June 26, 2013

HUFF POST POLITICS

Humana: Profits Over People

Whoever picked the name "Humana" for the health insurance giant had a great sense of humor. The word suggests a company engaged in humanitarian pursuits, or at least one with a priority on human beings. Had the marketing genius in charge of picking a name for the corporation been more honest, he would have called it "Profita," in recognition of its main concern.

Indeed, Humana isn't shy about revealing its profits-over-people philosophy.

"It is important to note if we have to choose between achieving our membership goals and achieving profitability goals, profits will win every time," CEO Michael McCallister said in 2003. The following year, he reiterated the company's priorities in an interview with the Associated Press: "We will not play the market share game and will continue to price our business for bottom line profitability."

Last year, Humana, headquartered in Louisville, Kentucky, raked in $29 billion in revenue and $833 million in profits. It ranked 98th on *Fortune* magazine's listing of the nation's largest corporations.

Last year, Humana paid McCallister $2.39 million. Over the past five years, his compensation totaled $56.9 million, according to Forbes magazine. He also owns more than $60 million in Humana stock options.

He commutes to his office at Humana's headquarters from his home, which backs up to the Lake Forest Country Club. It is valued at $995,640 by the county assessor, while Zillow estimates the home's value at $1.1 million. McCallister also has a vacation home, at 3 Northside Court in tony Park City, Utah, valued at $6.9 million by the county assessor. He is a member of the exclusive Talisker golf and ski club in Park City.

Humana's revenues have more than doubled since 2004, with almost all of the growth coming from the sale of privately administered Medicare Advantage plans. Humana is one of the country's largest Medicare providers, and its relationship with the federal program has allowed the company to become a major health insurance company with 11 million members. That includes 2.9 members of Tricare, the government-sponsored health plan for military families and dependents. Humana has 1.5 million Medicare Advantage members and 2.3 million members of its prescription drug plan. In terms of overall revenue, Medicare Advantage represents about two-thirds of Humana's business. In addition, Humana provides Medicaid benefits, supported by the joint federal-state program, to 300,000 people.

In other words, Humana relies heavily on the federal government for its revenues and profits. Not surprisingly, Humana cultivates its relationships with elected officials to guarantee that they don't turn off the government cash spigot. Over the past two and a half years, Humana employees and associates have contributed just over $699,000 to federal political campaigns. During that same period, the corporation has spent $3.4 million on lobbying, according to the nonprofit Center for Responsive Politics. Just in the second quarter (April through June) of this year alone, Humana spent $580,000 in lobbying expenditures.

Humana also plays the "revolving door" game, hiring government insiders to help peddle its influence to elected officials. Last year, it hired Jill Canino as its director of federal government relations. Before joining Humana, Canino was a legislative aide to Sen. Arlen Specter of Pennsylvania and a staff member of the Senate's Special Committee on Aging.

But although Humana rakes in big bucks from government, it doesn't want to have to compete with an expanded version of Medicare. So it has devoted considerable corporate resources into opposing President Obama's plan for a public option that could give consumers more choices. In fact, Humana's special niche with Medicare Advantage and Medicare prescription drugs makes the company particularly concerned about federal health insurance reform.

"I will tell you that the public plan option, which is nothing but a Government run health plan, is a real lightning rod and could disrupt everything," McCallister said earlier this year, apparently unaware of the obvious irony that Humana is little more than a government health plan with Wall Street investors, "so it will be interesting to see how committed some folks are to such an idea."

To make sure that "some folks" -- namely, Humana's own elderly Medicare customers -- oppose a public option, Humana sent them mass mailing in September filled with propaganda calculated to frighten them. The letter was designed to look like it was about the seniors' Medicare Advantage and prescription drug benefit plans. To ensure that its customers read the letter, Humana sent it in an envelope claiming to contain "IMPORTANT INFORMATION about your Medicare Advantage plan" and urged recipients to "OPEN TODAY!" But the mailer contained no information about the recipients' Medicare plans.

Instead, the letter warned them that the health reform proposals proposed by President Obama and the Democratic Congress would cut Medicare benefits. The letter said: "Leading health reform proposals being considered in Washington, D.C., this summer include billions in Medicare Advantage funding cuts, as well as spending reductions to original Medicare and Medicaid...While these programs need to be made more efficient, if the proposed funding cut levels become law, millions of seniors and disabled individuals could lose many of the important benefits and services that make Medicare Advantage health plans so valuable." Humana's letter also asked the recipients to contact their Congressmembers.

