

Insurance Times: NY approves Empire Blues conversion to not-for-profit status
October 29, 2002, Vol. XXI No. 22

ALBANY (AP) — State regulators approved the conversion last week of Empire Blue Cross and Blue Shield to a for-profit company, with most of a \$1 billion charitable fund built up by the insurer going toward a controversial salary plan for health care workers.

Consumer groups had criticized the conversion sought by the insurer since June 1996 and approved by the state Insurance Department.

Consumer Reaction

"We're terribly disappointed," said Charles Bell of Consumers Union, which publishes Consumer Reports. The state "is attempting to seize \$1 billion or more of Empire's charitable assets to plug holes in the state budget, rather than making sure that Empire's funds are protected in a nonprofit foundation dedicated to expanding access to health coverage."

The New York City-based Empire insures more than 3 million people. Its executives had sought the conversion because they said they could not compete on an equal footing with private insurers when it came to purchasing other health companies or making other transactions.

In other states, including California, conversion of the Blues resulted in the funds built up by insurers thanks to their not-for-profit status going toward better coverage for underinsured people, said Arthur Levin of the Center for Medical Consumers based in New York City.

The state Legislature and Gov. George Pataki in January approved using \$1 billion in Empire's charitable assets to help fund a multibillion dollar supplementation of salaries for low-level employees at hospitals and other health care facilities.

Bolster Salaries

Insurance department spokeswoman Joanna Rose said 95 percent of the fund will be used to bolster health care salaries and to recruit new workers in the industry. The rest will go toward health programs, she said.

Much of the aid package was designed to help workers represented by Local 1199 of the Service Employees International Union. When the union endorsed Pataki for another term as governor two months later, critics charged that the health worker salary package was a buy-off for Local 1199's political backing. Pataki denied that there was such a deal.

Several consumer and health care advocates are suing the state over use of the \$1 billion fund. They contend that health industry salaries are not a proper application of the funds, which should be going toward public health care initiatives. The Pataki administration has countered that maintaining proper staffing in hospitals and other health care facilities is a proper use of the funds.

"It sets a terrible precedent for charitable conversions in the future," Levin said.

"How that public benefit is used is up to the state," said Empire spokeswoman Deborah Bohren. "We think the decision is fair and equitable and it's the next step in our conversion process."

She said there is no target date to finalize the conversion, but policyholders won't see any change in service.

"This will have no adverse impact on any of our members," Bohren said. "The conversion will be seamless ... it does not effect benefits, it does not effect premiums. We are still the same company."

Communication Systems

During an appearance in 1999 before state insurance regulators, Empire CEO Dr. Michael Stocker said Empire and other health providers were "racing" to establish communications networks with hospitals, doctors and patients in their service territories, a process that takes money.

"You can liken us to a bank that did not enter the ATM business in the 1980s," he said. "We need to acquire that technology."

The state's decision also requires approval by the insurance department for rate increases to policyholders of more than 10 percent and limits compensation of executives through stock holdings effected by the conversion.