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Community business

Why not-for-profit status for health plans is important

By Andy Czajkowski and Mark W. Banks, M.D.

A REPORTER FROM A national business program had called Blue Cross for an interview. His final question: What ticker symbol did Blue Cross and Blue Shield of Minnesota use for its stock? The reporter had assumed, wrongly, that Blue Cross was a for-profit, publicly traded company.

It is not an uncommon assumption, given the trend in recent years for health plans to be capitalized through the stock market. The average person on the street in Minnesota, if asked, would probably say all health plans are for-profit businesses.

That perception is perturbing, given that health care has strong not-for-profit roots and that most health care organizations are still not-for-profit. In Minnesota, state law mandates that health plans

be not-for-profit. It is important for the Minnesota public in general — and health care professionals in particular — to understand the value that not-for-profit status brings to health plans.

Public service

At the heart of the issue is whether health plans perform a public service or a private one. When the first health plan in Minnesota was formed in the 1930s, the goal was to offer affordable health care services to the public. Legislation passed in 1935 to create Blue Cross and Blue Shield of Minnesota spelled out a mission "to promote a wider, more economical and timely availability of ... health services for the people of Minnesota ... and thereby advance public health and the art and science of medical and health

care within the state."

The not-for-profit status of health plans in the state is one of the factors contributing to the recognized good health of Minnesotans. The culture of not-for-profit organizations has a positive influence on business decisions — day-to-day and long-term. That influence may be subtle, but in the long run, it has a significant effect on the health plan industry in Minnesota.

Differences

There are a variety of factors that differentiate not-for-profit from for-profit health plans. For example, the not-for-profit health plan exists to serve the best interests of its members, not shareholders. It is owned by the community and answers to the community. It has more flexibility than a for-profit to make long-term investments.

Members first. Public misconception may stem from the fact that health plans in the private sector do operate like businesses. Whether they are for-profit or not-for-profit, the balance sheet needs to show revenues greater than expenses — a "profit." The key difference is what motives drive those profits.

The first obligation of a

for-profit health plan is to produce a profit for investors. Although for-profits must serve and satisfy their member customers or risk losing business, their members are secondary to their shareholders. For that reason, for-profit health plans are quicker to cut benefits to members and payments to providers or to eliminate programs.

The profit motives of publicly traded companies should be a concern for physicians and members alike, considering that the profit margins in the industry have never been very large and for-profits must hunt to find ways to give investors a profit. Publicly traded HMOs went from annual returns averaging 32 percent between 1987 and 1995 to average returns of minus 7 percent. Ultimately, a low-margin industry such as health care is not conducive to the high profits investors love.

Owners. Not-for-profit health plans are owned by the community, not shareholders, board members or executives. The top 10 not-for-profits in Minnesota are all health care organizations, with a combined revenue of more than \$11 billion in 1997. Nationally, not-for-profit health care

organizations, including hospitals, account for about half of the \$500 billion in funds that go each year to not-for-profit organizations.

Because the assets of not-for-profits are owned by the community, substantial value flows to the public. The public has every right to claim ownership. When Blue Cross of California converted some of its assets to establish a for-profit subsidiary, regulators, legislators and community groups protested. The eventual result was that Blue Cross of California was required to preserve all of its \$3.2 billion in not-for-profit assets in two foundations, established to focus on health issues in California. Successful challenges from consumer groups and other organizations, regarding the use of not-for-profit assets to fund new for-profit subsidiaries, demonstrate that the community is in charge. A for-profit business would be more likely to go ahead with whatever it wanted to do — without listening to community input.

Investing. The not-for-profit health plan has more opportunity than the for-profit health plan to invest in long-term strategies. For-profit health plans have a short-term obligation each quarter to report earnings to investors. Thus for-profit health plans feel a greater pressure to prove the payback of any investments. But not-for-profit health plans have more room to invest in programs that may take more time to show a return.

Consider how the not-for-profit status of Blue Cross and Blue Shield of Minnesota permitted it to behave differently from

other health plans nationwide in the fight against tobacco. In 1994, Blue Cross chose to join the state of Minnesota in a lawsuit against the tobacco companies. The lawsuit was based on a groundbreaking legal theory: that

that had to demonstrate quarterly payback to investors would never have been able to justify the risk or costs involved in the tobacco litigation.

The settlement from the tobacco companies offers another opportunity

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the tobacco industry had raised health care costs for the state and Blue Cross by violating consumer fraud and antitrust laws.

The potential cost of the tobacco litigation, in terms of staff time and financial commitment, was a serious concern to the board members, but because they were responsible to the community and not to shareholders, they felt obligated to attack the No. 1 preventable public health problem of our time. They decided to pursue the lawsuit.

Although more than 40 other states followed Minnesota in filing their own lawsuits against the tobacco industry, no other private-sector health plan filed a similar lawsuit until midway through trial in 1998, when it looked like the tobacco companies would lose. A health plan

for long-term investment. Blue Cross is proposing investment in health-improvement programs, including a goal to reduce tobacco use among members by 30 percent.

Community. The not-for-profit health plan is committed to a community cause. Regardless of what grandiose mission statement for-profit health plans may have, they are more attached to the bottom line than not-for-profits. The mission of for-profits is a business mission. The mission of not-for-profits is a social mission integrated with a business mission. That is not to imply not-for-profit health plans are wasteful in spending money. The opposite is true. Because not-for-profit health plans do not have access to capital through selling stocks, they must take extra

measures to be efficient in order to be competitive and financially viable.

It is possible to be efficient without Draconian benefit cuts if priorities are focused on serving the community — the essence of not-for-profit. To return to the original point, it is beneficial for health plans to perform a public service rather than a private one. Certainly the marketplace will support for-profit health plans, but we would argue that the public is best served by not-for-profit health plans.

Commitment to community has driven innovations in Minnesota's health care for decades. With MinnesotaCare providing insurance on a sliding fee-scale for uninsured people who don't qualify for Medicaid or Medicare, Minnesota's rate of uninsurance is now estimated to be as low as 4 percent. As opposed to a for-profit health plan, a not-for-profit is more likely to push legislatures to create programs like MinnesotaCare, appreciating that if the rates of uninsured are reduced, the population as a whole will be healthier.

Those are just a few of the benefits that health plans with not-for-profit status deliver to the public. Perhaps as for-profit health plans face more financial difficulties and investors become more reluctant about spending capital on a low-margin commodity, for-profit plans will see the benefit of converting to not-for-profit status. It would be a benefit to the public — and the public's health. ■

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