The letter triggered an explosive political battle. Soon after Humana sent the letter, the U.S. Department of Health and Human Services told private insurance companies not to lobby their customers on health care legislation. On Sept. 18, HHS informed Humana that it was "concerned that, among other things, this information is misleading and confusing to beneficiaries, represents information to beneficiaries as official communications about the Medicare Advantage program, and is potentially contrary to federal regulations and guidance." The HHS letter added, "we are instructing you to end immediately all such mailings to beneficiaries and to remove any related materials directed to Medicare enrollees from your website."

Humana's biggest political ally, Senate Minority leader Mitch McConnell, the right-wing Republican from Kentucky, Humana's home state, quickly called HHS's action a "federal gag order."

Sen. Max Baucus, the Montana Democrat who chairs the Senate Finance Committee that drafted the plan that so upset Humana, issued a statement, saying: "It is wholly unacceptable for insurance companies to mislead seniors regarding any subject -- particularly on a subject as important to them, and to the nation, as health care reform. The health care reform bill we released last week strengthens Medicare and does not cut benefits covered under the Medicare program -- and seniors need to know that."

House Speaker Nancy Pelosi (D-CA) also criticized Humana's scare tactics. She observed that "insurance companies earning taxpayer dollars were spending money to lobby against specific legislative initiatives -- using claims about Medicare cuts which have been widely discredited by independent news media."

Eventually, HHS compromised, issuing new guidelines allowing insurance companies can communicate with Medicare beneficiaries on pending legislation, provided they do not use federal money to do so and get permission from beneficiaries before sending them information about legislation or asking them to join grass-roots advocacy efforts.

The controversy over Humana's letter is only the latest of the company's public relations problems.

Among them was the testimony of Linda Peeno, a physician who was a nine-month contractor working as a medical reviewer for Humana in the 1990s. She later testified before Congress about her experience at Humana, portions of which were incorporated into Michael Moore's documentary film, *Sicko*. She was also interviewed by Amy Goodman on Democracy Now! on June 21, 2007, where she recounted that while working at Humana, the insurer refused to pay for expensive treatments such as heart transplants for its customers, which lead to their deaths. Peeno said that ""just within a day or so [of the refusal of the heart transplant, I] saw a sculpture being installed in the rotunda [of Humana's headquarters] and was told at that time that it had cost about the same as the heart transplant that we had denied...By the way, I later found out that that sculpture cost $3.8 million, so it was equivalent to eight heart transplants."

Peeno told Goodman that when they went for her interview at Humana, "I was asked if I could be tough, because I was going to be telling doctors that they couldn't do things and that I would be expected to keep a 10% denial rate." She also said that while she worked at Humana, "we were told that the medical reviewer that had the highest denial rate was going to receive a bonus at Christmas."

In at least ten cases, Humana has been cited for violations of federal contracting laws, according to the Project on Government Oversight. These include the wrongful death of a Texas woman with chronic kidney disease, anti-trust violations, participating in a conspiracy to improperly deny, delay and/or reduce payments to physicians, and violations of the Fair Labor Standards Act for failing to compensate its customer service and claim employees at its call centers in Cincinnati, Louisville, and Green Bay. In May 2007, the Oklahoma Insurance Commissioner ordered Humana to take corrective action (a $500,000 settlement) against the use of improper sales practices to enroll Medicare beneficiaries. Dozens of Humana agents lacked the proper licenses to sell insurance in Oklahoma and some agents enrolled Medicare beneficiaries in plans they did not understand or want.

Last year, the Illinois Department of Financial and Professional Regulation ordered Humana to pay a $500,000 fine to resolve complaints that Humana enrolled Illinois citizens into more expensive and/or duplicative health plans. In 2005, Kansas City area physicians sued Humana and other health insurance companies for allegedly conspiring to suppress payments to physicians Under the settlement, Humana agreed to pay $2.8 million in cash, to be distributed among more than 2,200 physicians.

Health reform advocates have been focusing attention on Humana, one of the nation's largest insurance companies, for its efforts to thwart significant health reform. In late September, the Florida Alliance for Retired Americans protested at Humana's offices in West Palm Beach , Florida, angry about the misinformation the company sent out in its letter to customers. Last week, six people were arrested as part of a sit-in at the same location. The protesters sat in the lobby of Humana's Medicare Sales and Service office and refused to leave. The protest was sponsored by Floridians for Health Care.

