

# **Alberta Blue Cross Review Committee**

## **REPORT TO THE MINISTER**

**Submitted To: Hon. Gary Mar, Q.C., M.L.A.**  
**Minister, Alberta Health and Wellness**

**December 2002**



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## I INTRODUCTION

Alberta Blue Cross (ABC) has been providing supplementary health care plan services to Albertans for over 54 years. ABC is an independent and not-for-profit corporation that employs over 600 Albertans and is headquartered in Alberta.

ABC has always been governed by provincial legislation. The ABC Benefits Corporation Act (ABC Act), proclaimed in 1996, authorized three purposes for ABC:

1. to initiate, own, participate in or operate projects, plans or programs, and to provide related services, that are intended or designed to improve the health and well-being of the residents of Alberta and other customers of the corporation;
2. to provide or arrange for the provision of supplementary health benefit programs and related or associated benefit programs and services;
3. subject to the ABC Act, to continue the operation of the Alberta Blue Cross Plan (ABC Plan).

Since the proclamation of the ABC Act, concern has been expressed regarding ABC competing directly in the supplementary health care insurance industry to which private insurance companies do have access, and unfairly enjoying competitive advantages.

In August 2002, The Minister of Health and Wellness established The Alberta Blue Cross Review Committee (Committee) to review the competitive advantages enjoyed by ABC. The Committee was also asked to review ABC's business activities within the context of its legislative framework, ABC's legal status, its status as a not-for-profit organization, its governance and accountability structures, and any other relevant issues.

This report provides an overview of the Committee's findings and recommendations.

## II EXECUTIVE SUMMARY

The Alberta Blue Cross Review Committee's Terms of Reference were established by the Minister of Alberta Health and Wellness under Ministerial Order #93/2002. The Committee was established for the following purposes:

- To review the business activities of Alberta Blue Cross within the context of its legislative framework.
- To review the nature of the Alberta Blue Cross entity including its legal status, its status as a not-for-profit organization, and its governance and accountability structures.
- To identify and evaluate all competitive advantages enjoyed by Alberta Blue Cross.
- To identify and consider any other relevant issues.
- To provide a report to the Minister on the Committee's findings and recommendations by December 31, 2002.

In conducting its review, the Committee undertook the following procedures:

- Legal review.
- Document and historical review.
- Inquiry.
- Review of other provincial programs.
- Financial review of ABC.
- Accountability review of ABC.
- Review of ABC's business.
- Discussion.

This report provides an overview of the findings resulting from these review steps. It also provides the Committee's assessment and specific recommendations on key issues that have been identified. The following is a summary of the recommendations coming from this review:

### Key Recommendations

#### 1. That the accountability and transparency of ABC's governance be enhanced.

The ABC Benefits Corporation is a statutory corporation and therefore, is not "owned" in the traditional sense of the word. The members of its board of directors are appointed, in accordance with provisions of the *ABC Benefits Corporation Regulation* AR 272/96 (the "Regulation"), by the members of the board. A Nominating Committee comprising the current Chair of the Board and a representative of each of the Provincial Health Authorities of Alberta, the Institute of Chartered Accountants of Alberta and the Alberta Association of

Municipal Districts and Counties provide a list of at least two nominees for each vacant position. The regulation presently requires that the board consist of not fewer than five and not more than nine members.

The Committee is of the view that this process can be perceived as insular and raises questions of transparency and accountability. The Committee does not question the bona fides of any Board member, past or present, but is of the view that transparency and accountability would be enhanced if the Regulation were to be changed to permit the Minister to nominate persons to two positions on the Board. The actual appointment would continue to be made by the corporation.

Given the further recommendations made concerning reporting of financial results and operations, the Committee does not believe that there is a need to make the corporation either a crown-controlled organization or a provincial corporation under the *Financial Administration Act*, or an accountable organization under the *Government Accountability Act*.

A statutory corporation exists as a result of its enabling legislation. The corporation consequently does not need to be incorporated under another form of legislation such as the *Business Corporations Act* and is not subject to that Act. The ABC Act does not set any governance standards for the directors. While the directors must comply with common law principles, contemporary corporate governance standards such as those that are applicable to directors of insurance companies under the Insurance Act (audit committee, etc.) should be mandated by legislation for ABC's directors. The Minister should decide on those corporate governance standards, which he deems to be appropriate.

Given its not-for-profit status and its legislated purposes, ABC's financial operations and its results should be more transparent to Albertans. That portion of its business that ABC administers for the Government of Alberta should be segregated from its private sector and other operations. The corporation's published financial statements would then segregate and report the results from the two categories of business separately along with the revenues and expenses of these two business segments to demonstrate there is no ongoing cross-subsidization.

**2. That the ABC Plan be defined under the ABC Act. Pending the legislative amendment, the scope of the products and services that ABC offers should be controlled by way of a regulation under the ABC Act.**

The ABC Act and the legislation that preceded it give ABC the authority to operate the ABC Plan; however, the legislation does not define the scope of the ABC Plan. The scope of the ABC Plan has expanded over the years and now includes travel insurance. ABC defines the ABC Plan as a "business entity offering voluntary plans for the prepayment by subscribers to it of the cost of hospital and other health care services". ABC is of the view that all of its supplementary health plans fall within the ABC Plan.

ABC currently offers plans to employer groups and individuals that have an insurance (risk) component. While in many cases the insurance risk is minimal, the travel insurance plan has a significant insurance risk component for which ABC purchases reinsurance. ABC's

exemption from the *Insurance Act* means it does not have to meet the solvency and reserve requirements under that Act. Given the lack of a definition of the ABC Plan, conceivably, ABC could offer a range of health benefit plans such as critical illness insurance and disability insurance, which have a significant insurance risk component. Undertaking such high-risk insurance activities without the consumer safeguards under the Insurance Act could pose a financial risk to ABC and its subscribers. The type of insurance plans that ABC can offer should be restricted to health and employer benefit plans that have minimal insurance risk. This can be done by defining, by means of a regulation, the scope of the ABC Plan.

**3. That ABC's exemption from paying premium tax be removed.**

ABC is exempt from the payment of the 2% premium tax under the *Alberta Corporate Tax Act*. All insurance companies must pay a premium tax of 2% of the amount of their accident and sickness insurance premiums receivable during the tax year. The exemption gives ABC a distinct competitive advantage over insurance companies that sell products similar to ABC and which are subject to premium tax. The products that fall in this category are mainly the "subscription rate" programs providing supplementary health benefits for small employer groups (2 to 9 employees) and individual plans, and travel insurance plans. The premium tax advantage that ABC enjoys over private insurers is estimated to be \$2.6 million per year based on ABC's 2001 business. This tax advantage should be removed so that ABC would operate on a level playing field with private insurers.

**Other Recommendations**

- 4. It is recommended that the current exemption from the Insurance Act be retained for the corporation's operation of the ABC Plan, provided that scope of the ABC Plan is defined or controlled.**
- 5. It is recommended that the Minister continue to negotiate agreements solely with ABC (to administer the Alberta government extended health benefits programs) until such time as the Minister deems it would be in the best interests of Albertans to tender the Agreement.**
- 6. It is recommended that the Minister adopt strategies, which will ensure that Alberta government-sponsored plans are clearly distinguishable to the public from ABC's non-government sponsored plans. Such strategies should clearly attribute Alberta government-sponsored programs to the Government of Alberta.**
- 7. No change to the corporate structure or income tax regime is proposed.**

### III TERMS OF REFERENCE

The Alberta Blue Cross Review Committee's Terms of Reference were established by the Minister of Alberta Health and Wellness under Ministerial Order #93/2002. The Terms of Reference are as follows:

#### **PURPOSE:**

The Committee is established for the following purposes:

- To review the business activities of Alberta Blue Cross within the context of its legislative framework.
- To review the nature of the Alberta Blue Cross entity including its legal status, its status as a not-for-profit organization, and its governance and accountability structures.
- To identify and evaluate all competitive advantages enjoyed by Alberta Blue Cross.
- To identify and consider any other relevant issues.
- To provide a report to the Minister on the Committee's findings and recommendations by December 31, 2002.

