Are Conversions Bad Medicine?

How the Health Care of all Washington State Residents Could Be Harmed if Premera Blue Cross Goes For-Profit

A report of the Premera Watch Coalition[*]
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In May 2002, Premera Blue Cross announced its plans to convert from non-profit to for-profit, a change that could affect the health care of every person living in Washington State—whether or not they are Premera customers. Under the proposal, Premera would dissolve as a non-profit and form a new for-profit company that would be publicly traded on the stock market. Generally, non-profit insurers[♦] must get permission from state regulators before they can become for-profit. Premera has filed a multi-document application with the Office of the Insurance Commissioner (OIC) requesting approval for their conversion plan. Both the OIC and the Attorney General (AG) are reviewing the proposal.

The decision to go for-profit is more than just a routine business deal. Premera is a leading Washington health carrier and a non-profit. If it becomes a for-profit organization whose mission is to make money for shareholders, there could be serious repercussions across our state's health care market. Such repercussions have been felt in other states where conversions have occurred—and Washington should learn from these experiences.

From Non-Profit to For-Profit: In the Public Interest?

Over the past decade, numerous Blue Cross and Blue Shield health plans have given up their non-profit missions in favor of converting independently or being purchased by for-profits or "mutuals."[1] This wave of conversions was triggered when, in 1994, the Blue Cross Blue Shield Association (BCBSA) amended its rules to allow its members to become for-profit. This decision reversed the Blues' longstanding commitment to ensuring access to health care for people in need, which had been the rationale for founding the Blues during the Depression.

Abandoning a mission to guarantee health care for those who cannot otherwise afford it could have devastating consequences for health care consumers and providers alike. Health care consumers and providers are deeply concerned that, as Premera moves toward conversion and becomes a for-profit, it will emphasize profitability and the bottom line over fairness and commitment to health care

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[*] The Premera Watch Coalition includes the following organizations: Children's Alliance, Northwest Federation of Community Organizations, Northwest Health Law Advocates, Service Employees International Union State Council, Washington Academy of Family Physicians, Washington Association of Churches, Washington Citizen Action, Washington Protection and Advocacy System, Washington State NOW, and Welfare Rights Organizing Coalition.

[♦] The terms "health plan," "health insurer," and "insurer" are used interchangeably in this report.

access. There are no real guarantees regarding health care access in the documents that Premera has filed with the OIC.

In order to be approved, Premera's conversion to for-profit must be in the public interest. But what has been the experience with conversions in other states? These experiences indicate that a conversion of Premera could harm, rather than help, access to health care.

What's the Worst that Could Happen?

Under our modern health care system, health insurance is key to ensuring access to services. Those who lack insurance are less likely than are insured people to get care, especially timely care that is cost-effective and guarantees health in the long term. Changes in health insurance affect our health care system in general—which means that everyone's health care could be affected if Premera converts to for-profit.

- **Lobbying against Consumer Protections**

When corporate culture changes, so can legislative and policy priorities. In 1994, Blue Cross and Blue Shield of Missouri (BCBSMO) began the process of conversion, and in 2002 was purchased by the for-profit WellPoint Health Networks. While non-profit BCBSMO had a practice of working with regulators and community groups on health care access problems, it later became "like any other commercial insurer that just looks out for its own interests in the public policy arena…."[2] Similarly, in Maine, Anthem, which is now a for-profit insurer, acquired the non-profit Blue Cross/Blue Shield plan and proceeded to lobby for "reforms" that would have jeopardized access to care.[3] There is a real threat that this could happen in Washington. According to papers filed with the Insurance Commissioner, Premera is proposing the creation of a "non-profit" foundation that would, in effect, be beholden to the new for-profit Premera—and would also be empowered to lobby on behalf of for-profit insurance interests.

- **Reducing Participation in "Unprofitable Markets"**

When the purpose of doing business is to make money, insurers concerned with profitability have an incentive to pull out of markets that aren't as lucrative. For example, Missouri's Blue Cross and Blue Shield, which converted and was purchased by WellPoint, was one of the first major plans to withdraw from Medicare—which it did statewide, in contrast to other plans.[4] It also pulled out of Medicaid managed care.[5] In the Washington, D.C. area, CareFirst is seeking to convert and is moving toward increased profitability. In the summer of 2001, CareFirst consolidated two Maryland HMOs with a D.C. subsidiary, creating "Blue Choice." Rather than maintaining the Maryland HMOs' practice of open enrollment, Blue Choice began requiring medical exams of applicants, shutting out about 22,000 Marylanders. This move was denounced by Maryland's Insurance Commissioner.[6]

