



*Creation of U.S.
Health Conversion Foundations*

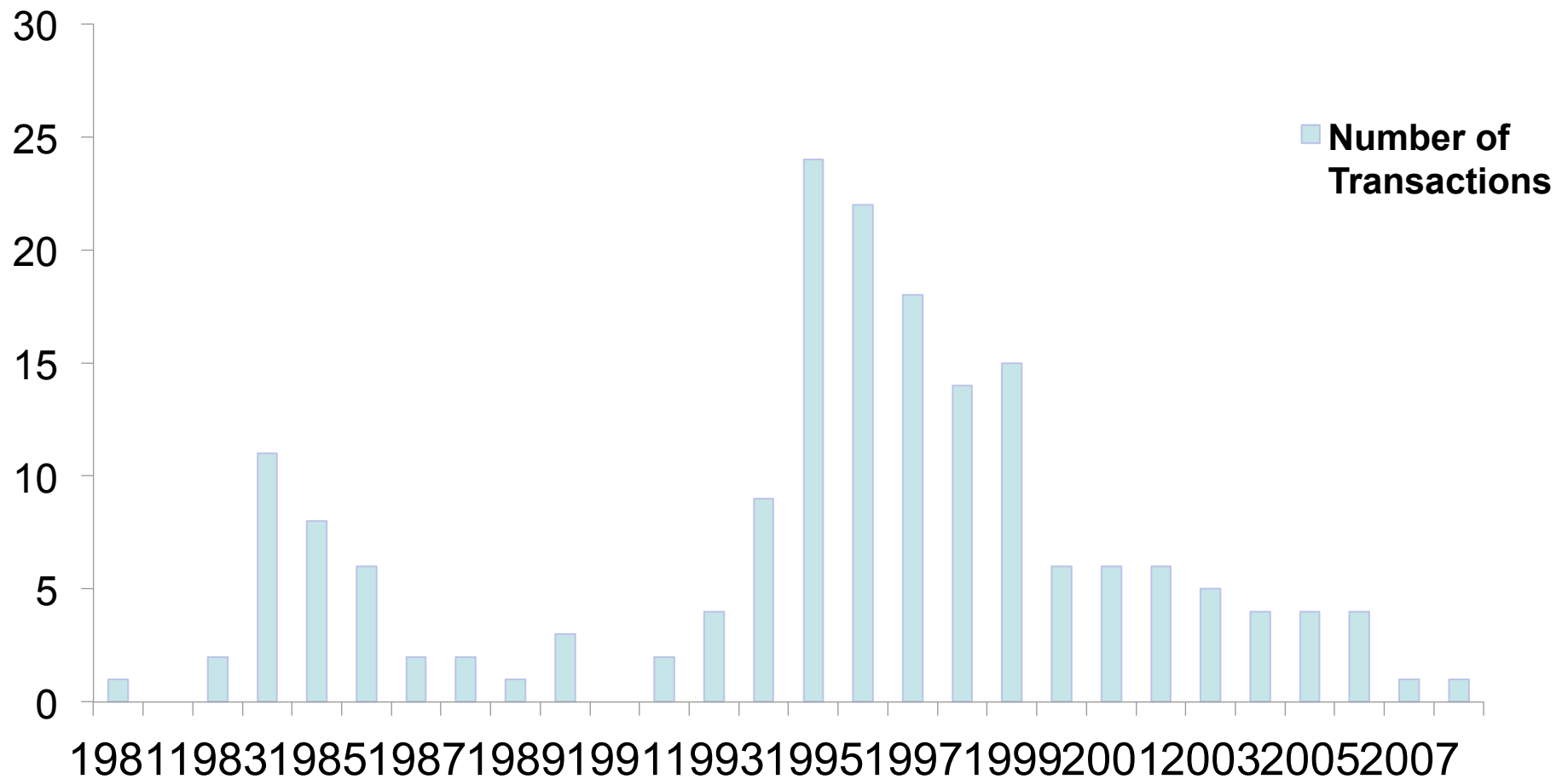
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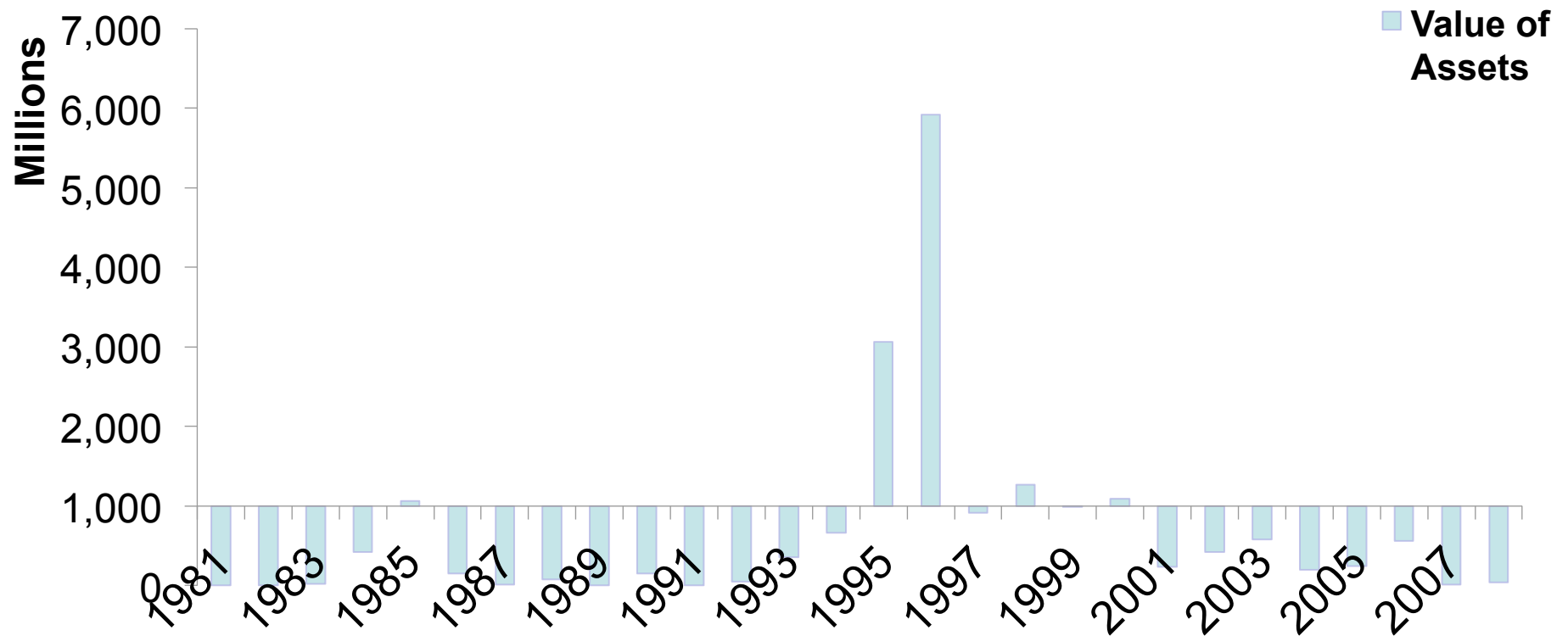
Creation of U.S. Health Conversion Foundations

