



Rutgers Center for State Health Policy

Horizon Blue Cross Blue Shield of New Jersey: Current and Historical Role in Providing Health Insurance Coverage in New Jersey

February 2003

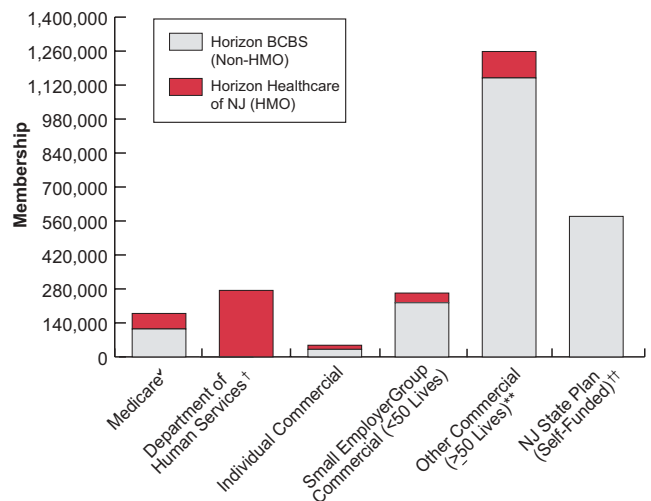
Blue Cross Blue Shield (BCBS) plans were founded to provide health care insurance to populations in need. As the health system in the United States has changed, with the rise of managed care and intensifying price competition among insurers and providers, BCBS plans have struggled to continue to be effective. Recent public discussions about the possibility of Horizon Blue Cross Blue Shield, the New Jersey BCBS plan, converting from non-profit to for-profit status have raised questions about potential impact on access to affordable coverage in the state. Although a full understanding of the effects of for-profit conversion of major health coverage providers would require extensive analyses of financial and coverage data, this Issue Brief provides an important overview to place many of the conversion issues in context.

This Brief describes Horizon's dominant role in providing health coverage in New Jersey, examines its mission as a non-profit organization and summarizes its current membership portfolio and market shares, particularly in products that provide coverage to traditionally vulnerable populations (e.g., elderly and low-income persons) who may be adversely affected should a conversion take place. The Brief also provides an overview of significant historical milestones that may have affected the role of Blue Cross Blue Shield in New Jersey. This information should be considered background to inform discussions among policymakers and stakeholders. A second Rutgers Center for State Health Policy publication, "Sustaining the charitable mission of Horizon Blue Cross Blue Shield after Conversion to a For-Profit Corporation: Issues and Best Practices" provides discussion of additional issues surrounding a possible Horizon Blue Cross Blue Shield conversion.

Horizon Blue Cross Blue Shield: Steeped in the History of Health Insurance in New Jersey

Blue Cross Blue Shield has been on the forefront of providing health insurance coverage to New Jersey residents since the early 1930s when Blue Cross was born out of the Association of Hospitals of Essex County. With its creation, Blue Cross became the first pre-payment hospital system in the country. Exactly a decade later in 1942, the Medical Surgical Plan of New Jersey (Blue Shield) was formed to provide coverage for non-hospital costs. Blue Cross and Blue Shield worked in concert, but operated as separate entities until they formally merged in 1986.

Figure 1: The Diverse Membership Portfolio of Horizon Blue Cross Blue Shield of New Jersey, 2002\*



\*Total membership is 2.6 million
†Includes Medicare + Choice and Medicare supplemental coverage
‡Includes NJ FamilyCare and Medicaid
\*\*Includes PPO, POS, ASO and Direct Access
‡‡ State and local government employee coverage

Sources: NJ Department of Banking and Insurance managed care data (www.state.nj.us/mchmostats); NJ Department of Banking and Insurance IHCP and SEHBP quarterly administrative data; HBCBSNJ 2001 Annual Report (www.horizon-bcbsnj.com)

## Data Used in This Brief

Data used for the charts, graphs, and maps in this Brief were obtained primarily from the New Jersey Department of Banking and Insurance (NJDOBI), and from Horizon Blue Cross Blue Shield of New Jersey's website, [www.horizon-bcbsnj.com](http://www.horizon-bcbsnj.com), and the company's 2001 annual report (found on the website). Specifically, Center for State Health Policy researchers drew from NJDOBI Individual Health Coverage Program (IHCP) and Small Employer Health Benefits Program (SEHBP) administrative data from 1997-2002. Other comparisons were made using 1992-2002 managed care membership data from the NJDOBI website that can be found at [www.state.nj.us/dobi/mchmostats.htm](http://www.state.nj.us/dobi/mchmostats.htm).

Aside from the IHCP and SEHBP for which comprehensive enrollment data are available, NJDOBI provides comprehensive data only for HMO managed care products; therefore, in order to provide consistent comparisons, most market share and trend analyses in this brief are presented using HMO membership only. In addition, limited access to both Horizon's and its competitors' non-HMO (e.g., Indemnity, Preferred Provider Organization [PPO], Point of Service [POS], & Direct Access) membership data made it difficult to generate membership comparisons across all product lines. However, when such non-HMO data were available, expanded analyses are provided. All data limitations are described in detail in footnotes to individual charts and graphics.

