

Corner Office: Michael T. Kornett

Horizon should be more clear about possible conversion

By Michael T. Kornett

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If you follow health care in New Jersey, then you probably know **Horizon Blue Cross Blue Shield** is still looking to change its nonprofit status to become a for-profit corporation. Horizon executives have been trying to sell the concept that this change will be good for the state. Their position is that the conversion “unlocks the value of the health service corporation for the purposes of improving the state’s health care system.” They also state they need “access to capital to be competitive.” We don’t buy it.

Horizon says they are “committed to a transparent process,” yet one has to wonder what Horizon’s definition of transparency is. In its regulatory filings, Horizon refused to answer multitudes of questions about the conversion citing “confidentiality.”

Horizon has continuously said that a conversion “could be worth more than a billion dollars” to New Jersey. That seems more cryptic than transparent, considering that Horizon has about \$2 billion in surpluses, according to their 2007 financial statements.

However, in 2006, Horizon claimed that a conversion could be worth \$3 billion to New Jersey in a statement issued by their chief executive officer. It makes one wonder what they’re really worth — and it seems Horizon executives don’t even know the answer.

There are other concerns.

In 2005, a Horizon spokesperson told the Star-Ledger of Newark the decision not to go public “is for all time, permanent and final.” A few years later, Horizon is saying just the opposite.

And, it is silly to think that Horizon needs access to capital to remain competitive. The company is sitting on \$2 billion that they could leverage if needed, and they also have ready access to capital at rates that are less expensive than if Horizon converted.

And more about transparency. Last October, the state Department of Banking and Insurance and the attorney general asked for a considerable amount of

additional information about the conversion. About a month ago, Horizon submitted its responses. In essence, Horizon said that if DOBI and the attorney general wanted the answers to questions, they could come and get them. Is Horizon above the law and public scrutiny? It's like the Internal Revenue Service telling us that we're going to be audited, and our telling them that the information is confidential — that they can come to our office or home if they really want to see the records. Some of the important things that Horizon has refused to provide are its discussions about selling Horizon post-conversion and what its consultants have told them about the advisability of the conversion.

As a result, several groups, including the Medical Society of New Jersey, have questioned Horizon's motives. We don't know if what they are proposing is arrogance or ignorance. Whatever the motive, withholding information is far from transparent.

Having been involved with several investor-backed and publicly traded companies, I can be certain that if Horizon converts to a for-profit entity it:

- Will have to meet shareholder demand. They will have to pay dividends and otherwise create return for those that have invested in the business.
- Will have to pay taxes. For 75-plus years, Horizon has not been paying corporate income taxes to New Jersey for their nonprofit business. The money for the taxes may possibly come from subscribers' pockets.
- Will likely be sold to a large out-of-state health insurance corporation. Horizon will be an extremely desirable target for a firm like WellPoint. Since the early '90s, WellPoint has purchased 14 Blue Cross plans that have converted from nonprofit to for-profit in the continental United States. Horizon may not be any different. After the sale, the already battered New Jersey economy may lose thousands of jobs.

This leads to a simple conclusion for all of us — those who have Horizon insurance and all New Jersey citizens: If Horizon is granted conversion status, premiums will probably go up and choices will likely go down. If Horizon is acquired by WellPoint, New Jersey may lose jobs. All of this during one of the worst financial periods in U.S. history. If this is a great deal for New Jersey, please, let's make that transparent because I don't see it.

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