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Rhode Island's got the Blues

But the state's Blues plan isn't the only one drawing fire over its reserves, executive perks and compensation

What began a few months ago as a muffled grumble about another year of double-digit premium hikes by Blue Cross and Blue Shield of Rhode Island has erupted into a maelstrom of public outrage over corporate excesses that is reverberating well beyond the nation's tiny Ocean State.

Since January, state legislators, doctors and consumers have repeatedly slammed the not-for-profit insurer for amassing huge reserves and showering its officials with lavish pay and corporate perks while boosting its premiums 30% over two years and ignoring providers' growing complaints of skimpy reimbursements.

The Providence-based Blues has scrambled to survive the onslaught by hiring a crisis-management firm and adopting several self-imposed reforms-an effort that culminated this month in the public ouster of its president and chief executive officer, Ronald Battista, who had become a political lightning rod in recent months. Even so, it faces a raft of new legislation aimed at increasing regulatory oversight of its operations.

The Rhode Island insurer, however, isn't the only Blues plan grappling with an embarrassment of riches. Recent reports of massive earnings at several not-for-profit Blues plans nationwide are raising questions about whether the Blues are fast relinquishing their original mission to serve the public good.

"States are asking what it really means to be a not-for-profit and what the Blues are doing in return for their tax-exempt status," said former Maryland Insurance Commissioner Steven Larsen, who blocked the proposed for-profit conversion of CareFirst Blue Cross and Blue Shield last year after determining that it would have unduly benefited the insurer's executives and was not in the public's interest (See related web-exclusive: "A trickle - for now"). "Reconciling (the Blues') growing profitability with their not-for-profit mission has become increasingly complicated."

In many respects, the nation's Blues plans have found their way back into the same harsh spotlight they were in almost exactly a decade ago, when Congress blasted them for financial mismanagement and extravagant expenditures funded partly by money the government had paid them to care for federal employees.

After a two-year probe, a U.S. Senate subcommittee in August 1994 charged the Blues with an array of indiscretions, including overbilling members and spending profits on excessive executive salaries, promotional gifts for employees and conferences held at luxurious resorts. Investigators also accused the Blues association of poor oversight and questioned the $866,000 that the group had paid its then-CEO Bernard Tresnowski in 1993.

The subcommittee recommended that Congress re-evaluate the Blues' tax status, given that the plans were operating like for-profit organizations, according to a 103-page report issued at the time.

The Rhode Island Blues' current public relations woes began in March when the insurer acknowledged having granted-and then forgiven-a $600,000 loan to Battista to help him pay for a 2001 divorce and purchase a new $700,000 home. Though Battista la, a Ui4an ted $34(ew $7(ear pf35(ues')32(t)-32(ackn0 l,8(asted t)-32(dal)43(aor)sta(di-50 other things, it banned loans to employees, rescinded the board's pay and eliminated corporate perks, including the Cape Cod retreats and car allowances. It also agreed to increase its physician reimbursement rates to at least equal to those paid by Medicare and to cut contributions to its reserves to 1.5% of premiums from 3%.

"We have listened intently to the community we serve and trust that (our actions) underscore our sincere commitment to do what is right for the company and for our members," Blues Chairman Frank Montanaro said in a May 3 statement. Montanaro and company officials did not respond to repeated requests for comment.

State legislators, however, remain unconvinced the changes will last and have introduced a package of bills designed to rein in the Blues, which now dominates 71% of the state's insurance market.

One bill calls for the governor to fill any vacancies that arise on the Blues' board until state appointees make up one person short of a majority. Another bill, similar to one passed last year in Maryland, seeks to prevent executives from benefiting financially if the Blues is ever sold. Others would require public hearings to approve rate increases and would create the new position of health insurance commissioner to regulate the company's finances.

"There's been a great deal of movement (from the Blues) recently, but we want to see something that survives the current firestorm and leads to much more lasting change," said Rhode Island Sen. Elizabeth Roberts, a Democrat and co-chair of the joint committee that drafted the state's Health Care Reform Act of 2004. "Our goal is to get them to look at their role in the community differently, to refocus on their original mission so that access and affordability become central again. ... After all, that's what we chartered them for in 1939."

