

COVERED CALIFORNIA

REPORT BY THE
California Health Benefit Exchange
TO THE
Governor and Legislature
NOVEMBER 2013

FISCAL YEAR 2012-2013



**COVERED
CALIFORNIA**



November 8, 2013

To the Governor of the State of California and the Members of the Legislature,

On behalf of the governing board of Covered California, I am pleased to present the 2012-2013 fiscal year annual report on our progress implementing the federal Patient Protection and Affordable Care Act of 2010.

California was the first state in the nation to enact legislation creating a health benefit exchange in 2010 under the provisions of the Affordable Care Act.

Since that time, Covered California™ has made substantial strides to implement the act over the past three years, laying the groundwork for significant reforms taking effect beginning Jan. 1, 2014.

In October, we initiated the first phase of enrollment in the Covered California marketplace, and we are aggressively pushing for enrollment in these early months that will continue into 2014. We are confident California will continue to lead the way in successful implementation of the nation's most significant health reform since the enactment of Medicare and Medicaid in 1965.

Our success hinges upon the continued effective partnerships with the California Health and Human Services Agency, Department of Health Care Services, Managed Risk Medical Insurance Board, Department of Insurance, Department of Managed Health Care and county human services agencies.

We are grateful to consumers, health insurance companies, health providers, insurance agents, county workers, labor unions, large and small businesses and community leaders, our success also depends on our partnership with the many philanthropic organizations that continue to provide invaluable support, taking information to their communities to motivate target groups to enroll in coverage.

The Affordable Care Act is making fundamental changes to our health care system that are improving the lives of millions of people. We are grateful for your support for this historic effort to ensure all Californians have access to the quality, affordable health care they need and deserve.

Peter V. Lee

Executive Director

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EXECUTIVE SUMMARY

In 2010, one of the most historic changes to our nation's health care system was enacted into law — the federal Patient Protection and Affordable Care Act.

California took immediate steps to lay the groundwork for implementing the Affordable Care Act in this state as an active partner with the federal government. In 2010, California created a health benefit exchange known as Covered California. Since that time, Covered California has worked tirelessly to lay a solid foundation for successful implementation of the new federal health reform law in this state.

Many important provisions of the Affordable Care Act have taken effect and are helping people in this state and across the nation access affordable, quality health coverage. Significant new provisions of the Act will soon take effect that will dramatically expand the number of individuals in our state who have coverage. That coverage opens the door to millions to receive needed care and to our ability as a state and nation to effectively reduce health care costs.

In the last year, extensive planning and work with stakeholders led to significant decisions by Covered California's board related to health benefits, the selection of health plans offered in the Covered California marketplace and the selection of organizations that are helping Californians enroll in coverage.

Last year, 33 health insurance companies submitted proposals to sell insurance in the Covered California marketplace, and 13 were conditionally selected. In July, contracts were signed with 12. One company was removed from the choice of exchange products because it has not been approved by the state to sell health insurance in the commercial market. Additionally, Covered California received proposals to provide dental services to pediatric members from 18 dental plans. Fifteen of those have signed contracts.

Consistent with the mission of the Affordable Care Act, Covered California now offers options for shopping online, with fact sheets and comparison charts that make it easier for consumers to select their coverage. Through the Covered California website — CoveredCA.com — consumers can view available health insurance plans and premium amounts based on their specific circumstances. Recognizing the diversity of our state, the entire website and all of its application tools are available in both English and Spanish, and consumer tools are available in over a dozen languages. Consumers can also find out if they qualify for federal subsidies for coverage that takes effect Jan. 1, 2014. Californians may also use the Covered California marketplace to find out if they qualify for low-cost or no-cost Medi-Cal.

Initial marketing efforts began in September in advance of the Oct. 1, 2013, open-enrollment date. Community organizations have begun mobilizing to educate individuals who need insurance that they may now be able to afford coverage due to the new federal subsidies available. And, starting on Oct. 1, Covered California started a broad marketing campaign that will go through 2014.

EXECUTIVE SUMMARY (continued)

The Covered California Service Center has opened to answer enrollment questions, and increasing numbers of Certified Enrollment Counselors, Certified Educators, Certified Licensed Agents and county workers are in local communities across the state sharing accurate information about new health insurance options with consumers. Those needing assistance with the enrollment process will find help in their communities from individuals they can trust to help them make choices that are right for them.

As of October 2013, thousands of consumers started the enrollment process and will take advantage of subsidies to buy quality insurance they can afford. The goal of Covered California is to get insurance coverage to every eligible Californian, but we recognize that we are at the beginning of a long process. Covered California projects that by January 2015, more than 1 million Californians will enroll using federal subsidies, and the Department of Health Care Services projects that a similar number will be new to Medi-Cal. In addition, Covered California projects that more than 1.7 million Californians will benefit from the new insurance rules and get coverage without a subsidy — some purchasing through Covered California, some on the individual market.

At full implementation in 2019, more than 2 million Californians are projected to be receiving subsidized health coverage for themselves and their families through Covered California.

1 PROGRESS IMPLEMENTING THE AFFORDABLE CARE ACT IN CALIFORNIA

Health Reform Already in Effect Under the Affordable Care Act

Since its enactment in March 2010, the federal Patient Protection and Affordable Care Act has improved health insurance quality and affordability in tangible ways for millions of people in California.

For those on Medicare, benefits such as free preventive services, cancer screenings and an annual wellness visit have expanded under the health care law. In addition, seniors can also save money on brand-name prescription drugs.

A number of market reforms contained in the Affordable Care Act took effect in September 2010, including:

- Insurers are prohibited from setting lifetime limits on essential health benefits, such as hospital stays, beginning with new policies issued. Approximately 12 million people in California are no longer subject to these limits as a result of the Act, according to federal estimates.
- Insurers are no longer allowed to re-examine a customer's initial application to cancel, or "rescind," their coverage due to unintentional mistakes or minor omissions.

“An estimated 435,000 young adults in California have gained coverage as a result of the Affordable Care Act’s requirement that dependent children be covered up to age 26.”

U.S. Department of Health and Human Services

- Dependent children up to age 26 must be offered coverage under a parent's insurance plan. Federal data indicates that 435,000 young adults in California have gained coverage as a result of this provision of the Act.
- Insurers may not exclude children under the age of 19 from coverage due to a pre-existing medical condition.
- On July 1, 2011, as a bridge to national health care reform, California implemented the Low Income Health Program (LIHP) as an early expansion of health coverage for approximately 600,000 low-income, childless and uninsured adults between 19 and 64 years of age.

