

July 1, 2011

Mr. Jerry Fleming
Senior Vice President, National Health Plan Manager
2101 Webster Street, 8th Floor
Oakland, CA 94612

Dear Mr. Fleming:

Thank you for meeting with me over the past few days to discuss concerns that the Department of Managed Health Care (Department) has regarding Kaiser Foundation Health Plan (Kaiser) small group HMO rate hikes. As you know, the Department has voiced our concerns about the rate increase and asked that Kaiser reduce its rate increase. The Department is extremely disappointed that Kaiser has refused to do so. This refusal on Kaiser's part, leaves the Department very concerned that more than 300,000 of our enrollees will be receiving a rate increase of over 10%, during these difficult economic times.

The Department acknowledges and appreciates Kaiser's leadership in the health care industry. We also understand your assertions that because Kaiser's rates are lower than its competitors, that makes Kaiser's rate hike reasonable. However, merely asserting or having rates that are lower than other health plans does not satisfy the legal requirements under the new state law that went into effect on January 1, 2011. (Senate Bill 1163, Chapter 661, Statutes 2010.) Under this law, all health plans are required to submit all required rate information¹; and the Department is statutorily required to review this information, and make its determination and post on its public website if the Department finds that the rate increase is not justified or is unreasonable. As we discussed, the Department has identified several factors² that are troubling regarding Kaiser's rate filing, including, but not limited to, the lack of substantial evidence to support Kaiser's assumptions regarding its rate increase, and the fact that Kaiser's rate filing lacked all required documentation and detail upon which the Department could determine the reasonableness of the rate increase.

¹ Health plans must disclose all information set forth in Health and Safety Code section 1385.03(b) (1)-(25).

² Pursuant to SB 1163, the Department issued guidance setting forth fourteen (14) factors it considers in determining whether a rate increase is unreasonable.

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In addition to lacking data, Kaiser's financial capital raises questions about the necessity of this rate increase. It is understood that Kaiser needs capital to fund its insurance obligations and the ongoing and anticipated needs of its delivery system. We recognize that with the passage of the Affordable Care Act there will be additional capital investment costs and needs. Nevertheless, Kaiser, a nonprofit health plan, has about \$12 billion in excess TNE, about \$20 billion in short-term and long-term investments, \$42 billion in revenue, and yet is targeting billions more in contribution to surplus (7.2% contribution to surplus (profit), while it imposes double-digit rate increases for more than 300,000 of its customers. The Department expresses its deep disappointment that Kaiser is raising its rates for California consumers and small businesses during a time when we are seeking to make health insurance more affordable. Therefore, the Department respectfully reiterates its request that Kaiser significantly lowers its rate increase.

Sincerely,



Edward G. Heidig
Interim Director
Department of Managed Health Care

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