> "In an attempt to make the plan more attractive to a potential acquirer, [CareFirst] has retreated from those higher risk parts of the market in which the need for insurance products is most acute. In so doing, the plan may precipitate an availability crisis that will force other carriers to exit the Maryland market."
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> *— Carl J. Schramm, Health Care Economist*

- **Handling of Claims: Spending Less on Care**

How much money do health plans spend on actual care? When profit margins increase, this does not necessarily translate into improved access to services. For-profit Blues spend significantly less of their revenue on medical claims than do non-profit Blues. From 1997 to 2000, this amounted to only 73.5 percent of total revenue spent on health care claims for investor-owned plans, compared to 83.7 percent and 83.8 percent for independent and consolidated non-profit Blues, respectively.[7] Pressure to reduce claim costs may also translate into denying more care. According to the Maryland Hospital Association, an increase in claim denials followed conversions in California, Connecticut, Georgia, and Kentucky.[8]

- **Impact on Premiums**

The cost of premiums is a key factor to health care access—and there is a very real concern that Premera's conversion will result in even more drastic premium hikes. Premera has claimed that the ability to raise equity capital will translate into financial stability and the spreading of operating costs over a larger customer base.[9] But in other states reasonable premiums have not resulted from conversions.[10] In fact, there is evidence that such transactions may have quite the opposite effect. In Kansas, the likelihood that the conversion and acquisition of the Blue Cross/Blue Shield plan would have resulted in even higher premiums was a major reason that the Insurance Commissioner rejected the deal.[11]

- **Aggressive Bargaining with Providers**

After non-profit health carriers convert or are bought out, providers often feel the squeeze. In general, for-profit Blues wind up giving fewer dollars to health care providers. According to a survey conducted by the Maryland Hospital Association, after the Blue Cross plan in California converted, dealings between the plan and providers became more difficult in terms of both contract negotiations and payment levels.[12] After the Blue Cross plan in Virginia converted to the for-profit insurer Trigon, it inserted in its basic physician contract a clause that required providers to give Blue Cross a discount at least as big as discounts given to any other insurer.[13]

The State of Maine: Anthem Buys a Non-Profit Blue and Changes Its Tune

On July 13, 1999, the non-profit Blue Cross/Blue Shield of Maine (BCBSME) and Anthem Insurance of Indiana, then a mutual, announced a proposed "affiliation" deal. The proposal included BCBSME's conversion to for-profit status and acquisition by Anthem.

Throughout the regulatory review process, Anthem made repeated statements to regulators and the public to address fears about the future of BCBSME and health care access in general. In its closing statement on the deal, Anthem argued its proposal provided for "local decision-making on the matters that are most critical to BCBSME subscribers,"[14] and assured regulators that subscribers and the public would "realize substantial benefits from the transaction."[15] Yet the benefits cited in this statement involve no firm guarantees other than agreement to comply with Maine insurance laws are regulations and Blue Cross Blue Shield Association rules.[16] And, again, Anthem declined to make any real commitments on the question of maintaining product lines, participation in different geographic markets, and provider networks.

Maine's Bureau of Insurance approved the deal in May 2000. Almost immediately, Anthem began attempts to dismantle the state's health care protections, many of which had been supported by BCBSME. Anthem lobbied the Maine legislature to eliminate laws that prevented insurers from charging older and sicker patients more for coverage and from imposing excessive preexisting condition waiting periods. Anthem also supported insurance rule changes that allow it to sell high-deductible, low payout plans. After adoption of those rule changes, Anthem began moving its non-group indemnity customers into $5,000 deductible plans and closing low-deductible plans.[17] One of Anthem's most criticized lobbying efforts was its financing of a $400,000 campaign to oppose a non-binding referendum on single-payer health care in Portland, Maine, which nevertheless passed in November 2001.[18]

Anthem's policy positions have been particularly hard for Maine residents to swallow because of the company's aggressive pursuit of premium rate increases despite its considerable profitability. In August 2002, despite reporting a 47 percent jump in 2002 second quarter net income and the doubling of its profit margin, Anthem requested permission to raise rates by 7 percent for individual indemnity coverage and 26 percent for its individual HMO.[19] This request followed rate hikes only six months earlier of 12.7 percent for the indemnity plan and 30.3 percent for the individual HMO plan. And that increase was itself preceded by hikes of 23.5 percent and 32.5 percent, respectively.[20] Anthem has sought similar rate hikes in its Medicare supplemental plans.[21]

