

E. L. Cox
2215 Covey Court S. E.
Grand Rapids, MI 49546
(616) 940-1521

May 8, 2008

The Honorable Thomas M. George
State Senator
State Capitol
P.O. Box 30036
Lansing, MI 48909

Re: Blue Cross/Accident Fund Expansion

Dear Senator George:

I have not had the pleasure of meeting you, but I have watched with interest as you have conducted your hearings on House Bills 5282-5285. From all appearances, your process thus far has been deliberate, and your attention seems focused well beyond mere politics and instead on good policy – you are to be congratulated for that! Now that you have moved the first two bills, I wanted to write to encourage your continued focus on good policy, and to provide you with some historical perspective in connection with the two remaining bills.

House Bills 5284 and 5285, would authorize Blue Cross to purchase other businesses and allow the Accident Fund to sell multiple lines of insurance. Since we have not met, you may not know that my career brought me in direct contact with these issues at least two times previously. From 1991 to 1996, I served as President and CEO of the Accident Fund, during which time I oversaw the privatization of the Fund. Later, I served as Michigan's Insurance Commissioner at Governor Engler's request. In both of those capacities, I consistently counseled *against* further expanding the Blues' activities into private markets and *against* the expansion of the Accident Fund into other lines as long as it is owned by Blue Cross, a position I maintain today.

You should know that the Blues' bid and the 1993 legislation were accepted with a great deal of reluctance during a period in Michigan's history when maximizing the revenue the sale would bring was important enough to risk adopting anti-competitive policy along with limitations designed to minimize damage to the market. I have heard speculation over the existing limitations on Blue Cross and the Accident Fund and whether they were merely incidental, or were considered important protections for the marketplace. I can assure you that they were central to the privatization. Those of us involved thought we were very explicit in the 1993 legislation – the Accident Fund was to be limited to workers' compensation only, and Blue Cross was not to use subscriber funds in support of its new, for-profit subsidiary in any way.

At the time, I and many others were concerned about the potential misuse of Blue Cross subscriber funds, unfair competitive advantages for the Blues and its subsidiaries, exposure of subscriber reserves to for-profit ventures that have good *and* bad years, and the likelihood that the Blues would continue to seek legislative changes rather than live within the limited exceptions to their statutory mission. As one who opposed the sale of the Accident Fund to Blue Cross (because selling it to a quasi-public entity – even with adequate structural separations – is at best only a partial privatization) I continue to be concerned about the incremental steps the Blues are inviting the legislature to take away from their original charter, the 1993 legislation, the very limited exceptions allowing a Blue Cross-owned Accident Fund to compete in the for-profit marketplace, and the prohibitions against using the Blues' accumulated subscriber reserves in its for-profit endeavors.

Since 1993, the Blues have taken massive rate increases, accumulated billions in reserves, lobbied for and received authority to expand into disability insurance, contributed capital to its for-profit endeavors (despite statutory limitations designed to prohibit such contributions), added four new workers' compensation carriers to its family, and doubled the Michigan market share of the Accident Fund – already Michigan's largest workers' compensation insurer when it was purchased. And now, the Blues are back before the legislature trying to expand its mission and gain the approvals necessary to deploy subscriber reserves in new, increasingly risky, and anti-competitive ways.

The developments of the past 15 years counsel in favor of caution, and perhaps, new limitations on the misuse of subscriber reserves, rather than radical expansions of the Blues' mission, and relaxation of the limitations on their use of subscriber reserves in the for-profit (tax-paying) marketplace.

Given my first-hand experience with these issues and the extreme pressures they bring to the affected decision-makers, I fully appreciate the difficulty of the task before you. Thank you for your dedication to good policy for the citizens of Michigan, the competitive marketplace, and Blue Cross and its affiliates.

Please call anytime if you would like to discuss these issues, or if I can clarify any of my comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "E. L. Cox".

E. L. Cox