#### **COMMITTEE ACTIVITIES:**

The Committee will perform the following activities to fulfil its purpose:

- Review the legal status, governance and accountability of Alberta Blue Cross.
- Review and define the "Alberta Blue Cross Plan" as referenced within the *ABC Benefits Corporation Act*.
- Identify the Alberta Blue Cross services, programs, and eligibility criteria, in the following categories:
  - Government Plans
    - Alberta Health and Wellness,
    - Other Alberta Government Plans,
    - Other Government Plans;
  - Employer / Group Plans;
  - Individual Plans.
- Obtain and review all required financial information of Alberta Blue Cross including but not limited to the following:
  - Breakdown of revenue sources;
  - Breakdown of expenditures;
  - Cost allocation methodology.



- Review the basis for determining the fee structure of Alberta Blue Cross.
- Review and compare other provincial extended health care and pharmaceutical programs.
- Identify and evaluate all competitive advantages enjoyed by Alberta Blue Cross.
- Review of any other relevant information necessary to the evaluation.
- In its evaluations, the Committee will not involve outside stakeholders who may have a vested interest in the outcome of the review.
- The Committee will have the authority to draw upon departmental resources as required to undertake the necessary work.
- The Committee can establish working groups, which will be assigned the necessary investigative work. The working groups will report to the Committee Chair.
- An outside independent consultant will be contracted to provide support to the Committee.

**MEMBERSHIP:**

The Committee will be composed of 7 individuals, including the external consultant, as follows:

- Marlene Graham, Q.C., M.L.A. Calgary Lougheed, Chair
- Peter Hegholz, Director Financial Planning, Alberta Health and Wellness
- Herb Schlotter, Corporate Counsel, Alberta Health and Wellness
- Arthur Hagan, Deputy Superintendent of Insurance and Financial Institutions, Alberta Finance
- Carol Patrick, Senior Analyst – Tax Policy, Alberta Finance
- Richard Whitehouse, Director Risk Management and Insurance, Alberta Revenue
- Bernard Rodrigues, External Consultant.

**TERM AND REMUNERATION:**

The members' term will expire December 31, 2002.

The external consultant will be remunerated in accordance with the agreement entered into with the Minister.

The Chair and other members are entitled to be paid travelling and living expenses in accordance with the Subsistence, Travel and Moving Expenses Regulation made under the *Public Service Act*, as amended, as though they were employees of the government, and such other expenses necessarily incurred in the performance of duties related to the Committee with the prior approval of the Deputy Minister or his designate.

## IV THE REVIEW PROCESS

The Committee's process for reviewing ABC reflected the Terms of Reference as specified in the Ministerial Order #93/2002. The Committee undertook the following procedures:

- **Legal Review**

Alberta Justice officials undertook a legal review of ABC and its legislation. The results of this review was a legal interpretation of the definition of the "ABC Plan", and a review of ABC's exemption status relating to income tax and insurance premium tax.

- **Document and Historical Review**

Alberta Health and Wellness, Alberta Justice, and Alberta Finance officials undertook a thorough file search and historical review. The intent of this procedure was to obtain a historical understanding of ABC and an understanding of the "intent" behind the organizational structure of ABC.

Included in this procedure was a review of documents and letters that have been received by various government officials from interested and impacted citizens. The intent of this step was to identify the citizens' concerns regarding possible competitive advantages that ABC may enjoy.

- **Inquiry**

In response to the Committee's inquiries, ABC provided a detailed written submission and an in-person presentation, to the Committee. These responses were useful in providing ABC's perspective relating to the issues. ABC was also asked to respond to supplementary information requests that resulted from ABC's submission and presentation.

- **Review of other Provincial Programs**

The Committee reviewed the Supplementary Health Benefits programs of other provinces and territories. This review included inquiries sent to all Superintendent of Insurance offices of each province and territory. The purpose of this step was to identify other provincial models and determine their regulatory oversight and premium tax status.

- **Financial Review of ABC**

A review of ABC's financial reporting mechanisms and its overhead cost allocation methodology was undertaken. This review included an on-site visit and review of ABC's financial results and cost allocation mechanisms. Financial reports supplied to the Minister of Alberta Health and Wellness were also reviewed. The intent of this step was to evaluate the transparency of ABC's reporting to government, to review ABC's fee structure and to evaluate whether cross subsidization was taking place between ABC's government and private programs.

- **Accountability Review of ABC**

A review of ABC's legislated and practised accountability procedures was done.

- **Review of ABC's Business**

Utilizing a number of information sources, the Committee reviewed the nature of ABC's business. The intent of this procedure was to evaluate what portion of ABC's business could be considered to be in direct competition with the private sector.

- **Discussion**

The Committee met on five separate occasions to discuss the issues and the findings obtained from the various review procedures. The broad expertise and knowledge of the Committee members provided an insightful and penetrating look into the issues.

This report provides an overview of the findings resulting from this review. It also provides the Committee's assessment and specific recommendations on key issues that have been identified.

## V THE BUSINESS OF ALBERTA BLUE CROSS

ABC has been providing supplementary health care plan services to Albertans for over 54 years. ABC is an Alberta organization, headquartered in Alberta, that has always been governed by provincial legislation and is bound by national rules governing Blue Cross organizations in Canada. ABC employs over 600 Albertans. By law, and by the national “Blue Cross” standards, ABC must be “not-for-profit” and has never had any shareholders. Since its origin, ABC has been exempt from the provisions of the Insurance Act and has been exempt from paying premium tax.

ABC touches and concerns over 1.2 million Albertans through a variety of products and services which are summarized below:

- Administration of Alberta Health and Wellness’ sponsored supplemental health care coverage for seniors and non-group members, and Alberta Human Resources and Employment sponsored Alberta Child Health Benefit and income support programs.

Non-group coverage is subject to premiums and is available to all Alberta residents provided their Alberta Health Care premiums are paid, they are under 65 years of age and they are not eligible to receive the Alberta Widows’ Pension.

Alberta seniors and widows coverage is premium free and is available to all Alberta residents who are 65 years of age or older, or who are over 55 years of age and qualify for the Alberta Widows Pension Plan through Alberta Human Resources and Employment. Eligibility for this coverage is also conditional upon the resident’s Alberta Health Care premiums being paid.

- Prepaid supplementary health care plans and services to over 3,500 employer groups, for as few as two employees and up to tens of thousands. These employer groups are both government departments and agencies and private businesses.
- A wide range of individual health plans for Albertans up to age 65 who are self-employed or without employer-sponsored health benefits. As well, a range of individual health plans for Albertans 65 and over to complement their Alberta government-sponsored seniors’ coverage.
- Additional services to the Alberta government regarding health care issues and policy. These include:
  - special authorization of specific prescription drugs;
  - administrative and scientific support for the Minister’s Expert Committee on Drug Evaluation and Therapeutics;
  - communication and interaction with Albertans on behalf of Alberta government program sponsors;
  - membership in the Alberta Management Committee on Drug Utilization;
  - administration of the Palliative Care Drug Program, Multiple Sclerosis (MS) Drug Program (including on-going support to MS Drug Panel), Checkpoint Trial Prescription Program and Seniors Drug Profile;

- responsibility for the Alberta Health and Wellness Drug Benefit List (“DBL”) annual publication and quarterly updates;
- administration of Least Cost Alternative (LCA) pricing program;
- distribution and communication of the DBL and Alberta Human Resources and Employment Drug Benefit Supplement to all Alberta pharmacists and physicians, and posting of the DBL and related documents on the Internet;
- data support to the Pharmacy Information Network operated by Alberta We//Net.

