Transparency has its limits

Questions arise about why the transparency-preaching Blues association is getting quiet about its members' fiscal results

Laura B. Benko, Modern Healthcare

August 7, 2006

The Blue Cross and Blue Shield Association touted its commitment to healthcare transparency last week when it unveiled what it called the nation's largest healthcare information resource, designed to provide a wealth of insight into everything from emerging cost trends to best clinical practices.

The database, dubbed Blue Health Intelligence, contains medical claims data on 79 million members served by 20 participating Blues plans. It will initially be offered only to the Blues' large, self-insured clients for help in designing their benefits packages, but could be made available for use by providers and even consumers in the future, said Scott Serota, president and chief executive officer of the Chicago-based Blues association.

With Blues plans covering one in three Americans and enrollment at an all-time high, "We believe the Blue Cross and Blue Shield plans will continue to lead the evolution of the healthcare system," Serota said. "This major milestone ... will strengthen the movement toward transparency by providing unmatched" data mined from the claims information of 79 million members nationwide.

"Blue Health Intelligence will ultimately provide an unparalleled depth and breadth of information about a range of health trends and measures," said Gail Boudreaux, Health Care Service Corp.'s executive vice president for external operations, and Blue Health Intelligence board co-chairwoman, in a statement. "This information will help Blue Cross and Blue Shields plans work with their customers to develop and offer more valuable employee benefits."

The effort follows a broader transparency initiative, called Blue Distinction, which the group kicked off amid much fanfare in June (June 12, p. 12).

Yet, for all its emphasis on transparency, there's one thing the Blues association is no longer opting to share publicly: the financial results of its licensed Blues plans. By early June of each year, the trade group has traditionally issued a news release touting its annual systemwide growth. But this year, after internal changes in its media-relations department, the association has decided only to provide key highlights of its plans consolidated results upon request.

Blue Cross and Blue Shield of North Carolina -- which is co-leading the Blue Health Intelligence initiative with Health Care Service Corp. -- also has chosen this year to stop announcing its earnings in quarterly news releases and phone briefings, as it has done for the past several years. This also comes the week after the insurer announced a $270 million expansion plan for its Chicago headquarters.

The irony wasn't lost on industry observers. "I find it hard to believe they would take a step back in their own level of disclosure at a time when the publicly accountable thing to do is disclose more, and more clearly," said Bruce McPherson, executive director of the Alliance for Advancing Nonprofit Health Care. "It seems very inconsistent with their new emphasis on transparency and empowering people with information."

Both the Blues association and the North Carolina Blues said they decided to stop issuing their financial announcements simply because there wasn't much public interest in them. "We've gotten hardly any calls for them," said Steve Putziger, the association's executive director of brand protection and financial services. "For the amount of effort we had to put into them, we just thought we could put our resources to work better elsewhere."

North Carolina Blues spokesman Mark Stinneford said the company began issuing its news releases in the '90s to reassure the public of its stability amid large losses, then continued the announcements as a way to appeal to future investors at a time when it was planning to convert to for-profit status. But now that the company is on solid financial footing and has shelved its conversion bid, issuing quarterly updates no longer seemed necessary, Stinneford said. "And frankly, there really hasn't been anything tremendously new in the results to warrant a formal press release."

Still, the policy change comes as continued news reports of mounting profits and lavish corporate spending at several of the nation's Blues plans have raised questions about whether the traditionally not-for-profit Blues are shirking their charitable missions. A number of Blues plans have caught heat from lawmakers and regulators in recent years for allegedly boosting premiums while socking millions of dollars away in reserves and enriching their executives. And California's two Blues plans are now under state investigation for allegedly dropping members who file large claims (May 15, p. 12).

Critics say that to avoid further fueling the fire, some Blues plans appear to be clamping down on the amount and type of information disseminated about them or otherwise finding ways to divert public attention away from their business practices and burgeoning bottom lines.

"These guys know how to play `hide the ball' in the healthcare system," said Jerry Flanagan, an advocate with the Foundation for Taxpayer & Consumer Rights. "They're all for disclosure as long as the information being disclosed isn't theirs."

The North Carolina Blues has even gone to court to keep certain company information out of the hands of its most vocal critic, a local coalition of physicians, pharmacists and consumers known as ProCare. The group, formed in 2002 to fight the Blues' now-scrapped conversion plan, maintains a Web site called

StopBlueCross.com and continues to push for legislation that would subject the insurer to greater state regulation.