In January 2011, additional reforms took effect requiring insurance companies to spend the vast majority of premium dollars on medical care and quality improvement activities, and a smaller, limited amount on overhead expenses such as marketing, profits, salaries, administrative costs, and agent commissions.

As of 2012, if insurance companies did not meet these new “medical loss ratio” standards, they were required to provide rebates to their customers.

“More than 1.4 California residents with private insurance will benefit from \$65.7 million in refunds in 2013 as a result of the Affordable Care Act.”

U.S. Department of Health and Human Services

According to federal data, 1.4 million California residents with private insurance coverage will benefit from \$65.7 million in refunds from insurance companies in 2013 as a result of the Affordable Care Act. More important than the refunds, insurance companies are now focusing their efforts and resources to going directly to health care needed by those they insure.

Other provisions of the Affordable Care Act require many insurance plans to provide coverage for preventive services with no deductible or copay, making it easier for individuals to access colonoscopy screenings, Pap smears, mammograms, well-child visits and flu shots. According to federal officials, nearly 8.1 million California residents have gained no-cost preventive services under the Affordable Care Act.

Laying the Groundwork for the Next Phase of Reform

The second significant phase of health reform in the Affordable Care Act began on Oct. 1, 2013, when open enrollment began for health coverage starting Jan. 1, 2014. Health coverage available after that date will be subject to new market rules that provide consumers with more protection and ensure that coverage is more affordable for those not covered by Medicare or employer-based health insurance. In addition, beginning Jan. 1, 2014, Medi-Cal is expanding to include a new coverage group, which includes adults and parent/caretaker relatives with incomes up to 138 percent of the federal poverty level.

ESSENTIAL HEALTH BENEFITS

Under the Affordable Care Act, health insurance policies must cover basic categories of health care that are essential to good health coverage, including:

- Ambulatory patient services.
- Prescription drugs.
- Emergency services.
- Rehabilitative and habilitative services and devices.
- Hospitalization.
- Laboratory services.
- Maternity and newborn care.
- Preventive and wellness services and chronic disease management.
- Mental health and substance use disorder services, including behavioral health treatment.
- Pediatric services, including oral and vision care.

Newly eligible individuals for the Medi-Cal program will receive the same comprehensive health benefits currently provided to Medi-Cal members. Additionally, newly and currently eligible Medi-Cal members will have access to expanded mental health and comprehensive substance use disorder services. Mid-level mental health services will be provided through Medi-Cal managed care plans, and substance use disorder services will be administered by counties.

In California, these essential benefits were further delineated in AB 1453 by Assembly Member Bill Monning and SB 951 by Senator Ed Hernandez, which were signed into law by Governor Edmund G. Brown, Jr. on Sept. 30, 2012. The laws designate the Kaiser Foundation Health Plan Small Group HMO 30 plan, as it was offered during the first quarter of 2012, as the state's benchmark plan for essential health benefits.

STANDARD BENEFIT DESIGNS

In addition to requiring the essential health benefits, health insurance carriers are required to offer health insurance according to the same standard designs to make it easier for consumers to make comparisons when they shop for health insurance.

The law that established Covered California provided that if the exchange established standard benefit designs, then those insurance carriers in Covered California's marketplace would be required to offer those benefits both inside the exchange and in the individual market. In addition, all health plans in the individual market must offer the same benefit design to support consumers making market comparisons.

Covered California announced in February 2013 that all California insurance carriers would be required to offer plans in standard categories with the same benefit design. Health plans were selected in a competitive bidding process to compete for consumers in the Covered California marketplace based on those benefit designs.

Covered California officials believe standard benefit designs will be crucial to successful shopping by consumers and may help the state avoid the problems seen in Massachusetts when consumers faced so many options and choices that they found it difficult to compare them.

SELECTION OF HEALTH INSURANCE COMPANIES

The statute that established Covered California enabled the board to decide to be an "active purchaser." The board directed staff to be just that — very active on behalf of the consumers we will serve. Rather than accepting all companies that wished to offer health insurance, Covered California actively selected companies offering the best options for California consumers. Covered California reviewed 33 proposals and selected 13 companies in May 2013. In the Los Angeles and San Diego regions, individuals have a choice of at least six insurers; in other parts of the state, at least two. The companies chosen reflect a mix of non-profit and commercial plan leaders, along with well-known Medi-Cal and regional plans.

In the summer of 2013, Covered California published a booklet with basic information about each of the health insurance companies, including the number of hospitals, number of physicians, regions served and sample premiums. In addition, Covered California created a Shop and Compare Tool that allowed consumers to know which plans are offered in their region and the exact premium they would pay for each plan and metal tier.

Rather than accepting all companies that wished to offer health insurance, Covered California actively selected plans offering the best options for California consumers.

Even in rural areas where historically there has been less choice, there are two or three health plans offered. Throughout the state, consumers will have a choice of health maintenance organizations (HMOs), preferred provider organizations (PPOs) and exclusive provider organizations (EPOs).

Following the May 2013 announcement of the selected plans, rates were approved by state regulators, and contracts were signed with 12 health insurance companies in July.

► Covered California Health Insurance Companies for 2014



blue  of california



One company was removed from the choice of exchange products because it has not been approved by the state to sell health insurance in the commercial market.

Rates For Health Coverage

Affordable 2014 rates were a primary outcome of Covered California's active purchasing process. Our competitive solicitation followed by negotiations achieved pricing across the state that was lower than predicted by the American Society of Actuaries and other experts who had made public predictions. Having standard benefits brought transparency to the rate negotiation process.

INDIVIDUAL MARKET

The 2014 rate for the second-lowest Silver plan is an important marker, because the rate is used to calculate the premium tax credit. These rates are influenced by age and location.

2nd Lowest Silver Plan MONTHLY PREMIUM	25-year-old	40-year-old	60-year-old
Sacramento	\$ 252	\$ 333	\$708
San Francisco	\$ 293	\$373	\$ 792
Los Angeles (east)	\$198	\$ 252	\$ 536

SMALL-EMPLOYER MARKET

Our rates for small employers are competitive. The small-employer market has operated under a guaranteed issue model for many years. The distinctive value we bring for small employers is the choice architecture in which the employer selects the metal tier and each employee is free to select from the various insurers available in their market. This brings a benefit of consumer choice to the small-employer market with a competitive pricing structure.

