BCBS Florida

New Strength In The Shield

BY ROSALIND RESNICK

Throughout the nation, Blue Cross/Blue Shield plans are reeling from allegations of waste, fraud and mismanagement. To the contrary in Florida.

In the six years since FLORIDA TREND wrote about the Jacksonville company's late and somewhat bungled entry into managed care – a move that resulted in $118 million in losses in 1987 and 1988, Blue Cross/Blue Shield has nursed itself back to health. In addition to becoming a $1.33 billion (revenues) health insurance and managed care powerhouse, Blue Cross/Blue Shield has since become the most-profitable, second-strongest (net worth) and third-largest (in membership) HMO operator in the state. So much is going for Blue Cross/Blue Shield these days that its own brush with so-called fraud and mismanagement – a four-year federal investigation into a $200 million backlog in Medicare claims processing – is on the verge of being resolved in Blue Cross/Blue Shield's favor.

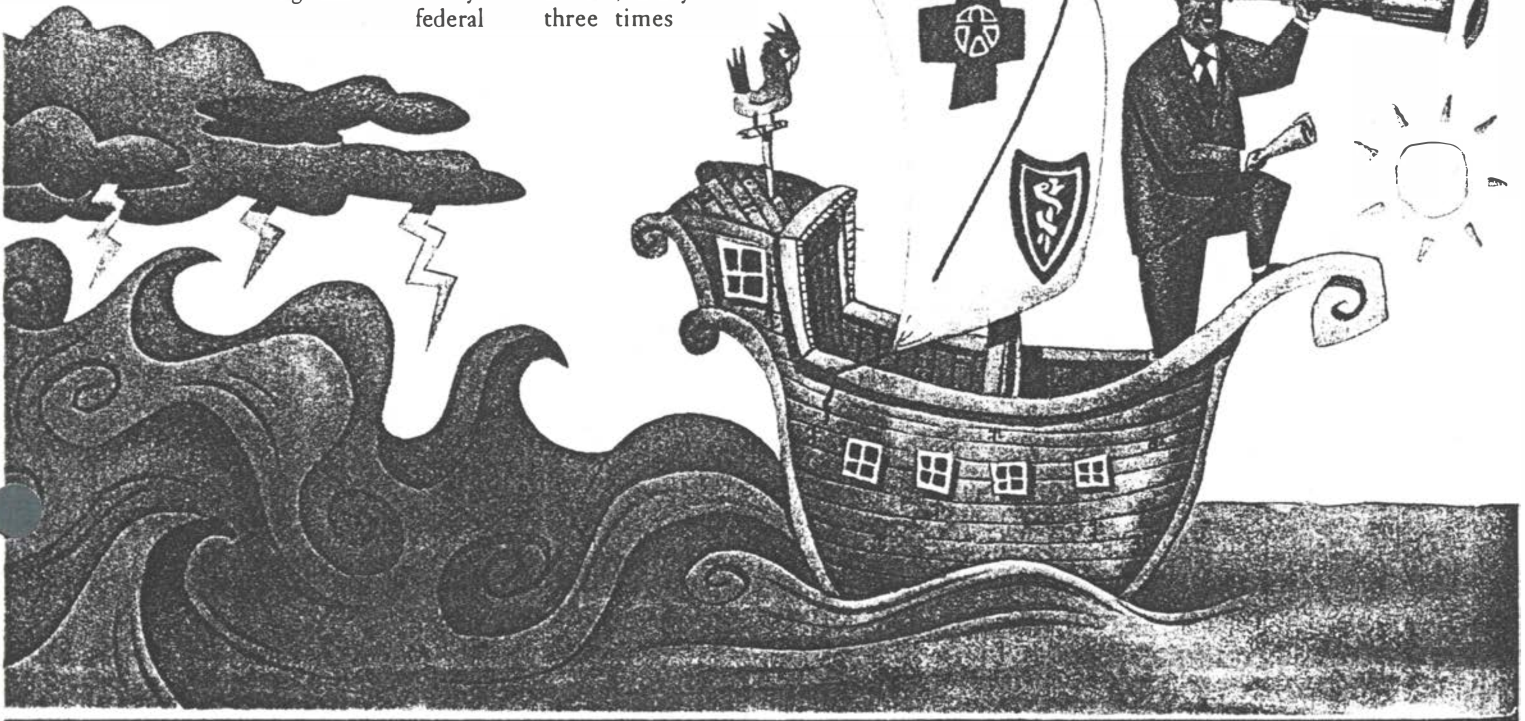
These days, even longtime skeptics such as the Florida Department of Insurance are singing the praises of Blue Cross/Blue Shield and forecasting even better times as the company readies for state and national health care reforms.

The numbers tell the story: Blue Cross/Blue Shield's 1992 net income of $53.4 million marked an 18.8% gain over 1991. That was driven primarily by a 71% jump in income at Health Options Inc., Blue Cross/Blue Shield's HMO. And for the six months ending June 30, Blue Cross/Blue Shield has increased its capital surplus (net worth) 25% to $260.6 million, nearly three times the amount the company had in the dark days of 1988 and more than 15 times what state regulators require.

