BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF CALIFORNIA

IN THE MATTER OF: The Proposed Acquisition of Control of: HEALTH NET LIFE INSURANCE COMPANY, a California domestic stock insurer and indirect subsidiary of HEALTH NET, INC., a Delaware corporation BY CENTENE CORPORATION, a Delaware corporation AND CHOPIN MERGER SUB I, INC. and CHOPIN MERGER SUB II, INC., each a Delaware corporation	))))))))))))))))))	File No. APP-2015-00889 **WRITTEN TESTIMONY OF DR. LAWRENCE WU AND DR. PAUL WONG ON BEHALF OF HEALTH NET LIFE INSURANCE COMPANY AND HEALTH NET, INC.**

I. INTRODUCTION

A. Qualifications and Experience of Lawrence Wu

1. I, Lawrence Wu, am an economist at and President of NERA Economic Consulting. NERA is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal issues. I received my B.A. from Stanford University and my Ph.D. from the University of Chicago, Graduate School of Business. Prior to joining NERA, I was a staff economist in the Bureau of Economics at the Federal Trade Commission (FTC). From 2011 to 2015, I was a Visiting Scholar at the Stanford Institute for Economic Policy Research at Stanford University.

2. I have many years of experience analyzing competition issues in the healthcare field. I have been asked to assess the competitive effects of hospital mergers and health plan mergers and alleged exclusionary conduct by health plans and hospitals. I also have been asked to testify on issues related to hospital reimbursement. I have provided written and oral expert testimony on numerous occasions, including testimony in U.S. district courts; presentations before the FTC and the Antitrust Division of the U.S. Department of Justice (DOJ); and reports and/or oral testimony in connection with reviews by various state Departments of Insurance regarding a proposed acquisition of a health insurance company. My research has appeared in *Antitrust*, *The Antitrust Bulletin*, *The Antitrust Chronicle*, *The Antitrust Source*, *Antitrust Report*, *European Competition Law Review*, *Journal of Business Venturing*, and *Medical Care*. I have edited three books that have been published on the economics of antitrust, including a book on the use of econometrics in antitrust analysis. I also am a co-author of a book on antitrust class certification. My publications, prior testimony, and selected consulting assignments are listed in my curriculum vitae, which is appended to this report as Exhibit 1.

B. Qualifications and Experience of Paul Wong

3. I, Paul Wong, am an economist and Consultant at NERA Economic Consulting. I received my B.A. in Business Economics from the University of California, Los Angeles and my M.A. and Ph.D. in Economics from Stanford University. I have prior professional experience working as a health services researcher and healthcare analyst at the Palo Alto Medical Foundation Research Institute and as an investment manager at Brandes Investment Partners.

4. I have consulted on a variety of hospital and health insurance mergers, including mergers involving notable hospital systems in California, Florida, Wisconsin, and Michigan, and I have consulted on a number of antitrust litigations in healthcare industries, including hospitals, multispecialty physician groups, medical devices, and medical supply distribution. I have also done academic research on a variety of healthcare industries. I have written multiple papers analyzing competition and regulation in the U.S. health insurance industry, and I have presented my research for a number of different organizations, including the U.S. Department of Justice and the American Society of Health Economists. My credentials, professional experience, and research are listed in my curriculum vitae, which is appended to this report as Exhibit 2.

C. Nature and Scope of the Assignment

5. Centene Corporation ("Centene") has proposed to acquire control of Health Net, Inc. ("Health Net"). Centene operates one subsidiary in California – California Health and Wellness. Health Net operates two full-service health care service plan subsidiaries in California – Health Net of California, Inc. and Health Net Community Solutions, Inc. – and one health insurance company subsidiary – Health Net Life Insurance Company ("HNLIC").

6. Centene provides health insurance coverage to 4.8 million people in 23 states, the large majority of whom are Medicaid subscribers.[1] In California, Centene focuses on Medi-Cal (California's Medicaid program), offering Medi-Cal Managed Care products in 19 counties. Centene's operations in California are relatively new, having begun in 2013 when the company submitted bids for newly established Medi-Cal Managed Care programs (the "Regional" and the "Imperial" programs). Centene's senior management see the company's entry into Medi-Cal as potentially an important step toward building a lasting presence in California.[2]

7. Centene's entry into Medi-Cal Managed Care has been a success for both consumers and the company. For consumers, Centene's entry has helped to bring managed care services to counties that did not previously have a Medi-Cal Managed Care program. For Centene, its entry enabled it to cultivate a managed care coverage network in areas where this has proven difficult for other insurance carriers.[3] Furthermore, Centene's success in California mirrors its success in building Medicaid managed care programs around the country. Centene is known as a national, high-quality Medicaid managed care operator, and Centene has grown its Health Insurance Exchange operations quite successfully since 2014.[4]

8. Health Net provides and administers health benefits to over 6 million people in a variety of products, including commercial insurance, Medicare, and Medicaid, as well as

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[1] Centene Corporation, 10-Q for period ending September 30, 2015, p. 20.

