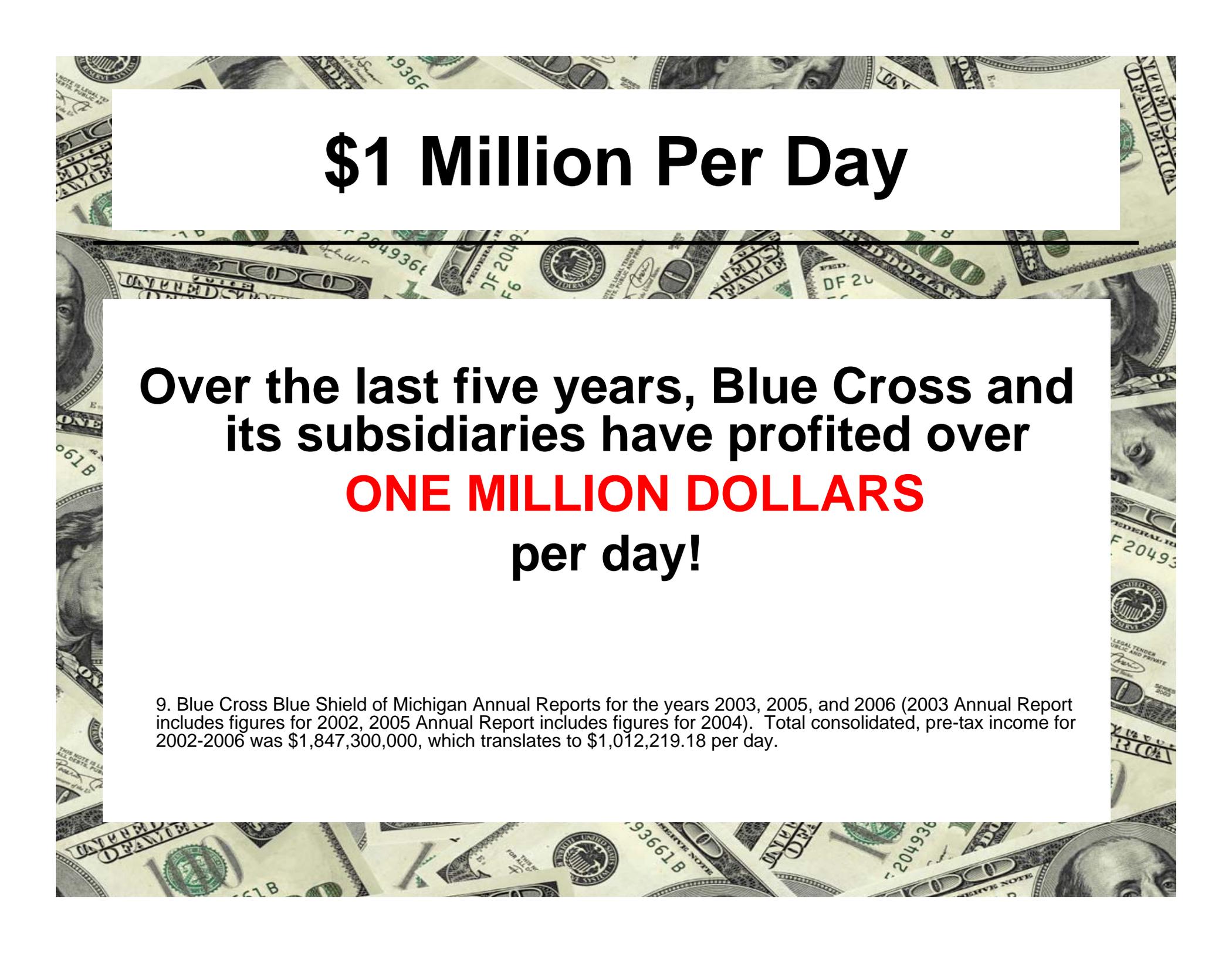
• Individual (Non-group) rates have increased 79% since 2003.



• Group Conversion rates have increased 93% since 2003.

8. Definition of Group Conversion: Process by which members who are no longer enrolled though a group may obtain individual coverage, paying premiums directly through to the plan. Approved rate increases for Non-group and Group Conversion between 2003 and 2007 obtained from OFIS. 79% and 92% figures compound the effect of the several rate increases during this time period, resulting in the total rate increase.



