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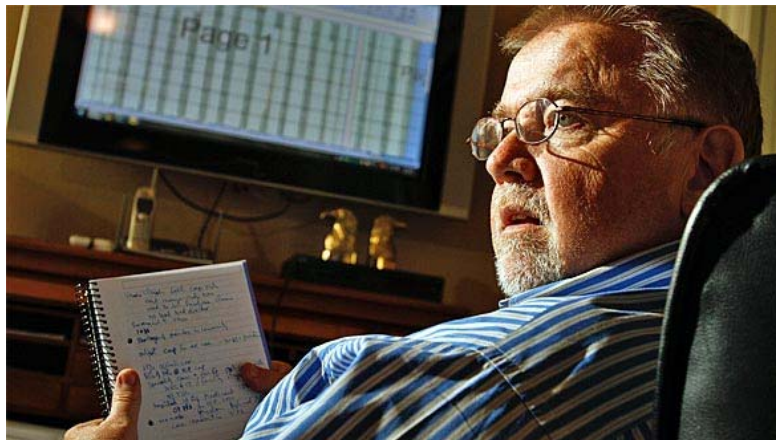


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A mathematical David stuns a healthcare Goliath

A respected actuary working from his rural Riverside County home — and for a time from a hospital bed — uncovers the errors that led Anthem Blue Cross to cancel rate increases of up to 39%.



David Axene, an actuary working from his Riverside County home, was undeterred by a serious illness and uncovered the errors that led Anthem Blue Cross to cancel rate hikes of up to 39% for Californians. (Irfan Khan / Los Angeles Times)




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By Duke Helfand, Los Angeles Times

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Anthem Blue Cross again seeks rate hikes for Californians



Editorial: Anthem tries again

David Axene was flat on his back in a hospital bed with a swollen left leg. His kidneys had shut down. His blood pressure had plunged. Doctors pumped him with potent antibiotics to stave off a deadly infection.

Yet there he was sifting through spreadsheets on his laptop, cradling his cellphone to his ear, waving off doctors to finish another conference call.

California's top insurance watchdogs had hired Axene to scour Anthem Blue Cross' files for any flaw in the voluminous paperwork that accompanied its rate hikes of up to 39%.

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Anthem's plan to impose higher premiums March 1 had outraged consumers and politicians alike. [President Obama](#) seized on the furor, criticizing Anthem's increases on national television as he tried to revive fading support for his healthcare overhaul.

California regulators were bound by law to accept the rates as long as Anthem could show that it used at least 70 cents of every dollar in premiums to pay medical claims. In the past, Anthem's requests had sailed through with barely a peep from officials. Not this time. The outcry was too great to ignore.

That's where Axene came in.

The state looked to him for an impartial judgment. The stakes had never been higher for the 60-year-old actuary: Finding an error in Anthem's 70-page rate proposal and reams of supporting documents would dent the image of California's largest for-profit insurer and possibly save consumers tens of millions of dollars. He knew his work had to be flawless.

"I wasn't going to let this illness stop me," he said.

The son of an evangelical pastor, Axene grew up in Canada and Washington state, schooled from a young age on the importance of faith, love and hard work. Blessed with a gift for numbers, he dreamed of becoming an aeronautical engineer. But in the early 1970s, jobs were scarce in Seattle for college graduates with degrees in physics and applied mathematics.

At 21, Axene found himself pumping gas.

Then a friend told him that Travelers Insurance Co. was hiring. He applied for a sales position and bombed the interview, recalling the recruiter's stinging words: "Axene, you couldn't sell your way out of a wet paper bag."

But the recruiter asked whether Axene had ever thought of becoming a health actuary — a mathematician who calculates insurance rates by evaluating life expectancies, medical histories and other risk factors.

Axene had never heard the term, but the interview launched him into a career with some of the nation's most influential accounting and actuarial firms, including Ernst & Young, where he supervised 45 actuaries and enjoyed a corner office with a sweeping view of San Diego Bay.

Ernst & Young downsized seven years ago, leaving Axene, then 53, out of work.

He decided to start his own business in his Temecula home and later moved to the nearby rural enclave of Winchester, where housing developments and horse ranches stretch over sun-dappled hills.

There, a small office behind his master bedroom serves as the corporate headquarters of Axene Health Partners. He shares the bare-bones space — dubbed "the Outhouse" — with Tiffany, his office manager and daughter-in-law, and his son Josh, an actuary, while six other employees work from their homes in California and Oregon. Axene likes it that way, surrounded by family in a tranquil place where he can wear shorts and deck shoes to work.

"It's no luxury office," he said as his wife, Dawn, dropped by to offer a glass of iced tea.

Axene Health Partners is off the beaten path, but it was well known to senior managers from the California Department of Insurance as a top-flight actuarial firm with a reputation for deft work. So when they wanted someone to double-check Anthem's numbers in mid-February, they called Axene, who personally took on the project and enlisted three of his staffers, including Josh.


Axene and his actuaries set about reviewing Anthem's proposal and more than 1,000 pages of internal documents and Excel spreadsheets filled with columns of numbers and formulas and equations — a mind-numbing mound of data that produced a stack of paper 18 inches high.


"This was a brain stretcher," he said. "It may be the most intense project we've ever worked on."