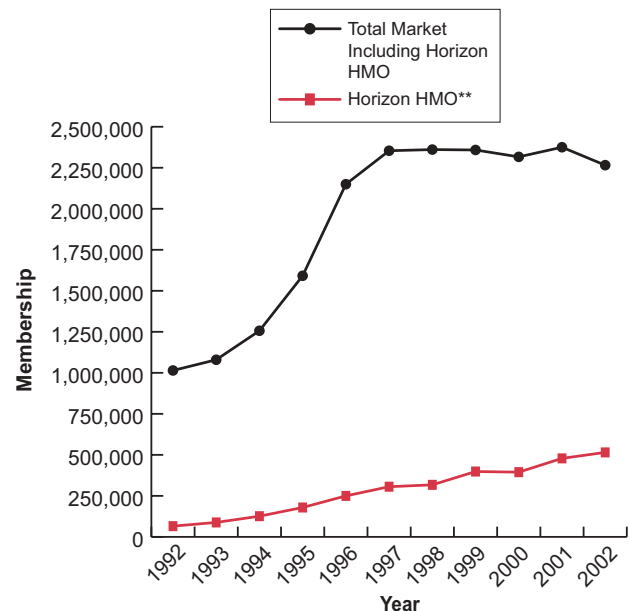
In the 1970's prior to the merger, there was considerable activity in New Jersey's health care market that would later influence the way in which health care organizations delivered and paid for care. For example, hospital rate controls were put in place for Medicaid and Blue Cross in 1971 when the legislature passed the New Jersey Health Care Facilities Planning Act. Just two years later in 1973, Blue Cross introduced the first health maintenance organization (HMO) in New Jersey that signaled the beginning of the managed care evolution and the shift away from traditional indemnity health insurance coverage.

## Organizational Structure and Non-Profit Mission

It was not until 1986 with its merger that the company became a health service corporation under the name Blue Cross Blue Shield of New Jersey (BCBSNJ). According to statute, a health service corporation is organized, "without capital stock and not for profit, for the purpose of (1) establishing, maintaining and operating a nonprofit health service plan and (2) supplying services in connection with (a) the providing of health care or (b) conducting the business of insurance as provided for in this act."<sup>1</sup>

With its formal corporate structure in place, BCBSNJ was defined by law as a "charitable and benevolent institution" which was committed to continuing its original non-profit mission dating back to 1932, i.e., to "provide individuals and employers in New Jersey with convenient access to quality health care, wherever they live or work."<sup>2</sup> BCBSNJ's 1986 restated Certificate of Incorporation advised that "upon the dissolution of the Corporation, any remaining assets of the Corporation shall be turned over to, or distributed among, one or more charitable non-profit institutions, which are at the time tax-

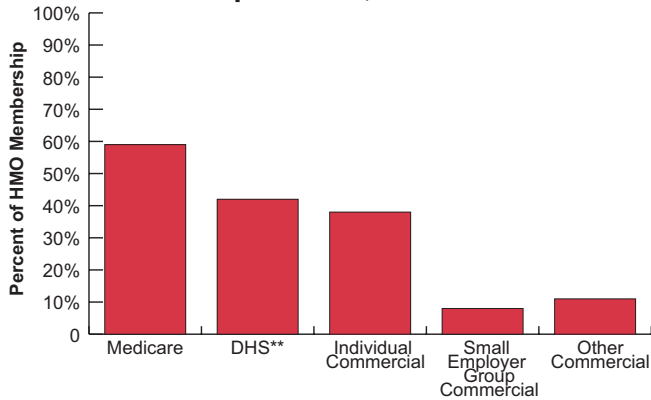
**Figure 2: Horizon HMO Membership Increased as the Total Market Flattened, 1992-2002\***



\* Represents Medicare, DHS (NJ FamilyCare and Medicaid), and Commercial (including individual and small employer) membership  
\*\* Prior to 1998, "Horizon HMO" was known as "HMO Blue"

Source: NJ Department of Banking and Insurance managed care data ([www.state.nj.us/dobi/mchmostats](http://www.state.nj.us/dobi/mchmostats))

**Figure 3: Horizon Plays a Large Role in HMO Programs for Vulnerable Populations, 2002\***



\* Does not include PPO or POS membership

\*\* Includes NJ FamilyCare and Medicaid

Source: NJ Department of Banking and Insurance managed care data (www.state.nj.us/mchmostats)

exempt under Federal tax laws, as the board of directors shall determine and select, is furtherance of the purpose of the corporation."<sup>3</sup> The fact that BCBSNJ was viewed by the health care community as New Jersey's "insurer of last resort", the carrier that would provide coverage to otherwise "uninsurable" high-risk individuals, was further testimony to its unique social role and responsibility in the state's health insurance system.

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A detail of significant note is that in 1986 when BCBSNJ created the first HMO under the health services organization, this managed care product was designed as a wholly owned for-profit subsidiary of the parent company. Today, that HMO (now known as Horizon Healthcare of New Jersey or "Horizon HMO") still operates under for-profit status and has over 500,000 of the approximately 2.6 million total members enrolled in Horizon Blue Cross Blue Shield of New Jersey (see Figures 1 to 3).

Some have referred to the arrangement of a non-profit owning a for-profit subsidiary as a "creeping conversion."<sup>4</sup> The questions to be considered are to what extent, if any, the existence of this for-profit subsidiary challenges the organization's current non-profit mission or will the

fact that Horizon already has membership in a for-profit entity mitigate any adverse impact should a full conversion take place.