The background of the slide is a collage of various US dollar bills, including \$100, \$50, and \$20 bills, scattered across the entire page. The bills are partially overlapping and cut off at the edges, creating a textured, financial-themed background.

\$1 Million Per Day

Over the last five years, Blue Cross and its subsidiaries have profited over **ONE MILLION DOLLARS** per day!

9. Blue Cross Blue Shield of Michigan Annual Reports for the years 2003, 2005, and 2006 (2003 Annual Report includes figures for 2002, 2005 Annual Report includes figures for 2004). Total consolidated, pre-tax income for 2002-2006 was \$1,847,300,000, which translates to \$1,012,219.18 per day.

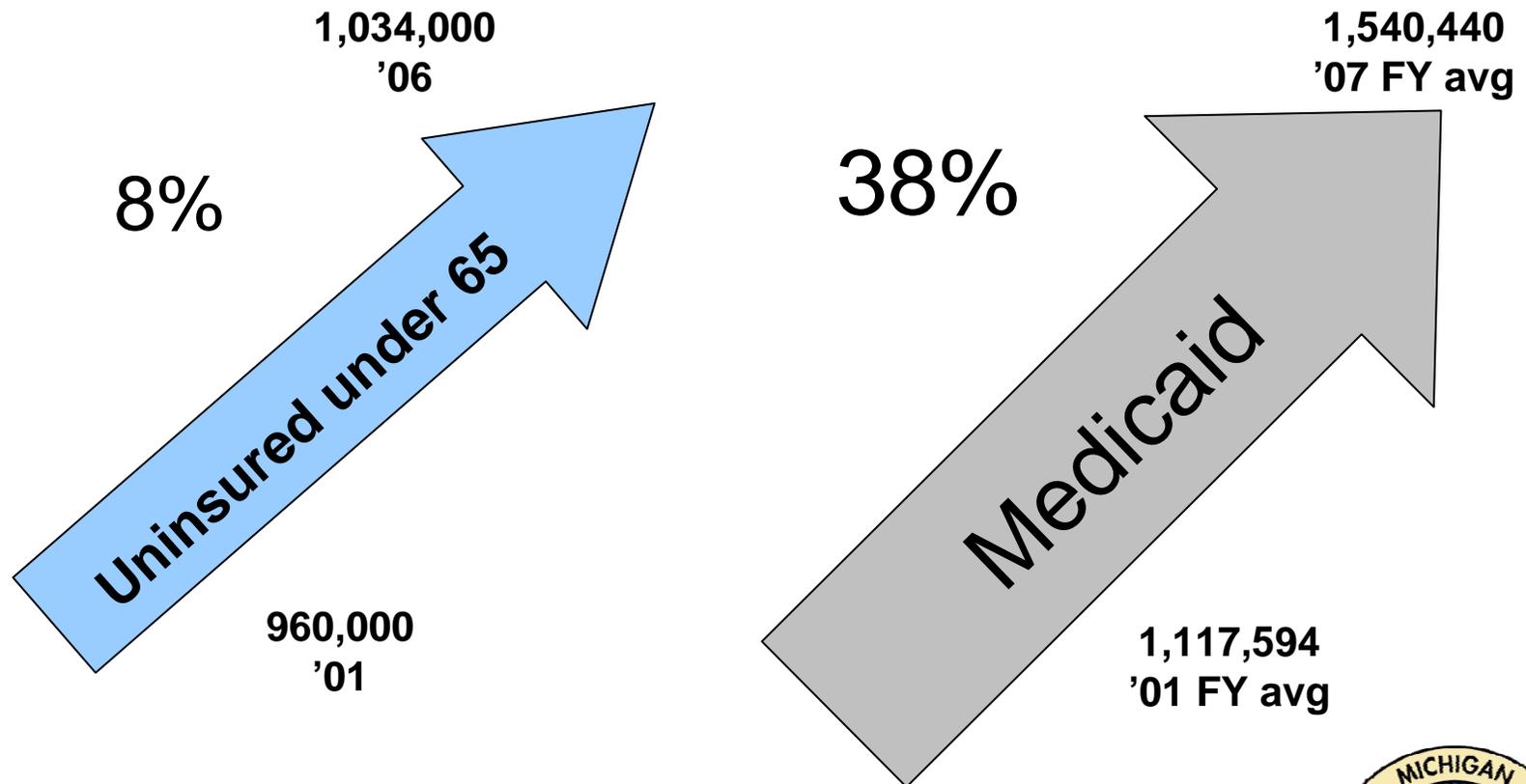
A Warning...