In 2001, ABC processed 19.6 million claims with a value of \$815 million.

ABC's operations are divided into two main categories; administrative services only (ASO) programs and other programs for which ABC charges a "subscription rate". The ASO programs are not insurance, as ABC simply pays claims for a contracting party who reimburses ABC the full amount of the claims plus an administration fee. For the "subscription rate" programs, ABC estimates the claims that are likely to be made during a given year and charges a rate based on that estimate. ABC covers any shortfall in the subscription rate paid by a subscriber and retains any surplus. In essence, ABC pools the premiums and claims for all subscribers of those plans, which is similar to an insurance scheme. ABC also offers travel insurance, which has a significant risk component. ABC purchases reinsurance from private insurers to cover its travel insurance risk. ABC also distributes life and disability products from Blue Cross Life Insurance Company of Canada as supplemental components of their group and individual health plans.

About 85% of ABC's business is ASO with respect to prepaid supplementary health plans and services. Fourteen point four percent (14.4%) of its business is prepaid subscription rate business and 0.6% of its business relates to the provision of true “insurance” products such as “out-of-country” emergency medical coverage (travel insurance). [See Appendix A for a dollar amount and percentage breakdown of ABC Revenue for 2001.]

As a local Alberta based company, ABC does not enjoy many of the benefits that national insurance companies have available such as large pools of capital for technology / research / development, national market base, national advertising, sponsorship of agents and sales incentive programs, wealth management products and services, and cross-selling of products and services etc. It does however enjoy the name recognition and goodwill of the Blue Cross trademark, and years of corporate identity in Alberta.

ABC has established a market niche by focusing its products on small business, individuals who do not have coverage through employers or government-sponsored programs, and seniors through plans that complement government programs. ABC has placed emphasis on serving rural Alberta through a network of branch offices.

As part of ABC's legislated purpose (to initiate and participate in projects designed to improve the health and well-being of the residents of Alberta), ABC has assumed a role in supporting wellness-related initiatives. Examples include participation in the Alberta Tobacco Reduction Alliance, and supporting the Alberta Centre for Injury Control and Research. In addition, the ABC 50th Anniversary Scholarship program, offered through the ABC Benefits Corporation Foundation, provides educational support to more than 60 aboriginal and special needs Alberta

students annually, who are pursuing post-secondary studies in health and technology related fields.

The Committee reviewed the supplementary health benefits programs of other provinces and territories to identify other provincial models and determine their regulatory oversight and premium tax status. The review determined that there is no standard approach for regulating supplementary health benefits programs and for applying premium tax to such programs. Nine jurisdictions responded of which seven have supplementary health benefits programs operating in their jurisdiction (see Appendix B). Of the seven jurisdictions, four regulate health benefits programs under their Insurance Act. The situation is similar with respect to premium tax in that there are nine organizations operating in the seven jurisdictions, six are subject to premium tax and three are exempt.

The review indicates that the treatment of ABC in Alberta is not unique and is similar to the way Saskatchewan, Manitoba and Ontario treat their supplementary health benefits programs.

Further information on Alberta Blue Cross and the Canadian Association of Blue Cross Plans can be obtained on the following web sites.

Alberta Blue Cross: <http://www.ab.bluecross.ca>

Canadian Association of Blue Cross Plans: <http://www.bluecross.ca>

## VI COMMITTEE FINDINGS

### ISSUE #1

#### **Are ABC's Business Activities Within Its Legislative Framework?**

The ABC Act was proclaimed in 1996. The ABC Act sets out three purposes of the corporation:

1. to initiate, own, participate in or operate projects, plans or programs, and to provide related services, that are intended or designed to improve the health and well-being of the residents of Alberta and other customers of the corporation;
2. to provide or arrange for the provision of supplementary health benefit programs and related or associated benefit programs and services;
3. subject to the ABC Act, to continue the operation of the ABC Plan

The ABC Act does not provide a definition of the ABC Plan, but instead provides for the continuation of the ABC Plan.

In their submission to the Committee, ABC defined the ABC Plan as a “*business entity offering voluntary plans for the prepayment by subscribers to it of the cost of hospital and other health care services. It is not deemed to be carrying on the business of insurance, and it operates without the purpose of gain, i.e. not-for-profit.*” Currently, ABC is of the view that all of its supplementary health plans including its travel insurance program fall within the ABC Plan. In other words, it believes that anything it does in the legitimate conduct of its mandate under the ABC Act can be essentially viewed as being within the ABC Plan and its legislated purpose. No distinction is made between the Alberta Government sponsored programs administered by ABC, and its private and other government sponsored programs.

Although ABC views the ABC Plan to be the “business entity”, it is the Committee’s view that the Plan is better defined as the main focus of the ABC Benefits Corporation's business activities and that the ABC Benefits Corporation is the business entity.

A historical search revealed that the term “Alberta Blue Cross Plan” was likely carried over from legislation, which pre-dated the ABC Act. The most recent legislation, which did define the Plan, was in 1981 (*The Alberta Hospital Association Act*) where the Alberta Hospital Association (as it had become) was mandated to continue the operation of the ABC Plan for the prepayment of “hospital and other health care services”. “Other health care services” were defined as including: drugs, medications, supplies, and appliances related to health care. Documents obtained by the Committee suggested that the ABC Plan was interpreted broadly to include voluntary programs for which customers are willing to pay premiums as well as government sponsored programs.

In its submission in support of stand-alone legislation delivered in 1995, ABC advised that “supplementary health benefits” mean coverage for health-related services that are not publicly funded. This seems to suggest that supplementary health benefits programs are separate from the publicly funded programs that ABC administers for the government. Given that the ABC Act

lists the provision of supplementary health benefits programs as a separate purpose from the operation of the Blue Cross Plan, it can be argued that the supplementary health benefits programs are not part of the Blue Cross Plan. This conclusion however would appear rather narrow and would not reflect the fact that the scope of the programs provided under the ABC Plan has expanded over the years, for example the inclusion of the travel insurance program.

The Committee concluded that a sound legal argument can be made that ABC has been given the authority to provide a wide variety of health care services under the ABC Plan.

The ABC Act can be viewed at the following website:

<http://www.qp.gov.ab.ca/Documents/acts/A01.CFM>

The ABC Regulations can be viewed at the following website:

[http://www.qp.gov.ab.ca/Documents/REGS/1996\\_272.CFM](http://www.qp.gov.ab.ca/Documents/REGS/1996_272.CFM)

## OPTIONS

1. Maintain current status where in essence anything that ABC does in the legitimate conduct of its mandate under the ABC Act shall be interpreted to be part of the ABC Plan.

**Pros:** No disruption in ABC's operations. ABC also retains the ability to determine which of its products and services fall within the ABC Plan.

**Cons:** Without a clear definition of the ABC Plan in the ABC Act, ABC could expand the scope of the ABC Plan into areas such as critical illness insurance and disability insurance that would expose ABC to significant financial risk.

2. The ABC Act be amended so that the ABC Plan could be defined and that the definition be rationalized with the references to the ABC Plan in other legislation. In the interim pending the legislative amendment, the products and services that ABC shall deliver and the scope of the ABC Plan should be controlled by way of a regulation under the ABC Act. The regulation should also circumscribe the scope of the travel insurance program and its underlying reinsurance.

