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Blue Shield digs itself into \$275 million hole

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Blue Shield of California, which last week confirmed it's asking many workers to take paid time off in early September, is facing a \$275 million operating profit "gap" that prompted it to take that step.

Profitability problems at Blue Shield have several causes according to the company, which laid off hundreds of workers early this year and is now asking staffers to take paid time off in early September, as the Business Times reported late last week.

Blue Shield is also considering a number of other steps to get its operating profits back where it wants them to be, including re-examining key strategic priorities for the year, "and whether to fund



PAOLO VESCIA

Blue Shield CEO Paul Markovich faces pressure on all lines of business when it comes to profitability.

them," and taking a close look at contracts with major vendors to see if they can be renegotiated or ultimately replaced by lower-cost deals, spokesman [Steve Shivinsky](#) told the Business Times.

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Asked if there will be additional layoffs, Shivinsky said, "No, nothing like that is being considered at this time." However, in some cases existing staffing vacancies are being left open, he said.

The company stresses that the pressure is coming from all lines of business, although it seems to have first emerged in Blue Shield's Covered California business and other individual products.

That \$275 million gap between original full-year operating income projections and the trend line at mid-year was mentioned in a memo to employees explaining why the San Francisco-based health insurer is requiring many of them to take Sept. 6 to Sept. 9 as mandatory paid time off.

Blue Shield hasn't said what the first-half-only gap entailed.

Figures filed with the California Department of Managed Care, meanwhile, show a sharp drop in net income between the end of Q1, when Blue Shield posted \$26.4 million in profit on \$4.3 billion in revenue, and the end of the first half, when it disclosed a net loss of \$87.2 million on revenue of nearly \$8.8 billion.

"Like health plans around the country, we are experiencing a high level of unpredictable market volatility, Shivinsky said Tuesday, while noting that there has been some stabilization since the first half ended June 30.

He said the \$275 million "gap" refers to an aggressive operating performance target for the year, which was set for internal management purposes. Since it emerged, he said, "We have enacted a

number of initiatives aimed to close it by year end," including reviewing priorities and existing contracts with external vendors.

Late last week, the nonprofit health insurer indicated that it's facing pressures on all lines of business, including individual and family policies on the Covered California exchange and off-exchange, as well as its commercial business.

"This is certainly not normal for us," Shivinsky said at the time.

Dava Freed, a health care management consultant with offices in Oakland and Kensington, said insurers are now seeing more actual data from Obamacare exchanges such as Covered California, "and comparing it to their assumptions."

They're finding that a large number of enrollees are signing up for coverage during special enrollment periods when they need it, and then "bailing" when they don't, Freed said, putting more pressure on insurance companies because they're not allowed to pre-screen would-be enrollees.

But the situation is complicated, she said. "Some insurance carriers are doing fine. Others are not."

Blue Shield blames the shortfall on "higher than expected utilization," especially a 7 percent higher than expected bump in inpatient hospital care and more use of high-priced specialty drugs, Shivinsky said.

Another contributing factor is so-called third-party payment "abuse," where third parties pay for consumers' premiums, reportedly to deflect burden of coverage from themselves to insurers like Blue Shield.

Blue Shield says it's paid out tens of millions of dollars in claims so far this year that fit into this category, many of them for dialysis patients who premiums were allegedly paid by parties who had a financial stake in doing so.

The four-day post-Labor Day shutdown of most Blue Shield operations is expected to cut roughly \$4 million in PTO liability, officials said.

The four-day shutdown will affect most of its 6,000 employees in California, except about 1,000 who work for Care1st, which it acquired last fall for \$1.2 billion, and some staffers in customer service and related areas who will remain on the job. The exact number of workers involved hasn't yet been tabulated, according to the San Francisco-based insurer.

Health plans nationally are facing challenges in the individual market and on the Obamacare exchanges, and some have said they plan to exit or cut back their participation, but Blue Shield isn't taking that step.

Paul Markovich is Blue Shield's chief executive officer.

UnitedHealth Group said last month it planned to exit most Obamacare markets. Aetna is pulling back from 11 state Affordable Care Act markets out of the 15 where it currently offers coverage, officials there said this week, and Humana is pulling back as well.

Paid time off is a liability on the nonprofit health plan's books, and it wants to reduce that before year-end. Because open enrollment consumes the last few months of each calendar year, Blue Shield decided to ask employees to take extra time off in September, not later in the year, Shivinsky said.

Some customer service representatives and staffers who work in open-enrollment, information technology and medical services will still be expected to be on the job during that period.

Last month, Blue Shield said it was raising its Covered California rates by nearly 20 percent next year, citing the high costs of covering enrollees. It said it drastically underpriced premiums for the state's Obamacare exchange.

In late February, the San Francisco insurer said it planned to cut about 460 jobs, most of them in Sacramento and the Central Valley.

The actual number of full-time-equivalent staffers who lost jobs was 370, including 231 whose jobs were eliminated and another 139 whose jobs have been or will be filled by replacements, Shivinsky said early this week.

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