“...excessive reserves are inappropriate. Reserves are funded by, and belong to, subscribers. Higher reserves mean higher premiums, which may not be justified.”

Then-State Representative David Hollister, Journal of Law Reform, 1980.



1 in 4 Michigan Citizens is Uninsured or on Medicaid...



... and these numbers are growing.

The data in this segment is from three sources: U.S. Census Bureau, Table HIA-6: Health Insurance Coverage Status & Type of Coverage by State (Michigan); Michigan Department of Human Services, Key Statistics Tables for FY 2001 & 2007, Table 12: Medicaid Eligibility; and <http://www.statehealthfacts.org/profileind.jsp?ind=125&cat=3&rgn=24>



Hurting the Old, Sick, and Working Poor

- HBs 5282-5285 eliminate “community rating” and force seniors and sicker citizens to pay more than current law. ¹⁰
- Will allow Blue Cross to charge new customers with chronic diseases like diabetes up to 80% more without challenge (For example, a \$400 per month premium could be raised to \$720) ¹¹
- Will allow Blue Cross to charge new customers with serious illnesses like cancer up to 250% more without challenge (For example, a \$400 per month premium could be raised to \$1,400) ¹²

10. Community rating is currently required by MCL 550.1611. HB 5283 provides that the rates Blue Cross charges nongroup subscribers are governed by Chapter 37A, added by HB 5282, and are not subject to MCL 550.1609-1613. In addition, HB 5282, Section 3765(2) expressly allows Blue Cross to base its rates on the age and initial condition of the insured.

11. HB 5282, Section 3765(2) provides that premiums resulting from the rate factors of age and initial condition shall not vary from the index rate for that health benefit plan by more than 80%.

12. HB 5282, Section 3763(2) provides that for a guaranteed-access health benefit plan (GAHBP), the premium is presumed adequate, equitable, and not excessive if it does not exceed 150% of the weighted average premium associated with an initial condition rating factor of 2 charged by the 5 carriers with at least 50% of the individual market. Under this formula, the 150% is over and above the rate charged to the highest-risk insureds in the "regular" health benefit plan. We therefore believe that a very sick person in the GAHBP could pay as much as 250% more than a healthy person.



Hurting the Old, Sick, and Working Poor

Part II

- HB 5282 allows Blue Cross to deny coverage for preexisting illness for up to 12 months. Current law only allows Blue Cross to deny coverage for 6 months. In today's economy, this is another blow to those who are sick, particularly if they are among the working poor. ¹³
- For the first time, Blue Cross will be able to raise rates without any consideration of their reserves, i.e., cash in the bank. Does this sound like a “charitable and benevolent institution”? ¹⁴

13. MCL 550.1402b(1) provides the current 6-month preexisting condition limitation period applicable to Blue Cross. HB 5282, Section 3757(1) allows Blue Cross to increase this limitation period to 12 months.

14. Under MCL 550.1609(1), one of the factors for determining whether Blue Cross' rates are excessive is whether the rate should include a "provision for a contribution to or from surplus." HB 5283 provides that the rates Blue Cross charges nongroup subscribers are governed by Chapter 37A, added by HB 5282, and are not subject to MCL 550.1609-1613.



HB 5282 Allows Blue Cross to Engage in Redlining!



- For the first time, HB 5282 would allow Blue Cross to charge individuals more based on where they live! ¹⁵
- For example, premiums for Wayne County, Kent County, or (fill in your county here) residents could be increased up to 20%, as compared to rates in other parts of the state.

(Based upon rates currently charged by competitors.)