That sentiment is being echoed nationwide as the Blues post year after year of record profits, even as the ranks of the uninsured have grown and premium rates continue to climb. Combined earnings at the nation's Blues plans jumped 40% in 2001 to $2.8 billion, then another 43% in 2002 to $4 billion. And industry observers expect cumulative results for 2003-which are scheduled to be released this week-to be even more impressive.

Some recent signs: Net income last year climbed 64% to $171.3 million at CareFirst, 88% to $161.5 million at Rochester, N.Y.-based Excellus Blue Cross and Blue Shield, and 174% to $232.3 million at Blue Cross and Blue Shield of Massachusetts.

Blues plans defend their burgeoning bottom lines, attributing their recent windfall to improved efficiency, strong membership gains and the growing popularity of the national BlueCard program. They also say they were caught off guard, like most other insurers, by an unexpected slowdown in medical cost increases last year.

"(Blues plans) are not-for-profits, they're not charities," said Bill Hensley, spokesman for the Blue Cross and Blue Shield Association. "To be successful in serving their markets, they need to be financially successful as well. Their net gains are nothing to be ashamed about."

Still, some Blues plans have bowed to public pressure, opting to return portions of their riches to members. Blue Cross and Blue Shield of Tennessee began distributing $67 million in rebate checks to members last October when it realized it was going to overshoot its full-year earnings target. And in February, Horizon Blue Cross and Blue Shield of New Jersey announced a plan to refund $55 million of the $142.2 million in profits it amassed last year.

Meanwhile, Blue Cross and Blue Shield of North Carolina this month proudly reported a 14% drop in first-quarter earnings, to $52.8 million. The insurer has rolled back its rate increases to make up for what it called a "financially exceptional" 2003, when net income jumped 129% to $196 million and its profit margin hit 6.2%.

But the effort may be too late to appease state regulators, who last week proposed a bill to limit how much the insurer can accrue in reserves and establish when it would have to issue rebates. The North Carolina Blues has $797 million in reserves, at least twice what regulators say it needs to be deemed financially healthy.

Insurers, however, argue they need to maintain ample reserves to ensure they can pay claims in the face of a catastrophic event. Reserves are also tapped to fund new products, service expansions and technology upgrades.

"It's our only source of capital," explained James Mead, president and CEO of Harrisburg, Pa.-based Capital Blue Cross, which holds $500 million in reserves. "If Aetna or Coventry need money in a pinch, they can issue more stock. We don't have that option. We've only got what's in the bank."

Capital has been fighting a similar effort by Pennsylvania regulators to cap how much each of the state's four not-for-profit Blues plans can sock away in reserves (Jan. 26, p. 22). Capital, Highmark Blue Cross and Blue Shield, Independence Blue Cross, and Blue Cross of Northeastern Pennsylvania hold a combined surplus of $3.5 billion.

How Blues plans compensate their executives has also become a topic of heated debate in several states.

New Jersey lawmakers, for example, have been crafting a bill to cap executive pay at not-for-profit insurers since learning that Horizon President and CEO William Marino received $2.65 million in compensation last year.

In New York, legislators are weighing various bills to boost the state's power to regulate rate hikes. The effort is partly a response to consumer groups, which blasted Excellus for raising rates 16% last year while paying 200 of its employees more than $100,000 each, including more than $1 million apiece to four top executives. Excellus' vice chairman and former CEO, Howard Berman, received $1.6 million. Berman declined to comment.

Cash-strapped consumers have little patience for such high levels of compensation, said Chrissy Pearson, spokeswoman for the North Carolina Insurance Department. "You should have seen some of the letters we received from subscribers-nasty things about not wanting to pay for Greczyn's country club membership and so on," she said, referring to the public outcry after news that Bob Greczyn, president and CEO of the state's Blues, saw his total annual compensation nearly double last year to $2.1 million. "There were some pretty angry people."