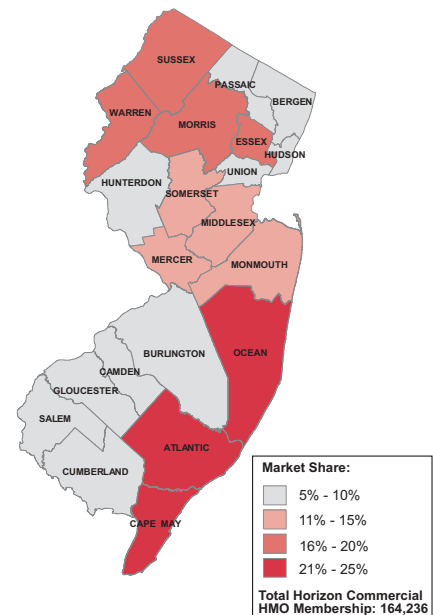
***Some have referred to the arrangement of a non-profit owning a for-profit subsidiary as a "creeping conversion."***

### 1990s: A Decade of Change and Health Care Reform in NJ

The 1992 passage of New Jersey's Health Care Reform Act (HCRA) and related legislation was a significant health policy milestone that would influence the state's health coverage market for the next ten years. In part, this comprehensive legislation sought to remedy the many ills of the individual and small employer group insurance market by, among other provisions, mandating guaranteed coverage and renewal and pure community rating.

One result of this legislation was that carriers had to "play or pay"; i.e., "play" in the individual health coverage market which many had previously deemed actuarially too risky, or "pay" an assessment

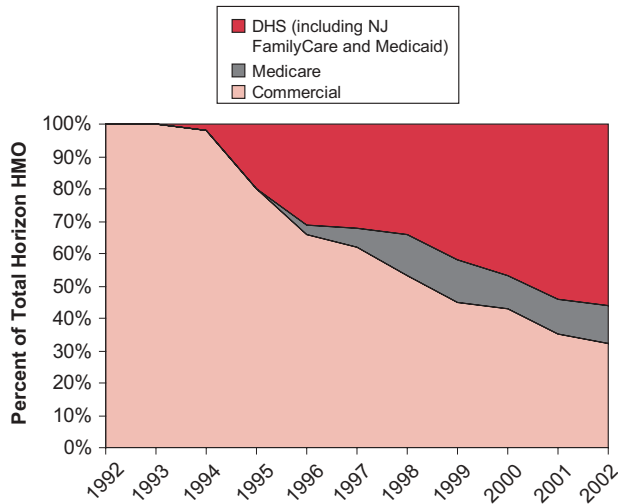
**Figure 4: Horizon HMO Does Not Dominate in the Competitive Commercial Market in Any County, 2002\***



\*Includes individual, small employer group, and other commercial HMO membership. Excludes Medicare and DHS HMO membership

Source: NJ Department of Banking and Insurance managed care data (www.state.nj.us/mchmostats)

**Figure 5: Horizon HMO Membership Skewed Toward Public Programs Between 1992 and 2002**



Source: NJ Department of Banking and Insurance managed care data ( www.state.nj.us/mchmostats)

to cover the losses incurred by other carriers that did participate. However, perhaps the most significant consequence of this legislation is that it effectively put an end to BCBSNJ's role as New Jersey's insurer of last resort and restructured both the individual and small employer group markets to maximize private coverage options in the state.

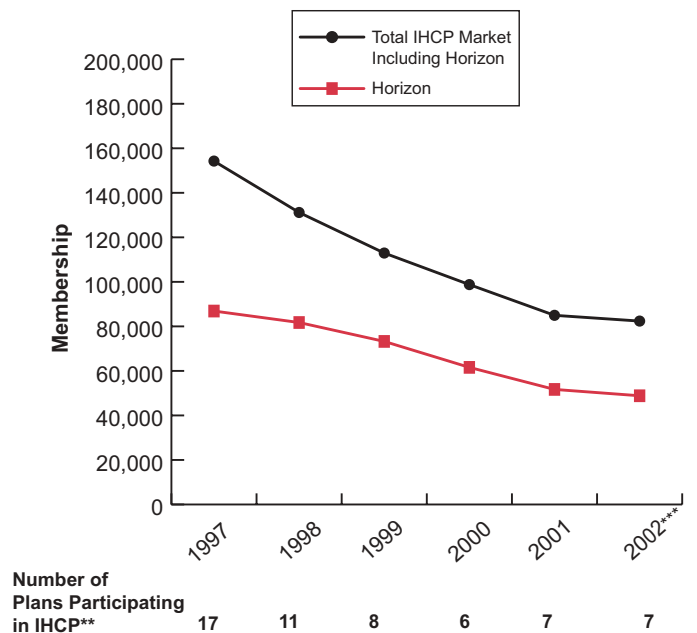
By 1993 BCBSNJ, like its competitors, was in the throes of the managed care explosion in New Jersey, and was simultaneously dealing with the impact of the previous year's regulatory changes. During that year, the company launched HMO Blue, its premiere managed care product that by the end of the fourth quarter saw its enrollment climb to 88,000 lives, an upward HMO membership trend that continues today for Horizon (see Figure 2). Also in 1993, Medigroup Services, Inc., which was directly owned by Blue Cross Blue Shield of New Jersey, partnered with Mercy Health Plan of Pennsylvania in a joint venture to administer coverage, under the entity Mercy Health Plan, to Blue Cross Blue Shield's HMO Medicaid membership. This move proved strategically significant given the state's expansion of subsidized health coverage programs in the late 1990s.<sup>5</sup> In a recent development perhaps indicating the organization's commitment to this market, on January 15, 2003 Horizon announced it had acquired Mercy Health Plan of PA's interest in Horizon Mercy (as it became known in 1998), resulting in Horizon's full ownership (through its subsidiaries) of this Medicaid plan.<sup>6</sup>

**Anthem Abandons Horizon During First Conversion Attempt**

If Blue Cross Blue Shield files an application with the New Jersey Department of Banking and Insurance to become a for-profit organization, it will not be the organization's first attempt at merger or for-profit conversion. The stage was set for Horizon to become a for-profit entity in 1995 when the New Jersey legislature authorized the organization's conversion to a for-profit mutual company without formal corporate dissolution. Following that legislative action, in 1996 Blue Cross Blue Shield announced its plans to become a mutual company to prepare for a merger with Anthem Insurance Company, Inc., an Indiana-based managed care giant.

