



Tangled Up In Blue

Premera Blue Cross plans to hang on to millions in public health assets

Premera Can't Be a For-Profit and Hold onto Nonprofit Funds

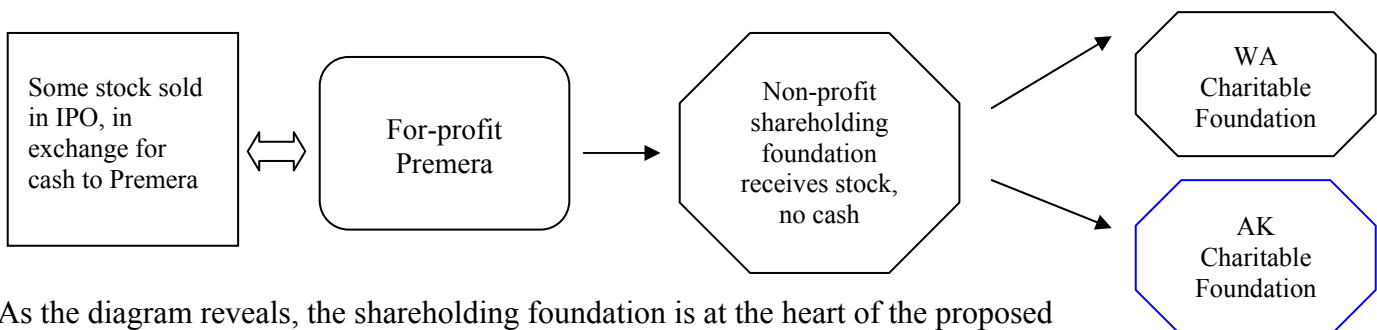
On May 31, 2002, Premera Blue Cross announced its plan to convert from nonprofit to for-profit status. Premera seeks to join scores of other Blue Cross and Blue Shield plans that have abandoned their original community health mission in exchange for profits and private ownership. But first Premera must show the deal is in the public interest and get approval from Washington's Insurance Commissioner, Mike Kreidler, the state Attorney General, Christine Gregoire, and Alaska regulators.

One of the basic issues that regulators must decide is: Will the nonprofit assets that Premera has held until now be protected and preserved, independent from the new for-profit corporation?

As a nonprofit, no one person or entity owns Premera. Instead, it is dedicated generally to the public's benefit—this has been the case since Premera's founding. Under state law and Premera's own nonprofit charter documents, Premera must transfer the full value of its nonprofit assets to another nonprofit upon conversion. *But this is not what Premera is proposing.*

Premera's Plans for the Nonprofit Assets

Premera proposes to transfer 100% of the initial stock in for-profit Premera to a shareholding foundation. It would then create new stock to sell at an initial public offering (IPO). The value of the stock sold at the IPO would set the value of the stock held by the shareholding foundation—and therefore the value set aside for charitable purposes. Over time, the shareholding foundation would sell its stock under conditions set by Premera. These proceeds would be given to two charitable foundations, one in Washington and one in Alaska.

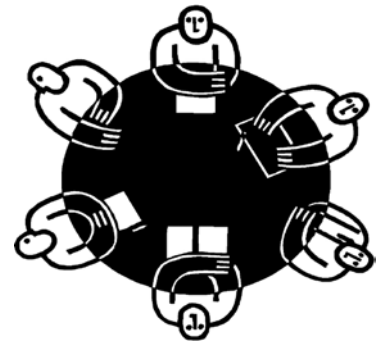


As the diagram reveals, the shareholding foundation is at the heart of the proposed transaction. How it operates will determine if the public truly receives the full value of the nonprofit funds held by Premera.

December 16, 2002. 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, and Welfare Rights Organizing Coalition.

Premera Would Be a For-Profit But Still Control the Nonprofit Assets

- Premera controls the shareholding foundation through control of the selection of the majority of the Directors on its Board.
- Premera can turn the shareholding foundation into a lobbying tool, which could result in the diversion of millions of public health dollars to insurance industry lobbying.
- Premera controls the funds even after the Premera stock is sold. Even after the foundation sells the stock, it would still be barred by Premera from granting any funds in a way that is “materially adverse to the interests of health insurers”—as defined by Premera.
- Premera controls the Washington and Alaska Charitable Foundation activities. The foundations would be barred from receiving funds if they change their charter documents, and Premera would have the right to sue them if Premera disagrees with how they use the proceeds.
- Premera could reduce the potential funds for Washington and Alaska charitable foundations, by limiting how, when and to whom the shareholding foundation can sell its stock.
- Premera would require the shareholding foundation, not the for-profit Premera, to be responsible for nearly all unforeseen costs arising out of the conversion.



RECOMMENDATIONS FOR PROTECTING NON-PROFIT HEALTH CARE

1. Premera’s plan should be rejected. Allowing the for-profit company to benefit from hundreds of millions in non-profit health care funds is not in the public interest.
2. No Alternative Plan Should be Approved Unless it Meets the Following Conditions:
 - *Full Value to the Foundations.* Premera should be required to transfer 100% of its assets (not just stock)—with valuation independent of an IPO—to a charitable health care foundation or foundations.
 - *Independence of Foundation(s).* If the conversion results in a transfer of stock to a nonprofit shareholding foundation, that foundation should be completely independent. The Washington and Alaska charitable foundations should also be completely independent.
 - *Protection of Our Health.* Premera should guarantee that there will be no negative impact on current and prospective enrollees during at least the first six years after the conversion:
 - Premiums will not increase any more than necessary to keep up with 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.
 - *No financial windfall to Premera Board or Management.* No stock options, bonuses, severance packages or other forms of excessive compensation should be permitted as a result of the conversion.