

**FOR IMMEDIATE RELEASE**

November 23, 2005

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### **Independent auditor fails to uncover direct link between Blue Cross premium increases and merger costs**

**(Sacramento)** -- An independent actuarial review found no evidence that Blue Cross of California's (BCC) 2005 double-digit premium increases were implemented to finance the costs of the merger between Anthem and WellPoint (the parent company of BCC), the California Department of Managed Health Care (DMHC) has announced.

"Blue Cross's premium increases are distressing for policyholders and those concerned about the rising costs of health care, but cannot be attributed to financing the costs of the Anthem and WellPoint merger," said Kathleen McKnight, senior counsel to the DMHC. "Although this particular review found that these recent increases are not tied to the merger, the DMHC will continue to monitor premium rates and allocations to BCC's parent company for strict compliance with terms of the merger's approval."

Earlier this year, the DMHC's HMO Help Center began receiving complaints from BCC policyholders concerned about premium increases, which were imposed less than six months after completion of the merger. In its approval, the DMHC had secured a commitment that any increases to California policyholders would not be used to finance the cost of the merger. Consequently, following a public meeting in May, DMHC officials launched an immediate probe of the matter, and contracted with an independent auditor to review BCC's rate setting methodology.

Under the Knox-Keene Health Care Services Act of 1975, the body of laws governing the regulation of HMOs, the legislature has not granted the DMHC authority to review and approve premium increases, and health plans generally are not required to verify actuarial assumptions or secure approval before imposing them. Therefore, the premium review could not examine

**(more)**

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factors outside the DMHC's authority to evaluate BCC's methodology in setting its rates, such as: 1) health care cost inflationary trends; 2) cost impacts of any new state or federal requirements; 3) changes in risk factors, such as age brackets and geographic location; 4) new product or plan designs; or 5) agent and broker commissions.

In originally approving the merger, the DMHC imposed a total of 29 individual requirements or "undertakings", with which BCC would need to comply. State law allows the DMHC to impose undertakings to protect consumers and ensure that the surviving health plan maintains its ability to provide health care to Californians.

The undertakings included such conditions as: 1) improving the quality and accessibility of health care for Californians; 2) continuing to base administrative oversight activities in California; 3) holding down administrative costs; 4) maintaining current levels of products for low-income consumers; 5) providing investments in important health programs, such as the Healthy Families program; and 6) not raising health care premiums to finance the costs of the merger.

A complete copy of the review can be found on the DMHC Web site at [www.dmhc.ca.gov](http://www.dmhc.ca.gov).

The California Department of Managed Health Care is the only stand-alone HMO watchdog agency in the nation, touching the lives of more than 21 million enrollees. The DMHC has assisted nearly 650,000 Californians through its 24-hour HMO Help Center to resolve their HMO problems, educates consumers on health care rights and responsibilities, and works closely with HMO plans to ensure a better, solvent and stable managed health care system.

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