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AG Cox Sues Blue Cross

Violations of State Law & Purchase Agreement of Accident Fund *Subscriber Funds used to Purchase For-Profit Company* Calls on Court to Void Blue Cross's Purchase

LANSING – Attorney General Mike Cox announced today that he is suing Blue Cross and Blue Shield of Michigan (BCBSM). The lawsuit stems from issues that arose in the Michigan State Senate Health Policy Committee in April, 2008, prompting an investigation by Cox's office.

The three count lawsuit from the state's top law enforcement official charges BCBSM with violating the terms of Public Act 350 of 1980, improper contributions to an insurance company, and breaching the terms of the purchase agreement that enabled BCBSM to acquire the Accident Fund.

"Michigan law is clear. It prohibits Blue Cross from purchasing CompWest Insurance Company. And the law prohibits Blue Cross from using subscriber funds 'to operate or subsidize in any way' the Accident Fund, unless it is a loan that's paid back in full," Cox said. "Subscriber funds were used so Blue Cross could purchase a for-profit company. And consumers, the sick and the elderly have paid higher premiums because funds that could have been used to lower their costs were diverted for this purchase."

Cox's investigation showed that BCBSM transferred \$125 million to the Accident Fund in November, 2007. The Accident Fund purchased CompWest Insurance Company of California for \$127 million in November, 2007.

"Michigan law prohibits Blue Cross from purchasing a for-profit worker's compensation company other than the Accident Fund," Cox noted. "And if Blue Cross does transfer subscriber money to the Accident Fund, it must be in the form of a loan, not a gift that is never repaid."

(MORE)

Cox is asking the court to force BCBSM to divest itself of CompWest Insurance Company. Alternatively, the Attorney General asks the court to force BCBSM to recover the \$125 million of subscriber funds it transferred to the Accident Fund in November, 2007.

BCBSM is a tax-exempt, charitable and benevolent institution, established by State law as a nonprofit organization in 1939.

BCBSM's surplus has more than doubled in value from 2001 to 2006, increasing from \$1.3 billion to \$2.8 billion.

At the same time, BCBSM's individual premium rates have increased by 79% from 2003 to 2007, while Group Conversion premium rates have escalated even more, up by 92% from 2003 through 2007.

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

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Fact Sheet

- Blue Cross Blue Shield of Michigan (BCBSM) and its affiliates control nearly 70% of Michigan's health insurance market.
- Public Act 350 of 1980 was amended in 1993 to allow BCBMS to obtain the State Accident Fund.
- The 1993 amendment of Act 350 prohibited subscriber funds for use other than to obtain the State Accident Fund.
- BCBSM obtained the State Accident Fund in 1994.
- Act 350 also prohibits Blue Cross from using their funds "to operate or subsidize in any way" the Accident Fund.
- November 2007 BCBSM transferred \$125 million to the Accident Fund.
- November 2007 the Accident Fund purchased CompWest Insurance Company of California for \$127 million.
- Between 2001 and 2006, BCBSM's surplus has increased from \$1.3 billion to \$2.8 billion.
- Between 2003 and 2007, BCBSM's individual rate premiums have increased 79%.
- Between 2003 and 2007, BCBSM's Group Conversion premium rates have increased 92%.

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