Minnesota Fat Cats

By Kip Sullivan

Ever *wondered* how HMOs can *ruthlessly* cut medical services and still be utterly *incapable* of *keeping down* inflation in health insurance premiums?

The short answer is that HMOs generate high administrative costs that swamp the savings they extract from patients. A massive, six-volume report on Minnesota's Allina Health System released by state Attorney General Mike Hatch last summer, reveals in excruciating detail just how extravagant HMO administrative expenditures can get.

Allina is Minnesota's largest HMO and its second-largest health insurance company. The nonprofit insures 1 million of Minnesota's 4.7 million residents, owns 47 clinics, and owns or manages 17 hospitals. If Allina had been a for-profit company in 2000, its $2.9 billion in revenues would have ranked it in the Fortune 500. But unlike most companies this size, which have worldwide markets, Allina's market is limited to Minnesota and three border states.

Hatch's report received extensive coverage in the Minnesota media but little attention elsewhere. That's unfortunate, because the report provides a detailed picture of the day-to-day operations of an HMO which no other document has revealed. The report depicts a self-centered, party-hardy culture within Allina that is quite different from the image cultivated by the HMO industry. Allina frequently brandished its nonprofit status as evidence that it was somehow compelled to be a frugal servant of the Minnesota "community," but the report shows that Allina was as capable as any other large corporation at using money and political muscle to silence its critics.

The report (available at www.ag.state.mn.us) lists hundreds of examples of lavish expenditures, including:

- Trips for Allina executives to Aspen and Vail, more than 30 trips to Hawaii, and more than 1,000 trips to California and Florida from 1998 to 2000;
- Flights to Aruba, London, Paris, Venice, Grand Cayman, Amsterdam, Athens, Cancun, Los Cabos, Pago Pago, Puerto Vallarta and San Juan during those same three years;
- $18,000 worth of Minnesota Timberwolves season tickets for just one executive over three years, and $5,180 for Minnesota Twins season tickets in 1998 for another;
- $1 million a year for a "turn around" specialist from California who worked part time and hired more California consultants to host parties for executives, at which they watched the movie *Twelve Angry Men* to learn about group dynamics;
- A $70,000 company party, $10,000 of which was for a laser light show;
- Thousands on food and drinks for eight Allina officials attending an "ethics" seminar in Monterey, California, including $1,500 for one meal at the exclusive Club XIX overlooking the 18th hole of the Pebble Beach Golf Course;
- $1,679 for the cost of one executive's trip to Atlanta, including a $45 bill incurred at Atlanta's Tongue and Groove dance club;
- $1,470 for a dinner thrown for Minnesota's commissioner of health (whose job it is to regulate HMOs), former Allina Vice President Jan Malcolm.

The Hatch report should be useful to observers and critics of the HMO industry across the country. If a relatively small, nonprofit HMO in Minnesota—the state where the misnomer "health maintenance organization" was invented—can waste premium dollars this brazenly, it is almost certain scarce premium dollars are being squandered in a similar fashion throughout the United States, especially by larger, for-profit HMOs, which dominate the industry.

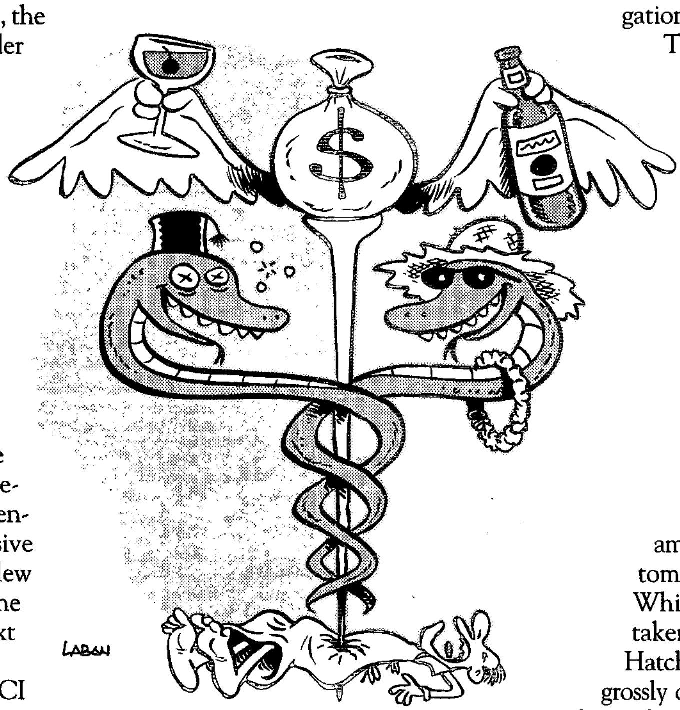
Allina's troubles began in July 1998, when the Inspector General's office of the U.S. Department of Health and Human Services (which administers Medicare) reported that HMOs serving Medicare beneficiaries had overstated their administrative costs. According to the investigators, these excessive HMO administrative expenditures cost Medicare at least $1 billion a year from 1994 to 1996. This was an enormous sum, equaling 5 percent to 10 percent of total Medicare payments to HMOs during those years.

