

## Budget technicalities could sink Blue Cross rate hike

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By Jay Greene

At the heart of independent hearing officer David Lick's recommendation to deny a 24 percent rate increase proposed by Blue Cross Blue Shield of Michigan is a fundamental disagreement between Lick and Blue Cross on what are appropriate levels of administrative expenses and the amount that should be reserved for future claims and benefits.

If Lick is correct in his interpretation of state laws, Blue Cross' rate increase request has been fattened by excessive overhead expenses and rainy day-type reserve funds.

In his recommendation issued last week, Lick, a Lansing attorney who was appointed by state Insurance Commissioner Ken Ross, found that Blue Cross' rate increase for individuals should be lowered by using its \$2.6 billion surplus, which he deemed excessive. He did not specify how much the rates should be lowered.

Attorney Joe Aoun, who represented subscriber Ghada Abraham in challenging the rate increase, called the decision a "huge victory for subscribers" and said he hoped Ross would concur.

Ross, who has until July 14 to make a final decision on the rate increase request, could accept Lick's proposal, reject it or modify it. Blue Cross and Aoun are expected to submit written comments.

"Blue Cross' position is that we can spend as much as we want as long as we don't exceed the statutory (limits)," Aoun said. "The hearing officer recognized that the Blues' surplus is excessive and it needs to consider its surplus level when it establishes a rate increase."

Blue Cross media relations director Helen Stojic expressed disappointment and some criticism with Lick's finding, but said the company will withhold further comment at this time.

"We are glad the hearing officer agreed that the annual medical (expense) trend of 10.9 percent is a major factor in determining rates," said Stojic.

In his recommendation, Lick spelled out several disagreements - based on his interpretation of state laws - with how Blue Cross calculated its proposed rate increase.

Lick said that the 10 percent administrative expense Blue Cross used to calculate its rate increase is too high and should be set at 3 percent. He added that Blue Cross previously had reported a 4.5 percent annual growth in administrative expenses, which typically include executive and staff salaries, employee benefits and other overhead costs.

In the hearing, Blue Cross officials acknowledged its 10 percent administrative expense was higher than in previous years. Officials said the company spent a large amount of money in 2006 on a computer system to accept online applications and on other Web-related improvements.

Lick also took issue with the amount of reserves Blue Cross set aside for future claims that are "incurred but not reported." Blue Cross' rate increase included a 10 percent rate for those claims, but Lick said 5 percent is more appropriate based on the size of Blue Cross' surplus and its ability to absorb unexpected claims.

In addition, Lick indicated that he felt Blue Cross has set aside too much money to cover potential premium deficiencies. Health insurers are required to establish a fund for premium deficiency reserves to ensure future benefits will be paid.

Lick said Blue Cross inappropriately used a three-year projection to set its deficiency reserve amount instead of the more common one-year projection. This incorrectly increased the size of the fund, he said.

Blue Cross said it projected the deficiency reserve over three years because it had lost \$52 million on its nongroup business line from 1997 to 2006.

Instead of setting aside these higher reserve numbers, Blue Cross could use that money to lower its rate increase, Lick said.

“To the extent that the reserve is overstated, almost all of the overstatement will be returned to the groups in the form of rate credits,” Lick wrote.

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