
COALITION FOR A FAIR & COMPETITIVE INSURANCE MARKET



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Senate Should Reject the Blues Attempt to Expand Their Unfair Advantage

***Coalition To Testify that H.B. 5284 & H.B. 5285 enables
BCBSM to expand its monopoly rather than lower rates***

Lansing — The Blue Cross and Accident Fund Expansion bills enable the Blues to expand their unfair advantage into a monopoly rather than benefiting consumers by lowering rates, according to the Coalition For A Fair & Competitive Insurance Market. The Coalition represents a group of Michigan based, tax-paying insurance companies that employ more than 7,000 Michigan residents.

The Senate Health Policy Committee has scheduled a hearing today on the Blue Cross Blue Shield Michigan (BCBSM) “Reform Plan” and will focus on the Accident Fund Expansion Bills (House Bill 5284 & House Bill 5285). The bills, which have nothing to do with Individual Market Reform, would allow Blue Cross to acquire any other company. The legislation would also allow the Accident Fund, a for-profit workers’ compensation subsidiary of BCBS, to expand from workers compensation insurance into other insurance lines such as home and auto insurance and even medical malpractice insurance.

The Senate committee is expected to consider committee chair Sen. Tom George’s substitute for H.B. 5284. In return for allowing the Accident Fund to expand into other insurance lines, the substitute proposed by Sen. George would require the Blues to pay \$100 million into a charitable fund that would provide subsidies to people who buy individual health insurance.

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Bills Do Not Benefit Michigan Consumers: No Premium Reductions

The Coalition released a study conducted by Hillsdale Policy Group economist Gary Wolfram, Ph.D. that shows the Blue Cross Blue Shield-backed legislation moves the Blues further away from its social mission while providing no benefits for Michigan consumers.

According to Dr. Wolfram, “These bills will create unintended consequences that will distort the insurance market leading to less competition and higher rates for health care and other insurance. These effects will also seep into the Michigan economy as a whole and place a drag on our economy.

“Allowing the Accident Fund to cross over into other lines of insurance invites more subsidization of the Accident Fund by its parent. Rather than just buying out-of-state companies, the Accident Fund would be able to enter other lines of insurance using BCBSM reserves and notes, and access BCBSM provider networks and market power over providers.”

The Coalition is also concerned with how the tax exempt Blues is currently allowed to make large capital contributions to its profit subsidiaries, increase their surplus, and continue to raise premium rates for consumers. Blue Cross’ surplus is at its highest level in history and has more than doubled since 2001.

“The real story is that the Blues’ subsidiaries are not contributing revenue back to Blue Cross and are increasing rates for Blue Cross subscribers,” said Kurt Gallinger, Vice President and Counsel at Amerisure Companies, headquartered in Farmington Hills. “Instead, premium rates have doubled during the past four years while the Blues have spent more than \$450 million acquiring other companies. Those acquisitions are draining cash from Blue Cross and increasing subscriber rates.”

Are the Blues violating Act 350 by down streaming dollars to Accident Fund?

The Coalition also points out that Blue Cross may already be in violation of Public Act 350 of 1980 by down streaming Blues’ dollars to its subsidiary, the Accident Fund. The Accident Fund has recently used the funds to purchase another worker’s comp insurance company.

PA 350 was amended in 1993 to allow the purchase of the Accident Fund while putting in place a so-called “firewall” to prevent Blue Cross from using its subscriber’s reserves for purposes other than the purchase of the Accident Fund.

PA 350, Section 207(1)(X)(v):

(v) Health care corporation and subscriber funds are used only for the acquisition from the state of Michigan of the assets and liabilities of the state accident fund.

However the Blues have transferred more than \$200 million to the Accident Fund since the original purchase.

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“It appears that the Blues may be violating the so-called ‘firewall’ that the legislature put in place to prevent Blue Cross Blue Shield from using subscriber funds for purposes other than purchasing the Accident Fund,” testified Gallinger. “Before moving ahead with new laws, the legislature should determine if the Blues are even following the existing laws.”

Coalition Supports Fair Competition not a Bluesopoly

The Coalition testified today that its members are not afraid of competition but are troubled by an unfair, unlevel playing field. There are more than 1,500 companies willing to compete for Michigan insurance business and only one is asking the legislature for permission to abuse a tax exemption and monopoly leverage to compete.

A Coalition member representing a small, East Lansing niche, company with 130 employees testified today with concerns. American Physicians Assurance Corporation specializes in medical malpractice insurance for physicians.

“Many of them are small companies like ours,” said Laura Kline, a Vice President of American Physicians Assurance Corporation. “Allowing Blue Cross to unfairly compete in the marketplace with us will not create any more jobs or economic activity. It will just make Blue Cross bigger, the market less competitive and in the long run charge everyone with higher prices.”

Teri Morante, Assistant Vice President at the Citizens Insurance Company of America and its affiliates in The Hanover Insurance Group agreed this legislation puts companies at a disadvantage in Michigan. The headquarters for Citizens Insurance is located in Howell.

“We have no problem competing on a level playing field. We do it every day,” said Morante. “However, to allow an unfair advantage to companies owned by a state-created entity with a state-granted tax exemption will disrupt that playing field and have a chilling effect on the Michigan market.”

Solutions

If the Senate chooses to proceed with allowing the Accident Fund to expand into other lines, the only just solution to level the playing field would be to require Blue Cross to sell the Accident Fund or privatize Blue Cross and create a tax-paying entity, according to the Coalition. Wolfram estimates the proceeds from a Blue Cross sale would generate at least \$6 billion for the state of Michigan.

“While we appreciate Senator George’s starting price of a \$100 million entry fee to allow the Accident Fund to compete with companies like ours, it is pocket change to an organization like Blue Cross,” testified Kline. “They will gladly pay it knowing full well they can pass on the cost to their policyholders.”

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