To develop a clearer picture of where the money went, the investigators undertook a second study that focused on nine of the more than 200 HMOs serving Medicare recipients at the time, including Allina. (HMOs insure 14 percent of all Medicare beneficiaries.) In January 2000, the Department of Health and Human Services reported that the administrative costs of these nine HMOs ranged from 17 to 44 percent of medical costs, and that five of them charged Medicare twice as much in administrative costs as they should have (the other four HMOs did not keep separate books for Medicare and non-Medicare patients). Inappropriate charges to Medicare included expenditures on gifts for HMO employees like massages and golf games, lavish parties for employees, and tickets to sporting events.

That February, Hatch announced his plans to audit Allina. The Minnesota Department of Health, under commissioner Malcolm, objected, claiming Hatch had no authority. But Minnesota law gives the attorney general the authority to ensure that nonprofits are not enriching their employees or contractors or otherwise wasting money. (Minnesota requires all of its HMOs to be nonprofit.)

According to Deputy Attorney General Lori Swanson, Allina was uncooperative from the start: "There were delays, we weren't allowed to talk to staff, we had to put questions in writing. They'd give us a partial answer, we'd have to write a clarifying question, and then, eight weeks later, we might get a response. They treated our questions like litigation: If you don't use the right words in your question, you don't get any information."

In March 2001, Hatch sued in state court to force Allina to stop withholding documents. This lawsuit, and the nearly simultaneous announcement by state Sen. Doug Johnson that he was going to hold hearings on Allina's behavior, forced the company to back down. On March 29, the judge hearing the case signed an order approving an agreement in which Allina promised to cooperate fully with Hatch's probe. The following day, Johnson postponed the Senate hearing.



That same week, Allina, which already had more than 20 PR people on its staff, hired several media consultants and a polling firm to discredit Hatch's report. One of the PR firms was GCI Tunheim, which employed Hubert "Skip" Humphrey, son of the former vice president, who had preceded Hatch as Minnesota attorney general. Already under fire for excessive administrative spending, Allina blew $306,000 on GCI Tunheim and the other PR consultants over the next three months.

When Hatch saw mention of GCI Tunheim's new contract with Allina in a newspaper report, he demanded the documents produced by GCI Tunheim and the other consultants. These documents indicate that Allina consultants planned a media campaign of extraordinary complexity for the spring and summer of 2001. The proposed message was multifaceted, and the proposed messengers represented a cross-section of Minnesota's public- and private-sector leadership.

Messages Allina sought to promulgate included: Allina does good things for battered women and people in a low-income Minneapolis neighborhood; HMO administrative costs are trivial compared to other health care costs; Hatch is setting health policy all by himself; and Hatch's investigation is scaring businesses from coming to Minnesota. (Full disclosure: One memo turned over to Hatch suggested targeting this author, who had published several reports and op-eds critical of Minnesota's HMO industry and of Allina in particular, for "opposition research.")

The documents prepared by the PR consultants identified dozens of Minnesota organizations and individuals that Allina suggested could serve as "third party validators." These messengers included health commissioner Malcolm; former U.S. senator and Allina lobbyist Dave Durenberger; Roger Feldman, Blue Cross Professor of Health Insurance at the University of Minnesota; Minneapolis Mayor Sharon Sayles Belton; former Vice President Walter Mondale; and various Chambers of Commerce.

Allina's media consultants did carry out a portion of their plan. Sayles Belton and two other prominent Minneapolis Democratic-Farmer-Labor politicians jointly published an op-ed in the Minneapolis *Star Tribune* arguing that Hatch's investigation was a cheap political gambit that ignored Allina's good works for poor people and battered women. Durenberger made statements critical of Hatch's investigation on Minnesota Public Radio. Burt Cohen (also on Allina's list of "advocates") published an editorial in the *Twin Cities Business Monthly* that claimed Hatch's investigation was scaring businesses away. The *Star Tribune* published an op-ed ghost-written by one of the consultants and signed by Allina board chairman Bill George that asserted administrative costs were not to blame for high premiums and that Allina CEO Gordon Sprenger was a good man.