[2] Interviews with senior management of Centene.

[3] Based on our interviews, we understand that (a) no other insurance carriers were willing to enter *de novo* into the new Medi-Cal Managed Care programs in 2013 (Anthem and Molina each had a pre-existing presence in the Regional and Imperial counties, respectively) and (b) other parties expressed doubts whether Centene could build a viable coverage network in rural counties. [Interviews with senior management of Centene.] We believe that both are evidence of the difficulty facing Centene at the time of its entry and the subsequent success the company has demonstrated.

[4] The breadth in Centene's Medicaid operations and the growth of Centene's Health Insurance Exchange business are explained in more detail in Section III.

programs with the U.S. Department of Defense and the U.S. Department of Veterans Affairs.[5] In California, Health Net, including all of its subsidiaries, insures over 2.9 million people.[6] In this hearing, Health Net's insurance products sold by HNLIC are the only products subject to the jurisdiction of the California Insurance Commissioner. As of December 2014, HNLIC's commercial insurance products covered 163,036 people in California, which only accounts for approximately 6 percent of Health Net's total California membership.[7] In the analysis that follows, we will discuss HNLIC's insurance business as well as Health Net's overall insurance business, including its commercial insurance and Medi-Cal Managed Care products, but not including its federal contract business.

9. With respect to commercial insurance in California, Health Net's three subsidiaries – combined – insure 236,768 members through individual insurance products, 243,053 members through small group insurance products, and 443,191members through large group insurance products.[8] Of these totals, HNLIC accounts for 57,683 members through its individual products, 81,154 members through its small group products, and 24,199 members through its large group products.[9] None of Health Net's subsidiaries sell administrative services only ("ASO") insurance products. In the last few years, Health Net's individual products – including those sold by HNLIC – have been popular and growing, particularly in Southern California where they have sold well among low-income and Latino populations.[10] Health Net's large group products – including those sold by HNLIC – have experienced slight declines recently, but the company continues to retain large, notable customers, including the University of California, Boeing, and Walmart.[11]

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[5] Health Net, Inc., 10-Q for period ending September 30, 2015, pp. 39 and 49.

[6] *Ibid.*

[7] HNLIC's enrollment is quoted as of December 31, 2014, which is the most recently available enrollment from the California Department of Insurance. Enrollment counts are shown in more detail in Section IV.

[8] Enrollment includes all of Health Net's subsidiaries and is quoted as of December 31, 2014.

[9] HNLIC's enrollment is quoted as of December 31, 2014.

[10] For example, Health Net accounts for 25 percent of Covered California (California's Health Insurance Exchange) enrollees who are between 138 percent and 150 percent of the federal poverty line, and Health Net accounts for 27 percent of Covered California enrollees who are Latino. The Covered California data are not reported separately for HNLIC and Health Net's other subsidiaries. [California Health and Benefit Exchange, 2015 Covered California Data, 2015 Active Member Profiles, June 2015, sheet "QHP".]

[11] Interviews with senior management of Health Net.

10. Health Net and its subsidiaries also administer Medi-Cal Managed Care programs in 12 counties. In total, Health Net and its subsidiaries cover approximately 18 percent (including CalViva members administered by Health Net) of the state's Medi-Cal Managed Care enrollees.[12] Health Net's Medi-Cal operations are concentrated in Southern California and the Central Valley; it did not have existing Medi-Cal operations in rural parts of California, and it did *not* bid to provide coverage in the counties where Centene entered in 2013. Health Net has also overseen important Medi-Cal programs, including a Medicare-Medicaid Dual-Eligible pilot program in Los Angeles and San Diego.

11. The purpose of this testimony is to address the following questions and issues:

- What is the economic framework within which to assess the competitive effects of consolidation in health insurance markets in California?
- What is the rationale for the proposed transaction and the potential benefit to consumers?
- What is the competitive overlap, if any, between the two companies in California?
- What is the competitive effect of the proposed transaction?
- Does the proposed transaction substantially lessen competition in health insurance in California or create a monopoly therein?

D. Information Relied Upon

12. Our opinions expressed in this testimony are based on our combined professional training and experience, as well as our review of (a) materials that were previously provided to California regulators, which include data and documents produced by Centene and Health Net, (b) publicly available data and information, and (c) interviews with senior management of Centene and Health Net. A complete list of the materials and information that we have relied upon to prepare this report is attached as Exhibit 3.

