



Dec. 14, 2015

Shelley Rouillard
Director, Department of Managed Health Care
980 Ninth Street, Suite 900
Sacramento, CA 95814-2725

Re: Proposed Centene – Health Net Merger

Dear Ms. Rouillard,

Consumer Watchdog, a nonpartisan, nonprofit public interest group, urges the Department of Managed Health Care (DMHC) to use its full authority to impose comprehensive requirements to protect consumers before allowing the merger between Centene and Health Net to move forward.

DMHC has the authority to deny or require changes to the “Change in Control” request and should use it in order to assure continued access to quality health care and provide the full protection of state laws governing health plans. These types of mergers pose risks that include the further narrowing of physician networks, higher premiums, higher out-of-pocket costs (deductibles, co-pays and coinsurance) and fewer health insurance choices.

The Affordable Care Act was meant to give more people to access to healthcare, and millions of Californians are newly insured. Yet many low- and middle-income families continue to struggle to pay the costs of a policy,¹ let alone use their new health coverage, as deductibles soar and doctor and hospital networks shrink. Mergers exacerbate these issues.

Centene’s acquisition of Health Net will create a health insurance company with more than 10 million members nationwide and about \$37 billion in revenue.

The proposed consolidation also comes with, according to Centene CEO Michael Neidorff, plans to cut \$150 million in “costs” from Health Net through “synergies.”² Such savings, despite assertions, are rarely passed on to policyholders; and depending on the types of “costs” Centene is targeting (for example, access to more comprehensive provider networks), consumers could be further harmed.

Northwestern University Professor Leemore Dafney, who testified at a U.S. Senate hearing in September about insurance industry consolidation, noted in her 2012 consolidation study³ of the 1998 Aetna and Prudential Healthcare merger that top executives cut jobs and wages as well as reduced payments to healthcare providers to cut costs. The study reported that instead of passing along any

¹ <http://kff.org/health-reform/report/coverage-expansions-and-the-remaining-uninsured-a-look-at-california-during-year-one-of-aca-implementation/>

² <http://www.prnewswire.com/news-releases/centene-to-combine-with-health-net-in-transaction-valued-at-approximately-68-billion-300108184.html>

³ <http://www.kellogg.northwestern.edu/faculty/dafny/personal/Documents/Publications>

savings, the insurers increased premiums. Similar actions are repeated throughout the history of health insurance mergers.

Centene should be required to detail the cuts it proposes and to pass along savings to ensure policyholders are protected before any merger is approved.

Merger Undertakings

1. Enhanced Rate Review

To assure the public that savings from the merger are passed on but costs are not, DMHC must require the merged company to agree to five years of enhanced rate review, much as DMHC did in an order it made before approving the merger of Blue Shield of California and Care1st Health Plan in October.⁴

The department mandated that Blue Shield report its emerging utilization and trend projections, update its projected federal medical loss ratio (MLR) calculation mid-year in the individual market, and issue mid-year rebates to consumers if there is a difference between the updated projected federal MLR and the Plan's federal MLR estimate filed with the Department as part of the rate review process. The department also required Blue Shield to forgo a rate increase in the 2nd quarter of 2016, and to limit any proposed 2017 rate increases for individual and family plans to reflect a 1.41% profit margin, and a 1.67% profit margin for small groups.

With Centene, a rate review process should be part of this approval with conditions that premiums, co-payments and other rates will not increase more than the rate of inflation for five years following the merger and that premiums are not being used to finance any part of the deal.

2. Strengthen Health Care Delivery System

As it did in the Blue Shield/Care1st approval, DMHC should also mandate that Centene participate and invest in the Provider Database Project. The Provider Database Project is meant to be a centralized provider directory database to create a single portal for consumers to access information, for providers to access and update their data, and for health plans to meet their legal obligations regarding provider directories with the expectation that all health plans participate.⁵

3. No Plan Cancellations

When a company like Health Net withdraws health plans from the market consumers are left to find replacement coverage on their own with limited time. Health Net has withdrawn both its on- and off-exchange PPO plans in recent years causing consternation and confusion for consumers.

At the public hearing on Dec. 7, a representative for Centene pledged that there would be no "material change" to any of Health Net's plans. DMHC should hold the company to that promise by forcing it to guarantee that it will not discontinue Health Net's commercial products in California.