The Blues sued ProCare in July 2005 after the group detailed on its Web site how the insurer had spent nearly $500,000 to host a hospitality suite at the U.S. Open golf tournament last year -- information gleaned from internal company documents it received from a now-fired Blues employee (Aug. 15, 2005, p. 10).

The company isn't challenging the accuracy of the Web posting; instead, it contends ProCare violated state laws by illegally obtaining and exposing confidential information about its business practices. Its lawsuit seeks to bar ProCare from publishing any more company information and demands the group pay $30,000 in punitive damages for the harm that the leak allegedly caused its market position. The case is scheduled to go to trial in September.

More at stake

"We're not thin-skinned about criticism, but there's more at stake here than ProCare's noise level," said Blues spokeswoman Gayle Tuttle. "The bottom line is we're a business. Our competitors go to great lengths to keep their business practices confidential. It's our responsibility to do the same."

For its part, ProCare, which has spent more than $100,000 over the past year defending itself, says it posted the information on its Web site to ignite a public debate about the insurer's corporate spending and profits. (In a deposition, the former Blues employee stated that she had faxed the internal documents to ProCare because she objected to the insurer's "reckless spending" and wanted to get the word out.)

The lawsuit, ProCare officials contend, is simply an attempt by the state's largest health plan to muzzle its critics and divert attention from its own questionable actions.

ProCare representatives declined to comment for this story, citing legal reasons. But on its Web site, ProCare calls the Blues' lawsuit a "baseless" effort to stop the group from publishing "truthful but embarrassing information about the company's profligate spending."

While the Blues failed to win a sweeping protective order to keep its financial data confidential, it has managed to keep significant portions of the 188-page deposition transcript sealed. The insurer says the omitted sections involve sensitive business information that could put it at a competitive disadvantage. ProCare says they describe alleged company-paid junkets to five-star resorts in the Caribbean, Mexico and the Bahamas, where executives enjoyed free golf, boating, four-wheeling, spas and meals.

According to figures provided by the Blues association at *Modern Healthcare*'s request, 2005 marked the 10th straight year of earnings gains for the nation's now-

37 independent Blues plans, as their combined net income rose 15% to $8.5 billion on $259.7 billion in revenue (See chart). All told, the plans' aggregate profits have climbed a total of 853% since 1996, which kicked off six straight years of accelerating average premium increases.

For-profit WellPoint, which now operates Blues plans in 14 states under its national umbrella, accounted for the biggest share of the Blues' total results, boosting its net income 157% last year to $2.46 billion on $45.1 billion in revenue. But not-for-profit Blues plans continued to hold their own.

Health Care Service Corp., which operates not-for-profit Blues plans in Illinois, New Mexico, Oklahoma and Texas, single-handedly posted $1.15 billion in net income in 2005, its fifth straight year of earnings growth. At the end of 2005, its financial reserves topped $4.27 billion.

The company, which bought the 500,000-member Oklahoma Blues last year, has said it plans to continue to expand aggressively through acquisitions. To accommodate that growth, Health Care Service Corp. has earmarked $270 million to add 24 new stories to its 33-story corporate headquarters in Chicago, beginning next year. When completed in 2010, the building will house 8,000 employees, up from 4,200 today.

The Blues' collective gains could have been even more robust last year were it not for a number of plans intentionally scaling back their earnings after having amassed a plush financial cushion in the past few years, says Bradley Ellis, a director at Fitch Ratings. At year-end, the Blues held a combined $60 billion in capital reserves, up 17% from 2004. The plans' total reserves have more than doubled since 2002, despite growing criticism among consumers and regulators who claim the insurers have accumulated far more than they need to remain solvent in the event of a financial crisis. "Now that they're sitting on top of ample surplus reserves, they aren't feeling the same urgency to grow their profits at such rapid rates," Ellis said.

The North Carolina Blues, for example, has been working to shrink its bottom line since 2004, when the $196.3 million in profit it posted the year before provoked an outcry among patients struggling to afford double-digit premium hikes. Its net income rose 7% to $167 million last year after falling 21% in 2004 to $155.9 million. But its reserves have continued to climb, hitting $1 billion in March, up about 35% from $743 million in 2003.

Executive pay draws fire

So too has its executive pay. According to data the company filed with the North Carolina Department of Insurance, total compensation to its top 10 executives rose 18% in 2005, to $9.9 million. Topping the list was President and CEO Bob Greczyn, who took home $2.5 million, up 19% from $2.1 million in 2004.

Meanwhile, Serota topped *Modern Healthcare*'s latest list of the highest-paid healthcare association executives, with overall compensation of $1.5 million in 2004 (April 3, p. 26). That's a 17% pay hike from the year before.