[12] Though not branded as "Health Net" plans, Health Net administers Medi-Cal Managed Care plans in three counties on behalf of CalViva Health and some members in two counties on behalf of Molina Healthcare. Total Medi-Cal enrollment for Health Net and its subsidiaries includes 1,482,308 Health Net enrollees, 335,810 CalViva Health enrollees, and approximately 12,400 Molina Healthcare beneficiaries.

13. In addition, our opinions expressed in this testimony may be supplemented or updated to reflect any subsequent production of documents, testimony, or additional information provided to us. We also intend to review any additional information or report(s) that may be submitted by Centene, Health Net, California regulators, various experts, or any interested members of the public, and submit additional reports of our own, if appropriate.

II. THE ECONOMIC FRAMEWORK WITHIN WHICH TO ASSESS THE COMPETITIVE EFFECTS OF CONSOLIDATION IN HEALTH INSURANCE MARKETS

14. Mergers and consolidation have the potential to create both procompetitive and anticompetitive effects. Procompetitive effects can result from a number of factors, including the ability of mergers and consolidation to create economies of scale or to combine complementary assets of the merging parties. However, there is the potential for anticompetitive effects due, principally, to the elimination of competition between the two merging parties in the same market. In evaluating the proposed acquisition, we will weigh the likelihood of realizing procompetitive effects against the risk of any anticompetitive effects. In doing this calculus, our focus will be on the effect of the proposed acquisition on consumers. Our approach is centered on answering the following economic question: Is consumer welfare likely to increase or decrease because of the acquisition? Consumer welfare is likely to decrease if the acquisition will result in higher prices, suppress output, or discourage innovation. But consumer welfare is likely to increase if the acquisition results in the opposite, lowering prices, increasing output, or encouraging innovation.

15. In addition, in assessing the competitive impact of the proposed acquisition, we appreciate that the overall dynamic of competition could change in the future as a result of consolidation by other health insurance carriers in California. Our approach, however, does not depend on whether there is (or is not) consolidation by other carriers. This is because, if the proposed acquisition is procompetitive *on its own*, consumers will benefit and their welfare will be enhanced if the proposed acquisition is allowed to proceed, whether or not there is consolidation by other carriers.

16. Our approach is consistent with the economic literature on the effects of mergers and consolidation in health insurance markets. Indeed, the literature acknowledges that both procompetitive and anticompetitive effects are possible. On one hand, mergers and consolidation of close, significantly overlapping health insurance carriers can create market power and decrease consumer welfare through higher prices, lower output, or lower quality. For example, one study found that the anticompetitive effects of mergers are most likely when the merging carriers have *significant competitive overlap in a local area*.[13] On the other hand, the literature also indicates that allowing health insurance carriers to gain additional enrollment can create procompetitive effects, including economies of scale and lower healthcare costs.[14]

17. The general conclusions in the literature, however, should be adapted to the marketplace for health insurance in California. This marketplace is somewhat unique compared to the United States at large. California has several significant health insurance carriers and a regulatory framework governing health insurance and managed healthcare that are unlike those present in many other states. Furthermore, the competitive healthcare marketplace in California has generally achieved good outcomes for California consumers in the past, including lower healthcare spending per capita compared with many other states.[15]

18. In the following sections, we will assess the competitive effects of Centene's proposed acquisition of Health Net. First, we will summarize the rationale for the acquisition and the possible procompetitive effects. We will place an emphasis on the benefits to consumers that we believe are most likely to be realized or that are more specific to California. Second, we will review the competitive overlap between Centene and Health Net. We place an emphasis on identifying the products and geographic areas in which the two companies directly compete, if any. Finally, we will weigh both considerations and assess the overall competitive effect of the proposed acquisition. Our conclusion is that the procompetitive benefits to consumers are cognizable and that the anticompetitive effects are minimal.

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[13] See Dafny et al. (2012).

[14] See, for example, Wholey et al. (1996) and Wu (2009).

[15] California ranks in the top ten (rank one being the lowest) in healthcare spending per capita. California also ranks better than both the national average and the median state in its average individual insurance premiums and its health insurance market concentration for individual, small group, and large group insurance. [Kaiser Family Foundation, State Health Facts on Health Costs & Budgets, http://kff.org/state-category/health-costs-budgets/, accessed on January 13, 2016.]