Activists seeking health care reform have to resort to protests to get their voices heard. In contrast, the insurance companies have other ways to peddle their influence. Humana's board of directors has a web of corporate and political connections that supplements the company's large campaign contributions and lobbying expenditures.

For example, **CEO McCallister** serves on the boards of directors of the America's Health Insurance Plans (AHIP), the powerful insurance industry trade association, and of the Business Roundtable, the influential corporate lobby group. He was also a director of National City Corporation, a huge banking conglomerate that was recently purchased by PNC Financial Services.

David A. Jones, Jr., chair of Humana's board, is also chair and managing director of Chrysalis Ventures, LLC, a Louisville-based venture capital firm he founded in 1993. He serves on the advisory committee of the Brookings Center on

Health Policy, on the board of the National Committee on U.S.-China Relations and on the Yale President's Council on International Activities. Jones, who received over $369,000 last year for serving on Humana's board, is the son of David A. Jones, Humana's founder.

Frank A. D'Amelio, another Humana director, is the chief financial officer of Pfizer, the giant drug company. He is also a member of the JPMorgan/Chase National Advisory Counsel. (Last year he was paid over $240,000 for serving on Humana's board, about half of it in Humana stock). Board member **W. Roy Dunbar** is CEO of NetworkSolutions. He was previously president of intercontinental operations for Eli Lilly, another huge pharmaceutical corporation. He also serves on the board of Electronic Data Systems Corporation. He received $228,071 last year for serving on Humana's board.

Kurt J. Hilzinger is a partner with Court Square Capital Partners, an independent private equity firm. Until his retirement in September 2007, he was president and chief operating officer of AmerisourceBergen, a huge drug distribution and packaging company. He earned over $256,000 for serving on Humana's board last year. **W. Ann Reynolds** served as president of the University of Alabama at Birmingham, Chancellor of the City University of New York, and Chancellor of the California State University system. She is now a director of Abbott Laboratories (a giant drug and medical device corporation), Invitrogen Corporation, Maytag Corporation and Owens Corning. Her service on corporate boards netted her over $825,000 last year, including $267,124 from Humana.

William J. McDonald, also a Humana director, is executive vice president of Capital One Financial Corporation, a giant financial services company based in Virginia. His commitment to healthy lifestsyles was evident in his previous executive jobs as chief marketing officer for Boston Chicken and for KFC, and, before that, his management positions at Pizza Hut and PepsiCo. To fatten his own wallet, McDonald received $215,000 last year for serving on Humana's board.

Humana board member **William E. Mitchell** is the chair of the board, and former CEO, of Arrow Electronics. Mitchell serves on the boards of Brown-Forman Corporation, Rogers Corporation, Eisenhower Fellowships, the Menlo School in Atherton, Calif., the UCLA School of Theater, Film and Television, and the Lincoln Center Corporate Fund's Leadership Committee. **James J. O'Brien** is CEO of Ashland Inc., a major chemical and transportation construction company based in Covington, Kentucky, and chairman of the board of trustees of Midway College in Kentucky. His Humana board compensation: $226,000.

Marissa T. Peterson, another Humana director, was formerly executive vice president for Sun Microsystems Inc. in Santa Clara, Calif. Peterson now serves on the boards of Supervalu, Inc., Ansell Limited, and the Lucile Packard Children's Hospital at Stanford. Humana paid her over $424,000 -- $392,618 in stock -- for serving on its board last year.

David Jones Sr. founded the company, originally known as Extendicare, as a nursing home company in 1961. It eventually became the largest nursing home corporation in the country. Jones decided to abandon the nursing home industry and remake the company into a hospital chain. In 1972, the corporation began purchasing hospitals. Two years later, it changed its name to Humana. By the 1980s it was the world's largest hospital corporation. In the 1990s, Humana had another corporate makeover. It sold off its hospitals and and moved into the health insurance business. In 2006, following passage of the new Medicare modernization act, Humana launched a major PR campaign to market Medicare Advantage and Prescription Drug Plans to senior citizens. That year, too, Humana started RightSource, a national mail-order retail pharmacy business.

Peter Dreier is Professor of Politics, and director of the Urban & Environmental Policy program, at Occidental College in Los Angeles. This is one of a series of his articles about the battle for health care reform. These can be found on his website.

-