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Firm may have to tap into surplus before rates are hiked

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[Pa. eyes Blues' surplus case in Michigan](#)

By [Jerry Lynott](mailto:Jerry.Lynott@timesleader.com)

Business Writer

A pending decision that could make Blue Cross Blue Shield of Michigan tap into its surplus rather than raise rates has the attention of Pennsylvania's insurance commissioner and others.

Last Wednesday, an independent hearing officer found the non-profit health insurance company held an excessive surplus of \$2.64 billion in 2006 and that is "an element to be considered whether or not the rates should be modified accordingly."

The case arose from a challenge in October 2006 by a subscriber to the company's request to raise rates an overall 24.3 percent for non-group plans. A spokesman for Michigan's Office of Financial and Insurance Regulation said if the hearing officer's proposal is accepted, the increase would be lower than what the insurance company sought. The exact amount would be calculated by the company, which is the state's largest insurer.

Awaiting the outcome is Pennsylvania Insurance Commissioner Joel Ario, among others.

"We are watching the Michigan situation, just as we continue to carefully monitor the surplus levels of the four (Blue Cross Blue Shield) plans in PA," he said in an e-mail.

Ario added that three of the four plans in Pennsylvania, including Blue Cross of Northeastern Pennsylvania, have surpluses high enough that preclude them from adding to their rate requests a "risk and contingency" factor in case actual losses exceed the projected cost of claims.

According to the Pennsylvania Insurance Department, at the end of 2007, Blue Cross of NEPA had a surplus of \$462 million, or approximately \$770 for each of the estimated 600,000 subscribers in a 13-county area. By comparison, the surplus of the larger Michigan insurer amounted to approximately \$574 for each of the 4.6 million subscribers.

Joining Ario in the wait is state Rep. Phyllis Mundy, D-Kingston, a critic of the insurance company's practice of raising rates while increasing its surplus.

Last month, the insurance department approved a \$14.5 million increase to go into effect on July 1 for more than 66,000 members of the company's First Priority Blue Care health maintenance organization. The plan's membership is approximately 11 percent of the company's subscribers.

Mundy said "it's promising" that the commissioner is watching the Michigan case.

"I'm told he believes it merits a closer look," she said.

The case has a way to go before resolution, but if the hearing officer's findings stand, it could "create a little pressure to revisit the surplus again," she said.

But from Blue Cross of NEPA's perspective, Michigan is addressing issues that have already been decided in Pennsylvania.

"The PA Insurance Commissioner issued an order in 2005 setting an approved range of surplus and the manner in which the Pennsylvania Insurance Department will review rate filings in light of existing Blue Cross surpluses," Blue Cross of NEPA said in a statement Wednesday. "At the same time, the BCNEPA surplus was determined to be within the approved range, and remains so today."

Mundy fought for a cap on the surplus levels held by the Blue Cross and Blue Shield companies in Pennsylvania. As a result of her effort and that of other legislators and consumer advocacy groups, in February 2005 then-Insurance Commissioner Diane Koken established levels for the companies' surpluses.

At the highest level, a surplus is characterized as "inefficient" and potentially excessive. A "sufficient" tag means the surplus is acceptable, but the plan cannot figure in risk or contingency factors when requesting rate increases. A surplus at the "efficient" level means the plan has no solvency issues.

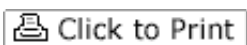
The various Blue Cross Blue Shield plans maintained the surpluses are necessary in order to meet their obligations and to guard against major claims for catastrophes such as epidemics and terrorist attacks.

In March, the state insurance department determined the surpluses of Capital Blue Cross, Highmark Inc. and Blue Cross of NEPA were within the "sufficient" range. The surplus of Independence Blue Cross fell within the efficient range.

Jerry Lynott, a Times Leader staff writer, can be contacted at 570 829-7237.

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