III. THE RATIONALE FOR THE PROPOSED TRANSACTION AND THE POTENTIAL BENEFIT TO CONSUMERS

19. There is a strong procompetitive rationale for Centene's proposed acquisition of Health Net. If benefits from the acquisition are realized, the combined companies are likely to be a more efficient and more effective competitor in California and elsewhere, which ultimately will benefit consumers in the form of lower prices and/or better health benefits.

20. For Centene, the acquisition provides the company with (a) better scale and scope, possibly facilitating lower pricing; (b) the ability to participate more fully in California's Medi-Cal Managed Care program, giving the company more legitimacy as a quality, nationwide Medicaid operator;[16] (c) the ability to enter both commercial insurance and Medicare in California with sufficient scale and expertise, thereby increasing competition in California and elsewhere; and (d) the ability to share in Health Net's expertise in administering commercial products in California and capitated managed care plans.[17]

21. For Health Net, the acquisition provides the company with (a) better scale and the opportunity to improve its infrastructure, most notably by allowing it to avoid continuing a significant outsourcing initiative;[18] (b) expertise and programs that complement its own, including Centene's award-winning Medicaid programs and success in growing Health Insurance Exchange businesses; and (c) a *willing* partner that will enable Health Net to compete more vigorously across all of Health Net's lines of business.

22. Although some of the procompetitive benefits are likely to accrue broadly across Centene and Health Net and across many states, a number of the anticipated benefits are *specific to California* and are likely to promote competition and enhance consumer welfare in the state.

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[16] Centene's senior management explained to us that building more operations in California has been one of the Centene's goals for a number of years. Moreover, expanding operations in California – the largest Medicaid program in the country – would enhance Centene's credibility both within the state and nationwide. [Interviews with senior management of Centene.]

[17] The companies' prospectus summarizes much of the rationale for the transaction. [Centene and Health Net, SEC Form 424(b)(3), September 21, 2015.]

23. First, Centene and Health Net's operations in California are geographically distinct but complementary, and their combined California footprint has the potential to serve as a strong foundation for continued competition statewide in multiple lines of business. Exhibit 4A shows the counties in which Centene and Health Net have Medi-Cal operations. Centene's Medi-Cal operations in California are primarily in rural counties in Central and Northern California, whereas Health Net's Medi-Cal operations are focused on Southern California and the Central Valley. Combined, Centene and Health Net will have a more complete and comprehensive coverage network for Medi-Cal Managed Care programs. This will enhance the ability of the combined companies to compete in Medi-Cal Managed Care in the future. Moreover, as Exhibits 4B through 4D show, the existing commercial health insurance operations for Health Net's subsidiaries – including HNLIC – are focused primarily on Southern California and the more urban areas in the state, and there is potential for the combined companies to leverage their Medi-Cal provider networks to expand their commercial health insurance operations.[19] Indeed, this is the approach that Centene has taken in other states to expand its presence in individual commercial health insurance. For example, over the past few years, Centene leveraged its existing Medicaid provider networks and infrastructure to build successful Health Insurance Exchange operations in 13 states.[20] Health Net – including HNLIC – has used a similar strategy of leveraging its existing provider networks and infrastructure to successfully grow its Health Insurance Exchange operations in Southern California.[21] The proposed acquisition generates more of these same opportunities in California. By combining Centene and Health Net's complementary Medi-Cal networks and infrastructure, the combined company will have stronger networks that it can leverage to expand Health Net's existing commercial health insurance business in California.

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[18] The prospectus explains the outsourcing initiative that Health Net began prior to the proposed acquisition. As a consequence of the acquisition, the services that would have been outsourced will, instead, continue to be provided by Health Net. [Centene and Health Net, SEC Form 424(b)(3), September 21, 2015.]

[19] Having a broad Medi-Cal coverage network in place would make it easier to offer new commercial products in the future, as the combined companies would likely have more existing relationships with local providers, more recognition among consumers, and better understanding of local market dynamics.

[20] Centene's senior management cite the company's Medicaid operations that were established and fully-scaled as having been integral to the company's efforts to build new Health Insurance Exchange operations. By having Medicaid operations in-place in a given state, Centene has familiarity with local providers and market dynamics, and its products are more recognized among consumers. [Interviews with senior management of Centene.]

[21] Interviews with senior management of Health Net.

24. Second, Centene and Health Net complement one another in terms of their expertise and focus on serving the Medicaid population. From a national perspective, both Centene and Health Net have successful Medicaid programs, and Medicaid has been an important line of business for both companies. Centene has developed award-winning Medicaid programs around the country, and it can bring the best aspects of these programs to California to help supplement those that Health Net already offers.[22] Centene's products have, furthermore, been locally focused, innovative, and popular despite their short history in California.[23] Centene's acquisition of Health Net is likely to help promote long-term innovation and quality in Medicaid programs in California by combining the extensive Medicaid expertise of the two companies.

