

**STATE OF CALIFORNIA
HEALTH AND HUMAN SERVICES AGENCY
DEPARTMENT OF MANAGED HEALTH CARE**

**TO: CALIFORNIA PHYSICIANS' SERVICE dba
BLUE SHIELD OF CALIFORNIA
License No.: 933 0043**

RECEIVED

OCT 05 2015

DEPT. OF MANAGED HEALTH CARE
DIRECTOR'S OFFICE

MEMORANDUM OF THE DIRECTOR

The Department of Managed Health Care ("Department") examined and analyzed the rates California Physicians' Service dba Blue Shield of California ("Blue Shield" or "the Plan") intends to charge in Plan Year 2016 for products in its Individual and Family Plan Business as well as its Small Group Business (collectively "the products").

Blue Shield's rates for its Small Group Business are based, in part, upon the Plan's projections regarding the drug costs that are anticipated in connection with the products. The projections are higher than estimates used by Blue Shield's peers.

Blue Shield's rates for the products are also based upon the Plan's target level of profit. If Blue Shield's actual medical costs for the products fall below the Plan's projections, the Plan's profit levels will exceed what is reasonable within the industry, particularly in light of Blue Shield's considerable reserves. Further, the Plan's target level of profit for the products will implicate the Plan's pledge not to keep any profits in excess of 2%.

Blue Shield's medical cost projections for the 2014 Plan Year proved to be substantially greater than its actual costs, as evidenced by Blue Shield's issuance of substantial rebates to enrollees in connection with its 2014 products (as a consequence of a federal medical loss ratio ("MLR") that triggered the obligation for such rebates).

The Director has authority to adopt orders from time to time as are necessary to carry out the provisions of the Knox-Keene Act. (Health & Saf. Code, § 1344, subd. (a).)

///

The public interest requires that the Department monitor and track Blue Shield's medical cost projections very closely to evaluate whether they prove to be accurate over the course of the 2016 Plan Year. The public interest further requires that the Department ensure the Plan's profit levels are reasonable and fair, given the extraordinary reserves maintained by Blue Shield.

**STATE OF CALIFORNIA
HEALTH AND HUMAN SERVICES AGENCY
DEPARTMENT OF MANAGED HEALTH CARE**

**TO: CALIFORNIA PHYSICIANS' SERVICE dba
BLUE SHIELD OF CALIFORNIA**

License No.: 933 0043

ORDER

IT IS HEREBY ORDERED that:

For Plan Year 2016, relative to Blue Shield's Individual and Family Plan Business, Blue Shield must provide the Department with an update of 2015 and 2016 emerging utilization and trend projections, and an appropriately updated projected federal MLR calculation for its Individual and Family Plan business, no later than April 30, 2016. If the emerging utilization and trend projections yield an updated projected federal MLR that is more favorable to Blue Shield than the current projections filed with the Department as part of the rate review process for Plan Year 2016, then Blue Shield must issue a mid-year rebate to consumers by July 31, 2016. The mid-year rebate shall be based on the difference between the updated 2016 projected federal MLR and the Plan's federal MLR estimate filed with the Department as part of the rate review process for Plan Year 2016.

For Plan Year 2016, relative to Blue Shield's Small Group Business, Blue Shield must forgo submitting or filing for another rate increase in the second quarter of 2016.

For Plan Year 2017, for both the Individual and Family Plan Business and the Small Group Business, Blue Shield's premium rate increase filings must reflect target profit margins that will not exceed the following:

- Individual and Family Plan Business: 1.41%
- Small Group Business: 1.67%

IT IS SO ORDERED this 5th day of October, 2015.



By: Michelle Rouillard
MICHELLE ROUILLARD
Director, Department of Managed Health Care

CONSENT AND BINDING AGREEMENT

In order to avoid any further pre-implementation investigation by the Department regarding the projected drug costs filed by Blue Shield as part of the rate review process for Plan Year 2016, Blue Shield hereby consents to, agrees to comply with, and agrees not to challenge the validity of the above Order.

Dated: October 5, 2015

CALIFORNIA PHYSICIANS' SERVICE

Seth Jacobs

Seth Jacobs
Senior Vice President and General Counsel
California Physicians' Service