

Cox sues Blue Cross over insurance company purchase

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By Jay Greene

Attorney General Michael Cox announced Wednesday he will file a lawsuit against Blue Cross Blue Shield of Michigan over its use of subscriber premiums to purchase an out-of-state insurance company for its for-profit subsidiary, the Accident Fund Insurance Co. of America.

Cox said Blue Cross violated state laws — Public Act 350 — in using subscriber premiums to purchase CWI Holdings Inc., the parent company of CompWest Insurance Co. of California in November 2007.

“Michigan law prohibits Blue Cross from purchasing a for-profit workers’ compensation company other than the Accident Fund,” Cox said in a statement. “And if Blue Cross does transfer subscriber money to the Accident Fund, it must be in the form of a loan, not a gift that is never repaid.”

At a Lansing press conference, Cox said he will try to force Blue Cross to divest CompWest and force Michigan’s largest health insurer to recover the \$125 million of subscriber funds it improperly transferred to the Accident Fund. The Accident Fund purchased CompWest for \$127 million.

Helen Stojic, Blue Cross’ media relations director, was not immediately available for a comment but previously has said the purchases were well within all applicable state laws and regulations.

Last month, State Insurance Commissioner Ken Ross issued a statement that approved the transfer of Blue Cross funds to the Accident Fund for the purpose of purchasing CompWest.

Cox’s three-count lawsuit charges that Blue Cross violated Public Act 350, improperly contributed funds to the Accident Fund and breached the terms of the purchase agreement that allowed Blue Cross to acquire the Accident Fund from the state in 1993.

“Subscriber funds were used so Blue Cross could purchase a for-profit company,” Cox said. “And consumers, the sick and the elderly have paid higher premiums because funds that could have been used to lower their costs were diverted for this purchase.”

From 2003 through 2007, Blue Cross’s individual premium rates have increased 79 percent while group conversion premium rates have risen 92 percent, Cox said his investigation determined. During that same general period, Blue Cross’ surplus has more than doubled in value to \$2.8 billion in 2006 from \$1.3 billion in 2001, Cox said.

“Michigan consumers are being squeezed by high gas prices, mortgage foreclosures and high unemployment rates,” Cox said. “They shouldn’t also have to pay higher health care premiums so Blue Cross can go on a spending spree and grab up for-profit insurance companies.”

Cox said his investigation grew out of allegations made about the Blue Cross purchases made at a hearing in April before the state Senate Health Policy Committee. Several executives at competing insurance companies had questioned the Blue Cross purchases.

Since 2005, the Blues have purchased more than five insurance companies, including M-Care and M-CAID from the University of Michigan for \$229 million and United Wisconsin Insurance Co. for \$96 million.

Cox did not address other acquisitions that Blue Cross has made.