



April 29, 2009

Board paid as Blues slumps

They make \$1.54 million despite \$144-million loss

*BY PATRICIA ANSTETT
FREE PRESS MEDICAL WRITER*

The same year that Blue Cross Blue Shield of Michigan lost \$144.9 million leading to a move to raise rates, it paid more than \$1.54 million to 34 board members, according to a Free Press review of the insurer's financial records.

Board compensation is a controversial practice under growing scrutiny during the recession, with many businesses cutting the pay. Rhode Island banned board pay for its Blue Cross group, and Michigan Attorney General Mike Cox wants the Legislature to review Blue Cross board pay.

"Blue Cross customers are right to question higher rates when leaders at the Blues' companies are still pulling in big paychecks," Cox said. "As the Legislature studies health care reforms, it certainly should consider reviewing Blue Cross' director compensation in comparison with other nonprofits, many of which do not pay directors at all."

Blue Cross is scheduled to hold its annual meeting today in Detroit.

Blue Cross Chairman Gregory Sudderth of Gladstone was paid the most among board members in 2008, receiving a total of \$140,848 from Blue Cross, Blue Care Network and the Accident Fund, a Blue Cross for-profit workers' compensation firm.

Michigan Blue Cross spokesman Andy Hetzel said the board froze its compensation rates for three of the last six years. Pay helps attract and retain high-quality board members, he said. "If you want something for nothing, you get what you pay for."

See more on the board, what its members were paid, and how it compares to other boards:

- [Blue Cross Blue Shield of Michigan, Board of Directors](#)
- [Blue Cross Board member compensation from elsewhere](#)
- [Board pay at non-profit, for-profit health plans](#)
- [Board compensation policies and board size at other companies, 2008](#)

Board pay a lightning rod today

Across the country, large corporations have slashed or eliminated board pay as the recession has cut profits, renewing questions of whether organizations, particularly nonprofits, should pay their board members.

Last December, as it made its case for federal help, General Motors Corp.'s 12 board members agreed to cut their pay to \$1 a year. Before that, they had made from \$83,333 to \$204,667, excluding stock and other options.

Directors at other companies, including Ford Motor Co., Security Bank, MKS Instruments and Eddie Bauer, also have agreed recently to reduce their compensation. Security Bank suspended all compensation; Ford directors gave up a \$40,000 payment but retained stock options; Eddie Bauer cut cash payments 50%, and the others reduced compensation by at least 5% to 10%.

Still, Blue Cross paid more than \$1.54 million in compensation to its 34 outside board directors in 2008,

the same year it lost \$144.9 million, according to a Free Press review of Blue Cross documents. The Free Press obtained the records from Michigan's Office of Financial and Insurance Regulation and verified them for accuracy with Blue Cross.

To offset losses, Blue Cross, a nonprofit insurer and Michigan's legally designated insurer of last resort, plans to eliminate 1,000 jobs this year and has asked the state to approve rate hikes for its individual insurance policies. If approved, rates for individual or nongroup coverage would rise 56%; 42% for those with group conversion policies that extend coverage an employer once provided them at work, and 31% for supplemental Medicare policies.

A decision is expected on June 2. If no one files a request for a hearing, it would take at least 30 days for the new rates to take effect, according to Jason Moon, spokesman for the state insurance office. Blue Cross also raised rates this month for all new individual subscribers.

The rate hikes have riled Blue Cross subscribers, including longtime policyholder Sue Fabian, a Royal Oak attorney and geriatric care manager.

"I haven't seen one iota of evidence that they are trying to make individual policies affordable," said Fabian, who just received a letter from Blue Cross saying her monthly premium is rising from \$304 to \$426 because the insurer was reducing a subsidy it used to offset some rate hikes for group conversion policies. The pending rate hike would raise Fabian's rate, on average, 42% higher.

"I feel these increases are paying the multimillion-dollar executive salaries and the board" compensation at Blue Cross, Fabian said.

Nationwide, only 3% of nonprofits compensate board members, according to 2,152 chief executive officers and board members who responded to a 2007 survey by BoardSource, a Washington, D.C., organization that works to strengthen board service among nonprofit groups.

Among nonprofits, "it's best practice to be unpaid" said Diana Kern, vice president of programs for Nonprofit Enterprise at Work, a Michigan organization that provides services to help nonprofits succeed. Among the nation's nonprofit Blue Cross organizations, board pay is common, as it is among for-profit health plans.

The exception is Rhode Island, where the Legislature in 2004 banned board compensation for Blue Cross Blue Shield of Rhode Island without the approval of the state insurance commissioner.

Nancy Schlicting, president and chief executive officer of the Henry Ford Health System, said the Ford boards, both from the hospital system and its Health Alliance Plan subsidiary, attract talented, committed people who don't expect compensation. "We find we have some high-quality people who don't require payment," she said.

Hetzel called the Blue Cross board extraordinary and said board compensation policies cannot be compared fairly to most nonprofits. Comparing a large organization like Blue Cross, which generated \$22 billion in revenue last year and serves nearly 5 million members, with smaller nonprofit health plans is like comparing "The Detroit Tigers to the Lansing Lugnuts," a minor league baseball team, he said.

"We're a large corporation that manages its business like a nonprofit without a profit margin," Hetzel said. "It's a different model than your nonprofit charity has."

As evidence of trends among similarly sized Blue Cross plans, Hetzel pointed to a January 2009 survey by Atlantic Information Services Inc., a Washington, D.C., consulting firm that monitors Blue Cross issues nationwide.

Blue Cross of Michigan ranked fifth highest in board pay in an AIS survey of 20 Blue Cross companies.

Another 2006 survey by the Council on Foundations Inc., provided by Blue Cross to the Free Press, showed that 80% of foundations with assets of \$500 million or more reimburse for expenses incurred to attend board meetings.

In other responses, Hetzel said.

- Blue Cross needs a large board to represent its diverse stakeholders.

- The Blue Cross board meets about eight times a year, and its committees as many as 90 times a year. Over the last decade, Blue Cross board meetings have been held at the Grand Hotel on Mackinac Island, Boyne Highlands and the Garland Resort, a Lewiston retreat with four golf courses. But as it pruned costs, all board meetings since last year have been held on Blue Cross properties around the state, according to Blue Cross.
- Dan Loepp, president and chief executive officer of Blue Cross, requires subsidiary board chairs to serve on the Blue Cross parent company board. He sees it as a benefit, not a conflict. "It's an effort to ensure there is continuity; that there's connectedness to the business, and that there's consistency in values between the parent company and its subsidiaries."

Moon, spokesman for state insurance commissioner Ken Ross, said the agency reviews Blue Cross board compensation each year. "The statute requires that the compensation be reasonable," Moon said in an e-mailed response. "We are continually refining our methods of analyzing the compensation."

Contact PATRICIA ANSTETT: 313-222-5021 or panstett@freepress.com

Additional Facts

Blue Cross companies

Blue Cross Blue Shield of Michigan subsidiary corporations:

- Accident Fund Insurance Company of America, Lansing-based worker's compensation company
 - Blue Care Network of Michigan, Southfield health plan
 - DenteMax, Southfield dental health plan
 - LifeSecure Holdings Corp., Brighton long-term care company
-