



April 7, 2011

The Honorable Jerry Brown
Governor, State of California
State Capitol
Sacramento, California 95814
Fax: 916-558-3160

Re: Anthem Blue Cross Rate Hikes

Dear Governor Brown:

In less than a month more than 150,000 Californians will face a major Anthem Blue Cross rate hike and increased deductibles, despite a flurry of reports last month that there would be a reprieve.

The confusion – and ensuing consumer anger that is percolating – stems from the fact that Insurance Commissioner Dave Jones's success in reducing and delaying the Blue Cross rate hike and deductible change only applies to the Californians who happen to have Blue Cross PPO plans regulated by the Department of Insurance (CDI). Those PPO policyholders with policies overseen by the Department of Managed Health Care (DMHC) are out of luck.

Instead, the unfortunate DMHC policyholders are facing nearly 17 % rate hikes on May 1, as well as sudden increases in their deductibles, on top of the 20% increase imposed by Blue Cross last autumn. We have heard from numerous families who felt some relief when they learned that Commissioner Jones had delayed Blue Cross' hike and that the company agreed to reduce it to a still burdensome 9.1% increase, only to find that their policies didn't have the right regulator and the increases would be imposed as originally planned. Their anger is palpable and their fear that they are on the verge of having to forego health insurance is real.

Of course, it shouldn't be this way. Californians whose insurance policies are regulated by the DMHC should not be treated as second-class citizens. We hope you will take three crucial steps toward ending both the spiraling rate hikes that have left so many Californians uninsured, and the regulatory confusion that leaves some patients more exposed to insurance company gouging than others.

1. We urge you to direct the DMHC to demand that Blue Cross stop applying different pricing standards to Californians based on which regulator happens to oversee their policy. According to the DMHC website, this rate hike is still under review, so there is time to act. Hundreds of thousands of Blue Cross customers believed their rate hike was being lowered substantially, delayed until July 1 and that their deductible would remain the same at least for the remainder of the year. But unless the DMHC takes quick action, instead of a 9.1% rate increase in July and no increase in

deductible, these Californians face what appears to be a 17% rate increase in May with a deductible increase as well.

With rate regulation and a single regulator, we would not be in this position, but we bring this particular rate hike to your attention because of the urgency of addressing the problem confronted by these 150,000 Californians suddenly facing the consequences of an inadequate regulatory structure. With the state budget front and center these policyholders could soon add to the state's fiscal woes if some become uninsured by this rate hike.

2. We urge you to support AB 52 (Feuer), which will require regulators to prohibit insurers and health plans from imposing increases that are excessive. As the beleaguered Anthem Blue Cross customers enrolled in DMHC-regulated policies prove, the protests by consumers at insurance company headquarters and the unrelenting effort by Commissioner Jones are not enough to prevent insurance companies from gouging Californians or pricing them out of coverage altogether.

3. We urge you to develop a plan to merge all insurance rate regulation functions into the Department of Insurance. The CDI is structurally built to regulate rates and the DMHC is not. The CDI has a staff of actuaries, rate analysts and lawyers who have regulated property and casualty insurance rates for two decades under Proposition 103, while the DMHC has no history or authorization to regulate rates. These impending hikes show that the DMHC either does not have the resources and expertise or lacks the will to fight off the insurance companies' full-court press for rate hikes and coverage reductions. Proposition 103 made the Insurance Commissioner an elected post in order to provide exactly the kind of public accountability that is missing from the DMHC.

The current experience with Anthem Blue Cross exposes the Kafkaesque bureaucratic wall consumers face and leads to some obvious conclusions about the current system of insurance company rate oversight. It is ridiculous that a quirk in the law results in one Blue Cross policyholder with a \$3,500 deductible PPO plan getting a reprieve, while another with a similar \$3,500 deductible PPO plan faces the full brunt of Blue Cross' changes because the former bought the CDI version of the plan and the latter a DMHC policy.

It is notable that whether a Blue Cross customer has a policy regulated by one department or the other, she talks to the same Blue Cross staff, probably because it is much more cost-efficient for the insurer to consolidate functions. The same logic should apply to regulatory oversight. Systematic and consistent regulation of health insurance is a must for Californians who will soon be required to purchase health insurance under federal law. Indeed, there are millions of dollars of federal grant money available for the regulatory improvements outlined here.

Right now Californians need protection from out-of-control insurance rates and insurance companies that profit off the confusion of bifurcated oversight. Please call on us if we can provide you with any information or assistance in this effort.

Sincerely,



Douglas Heller



Jerry Flanagan