

Blue Shield's proposed acquisition of Care1st faces tough scrutiny



Note: The stipulated court order resulting from Blue Shield's lawsuit over my whistleblowing prohibits me from mentioning certain public information about Blue Shield. As a result, I had to redact certain information from this article before presenting it.

Paul Markovich, CEO of Blue Shield of California, speaks during a hearing held by the California Department of Managed Health Care about the insurer's proposed acquisition of Care1st Health Plan. (Steve Yeater / Associated Press)

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REPORTING FROM SACRAMENTO — A top California regulator vowed a “deep dive” into a \$1.2-billion acquisition proposed by Blue Shield of California amid criticism that the nonprofit insurer is shortchanging the public.

Shelley Rouillard, director of the state Department of Managed Health Care, signaled tough scrutiny ahead for Blue Shield's proposed purchase of Medicaid insurer Care1st

Health Plan at a hearing she held Monday at the request of several consumer groups.

Paul Markovich, Blue Shield's chief executive, defended the proposed purchase of the Monterey Park insurer as a boon for some of California's poorest patients on Medi-Cal and fired back at his company's foes for spreading misinformation.

The public debate over Blue Shield has intensified ever since the Los Angeles Times reported in March that the California Franchise Tax Board had revoked the company's exemption from state income taxes in August 2014 after a lengthy audit.

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Neither the tax board nor Blue Shield will disclose details of the audit or the reasons for the revocation. The San Francisco insurer is protesting the tax ruling, and said it plans to remain a nonprofit regardless of the outcome.

Blue Shield pays federal income taxes and estimates that it will pay about \$26 million annually into the state's coffers without its exemption. The company is the state's third-largest health insurer, with about 3.3 million customers and \$13.6 billion in revenue last year.

One of the biggest debates Monday was whether some portion of Blue Shield's \$4.2 billion in reserves is subject to charitable trust obligations. If it is, that could limit how the company can use the money to acquire Care1st.

The issue stems from whether Blue Shield, as a nonprofit mutual benefit corporation, has some obligation or duty to the wider public and whether some of its assets built up since its founding in 1939 are public assets.

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Anthony Wright, executive director of Health Access, said a nonprofit insurer such as Blue Shield could use its excess reserves to drive down premiums for consumers statewide or to better serve patients or geographic areas that are historically neglected, rather than buy Care1st.

“We understand why this benefits Blue Shield. It gives them a major increase in the market share of Medi-Cal,” Wright said. “It’s imperative for the Department of Managed Health Care to make sure this benefits the public and patients.”

Rouillard said the question of whether Blue Shield has a charitable trust obligation is unresolved in her mind and marks one part of a very complex transaction.

“I have not yet determined whether Blue Shield has assets subject to a charitable trust obligation,” she said. “We will do a deep dive into as much information as we can.”

State officials haven’t given a timetable for when they will reach a decision. Blue Shield announced the deal in December and had expected to complete the acquisition this year.

Markovich pushed back on the notion that Blue Shield had any links to a charity. Instead, the company emphasized that it is set up as a nonprofit mutual benefit corporation that serves its members or policyholders and cannot have any charitable or public obligation.

“Blue Shield’s social welfare mission is to ensure quality, affordable care for all Californians,” he said, sharing the auditorium stage with Rouillard. “It will bring great benefit to the public when we fulfill it, but it does not make us a public

charity.... Blue Shield is not and never was a public charity.”

Markovich also sought to dismiss any speculation that Blue Shield wants to become a for-profit health insurer. He likened the idea to fictional sightings of Bigfoot and the Loch Ness monster, eliciting some laughs from the audience.

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Some of the toughest criticism at the hearing came from one of Blue Shield’s former executives, Michael Johnson.

The company’s former public policy director told regulators that Blue Shield isn’t being honest with state officials. He said Blue Shield told the Franchise Tax Board it

Blue Shield denied that charge Monday, saying it has consistently described its obligations to members.

During the public testimony, several medical providers and health policy experts expressed support for Blue Shield buying Care1st and serving Medi-Cal patients for the first time. Rouillard said she too welcomed that aspect of the deal.

Care1st serves about 500,000 patients, most of them Medi-Cal members in Los Angeles and San Diego counties.

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