These rate increases and other changes have caused health care advocates to seriously question Anthem's commitment to offering quality, affordable coverage in the individual market. According to Joe Ditre of the Consumers for Affordable Health Care Foundation, Anthem has also begun pushing individual subscribers into high deductible plans with slimmed down benefit packages.[22]

This behavior contradicts Anthem's claims that the acquisition of BCBSME would result in benefits to consumers. (Perhaps the principal beneficiary is Anthem CEO Larry Glasscock, who saw his compensation jump from $2.4M in 2000 to $15M in 2001.[23]) As a for-profit company, however, Anthem need only worry about making sure its rates are "competitive."[24] Yet competition is not much of a problem for Anthem in Maine, since it controls about half of the state's overall health insurance market and 98 percent of the individual market.[25] But improving BCBSME's behavior may now be out of Maine's hands. In October 2000—despite statements that it would keep BCBSME a locally run company—Anthem announced the resignation of four top executives in Maine and their replacement by management team selected by Anthem executives at their Indiana headquarters.[26]

Watch out for "The WellPoint Way"

There's no doubt that WellPoint Health Networks is an industry giant. Since its formation as a for-profit subsidiary of Blue Cross of California in the early 1990s, WellPoint has become one of the country's most profitable plans. It took over its parent Blue Cross of California, has also acquired the now for-profit Blue plans in Georgia and Missouri, and is proposing to acquire CareFirst in the Washington, D.C. area.

But instead of passing these gains on to consumers, Blue Cross/WellPoint is acting as any profit-making machine would. After being consumed by its for-profit subsidiary, Blue Cross/WellPoint is reported to have abandoned its "community rating mentality."[27] In 1998, WellPoint was the first health insurer to petition the Food and Drug Administration to give a number of popular antihistamines status as over-the-counter drugs, which aren't covered by prescription plans. WellPoint expected this move to result in savings of $80M a year.[28] Then, in February 2002, Blue Cross of California raised individual market premiums and, as of August, was planning another increase, despite WellPoint's reporting of 71 percent increase in profits in July.[29]

Such high profits may well come from "tailoring" products and slimming down coverage. The company breaks its small-group products into three categories: plans with high premium and comprehensive benefits, middle-of-the line products, and low-end products with far fewer benefits. As WellPoint Executive Vice President and Chief Financial Officer David Colby explained to the *Baltimore Sun* in April, "They may not be plans you would want personally, but for $69 a month for catastrophic coverage, it's better than having no insurance."[30]

But profits may also come from tough dealings with health care providers. In California, providers have found Blue Cross/WellPoint to be an aggressive negotiator[31] and difficult to deal with on reimbursement.[32]

Guaranteeing the Protection of Our Community's Health

Premera has made no guarantees that the transaction will not negatively affect access to health care in Washington, much less that the transaction will provide benefits. For this reason, Premera has not shown that conversion is in the public interest, and the application should be rejected. If Premera pursues the conversion proposal, the company should guarantee that there will be no negative impact on current and prospective enrollees during the first six years after the conversion by assuring that:

- Premiums will not increase by more than medical inflation;
- Premera's current service area will continue to be served by the new for-profit entity;
- Premera will not reduce or limit the benefit packages offered to current members, subscribers and enrollees;
- Premera will assure the OIC and AG that there will be no negative impact on current members;
- Premera will maintain its current medical loss ratio.

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[1] A "mutual" insurance company is owned by policyholders, unlike non-profits (which are held in public trust) and publicly traded for-profits (which are owned by shareholders).
[2] Mark A. Hall and Chris Conover, "Case Studies of Four Blue Cross Conversions," Sept. 30, 2002, pp. 12-13.
[3] Joseph Ditre, Consumers for Affordable Health Care, Personal Communication, Dec. 5, 2002.
[4] Mark A. Hall and Chris Conover, "Case Studies of Four Blue Cross Conversions," Sept. 30, 2002, pp. 12-13.
[5] *Ibid.*
[6] Carl J. Schramm, *Blue Cross Conversion: Policy Considerations Arising from a Sale of the Maryland Plan*, Abell Foundation, November 2001, p. 45, available at http://www.abell.org/pubsitems/hhs_bluecross_1101.pdf.

