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Preserve CareFirst's reserve fund

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The hard feelings between **CareFirst BlueCross BlueShield** and Washington, D.C., community activists and lawmakers are rooted in the health insurer's failed attempt to convert and sell more than five years ago.

But the latest attempt to force CareFirst to contribute more to charitable programs in D.C. could impair the company's ability to compete with its for-profit competitors and buttress itself against the roiling financial storm.

D.C. council members and activists have tried to squeeze more money out of CareFirst since Maryland regulators blocked its proposed conversion and sale to **WellPoint Health Networks Inc.** in 2003. Legislation pending in D.C.'s City Council would require CareFirst, which already pays a percentage of its HMO and overall premium revenue to the District, to fork over more money in taxes. The change could cost CareFirst as much as $100 million a year.

As a nonprofit health insurer covering about 55,000 D.C. residents, CareFirst is responsible for helping to fund charitable health programs in the District and other jurisdictions in which it does business. That is an unquestionable mission CareFirst says it understands and is fulfilling, despite claims from some D.C. lawmakers that the company is boosting its reserve cash to attract another merger partner.

CareFirst's D.C. affiliate has about $750 million in reserve — money set aside to cover catastrophic claims and pay for capital improvements. CareFirst plans to use about $300 million of its reserves to pay for upgrades to its information technology and claims-processing systems that are long overdue.

But D.C. lawmakers also want to impose a cap on the amount of money CareFirst can hold in reserve, with the assumption being the company would contribute more of its excess cash to charitable programs in the District.

That thinking is flawed, and the timing is dangerous to the region's largest health insurer. Because nonprofit health insurers cannot sell stock to raise cash, a raid on CareFirst's reserve fund could force the company to increase insurance premiums for many of its 3.3 million members, including those in D.C. The domino effect of such a move could prompt some small-business owners to drop health coverage for their employees, which could increase the ranks of the uninsured.

Meanwhile, now is not the time to arbitrarily limit how much cash an insurance company can keep in its piggybank. The credit crunch is not going anywhere soon, and the ripple effects of tightened lending practices could hit CareFirst's bottom line.

There may come a day when CareFirst needs every bit of the $1.2 billion it holds in reserve among its D.C. and Maryland affiliates. Just ask some battered Wall Street executives.