The biggest controversy at that time was over the distribution of BCBS's assets, should it become a mutual company. Then New Jersey Attorney General Peter Verniero argued that BCBS enjoyed all the benefits of a non-profit organization and it had assumed a unique charitable role providing

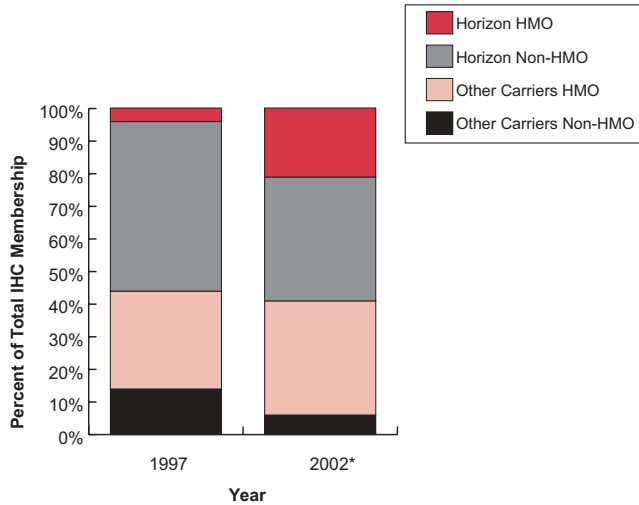
**Figure 6: As Total Enrollment in the Individual Health Coverage Program (IHCP)\* Declined, Horizon has Maintained a Large Role, 1997-2002**



\* Includes both IHCP HMO and Plans A-E membership  
 \*\* HMOs and respective affiliates are counted separately; total includes active plans with over 5,000 members  
 \*\*\*Through March 2002

Source: NJ Department of Banking and Insurance quarterly IHCP administrative data

**Figure 7: Total and Horizon IHCP Membership Has Shifted to HMO Coverage, 1997 and 2002**



\*Through March 2002

Source: NJ Department of Banking and Insurance quarterly IHCP administrative data

health care coverage to potentially vulnerable populations. Therefore, he argued, if the conversion was to occur, a charitable trust would need to be created to return the assets to the community. The New Jersey Appellate Court agreed with Attorney General Verniero's argument, and with the prospect of paying out an estimated \$400 million in BCBS assets to establish a health foundation, Anthem walked away from the deal in 1996. The Appellate Court's 1996 decision regarding the disposition of charitable trust assets would likely need to be considered by all stakeholders should future conversion activities unfold.

### **Horizon's Corporate Makeover**

In late 1998 in an effort to maximize its brand and corporate logo recognition, Blue Cross Blue Shield of New Jersey changed its name. Blue Cross Blue Shield of New Jersey became known as Horizon Blue Cross Blue Shield of New Jersey and HMO Blue, its flagship managed care product, would subsequently be known as Horizon Healthcare of New Jersey, doing business as Horizon HMO. By the end of that year, Horizon's managed care membership rose to nearly 320,000 lives in New Jersey (see Figure 2).

## **Horizon Blue Cross Blue Shield of New Jersey in the New Millennium**

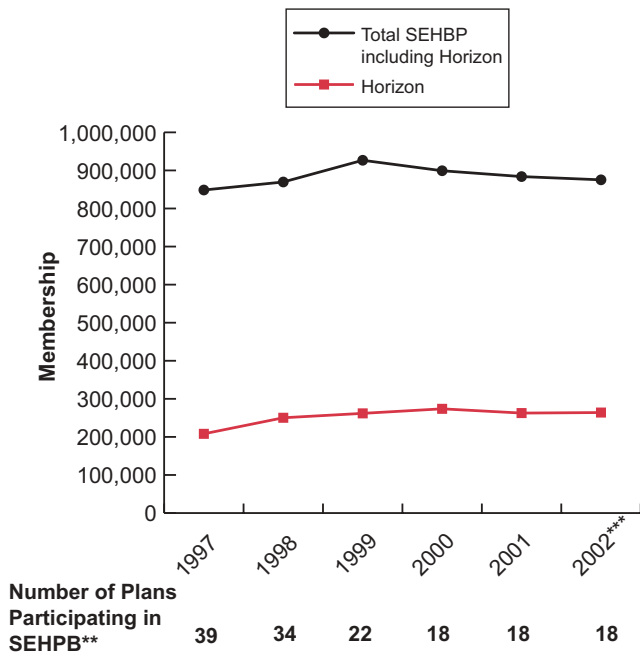
In June 2001, Acting New Jersey Governor Donald DiFrancesco signed legislation that outlined the regulatory process governing all health care organization conversions in the state. Two significant points in the statute, N.J.S.A. 17-48 E-49 *et seq*, include the establishment of a politically appointed fifteen-member temporary advisory commission and a mandate that all valued assets endow a newly created health foundation whose

