



May 19, 2008

## Blues execs get top dollar

### Pay rises as insurer seeks to raise rates

*BY PATRICIA ANSTETT  
FREE PRESS MEDICAL WRITER*

In his second year as chief executive officer at Blue Cross Blue Shield of Michigan, Daniel Loepp earned \$1,657,555, a 67% raise over his \$999,351 salary and compensation in 2006, the company's 2007 financial records show.

Both figures are well above the national average for insurance CEOs.

Blue Cross also gave large retirement and buyout packages to seven of its top 10 executives in a year of higher-than-usual turnover at the company.

Questions about compensation for top executives at the nonprofit insurer arose during legislative debate of an effort by Blue Cross to ease its ability to set rates for individual policies, which are purchased by more than 322,000 Michiganders -- a number that is growing as employers drop benefits and people lose jobs.

Blue Cross says its executive compensation is fair measured against both commercial insurers and nonprofits because it must pay enough to retain top talent. Critics, including Attorney General Mike Cox, say Blue Cross spends too much on administrative costs such as salaries. Cox said the average compensation for Blue Cross' top 10 executives rose 42% between 2004 and 2006.

"Those are significant pay hikes for a charitable and benevolent nonprofit, and they stand in stark contrast to what's happening to families and workers, who have seen their purchasing power erode in the face of plant closings, mortgage foreclosures and higher gas prices," Cox said in an e-mail to the Free Press last week.

To assess how Blue Cross executive salaries compare within the industry, the Free Press obtained information on executive salaries for five Michigan-based health insurers from Michigan's Office of Financial and Insurance Regulation.

The Free Press also reviewed national data comparing Blue Cross compensation with that of other insurers, nonprofit and commercial, as well as with other U.S. Blue Cross plans.

The analysis found that:

- Loepp's 2007 earnings were in the highest tier of compensation for all health plan executives, nonprofit and commercial. He ranks in the 90th percentile in an annual survey by Demarco & Associates, a Rockford, Ill., consulting firm that surveys compensation at 600 insurance plans. CEO salary and compensation on average was \$518,574, the firm's fall 2007 report said.
- Loepp's compensation last year topped that paid to CEOs at four other Michigan-based health plans, all smaller than Blue Cross. No other nonprofit insurer in Michigan comes close to the size of

Blue Cross, with 4.6 million members, or 70% of the state's insured population.

Kimberly Horn, CEO of the Grand Rapids-based Priority Health, earned \$914,304, compensation that included work overseeing a subsidiary.

Francine Parker, who until recently was CEO at the Detroit-based Health Alliance Plan, earned \$869,773, a figure that included retirement contributions, a car allowance and other benefits.

Michael Tobin, CEO of American Community Mutual Health Insurance Co., a Livonia-based commercial health insurer, was paid \$464,608.

- Among U.S. Blue Cross executives, Loepp's pay was the fifth lowest in 2006, the latest year for which comparisons are available, according to a report by Atlantic Information Services Inc. of Washington, D.C. Many of the Blue Cross executives who earned more have been in the health insurance industry longer than Loepp.

A former lobbyist and executive director of the Service Station Dealers of Michigan, Loepp joined Blue Cross in 2000 as vice president of government affairs.

## Other salary increases

State law requires Blue Cross salaries to be reasonable.

The state insurance office each year reviews the company's compensation but never has challenged it, said spokesman Jason Moon. The state rarely challenges any insurer about executive compensation unless the company has financial problems because comparisons are difficult to analyze, Moon added.

Other large increases last year at Blue Cross went to George Francis III, the company's former senior vice president, who received an 83% raise, bringing his compensation to \$1,380,322, and Kathy Elston, former vice president for employee services, with a 155% raise, from \$383,453 to \$979,434 in 2007. Helen Stojic, Blue Cross spokeswoman, said retirements in 2006 drove up average compensation, but fell by 8.4% in 2007, after the departure in 2006 of CEO Richard Whitmer.

Whitmer, who spent 17 years as Blue Cross' CEO, earned \$4.2 million in 2006 and drew an additional \$877,853 in deferred compensation in 2007, the organization's financial records show.

Andy Hetzel, vice president of corporate communications, said Blue Cross executive compensation is fair and "competitive, but far from excessive." Compensation is compared with other insurers and "carefully reviewed and authorized by our board" to help retain the company's best talent, he said.

Loepp's total compensation "reflects new responsibilities into his transition into the president's office," Hetzel said. Many for-profit commercial insurance chiefs, as well as CEOs at Blue Cross plans in other states, earn much more, he said.

For example, Mike McCallister, CEO at Humana Inc., where he has worked for 34 years, was paid \$3,434,879 last year in total compensation, mostly in stock options, according to the company.

Humana, a for-profit corporation with 11.4 million health plan members, earned \$833.7 million, on \$25.3 billion in revenue last year.

Blue Cross of Michigan was \$152 million in the black last year on nearly \$20 billion in revenue.

## Comparisons are difficult

Measuring CEO pay in a field with different types and sizes of operations makes it hard to make apples-to-apples comparisons.

"You really shouldn't compare nonprofits to profits, or Michigan to national" statistics, said Eric Hosken, client partner at Executive Compensation Advisers, a subsidiary of Korn/Ferry International, a global management solutions company.

CEOs at large national commercial insurers earn more when their companies make money and their stocks perform well, along with the success of cost management strategies and growth of the company, Hosken said.

Hosken said nonprofits may need to pay their executives well to avoid "having their talent recruited away."

Blue Cross' legislative push is before a group of eight lawmakers who are working to resolve differences in House and Senate bills over how the state should oversee individual health plans.

Legislation passed by the House in October, favored by Blue Cross, would let the insurer raise rates without state approval, subject to subsequent review, and allow it to charge more depending on a person's age and county of residence.

The Senate version retains provisions requiring Blue Cross rate hikes to be approved first by the state's insurance commissioner, but shortens the time frame for consumer and attorney general challenges to proposed increases.

Blue Cross has run into significant opposition in this effort.

Last week, administrative law judge David Lick overruled premium increases Blue Cross implemented for individual policies, saying Blue Cross' \$2.4 billion in reserve was excessive.

Contact **PATRICIA ANSTETT** at 313-222-5021 or [panstett@freepress.com](mailto:panstett@freepress.com).

---