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A BURRELLE'S ARTICLE

TRANSCRIPT

DATE May 15, 1994
TIME 7:00-8:00 PM (ET)
NETWORK CBS-TV
PROGRAM 60 Minutes

Lesley Stahl reporting:

With the Clinton health plan just beginning its stretch run and Congress still debating the best way to provide every American with low-cost, guaranteed-for-life health insurance, we thought it a good time to take a look at the health insurance plan one out of four Americans relies on right now. We're talking, of course, about the sixty-nine independent, not-for-profit health insurance companies that go under the name Blue Cross/Blue Shield-- although you could get an argument about "not for profit," and, as you'll see, we did.

What there is no argument about is that Blue Cross/Blue Shield, next to Coca Cola, is the most widely recognized trademark in America. Everybody knows them. (Holds up her own Blue Cross card) And if you're one of sixty-eight million Americans like me who carries a Blue Cross or Blue Shield card and depends on it to help pay your medical bills, then you'll probably be as surprised as I was to learn that many of the plans are facing charges of mismanagement and charges of extravagant spending--paid for by the subscribers.

Senator Sam Nunn heads the Permanent Subcommittee on Investigations. He's been probing Blue Cross/Blue Shield for the last two years.

Sen. Sam Nunn (D-Georgia): They get all of these tax breaks, and they can pass on their losses and their mismanagement and their excessive salaries and their perks to the policyholders.

Stahl: What kind of perks? Well, in Maryland, Blue Cross/Blue Shield executives spent three hundred thousand dollars for a sky box at the Orioles stadium, plus hundreds of season tickets at eight to ten thousand dollars each.

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Bernard Tresnowski (Blue Cross/Blue Shield Association): There may be questionable business judgment involved here in some of these decisions, but one has to understand that you're operating in a competitive environment.

Stahl: Bernard Tresnowski heads the national Blue Cross/Blue Shield Association, a trade group that is supposed to act as a watchdog over the sixty-nine different plans.

(To Tresnowski) What does having a sky box at the baseball stadium have to do with the competitive business environment?

Tresnowski: Well, maybe most of our competitors have sky boxes and they take customers there.

Stahl: Well, so what?

Tresnowski: Well, you operate in a competitive environment. I'm not justifying the sky box, believe me.

Stahl: Why should you care about a sky box? Because if you're a Blue Cross/Blue Shield subscriber, you're paying for it with your premiums, and you're paying for the limos, the other perks, and the big salaries. And that isn't all.

Many of the plans are under investigation for fraud and abuse. The biggest plan, New York's Empire, is accused of keeping two separate sets of books. Blue Cross executives in Mississippi and Maryland were indicted for fraud.

Nunn: And that's one of the reasons health care premiums and other health care costs are really out of control.

Stahl: Many of the plans have been mismanaged. In New York, the top executives were forced to resign. In Colorado, the chief executive quit after there were audit irregularities.

(To Nunn) Florida--they had to pay the federal government ten million dollars to settle Medicare fraud claims. West Virginia--the whole system became insolvent. Maryland--executives were jetting to the Olympics, the Olympics on money from the non-profit....

Nunn: I believe they sent sixty-four people to the Olympics, 188 Olympics.

Stahl: D.C.--executives trips on the Concord.

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Nunn: You cannot let people be out there in this never-never land and claim they're non-profit but pay their officers seven, eight hundred thousand dollars a year, take trips all over the world on Concord, have sky boxes that cost hundreds of thousands of dollars a year.

[From TV commercial:

Voice of Jack Burry: Smart businesses spend their health care dollars very efficiently. At Blue Cross and Blue Shield of Ohio, for every dollar your company pays, a penny gets saved for a rainy day.]

Stahl: And a couple of pennies probably go to help pay Jack Burry's salary. He's the million-dollar-a-year chief of Blue Cross/Blue Shield of Ohio featured in this ad. The not-for-profit Ohio plan spent another million dollars to build a luxury box at the Cleveland Indians new baseball stadium, and another one at the Cavaliers new basketball arena.

Jack Burry declined our request for an interview, but Tresnowski had this to say.

Tresnowski: Now, wait a minute. Now, we don't control the salaries, we don't control the business practices. The Cleveland plan is a strong plan financially. If the board of that plan and the regulators in that state feel that that corporation has performed at the level that it is and they want to pay the individual those kinds of salaries, it's up to that corporation and those regulators.