⁴ http://insuremekevin.com/download/department_of_managed_health_care/blue_shield/DMHC_MLR_Order_Blue_Shield.pdf

⁵ <https://www.dmhc.ca.gov/Portals/0/AbouttheDMHC/NewsRoom/pr100815A.pdf>

Centene has a record of abruptly canceling contracts if it is not making a profit quickly enough.⁶ As part of its conditions, Centene should be required to maintain Health Net's individual and small group products on the same basis as prior to the merger for the next five years.

4. Bar "upstreaming" of California Premiums to Centene

DMHC should also be vigilant when it comes to executive compensation related to the merger and any "upstream" funds sent from California to the parent company post-merger. Past insurers have used these financial avenues to drain money from the state.

In the 2004 merger of Anthem and WellPoint, WellPoint executives wanted to walk away with \$600 million from the deal. Then-Insurance Commissioner John Garamendi blocked that attempt. Even with a reduced compensation package, it was reported that WellPoint CEO Leonard Schaeffer and other executives received \$265 million, and Anthem CEO Larry Glasscock was rewarded with a \$42.5 million bonus for closing the deal.⁷

Since the merger, Anthem has transferred more than \$5.4 billion in dividends to its corporate parent as of December 2014, according to its annual income reports, while raising rates on individual policyholders in California with increases of up to 39%.⁸

California policyholders should not bear this price. DMHC should prohibit Centene from removing reserves from California to pay for severance and retention packages for executives in connection with the merger and require it to explain any "upstream" amounts sent out of state post merger.

5. Improve Quality of Care

In regards to Health Net, accusations about its record, including privacy breaches,⁹ failing to respond adequately to policyholder complaints,¹⁰ denial of "medically necessary" services¹¹ and narrow doctor and hospital ("provider") networks,¹² have followed the company for years. It has scored poorly in the rankings of the Office of the Patient Advocate's HMO quality report card¹³ and the National Committee for Quality Assurance¹⁴ related to timely care and customer satisfaction.

Consumer Watchdog is currently involved in litigation on behalf of Health Net consumers because the insurer failed to provide customers accurate information about which providers were participating in their networks.¹⁵

⁶ <http://insiderlouisville.com/business/media-centene-pulls-out-of-kentucky-medicaid-managed-care-deal/>

⁷ <http://www.publicintegrity.org/2015/08/24/17890/merger-health-insurers-usually-leads-big-payday-executives>

⁸ <http://articles.latimes.com/2010/feb/23/business/la-fi-anthem-cash23-2010feb23>

⁹ <https://www.dmhc.ca.gov/Portals/0/AbouttheDMHC/NewsRoom/PressReleases/2011/pr031411.pdf>

¹⁰ <http://www.dmhc.ca.gov/desktopmodules/dmhc/medsurveys/surveys/300fs022414.pdf>

¹¹ <http://articles.latimes.com/2012/sep/13/business/la-fi-medical-denials-case-20120913>

¹² <http://articles.latimes.com/2013/sep/14/business/la-fi-insure-doctor-networks-20130915>

¹³ <http://reportcard.opa.ca.gov/rc/hmorating.aspx>

¹⁴ <http://blog.ncqa.org/top-health-insurance-plans-california/>

¹⁵ <http://www.consumerwatchdog.org/newsrelease/health-net-sued-%E2%80%98bait-switch%E2%80%99-doctor-and-hospital-networks-consumer-pays-12000-out-pocke>

DMHC should not reward this behavior. Centene should have to promise to resolve these issues and litigation to benefit consumers. It should be required to have adequate provider networks for all of its health plans and pledge to approve medically necessary services.

Centene must be required to improve any star rating for Health Net on the 2014 Office of Patient Advocate Quality Report Card that is below two stars with a rating of at least three stars by end of 2017. It must also improve Health Net's ranking in the NCQA to the top 1/3 of all plans ranked in California by the end of 2017.

Consumer Watchdog urges that any undertakings include provisions requiring the commitments to be tracked, measured, and enforced. DMHC needs to make sure that all requirements are written down and not just agreed to in negotiation. Blue Shield's recent refusal to donate millions of dollars to a charitable organization despite its earlier promises to DMHC makes all too clear that, without explicit guarantees, health insurers are likely to ignore any concessions.¹⁶

Centene and Health Net claim that the merger will increase competition, improve care and benefit consumers. Unfortunately, healthcare mergers generally lead to the opposite: fewer choices, inadequate physician networks and higher premiums. This is DMHC's one chance to protect consumers. Make these two companies stand behind those claims or pay the price.

Sincerely,



Eddie Barrera
Consumer Advocate

¹⁶ <http://www.latimes.com/busine.ss/la-fi-blue-shield-charity-20151117-story.html>