

AG looking into \$16.4m severance

Blue Cross-Blue Shield payment to ex-CEO seen as extraordinary

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Jeffrey Krasner, Globe Staff

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Attorney General Martha Coakley is investigating the \$16.4 million payment Blue Cross and Blue Shield of Massachusetts made to William C. Van Faasen, the insurer's former chairman and chief executive, who retired Jan. 1, according to a Blue Cross-Blue Shield director and others with direct knowledge of the probe.

Coakley is also examining the new management structure at Blue Cross-Blue Shield under which Cleve L. Killingsworth holds the positions of chairman and chief executive.

Van Faasen received \$16.4 million in a lump-sum retirement benefit in January 2006 when he stepped down as chief executive. He continued as chairman until his retirement this month. The size of the payment is considered extraordinary by some because as a nonprofit, Blue Cross-Blue Shield is expected to use surpluses to support its healthcare mission.

Commenting on public charities in general, Harry Pierre, a spokesman for the attorney general, said, "A public charity must use all of its funds to advance the charitable purpose for which it was established." Emily J. LaGrassa, director of communications for Coakley, declined to comment on the investigation.

"We intend to fully cooperate with any inquiry," said Gloria Larson, president of Bentley College in Waltham and a Blue Cross-Blue Shield director since 2006. "We're pleased to do it, but we feel this will end in a satisfactory way for both of us."

Separately, Insurance Commissioner Nonnie S. Burnes said she is monitoring executive compensation at Blue Cross-Blue Shield, in part because of Van Faasen's payout.

"It's a pretty eye-popping number," said Burnes. She said she would examine Blue Cross-Blue Shield's most recent executive compensation when that information is filed with the insurance division March 1, along with the insurer's 2007 financial information.

"When we look at what they file with us, we'll decide whether there's anything we could, should, or want to do," said Burnes. "I'm keeping an eye on it."

Chris Murphy, a Blue Cross-Blue Shield spokesman, said, "The commissioner of insurance is our primary regulator and if she has any questions, we'd be happy to talk to her."

Van Faasen, 58, joined Blue Cross and Blue Shield of Massachusetts in 1990 and became chief executive in 1992. He added the role of chairman in 2002. He is widely credited

with guiding the insurer through a financial crisis and steering the company to its current position as Massachusetts' dominant healthcare insurer. With more than 3 million members, Blue Cross and Blue Shield of Massachusetts is about twice as big as the second- and third-largest health insurers combined. In 2006 it had annual revenue, mostly from premiums, of more than \$2 billion, and generated net income of \$157 million.

Blue Cross-Blue Shield has also been an important force for healthcare change in Massachusetts. It donated \$50 million to the Massachusetts eHealth Collaborative, which undertook groundbreaking work in implementing electronic medical records in three towns.

Van Faasen earned nearly \$3 million in salary and bonus in 2006, according to a recent filing made with Coakley's office, which oversees the state's charities and nonprofits. That included \$500,000 in base pay and \$2.46 million in bonus based on results, according to the company's filing.

But it was the \$16.4 million that attracted the most attention within Massachusetts' close-knit healthcare industry. The retirement pay was earned throughout Van Faasen's 17-year career at Blue Cross-Blue Shield, the company said. Some of the payout was disclosed in filings with the attorney general's office made in previous years, Murphy said at the time. Other portions were not disclosed, because of arcane disclosure rules and how the retirement payments had vested.

Coakley's investigation of the payout and the insurer's management structure come just as Killingsworth - Van Faasen's hand-picked successor - is moving out of the shadow of his mentor. Some healthcare industry officials said they are troubled that Blue Cross-Blue Shield chose to let one person hold the titles of chief executive and chairman.

"This is a terrible design and it's just a bad idea," said Nancy M. Kane, professor of management at the Harvard School of Public Health. "It makes accountability of the organization to the community, represented by the board, a farce."

Linda Crompton, chief executive of BoardSource, a Washington, D.C., organization that advises nonprofits on corporate governance, said the insurer's structure "raises all kinds of issues about independence."

"Having one person fill both positions is a very poor practice, and it's something we counsel against," said Crompton.

Last month, Blue Cross-Blue Shield named Larson "lead director," in a move intended to counterbalance Killingsworth's power. Larson said she will have authority to call meetings of the independent directors - those who do not work for Blue Cross-Blue Shield - and will review Killingsworth's annual performance evaluation.

"This is a sign of agreement between the board and senior management to encourage the right kind of independence," she said. "It's a balancing act. Cleve Killingsworth wants

this kind of independence in his board of directors. At the same time, the more we can share a partnership with senior management, the better off we'll be."

Lucian Bebchuk, director of the Program on Corporate Governance at Harvard Law School, said a lead director can be an effective foil to a powerful chairman and chief executive.

"The labeling of someone as lead director by itself carries no magic," he said. "You need to give this person responsibilities for the title to produce an improvement in governance. They must be able to chair meetings of independent directors and to have some role in setting the agenda for meetings of the full board."