Stahl: But what about your image? What about what that logo says?

Tresnowski: The logo doesn't say that we pay our executives inadequate salaries.

Stahl: But Bob Hunter, who was the head of a national insurance consumer group and is now the insurance commissioner of Texas, thinks Blue Cross/Blue Shield pays their executives too much money.

(To Hunter) Would you be getting a decent guy to run a big company if you don't pay him that kind of money?

J. Robert Hunter (Texas Commissioner of Insurance): Oh, sure you can. For one thing, because we're sure there's no real board of directors, there's no stockholder discipline, you don't have the same kind of need for the high salaries, plus you've got the non-profit.

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Nunn: There's something wrong here. It's a business, they're being paid like businesses, the executives are being compensated like businesses, and yet they call themselves non-profits.

Stahl: Most of the large health insurance companies are for profit. That means they pay dividends to their shareholders, who, if they don't like the way the company is run, can fire the executives. But Blue Cross/Blue Shield plans are not for profit. That means their profits get plowed back into a pool to pay subscribers' claims.

Nunn: When you're in business, you ought to be for profit. You ought to have shareholders, you ought to have accountability with shareholders, you ought to show the bottom line, and you ought to be a business.

Stahl: Some plan executives agree with Senator Nunn, but a confidential internal Association memo warns that if they did become a for-profit business, they would pay higher taxes. (Visual of highlighted words and the memo as background)

(To Tresnowski) I thought that Blue Cross got special tax breaks. Is that true?

Tresnowski: No, it's not.

Stahl: You get no tax breaks.

Tresnowski: No.

Stahl: That's just not true. Most of the plans do get special tax deductions.

Hunters: They still get their tax breaks. They still are being treated as if they were still the old Blue Cross/Blue Shield they used to be.

Stahl: There was a time when Blue Cross/Blue Shield charged everybody the same premium, regardless of age or health. They don't all do that anymore, but under a special section of the Internal Revenue Code written just for them, they can still get a tax break by offering equal rates to just thirty-five percent of their policyholders. (Visuals of closeup of Section 833 of the Code)

We called every one of the sixty-nine plans to ask if they took advantage of that special tax benefit. Most of them referred us back to the Association. Tresnowski, speaking for the plans, continued to play down the tax issue.

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(To Tresnowski) None of them are taking this tax break?

Tresnowski: Well, I can't say none of them. Some of them probably continue to do so because they haven't changed their business practices, but the vast majority of them are full taxpayers today.

Stahl: More like a vast minority, according to IRS records. They show that in a recent year, forty-five companies took that special deduction and did not have to pay taxes on 1.5 billion dollars of revenues.

Tresnowski's Blue Cross/Blue Shield Association is totally tax exempt, which means taxpayers subsidize the Association's spending.

(To Tresnowski) What about your salary?

Tresnowski: What about it?

Stahl: How much do you make?

Tresnowski: Four hundred and fifty thousand dollars a year.

Stahl: Is that standard for people in a tax-exempt organization?

Tresnowski: Well, it's in the median of all association executives, I can tell you that.

Stahl: Well, it's not quite the median. According to a compensation survey of association executives by the national journal, Tresnowski was ranked number eight out of three hundred and fifty in 1991. And it turns out that four-hundred-fifty-thousand-dollar figure isn't the whole story. The Association's own tax returns show that two years ago, Tresnowski's cash compensation, that included a bonus, was five hundred forty-four thousand, plus another two hundred thirty thousand in pension and insurance benefits, for a total package of more than seven hundred seventy thousand. (Visual of closeup of Tresnowski's compensation that year)

And what about the millions that Blue Cross/Blue Shield subscribers pay for executive conferences at fancy resorts?

(To Tresnowski): You had a meeting just last fall at the Scottsdale Princess Hotel.

Tresnowski: No, we didn't. We've never had a meeting at the Scottsdale Princess Hotel.

Stahl: You were the featured speaker at the conference.

Tresnowski: I'm not familiar with any of that. I don't even remember being at the Scottsdale Princess.

Stahl: Well, here's a reminder. The Arizona plan sponsored a conference at the Scottsdale Princess. Tresnowski checked in on October 18th and checked out on October 21st. Ten days later, he was hosting another meeting of Blue Cross executives at Washington's Willard Hotel.

