MODERNIZATION OF BLUE CROSS BLUE SHIELD
OVERVIEW
September 11, 2012

Key Points

- It's time to bring Michigan's health care regulation into the 21st century. Gov. Snyder's plan will do that by promoting good public health and ensuring that every resident – especially kids and seniors – has access to quality, affordable care.
- The governor's Special Message on Health & Wellness in September 2011 pointed out how critical this is to Michigan's reinvention.
- This sweeping plan overhauls the way in which Blue Cross Blue Shield of Michigan – the state's largest health insurance provider – is regulated. The health care market has changed substantially since Blue Cross' enabling statute (Public Act 350) was written 32 years ago.
- The governor and his legislative partners are acting prudently to continually review the regulatory landscape and modernize Michigan laws as appropriate.
- Blue Cross will be transitioned into a nonprofit mutual company, as is the case in 18 other states. It will be regulated under the state Insurance Code just like other insurers. It also will pay taxes like other insurers. In fact, Blue Cross will pay an estimated $100 million a year in additional tax revenue to the state and local governments.
- The plan creates a nonprofit entity to focus on improving the health status of Michiganders. The entity will be funded by a contribution of about $1.5 billion from Blue Cross over the next 18 years. This is an *unprecedented investment* in the health of Michigan families. The entity will be governed by an independent board of directors.
- One of the original goals of PA 350 was to make Blue Cross the safety net for people who couldn't get health coverage elsewhere. Blue Cross will continue serving as Michigan's insurance "carrier of last resort" until Jan. 1, 2014, when it is anticipated that new federal laws take effect requiring all insurance companies to provide coverage regardless of a person's health status.
- Specifically, the governor's plan moves Michigan forward by:
    - Leveling the playing field so all insurers play by the same rules. Bringing fairness and balance to the marketplace reduces health care costs, improves quality and gives customers more choices.
    - Keeping the ownership of Blue Cross in Michigan and allowing the company to grow to meet market demands, creating jobs and investment in the state.
    - Protecting seniors by freezing "Medigap" coverage rates for 4 years.
    - Eliminating the tax of over $200 million a year on Blue Cross' small businesses and individual customers that subsidizes higher-cost insurance products.
    - Maintaining the company's nonprofit social mission, focusing on improving quality and access to affordable health care.
- The governor's plan requires approval by the Legislature and the Blue Cross board of directors.

Summary of Governor's Proposal

- Overhauls Michigan's 32-year-old insurance regulation to create an efficient regulatory environment and a modern, competitive marketplace for the state.
- Transitions Blue Cross into a nonprofit mutual so it can be regulated more consistently with other insurers and pursue its public mission more effectively.
    - Blue Cross will be owned by policyholders and will be prohibited from converting to a for-profit company.
    - There are 11 Blue Cross plans in 18 states that operate as mutual insurance companies.
- Requires Blue Cross to contribute about $1.5 billion over 18 years to fund initiatives that improve health and increase access to health care for Michigan residents.
- Eliminates the tax of over $200 million a year on Blue Cross' small businesses and individual customers that subsidizes higher-cost insurance products.
- Requires the company to be the insurance "carrier of last resort" until Jan. 1, 2014, when federal laws are expected to take effect.
- Freezes "Medigap" coverage rates for seniors for 4 years.

Impact of Federal Affordable Care Act (ACA)

- The future of federal health reform remains unclear. However, that doesn't mean Michigan should do nothing.
- Regardless of whether some parts of the ACA go into effect in 2014, Michigan needs a modern and efficient regulatory structure to keep pace with inevitable changes to the insurance markets and to promote competition.
- The governor's plan keeps Michigan moving forward by updating antiquated laws and creating regulatory uniformity.

Impact of PA 350

- Opinions vary on the merits of PA 350. Some contend it gives Blue Cross a huge market advantage because it doesn't pay taxes. Others believe that burden far outweighs the advantages.
- Our position is that we should eliminate the ambiguity and make Blue Cross compete just like everyone else. The current business model is outdated and no longer sustainable.
- Rather than making incremental updates to the antiquated PA 350, we're making Blue Cross subject to the same laws that other insurers follow. It streamlines administrative work for the state and increases competition by leveling the playing field.

Key Facts on Blue Cross Blue Shield of Michigan

- Blue Cross was founded in 1939. It is Michigan's largest health insurer, covering 4.4 million people.
- The company has 7,000 employees with a focus on urban centers – Detroit, Grand Rapids and Lansing.
- In 2011, Blue Cross processed 84 million claims. It also paid $18.2 billion in claims, which equates to over $50 million a day.

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