### **New Jersey's Conversion Law**

- Formal application submitted to NJ Commissioner of the Department of Banking and Insurance (DOBI), including valuation(s) of assets and premium rate analysis
- Foundation plan submitted to NJ Attorney General concurrently with the conversion plan to the Commissioner of DOBI
- Commissioner has discretion to engage consultants to review case. Health services corporation (i.e., BCBS) assumes the cost
- Fifteen member appointed Advisory Commission which transitions to Foundation Board of Directors after the conversion (note: Assembly Bill 1873 is currently pending in the Senate Commerce Committee. If passed, this bill would abolish the advisory commission. Board of directors of the Foundation would be appointed based on the same selection process as advisory commission, though by a new Governor and legislative leaders)
- Minimum of one public hearing; scheduled within 90 days from date application is considered complete. Notice in two newspapers no more than 45 and no fewer than 15 days before the hearing
- Commissioner renders decision on conversion within 45 days from the close of the public record
- Attorney General to hold hearing on foundation plan. May be concurrent with conversion public hearing
- Non-profit assets must be used to expand access to affordable quality health care
- Health service corporation petitions NJ Superior Court for approval of establishment of foundation
- Attorney General makes recommendation to Superior Court



**Figure 8: Horizon's Role in the Small Employer Health Benefit Program (SEHBP)\* has Remained Stable as Other Carriers Have Consolidated, 1997-2002**



\* Includes both small employer HMO and Non-HMO membership  
 \*\* HMOs and respective affiliates are counted separately; total includes active plans with over 5,000 members  
 \*\*\*Through March 2002

Source: NJ Department of Banking and Insurance quarterly SEHBP administrative data

mission was consonant with the mission of the original non-profit organization.

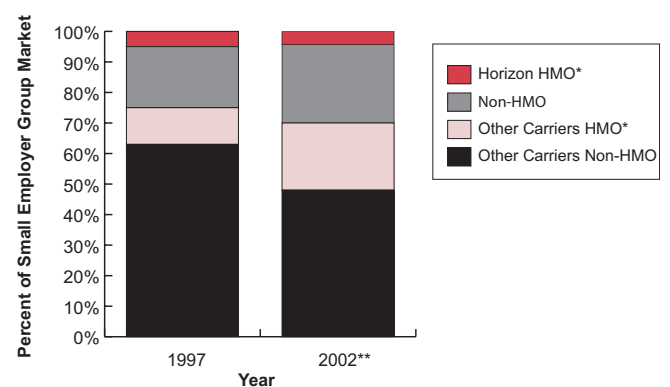
With the stage set by the passage of this legislation, and perhaps having learned a lesson on the importance of political and regulatory support from the aborted Anthem merger, in December 2001 Horizon Blue Cross Blue Shield's Board of Directors formally authorized the exploration of a for-profit conversion. Horizon has stated that a for-profit conversion would allow the company to successfully expand their access to capital and give them greater flexibility for technology innovations and enhancements that would benefit their members. They believe that the ability to leverage private capital will reduce their reliance on membership premiums as a primary revenue source.

In the year since Horizon announced its preliminary intentions, the company has not actively moved forward with this business strategy. This lack of activity may be the result of a free-falling stock market creating an unfavorable environment

for an initial public offering (IPO), or changes in the state political landscape after the election of 2001, or perhaps some combination of the two. Regardless of the cause(s) for the delay, there has been growing concern among community organizations and activist groups about not only the impact such a conversion would have on Horizon's membership, but also over the distribution of Horizon's assets. There have been recent news reports suggesting a state interest in using a portion of the funds for state health programs that would otherwise be reduced or eliminated due to the estimated \$4 billion budget shortfall. However, such a strategy would likely require legislative action to amend the current statute, and would be highly controversial.

As of mid-January 2003, Horizon has not filed a formal conversion application with the NJDOBI, and it remains to be seen if the process will heat up again in 2003. While the state's political and economic climate will no doubt influence Horizon's decision regarding a conversion in 2003, it is not too early to examine the organization's current business portfolio to better assess potential impact on vulnerable members. Such data can serve to inform the debate should Horizon move forward with their conversion application.

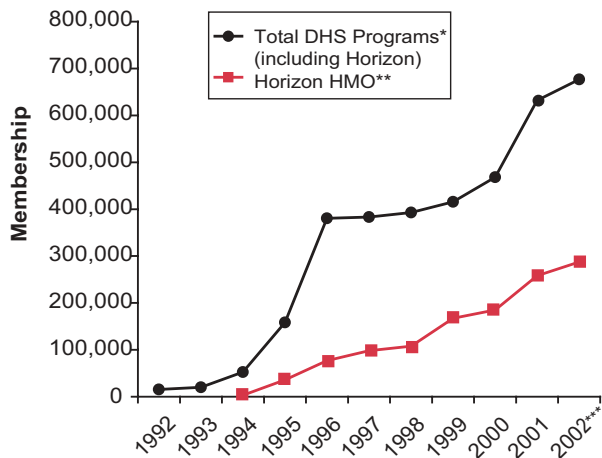
**Figure 9: The Role of HMOs, other than Horizon, in the SEHBP Has Grown Modestly, 1997 & 2002**



\* Represents standard HMO only, HMO/POS membership shown as non-HMO  
 \*\*Through March 2002

Source: NJ Department of Banking and Insurance quarterly SEHBP administrative data

**Figure 10: Horizon More than Doubled its State Program HMO Membership in 5 Years as NJ Department of Human Services Programs Expanded, 1997-2002**



\*Includes NJ FamilyCare and Medicaid  
 \*\*Prior to 1998, "Horizon HMO" was known as "HMO Blue"  
 \*\*\*Through June 2002  
 Source: NJ Department of Banking and Insurance managed care data (www.state.nj.us/mchmostats)

**Horizon's Leading Role in the Individual Health Coverage Program**

The Individual Health Coverage Program (IHCP) was born out of the 1993 insurance reform legislation. Analyses of the first few years of IHCP operation showed that these reforms were achieving their goals of, among other things, increasing the number of carriers offering coverage in the market and providing affordable coverage regardless of individuals' age or health status. However, since 1996, the market has experienced rising premiums (compared to employer coverage) and declining enrollment. According to NJDOBI administrative data, the IHCP is losing an estimated 3% of its membership per quarter, while evidence indicates that those people who are opting to stay in the program do so to cover very costly medical needs.

