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## Blue Cross is accused of price-fixing scheme

Feds, Cox: Competitors were forced to pay more

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Millions of Michigan consumers have paid higher health insurance premiums over the last three years because Blue Cross Blue Shield of Michigan forced at least 70 hospitals statewide to charge its competitors more, according to a lawsuit filed Monday by the U.S. Justice Department and Michigan Attorney General Mike Cox.

The antitrust lawsuit alleges that Blue Cross -- the state's largest insurer -- used its muscle and size to negotiate deep discounts for itself.

The hospitals include Beaumont Hospitals, St. John Providence Health System and Botsford Hospital. The lawsuit alleges that the practice drove up prices for competitors such as Health Alliance Plan, one of the state's biggest health maintenance organizations, and at-large private insurers such as Aetna and Humana.

In some cases, Blue Cross paid hospitals more than what was proposed to close the deal, the Justice Department alleges. If it prevails, other insurers and their customers might get better deals on hospital prices.

In a statement, Blue Cross spokesman Andrew Hetzel said the insurer's negotiated discounts keep costs reasonable for its members. He said the lawsuit was "without merit."

The Justice Department has won five similar cases since 1994 in Ohio, Rhode Island, Oregon, Washington, D.C., and Arizona.

## Suit against Blue Cross could have significant repercussions

Blue Cross Blue Shield of Michigan was so eager to crush the competition that it sometimes paid even more than it proposed if a hospital agreed to charge other insurance companies much higher prices, state and federal attorneys charged Monday in a lawsuit filed in Detroit's federal court.

Beaumont Hospitals, a three-hospital system based in Royal Oak, for example, charged Blue Cross competitors at least 25% more than it charged the Blues. The same happened at all of the Detroit-area hospitals in the St. John Providence Health System and more than 65 others around the state.

Michigan insurance industry leaders say the lawsuit could have a major impact on hospital service pricing.

The lawsuit "clearly identifies an issue that appears to have been impeding other carriers to compete," said Rick Murdock, executive director of the Michigan Association of Health Plans, which represents several dozen health plans in the state. "The association always has stood for creating affordable health care policies and a level playing field."

The U.S. Justice Department and Michigan Attorney General Mike Cox allege Blue Cross has been wielding its influence with more than half of the state's hospitals since 2007, when it started offering most-favored nation clauses, which gives preferential treatment to certain hospitals. They are seeking an injunction.

Blues spokesman Andrew Hetzel said the deals date back years to when the company was created by the state's Legislature to help companies and consumers pay for costly hospital and doctor bills. "The Blues delivers billions in savings to its customers" as a result, Hetzel said.

He said the lawsuit would "deny millions of Michigan residents the lowest cost possible when they visit the hospital."

Blue Cross, with 4.1 million customers, is the state's largest insurance company. It provides coverage for nearly half of all of the people in the state with insurance, either through work or self purchases. The company has \$3 billion in reserves, which is within the range allowed by state law and within industry standards.

Critics say Blue Cross has not passed enough of its discounts on to its customers, choosing instead to add to its reserve fund, contribute to political campaigns or give big paychecks to its top executives. At the same time, they have sought rate hikes, critics say.

"All they do is claim poverty," said Larry Barnett, 55, of Southfield, who pays \$340 a month for what he calls a bare-bones Blues policy. Barnett has called and written the state's insurance commissioner repeatedly since 2007 complaining about rate hikes. He said his policy has been increased 25% in nearly five years. He wishes more of the discounts were passed to customers, he said.

Joe Aoun, an Ann Arbor attorney who led an unsuccessful challenge in 2007 to a Blue Cross rate hike for 189,000 individual customers, said the rate hikes the Blues have sought for more than three years for both its Medigap and individual plans shows that the negotiated deals don't help control costs.

"The Blues cannot hide behind the argument that this type of clause helps control costs," Aoun said. "If that were the case, premiums would not be increasing by double digits and the Blues would not be sitting on \$3 billion in surplus."

Blue Cross argues that because it is the only insurer in the state that must accept all applicants, it is stuck with finding ways to provide care for some of the sicker people in Michigan. Rate hikes it has sought follow years of keeping premiums low and big increases in medical care, the company said.

Nearly 70 Michigan hospitals cooperated in the investigation. But when reached for comment, Beaumont Hospitals, Sparrow Hospital in Lansing and St. John Providence Health System in Warren all declined comment, saying only they provided some information to state and federal investigators.

Health Alliance Plan, a major Detroit-area competitor of the Blues, referred calls to the Michigan Association of Health Plans, which represents health maintenance organizations like HAP in the state.

If the suit prevails, hospitals will have to look at how they shift costs to pay for care, an issue that's coming with federal health reforms that aim to create a public, accountable system to track prices, Murdock said. "It could have major repercussions."

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### About the Blues

Blue Cross Blue Shield of Michigan was created by a 1939 state law to offer companies and consumers a way to pay doctor and hospital bills. It started with a \$10,000 loan from the Michigan State Medical Society and operated in space provided by the state's hospital association. It had 175,000 members within a year of opening.

Blue Cross is the state's insurer of last resort â€” meaning it must accept all applicants, though it can require people with pre-existing health problems to wait six months for coverage for those conditions.

The insurer, like other health plans, signs contracts with hospitals and doctors offices to provide care at negotiated rates.

Blue Cross has grown to 4.1 million members, nearly half of all people in the state who buy insurance. But its more than \$3-billion surplus and purchases the company and its subsidiaries have made for other insurance companies have raised scrutiny of its business practices.

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