But all of Allina's influence with Minnesota politicians, reporters, editors and professors was not enough to blunt the anger Hatch's documents provoked among Minnesotans, especially among Allina's premium-paying customers and demoralized doctors. While no independent polls were taken of the public's response to Hatch's findings, a poll taken by Allina's grossly overpaid media consultants found that only 19 percent of respondents thought Hatch was "treating Allina unfairly," and 51 percent thought his investigation was fair (the rest weren't sure).

Faced with Hatch's damning evidence, the drumbeat of terrible publicity, and the fact that the state Senate was on Hatch's side, Allina broke itself into two parts—an HMO and a hospital-clinic network—and Allina's board resigned. David Strand, Allina's chief operating officer—who had been expected to succeed Sprenger when he retired—resigned abruptly, claiming he didn't want to run an HMO that didn't own its own hospitals and clinics.

By August 2001, the battle was over. Hatch released the last chapters of his long report in September and announced he did not intend to take any further action against Allina. Shortly thereafter, Gov. Jesse Ventura announced that he would form a task force to investigate the future of Minnesota's health care system.

The breakup of Allina was the first significant reversal of the merger avalanche that struck Minnesota in the mid-'90s. Such reversals are rare throughout the U.S., and Allina's has been the only one forced by government action. Furthermore, Hatch's investigation has changed the way Minnesota's media, policymakers, and regulators talk about the HMO industry. His disclosures forced Minnesota pundits to concede that the HMO experiment had been a failure.

In September, the media reported a chilling epilogue to this tale of corporate arrogance. Allina, whose new board is cooperating with the attorney general, delivered a lengthy report summarizing the results of an internal investigation into what appeared to be an attempt by Allina executives to bribe Sen. Johnson. Strand and others allegedly discussed a plan to persuade Allina's management company, Minnesota-based United HealthCare (UHC, the nation's largest health insurance company), to build a claims-processing facility in Johnson's Iron Range district if Johnson would agree to call off the hearing.

UHC was created 27 years ago by individuals who used to work for an HMO that was part of Allina. Allina also had an unusual management contract with UHC, outsourcing numerous tasks that insurance companies typically do in-house and paying more to UHC than it had to for those tasks. Johnson intimated to the press that he had some inkling of Allina's plan but said he never was approached directly. (The U.S. Attorney ultimately declined to prosecute.)

As lengthy as the Hatch report is (it stands two feet, three inches tall and weighs more than 50 pounds), it fails to measure and evaluate the full extent of HMO waste, including all of the money spent on monitoring doctors and marketing health insurance. HMOs have failed because managed care is a zero-sum game—HMOs cut medical costs and use the savings to police doctors, not cut premiums. Customers need to be informed of how much of their premiums go to pay for administration, including managing physicians and marketing—both by HMOs and by less tightly managed insurers like Blue Cross Blue Shield—if they are to choose wisely between a private-sector health insurance system, which depends heavily on advertising and salespeople, and one, such as Medicare, that is financed by the government and spends almost nothing on marketing or managing doctors.

The combined impact of HMO expenditures on policing doctors, marketing and the types of expenditures documented in the Hatch report can best be illustrated by comparing the administrative costs of a typical HMO with Medicare, the nation's program for the elderly and disabled. Unlike HMOs, Medicare does not advertise, police doctors, or pay for parties in Pago Pago. Consequently, the difference in the proportion of revenues spent by HMOs and Medicare on administration is immense. If you give a dollar's worth of premiums to an HMO, it will spend 20 to 30 cents on administration, and the rest on patients. But if you give a dollar's worth of taxes to Medicare, it will retain just 2 or 3 cents for overhead and spend the remaining 97 to 98 cents on patients. The strongest argument for a single-payer system is the enormous diversion of scarce health care dollars into private-sector overhead costs.

Even without such data, the Hatch report significantly contributes to America's lopsided health policy debate. The types of expenditures Hatch documented are the sort the public readily understands and condemns. Although public hostility to HMOs is widespread, the battle over managed care is far from over. Most importantly, that hostility has not persuaded George W. Bush to back off his proposal to push Medicare beneficiaries into HMOs. In May, Bush claimed that HMOs save money and that Congress should join him in supporting "reform" that would turn Medicare beneficiaries over to the HMO industry.

