



Note: The stipulated court order resulting from Blue Shield's lawsuit over my whistleblowing prohibits me from mentioning certain public information about Blue Shield. As a result, I had to redact certain information from this article before presenting it.

Blue Shield of California CEO Paul Markovich speaks during a meeting in June at the California Department of Managed Health Care about the possible Blue Shield acquisition of Care1st Health Plan. (Steve Yeater / Associated Press)

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In response to mounting criticism, Blue Shield of California's chief executive is vowing to improve the nonprofit insurer's poor ratings from patients and to disclose more about executive compensation.

But CEO Paul Markovich warned that certain details on executive pay will remain secret, portending a potential showdown with regulators.

Markovich has been dogged by questions for months surrounding the insurance giant's nonprofit status, lack of transparency and repeated rate increases despite holding \$4.2 billion in reserve.

The 48-year-old CEO cleared one major hurdle this month when state officials approved his \$1.2-billion acquisition of Care1st Health Plan, a Medicaid insurer based in Monterey Park.

The deal attracted more scrutiny than usual after The Times reported in March that the California Franchise Tax Board had revoked the tax exemption Blue Shield held since its founding in 1939.

Auditors said the company



Echoing those concerns, consumer advocates and a former company official argued against Blue Shield's deal and said the nonprofit's money should be used to reduce premiums or bolster the state's healthcare safety net.

The state's managed-care regulator sided with Blue Shield and said the company didn't hold public assets or have a charitable trust obligation.

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On executive pay, the San Francisco insurer faces more questions.

The Times reported last month that Blue Shield boosted executive pay by [REDACTED]

The company won't say who got the money, and Markovich said his plans for increased disclosure don't include revisiting the past. In general, he said, the company may be ready to share more information by March.

“Just to satisfy idle curiosity about what happened in the past about a particular person is not something we will run around to satisfy,” said Markovich, who became CEO in 2013 and made \$2.5 million that year, the most recent data available. “It's not necessary to hold us accountable for living our nonprofit mission.”

California Insurance Commissioner Dave Jones may disagree. The insurance department said it continues to investigate whether Blue Shield misled regulators by excluding pay data for Bodaken and other executives in public filings.

Markovich addressed the pay issue and others in a recent conversation with The Times. Here's an excerpt:

Your for-profit rivals disclose more details on executive pay than you do. Will that change?

We will be disclosing more. We disclose our top 10 executives' pay, but we only put the name of the CEO and don't put the other nine names. That will be changing soon.

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We are taking a look at what the standard is on executive pay disclosure by health plan and at least meet that standard. At what point do you draw the line to know this level of detail? Where is the line for privacy?

I think the structure of pay matters quite a bit, such as whether the vast majority of compensation is tied to a bonus. I think it's important to understand what the incentives are and how are they tied back to the mission of a nonprofit.

We are not handing this information over now. We want to think this through and talk about it.

Why was the Care1st deal so important to you and Blue Shield?

We are thrilled it was approved because our mission is to ensure all Californians have access to high-quality healthcare at an affordable price.

Twelve million people get coverage through Medicaid. Until this transaction, we were not serving any of them. If 1 in 3 Californians is getting insurance through this program, we need to get involved in it and make it better.

That is why we are so excited, and why we went through what we did.... Everyone had an opportunity to express their point of view publicly, and at the end of the day the law and the facts won out. We are a nonprofit mutual benefit corporation. We won't convert to for-profit [status] and we aren't a charity.

Would Blue Shield consider more acquisitions or mergers?

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I never say never. But this is our entry into Medicaid, and it's a big acquisition for a company our size. We need to focus on making it work.

In reviewing the Care1st deal, state officials expressed frustration at having to sort through conflicting statements Blue Shield made on its corporate structure and obligations to the public. Did Blue Shield switch its story?

The Department of Managed Health Care subpoenaed every single word we shared with the Franchise Tax Board and went through it and came to the conclusion we weren't inconsistent.

However, going through hundreds of pages of arcane tax law and the back and forth is not simple and easy.

There was nothing inconsistent with the argument we were making to the tax board and statements to DMHC. You could take one or two sentences and say, 'Gee, this looks inconsistent.' But it really isn't.

Regulators also pointed out many areas where Blue Shield was falling short, from access to care to inaccurate provider directories. Do you accept the state's criticisms?

We hold ourselves accountable for the quality of services we provide. So there wasn't much discussion when it was laid out that we need to perform better. We immediately said yes. We should be able to perform at the highest level.

If you step back, there are a lot of measures on service levels and quality of

performance. We do reasonably well. We are not outstanding. We are not outliers. We aspire to do better than that.

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Chad Terhune previously covered the business of healthcare, including medical costs, patient safety and the rollout of the federal health law. Prior to joining in 2012, he was an award-winning reporter for the Wall Street Journal and Businessweek. Chad spent more than a decade at the Journal and his stories on health insurance won a National Press Club award. At Businessweek, his stories on health reform and