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Cox: Blue Cross 'is losing its way'

He sues, saying payment to unit could have lowered costs

BY PATRICIA ANSTETT ? FREE PRESS MEDICAL WRITER ? July 3,
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LANSING -- Michigan Attorney General Mike Cox filed a lawsuit Wednesday against Blue Cross Blue Shield of Michigan, alleging it violated state law by giving \$125 million last year to the Accident Fund, a for-profit subsidiary, to buy a California insurance company.

The money should have been used by Blue Cross to lower health costs for consumers, because it is a nonprofit, charitable company established in a 1939 state law as Michigan's insurer of last resort, Cox said.

The lawsuit, filed in Ingham County Circuit Court, asks that Blue Cross and the Lansing-based Accident Fund sell CWI Holdings Inc. and two other for-profit companies the Accident Fund has purchased since 2005. Cox wants at least the \$125 million that Blue Cross gave the Accident Fund to be returned to Blue Cross, to hold down health insurance costs.

The other two companies are United Insurance Co., a for-profit Wisconsin insurance company, which the Accident Fund bought for \$95.8 million in December 2005 and Third Coast Insurance Co., a now-inactive, for-profit Illinois property

and casualty insurance company, bought for \$11.9 million in August 2007.

Andy Hetzel, Blue Cross spokesman, said Cox's reading of state law is wrong and the company looks forward to defending itself in court.

At a news conference at his Lansing office Wednesday, Cox said the transaction and other spending show that Blue Cross "is losing its way. We're trying to keep it on its way."

"Michigan consumers are being squeezed by high gas prices, mortgage foreclosures and high unemployment rates," Cox said. "They shouldn't have to pay higher health care premiums so Blue Cross can go on a spending spree and grab up for-profit insurance companies."

Between 2003 and 2007, premiums on Blue Cross policies purchased by individuals ages 18-64 rose 79%. Over the same time span, those with so-called group conversion policies, covering individuals who buy their own insurance after losing workplace coverage, increased 92%, Cox said.

"We think we have the facts and law squarely on our side," Hetzel said in an interview with the Free Press. He said the Lansing-based Accident Fund has contributed hundreds of millions of dollars to Blue Cross that helped it lower insurance costs, since Blue Cross bought the company from the state of Michigan in 1994.

The Accident Fund is limited by state law to selling workers compensation insurance, but Blue Cross is seeking legislation, now stalled in the Senate, to let it sell other types of insurance.

"The best way for us to fulfill our mission of providing affordable health insurance is to be a financially healthy nonprofit corporation," Hetzel said. He challenged Cox's comment that Blue Cross has deviated from its mission and

cited a report the company released last year that found the company gives \$400 million last year to improve health and broaden access of the uninsured to health services.

One key area of contention is a May 22 opinion by Michigan Insurance Commissioner Ken Ross that concluded the CWI Holdings purchase was legal.

Ross' letter, circulated widely after he sent it to Rep. Virgil Smith, D-Detroit, chair of the House Insurance Committee, said that he interpreted state law broadly to allow the purchase, because state law allows Blue Cross to engage in "other transactions" with the Accident Fund.

But Cox called Ross' conclusion "dead wrong." State law only allows money transfers between Blue Cross and the Accident Fund if they are loans, Cox said. Instead, the exchange has been described by Blue Cross as a "capital transfer." These transfers are "gifts. It's free and clear" of interest and other payment obligations, he said.

Jason Moon, spokesman for the commission, said the nine previous state insurance commissioners "consistently have given broad interpretation to Blue Cross to operate and maintain a parent and subsidiary relationship." He said the Accident Fund has paid Blue Cross \$200 million in dividends since 1999.

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