15. Blue Cross currently uses statewide rating consistent with MCL 500.1611, which provides the legislative intent underlying PA 350 "to promote uniformity of rates among subscribers to the greatest extent practicable." HB 5283 provides that the rates Blue Cross charges nongroup subscribers are governed by Chapter 37A, added by HB 5282, and are not subject to MCL 500.1609-1613. In addition, HB 5282, Section 3765(1) expressly allows Blue Cross to establish up to 10 geographic areas in the State for adjusting premiums.



Individual Redlining Practices Will Hurt Customers who are already Hurting

“Redlining in the insurance industry is a discriminatory practice in which insurance companies restrict the availability of insurance to people in particular geographic areas.”

-Attorney General Jennifer Granholm,
May 16, 2002



The Fox in Charge of Watching the Henhouse!

Eliminating Oversight of Blue Cross

- Current law allows the Attorney General to challenge rate hike requests by Blue Cross.
- Current law allows the Commissioner of the Office of Financial and Insurance Services, an appointee of the Governor, to consider the Attorney General's arguments on affordability and determine a fair rate.
- HBs 5282-5283 **eliminate** the role of the Attorney General to argue against rate hikes AND **eliminate** the ability of the Commissioner of OFIS to set rates! ¹⁶

16. The current oversight of Blue Cross' rates, including the Attorney General's right to request a hearing to contest rate increases, are provided in MCL 550.1609-1613. As previously stated, HB 5283 provides that the rates Blue Cross charges nongroup subscribers are governed by Chapter 37A, added by HB 5282 , and are not subject to MCL 550.1609-1613.



Attorney General Oversight: **\$100 million** saved for Michigan's Seniors

- In 2007, Blue Cross sought a 50% hike on the premiums that seniors pay to receive BCBSM Medigap Insurance.
- Attorney General filed an intervention with OFIS contesting the request.
- The rate hike request was ultimately reduced to 19%; saving more than 215,000 Michigan seniors \$97.5 million initially, and over \$69 million per year after that.



Profits...Profits...and More Profits: Tripling Blue Cross' Margin

- Blue Cross currently retains an average of 9.67% of every premium dollar to cover its administrative expenses and “profit” margin from the individual insurance lines. ¹⁷
- According to the National Blue Cross and Blue Shield Association (which includes both for profit and non-profit members) the association average is 13.5% of every premium dollar.
- The proposed bills “reforming” Blue Cross would allow it to **TRIPLE** its margins - **a 200% increase** – to retaining 30% of every premium dollar. ¹⁸

17. Blue Cross Schedules of Retention for its Nongroup, Group Conversion, and Other than Group Complementary (Medigap) insurance lines.

18. HB 5282, Section 3763(2).



Profit Margin Comparison

For-Profit Health Plans	5.19%
Hospitals	5.67%
Food	7.91%
Gas Utilities	10.85%
Industrial Equipment	11.32%
Insurance Brokers	14.48%
Communications Equipment	16.25%
Electronics	22.57%
Blue Cross*	30.00%
Independent Oil & Gas Producers	48.90%

*What Blue Cross could profit if HBs 5282-5285 are enacted.

Profit Margins are calculated on the trailing twelve month period. The Online Investor, Net Profit Margins - Top 10 (11/27/07) http://www.theonlineinvestor.com/margin_top10.phtml



Bottom-Line

Seniors, Sickest Subscribers, and the Public Will be Singing the Blues

- Blue Cross was created in 1939 to be a charitable insurer of last resort. Over the years, Blue Cross has received billions of dollars in public subsidies to support its public mission.
- Blue Cross now wants to be like a private insurer while continuing its tax-free status.
- Proposed law will result in higher premiums for seniors and the sickest, increase Blue Cross' competitive advantage, and effectively eliminate any meaningful oversight of Blue Cross.



Blue Cross' *Non-profit* Social Mission threatened

- Blue Cross exists “(T)o secure for all of the people of this state who apply for a certificate the opportunity for access to coverage for health services at a fair and reasonable price.” Public Act 350 of 1980.
- By creating Blue Cross, “the Michigan Legislature created a charitable trust for the benefit of Michigan’s citizens.” Attorney General Jennifer M. Granholm, OAG No. 7115, July 30, 2002.
- The social mission and special trust between Blue Cross and the People of Michigan must be protected from the rushed and ill-considered “reforms” of HB 5282-5285.



What happened to Blue Cross' Social Mission?