[7] *Ibid.*, p. 64.
[8] Maryland Hospital Association, "Conversion Impact in Other States," January 29, 2002, available at http://www.mdhospitals.org/Payor_Issues/conversion.impact.pdf; Cal Pierson, President, Maryland Hospital Association, "Why Is It Not in the Public Interest for CareFirst to Convert and Sell," Testimony and Related Questions from Five Regional MIA Hearings, March 2002, p. 6, available at http://www.mdhospitals.org/Payor_Issues/MHA.Testimony.Info.Questions.Final.pdf.
[9] "Form A" filed with Washington Office of the Insurance Commissioner September 17, 2002, p. 10-11.
[10] Carl J. Schramm, *Blue Cross Conversion: Policy Considerations Arising from a Sale of the Maryland Plan*, Abell Foundation, November 2001, p. 11, available at http://www.abell.org/pubsitems/hhs_bluecross_1101.pdf.
[11] PriceWaterhouseCoopers, *Assessment of Market Impact of the Anthem, Inc. Purchase of Blue Cross Blue Shield of Kansas*, (Prepared for the Kansas Department of Insurance), pp. iv-v, available at http://www.ksinsurance.org/consumers/bcbs/public_testimony/kid/pwcmarket.pdf; Final Order, In the Matter of the Conversion and Acquisition of Blue Cross and Blue Shield of Kansas, Inc., Docket No. 3014-DM, pp. 43-44, available at http://www.ksinsurance.org/consumers/bcbs/BCBS_final_order.pdt.
[12] Cal Pierson, President, Maryland Hospital Association, "Why Is It Not in the Public Interest for CareFirst to Convert and Sell," Testimony and Related Questions from Five Regional MIA Hearings, March 2002, p. 6, available at http://www.mdhospitals.org/Payor_Issues/MHA.Testimony.Info.Questions.Final.pdf.
[13] Mark A. Hall and Chris Conover, "Case Studies of Four Blue Cross Conversions," Sept. 30, 2002, p. 17.
[14] Anthem Closing Statement, Docket No. INS-99-14, April 14, 2000, p. 2, available at http://www.state.me.us/pfr/ins/bcdoc734.htm.
[15] *Ibid*.
[16] *Ibid*, pp. 3-4.
[17] Joseph Ditre, Consumers for Affordable Health Care, Personal Communication, Dec. 5, 2002.
[18] Scott Rothschild, "Maine Residents Warn Kansans of Anthem Blue Cross Blue Shield Takeover," *Journal-World*, December 12, 2001.
[19] Laura B. Benko, "Third Time a Harm?; Anthem May Raise Premiums for Third Straight Year, Outraging Maine Consumers," *Modern Healthcare*, August 19, 2002, p. 17.
[20] *Ibid*.
[21] Edward D. Murphy & Tux Turkel, "Anthem Proposes Medicare Rate Hike," *Portland Press Herald*, November 2, 2000, p. 1A.
[22] Michael O'D. Moore, "Anthem Criticized for Rate Hike Request; Insurer Took Record Profits in 1st Half Last Year," *Bangor Daily News*, August 10, 2002, p. A1.
[23] Laura B. Benko, "Third Time a Harm?; Anthem May Raise Premiums for Third Straight Year, Outraging Maine Consumers," *Modern Healthcare*, August 19, 2002, p. 17.
[24] Prefiled Testimony of Larry Glasscock, Chief Executive Officer of Anthem Insurance Companies, Inc., Docket No. INS-99-14, March 28, 2000, available at http://www.state.me.us/pgf/ins/bcdoc637.htm.
[25] Josie Huang, "Anthem Rate Hike Request Gets Slammed at Public Hearing," *Portland Press Herald*, October 23, 2002, p. 1B.
[26] Edward D. Murphy and Tux Turkel, "Anthem Proposes Medicare Rate Hike," *Portland Press Herald*, November 2, 2000, p. 1A.
[27] Mark A. Hall and Chris Conover, "Case Studies of Four Blue Cross Conversions," Sept. 30, 2002, p. 3.
[28] M. William Salganik, Insurer's Success Evolves from 'WellPoint Way'; Health Care: The Insured that Wants to Buy CareFirst Is Praised for Its Acumen by Business Analysts But Not by Doctors," *Baltimore Sun*, April 21, 2002, 1C.
[29] Don Lee, "Insurance Firms Clamp Down: Firms Are Refusing to Give Policies to People with Minor Problems," *Los Angeles Times*, August 2, 2002, http://www.bayarea.com/mld/bayarea/business/personal finance/insurance/3787643.htm?.
[30] M. William Salganik, Insurer's Success Evolves from 'WellPoint Way'; Health Care: The Insured that Wants to Buy CareFirst Is Praised for Its Acumen by Business Analysts But Not by Doctors," *Baltimore Sun*, April 21, 2002, 1C.
[31] *Ibid*.
[32] Tony Fong, "Opponents to Suitor for Aetna Speak Out," San Diego Union Tribune, March 4, 2000, available at http://www.consumerwatchdog.org/healthcare/nw/nw000414.php.3.