"This is the kind of financial statement that you dream about," says John Black, head of the Department of Insurance's bureau of life and health insurer solvency, in a recent interview in his Tallahassee office.

For those who watched Blue Cross/Blue Shield of Florida struggle in the 1980s, the company's rebound is remarkable. Throughout that decade, the big insurer skinned its knees again and again as its tough CEO, William Flaherty, began remaking and restructuring the company – from a slow-moving traditional health insurer into a competitor in the fast-growing managed health care business.

At one point in the process it even



After surviving a decade of upheaval, Blue Cross and Blue Shield of Florida appears finally on course and readying for the Brave New World of health care.

looked as though the big Jacksonville insurer might be headed for the casualty list. For despite being Florida's largest health insurer, it had become regarded as one of the weakest organizations in the national Blue Cross/Blue Shield network. It had lost 200,000 customers in a six-year period prior to 1986, and its entry into the HMO business took much longer than Flaherty had expected. Even though it had begun marketing HMO services in Dade County, Tallahassee and Jacksonville in the early 1980s, by the time it introduced Health Options to Orlando, Tampa and Broward County, competitors had already snatched sizable chunks of the market.

And then when it did enter those markets, to win customers Blue Cross/Blue Shield tried to match its rivals' low-ball rates – a decision that cost the company dearly. Losses at Health Options were so heavy in 1987 that Blue Cross/Blue Shield pumped $75 million into the struggling HMO. That, in turn, took its toll on the parent company. Blue Cross/Blue Shield's capital and surplus shrank by nearly a third, setting off alarm bells at the Florida Department of Insurance.

Flaherty responded by scuttling Health Options' low-ball pricing strategy and hiked the HMOs rates by 30% – in some locations as high as 50%. Health Options also put in place a series of cost controls, including ousting from its physician network specialists who ran up high bills.

Predictably, the new strategy met some resistance. In 1988, just two years after winning the lucrative Broward County School System contract, Blue Cross/Blue Shield lost the $31.6 million contract to Humana, the low bidder. By the time the year ended, Blue Cross/Blue Shield had lost $51.6 million on revenues of $1.2 billion – that was on top of the previous year's $66.4 million loss.

The following year, Flaherty's strategy began to pay off. With higher rates and costs finally coming under control in its Health Options HMO, Blue Cross/Blue Shield produced a dramatic turnaround in fiscal 1989 – net income of $35.4 million on revenues of $1.3 billion.

But just as Flaherty was getting Health Options on track, Blue Cross/Blue Shield stumbled again: A barrage of complaints in mid-1989 about unpaid Medicare claims in Florida sparked a federal investigation of Blue Cross/Blue Shield, the Florida administrator for Medicare claims processing. Early in the probe it was reported that Blue Cross/Blue Shield at one time had a backlog of 2.7 million claims worth some $200 million. A corporate whistleblower also alleged that, to reduce the backlog, Blue Cross/Blue Shield created false prescriptions, erased thousands of claims from its computers and overcharged the government. In 1991, the whistleblower, Theresa Burr, a former employee, turned her allegations into a civil suit against Blue Cross/Blue Shield. And last year, the U.S. Justice Department joined Burr's civil suit and said it was considering filing criminal charges against the Jacksonville insurer.

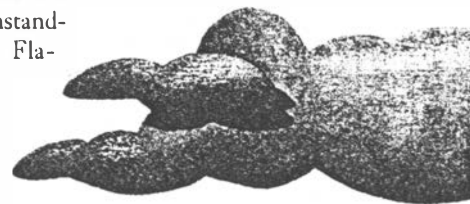
All the while, Blue Cross/Blue Shield denied wrongdoing and attributed the backlog to a faulty computer system bought from GTE Data Services in Tampa.

This past August, after more than two years of uncertainty, Blue Cross/Blue Shield received word the U.S. Attorney's office had decided not to file criminal charges. In addition, the government agreed to drop its civil suit against the company in exchange for payment of a $10 million fine and no acknowledgement of liability. The amount of the settlement still must be approved by the federal district court in Jacksonville. Moreover, Burr is contesting the settlement, arguing in court documents for a penalty that could be as high as $500 million. "To me, settling this case for $10 million is saying that nothing ever happened," Burr says. She says she will decide whether to pursue her case further once the court issues its ruling.

Ironically, Blue Cross/Blue Shield stands to make money from the Medicare controversy: GTE Data Services has agreed to pay Blue Cross/Blue Shield $9.5 million in damages in addition to $2 million already assessed for the computer's poor performance. In addition, the federal Health Care Financing Administration has agreed to reimburse $4 million to Blue Cross/Blue Shield for added administrative expenses the company incurred because of the computer system's difficulties. HCFA says the settlement will have no impact on Blue Cross/Blue Shield's continued role as Florida's Medicare claims processor.