Whether the Blues' profits and payouts are excessive remains the subject of debate. Indeed, several industry experts argue that while executives at not-for-profits should generally be paid less than their for-profit counterparts, seven-figure compensation packages nonetheless are often in line with their responsibilities.

"Running a multibillion-dollar company with millions of members is a major-league business, whether it's for-profit or not," said Lawrence Van Horn, associate professor of healthcare economics at the University of Rochester (N.Y.). "Even if you're nonprofit, you need leaders of the highest caliber who know what they're doing, and you have to be competitive to secure that kind of management talent."

Others emphasize that not-for-profit doesn't mean "no profit." "Nonprofit insurers need to set aside more reserves for contingencies than for-profit insurers, because if the for-profit insurers discover that their reserves are too low, they can just issue more stock," McPherson of the Alliance for Advancing Nonprofit Health Care pointed out. "There's no equity market for the nonprofit insurers, so they have to have higher levels of reserves for that reason alone."

Still, if history is any indicator, the Blues have good reason to keep their financial head down. In 1994, the plans were threatened with tougher government oversight and the loss of their tax-exempt status after a Senate investigative subcommittee charged them with an array of indiscretions, including spending profits on extravagant executive salaries, promotional gifts to employees and conferences at luxurious resorts.

More recently, Blues plans in Maryland and Rhode Island faced a raft of reform legislation in their respective states after news accounts of ballooning profits and exorbitant pay packages, perks and other corporate spending (June 16, 2003, p. 14; May, 17, 2004, p. 6).

And last year, Pennsylvania's four Blues plans agreed to donate $1 billion to state healthcare programs to quiet critics amid a two-year state investigation into their fast-growing cash reserves. Regulators later determined the reserves, which totaled $4 billion in 2004, were not excessive.

Washington state Insurance Commissioner Mike Kreidler proposed legislation this year that would give him greater authority to regulate premium hikes by the state's two Blues plans, Premera Blue Cross and Regence Blue Shield, and to factor in their surplus levels when considering rate-increase requests. Kreidler nixed Premera's conversion plan in 2004, saying he feared it would result in higher insurance rates for consumers (July 19, 2004, p. 7).

Blues plans "are still under the proverbial microscope, particularly in the areas of executive compensation and surplus reserves," said Betsy Stoll, director of development and health policy at consumer advocacy group Community Catalyst. "In general, the public has become much more sensitive to what's happening in the nonprofit world," especially in light of the Senate Finance Committee's ongoing probe into charitable accountability.

Some Blues plans, in turn, seem to have gotten cleverer at manipulating their public perception. Premera, for example, won positive press in May, when it unveiled an attention-grabbing study concluding that Washington state employers and patients were paying more than $1 billion a year in extra costs to cover the higher rates providers have been charging commercial insurers to offset shortfalls in government reimbursements.

Rich Maturi, Premera's senior vice president of healthcare delivery systems, says the company commissioned the study out of a sense of civic duty. "It was a realization, in talking with providers, that (cost-shifting) was a problem that we couldn't afford to just keep between us," Maturi said. "We said, `This is a significant issue in terms of the affordability of private healthcare. So the first thing we ought to do is bring this out in public.' "

But the timing of the study wasn't lost on critics. Its release not only coincided with Kreidler's push for new insurance regulations but also came just weeks after Premera filed a request with the state Supreme Court to overturn Kreidler's denial of its conversion plan. The court's decision is pending.

By casting blame on Medicare and Medicaid, critics say, Premera managed to divert public attention way from what could be viewed as its own role in the state's rising healthcare costs: In 2005, Premera's profits and cash reserves topped $90.9 million and $525.5 million, respectively -- figures that would seem to belie the company's long-standing contention that its financial future depends on it shedding its not-for-profit status.

What's more, by choosing to address cost-shifting -- a key issue among hospitals and doctors -- Premera won much-needed points with the local provider community, a longtime opponent of its conversion plans. (The state's two hospital associations filed a lawsuit in 2003 to block the conversion.) In many respects, Premera's cost study harks back to an apparent diversion strategy employed by Blues plans a few years ago when they first began catching heat for pursuing double-digit rate increases.

McPherson cautions that diversion efforts by insurers are bound to backfire in the long run.

"They'll only generate more public scrutiny, because if people perceive that you're withholding or trying to hide something, they'll find new ways to get it out of you, and that could mean legislation," McPherson said. "I think that kind of strategy is absolutely the wrong way to go."