- Beginning in the 1980s, approximately 200 foundations were formed, valued at over \$21.5 Billion (US)
- The foundations resulted from conversions of non-profit hospitals and health plans to for-profit companies
- Driving force: economic change in the health care sector

Nonprofit Hospital and Health Plan Conversions



Nonprofit Hospital and Health Plan Conversions



Strengthening the Legal Framework for Health Conversions

- Nonprofit hospitals and health plans are generally subject to state laws regarding nonprofit charitable organizations, and protections against private enrichment
- Diversion of nonprofit assets is subject to investigation by the state Attorney Generals
- However, most state laws allowed health plans and hospitals to convert to for-profit operation, with minimal oversight
- State laws did not always clearly require the assets to be properly valued, or transferred to an independent foundation

Undervaluation of Nonprofit Health Plans in Early 1980s

Health Plan	Initial Amount to Foundation (1984)	New Company Value (1984-85)	New Company Value (1995)	Total value preserved
Family Health Plan	\$38,456,000	\$135,628,000	\$1,711,000,000	2.25%
Foundation Health	\$78,000,000	\$302,500,000	\$1,783,000,000	4.16%
Pacificare Health	\$360,000	\$45,300,505	\$2,193,000,000	0.02%

Source: Clearinghouse Review, Aug-Sept. 1995

Consumer Advocates Pressure California Regulators

- Urged state Department of Corporations to “do its job” and ensure health conversion assets are properly valued
- Criticized the health plan and hospital executives in the media, for diverting nonprofit health plan assets from charity to their own private pockets
- Began pushing to create new, independent foundations to receive health conversion assets

1992: HealthNet Conversion Provides First Big Victory

- HealthNet claimed its assets were only worth \$104 million, based on internal valuation
- Consumer groups and state regulators pressured the company to agree to transfer 80% of its stock and \$300 million in cash to a new foundation (California Wellness Foundation)
- Regulators began to require converting health plans and hospitals to consider competing offers from other companies