Axene relied not only on his math skills but also on a higher power: He prayed for insight and wisdom


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each morning before launching into another round of numbers sleuthing, often drawing inspiration from a worn Bible he keeps in his office.

"I'm one of those crazy people who believes that God listens to our prayers," he said.

A month into the investigation, Axene came down with what he thought was the flu. Tests turned up a blood infection that could have proved fatal. He landed in a Wildomar emergency room and was soon undergoing surgery to drain the infection from his left knee.

He was weak and couldn't lift himself out of bed. But he refused to back off from the Anthem investigation, logging 66 hours of work in the hospital the week after his surgery. With an intravenous line in one hand and a cellphone in the other, he continued to sort through Anthem spreadsheets on his laptop that was propped on a portable table over his bed.

"I was getting e-mails from him at 3 or 4 in the morning," said Josh, 29.

Axene returned home two weeks after surgery, in late March, confined to a hospital bed that had been moved into his family room, just off the kitchen. His Anthem team, including actuaries John Fritz and David Bohmfalk, gathered there to pore over charts and tables displayed on a big-screen television on the wall over the fireplace.

The four men spent 250 hours digging but found little out of order. As they went deeper, however, they found a discrepancy. The insurer had projected a 19% increase in the cost of healthcare. Studying Anthem's own data, Axene and his actuaries determined that costs would rise just 13%. They were puzzled by the difference.

"When you're a numbers guy and things don't appear to be consistent, it annoys you," Axene said.

Axene's squad suspected that Anthem had miscalculated some of the inflationary factors that drive up rates, such as the age of policyholders. Bohmfalk was assigned to look closer and spotted the first of several mistakes: Anthem had double-counted the effect of aging.

"It was sort of like finding the Holy Grail," Axene recalled. "It ... opened up a big can of worms."

The actuaries determined that Anthem could reduce its average rate hike to 15% from 25% by correcting the error and a handful of other mistakes.

At the urging of regulators, Axene and his team reported their findings to Anthem and its corporate parent, Indianapolis-based WellPoint Inc. The news stunned the companies.

"We were genuinely surprised," WellPoint spokeswoman Kristin Binns said. "We immediately realized the mistake. We understood how visible these rate increases were."

On the same day in late April that state regulators released Axene's findings, WellPoint canceled the 39% rate hike.

It was a sobering moment for the economic titan, with 42,000 employees and \$65 billion in annual revenue. And it transformed Axene into something of an accounting wizard — so impressive that even Anthem wanted to hire him.

"We found a big one," Axene said of his firm's Anthem coup. "It is extremely satisfying."

By this time, Obama had signed the healthcare overhaul bill into law. [Democrats](#) and [Republicans](#) alike singled out WellPoint's rate increases — repeatedly citing the 39% figure — as a turning point in the contentious debate.

Anthem submitted new rates to the state last month, seeking an average increase of 14% and a maximum of 20% — about half what it had originally sought.

The tumult over its premiums has been good for Axene's business. California Insurance Commissioner Steve Poizner hired him to review the rate filings of Blue Shield of California and [Aetna Inc.](#), which pulled back its plan last month after two separate reviews — its own and Axene's — found math errors. Aetna has resubmitted new rates, and Axene is once again examining the files. He's just been asked to conduct yet another review, this one of a [Health Net Inc.](#) filing.

Even as he plods through all that work, new clients are calling and resumes are piling up. Axene is thinking of expanding his operation.



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"He slew the giant," said Anthony Wright, executive director of Health Access California, a consumer group in Sacramento. "It was David versus Goliath, except David was armed with a calculator rather than a slingshot."

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Oeblio at 7:59 AM July 16, 2010

"We were genuinely surprised," WellPoint spokeswoman Kristin Binns said. "We immediately realized the mistake. We understood how visible these rate increases were."

Translates to: "We will have to work harder to better hide the increases next time."

scottlee1280 at 5:05 AM July 16, 2010

yeah, now he's the champion of the little guy -- however the author failed to mention that axene was the genesis of the milliman length of stay guidelines that advocated kicking out new moms out of the hospital after 24 hours. did the author ask what 7-figure fee axene collected from saccto as well?

winfield abbe at 9:55 PM July 15, 2010

Another example of a remarkable individual who used physics and mathematics as a springboard to greatness is professor Dr. W. Edward Deming, Ph.D. He was from Iowa, graduated from the University of Wyoming in Electrical Engineering and then obtained graduate degrees from the University of Colorado and Yale University in mathematical physics. He became a distinguished genius level expert in Industrial Statistical Quality Control and basically was singularly responsible for the great success of Japan's industrial success following WWII. The ignorant executives at GM and Ford and Chrysler ridiculed him and you see what the consequences of their stupidity and ignorance resulted in. The late Dr. Deming was awarded the highest civilian medal the country of Japan has to offer and anyone with knowledge of him there immediately bows at the mention of his name. Here is a link of his remarkable life http://en.wikipedia.org/wiki/W._Edwards_Deming#Early_life_and_work. If the morons running our production companies had only listened to him we might not be on the brink of bankruptcy and destruction and our once great cities like Cleveland and Detroit and Pittsburg might have survived after all instead of dying so tragically.

Every student should study and honor W. Edward Deming, not worthless sports entertainment figures.



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