Horizon is a dominant player in the current IHCP. In 1997, Horizon had approximately 56% of the IHCP market, reflecting combined HMO and non-HMO membership. With nearly 50,000 members, Horizon's market share increased to 60% in 2002 when they were one of seven carriers offering coverage, again reflecting combined HMO and non-HMO membership (see Figure 6). As a number of carriers have exited this market, Horizon's role has

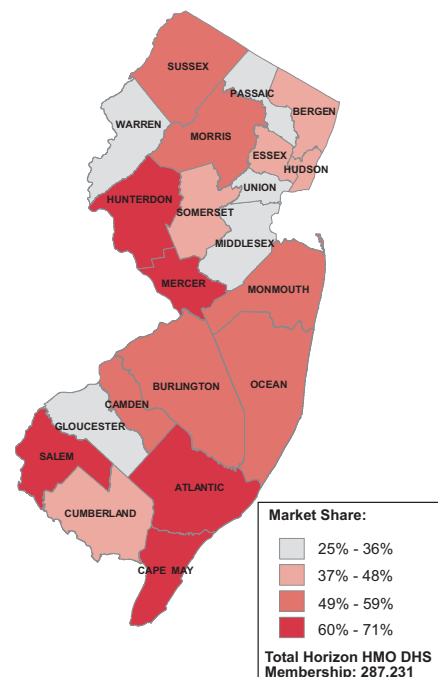
become increasingly significant. Should they depart this program, there would be substantial disruption of coverage for members and reduced choice of carriers.

**Stability Marks the Small Employer Health Benefits Program (SEHBP)**

In addition to trying to address the failing individual market, the 1993 regulatory reforms also sought to remedy problems in the small employer group (under 50 employees) market in New Jersey, and created the Small Employer Health Benefits Program (SEHBP).

While the IHCP has continued its membership decline, the SEHBP has remained stable and has even seen periods of modest membership growth (See Figures 8 and 9). In 1997, Horizon had approximately 25% of the SEHBP market share, combined HMO and non-HMO, and that figure rose to 30% in 2002 as the number of participating carriers in the market decreased from thirty-nine to eighteen from 1997 to 2002. Though not the dominant player that it is in the IHCP, Horizon does have sufficient market presence to consider how

**Figure 11: Horizon HMO Plays a Major Role in DHS Programs\* in all Counties, and Dominates in Many, 2002**



\*Includes NJ FamilyCare and Medicaid  
 Source: NJ Department of Banking and Insurance managed care data found at www.state.nj.us/mchmostats

Figure 12: Horizon's Role in DHS\* HMO Programs, 2002

County	Total DHS Eligibles	Total DHS HMO Membership	Horizon DHS HMO Membership	Horizon Membership as a % of Total DHS HMO Membership
Atlantic	32,945	23,408	13,842	60% **
Bergen	49,243	34,355	14,000	41% **
Burlington	28,279	20,207	10,729	53% **
Camden	76,967	60,487	30,150	50% **
Cape May	13,016	9,346	6,586	70% ***
Cumberland	28,401	21,666	8,513	39% **
Essex	147,792	109,197	43,675	40% **
Gloucester	21,439	16,225	4,131	25%
Hudson	114,859	89,554	35,715	40% **
Hunterdon	4,054	2,205	1,475	67% ***
Mercer	40,479	26,261	15,954	61% ***
Middlesex	59,503	44,102	16,118	37% **
Monmouth	46,187	33,804	17,595	52% **
Morris	17,530	9,797	4,792	49% **
Ocean	47,966	36,566	18,465	50% **
Passaic	89,146	69,524	19,143	28%
Salem	8,023	5,712	3,449	60% **
Somerset	13,211	8,778	4,157	47% **
Sussex	7,537	5,083	3,011	59% **
Union	60,827	45,076	14,059	31%
Warren	7,316	5,190	1,672	32% **
<b>TOTAL</b>	<b>914,720</b>	<b>676,543</b>	<b>287,231</b>	<b>42% **</b>

\*Includes NJ FamilyCare and Medicaid

\*\*Counties in which Horizon has 32% to 60% Market Share

\*\*\*Counties in which Horizon has over 60% Market Share

Source: NJ Department of Banking and Insurance managed care data found at [www.state.nj.us/mchmostats](http://www.state.nj.us/mchmostats)



the SEHBP market and Horizon's members could potentially be impacted should the conversion take place.

