Editorial & Opinion

The Blues' for-profit conversion — in whose interest?

Viewpoint

Last month, CareFirst BlueCross BlueShield, the state's largest health insurer with 3 million members, announced its intention to convert from nonprofit to for-profit status. As part of the plan, the Blues will be bought by WellPoint Health Network for $1.3 billion.

Over the next year, regulators and lawmakers will decide whether to approve the for-profit conversion, determine how the proceeds of the sale should be used, what impact the conversion will have on CareFirst policyholders and if the conversion is in the best interest of the public.

By Del. Carolyn J. Krysiak

When the Blues were created in 1937, their mission was to be the "insurer of last resort." As such, the Blues have an "open enrollment" program to provide affordable health coverage without medical examinations — to individuals and those with chronic medical problems who have difficulty getting insurance.

In return for providing 3,500 open enrollment policies, the Blues get a 4 percent discount on hospital rates, amounting to over $30 million a year.

Despite the Blues' contribution of $13 million from the $30 million to the state for funding of the senior prescription drug benefits program, the Blues still net $15 million.

In addition, as a nonprofit health plan, the Blues do not have to pay $16.6 million annually in health premium taxes.

If the conversion is approved, the state will have to create and fund an open enrollment program to insure the high-risk population.

A payment of $1.3 billion from the Blues would have to be divided between Maryland, Delaware and Washington. It is believed that sum, together with the charitable assets — money that the Blues did not have to pay the state in taxes and fees — would not be sufficient to compensate for the loss of the Blues as a nonprofit insurer.

Critics of the Blues' for-profit conversion are quick to point out that, over the years, the Blues have strayed far from their original mission as the insurer of the difficult-to-insure. These critics contend the Blues have not acted like a nonprofit organization for years.

Their conversion to for-profit would only rev up the for-profit behavior they have been exhibiting for far too long. Indeed, the Blues' conduct as a nonprofit enterprise has been found wanting.

While wearing their nonprofit hat, the Blues dumped their unprofitable Medicare and Medicaid programs and placed limits on their commitment to insure individuals and high health risks.

While wearing the nonprofit hat, the Blues asked for a 50 percent increase in open enrollment health policy premiums. Under the proposal, a $141 monthly premium for a 25-year-old would rise to $217, and a $308 monthly premium for a 65-year-old would soar to $889.

The state insurance commissioner denied the request for the premium increase. The Blues are appealing the decision to the Baltimore Circuit Court.

While wearing its nonprofit hat, the Blues posted earnings of $24.3 million for the third quarter of this year. That represents an 11 percent increase over the same quarter last year. The improvement came from its abandonment of its money-losing Medicare and Medicaid HMOs.

While wearing the nonprofit hat, the Blues have amassed huge cash reserves gained from reducing risk coverage. This, the Blues hope, will make the enterprise more attractive to a buyer.

The organization's board member and executive salaries are way above and beyond pay scales of similar state nonprofits. William L. Jews, the Blues' CEO, had a salary of $2 million last year.

In October, the state insurance commissioner wrote to legislative leaders stating that in dropping its FreeState HMO policies, the CareFirst Blues were trying to improve profits "at the expense of thousands of less healthy former FreeState members."

An Abell Foundation report, released Dec. 3, concluded that the proposed takeover of CareFirst BlueCross BlueShield would jeopardize the financial stability of hospitals and leave many poor and sick people struggling to find coverage.

"CareFirst's withdrawal from providing coverage to this market segment could precipitate a crisis in the entire health care financing system in Maryland," the report said.

Medical society and Hospital Association representatives have stated bluntly they doubt highly that the best interest of Maryland citizens will be served by the Blues' conversion. They have called for legislative and regulatory action to hold the Blues to their original mission.

T. Michael Preston, director of the state medical society, has called the conversion deal "outrageous."

House Speaker Casper R. Taylor Jr. recently stated: "BlueCross is our historic insurer of last resort. There's a strong feeling in the legislature that they (the Blues) need to be brought back to their mission."

Indeed, the Blues' road to for-profit conversion promises to be a rocky one. Aside from the Blues, no one appears to be enthusiastic about the conversion.

We must examine thoroughly just who, besides the Blues, will benefit from the conversion.

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