(To Tresnowski) Here's where a few of your meetings have taken place recently, your Association: The Four Seasons and Los Colinos(?) Spa in Dallas. That was in '93. The Park Hyatt in Washington--'93. The Arizona Biltmore--'93. The best hotels in the country.

Tresnowski: Ah, but we got special rates in all of those cases. Let's take the Four Seasons and Los Colinos. That is within ten minutes of the airport, we get special rates there. The accommodations are such that we can conduct our meetings, get in and get out quickly.

Stahl: So they're not golf weekends?

Tresnowski: Oh, no. We don't engage in those sorts of weekends.

Stahl: That must have been some other Tresnowski who joined a gaggle of Blue Cross executives on the Los Colinos golf course last June. Resort records show someone named Tresnowski teed off at 1:44 Friday afternoon, minutes after an Association board meeting ended. (Visual of closeup of golf card) Remember, the board is supposed to be the Blue Cross/Blue Shield watchdog.

Tresnowski: We have standards and we monitor the performance of the plan to make sure that those standards are met.

Stahl: Do they scrutinize their members to make sure that these excesses are not out of line?

Hunter: Obviously not. It hasn't happened. We still see the excesses. The only problem with oversight by a trade organization is the trade organization is owned and operated by the people they're watching, so it doesn't really work.

Stahl: Who pays for all of that high living?

Hunter: Well, the problem is the rate payer pays for it.

Stahl: The consumer.

Hunter: Sure, the consumer. You and I pay for the high living. You and I pay for the ads on TV. You and I pay for the political lobbying. You and I pay for all of this. All of this is passed through in rate making.

Stahl: The Blues all across the country spend a fortune on advertising and lobbying, and in many ways lobbying against the interests of the consumer.

Hunter: Absolutely. There's no question that they lobby against the interests of consumers, and then pass the cost on to us. It's sort of like building a scaffold for us and asking us to pay for it before they hang us.

Stahl: But more important than the lobbying, excessive salaries, and perks is the mismanagement. Several Blue Cross/Blue Shield plans, including New York's Empire, are reported to be in shaky financial condition. But Tresnowski denies it.

(To Tresnowski) Well, how many are in trouble, would you say?

Tresnowski: None. Today there are none. We've had the best financial performance in the last five years than we've had in the history of Blue Cross and Blue Shield.

Stahl: But we obtained a report by the GAO, Congress's General Accounting Office, that says twenty-five percent of all Blue Cross/Blue Shield subscribers are covered by plans considered in weak to very weak financial condition. (Visual of highlighted text with GAO report cover in background)

(To Tresnowski) This is their report, which I'm sure you've seen. I'm not showing you something you haven't seen. They say eleven plans are weak or very weak.

Tresnowski: (Points to plan) Now, that report was written a couple of years ago and the information in it is dated.

Stahl: In fact, the report was just written. It was released just a few days ago, and according to a GAO official, government auditors based their conclusions on information provided by Tresnowski's own Association just a few months ago. (Visual of closeup of letter dated April 15, 1994)

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But Senator Nunn says Blue Cross and Blue Shield are so powerful in the insurance world, it's nearly impossible to punish them for mismanagement.

Nunn: So, in effect, they're too big to discipline. It's like taking an eighteen-year-old, I suppose, that's grown into a two-hundred-twenty-pounder and trying to spank him. It's too late for that. If you threaten them to shut them down, then what you're doing is you're putting a gun to your own state policyholders and you're saying, 'Halt or we're going to pull the trigger.'

Stahl: Someone out there with a Blue Cross policy is now very nervous. A lot of people probably are very nervous. What are you saying to them tonight?

Nunn: I would say talk to your insurance regulator. Pick up the phone and call the state insurance regulator. Ask him what kind of condition Blue Cross and Blue Shield is in.

Stahl: How will health care reform affect Blue Cross/Blue Shield? No matter how the final legislation is shaped, there's sure to be big players, although not in their present form. One health care proposal calls for them to lose their tax breaks by 1999. And if President Clinton has his way, all the insurance companies would be regulated by not-for-profit health care alliances that will make sure the for-profit insurance companies do what Blue Cross/Blue Shield used to do--guarantee every American, no matter his or her age or health status, affordable health insurance, one price for everyone for the basic package.

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