



THE ALLIANCE BULLETIN

July 2010

Challenges on Nonprofit Health Care Executive Pay

In just the past month, government officials in three states are either commencing investigations or have taken action on nonprofit health care executive compensation:

- [June 15, “Horizon Blue Cross Officials Questioned About Executive Pay”](#)
- [June 15, “New Hampshire AG Reviews CEO Salaries at Nonprofit Hospitals”](#)
- [June 2, “State Orders Blue Cross Blue Shield of Vermont to Return \\$3 Million to Subscribers”](#)

This could be just a coincidence. In the first case there appear to have been three factors at work: (1) \$31 million in executive bonuses in one year (\$8.7 million to the CEO); (2) 200 employees laid off in the same year; and (3) the plan’s application to convert to for-profit status still on the table. Taken

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Massachusetts: Bellwether for Implementation of National Health Care Reform?

Now that the federal health care reform law is in place, we must keep our eyes on Massachusetts for lessons to be learned in implementing near-universal health care coverage. So expect this to be a regular section of this Bulletin for the foreseeable future. As you probably know, several months ago under the direction of the Governor, his Insurance Division denied requests by the four nonprofit health plans in the state to increase their premiums in the individual and small group markets. Since that time, these health plans have been appealing those decisions.

Here are the latest developments:

- The four insurers balked at offering benefit plans to individuals and small businesses through the state’s Health Insurance Connector Authority, and the Authority threatened them with legal action ([June 10, “State Presses Insurers to Add Low-Cost Plan Options”](#)).
- The state’s insurance appeals board overturned the Insurance Division’s denial of premium increases for one of the four plans, Harvard Pilgrim Health Care, finding

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together, these factors raise questions of judgment, common sense, and equity. (By the way, the Alliance continues to regularly convene leaders of consumer groups and health care provider groups [the state hospital association, the state medical society and a health plan owned by some hospitals and physician groups in the state] to hold Horizon's and state regulators' feet to the fire on that application.)

In the second case, the state attorney general happened to discover in the course of reviewing an acquisition proposal involving two nonprofit hospitals that one of the CEOs' compensation was substantially higher than her peers'. In the third case, the retiring CEO received more than \$7 million over the preceding year and at the time of his retirement.

On the other hand, this could be part of a trend. A few months ago the Massachusetts Attorney General announced that she would be investigating the executive pay practices of both nonprofit hospitals and nonprofit health plans in the state.

One thing is clear: more and more information about executive pay, and in some cases board compensation, will become publicly available, and boards and CEOs had better be well prepared to justify the reasonableness of their organizations' practices.

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that the increases requested were reasonable, given its contractual obligations to hospitals and physicians ([June 25, "Rate Cap for Insurer Overturned"](#)).

- The state senate passed a bill that would

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require "wealthier" hospitals to pay \$100 million into a fund to provide premium relief to small businesses. Partners HealthCare System has already voluntarily pledged \$40 million for this purpose.

- The state house, on the other hand, passed a bill supported by the Governor that would tie state approval of insurer premiums and their contracts with hospitals and physicians to the Consumer Price Index for Medical Services.
- Meanwhile, a long-awaited report was released by the Division of Insurance indicating that the number of individuals in the state that were "gaming the system" by purchasing coverage only when they were sick grew from 3,508 in 2006 to 17,177 in 2008. A bill sponsored by the senate president would seek to eliminate such gaming through restrictions on open-enrollment periods and other means ([June 30, "Short-Term Insurance Buyers Drive Up Cost in Mass."](#)).

What lessons can be drawn from Massachusetts thus far? First, adverse selection is a real problem. Neither in this state nor in the federal health care law are there incentives for individuals to purchase and maintain health insurance coverage.

Secondly, because strategies to improve health care value and reduce costs were not sufficiently in place before this state enacted its near-universal coverage, as is similarly the case with the federal health care reform law, cost pressures have intensified. Some sort of political "quick fix" among the parties is

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likely to be forged in the months ahead, but then what? Rate caps or other controls on the nonprofit health plans, hospitals and physicians? Or something else?