**Pros:** Provides clarity as to which services and products are within the scope of the ABC Plan. This would limit ABC's current broad authority to expand the scope of its activities into high-risk insurance products.

Clarifies the scope of the exemption from the Insurance Act for the corporation's operation of the ABC Plan.

Ensures the exemption from the Insurance Act is reasonable given the level of risk in the company's business.

**Cons:** ABC would lose the current broad authority to develop innovative products given the proposed definition of the ABC Plan.



## **RECOMMENDATION**

It is recommended that the ABC Act be amended to define the ABC Plan and pending the legislative amendment that the products and services that ABC shall deliver and the scope of the ABC Plan should be controlled by way of a regulation under the ABC Act. This would clarify the products and services that fall within the context of the ABC Plan and that are exempt from the Insurance Act.

## ISSUE #2

### **ABC's Status as a Statutory Corporation and its Governance**

The ABC Benefits Corporation has been created through a special Act of the Legislature (The ABC Benefits Corporation Act).

The ABC Benefits Corporation is a statutory corporation and therefore, is not “owned” in the traditional sense of the word. Its directors are prohibited from receiving distributions of its profits and the corporation is prohibited from disposing of any part of its operations without the approval of the Lieutenant Governor in Council (LGIC). The LGIC may also order that the corporation be wound up.

A statutory corporation exists as a result of its enabling legislation. The corporation consequently does not need to be incorporated under another form of legislation such as the Business Corporations Act. However, the corporate governance standards in the Business Corporations Act do not apply to a statutory corporation unless the incorporating Act states so.

The ABC Benefits Corporation Act does not set any corporate governance standards except for the provisions of the Regulation respecting the composition and appointment of board members. The mandate of a statutory corporation is necessarily restricted to the purposes specified in the enabling legislation. Consequently a statutory corporation does not have the powers of a natural person (i.e. no restrictions on its business powers as in the case of a corporation under the Business Corporations Act).

The Regulation (Regulation) states that the board shall consist of not fewer than 5 and not more than 9 members and that the members of the board shall be appointed by the members of the board then in office. In making appointments, the board shall ensure that the membership of the board represents a broad and diverse cross-section of Albertans and that the membership meets the requirements of the Canadian Association of Blue Cross Plans. Like the ABC Act, the Regulation does not set any standards of conduct for the members of the board.

Given that the members of the board appoint the members of the board, there is no clear line of accountability to the key stakeholders (Albertans). The Committee is of the view that this process can be perceived as insular and raises questions of transparency and accountability. This is compounded by the fact that there are no statutory corporate governance rules in place and that the members of the board are governed only by common law principles respecting the responsibilities of directors. The Business Corporation Act and more particularly the Insurance Act under which Alberta insurance companies are incorporated, set out clear responsibilities for directors. In the case of the Insurance Act, which seems more appropriate for the corporation, given the nature of its business, the following are the key corporate governance provisions respecting directors:

1. The duty to manage or supervise the management of the business and affairs of the company.
2. The responsibility to establish an audit and a conduct review committee.
3. The responsibility to appoint an actuary.

4. The duty of care, that is:

- a) to act honestly and in good faith with a view to the best interest of the company, and
- b) to exercise the care, diligence and skill that a reasonable and prudent person would exercise in comparable circumstances.

It should be noted that in June 2002, ABC established a terms of reference for its board of directors and its audit committee, and corporate bylaws. These new documents address all but the third governance provision identified above (the responsibility to appoint an actuary). Since ABC has begun the process of setting governance rules in place, it is not anticipated that they would object to formalizing this requirement in the ABC Act.

From a financial reporting perspective, the ABC Corporation Act requires the corporation to submit an annual report to the Minister including the corporation's audited financial statements and any other information required by the Minister. An annual review of these audited financial statements is done by Alberta Health and Wellness officials to identify any financial concerns and to ensure that ABC's programs fall within its legislated mandate.

However there is no breakdown in ABC's Audited Financial Statements between ABC's Alberta government programs and its other government and private programs. It is therefore difficult for the government to evaluate on a corporate basis, the total cost of providing the Alberta government programs vis-à-vis, other governments and private programs. In addition, it is difficult to determine to what extent (if any), cross subsidization is taking place over the short to medium term. This concern is more fully addressed in Issue # 7.

To compensate for the lack of segmented financial reporting, ABC has provided an audited "Alberta Health and Wellness Programs - Operating December 31, 2001" which identifies the revenues and expenses specifically for Alberta Health and Wellness programs. This statement however is released privately only to Alberta Health and Wellness and is not readily available to the public.

Transparency of ABC's financial performance is a concern, as is the apparent lack of financial accountability to Albertans other than through the Minister, given the absence of statutory corporate governance standards.

## OPTIONS

1. Maintain the current legal status.

**Pros:** Allows the Lieutenant Governor in Council, by regulation, to prohibit and restrict ABC's exercise of its powers, the carrying out of its purposes and the performance of its duties under the ABC Act. The government also has the power to direct the distribution of ABC's assets.

**Cons:** Does not address the Committee's concern about the need to enhance the current governance and accountability framework.

2. Incorporate ABC as a not-for-profit corporation under Part 9 of the Companies Act and repeal the ABC Act.

**Pros:** Incorporates the corporate governance standards applicable to corporations (not-for-profit). Gives ABC the ability to determine its objects in its memorandum of association under the Companies Act.

**Cons:** The government loses the ability to make regulations governing, prohibiting and restricting ABC's exercising of its powers, the carrying out of its purposes and the performance of its duties. The government would also lose the ability to direct the disposition of ABC's assets including in a winding up situation, all or part of its operations as a going concern. Does not fully address the Committee's governance and accountability concerns.

3. Amend the ABC Act to include the key corporate governance standards as set out in the Insurance Act and amend the ABC Benefits Corporation Regulation to allow the Minister to nominate persons to be appointed to two positions on the board.

**Pros:** Would enhance the governance and accountability of the corporation and address most of the committee's concerns. With more public oversight, the corporation may improve its efficiency.

**Cons:** With more information being made available to the public, the corporation may incur additional costs in responding to inquiries from the public.

Could cause some well-qualified individuals to decline appointment to what is a quasi-voluntary role.

## RECOMMENDATION

It is recommended that the Minister propose amendments to the ABC Act and that the ABC Benefits Corporation Regulation be amended in accordance with Option #3.

## ISSUE #3

### **Competitive Advantage – Exemption From Income Tax**

ABC is incorporated under the ABC Act as a not-for-profit corporation with no share capital. Section 5 of the ABC Act prohibits the corporation from distributing surplus assets or earnings to the members of the board or to any of the officers or employees of the corporation. This structure ensures that the corporation meets the continuing requirement of the Canadian Association of Blue Cross Plans that all members be not-for-profit entities.

ABC is a financially successful corporation, competing in the commercial mainstream. The net assets of the company have increased from approximately \$34.4 million in 1995 to \$51.6 million in 2001. The company is using its surpluses to maintain reasonable subscription rates, and improve the range of products and services it offers to its customers. The surpluses also provide reserves to meet future operating requirements, and cover economic fluctuations and the risks associated with operation of the subscription plans.

As a statutory corporation, the company's mandate is specified in its legislation. This mandate includes the requirement "to initiate, own, participate in or operate projects, plans or programs, and to provide related services, that are intended or designed to improve the health and well-being of the residents of Alberta and other customers of the corporation". The Committee believes that the company is fulfilling this mandate.