If and when Congress holds hearings on Bush's proposal, Mike Hatch should be their first witness. ■

Popcorn and Sake

By Joe Knowles

In Hirokazu Kore'eda's 1998 film *After Life*, the dead discover that there is no heaven or hell, only their own past. The deceased, finding themselves in a kind of cosmic waystation, have just one task during an allotted week in limbo: Choose one memory, and make it a good one. In the afterlife, it turns out, you meet not your maker but a film crew. They shoot and edit a re-enactment of your chosen memory, sit you down in a theater on the premises, and whisk you off to the great beyond to live with that memory forever.

A Hundred Years of Japanese Film
By Donald Richie
Kodansha
311 pages, $30

The Donald Richie Reader: 50 Years of Writing on Japan
Edited by Arturo Silva
Stone Bridge Press
238 pages, $19.95

Tokyoscope: The Japanese Cult Film Companion
By Patrick Macias
Cadence Books
240 pages, $19.95

Kore'eda's picture speaks volumes about the nature of cinematic reality, especially the way the Japanese have been developing it for more than a century. For if movies are highly selective versions of reality, the Japanese have taken the maxim to an extreme. The country is famous for ultra-stylized presentation—in everything from flower-arranging to head-spinning *anime*—which often piques or baffles viewers in the West used to "realistic" or "naturalistic" ways of showing. In America, even patently unrealistic blockbusters live or die by their special effects' realistic appeal. "Realism" in the cinema is as much a calculated aesthetic choice as any other, but as audiences, we don't like to be reminded of that. We tend to deny style even as we rely on it.

This does not seem to be an issue for Japanese audiences. From the outset, when movie cameras first arrived in the archipelago in 1899, Japan simply "had no tradition of the common style known as realism," Donald Richie explains in his superb new history, *A Hundred Years of Japanese Film*. "Art and entertainment alike were presentational, that is, they rendered a particular reality by way of an authoritative voice." Japan's classical arts "had assumed the necessity of a structure created through mediation." In a country where modernity had been declared overnight, the stagey conventions of *noh* and *kabuki*, not to mention the flattened, two-dimensional aesthetic of woodblock prints and *ikebana* flower arrangements, had a lot more to do with the emerging local style of film than any newfangled yearning for perspective or documentary fidelity.


DAIEI

Donald Richie with director Kon Ichikawa, 1965.

Though Japan also had conventional silent films, especially into the '20s and '30s, many if not most of the early pictures were narrated live by a *benshi*, a kind of emcee who would describe and comment upon a procession of moving images for rapt audiences. Although some degree of live narration was not uncommon in other countries, it took much longer for full-fledged narrative films to develop in Japan than elsewhere, in part because responsibility for dialogue and storyline—however slender—was left to the *benshi*, some of whom became famous in their own right. The films themselves, with a few notable exceptions, remained loose collections of scenes more concerned with atmosphere, educational value or random comedy than with plot. By the '30s, this would change, as the *benshi* lost his job to the talking soundtrack. But the peculiarly cultural need that the *benshi* had filled—a strong sense of authorial presence, an overt stage—did not go away.

Naturally, a culture so deferential toward authority, whether in an artistic or political sense, went hand in hand with authoritarianism. With more consent from the citizenry than the Japanese still care to admit, militarists led the nation on a path of war and conquest that culminated in unprecedented disaster in World War II. The Allied Occupation recognized this dynamic and even censored films thought to be too "feudal" in character. The occupiers may have understood their mission in cultural as well as military terms, Richie argues, but Japan still "has never assimilated anything that it did not want to." Democracy, yes, but the Hollywood close-up? Not so fast.

How much of John Ford's DNA found its way into Akira Kurosawa, and how much did the latter's samurai epics imprint *Star Wars*? What does splattermeister *du jour* Takashi Miike owe to Quentin Tarantino, and what does Tarantino, in turn, owe to gangster-flick pioneer Seijun Suzuki? The answers to such questions are endlessly arguable, but what is consistently clear, Richie demonstrates, is that on the Japanese side of the equation, even after many decades of ping-ponging cultural influences, "any influence ... is swallowed, digested and turned into something sometimes rich, often strange and always 'Japanese.' Any definition of Japanese style has to face the fact that most Japanese are usually unable to handle anything without swiftly nationalizing it."

There is no Westerner more qualified to deliver a history of that peculiar digestive process—and interpret it for us *gaijin*—than Richie, who, ever since first coming ashore with the merchant marine in 1947, witnessed at close range the flowering of the Japanese cinema's latter half-century. As Paul Schrader puts it in his foreword to *A Hundred Years of Japanese Film*, Richie is the "Commodore Perry of Japanese film history," first as a modest film reviewer for the Army's *Pacific Stars and Stripes* newspaper and then as an enterprising and influential critic for the *Japan Times*.