Consumers Union

October 31, 2009

The Honorable Gennet Purcell, Commissioner
District of Columbia
Department of Insurance, Securities and Banking
810 First Street, NE, Suite 701
Washington, DC 20002

Re: GHMSI Hearing

Dear Commissioner Purcell:

Consumers Union, nonprofit publisher of *Consumer Reports*, submits this letter in response to your request for information regarding the surplus and community benefits of non-profit health insurers. *See* Sept. 10, 2009 Hearing Transcript at pg. 377. We are providing the information in Exhibit A for your use as you review the surplus and community reinvestment levels of Group Hospitalization and Medical Services, Inc. (GHMSI) pursuant to the District of Columbia Medical Insurance Empowerment Amendment Act (MIEAA). D.C. Code § 31-3506.

Consumers Union has studied surplus and community benefits for a select number of the nation's larger non-profit and mutual health plans, including Blue Cross Blue Shield plans and Kaiser Foundation Health Plans.[1] In Exhibit A, we list each company's 2008 revenue for fully-insured business, surplus, and community benefit expenditures.[2] We also have included risk based capital (RBC) ratios for the years 2006-2008.

To determine how much each company spent on community benefits, we relied on financial statements, company publications and websites, documents available from state agencies, interviews with health plan representatives, and tax filings for non-profit foundations associated with certain health plans. The dollar figures in the Exhibit represent the best information available to us at the time of our study. We did not include premium rebates or other rate relief in our calculation of community benefits. We also excluded corporate sponsorships and employee volunteerism from community benefit expenditures.

[1] Kaiser Foundation Health Plan, Inc. ("Kaiser Health Plan") and Kaiser Foundation Hospitals ("Kaiser Hospitals") are the two parent companies that make up the California-headquartered managed care and delivery organization doing business as Kaiser Permanente. Kaiser Health Plan has a number of subsidiary health plans operating around the nation.

[2] Numbers in Exhibit A are rounded.

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As you review the figures in our Exhibit, here is additional information to consider:

- In some states, all health insurance carriers are subject to assessments that fund coverage mechanisms for the uninsured or high risk pools.[3] For example, Excellus Blue Cross Blue Shield reported that it paid $189 million in hospital surcharges in 2008 to fund indigent care, children's insurance coverage, and professional medical education in New York.[4] In fiscal year 2008, Blue Cross Blue Shield of Massachusetts (BCBSMA) paid $77.5 million in surcharges on payments to hospitals and ambulatory centers for the state's Health Safety Net program, which covers certain medical services for eligible uninsured and underinsured residents.[5] Insurers may pass the cost of these assessments onto policyholders. Some states have tried to limit insurers' tendency to recoup the assessment from policyholders by providing an offsetting premium tax credit.[6] We noted in our Exhibit which insurers are subject to high risk pool or other assessments.

- Massachusetts lawmakers required health insurers to pay an additional assessment on their "net worth surplus" for fiscal year 2009, to be paid to the state's general fund for "expenses related to health care costs." Mass. Gen. Law 118G § 40. Regulations governing how the assessment will be calculated were enacted in March 2009. 114.5 Code Mass. Reg. 19.00. Under the regulations, the state will waive the assessment only if it would cause surplus to drop below the RBC Company Action Level. 114.5 Code Mass. Reg. 19.03(3).

We recognize that insurance markets vary from region to region and that no two health plans face identical risks. However, as you can see from our sample, some health plans are maintaining surplus below or at the lower end of GHMSI's optimal range recommended by Milliman. In addition, while it is difficult to say how well health plans are meeting the specific needs of their communities, a few of the health plans in our sample have strong community benefit programs.

On the other hand, some plans in our sample have excessive surplus, unexamined by regulators in their jurisdiction, and/or they appear to be doing too little to improve access to healthcare in their communities.

Finally, we reiterate that GHMSI's surplus target range of 750% to 1050% of RBC is too high, particularly in light of the MIEAA requirement that GHMSI provide community reinvestment "to the maximum feasible extent consistent with financial soundness and efficiency." D.C. Code §31-3505.01.

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[3] State high risk pools generally are for people who have been rejected by private insurers due to pre-existing conditions. Premiums and deductibles may be too high for low-income residents. *See* Kaiser Family Foundation, *State High Risk Pool Plan Options and Premiums*, Feb. 2009, available at http://www.statehealthfacts.org/.

[4] Excellus, Economic Impact Report of 2008 Finances, pg. 5, available at https://www.excellusbcbs.com/.

[5] Division of Health Care Finance and Policy, 2008 Annual Report, Health Safety Net, Dec. 8, 2008, available at http://www.mass.gov/Eeohhs2/docs/dhcfp/p/hsn/hsn_report_12-08-08.ppt.