CHILDREN'S DENTAL COVERAGE

Covered California will also make dental coverage available for children 18 years old or younger for coverage beginning Jan. 1, 2014.

Covered California dental insurance plans feature standard copayments, deductibles and coinsurance requirements. Unlike Covered California's health insurance plans, dental plans are not designated by metal levels, but come in two actuarial value options: an 85 percent plan, which features higher premiums but lower average out-of-pocket costs; and a 70 percent value plan, with lower premiums and higher average out-of-pocket costs.

Premiums range from less than \$10 a month for a dental HMO plan in some areas, to about \$30 a month for a dental PPO, with different products available depending on where the child lives.

Eight companies were selected to provide dental coverage through Covered California: Access Dental Plan of California, Anthem Dental, Blue Shield of California, Delta Dental of California, LIBERTY Dental Plan, Premier Dental, Metlife and Safeguard.

Covered California will continue to closely examine ways to best provide dental health coverage to children by exploring additional plan benefit and portfolio options for 2015. Plan design features that will be explored include various ways of combining dental and health premiums, such as embedding and bundling rates. An analysis has been commissioned in assessing various options, which will be weighed against criteria for affordability, quality and choice for consumers. Stakeholder input to the analysis will be important in Covered California's exploration of the best options for children and their families.

Other Health Insurance Reforms Taking Effect in 2014

The significant changes to the insurance market in California will ensure that health insurance companies are no longer permitted to select enrollees based on risk, but will instead compete for all customers whether they are healthy or sick. Given the significance of this change, several mechanisms in the Affordable Care Act are designed to support this transition by stabilizing premiums starting in 2014. (*see exhibit 1*)

EXHIBIT 1 **Affordable Care Act Provisions Designed to Stabilize the Insurance Market as New Rules Take Effect on Jan. 1, 2014**

RISK ADJUSTMENT

The Affordable Care Act seeks to end the profit incentive for health insurance companies to avoid the sick and market their policies only to healthy individuals. It eliminates this imbalance by constructing a risk adjustment system that transfers excess payments from health insurance companies with lower-risk enrollees to companies with higher-risk enrollees. Under this system health plans and health insurance companies that experience lower-than-average actuarial risk among enrollees will face assessment, while those that have higher-than-average risk among enrollees will qualify for state payments.

REINSURANCE

The Affordable Care Act establishes a transitional reinsurance program to stabilize the individual health insurance market and moderate premium increases during the first three years that the exchanges are in operation. It does so to diffuse the risk that expanding coverage to all individuals regardless of health status will result in an initial imbalance in the exchange, encouraging adverse selection. For any plan beginning in the three-year period starting Jan. 1, 2014, all health insurance companies must pay into a reinsurance fund that specifically is then used to lower costs of health coverage in the individual market. Companies that experience very high claims in the individual market — both inside and outside of exchanges — will qualify for reimbursement from this fund.

RISK CORRIDORS

Under a program of risk corridors set up for calendar years 2014, 2015 and 2016, plans offered in the individual or small-group market shall participate in a payment adjustment system based on the ratio of the allowable costs of the plan to the plan's aggregate premiums. Health insurance companies with costs that are 3 percent less than the company's cost projections will remit charges for a percentage of those savings to the U.S. Department of Health and Human Services (HHS), while companies with costs greater than 3 percent of cost projections will receive payments from HHS to offset a percentage of those losses. Risk corridors are a federal form of risk adjustment, and HHS is required to reduce its payments to companies by any amounts received from the state-based programs detailed above.

Requirements to Have or Offer Coverage

The Affordable Care Act requires all individuals to be enrolled in a health insurance plan that meets minimum standards or pay an assessment, except in cases of very low-income individuals who cannot afford insurance or other limited exceptions. In 2014 the assessment is 1 percent of income or \$95 per adult for the year, whichever is greater. The fee increases every year. In 2016 it is 2.5 percent of income or \$695 per adult, whichever is greater.

In 2014 the fee for uninsured children is \$47.50 per child.

It's important to remember that someone who pays the fee won't get any health insurance coverage. They still will be responsible for 100 percent of the cost of their medical care.

Federal officials announced in July 2013 that they will delay a provision of the Affordable Care Act that was to take effect Jan. 1, 2014, affecting employers with 50 or more full-time-equivalent employees. The provision, now delayed until 2015, would have required these large employers to pay a fee if their employees received premium tax credits to buy their own insurance through exchanges, such as the Covered California marketplace.

Small businesses, those with fewer than 50 full-time-equivalent employees, are not subject to any assessment but may use Covered California's Small Business Health Options Program to offer coverage for their employees.

2 HOW THE NEW MARKETPLACE WILL WORK

Beginning on Oct. 1, 2013 consumers are able to shop for and purchase affordable, quality health insurance, including Medi-Cal, for coverage starting on Jan. 1, 2014.

Coverage will be much more affordable for low- to moderate-income consumers as a result of premium assistance and caps on out-of-pocket costs for health care. Coverage will be more comprehensive for everyone who is insured, regardless of income level, and all will have new opportunities to shop among plans knowing they cannot be denied.

FOUR TIERS OF COVERAGE WITH “METAL” RATINGS

Health coverage in California will be offered in four categories, or tiers. Each tier will be given a “metal” rating: Bronze, Silver, Gold and Platinum. These levels of coverage are designed to help consumers understand the degree of coverage offered by their policy.

	Paid by Health Plan	Paid by Consumer
METAL TIERS	BRONZE 60%	40%
SILVER	70%	30%
GOLD	80%	20%
PLATINUM	90%	10%

For example, a consumer with a Bronze-level plan would pay on average 40 percent of the cost of health care expenses through features like deductibles and coinsurance, while a consumer with a higher-premium Platinum plan would pay only 10 percent. The variety of tiers allows consumers to choose to pay more up front and less when they access care, or to keep their monthly premium low and risk paying a larger amount when seeking care. Plans also must offer a fifth product known as a minimum coverage plan. Minimum coverage plans are high-deductible health insurance plans that will be offered to individuals up to 30 and people with hardship exemptions. A minimum coverage plan would protect individuals from very high medical costs.