In an internal memo dated August 5, Flaherty stated that Blue Cross/Blue Shield decided to settle the suit to avoid the cost of continued litigation. Flaherty declined to be interviewed.

The federal probe notwithstanding, Fla-



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herty in the meantime has continued to improve Blue Cross/Blue Shield's performance the past three years – primarily by growing the company's two HMOs, Health Options and, to a lesser extent, Tallahassee-based Capital Group Health Services Of Florida ($60 million in 1992 revenues).

Since disastrous 1988, Health Options has been increasing revenues at the rate of about 14% a year. Last year alone, revenues spiked up nearly 28%, to $343.3 million, thanks to a 42% increase in Medicare revenues and 24% increase in commercial membership revenues.

Such growth becomes particularly noteworthy when you consider: 1) the company's two HMOs contributed 73% of Blue Cross/Blue Shield's $53.4 million in net income last year; and 2) total revenues essentially have been flat since 1989. In other words, even though Blue Cross/Blue Shield's traditional indemnity business and management contracts with the state and federal governments still contribute 60% of the company's revenues, their share of the business is shrinking. The future obviously points to HMOs – and knowing how to manage them.

And Blue Cross/Blue Shield has apparently figured that out – that is, how to manage its HMOs. Indeed, when you compare the state's Big Three HMOs – Humana Medical Plan ($1.28 billion in 1992 revenues), Health Options and Av-Med Health Plan ($304.6 million in 1992 revenues) – on efficiency measures, Health Options scores favorably. Some of its expense ratios remain slightly above its peers and industry averages (i.e. administrative and physician expenses, respectively), but competitors say Health Options has implemented a number of cost-control measures in the past two years and continues to look for more efficiency gains. As a percent of total expenses, for example, Health Options' physician expenses (31%) are the lowest among the Big Three, a sign of close scrutiny of its doctors' expenses.

Blue Cross/Blue Shield

Fiscal year ended December 31, 1992

Headquarters	Jacksonville
Revenues	$1,376,000,000
Net Income	53,429,000
Total Assets	841,955,000
Total Liabilities	633,235,000
Capital & Surplus (Equity)	208,720,000

Source: Florida Department of Insurance

William Flaherty: With a large customer base and a strong HMO, Blue Cross' CEO has the company positioned for the future.

Of course, improved efficiencies should only bode well for Blue Cross/Blue Shield's survival in the Brave New World of Bill Clinton and Gov. Lawton Chiles' health reforms. As most health insurers see it, if Clinton's reforms are enacted, traditional indemnity insurance will be priced out of reach, leaving only managed care plans and managed care providers (see below). And the winners in that crowd will be few – the lowest-cost, most-efficient and probably the largest providers.

Is Blue Cross/Blue Shield guaranteed a place at the table? Put it this way: As holder of the second-largest share of Florida's HMO market (about 12.5%) and a huge customer base ripe for conversion to managed care, there's every reason to expect Blue Cross/Blue Shield to be a major player in the future. If CEO Flaherty is still standing after the bruisings Blue Cross/Blue Shield has taken in the past decade, and he is, he's likely to survive whatever Clinton, Congress and Chiles throw at him next. ❑

HEALTH CARE

Blue Cross On The Clinton Plan: Not

With its experience as a manager of health maintenance organizations, Blue Cross/Blue Shield of Florida is the sort of large- scale health care insurer/provider that is supposed to prosper under the Clinton health care plan at the expense of private practice and traditional indemnity plans. And sure enough, when Blue Cross/Blue Shield offered its reaction to the Clinton health care proposals in a press release in September, the Jacksonville-based insurer diplomatically stated it "applauds President and Mrs. Clinton for putting health care reform at the top of the national agenda." It also specifically endorsed the Clinton plan's call for universal coverage.

But it is perhaps revealing of the political battles ahead that the press release went on to blast nearly every particular of the Clinton plan, starting with its mandate on employers.

"The employer mandate to provide insurance outlined in the Clinton proposal would harm Florida's economy," Blue Cross/Blue Shield says. "Businesses with slim profit margins would be forced to cut wages or jobs to pay for the government-mandated health coverage. Many may simply go out of business."

For Blue Cross/Blue Shield to take this position is like Lee Iaccoca taking exception to a government mandate to Buy American. When even Blue Cross Chief Executive Officer William Flaherty admits mandated purchase of the product line he sells is not in the public interest, how much support can you expect from other Florida businesses?

That's not the only quarrel Blue Cross/Blue Shield has with the Clinton plan. It also criticizes Clinton's call for premium caps and global budgets. And it politely points out that the administration's expected savings from Medicare and Medicaid "cannot be achieved without adversely affecting Florida's senior citizens."

Like many other Florida companies, Blue Cross/Blue Shield wants to give Florida's own health care reforms – adopted last spring by the Legislature – a chance to work before Washington once again applies its one-size-fits-all solutions to local problems. ❑

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