



State of California  
Arnold Schwarzenegger, Governor  
Business, Transportation and Housing Agency

980 Ninth Street, Suite 500  
Sacramento, CA 95814  
916-322-2078  
916-322-2579 fax

## **FACT SHEET ON WELLPOINT-ANTHEM MATERIAL MODIFICATION TO BLUE CROSS OF CALIFORNIA**

### *Key Elements*

On July 23, 2004, Director Cindy Ehnes signed an Order of Approval on a Material Modification of the Knox-Keene license of Blue Cross of California, permitting the change in its parent company from WellPoint to Anthem. This transaction has presented the Department of Managed Health Care with a unique opportunity to ensure both broad protections to California consumers, while allowing companies operating in California to remain competitive both in and out of the state. It has differed from prior mergers that have occurred in California's health care delivery system because it involves the change of control of a California corporation from one out-of-state parent to another.

Through a structured and deliberative review of the transaction under the Knox-Keene Act, the Department has successfully negotiated significant consumer protections and quality of care requirements for Blue Cross of California. Among these are:

#### *To ensure improved quality of care:*

- Blue Cross will undertake a new effort, the "Patient Advocate Improvement Program" to improve its quality of care ratings as reported in the Office of the Patient Advocate's *HMO Report Card* by investing an additional \$17 million in areas that include mental health, childhood obesity and quality physician standards.

#### *To ensure adequate premium dollars are expended on direct health care:*

- Blue Cross will maintain their California reserve levels well above those required by law.
- Blue Cross will not expend any California premium dollars for any merger-related costs, including executive compensation payments.
- Blue Cross will file an annual report for the next three years, demonstrating its compliance with all of the provisions of the DMHC agreement, detailing the benefits to California resulting from the merger.

#### *To protect California enrollees:*

- Blue Cross will continue to be an active player in government sponsored health care products such as Medi-Cal, Access for Infant and Mothers Program (AIM) and Healthy Families.
- Blue Cross will provide additional enrollee protections in the event of any withdrawal of its commercial products from the market, including the offer of comparable substitute products and the waiver of any pre-existing conditions of affected enrollees.

*To improve access to health care:*

- Blue Cross will continue to maintain all critical delivery systems and its books and records in California.
- Blue Cross will invest 2 percent of its current investment portfolio to improve access to care in rural and underserved communities. The initial commitment will be \$100 million which will be reinvested for twenty years.
- The WellPoint Foundation will invest \$5 million per year over three years in outreach efforts to increase enrollment in the Healthy Families Program.

***Background***

Blue Cross of California, a Knox-Keene Act licensee, filed a Material Modification to its license with the Department to change its parent company from WellPoint, a Delaware company, to Anthem, based in Indianapolis, Indiana. Throughout its review of the petition, the Department has followed a fair and deliberative process in examining more than 2,000 pages of information pertaining to the proposed change in control. As the chief regulator in this transaction as it pertains to Blue Cross of California, the Department's review has been focused on meeting its responsibility to enforce the existing Knox-Keene Act provisions to protect California consumers and businesses.

Current law requires the Department to examine the filing based on the ability of the company to continue access to appropriate health care for California's Blue Cross enrollees. The Department did not have the authority to approve or disapprove the merger of the parent companies, or to determine the acceptable level of executive compensation. However, key concessions were gained through the negotiations to ensure that Blue Cross will keep administrative costs at reasonable levels and that any executive compensation resulting from the merger will not be paid with California premium dollars.

With the DMHC Order of Approval, WellPoint and Anthem may complete the terms of their merger as it pertains to Blue Cross of California.