[6] *See generally*, Kaiser State Health Facts, State High Risk Pool Financing Arrangements, Dec. 2007, available at www.statehealthfacts.org.

Thank you again for the opportunity to participate in this proceeding.

Sincerely,

Sondra Roberto
Staff Attorney

cc: Leslie Johnson, Hearing Officer, DISB
Carmenita Snowden, Executive Assistant, DISB
Beth Sammis, Deputy Commissioner, Maryland Insurance Administration

EXHIBIT A

	2008 Revenues	2008 Surplus	2008 Community Benefits	RBC Ratio		
				2008	2007	2006
Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals (consolidated)	$39.8 billion	$11.4 billion net worth ($3.5 billion for Health Plans and $7.9 billion for Hospitals)	• $535 million on "Direct Community Benefit Investments," including charity care, coverage for low-income families, health education, grants to community-based programs, health professional training, collaboration with community clinics, medical research and libraries and other community service activities.[7]	N/A but see footnote [8]	N/A	N/A
Kaiser Health Plan Colorado	$2.2 billion	$547 million	• $56.5 million on Direct Community Benefit Investment in Colorado.	1244%[9]	395%	594%
Kaiser Health Plan Mid-Atlantic	$1.9 billion	$211 million	• $29 million on Direct Community Benefit Investment in Mid-Atlantic states.	632%	594%	632%

[7] Kaiser reported that total 2008 Direct Community Benefit Investments were approximately $1.71 billion, or 2.9% of operating revenue. *See* Kaiser Foundation Health Plan, Inc. and Subsidiaries and Kaiser Foundation Hospitals and Subsidiaries, Notes to Annual Financial Reporting Form for the year ended December 31, 2008, at pg. 1. The total includes Medicaid losses and subsidies for state children's health plans. *See* Kaiser Permanente, *2008 Community Benefit Report*.

[8] California uses a tangible net equity requirement, rather than a minimum RBC requirement. In general, the state requires plans to notify the Department of Managed Care if tangible net equity dips below 130% of the minimum tangible net equity required under state regulations. *See* 28 CCR 1300.84.3; 1300.76. "Tangible net equity" is the excess of total assets over total liabilities, reduced by the value of intangible assets. *See* 28 CCR 1300.76(e). For Kaiser, tangible net equity is calculated on the basis of the combined net worth of Health Plans and Hospitals. Kaiser reported that its combined net worth exceeded regulatory requirements by about $10 billion at the end of 2008, which is approximately 799% of minimum required tangible net equity. *See* Notes to Annual Financial Reporting Form, at pg. 30.

[9] After the Colorado Division of Insurance identified "an increasing positive financial position" of Kaiser Foundation Health Plan of Colorado, the company agreed to spend $155 million in 2009 and 2010 on rate relief or benefit enhancements for groups and subscribers and on expanding its financial assistance program for lower income patients. *See* Agreement between Colorado Division of Insurance and Kaiser Foundation Health Plan of Colorado, April 28, 2008, available at www.dora.state.co.us/insurance/pr/2008.htm

	2008 Revenues	2008 Surplus	2008 Community Benefits	RBC Ratio		
				2008	2007	2006
BCBS Alabama	$4 billion	$656.4 million	• $1.1 million in matching funds plus administrative support to its subsidiary, the Alabama Child Caring Foundation, which covers uninsured children. • $3.1 million assessment for high risk pool, with credit against premium tax. • In 2007, BCBSAL gave $10 million to the Caring Foundation, a subsidiary that gave $3.9 million to the Child Caring Foundation, children's health, education, and arts, and disease associations.	581%	773%	746%
BCBS Arizona	$1.4 billion	$653 million	Expenditures N/A • "Walk-on" program for children's exercise.	1565%	1568%	1567%
BCBS Florida	$6.4 billion	$1.8 billion	• $11 million in charitable contributions to non-profit organizations. • $10 million in stock to Blue Foundation for a Healthy Florida. • Foundation gave over $3 million to community health access and wellness programs.[10]	837%	906%	971%
BCBS Massachusetts	$2.2 billion	$614 million	• $12 million for patient quality and safety (electronic records), childhood obesity, and racial and ethnic disparities in healthcare. • $3.5 million to BCBSMA Foundation.[11] • Foundation paid out $4.5 million in grants. • $77.5 million in surcharges to programs for uninsured or underinsured, no tax offset.	640%[12]	708%	695%

[10] BCBS of Florida is subject to a high risk pool assessment, but in 2008 an assessment was not necessary. The Florida high risk pool is closed to new applicants.

