



**House
Legislative
Analysis
Section**

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BCSM RESERVES

**House Bill 5400 as introduced
First Analysis (11-29-95)**

**Sponsor: Rep. John Llewellyn
Committee: Insurance**

THE APPARENT PROBLEM:

The Nonprofit Health Care Corporation Reform Act, which regulates Blue Cross and Blue Shield of Michigan, contains a methodology for the insurance commissioner to use in establishing a target contingency reserve level each year. (Reserves are, generally speaking, assets set aside to cover anticipated obligations.) The corporation is required to maintain reserves at a level no less than 65 percent and no more than 120 percent of the target level. If reserves are above the limit at the end of a calendar year, the act requires adjustments to be made to stay within the required range. Blue Cross and Blue Shield has requested that the upper limit on reserves be increased. Representatives of BCBSM say they are the only insurer with this kind of cap on reserves and the only Blues plan in the country with such a limit. Outside rating agencies, such as A. M. Best and Standard and Poor's, have said the company needs additional reserves, according to the company, to improve its solvency rating. The company says it ranks 52nd out of 61 Blues plans in the country as regards its financial strength. Currently, the company's level of reserves is at about 140 percent of the target level, and so the cap needs to be lifted for them to retain its current reserve level and increase reserves if deemed necessary.

THE CONTENT OF THE BILL:

The bill would amend the Nonprofit Health Care Corporation Reform Act to permit Blue Cross and Blue Shield of Michigan to have a contingency reserve up to 150 percent of the target contingency reserve level established annually by the insurance commissioner. The current limit is 120 percent.

MCL 550.1205

FISCAL IMPLICATIONS:

There is no information at present.

ARGUMENTS:

For:

The bill would raise the upper limit on the contingency reserve maintained by Blue Cross and Blue Shield of Michigan. This would allow the company to stay at its current reserve level, which exceeds the statutory maximum, and increase its reserves to improve its financial stability. (The current maximum is about \$595 million; the company has \$810 million in reserves; and the new limit would allow reserves to be increased to over \$850 million, according to committee testimony.) Outside rating agencies have advised the company to increase its reserves, say BCBSM representatives. Higher reserves are said to be necessary for a higher rating from key rating agencies. The company says raising the limit will not result in increased rates to customers.

POSITIONS:

The Insurance Bureau supports the bill. (11-28-95)

Blue Cross and Blue Shield of Michigan supports the bill. (11-28-95)

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

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