### Reforms in the NJ IHCP & SEHBP<sup>7</sup>

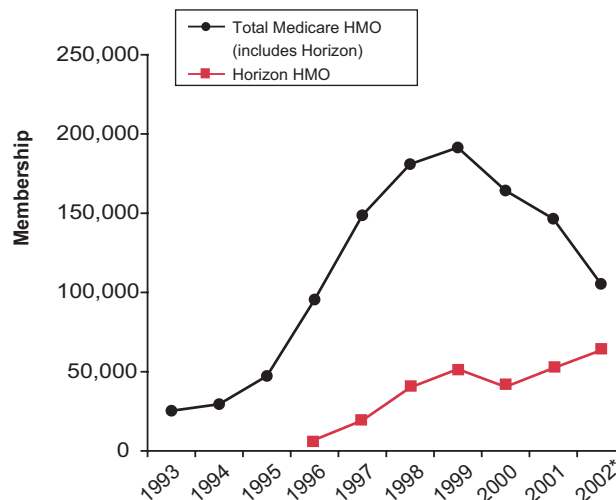
- **Guaranteed Coverage & Renewal:** All eligible applicants must be offered coverage, regardless of health status
- **Community Rating:** Each IHCP plan must charge enrollees the same premium regardless of age, sex, occupation, geographic location, or health status. Limited premium variation is allowed in the SEHBP
- **Standardized Plan Designs:** All plans must conform to a set of standard benefit options to be able to compare premiums more effectively. Indemnity plans A-E and an HMO plan in the IHCP
- **Minimum Loss Ratio:** Carriers must spend 75 cents for every dollar on benefits

### NJ FamilyCare and Managed Medicaid Enrollment Explosion

There has been a significant increase in New Jersey's public managed care membership since 1994. This upward trend continues, in part due to the 1997 New Jersey Department of Human Services (NJ DHS) children's health insurance program, NJ KidCare. This program was expanded and renamed NJ FamilyCare in 2000 (see Figure 10). These programs were created to provide free or discounted health coverage to children and adults whose family income is modest but too high to make them eligible for other publicly sponsored health benefits.

Today, Horizon Mercy plays a significant role in providing HMO coverage to NJ DHS beneficiaries, including NJ FamilyCare and Medicaid enrollees. Currently, with over 287,000 NJ DHS program members, Horizon has over 40% of the NJ DHS HMO market share statewide, and a minimum of a 60% share in Hunterdon, Mercer, Salem and Cape May Counties (see Figures 3 & 11). Horizon has more than doubled its DHS HMO membership in five years, from 1997-2002. Currently, as shown in Figure 5, the NJ DHS membership accounts for over 50% of Horizon's HMO membership.

**Figure 13: Horizon Medicare HMO Membership Climbed as Other Carriers Exited the Market, 1993-2002**



\*Through June 2002

Source: NJ Department of Banking and Insurance managed care data ([www.state.nj.us/mchmostats](http://www.state.nj.us/mchmostats))

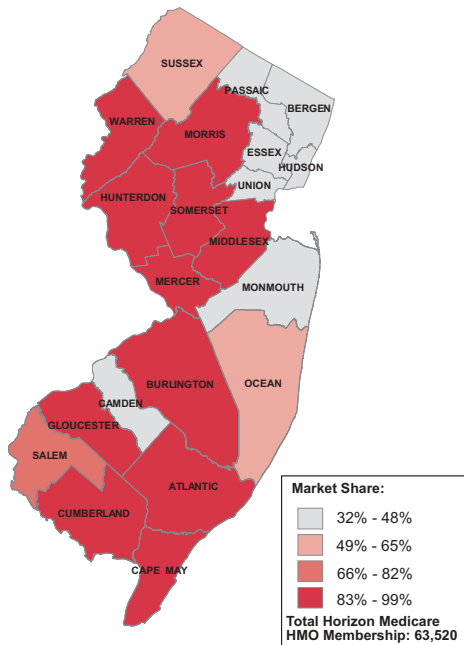
### Horizon HMO Dominates Medicare+ Choice Program

Managed Medicare in New Jersey slowly accelerated enrollment in the early 1990s, hitting its peak in 1999 with nearly 200,000 members in eight health plans throughout the state. Horizon began enrolling Medicare members in its HMO (then known as HMO Blue) product in 1996. With the enactment of the federal Balanced Budget Act (BBA) in 1997, which reduced premiums paid to carriers offering Medicare HMO coverage, several managed care companies chose to exit the program and overall membership declined (see Figure 13).

### NJ FamilyCare at a Glance<sup>8</sup>

- Federal and state funded program designed to provide benefits to uninsured children and some adults (currently closed to new adult enrollment)
- Provides coverage to over 278,000 children and adults (August 2002)
- Children up to 19 years of age qualify
- Eligibility based on family size and monthly income; up to 350% of federal poverty level for children
- Must be uninsured for at least 6 months
- Sliding scale premiums and co-payments and annual renewal requirement

**Figure 14: Horizon Dominates in the Medicare HMO Program in Most NJ Counties, 2002\***



\*Does not include Horizon Medicare supplemental membership

Source: NJ Department of Banking and Insurance managed care data ([www.state.nj.us/mchmostats](http://www.state.nj.us/mchmostats))

This trend has continued in 2002 as four health plans have chosen not to renew their Medicare + Choice (the revised Medicare HMO program after the BBA) contract with the federal Center for Medicare and Medicaid Services (CMS). The withdrawal of these carriers affected 53,144 Medicare members in seventeen of New Jersey's twenty-one counties.<sup>9</sup>

As the overall managed Medicare membership decreased in New Jersey since 1999, Horizon's managed Medicare enrollment has grown after a modest decline between 1999 and 2000, as competition has waned and displaced beneficiaries have sought coverage elsewhere. Currently, Horizon has a minimum of 32% share in the Medicare + Choice market in each of New Jersey's twenty-one counties and an 82% or higher share in eleven New Jersey counties that stretch from the northwest corridor of the state to Cape May County (see Figures 14 & 15).

