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Blues in battle over Accident Fund_Foes fight expansion "with guns loaded'

By Jay Greene

Two groups will go head-to-head Wednesday over whether the **Senate Health Policy Committee** should approve two bills that would grant a for-profit workers' compensation subsidiary of **Blue Cross Blue Shield of Michigan** the right to acquire other insurance companies.

The **Coalition for a Fair and Competitive Insurance Market**, a seven-member group of competing auto and commercial insurance companies, says the Legislature should reject the bills because the Blues are not doing enough to use their reserves to hold down increases in health insurance premiums.

“They (the coalition) will come to the committee meeting with guns loaded and empty every chamber,” said Andrew Hetzel, vice president of corporate communications for Blue Cross Blue Shield.

He said the Blues will vigorously respond to the coalition's “campaign of misinformation.”

Chaired by Sen. Tom George, R-Kalamazoo, the Senate committee will consider George's substitute for House Bill 5284, which deals with the Blues' **Accident Fund Insurance Co. of America**. The second bill, which also addresses the Accident Fund, is H.B. 5285. It was approved by the House last October and unchanged by George.

The bills would allow the Accident Fund to acquire other insurance companies and enter the auto, life, marine and commercial product business. Under state law, the Accident Fund is limited to workers' compensation insurance. In return for allowing the Accident Fund to expand into other insurance lines, George wants the Accident Fund to pay $100 million into a charitable fund that would provide subsidies to people who buy individual health insurance.

Several committee members have expressed concerns over provisions of George's bill, including the $100 million fund, and are expected to offer amendments. Hetzel said the Blues should not be required to fund a $100 million government program.

The coalition also contends that over the last four years, Blue Cross has transferred $173 million in reserves to several subsidiaries, primarily the Accident Fund, while only receiving $35.8 million back in return as dividends, said Kurt Gallinger, a coalition spokesman.

“The Blues are misleading and incorrect when they say their subsidiaries are contributing back to the Blues to hold down premiums when, in fact, the opposite is true,” said Gallinger, who also is vice president and counsel for **Amerisure Cos.** in Farmington Hills.

“They have doubled premiums the past four years,” Gallinger said.

The coalition's figures are based on annual financial statements the Blues filed from 2004 to 2007 with the state **Office of Finance and Insurance Regulation**.

But Elizabeth Haar, president of the Accident Fund, said the coalition's numbers fail to account for net income transfers from the Accident Fund to Blue Cross over the last 14 years.

“We returned $100 million in net income to Blue Cross in 2007,” Haar said. Since 1994, when the Blues purchased the Accident Fund from the state of Michigan, the Accident Fund has provided the Blues with a 297 percent return on investment, she said.

Helen Stojic, a Blues' spokesperson, said the Accident Fund's transfers to the Blues are reported to OFIR as a line item in the Blues' annual statement of revenue and expenses. Over the last 14 years the Accident Fund has returned more than $1 billion in profits back to the Blues, Haar said.

“The return (to the Blues) is not just in dividends, it is the net income as well, and we can show that financially,” she said.

Blue Cross did not provide *Crain's* with a breakdown of total dividends and net income the Accident Fund contributed to the Blues.

But in OFIR filings, the Blues in 2007 said they contributed $125 million in capital to the Accident Fund to acquire a California-based workers' compensation company, **CompWest insurance Co.** in San Francisco.

In 2006, the Blues also transferred $13 million in cash to **LifeSecure Insurance Co.**, a long-term care subsidiary, that enabled LifeSecure to purchase **Verde Financial Corp.**, an Arizona-based holding company.

While the Accident Fund did not return a dividend to the Blues in 2007, the fund paid the Blues a $12 million dividend in 2006 and returned $15 million in 2005. It did not return a dividend in 2004.

However, the Blues' 2007 annual statement does show a $118.3 million “change in net unrealized capital gains.” Stojic said $100 million of that amount is from the Accident Fund.

But Gallinger said in another section of the annual statement that the Blues show a negative $156 million adjustment to surplus “resulting from their ownership of those same affiliates. To me, this looks like more Blue smoke and mirrors.”

Still, Hetzel said a financially strong Accident Fund takes pressure off Blue Cross to increase premiums.

“It helps us keep health care costs more affordable than they would be otherwise,” he said.

But over the past four years, the Blues have increased premiums for individuals a cumulative 53 percent, said Gary Wolfram, an economist with the **Hillsdale Policy Group,** in a report he prepared for the coalition.

Hetzel confirmed that the Blues have increased individual premiums in the “double-digit” range the past five years because it was unable to subsidize individual premiums as much as it did before.

He added, however, “If you look over the last 13 years, the overall average (for individual policy rate increases) is much more reasonable.”

Gallinger said the Legislature should reject the bills or consider doing one of three things:

n Require the Blues to convert into a private company. Privatizing the Blues would create a large cash infusion for the state and create a new source of tax revenue.

n Require the Blues to sell the Accident Fund and then allow it to compete in the marketplace as a private company.

n Require the Blues to pay several billion dollars in unpaid state back taxes and create a meaningful separation between the Blues and the Accident Fund.

The Accident Fund's Haar said the Blues' subsidiary should be allowed to enter other lines of business because it will add jobs to Michigan's struggling economy.

“We have legislative shackles (that prevent the fund from expanding into other insurance lines) that don't make sense today. Our competitors are national, and they can unfairly compete against us,” Haar said.

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