As an Alberta based company, ABC has identified a market segment that most insurance companies are not interested in. It focuses its products on small business, particularly those with two to nine employees, individuals who do not otherwise have supplemental health care coverage, and seniors. It provides service to rural Albertans through its network of branch offices around the province. ABC provides many different guaranteed issue (no medical examination or qualification) prepaid health plans that private insurers may not be interested in offering to the public. Such plans include non-group plans that provide prepaid health benefits to Albertans who have pre-existing medical conditions which would pre-empt their eligibility for coverage under private insurance plans.

ABC participates in programs such as the Alberta Tobacco Reduction Alliance and the Alberta Centre for Injury Control and Research. ABC also supports provincial initiatives including sponsorship of the activities of the Calgary Health Trust, Capital Care Foundation, Alberta Public Health Association, and Alberta Cancer Foundation. In addition, the Alberta Blue Cross Foundation provides educational support to more than 60 Alberta students annually pursuing post-secondary studies in health and technology related fields through its 50<sup>th</sup> Anniversary Scholarship program.

While programs such as these constitute a valuable service to Albertans, their participation represents an expense to the corporation. In comparison, private insurers are under no such obligation arising from the manner of their incorporation.

With the exception that none of the corporation's profits are distributed to its owners, the company uses its surpluses the same way as any other company would. However, ABC is exempt from both federal and provincial income tax. This means it can reinvest its entire surplus in any given year. In comparison, a taxable company in the same business has only its surplus net of tax to reinvest. It could thus be argued that its tax exemption provides ABC with a competitive advantage.

Just as the government has levelled the playing field between publicly and privately owned utility companies; it could level the playing field between ABC and private insurance companies. The *Payment in Lieu of Tax* (PILOT) regulation under the *Electric Utilities Act* requires publicly owned utilities to compute the income amount that would be subject to tax if the company were fully taxable. The company is then required to remit an amount equal to the combined federal and provincial taxes that would be applicable on that income. Such a requirement could be implemented with respect to all or part of ABC's income. For example, any net income from activities other than the administration of Alberta government programs could be treated as taxable. Alternatively, all of its income could be subject to this type of regulation. While this type of change would reduce or eliminate the competitive advantage in respect of the company's tax-exempt status, it is our view that such a change would result in the transfer of costs to Albertans and would not be appropriate at this time.

## OPTIONS

1. Retain the status quo with respect to ABC's tax exemption.

**Pros:** ABC would continue initiating and participating in programs to improve the health and well being of Albertans.

Surpluses would be reinvested in products and services for the benefit of subscribers.

**Cons:** The argument that ABC has a competitive advantage would likely persist.

The extra cash flow may reduce the need for the company to seek ways to improve efficiencies.

2. Introduce a PILOT program applicable to net income from all activities other than administrative services for Alberta government programs

**Pros:** Would remove much of the competitive advantage associated with the income tax exemption.

Would not impact ABC's status as a member of the Canadian Association

Decrease in cash may result in the company seeking ways to increase efficiencies.

**Cons:** The corporation could be less inclined to provide the same level of support for health initiatives.

Subscribers would face fee increases to cover the tax cost to the corporation.

Would reduce the amount of the surplus that could be reinvested to improve the products and services to subscribers.

Company would have to track taxable and non-taxable income separately to ensure amounts were properly reported

3. Introduce a PILOT program in respect of all of ABC's income for the year

**Pros:** Would remove all of the competitive advantage of the tax exemption and level the playing field between ABC and other insurance companies.

Would not impact ABC's status as a member of the Canadian Association of Blue Cross Plans.

Decrease in cash flow could force company to become more efficient.

Company would not have to segregate income between what was and was not taxable.

**Cons:** Cost of products would increase with the impact felt by ABC's customer base, which consists predominately of small businesses and rural customers.

Company may seek elimination of its public service mandate because it competes for business on the same basis as everyone else.

May be perceived as a step towards the privatization of Alberta's health services given ABC's close relationship with the government.

**RECOMMENDATION**

It is recommended that ABC retain its tax-exempt status.

## ISSUE #4

### **Competitive Advantage - Exemption From Insurance Act**

The Insurance Act is deemed not to apply "in respect of the corporation's operation of the ABC Plan". The insurance exemption appears to have been amended and expanded to keep pace with changes to the scope of the Plan.

ABC's response to the Committee's questions clearly indicates that the organization does not consider itself to be in the insurance business.

If ABC's assertion that they are not an insurer or do not offer insurance is correct, then there would seem to be no need for the insurance exemption in the first instance. The fact that this exemption, in one form or another, has continued for more than 50 years suggests that other opinions as to the insurance nature of ABC's activities exist or could be raised.

Review of the department's legislative file on the ABC Act does not indicate where various policy decisions were made. However, it is quite clear that options of continued exemption under the Insurance Act and incorporation as an insurance company to be governed by the Insurance Act were considered.

In 1995, prior to the creation of the ABC Act, consideration was given to incorporating ABC as an insurance company under a special Act of the Legislature, the improvement of financial and reporting standards, and clarification of the government's regulatory role and liability to address issues that arise from Blue Cross' exemption from the Insurance Act.

ABC's main purpose is to provide pre-paid supplementary health benefits programs. The pre-payment concept minimizes the insurance risk associated with supplementary health benefits programs. Nevertheless, there is an insurance component and it is likely that the Insurance Act would apply if the "insurance" portion of the corporation's operations were to be carried on by another entity.

An Alberta insurer must be incorporated under the Insurance Act and be licensed under the Act to carry on the business of insurance in Alberta.

Given the exemption from the Insurance Act, ABC is not required to be a member of CompCorp, an insurance industry operated and funded plan to protect the policyholders of insolvent life and health insurers. As a result, there is no backstop for ABC's subscribers if there were a catastrophic loss.

The highest risk product offered by ABC is the travel insurance program. However, ABC purchases reinsurance to protect its exposure. The travel insurance business represents about 0.6% of gross revenues and given the fact that the business is reinsured, it presently is not seen to pose a significant financial risk for ABC.



## OPTIONS

1. Retain the exemption from the Insurance Act provided that the government controls the scope of ABC's programs and services.

**Pros:** ABC would not have to meet the various solvency and financial reporting requirements in the Insurance Act. The cost of compliance such as the cost of doing actuarial valuations of reserves, membership fees and assessments for CompCorp, and the licensing of sales consultants to sell fairly structured, simple products could be substantial.

**Cons:** Even though the directors appear to exercise prudent financial management, there are no financial safeguards in the ABC Act similar to those in the Insurance Act to ensure that ABC maintain sufficient assets to meet its liabilities to its subscribers. CompCorp does not cover ABC's subscribers.

2. Remove the exemption from the Insurance Act and license ABC under the Insurance Act.

**Pros:** Compliance with the solvency requirements of the Insurance Act would reduce the probability of ABC not being able to meet its obligations to its subscribers. It would also give broader business powers such as those permitted under the Insurance Act which would allow ABC to undertake other financial services.

Creates a level playing field with private insurers. Gives consumers the protection afforded under the Insurance Act for insurers, including membership in the industry consumer protection plan for insolvent insurers, CompCorp.

**Cons:** Compliance with the Insurance Act would impose additional costs to ABC and these costs would very likely have to be passed on to its subscribers given that ABC operates as a not-for-profit organization. The additional cost may be unnecessary given the minimal insurance risk associated with ABC's subscription rate programs, which represent less than 15% of its business. Also, if compliance means that ABC would require additional surplus (capital), this would pose a problem because it does not have the ability (legal) to raise capital.

Would require the repeal of the ABC Act and the incorporation of ABC under the Insurance Act.

3. Make ABC subject to the Insurance Act with respect to its business that falls within the definition of insurance (the subscription rate business and travel insurance program).