In addition, in September 2002 the U.S. Department of Health and Human Services selected Horizon Blue Cross Blue Shield of New Jersey as one of thirty-three health plans in the country to

participate in the Medicare + Choice Preferred Provider Organization (PPO) Demonstration Program in 2003. This pilot program will be available to Horizon's Medicare + Choice members in all twenty-one counties in New Jersey.

Perhaps it is Horizon's non-profit mission and history of providing coverage to at-risk populations that influences its decision to sustain and grow its Medicare role even as most for-profit companies have sought to exit. The extent to which a for-profit conversion (beyond the presence of a for-profit subsidiary) would change Horizon's Medicare strategy remains unknown, though in recent years, evidence demonstrates the tendency of for-profit plans to abandon this program because of reduced reimbursement.

### Medicare at a Glance<sup>10</sup>

- Federal health insurance program for the aged (65 years and over) and disabled
- Nationally, 87% of 40 million Medicare beneficiaries receive benefits through standard fee-for-service (FFS) Medicare program
- FFS Medicare pays 80% of reasonable and customary charges to participating providers
- Standard Medicare does not offer an outpatient pharmacy benefit (the subject of ongoing debate in Congress)
- Medicare + Choice (M+C) established with the passage of the 1997 Balanced Budget Act (prior to 1997 managed Medicare was known as the Medicare Risk program)
- M+C covers all FFS benefits in addition to enhanced services
- Nationally, M+C provides benefits to 13% of total Medicare beneficiaries
- Over 1.2 million Medicare eligibles in New Jersey, including 103,233 members (8%) in M+C plans

### Conclusions

Horizon Blue Cross Blue Shield of New Jersey has a rich history and tradition of providing health coverage in New Jersey. Since 1932, the organization has evolved into a non-profit health service corporation giant that provides health coverage to nearly 2.6 million members in a variety of managed care and traditional insurance products. Horizon

Figure 15: Horizon's Role in Medicare HMO Program, 2002\*

County	Total Medicare Eligibles	Total Medicare HMO Membership	Horizon Medicare HMO Membership	Horizon Membership as a % of Total Medicare HMO Membership
Burlington	59,820	7,846	7,220	92%***
Camden	74,378	10,628	3,910	37%
Cape May	22,397	1,771	1,743	98%***
Cumberland	22,817	2,260	2,229	99%***
Essex	105,159	6,970	3,080	44%
Gloucester	32,844	3,189	2,785	87%***
Hudson	74,080	5,198	1,636	31%
Hunterdon	15,089	861	855	99%***
Mercer	53,133	3,638	3,547	97%***
Middlesex	99,575	6,867	6,180	90%***
Monmouth	89,708	8,388	3,517	42%
Morris	60,385	3,291	2,941	89%***
Ocean	121,564	14,052	8,996	64%**
Passaic	66,683	5,083	2,445	48%
Salem	10,721	403	292	72%**
Somerset	32,599	1,958	1,881	96%***
Sussex	16,103	1,161	695	60%**
Union	80,205	5,381	2,162	40%
Warren	15,993	745	718	96%***
<b>TOTAL</b>	<b>1,235,540</b>	<b>103,233</b>	<b>63,164</b>	<b>61%</b>

\*Does not include Medicare supplemental membership  
 \*\*Counties in which Horizon has 49% to 82% Market Share  
 \*\*\*Counties in which Horizon has over 82% Market Share

Source: NJ Department of Banking and Insurance managed care data found at [www.state.nj.us/mchmostats](http://www.state.nj.us/mchmostats)

plays a large role in markets covering vulnerable populations including the individual market, and the NJ FamilyCare, Medicaid and Medicare programs.

Though there has been a pattern in New Jersey of carriers migrating out of products that offer coverage to some vulnerable populations (e.g., the IHCP, DHS programs and Medicare + Choice), Horizon has remained a constant and growing presence in these lines of businesses. Such actions can be seen as consistent with the organization's non-profit mission to serve at-risk populations. While it remains to be seen the extent to which these groups (and the New Jersey's health coverage landscape in general) will be affected by a Horizon for-profit conversion, in light of recent experiences, it is reasonable to be concerned about continued access to affordable coverage for a significant number of vulnerable state residents.

## Notes

- 1 N.J.S.A. 17:48E-1.
- 2 <http://www.horizon-bcbsnj.com>.
- 3 Amendment to Section 15A:9-5 New Jersey Nonprofit Corporation Act.
- 4 New Jersey Senate Commerce Committee. Statement to Committee Substitute for Senate Bill No.1581. December 14, 2000.
- 5 Snowden Publications. 09 Aug 1999. "A Kinder, More Profitable HMO." North Edition. Business News New Jersey.
- 6 PR Newswire. 15 Jan 2003. "Horizon Blue Cross Blue Shield of New Jersey Increases Interest in Horizon Mercy Medicaid Business."

- 7 [http://www.njgov/dobi/ihc\\_seh.htm](http://www.njgov/dobi/ihc_seh.htm).
- 8 <http://www.njfamilycare.org/pages/whatis.html>.
- 9 <http://www.medicarehmo.com/mrepnr04.htm>.
- 10 Henry J. Kaiser Family Foundation. 2002. "The Medicare Program-Medicare + Choice". Washington, DC: Henry J. Kaiser Family Foundation.

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