The actual amount paid for coverage will be based on household size, age, income and ZIP code. Insurance companies will no longer be allowed to deny coverage based on pre-existing health conditions or other factors that suggest they will be more likely to need health care.

Medi-Cal Eligibility and Plan Selection

With the action of California's Legislature and Gov. Brown, approximately 1.4 million Californians will be newly eligible for Medi-Cal. Consumers will have an easy one-stop method to be determined eligible for either Medi-Cal or premium assistance in Covered California through a streamlined application.

Those who qualify for Medi-Cal have a choice of health plans. Members can choose one plan for the entire family or a different plan for each member. Health plan selection is based upon where a member lives. Not all Medi-Cal plans are available in every region. Below is a list of Medi-Cal managed care health plans.

CalOptima	Anthem Blue Cross Partnership Plan
CenCal Health	CalViva Health
Central California Alliance for Health	Contra Costa health Plan
Health Plan of San Mateo	Health Plan of San Joaquin
Gold Coast Health Plan	Inland Empire Health Plan
Anthem Blue Cross Partnership Plan	Kern Family Health Care
Health Net Community Solutions Inc.	L.A. Care Health Plan
Molina Healthcare of California Partner	San Francisco Health Plan
Care 1st Partner Plan, LLC	Santa Clara Family Health
Community Health Group Partnership	CA Health & Wellness
Health Net Community Solutions Inc.	Kaiser Permanente
Molina Healthcare of California Partner	California Health and Wellness Plan
Alameda Alliance for Health	

Scenarios of Premiums in Covered California

The Covered California consumer website provides a Shop and Compare Tool that allows individuals to enter information about household size, ages, income and ZIP code to obtain an accurate amount of the monthly premium they would pay under various scenarios for health coverage available in California under the Affordable Care Act. The Shop and Compare Tool also allows individuals to determine if they qualify for low-cost or no-cost Medi-Cal.

► Examples of how the new Covered California health insurance marketplace will work for a range of California consumers buying Silver-level health coverage:

SINGLE MOM
3 kids
earning \$35,000
per year
Long Beach, CA

A 40-year-old single mother of three earning \$35,000 per year would pay at least \$2,688 per year for insurance if she had to pay the entire premium. In the Covered California marketplace, however, she would qualify for \$1,692 in premium assistance to help pay the health insurance premium for a Silver-level plan. After applying the premium assistance, she would pay \$996 annually — \$83 each month in premium payments. She could also opt for a more expensive plan depending on her preferences or, if she opted for a Bronze plan, pay as little as \$47 per month. Her children would qualify for low-cost Medi-Cal.

MARRIED MAN
earning \$40,000
per year
spouse on
Medicare
Oakland, CA

A 63-year-old married man living in a two-person household with a combined income of \$40,000 per year could enroll in Covered California while his spouse remained covered by Medicare. In the Covered California marketplace, the man would qualify for premium assistance of \$6,684 per year to help pay his health insurance premiums. After applying the premium assistance, he would be responsible for \$2,208 annually — \$184 each month in premium payments while the federal subsidy of \$557 each month would be sent to the private plan he chooses. He could also choose a more or less expensive plan depending on his preferences. If he opted for a Bronze plan, he could pay as little as \$45 per month.

A 45-year-old single person earning \$50,000 per year can purchase insurance through Covered California but would not be eligible for premium assistance. The estimated premium for a Silver plan would be \$3,312 annually, or \$276 per month. He could also choose a more or less expensive plan depending on his preferences. If he opted for a Bronze plan, he could pay as little as \$222 per month.

SINGLE PERSON
earning \$50,000
per year
no dependents

Los Angeles, CA

A couple with one child earning about \$26,000 per year would not qualify for subsidies in the Covered California marketplace because they would be eligible for Medi-Cal under the provisions of the Affordable Care Act, which changes eligibility rules for the program. Medi-Cal is a low-cost or no-cost public health insurance program, meaning this family will pay no premiums for health coverage.

FAMILY OF 3
earning \$26,000
per year

Fresno, CA

For those who find the complexity of health coverage confusing, they can get assistance over the phone by Covered California staff or county workers. Assistance is also available in local communities from Certified Enrollment Counselors, Certified Licensed Agents and Certified Educators who help consumers through the enrollment process using words they understand. The next section of the report details the support and assistance available to consumers seeking to enroll in health coverage in the Covered California marketplace.

3 ENCOURAGING ENROLLMENT IN HEALTH COVERAGE

An estimated 5.3 million uninsured Californians are eligible for coverage through the Covered California marketplace. Of that total, 2.6 million qualify for federal subsidies only available through the Covered California marketplace, and 2.7 million do not qualify for subsidies, but will benefit from guaranteed coverage whether or not they enroll through the marketplace. The Medi-Cal program is expected to add an additional 2 million individuals because of the Medicaid expansion through the Affordable Care Act.

Potential enrollees range from “just getting started” youths 18 to 24 years old (who may work part time without benefits or lack a parent with insurance) to older adults 45 to 64 years old who may be “aging and denied,” perhaps due to a layoff or pre-existing condition. Enrollees include working families whose jobs do not provide insurance as well as higher-income “calculated risk takers” who are not inclined to purchase insurance despite the risks.

These target groups overlap and cross many demographic groups, but the majority of uninsured Californians are Latino. Many of those who lack insurance attend college or work in construction, food service and crop production, requiring marketing strategies aimed at those occupations.

NO-WRONG-DOOR APPROACH

A major theme of the Affordable Care Act is the no-wrong-door approach to completing and submitting an application for health programs. The no-wrong-door approach means that an individual can submit an application online, in person, over the phone, via fax, via regular mail, etc. Regardless of the entry point, the individual will receive access to benefits if he or she qualifies.

WORKING WITH COMMUNITY GROUPS AND ORGANIZATIONS

Significant efforts in 2013 have included working with community-based organizations to develop a grant program best suited to engage uninsured Californians.

Applications for outreach and education grants were made to Covered California in the spring of 2013, and \$37 million in grants were awarded to directly support more than 250 organizations to spread the word to individuals and small-business owners about the Affordable Care Act. In addition, \$3.1 million in grants were awarded to four organizations to provide education to the provider community. The grants will be used to conduct outreach and education programs related to accessing affordable health care coverage in California under the Affordable Care Act. The grants, announced in May 2013, are expected to increase awareness and educate target audiences about the financial assistance available to them and motivate consumers and small businesses to obtain health insurance. The grants are expected to bring information to 9 million Californians and more than 200,000 small-business owners in California’s 58 counties.