**Pros:** Creates a level playing field with private insurers. Gives consumers the protection afforded under the Insurance Act for insurers, including membership in the industry consumer protection plan for insolvent insurers, CompCorp.

**Cons:** From an accounting perspective, it would be extremely difficult and costly to segregate the corporation's assets and accounting for regulatory compliance and reporting. Cost of compliance could also be a factor. These costs could include the cost of membership in CompCorp and the exposure for the payment of assessments if another insurer becomes insolvent. It would likely necessitate the creation of a subsidiary incorporated under the Insurance Act to do the insurance business, which

would result in duplication of many of the corporate costs such as audits and financial reporting.

**RECOMMENDATION**

Retain the current exemption from the Insurance Act for the corporation's operation of the ABC Plan provided that the government controls the scope of ABC's programs and services.

## ISSUE #5

### **Competitive Advantage - Exemption From Premiums Tax**

ABC's operations are divided into two main categories; administrative services programs and other programs for which ABC charges a "subscription rate". For the administrative services programs, there is no insurance risk as ABC simply pays claims for a contracting party who reimburses ABC the full amount of the claims plus an administration fee. For the "subscription rate" programs, ABC estimates the claims that are likely to be made during a given year and charges a rate based on that estimate. ABC covers any shortfall in the subscription rate paid by a subscriber and retains any surplus. In essence, ABC pools the premiums and claims, which is similar to an insurance scheme. ABC also offers travel insurance, which has a significant risk component. ABC purchases reinsurance from private insurers to cover its travel insurance risk.

The administrative services programs represent 85% of ABC's revenues. Travel insurance represents .6% and the remainder 14.4% are "subscription rate" programs.

While all insurance companies must pay a premium tax of 2% of the amount of their accident and sickness insurance premiums receivable during the tax year under the Alberta Corporate Tax act, ABC is exempt from this requirement. This gives ABC a distinct competitive advantage over those insurance companies that sell products similar to ABC and which are subject to the premium tax. The products that fall in this category are mainly the "subscription rate" programs for small employer groups (2 to 9 employees) and individual plans. According to ABC, traditional insurers are not interested in this type of insurance business.

The Alberta Corporate Tax Act requires an insurance company to pay a premium tax of 2% of its accident and sickness insurance premiums receivable during the tax year. An insurance company is defined in the Alberta Corporate Tax Act as a person or corporation carrying on in Alberta the business of insurance within the meaning of the Insurance Act. Accident and sickness insurance is defined in the Corporate Tax Act as having the meaning given to that expression in the Insurance Act. Although there is reference within the Alberta Corporate Tax Act to the Insurance Act, this reference appears to be for the purpose of defining "insurance". The Committee is of the opinion that a company can be obligated to pay the premiums tax while also being exempt from the Insurance Act. It is the Alberta Corporate Tax Act, which creates the obligation to pay the premiums tax, not the Insurance Act.

Prior to the passage of the ABC Act in 1996, ABC by virtue of its legislation was deemed not to be carrying on the business or undertaking of insurance in furnishing prepaid services to subscribers. As a result of this provision, ABC was not required to pay premium tax. However, in 1996 the wording of the exemption changed in that Section 12 of the ABC Act states that the Insurance Act is deemed not to apply in respect of the corporation's operation of the ABC Plan. This provision by itself does not exempt ABC from the Alberta Corporate Tax Act.

Accident and sickness insurance is defined under the Insurance Act as follows:

Accident insurance: insurance by which the insurer undertakes, otherwise than incidentally to some other class of insurance under the Insurance Act, to pay insurance money in the event of accident to the person insured, but does not

include insurance by which the insurer undertakes to pay insurance money both in the event of death by accident and in the event of death from another cause.

Sickness insurance: insurance by which the insurer undertakes to pay insurance money in the event of sickness of the person insured, but does not include disability insurance.

From the perspective of the Alberta Corporate Tax Act, some of ABC's programs clearly fall within the definition of accident and sickness insurance under the Insurance Act. However, given section 12 of the ABC Act it does not appear that ABC is subject to the Alberta Corporate Tax Act for those programs that fall within the ABC Plan.

It is clear that the Alberta Corporate Tax Act in the context of premium tax does not apply to the administrative services programs offered by ABC and private insurers given that these programs have no insurance component.

## OPTIONS

1. Maintain the exemption and clarify the scope of the exemption by defining which programs fall within the ABC Plan.

**Pros:** ABC would continue to offer their "insurance" products at a cheaper rate to the benefit of its subscribers, than if those products were subject to premium tax. In absolute dollars, it represents a savings of approximately \$2.6 million based on 2001 business.

**Cons:** Private insurance companies in competition with ABC would continue to be at a competitive disadvantage against ABC.

2. Remove the exemption.

**Pros:** Creates a level playing field for all insurers including ABC.

**Cons:** Could result in an increase in the "premium" cost for small employer groups (2 to 9 employees) and individual subscribers for those plans that are "insurance" plans. The sum total of the increase would be in the range of \$2.6 million based on 2001 business.

## RECOMMENDATION

Remove the premium tax exemption for ABC from the Corporate Tax Act.

## ISSUE #6

### **Competitive Advantage - Contract With Government is not Tendered**

The business arrangement with ABC has been made without using a competitive tendering or Request for Proposal (RFP) process. Such an arrangement is a policy decision of the government and there is no legal requirement to tender the ABC Agreement.

If a new vendor were awarded the contract considerable system wide changes would be required:

- A number of computerized systems are in place to manage the adjudication and payment of benefits. These systems are tied directly to ABC, Alberta government departments, pharmacies, and other benefit providers. This would require changes to the software / programming for all pharmacists, and some Alberta Aids to Daily Living (AADL) vendors. The Alberta government would likely have to absorb any related costs.
- Administrative and procedural changes would be required within the department. There would be a significant learning curve with a risk of service degradation. These changes would require months of planning and several months to implement. The administrative costs would be significant. These costs have not been estimated.

The provision of supplementary health benefits through any other provider could be interpreted as being contrary to the *Alberta Health Care Insurance Act* and other legislation, particularly if the provider is other than a “not-for-profit” organization.

Various legislation makes specific reference to ABC or the ABC Agreement and would require amendment if the ABC Agreement ceased to exist. Examples include:

- The Alberta Health Care Insurance Regulation A.R. 307/89 contains the administrative rules for registration, duration of enrolment and cancellation of membership in the Blue Cross Plan for non-group members.
- The *Health Care Insurance Premiums Act* allows the Lieutenant Governor in Council to make regulations prescribing the premiums payable respecting enrolment for non-group Blue Cross Plan membership, and Regulation 271/81 deals with premiums, premium subsidies, and premium exemption for seniors.

The existing ABC Agreement requires that, in the event that the Minister terminates the agreement, the Minister must reimburse ABC for costs necessarily incurred to reduce ABC staff, equipment and the size of its office operations. The costs have not been estimated but would be significant.

Under agreements that ABC has with government departments, ABC provides a number of ancillary services, which require considerable expertise (see Section V - The Business of Alberta Blue Cross). It is unclear if other vendors would have the expertise or desire to provide this service. There is the possibility of separating these other services out of the master agreement however ABC may be unwilling to undertake these roles independent of their primary claims administration and adjudication role.

Alberta Health and Wellness' relationship with ABC has existed for over 50 years. There is considerable corporate goodwill and knowledge of business that has developed over the years. It is difficult to estimate the value of this goodwill, but it cannot be ignored. Examples of goodwill include: knowledge of business practices, the familiarity Albertans have with the ABC name, the confidence Albertans have gained in relying on ABC, and the long standing business relationships.

