FOR IMMEDIATE RELEASE

INSURANCE COMMISSIONER REDUCES TERMINATION PAYMENT TO FORMER CAREFIRST CEO BY 50%

Baltimore, MD (July 14, 2008)… Insurance Commissioner Ralph S. Tyler issued his decision today in the case challenging CareFirst Inc.’s (CareFirst) proposal to pay its former Chief Executive Officer, William L. Jews, nearly $18 million following Mr. Jews’ termination. Tyler ruled that CareFirst’s proposal violated the law that the General Assembly enacted in 2003 which limits executive compensation at CareFirst to that which is “fair and reasonable . . . for work actually performed for the benefit of” CareFirst. Tyler ruled that CareFirst could make a total payment to Mr. Jews of nearly $9 million ($8,985,081), one-half the amount that CareFirst proposed to pay, and that a payment at that level was warranted in light of all the facts.

Tyler explained his decision in a 65 page statement of reasons. Principal reasons cited in that statement as to why CareFirst’s proposed payment of nearly $18 million was unlawful and why a payment half that amount was permissible included the following:

- the public purpose mission of CareFirst;
- the inconsistency between the company’s statutory nonprofit mission and its proposal to pay its departing CEO $18 million;
- the fact that, under Mr. Jews’ leadership, the company strayed significantly from its nonprofit mission;
- the failure of the CareFirst board to act to restrain the CEO’s compensation;
- the fact that $18 million is almost seven times Mr. Jews total annual gross compensation;
- the substantial compensation Mr. Jews received while CEO (more than $16.5 million in his last six years as CEO, plus another $1.6 million in deferred payments);
• the former CEO’s mixed record of achievement, prominently including the failed transaction which he championed to convert the company to a for-profit entity and have it acquired;
• the fact that some of the compensation that CareFirst proposed to pay is contrary to the practice at entities similar to CareFirst;
• the fact that CareFirst proposed to continue to pay Mr. Jews his base salary (approximately $1 million) for one year beyond the expiration of the non-compete provision in Mr. Jews’ employment contract;
• the fact that Mr. Jews was CEO for 13 years; and
• the fact that more than $2.4 million of the $9 million is for previously deferred payments.

Since his termination, Mr. Jews has continued to receive his base salary and other benefits (totaling in excess of $2.2 million). The final order provides that Mr. Jews’ post-termination payment ($8,985,081) is to be reduced by all sums that Mr. Jews has received since his termination, plus interest. CareFirst is directed to prepare a final calculation consistent with the order.

The decision in this case followed a hearing that lasted four and a half days. Ten witnesses testified, and the transcript of the proceedings is almost 1,400 pages long. The record also includes more than 200 exhibits.

Attached is a summary of the reasons for the decision.

The Commissioner’s Final Order and Statement of Reasons in Support are available at the Maryland Insurance Administration website, www.mdinsurance.state.md.us.
Summary of Reasons

Case No. MIA-2007-10-027
Insurance Commissioner vs. CareFirst, Inc. and William L. Jews

- CareFirst’s legally mandated mission is to “provide affordable and accessible health insurance.” The Insurance Commissioner is charged, by law, with enforcing all provisions of the Insurance Article, including the provision relating to CareFirst’s mission. Statement of Reasons (“Statement”) at 13-15.

- In 2003, following the rejection of CareFirst’s attempt to convert from a nonprofit to a for-profit corporation and revelations about compensation practices at CareFirst, the General Assembly enacted a statute (§ 14-139(c)) that limits compensation at CareFirst to that which is “fair and reasonable.” Statement at 2-3, 8-13.

- Despite the 2003 reform legislation, CareFirst’s board failed to act to restrain the CEO’s compensation. The board failed, for example, to evaluate Mr. Jews’ performance in connection with the rejected conversion transaction; the board failed to negotiate a new contract with Mr. Jews; the board failed to adopt guidelines on post-termination payments; and the board had no basis for determining that a payment of nearly $18 million was “fair and reasonable.” Statement at 23-27, 32-33.

- Mr. Jews’ 13 year record as CareFirst’s CEO (1993-2006) was a decidedly mixed one – a record of great achievements and great failures. Notable failures were the failed conversion transaction in 2002 – 2003 and the fact that the company, under Mr. Jews’ leadership, strayed significantly from its nonprofit mission. These failures had no adverse impact on his compensation. Statement at 16-30.

- Mr. Jews was compensated very well while CareFirst’s CEO. Between 2001 and 2006, his final six years, he received in total more than $16.5 million in compensation, plus an additional $1.6 million in deferred payments. In every one of those years, he was paid at least $2.5 million and one year (2003, in the aftermath of the conversion debacle) he was paid more than $3 million. Statement at 20-22, 27.
• When the board terminated Mr. Jews in November 2006, the board’s stated reasons included concerns about his performance over the preceding years. This concern was not reflected in prior board action with respect to Mr. Jews’ compensation. Statement at 27-30.

• A post-termination payment of $18 million is simply too much money to pay to the departing CEO of a nonprofit company. Eighteen million dollars is nearly seven times Mr. Jews’ total gross compensation in 2006. Statement at 47-50.

• A payment of nearly $9 million, while 50% less than that which the board proposed to pay, is no hardship. Nine million dollars is almost 3.5 times Mr. Jews’ total gross annual compensation. The amount remaining to be paid to Mr. Jews is $8,985,081 minus all amounts he has been paid since his termination (in excess of $2.2 million), plus interest. CareFirst is ordered to prepare a calculation of the exact amount remaining to be paid. Statement at 61-64; Final Order MIA-2007-10-027.