More information about Certified Educator organizations and the groups they serve is provided in a booklet of profiles released by Covered California in May 2013.

MEDIA AND PROMOTIONAL CAMPAIGN

In May 2013, Covered California retained Weber Shandwick, a global public relations firm with experience in health care marketing, to implement a creative marketing and paid media campaign through April 2015.

Covered California will purchase California-based media, including multi-ethnic and multi-language television, radio, print, billboard and social media. The two-year contract assigns Weber Shandwick an estimated \$12 million in fees for developing the creative content and overseeing \$86 million in spending on advertising placements. The media campaign began in September 2013.

Covered California also retained Ogilvy Public Relations to provide ongoing public and media relations support through December 2014.

SERVICE CENTER

The Service Center, with branches in Contra Costa and Sacramento counties, began operating in September 2013 to support those who have questions about coverage options or need help with enrollment by telephone or live Web chat. A third branch in Fresno will become operational in November. The Contra Costa Service Center is expected to employ 200 full- and part-time county staff, while Fresno and Rancho Cordova (in Sacramento County) will each employ 500 full- and part-time staff.

Trained staff will provide expert information and answer questions from consumers, refer consumers to resources, or offer Web-based “chat” advice. The staff will include technicians who speak English, Spanish, Mandarin, Vietnamese and other languages spoken in California.

Service Center representatives will provide a clear, accurate, first-class consumer experience in a culturally and linguistically appropriate manner and will demonstrate public service at its best.

CERTIFIED ENROLLMENT COUNSELORS, CERTIFIED EDUCATORS, CERTIFIED LICENSED AGENTS AND COUNTY PARTNERS

Covered California is proud to partner with an array of private and public entities and individuals to make the Affordable Care Act a success in California.

Certified Educators promote public awareness and inform consumers and small businesses about their options to obtain affordable health coverage through Covered California. Certified Educators provide consumers and small businesses information about how to enroll on their own. Through Certified Educators, Covered California hopes to remove barriers to enrollment that keep eligible consumers and small businesses from applying and to drive small businesses to resources that are available to them. The CoveredCA.com website includes a section with community events where Californians can talk to Certified Educators about the benefits of Covered California.

Certified Licensed Agents will help reach and enroll the millions of Californians in need of health insurance coverage. With the upcoming changes in the health insurance market, individuals and small businesses need trusted advocates now more than ever. Agents representing Covered California must be trained and certified in order to sell Covered

California health insurance plans in the individual and small-business markets. More than 19,000 Certified Licensed Agents have registered, and Covered California is conducting training and certification so these critical resources can help enroll Californians during open enrollment.

Certified Educators attended a two-and-a-half-day training in July and August 2013. Covered California trained approximately 2,500 Certified Educators. The training was designed to teach them how to disseminate clear, accurate and consistent messages to eliminate barriers, increase interest and motivate consumers to enroll in coverage.

More than 5,000 Certified Enrollment Counselors will be trained during the fall of 2013 to provide individual assistance to those who wish to enroll in coverage. Anyone wishing to become a Certified Enrollment Counselor can learn more by visiting the Covered California website or calling the Enrollment Assistance Help Desk at (888) 402-0737.

Certified Enrollment Counselors, Certified Licensed Agents and county eligibility workers will provide in-person assistance across the state.

Local county human services agencies will continue to play a vital role in enrolling eligible individuals. Individuals will be able to apply for health subsidy programs in person at their local agency or by contacting their local agency by telephone. Individuals will also be able to visit their local agency to obtain a paper copy of the application to complete and submit at their convenience. Local county human services agencies will also use the website to determine eligibility for Medi-Cal. Covered California has worked with the Department of Health Care Services and counties to train more than 10,000 county eligibility workers.

Certified Enrollment Counselors will be paid \$58 per application that results in an enrollment in a Covered California health insurance plan. Certified Licensed Agents will receive market-rate commissions for enrollment in Covered California health insurance plans. County workers will be signing people up as part of their normal work responsibility.

CONSUMER-FRIENDLY WEBSITE

Individuals who visit the CoveredCA.com website are now able to find resources, comparison charts, fact sheets and a Shop and Compare Tool that enables them to determine their costs. The goal is to help them consider their options and make informed decisions about the coverage they buy — all with the assurance that they are getting good value for their money.

Also, the website contains information about how to obtain coverage, answers to commonly asked questions and specific subsidy levels.

Basic information about the Affordable Care Act, the Covered California marketplace and Medi-Cal has been produced in multiple languages, including fact sheets available in 13

languages (Arabic, Armenian, Chinese, English, Farsi, Hmong, Khmer, Korean, Lao, Russian, Spanish, Filipino and Vietnamese). In addition, multi-lingual Service Center staff can assist callers through use of an interpretation service in more than 300 different languages.

What Consumers Need to Enroll

► A Sample of Consumer-Friendly Information Available on the CoveredCA.com Website



Most California residents seeking to enroll in coverage through the Covered California marketplace will need to be prepared with some basic information, including:

- Names and Social Security numbers for members of the household.
- Current income information or income reported on last year's tax return if applying for premium assistance or Medi-Cal.

The enrollment website is supported by a new state-of-the-art information system that guides consumers through the health enrollment process by allowing them to compare different plan options, including premiums, provider networks and premium subsidies. In addition, consumers can find out if they are eligible for Medi-Cal coverage.

Covered California simplifies the enrollment process by reducing the amount of paperwork the consumer must provide, through comparisons and validations with other

government sources, including the California Franchise Tax Board, the Social Security Administration and the Internal Revenue Service.

In addition, Covered California provides a means for those eligible for Medi-Cal to file an application. These applications will be forwarded to the appropriate county office to finalize the application.

Service Center staff and the full-range of community resources — Certified Enrollment Counselors, Certified Licensed Agents, county workers and Certified Educators — are available to help answer any questions consumers have about their application and their coverage options.

Covered California has been working non-stop to ensure the best customer experience possible. We recognize that getting insurance can be complex and that some customers may need help.

Consumer Protection

In October 2013, Covered California launched new initiatives to protect consumers from identity thieves and scammers while shopping in the agency's health insurance marketplace. A new Office of Consumer Protection is the cornerstone of the initiative. The office, which will be housed in Covered California's Service Center, will track consumers' concerns and complaints, help monitor enrollment, and investigate and take action when fraud or other misconduct is suspected.