Since "public" non-group service is provided at a cost-recovery basis it is likely to be less attractive to private insurance companies. Competitors are likely primarily interested in ABC's "private business".

If the ABC Plan were to be managed by a "private-sector" company, there would be an expectation of profit. This potentially could result in a cost increase over the long term. With this profit, corporate shareholders would enjoy dividends and equity benefits at the cost of taxpayers and/or health care recipients.

Pursuant to Section 13 of the ABC Benefits Corporation Act, the Lieutenant Governor in Council may make regulations governing, prohibiting and restricting the corporation's exercise of its powers, the carrying out of its purposes and the performance of its duties under the act. It is possible that this control may be lost or reduced if a private company was to assume the operation of the ABC Plan.

ABC has provided Alberta Health and Wellness with an audited statement titled "Alberta Health and Wellness Programs - Operating December 31, 2001". This statement supports that Alberta Health and Wellness is receiving services at a fair price (actually below cost). Strong review controls can be established which would ensure the Government received optimal service for a fair price.

The ABC Agreement is likely exempt from the Agreement on Internal Trade (AIT) as supported by the following:

- Article 507 of the AIT states that the "agreement" does not apply to procurement contracts with a non-profit organization.
- Article 518 of the AIT states that "procurement" does not apply to any form of government assistance such as grants. Arguably the provision of supplementary health benefits is a form of government assistance.
- Annex 502.1B to the AIT exempts health services and social services. Health Services are not defined by the act. However, while ABC may be providing services with respect to the payment of claims for health services, this service is not likely a "health service" in the same vein as a direct service provided for example by a physician.
- Following the AIT procurement provisions could cause non-compliance with existing provincial legislation. Legislation takes precedence.
- Article 404 of the AIT requires each party to ensure that any measure that it adopts or maintains does not operate to create an obstacle to internal trade. The connection between the health system in Alberta, and the Blue Cross Plan spans more than 5 decades. Given the legislative and historical context of the Blue Cross Plan, it is unlikely that the enactment of

the ABC Benefits Corporation Act in 1996, and the establishment of a non-profit organization, could be construed as a measure which was intended to create an obstacle to internal trade.

The existing Agreement will expire March 31, 2003 however there is a continuation clause that maintains the agreement until terminated or renegotiated.

## OPTIONS

**Note:** Regardless of whether it is determined to use a tendering process to renew the ABC Agreement it is important that Alberta Health and Wellness retain the right to do so at all times. To ensure the Province has a strong negotiating position, the option to cancel the agreement and put it out to tender should always be available.

### 1. Tender the contract.

**Pros:** Ensures competitive bids and most competitive cost initially, however the result of tendering should be looked at over the long term.

Addresses concerns of ABC's competitors.

**Cons:** Requirement to compensate ABC for costs of downsizing in the event they are not the successful bidder.

The potential of increased disruption to the system, to health service vendors, and to Albertans. The potential disruption, vendor and administration retraining, and public reorientation to a different system, could lead to an increase in administrative costs. Some of these costs would be indirect and very difficult to quantify.

Potential loss of goodwill and 5 decades long business relationship. There is a risk of public frustration resulting changes or difficulties in accessing services.

ABC would lose its "economies of scale" and the increase in unit cost would very likely be passed on to its supplementary health benefits programs subscribers.

### 2. Maintain sole provider / outsourcing process.

**Pros:** Tendering costs and the costs of cancelling the current agreement are avoided.

Little disruption to the system and health service vendors.

Goodwill is retained.

The service provider retains surpluses and the government maintains the right to distribute the surpluses upon wind-up.

Retain a reliable, competent, provider with a well-established business relationship.

**Cons:** Less assurance of optimum bids and most competitive cost.

Continued perception of unfair / preferential trade practices.

**RECOMMENDATION**

It is recommended that the Minister continue to negotiate agreements solely with ABC to administer the government extended health benefits programs until such time as the Minister deems it would be in the best interests of Albertans to tender the agreement.



## ISSUE #7

### **Competitive Advantage - Possible Cross Subsidization of “Private Plans” by “Alberta Government Plans”**

Concern has been expressed that ABC’s private plans may be subsidized by surpluses that have been generated through the operations of ABC’s Alberta Government plans. It has been argued that this subsidization, if it exists, provides for an unfair advantage to ABC, which other insurance companies do not enjoy.

To determine whether or not cross subsidization has taken place, Alberta Health and Wellness undertook two reviews:

- The department requested that ABC provide an audited statement of operations, which would verify that ABC operates Alberta Health and Wellness programs on a cost recovery basis. The statement that ABC provided (“Alberta Health and Wellness Programs – Operating Statement December 31, 2001”) in fact showed a net operating loss of \$993,649 for the year ending December 31, 2001.
- A review of ABC’s costing methodology was initiated to evaluate whether the administration expenses reported in ABC’s statement titled “Alberta Health and Wellness Programs – Operating Statement December 31, 2001” were reasonable and fair.

The conclusion of these reviews is that ABC’s costing methodology and allocation of its “Administration Expenses” to Alberta Health and Wellness programs appears to be reasonable and fair. Also, the “Administration Expenses” amounts as reported in the “Alberta Health and Wellness Programs – Operating Statement December 31, 2001” appear to be reasonable.

ABC uses an activity based costing allocation methodology. The methodology follows generally accepted cost accounting practices and does not deviate from what Alberta Health and Wellness officials expected.

Other reasons supporting the reasonableness and accuracy of ABC cost allocation are:

- ABC's “Cost Pool” organizational / management structure, which allocates administration expenses through various levels of the organization supports the development of a fair and reasonable costing structure.
- The costing system has been in place, relatively unchanged, since 1996.
- ABC management underwent a GST audit in 1998 that would have reviewed the allocation of certain overhead costs to ensure that an appropriate amount was allocated to government business. No material adverse findings resulted from this audit.

It should be noted however that no review or audit was done to verify that ABC's “Administration Expenses” have actually been allocated in accordance with their documented methodology. This assurance will be provided through an Audit of Specified Audit Procedures to be undertaken by the Auditor General which is planned to commence in December 2002.

ABC’s public reporting mechanisms (Annual Report, etc.) do not provide a breakdown between Alberta government sponsored programs and other government and “private” programs. The

Alberta Health and Wellness Programs Statement of Operations is only released to Alberta Health and Wellness and is not publicly available. ABC has expressed concern about revealing segmented information in their audited financial statements or their annual report, fearing that by doing so they may be providing privileged information, such as margins on sales, to their competitors. By revealing this information, ABC fears their ability to compete in the marketplace could be compromised.

It could be argued that ABC's unique position, as a statutory corporation and the sole administrator of government auxiliary health benefit programs, increases its reporting and accountability obligation beyond that of its private competitors. The requirement to be accountable to the public in the form of more detailed financial reporting may supersede its need to protect its competitive information. The Committee feels that segmenting the Alberta government sponsored business from ABC's other business will not reveal damaging competitive information, since segmentation will only reveal details of the portion of business within which ABC's competitors are not able or willing to compete. ABC is not being asked to reveal any more information relating to their non-Alberta Government sponsored programs than is required of its competitors.

In conjunction with the review of ABC's costing methodology and the reports provided to Alberta Health and Wellness, the Committee also reviewed ABC's administration fee structure for Alberta Health and Wellness. This review determined that ABC charged fees in accordance with the agreement with Alberta Health and Wellness and that those fees were reasonable. The ABC administration fee structures of non-Alberta Health and Wellness programs were not reviewed.

## OPTIONS

1. Maintain current reporting mechanisms including an annual audited Alberta Health and Wellness Programs Statement of Operations.

**Pros:** Provides internal confirmation that cross subsidization is not taking place.

Incurs no additional costs to government.