1993: Citizens' Coalition Challenges Blue Cross Conversion

CALIFORNIA STATEMENT OF CONCERN

Blue Cross now controls \$2.5 billion which belongs to health care charities. When Blue Cross, formerly a nonprofit health maintenance organization, transferred 90% of its assets to Wellpoint, a for-profit insurance company, it did not transfer the value of its assets to charity, as California law required other HMOs to do when they converted to for-profit status. We want these funds, valued at \$2.5 billion, to be properly restored to the people of California and to be dedicated to activities that will improve the health of the people in the state, particularly the underserved. We call for the following steps to be taken:

- All of the funds be put into an independent foundation governed by a board of directors that is free of conflicts of interest and is reflective of the diversity of the state,
- A public process be created for guiding this expenditure and future similar transactions, and
- Criteria be developed in the public process for charitable grants to be made by the foundation.

Organization

Advocates for Nursing Home Reform
AFSCME Council 57
Associated CA Health Centers, Inc.
Butte County Health Care Coalition
CA Hispanic Health Care Assn.
CA Law Center on Long Term Care
CA Legis. Coun. for Older Americans
CA State Council of Service Employees
California Black Health Network
California Council of Churches
Center for Health Care Rights
Center for Health Care Rights
Children's Advocacy Institute
Congress of California Seniors
Consumer Action
Gray Panthers of Berkeley
Health Access
Latino Issues Forum
Lutheran Office of Public Policy
Marin Rainbow Coalition
N. Country Clinic for Women & Child.
No. CA District Council (ILWU)
Older Women's League of California
Rural Community Assistance Corp.

1996: California Endowment California HealthCare Foundation

- Large nonprofit health insurer (Blue Cross of California) was transformed into a private, investor-owned health insurance company
- Two new major foundations created:
 - The California Endowment (\$3.5 Billion)
 - The California HealthCare Foundation (\$640 Million)
- Mission to “improve access to affordable, quality health care and create fundamental improvements in the health status of all Californians”

1995 Law Review Article Alerts Public Interest Attorneys

The Pot of Gold: Monitoring Health Care Conversions Can Yield Billions of Dollars for Health Care

*by Eleanor Hamburger, Jeanne Finberg,
and Leticia Alcántar*

I. Introduction

We would hazard a guess that no one in the legal services community, even including those who specialize in access to health care, has in his or her job description, work plan, or list of substantive priorities the subject of this article, health care conversions. Most of us are too busy scrambling to get our clients back on Medicaid, navigating the world of Medicare home health care, or fighting the myriad of proposed cut-backs to even think about an issue as complex and corporate as the conversion of health care entities from non-profit to for-profit status. Given that legal services advocates are swamped, why consider taking on a new issue that most know nothing about? The answer is simple. It is where the money is.

“corporatization” of health care, whereby nonprofit entities change to for-profit entities, swell enormously in size and wealth, and gobble up similar health care entities through mergers, acquisitions, and consolidations. Health maintenance organizations (HMOs), the subject of this article, have stockpiled billions of dollars, some of which can be recaptured for the use of low-income clients’ health care needs.² This article describes how the conversion of Blue Cross of California from a nonprofit to a for-profit health plan is resulting in \$3.3 billion being dedicated to health care charities. It outlines the law relating to health care conversions and describes various advocacy strategies for recapturing billions of dollars owed to health care charities when a health plan converts from a nonprofit to a for-profit

**Source:
Clearinghouse
Review, August
September 1995**

Community Health Assets Project (1995-2010)

- National support center sponsored by two nonprofit health advocacy organizations (Consumer Union & Community Catalyst), with a mission to:
 - Protect nonprofit health assets
 - Provide information and assistance to regulators, community groups and philanthropic leaders in states where conversions are going on
 - Support advocacy to create new charitable foundations
- Funded by foundation grants

Community Health Assets Project (1995-2010)

- Information clearinghouse; provide materials, trainings and briefings
- Primary role to help with local organizing regarding specific conversions, and campaigns to create new foundations
- Legal and policy analysis, including compendium of state laws regarding health conversions
- Published a guide to creating new community-responsive health foundations

Relevance and Implications

- Civil society groups can play a leadership role in calling for transfer of assets to philanthropic foundations
- Civil society groups were interested and excited to participate in these campaigns, despite initially limited knowledge of privatization issues
- Public accountability, including proper valuation of assets, is critical. We don't want either flawed privatization – taxpayers and consumers short-changed – or flawed philanthropication.
- Creating or designating a resource center to assist with specialized information and advice could help, if a large wave of PtP transactions is anticipated in a country, region or sector.