Covered California will refer suspected illegal activity to law enforcement, the California Department of Insurance, the Office of the Attorney General, local district attorneys or other appropriate enforcement agencies. Fraudulently posing as Covered California is a crime and is punishable by prison time, heavy fines or both.

Fraud prevention tips for consumers are posted on the CoveredCA.com website, and consumers will be alerted if their information is found to be compromised.

If consumers are approached by someone they do not know who offers enrollment assistance, they can verify the individual's certification status by calling Covered California at (800) 300-1506 or by visiting CoveredCA.com/consumerprotection.

4 SMALL BUSINESSES IN CALIFORNIA AND THE AFFORDABLE CARE ACT

The Affordable Care Act includes provisions to encourage small businesses to offer health coverage for their employees by making insurance more affordable and easier to purchase. Covered California has created the Small Business Health Options Program (SHOP) to facilitate the purchase of affordable health insurance for small-business owners.

SHOP is a second marketplace — separate from the one for individuals — and is designed to give employers and their employees more options for health coverage. Using this marketplace, small-business owners can shop for health insurance in ways that offer convenience and choice, which is comparable to how large companies shop for employee health insurance today.

In 2014, small-business owners with one to 50 eligible employees will be able to purchase health coverage through SHOP. In 2015, Covered California will expand this program to begin offering health plans to employers with one to 100 employees, for coverage beginning Jan. 1, 2016.

Similar to the individual marketplace, Covered California negotiated with health insurance companies interested in offering coverage through SHOP to ensure that plans would provide a standardized set of benefits, a robust provider network and competitive pricing.

In August 2013, Covered California announced the names of the health insurance companies participating in SHOP. These companies are Blue Shield of California, Chinese Community Health Plan, Health Net, Kaiser Permanente, Sharp Health Plan and Western Health Advantage. These plans will be sold through licensed insurance agents trained and certified by Covered California.

SHOP is administered for Covered California by Irvine-based Pinnacle Claims Management, Inc., which was awarded the contract in April 2013.

TAX CREDITS FOR SMALL BUSINESSES UNDER THE AFFORDABLE CARE ACT

Small-business owners may qualify for a federal tax credit to help offset contributions toward employee premiums. Beginning in 2014, the only way for small-business owners to access the tax credits available through the Affordable Care Act is to purchase insurance through Covered California's SHOP.

There are two phases of tax credits. Starting in 2010 and lasting through tax year 2013, the first phase of tax credits under the law provides businesses with fewer than 25 full-time-equivalent employees with a tax credit, provided the employees are paid an average annual salary of less than \$50,000 a year. During this first phase, qualifying employers can receive a tax credit of up to 35 percent of their contribution toward their employees' premium (25 percent for nonprofits).

Starting in 2014, the maximum tax credit increases to 50 percent (35 percent for nonprofits) and is available for a total of two consecutive years. Generally, businesses with 10 or fewer full-time-equivalent employees and wages averaging \$25,000 or less a year will qualify for the maximum credits.

To qualify for tax credits, employers must also pay at least 50 percent of employee-only premium costs.

▶ Example of a Small-Business Receiving a Tax Credit for Health Insurance

Beauty Shop with 10 Full-Time-Equivalent Employees	
Employees	10 full-time-equivalent employees
Wages	\$250,000 total , or an average of \$25,000 per employee
Employee Health Insurance Cost	\$70,000
2013 Tax Credit	\$24,500 (35%)
2014 Tax Credit	\$35,000 (50%)

Covered California is promoting SHOP through Certified Licensed Agents who can help small businesses understand if they might be eligible for tax credits and the advantages of offering their employees the choice of multiple plans.

5 LEADERSHIP, PROFESSIONAL CONDUCT AND FUNDING

In three years, Covered California has grown from an idea in federal and state law to a robust public entity within state government working with great care and urgency to implement many of the coverage provisions of the Affordable Care Act in California.

Covered California has made tremendous strides in the past years and months to implement provisions of federal and state law to provide affordable health coverage for millions of eligible Californians.

LEADERSHIP

Covered California is led by a five-member board appointed by the Governor and state Legislature. Two board members are appointed by the Governor, one is appointed by the Senate Rules Committee, and one is appointed by the Speaker of the Assembly. The Secretary of the Health and Human Services Agency or another designee serves as an ex-officio voting member of the board. Appointed members serve four-year terms. The board is responsible for making major policy decisions and the hiring of senior staff. In October 2011, the board hired Peter V. Lee to serve as Covered California's first Executive Director.



Board members (left to right): Kimberly Belshé; Paul E. Fearer; Robert K. Ross, M.D.; Susan P. Kennedy; and Diana S. Dooley (Chair).

COVERED CALIFORNIA BOARD MEMBERS	Appointing Authority	Term
<p>DIANA S. DOOLEY Secretary, Health and Human Services Agency; Chair of the Board (elected by the board), Covered California</p> <p>Secretary Dooley began her professional career in public service as an analyst with the State Personnel Board. In 1975, she was appointed to the staff of then Gov. Edmund G. Brown Jr., where she served as Legislative Secretary and Special Advisor until the end of his term in 1982. Prior to returning to public service in 2011, Ms. Dooley was President and Chief Executive Officer of the California Children's Hospital Association. She was appointed by Gov. Brown to serve as Secretary of the Health and Human Services Agency in 2011.</p>	Ex Officio Voting Member as Secretary of the Health and Human Services Agency	Ex Officio
<p>KIMBERLY BELSHÉ Board Member</p> <p>Ms. Belshé is the Executive Director of First 5 LA (Los Angeles), a child advocacy and grant-making organization created by California voters to invest tobacco tax revenue to improve the lives of Los Angeles County's young children. Most recently, she was Senior Policy Advisor to the Public Policy Institute of California, after having served as Secretary of the California Health and Human Services Agency under then Gov. Arnold Schwarzenegger.</p>	Governor	January 2015
<p>PAUL E. FEARER Board Member</p> <p>Mr. Fearer recently retired as a Senior Executive Vice President and Director of Human Resources of UnionBanCal Corp. and its primary subsidiary, Union Bank N.A. He served as the Chair of the Pacific Business Group on Health and has provided strategic leadership on both small-group and large-employer purchasing for many years.</p>	Assembly Speaker	January 2017
<p>SUSAN P. KENNEDY Board Member</p> <p>Ms. Kennedy served as Chief of Staff for former Gov. Arnold Schwarzenegger and led Schwarzenegger's historic health care reform initiative that contained many of the elements of the Affordable Care Act. Previously, she served as Deputy Chief of Staff and Cabinet Secretary to former Gov. Gray Davis</p>	Governor	January 2015
<p>ROBERT K. ROSS, M.D. Board Member</p> <p>Dr. Ross is President and Chief Executive Officer for The California Endowment, a health foundation established in 1996 to address the health needs of Californians. Previously, Dr. Ross served as Director of the Health and Human Services Agency for the County of San Diego and as Commissioner of Public Health for the City of Philadelphia.</p>	Senate Committee on Rules	January 2016

The Covered California Board met for the first time on April 20, 2011, and has held more than 38 meetings at locations in Sacramento and throughout the state.