Protects ABC's competitive information.

**Cons:** Does not address the public's concern regarding potential cross subsidization.

Does not provide the public with any financial information with respect to Alberta government programs.

2. Increase ABC's current reporting requirements to include segmented audited financial statements, which would break down its Alberta government-funded operations from its "private" group, individual, and other government operations.

**Pros:** Provides the public with transparent financial information relating to the operation of Alberta government funded programs.

Provides annual information on cross subsidization.

**Cons:** Does not address ABC's concern about the release of potentially damaging competitive information.

**RECOMMENDATION**

It is recommended that the Minister direct ABC to report its Audited Financial Statements on a segmented basis, separating the Alberta government funded programs from the private sector and other government operations to demonstrate there is no cross-subsidization and to provide transparency with respect to government funded programs.

**Note for clarification:** The segmented portion should only apply to Alberta government funded supplementary health benefits programs. Government employee group plans should be treated the same as any other private group plan and should not be reported under the Alberta government funded programs.

## ISSUE #8

### **Competitive Advantage – ABC Has The Advantage of Being The Initial Contact With Albertans**

ABC is the primary contact for Albertans who are seeking information relating to Alberta government sponsored supplementary health plans. When Albertans call ABC seeking information about drug insurance coverage, ABC conducts a qualifying interview and may promote its non-government sponsored plans (ABC's private plans) without doing a complete evaluation of the individual's needs to determine whether a government sponsored plan would be sufficient for that individual. Based on anecdotal evidence, Albertans may not be provided with full and complete notice of the types of plans available before purchasing one of ABC's private plans that provide broader coverage than the government sponsored plans. This process offers ABC competitive advantages over other private insurance companies that offer similar individual insurance plans.

The name of the drug program and the "ABC Non-Group Plans" may be confusing. Albertans may find it difficult to differentiate between the group (employer-sponsored) and non-group (government-sponsored) plans offered by ABC.

Alberta Health and Wellness staff spend considerable time explaining the differences between the private group and individual plans, and the government's non-group plan.

ABC introduced their individual plans (Personal Choice Plans A, B, C, and Seniors Plus Plans A, B, C) in 1995.

It is not necessary for ABC to be in the name of the government-sponsored drug plans. The plans do not need to be known as ABC drug plans. It is useful to consider the Ontario example. The publicly funded programs are known as the Ontario Drug Benefits Program (ODB). However, Green Shield, a federally incorporated not-for-profit organization, processes the drug claims for ODB.

The design of the ABC brochures and promotional materials is problematic. The documents do indicate the program is "Sponsored by Alberta Health and Wellness" however, the ABC name and logo is predominant. Consequently, the Government of Alberta may not receive appropriate recognition for public funds devoted to the provision of supplementary health benefits.

There is no distinct contact point for government sponsored programs, either via phone, via the Internet or in person at an ABC office. The phone numbers and web-sites that are provided in the government program promotional material are the same as those provided for non-government sponsored programs.

## OPTIONS

1. Maintain the current process and corporate identity but improve communications with Albertans by Alberta Health and Wellness.

**Pros:** Less costly.

**Cons:** Provincial government would incur additional administrative effort in communicating the distinction between government vs. non-government programs.

2. Contract with ABC to initiate procedures which require an evaluation of an individual's needs, and to explain to the individual all relevant government programs administered by ABC before offering its private program. The analysis should be in the form of a check sheet with the results documented for future reference.

**Pros:** Albertans would be better informed about the government-sponsored programs before electing to purchase broader coverage from ABC.

**Cons:** ABC would incur additional cost to do the more thorough evaluation of the individual's needs and could possibly lose some of the business it would have sold in the absence of the evaluation.

3. Cosmetic changes to promotional and information material, making the Alberta Health and Wellness logo more prominent and attributing the government sponsored programs more clearly to the Alberta government.

**Pros:** Distinction between government and non-government programs would be improved. Distinguishing the Alberta government plans will ensure the public recognizes that the benefits they are receiving are from public funded programs, as well as ensuring the public are fully apprised of public options so they can make a informed decision.

**Cons:** Those individuals who call ABC and who did not read the promotional material would not benefit from this change.

Does not fully address the concern that ABC promotes its own programs when contacted by an Albertan inquiring about government Programs.

Some initial costs would be incurred in the development of new promotional materials.

4. Distinct and separate initial contact points assigned for government-sponsored programs and distinction in the names of the government sponsored plans with no reference to ABC. Officials manning the phones would not promote non-government programs offered by ABC, but would direct the inquirer to another phone number.

**Pros:** ABC would be restricted from promoting its own programs when answering an inquiry regarding government programs. Any competitive advantage would be restricted.

**Cons:** Significant costs in developing a separate communication system and new promotional material. These costs would most likely be passed on to Alberta Health and Wellness.

The 50+ years of association with the ABC name may be lost. Albertans have grown to trust and appreciate the service of ABC – this goodwill may be lost.

Some Albertans who like the concept of one-stop shopping may get upset at being referred to another person to access ABC's private programs and see the referral as an unnecessary step.

## **RECOMMENDATION**

An internal committee of Alberta Health and Wellness is reviewing this issue.

The ABC Review Committee recommends that the Minister adopt strategies, which will ensure that Alberta government-sponsored plans are clearly distinguishable to the public from ABC's non-government sponsored plans. Such strategies should clearly attribute Alberta government-sponsored programs to the Government of Alberta.

## Appendix A

### Breakdown of Alberta Blue Cross Revenue for 2001

<u>Revenue Type</u>	<u>Revenue (000's)</u>	<u>Percent of Total Revenue</u>
<b>Administrative Services Only</b> (Plan Sponsor responsible for Claims Costs plus Fee for Services)		
Alberta Health & Wellness and Alberta Human Resources & Employment	\$485,971	56.14
Veterans Affairs Canada	25,810	2.98
Government of the Northwest Territories	558	0.07
Employer Groups	<u>222,824</u>	<u>25.74</u>
<b>Total Administrative Services Only</b>	<b>735,163</b>	<b>84.93</b>
<b>Minimal Claims Risk</b> (ABC establishes Annual Rate which includes Claims Costs plus Administration Fee)		
Remaining Employer Groups and Individual Health Plans	125,240	14.47
<b>Outside Canada Emergency Medical Coverage (Travel)</b>	<u>5,215</u>	<u>0.60</u>
<b>Total Revenue</b>	<b><u><u>\$865,618</u></u></b>	<b><u><u>100.00</u></u></b>

**SUMMARY OF SUPPLEMENTARY HEALTH BENEFITS PROGRAMS**

<b>Jurisdiction</b>	<b>Name of Entity</b>	<b>Pays Premium Tax</b>	<b>Subject to Insurance Act</b>	<b>Subject to other legislation</b>
British Columbia	Pacific Blue Cross	No	Yes	
Alberta	ABC Benefits Corporation	No	No	ABC Benefits Corporation Act
Saskatchewan	Blue Cross	No	No	Medical Services Incorporated Act
Manitoba	1 United Health Services Corporation	Yes	No	United Health Services Corporation Act
	2 Group Medical Services Inc.	No	No	The Group Medical Services Act
Ontario	1 Blue Cross Atlantic Canada	Yes	No	Prepaid Hospital and Medical Services Act
	2 Canassurance Hospital Service Association	Yes	No	Prepaid Hospital and Medical Services Act
Nova Scotia	Blue Cross Atlantic Canada	Yes	Yes	
Newfoundland	Blue Cross Atlantic Canada	Yes	Yes	
Yukon	PBC Health Benefits Society (Blue Cross)	Yes	Yes	
NWT	None			
Nunavut	None			