On the positive side, at least two of the health plans CEOs are publicly calling for constructive collaboration on costs among state officials, the plans and providers. At least one of the hospital leaders is also committing publicly to “trim its budget, work with payers to find shared savings and apply for federal pilot programs that offer innovative ways to provide and pay for health care” ([June 13, “A Health Plan for Partners”](#)).

Stay tuned.

Noteworthy National News

Even though we are beginning to enter the “dog days of summer,” there have been quite a few important developments in Washington, DC and on the national scene more generally, affecting nonprofit health care organizations either directly or indirectly.

- **During the post-4th of July Congressional recess, the President appointed Dr. Don Berwick as CMS Administrator.** With all of the other key appointments that HHS Secretary Sebelius had already made in recent months, the Administration now appears ready to move ahead in implementing a variety of provisions in the health care reform law.
- **HHS Secretary Sebelius announced \$250 million in funding to increase the supply of primary care practitioners, including**

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\$168 million to train more than 500 new primary care physicians, \$32 million to train more than 600 new physician assistants, and \$30 million to help over 600 nursing students to attend school full-time.

- **Medicare Advantage (MA) enrollment increased by almost 6% in 2010, with almost 25% of Medicare beneficiaries now in MA plans.** The average Medicare beneficiary has 33 MA plans to choose from, although in 14 states and the District of Columbia, a single firm accounts for more than 50% of all MA enrollment. ([June 21, “New Report on Medicare Advantage Plan Enrollment Patterns and Trends”](#)).
- **The federal government has launched its new web site, www.healthcare.gov,** where consumers can now find basic information about private health plans where they reside, as well as individual hospital quality data.
- **Physicians received another short-term reprieve (through November 30) from Medicare fee reductions under the sustainable growth rate (SGR) formula.** The federal budget impacts of a continued short-term or permanent fix, however, keep growing. CMS has just calculated that unless Congress acts again, physicians will see their Medicare fees cut by 29.6% ([June 28, “Medicare Physicians Face Another 6.1% Cut Under SRG”](#)).
- **CMS released a “Q & A” on the Accountable Care Organization (ACO) Shared Savings Program, to commence in**

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2012 under the health care reform law, and the first of undoubtedly many national conferences was held in Washington, DC on the topic. The best quote I've heard so far came from Noah Rosenberg, a former HHS General Counsel: "ACOs are a lawyer's and consultant's dream. Everyone wants to form one, and they don't know what it is, and neither do I."

- **A new survey by PricewaterhouseCoopers** (of 700 employers in 30 industries representing 47 million workers and their families) **projects an average premium increase of 9% in 2011, only a 0.5% decrease from 2010, with greater cost-shifting to employees.** Should this prove accurate, expect even more public pressure on health plans and health care providers to improve their value and cut costs.
- **At a Long-Term and Post-Acute Care (LTPAC) Health Information Technology (HIT) Summit last month, a collaborative was announced that picks up on the banner that the Alliance has been waving for the past few years,** "advocating for full participation, consideration, and benefits for LTPAC providers in national, state and regional HIT incentives, investments, and initiatives" ([June 14, "AHIMA Summit Highlights Future of HIT"](#)).

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Also, later this month we will be attending a National Association of Insurance Commissioners (NAIC) meeting here in DC where state health insurance commissioners will be developing recommendations on implementation of key provisions of the health care reform law related to health insurance, including how to define and calculate in a uniform manner medical loss ratios. We will keep you apprised on their recommendations.

HAVE YOU MARKED ON YOUR CALENDARS?

- ◆ **ALLIANCE BOARD OF DIRECTORS CONFERENCE CALL MEETING**
August 10, 2010, 3:00 – 4:00 p.m. EDT
- ◆ **ALLIANCE BOARD OF DIRECTORS MEETING**
Chicago, IL (Embassy Suites-O'Hare, Rosemont)
November 15-16, 2010 (Noon to Noon)

If you have any questions or comments on these stories or other nonprofit health care matters, please contact me at mcphersonbruce@aol.com or 877-299-6497.



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