Since its very first meeting in April 2011, the Covered California board has met once and often twice a month at locations in Sacramento and throughout California, hearing input and recommendations from hundreds of experts and stakeholders. Board members have considered broad-ranging policy options and have made important strategic decisions related to eligibility and enrollment, affordability, benefit design, education and outreach and marketing as well as how best to operate the Service Center and how to hire, train and support individuals who will help people enroll in coverage.

In 2011, the board established a vision, mission and set of values that have served to guide staff on an ongoing basis.

The vision of Covered California is to improve the health of all Californians by ensuring their access to affordable, high quality care.

The mission is to increase the number of insured Californians, improve health care quality, lower costs and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value.

Covered California is guided by six primary values:

Consumer-focused: At the center of the Covered California's efforts are the people it serves, including patients and their families, and small business owners and their employees. The Exchange will offer a consumer-friendly experience that is accessible to all Californians, recognizing the diverse cultural, language, economic, educational and health status needs of those we serve.

Affordability: Covered California will provide affordable health insurance while assuring quality and access.

Catalyst: Covered California will be a catalyst for change in California's health care system, using its market role to stimulate new strategies for providing high-quality, affordable health care, promoting prevention and wellness, and reducing health disparities.

Integrity: Covered California will earn the public's trust through its commitment to accountability, responsiveness, transparency, speed, agility, reliability, and cooperation.

Partnership: Covered California welcomes partnerships, and its efforts will be guided by working with consumers, providers, health plans, employers and other purchasers, government partners, and other stakeholders.

Results: The impact of Covered California will be measured by its contributions to expanding coverage and access, improving health care quality, promoting better health and health equity, and lowering costs for all Californians.

As Covered California prepared for the first open-enrollment period for purchasing health insurance from the Covered California marketplace, board members participated in town hall meetings throughout the state to help spread the word about the new coverage options available.

Covered California also informs its policy development through four stakeholder advisory groups that provide feedback on the development of programs. These include the following:

- Plan Management stakeholder advisory group.
- Marketing, Outreach and Enrollment Assistance stakeholder advisory group.
- Small Business Health Options Program stakeholder advisory group.
- Tribal Consultation advisory group.

At meetings held each quarter, through these groups, Covered California receives comment and feedback on a variety of topics. In addition, Covered California regularly holds webinars and other public forums to gather input from stakeholders on a wide range of issues.

PROFESSIONAL CONDUCT

The board, senior and specialized staff, and contractors are subject to appropriate provisions of the California Political Reform Act and Conflict of Interest Code provisions adopted by the California Fair Political Practices Commission. In addition, Covered California in February 2013 adopted an administrative policy related to Public Records Act requests. Requests for documents are submitted to the Covered California Legal Office. These policies were codified under SB 332 which was signed by the Governor earlier this fall. It amended Government Code Section 100508 and took effect immediately upon signature.

FUNDING

Covered California continues to rely on federal grant funding for its operations. Since September 2010, Covered California has received grants totaling \$910.6 million in federal funding to establish the organization and operate through December 2014. Under the statute that established Covered California, it can never rely on State of California general funds to support its operation. Starting Jan. 1, 2015, it must be fully self-sufficient based on revenue raised in its operations.

Covered California expenditures in the 2012-13 fiscal year totaled \$278.7 million. Most of these expenditures focused on essential goals related to establishing Covered California:

- Developing information technology infrastructure.
- Preparing to promote Covered California and its products through public relations and communications activities.
- Establishing and staffing Service Center.

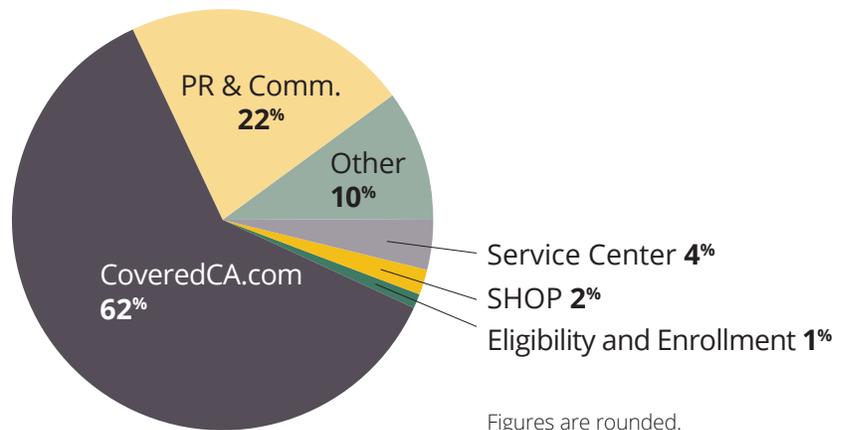
Funds were also used for tasks such as recruiting and training staff, gathering stakeholder input and establishing the Small Business Health Options Program (SHOP).

During fiscal year 2012-13 the timing of significant expenditures occurred later than originally anticipated, which resulted in a delay of some expenditures to fiscal year 2013-14. Hiring occurred at a much slower pace than originally budgeted due principally to the delay and challenges associated with recruiting staff in the Service Center. Contractual spending also occurred at a slower pace primarily due to the timing of media campaigns, the timing of Service Center development and other activities.

