

April 18, 2011

VIA ELECTRONIC MAIL AND U.S. MAIL

[REDACTED]  
Associate General Counsel  
California Physicians' Service  
50 Beale Street, 22<sup>nd</sup> Floor  
San Francisco, CA 94105

Re: Submission of Commercial Individual Rates effective on January 1, 2011

Dear [REDACTED]

The Department of Managed Health Care (DMHC) appreciates California Physicians' Service's (Plan) compliance with our request for submission of the Plan's commercial individual rates with an effective date of January 1, 2011.

Upon initial examination of the information provided, the DMHC has serious concerns that the Plan's cumulative average rate increase appears to be 37.5 percent, which is the combined impact of the 18.8 percent increase that went into effect January 1, 2011, and the 15.8 percent increase that went into effect October 1, 2010. Despite the fact that the January 1, 2011 rate increase was developed by the Plan and notice was given to impacted enrollees prior to the enactment of Senate Bill 1163, the DMHC is extremely concerned about the impact of these double-digit increases on consumers within two short months and their ability to continue coverage, especially in the face of the current economic climate. Further, the DMHC expresses concern that the Plan raised rates at a time when policy makers and the public have vigorously protested similar high rate increases.

As such, the DMHC requests that the Plan address the following observations:

1. In the documents submitted, it appears that the major driver of the differences in the rate increases between the DMHC products and the California Department of Insurance (CDI) products is the application of the factor to reflect selection (12.4 percent for DMHC products versus 1.4 percent for CDI products.). The DMHC understands the need to reflect duration in medically underwritten products; however, the impact for duration between the two families of regulated products was fairly close (four percent for DMHC and six percent for CDI). All other factors were essentially the same or very similar. Please provide a definition of the Plan's use of a selection factor and explain why it is so much higher for DMHC products than for the CDI products, and how this was quantified.

2. Please explain and justify any rate differences between January 1, 2011 effective date rate filings for the CDI individual products and the analogous or closest benefit DMHC individual products.
3. In light of the cumulative average rate increase of 37.5 percent, please explain how this rate is not “unreasonable,” as that term is used in Health and Safety Code section 1385.11(f)<sup>1</sup>; and how the January 1, 2011 rate increase of 18.8 percent is “justified,” as that term is used in section 1385.11(f).

Please provide the Plan’s response within **seven business days** of the date of this letter.

Please contact me if you have any questions regarding the comments above.

Sincerely,



Dennis Balmer  
Deputy Director  
Financial Solvency Standards Board

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<sup>1</sup> Section 1385.11(f) states: If the department finds that an unreasonable rate increase is not justified or that a rate filing contains inaccurate information, the department shall post its finding on its Internet Web site.