[11] In 2001, BCBSMA used $55 million to launch the Blue Cross Blue Shield of Massachusetts Foundation to support healthcare needs of low-income residents. Since then, BCBSMA has donated annual amounts ranging from $11 million to $13 million to the Foundation, with one exception of $24 million contributed in 2004. In 2007, BCBSMA gave $11.5 million to the foundation; however the amount dropped to $3.5 million in 2008.

	2008 Revenues	2008 Surplus	2008 Community Benefits	RBC Ratio		
				2008	2007	2006
BCBS Minnesota	$2.8 billion[13]	$520 million	• $17 million on "Prevention Minnesota," an anti-smoking, exercise, and healthy eating initiative funded with a $241 million settlement from tobacco litigation. • BCBS of Minnesota Foundation made $3 million in grants for immigrant health and integration support, and children's health and education. • $51 million in assessments, no tax offset.	490%	596%	666%
BCBS North Carolina	$4.5 billion	$1.3 billion	• $20 million to BCBSNC Foundation. • Foundation paid out $7.5 million in FY 07-08 grants, including $2 million to support free clinics.	857%	936%	893%
BS California	$8.8 billion	$2.8 billion	• $40 million to BSCA Foundation. • Foundation gave $37.1 million in grants in 2008 for premium assistance, community clinic support, healthcare education and policy programs, health technology, and anti-domestic violence programs. • In 2007, BSCA contributed stock valued at $40 million to the Foundation, and covered $1.6 million in administrative and personnel costs.	N/A but see footnote [14]	N/A	N/A

[12] The BCBSMA Board of Directors recently set parameters to maintain surplus between 550 percent and 650 percent of RBC. BCBSMA reported that "this range is consistent with the levels maintained by all non-profit health plans in Massachusetts." BCBSMA, *The Importance of Reserves*, 2009, available at www.bluecrossma.com/.

[13] BCBSM, Inc. d/b/a Blue Cross and Blue Shield of Minnesota, HMO Minnesota d/b/a Blue Plus, and the Blue Cross and Blue Shield of Minnesota Foundation are non-profit subsidiaries of Aware Integrated, Inc. Figures in the table are for BCBSM only.

[14] California uses a tangible net equity requirement, rather than a minimum RBC requirement. In general, the state requires plans to notify the Department of Managed Care if tangible net equity dips below 130% of the minimum tangible net equity required under state regulations. *See* CCR §1300.84.3; §1300.76. As of September 30, 2008, the latest figures publicly available, BS CA had tangible net equity at 937% of required tangible net equity.

	2008 Revenues	2008 Surplus	2008 Community Benefits	RBC Ratio		
				2008	2007	2006
Excellus (New York)	$5 billion	$858 million	• $6 million to local cancer center. • Excellus reported contributions of "tens of millions of dollars to a wide range of local nonprofits," including a mobile clinic and dental/medical clinic support.[15] • $185 million in hospital surcharges for indigent care and graduate medical education, no tax offset.	472%	643%	664%
Heath Care Service Corp. (BCBS of Illinois, Texas, Oklahoma, and New Mexico)	$16 billion	$6.1 billion	Total expenditures N/A • Paid $3.5 million to charities as part of a settlement with the Texas Attorney General. • Additional charitable giving to disease associations, children's, arts, and other community groups, and, to a lesser extent, support for clinics and mobile health vans. • High risk pool assessment, offset only in New Mexico.	1032%	1143%	1086%
Highmark, Inc. (Pennsylvania)	$5.8 billion	$3.1 billion	• $61 million to state safety net plans. • $42.6 million in subsidies for low income plans, including CHIP and guarantee issue individual plans. • $6.4 million in grants to for community health initiatives, such as health screenings, flu shots, and chronic disease support. [16] • $20 million to Highmark Foundation (part of a 5-year $100 million donation) to promote positive behaviors in children and teens. • Highmark Foundation paid $10.2 million in funding for the children's positive behavior program, medical and dental clinic support, and other wellness programs.	636%	734%	714%

[15] Exact amounts were not available before completion of our study.

[16] Highmark contributed a total of $110 million in community reinvestments in 2008 under the six-year Community Health Reinvestment Agreement between Highmark and the Pennsylvania Department of Insurance. *See* http://www.ins.state.pa.us.

	2008 Revenues	2008 Surplus	2008 Community Benefits	RBC Ratio		
				2008	2007	2006
Horizon Healthcare Services, Inc. (New Jersey)	$5.1 billion	$1.4 billion	• $2.4 million in direct contributions to non-profits. • Horizon Foundation for New Jersey gave $6.5 million to health and arts programs, including $2.5 million to 18 community health centers for underserved residents.	543%	665%	702%
Premera BC (Washington and Alaska)	$2.5 billion	$672 million	• $1.1 million to American Diabetes Assoc., March of Dimes, and four community programs for the uninsured. • $10.5 million assessment to high risk pool, no tax offset.	662%	814%	807%