Expenditures Versus Budget by Organizational Unit

	2012-13 Budget	2012-13 Year-end	Variance
All Others	\$ 52,532,958	\$ 24,360,906	\$ 28,172,052
SHOP	\$ 7,639,897	\$ 3,790,528	\$ 3,849,369
Service Center	\$ 36,602,362	\$ 10,476,340	\$ 26,126,022
CoveredCA.com	\$ 211,470,662	\$ 183,132,682	\$ 28,337,980
Eligibility and Enrollment	\$ 18,500,403	\$ 1,604,863	\$ 16,895,540
PR and Communications	\$ 74,209,004	\$ 55,329,215	\$ 18,879,789
Expenses	\$ 400,955,286	\$ 278,694,534	\$ 122,260,752
CoveredCA.com Cost Sharing	\$ (34,568,734)	\$ (27,814,718)	\$ (6,754,016)
Total Operating Costs	\$ 366,386,552	\$ 250,879,816	\$ 115,506,736

Fiscal Year 2012-13 Expenditures



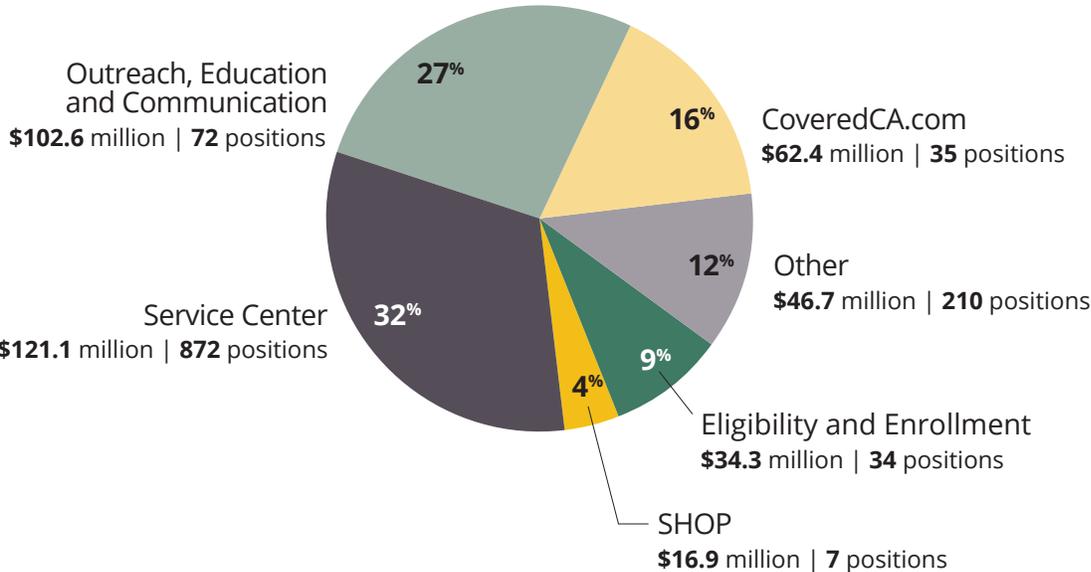
In December 2012, Covered California submitted a plan to the federal government spelling out how it will operate in the years ahead. Regulations implementing the Affordable Care Act require this “blueprint” plan to be approved by the federal Department of Health and Human Services before the state is designated as having a state-based exchange. Covered California’s Blueprint plan was conditionally approved in January 2013.

Consistent with federal requirements, Covered California demonstrated in its blueprint plan that it will be self-sustaining with sufficient funding to support ongoing operations on Jan. 1, 2015. State law requires Covered California to assess a reasonable, necessary fee on Covered California health insurance companies to support operations and to ensure that expenditures do not exceed revenues.

In accordance with federal regulations, Covered California will collect SHOP medical and dental policy premiums and remit them to the health plans. In addition, Covered California will collect Certified Licensed Agent commissions. Internal processes are being established to accept and remit these payments, which could exceed \$85 million during the first half of 2014.

The Covered California board adopted its fiscal year 2013-14 budget at its June 20, 2013 meeting authorizing operational expenditures of \$399.7 million, which includes reimbursements from the California Department of Health Care Services. Through the end of 2014, funding will be a mix of federal grant funds and monthly fees on health plans. Expenditures will be primarily devoted to promoting and facilitating enrollment. Service Center operations and more robust outreach and communications activities will account for more than half of the fiscal year 2013-14 projected expenditures. Additionally, there will be significant spending on information technology.

Organizational Breakdown of Proposed Fiscal Year 2013-14 Budget



When the board approved its fiscal year 2013-14 budget, it also adopted guiding principles to steer its financial policies. Covered California will limit its cost of operations in order to minimize the impact of monthly fees on health insurance companies, while at the same time establishing a modest financial reserve. Financial activities will be monitored, controlled, and audited regularly to ensure funds are being used consistent with federal and state requirements.

An audit released in July 2013 by the California State Auditor found that:

“Covered California has included in its financial plan appropriate measures to ensure ongoing fiscal solvency, such as an annual minimum reserve target and an operating budget that is flexible enough to accommodate different enrollment levels”

Further, the auditor’s report states that the unpredictability of enrollment in coverage may require changes in the future. As stated by the auditor, Covered California “engaged in a deliberate, thoughtful financial planning effort that attempts to anticipate the several contingencies it will face.”

After December 2014, the principal funding source for Covered California will be the monthly fee assessed on health insurance companies for policies sold through the marketplace. Covered California has adopted a flexible financial planning approach that takes into account the uncertainties inherent with depending on revenue from an entirely new marketplace.

6 COUNTDOWN TO COVERAGE

The long road to achieving health coverage for millions of uninsured Americans is at a historic point. Nowhere is the effort as exciting and challenging as it is in California, one of the most complex, diverse and populous states in the nation. Recognizing the enormous operational challenges of implementing the Affordable Care Act on the ambitious timeline set out in federal and state law, California leaders took steps very early to create Covered California and to begin laying the groundwork for health reform.

Open enrollment began Oct. 1, 2013, with millions of uninsured California residents having their first chance to obtain quality, affordable coverage.

Increasingly, television and radio advertising, billboards, print and social media are being targeted with messages aimed at encouraging eligible California residents to explore their options for coverage and sign up for coverage starting Jan. 1, 2014.

No doubt an undertaking this large will require adjustments along the way, but California is at a pivotal moment. Achieving robust enrollment in the first open-enrollment period in late 2013 and early 2014 will be critical to the future success of the Covered California marketplace.

With support from all parts of the state, California can help lead the nation in implementing one of the most significant changes to our health care system in U.S. history.

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