



January 20, 2011

Bruce Bodaken
Chairman, President and CEO
Blue Shield of California
50 Beale Street
San Francisco, CA 94105-1808

Dear Mr. Bodaken:

The burden imposed on hundreds of thousands of Blue Shield customers by the company's massive rate hikes is almost unfathomable. Blue Shield's refusal to temporarily delay the hikes and submit to a review by the new insurance commissioner also raises serious doubts about the company's ability to justify increases that will increase some premiums by 59%.

Californians have a right to know what is driving these premium increases, yet less information is publicly available about Blue Shield than about any other major health insurance company in California. For this reason, we call upon you to answer a few key questions about Blue Shield that the public and legislators debating a change in insurance oversight have a right to know.

1. How much were you and your top management compensated in 2010?

Every other major health insurance company in California discloses its executive compensation packages, but Blue Shield does not. As neither a public charity nor a public company, Blue Shield has been able to drastically increase rates on policyholders without disclosing compensation to its executives. The public, and the policyholder members of your "not-for-profit mutual benefit corporation," have a right to know how much you and your top management team earn.

Public records indicate Kaiser Chairman and CEO George Halvorson had base compensation of \$5.8 million in 2008; Wellpoint paid CEO Angela Braly a base salary of \$1.1 million in 2009; UnitedHealth paid CEO Stephen Hemsley \$1.3 million; Aetna paid CEO Ronald Williams \$1.1 million and Cigna paid Edward Hanway \$1.2 million in 2009. No public record indicates how much Bruce Bodaken made.

2. How can Blue Shield justify a surplus that is \$2.9 billion more – or twelve times greater – than the state requires; why can't this excess be used to reduce the recently announced premium increases?

Blue Shield has plowed hundreds of millions of policyholder dollars into its equity and surplus accounts rather than returning the excess premium to its customers – members of its "mutual benefit association" – in the form of lower rates or at the very least stable rates.

Though a nonprofit organization, Blue Shield reports sizeable overall net income in most quarters, including about \$150 million combined from your insurance and health plan subsidiaries during the first half of 2010. Your health plan subsidiary, which is larger than the insurer and has also imposed significant rate hikes in recent months, has seen its surplus swell over the past several years to more than \$3 billion. This "net equity" that your company currently holds is fully 12 times the amount required by the State of California. This "excess," as it is called in official state filings, has increased seven-fold since 2002, when you retained \$433 million more than the state required.¹ During this same time period, your "Medical and Hospital Expenses" have not even doubled.

Similarly, your much smaller insurance company has a "Capital and Surplus" account worth over \$263 million as of June 30, 2010. Why, are your surplus numbers justified, and why can they not be used to protect your members from the loss of their coverage?

3. Will you make key data about the premium hikes publicly available? In order to explain the increases, Blue Shield should release the following information:

A) The data, along with the corresponding documents and analyses, used to project future claims costs and premiums.

According to the Blue Shield of California filing dated October 26, 2010:

Section 3 – Rates, Subsection a – Experience (page 16) states, “The experience of current Blue Shield of California PPO plans as of August 31, 2010 was used to project future claims costs and premiums. Expected claim costs were trended forward to 2011 and adjusted for benefit changes. Earned premiums were adjusted forward to 2011 to reflect expected rate increases.” *Will you provide all the experience of Blue Shield, along with the corresponding documents and analyses, used to project future claims costs and premiums?*

B) The data, along with the corresponding documents and analyses, used to determine Geographic Area rates and all documents and analyses related to the considerations given to credibility and competitiveness.

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Year	Required Net Equity	Actual Net Equity	Excess Surplus
2002	\$ 155,837,000	\$ 589,143,000	\$ 433,306,000
2003	\$ 209,833,000	\$ 989,033,000	\$ 779,200,000
2004	\$ 232,313,000	\$1,341,198,000	\$1,108,885,000
2005	\$ 256,297,000	\$1,623,766,000	\$1,367,469,000
2006	\$ 267,618,000	\$2,076,664,000	\$1,809,046,000
2007	\$ 273,097,000	\$2,527,762,000	\$2,254,665,000
2008	\$ 218,213,000	\$2,392,995,000	\$2,174,782,000
2009	\$ 233,861,000	\$2,861,228,000	\$2,627,460,000
2010*	\$ 235,930,000	\$3,170,391,000	\$2,934,461,000

* as of September 30, 2010

Section 3 – Rates, Subsection d - Geographic Area (page 16) states, “This policy will be marketed in nine geographic regions within California. Rates for each region are based on the experience for that region, modified as appropriate based on considerations of credibility and competitiveness.” *Will you provide all the experience of Blue Shield, along with the corresponding documents and analyses, used to determine Geographic Area rates and all documents and analyses related to the considerations given to credibility and competitiveness?*

C) The documents and analyses used to define the underwriting tiers, as well as the values of the rate multiples by tier.

Section 3 – Rates, Subsection e - Underwriting Tiers (pages 16-17) states, “Blue Shield Life's underwriting procedures will classify applicants into seven rating tiers, based on health criteria at the time of application. The attached rates displayed in Exhibit VIII apply to Tier 1 (the "Preferred Risk" tier), under which a significant proportion of policyholders are expected to fall. Rates for the other six underwriting tiers are multiples of the Tier 1 rates. *Will you provide all documents and analyses used to define the underwriting tiers, as well as the values of the rate multiples by tier?*

D) The documents and analyses that formed the basis of each of the values shown in the charts “Revenue Drivers 2011” and “Cost of Healthcare Drivers 2011.”

Exhibit III – 2011 Loss Ratio Projection contains Table 2 – Drivers of 2011 Revenue and Cost of Healthcare. *Will you provide all documents and analyses that formed the basis of each of the values shown in the charts “Revenue Drivers 2011” and “Cost of Healthcare Drivers 2011”?*

E) All documents and analyses that formed the basis of each of the values for claims trends.

Exhibit IV - Development of Claims Trends contains values for 2010/2009 Trend and 2011/2010 Trend, broken down by Cost Category, utilization and unit cost, as well as values for Trend Leverage. *Will you provide all documents and analyses that formed the basis of each of the values shown?*

As a result of Blue Shield’s rate hike plan, hundreds of thousands of Californians are asking the question, "How am I going to afford to pay my health insurance premium?" What we ask is “How did you justify a 59% rate increase?” Your timely answers to the above questions will allow independent analysts not paid by you to accurately confirm or question your conclusions and the reasoning that led to the increase. It is the least you can do in the wake of setting prices that will leave too many more Californians without health insurance protection.

Sincerely,



Jamie Court



Douglas Heller