25. In addition, both Centene and Health Net have growing, successful Health Insurance Exchange businesses. Exhibit 5A shows Centene's growth in Health Insurance Exchange enrollment and price positioning around the country since 2014. Centene's growth has been considerable, and it is one of the lowest priced plans in many of its rating regions.[24] Exhibit 5B shows Health Net's growth in Covered California (California's Health Insurance Exchange) enrollment and price positioning over the same time period.[25] Health Net has been very popular in Southern California and has been consistently among the lowest priced plans in its rating regions. Centene's acquisition of Health Net would bring together two companies with similar approaches toward their Health Insurance Exchange businesses and two companies that

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[22] An example of Centene's award-winning Medicaid programs is "Smart Start for Baby" (a perinatal and NICU management program that emphasizes early identification and stratification of pregnant members, and education and Care Management interventions). Centene also offers "CentAccount" (a healthy rewards account program that encourages healthy behaviors through valued financial incentives). Moreover, Centene has begun innovative programs in California, including a "TeleHealth" program, non-emergency transportation programs, and other community-based programs (such as holding "Anti-Bullying" events at local schools). [Interviews with senior management of Centene.]

[23] For example, to illustrate Centene's local focus, the company has contributed over $2.1 million to California communities and community-based organizations, and it has five offices in California and many local employees, including specific liaisons for the 19 public health departments in each of the counties in which it operates. [Interviews with senior management of Centene.] To illustrate Centene's popularity, Centene has enrolled 51 percent of Medi-Cal Managed Care enrollees in aggregate in the counties it entered. [California Department of Health Care Services, Medi-Cal Managed Care Enrollment Reports, November 2015.]

[24] Centene's total enrollment from Health Insurance Exchanges grew from 74,500 to 155,600 (109 percent) from 2014 to 2015. In 2015, Centene was the lowest or second lowest priced plan in 60 percent of its rating regions. In 2016, Centene will be the lowest or second lowest priced plan in 67 percent of its rating regions. See Exhibit 5A.

[25] The Covered California data are not reported separately for HNLIC and Health Net's other subsidiaries.

have been low-price leaders in their separate respective markets – Centene's Health Insurance Exchange business outside California and Health Net's Health Insurance Exchange business in California.[26] Thus, the acquisition is likely to help strengthen and grow Centene and Health Net's combined Health Insurance Exchange operations in California, promoting competition with other insurance carriers in the individual insurance market.

26. Third, Centene's acquisition of Health Net provides Health Net with the scale and infrastructure it needs to continue to operate efficiently in California and elsewhere. To become more efficient, Health Net engaged Cognizant, a business and technology services firm, to outsource nearly all of its IT, claims processing, and call-center services. This outsourcing arrangement also called for Cognizant to take-on nearly one-third of Health Net's workforce.[27] The proposed acquisition would allow Health Net to withdraw from this outsourcing arrangement with Cognizant, keeping its operations in-house. Doing so will ensure better continuity and ultimately better efficiency in Health Net's existing operations. Moreover, the proposed acquisition allows Health Net's existing operations in California and elsewhere to benefit from Centene's national scale. These benefits include more cost effective joint purchasing and access to important services provided by Centene's specialty companies.[28] Together, the various improvements in scale and infrastructure are projected to save the two companies approximately $150 million per year.[29]

27. Fourth, Centene's acquisition of Health Net allows Centene to gain additional opportunities in business lines outside of Medicaid, including commercial insurance and

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[26] Senior management of both companies have expressed their interest in building Health Insurance Exchange operations that leverage their Medicaid infrastructure and that offer affordable, "value-oriented" health insurance products. [Interviews with senior management of Centene. Interviews with senior management of Health Net.]

[27] The history and timing concerning Health Net's outsourcing plans are spelled out in detail in the companies' prospectus. [Centene and Health Net, SEC Form 424(b)(3), September 21, 2015.] Details concerning the outsourcing agreement are described in the companies' Hart-Scott-Rodino filing. This filing has been provided to the California Department of Insurance for review. [Centene Corporation, Hart-Scott-Rodino Filing, FTC Form C4, 16 CFR Part 803, July 17, 2015.]

[28] Centene operates a number of specialty companies in California, including US Script, a pharmacy benefits management company; AcariaHealth, a specialty pharmacy management company; Cenpatico, a behavioral health and specialty rehabilitation therapies company; and Nurtur, a life and health management company.

[29] The companies' Hart-Scott-Rodino filing provides detail concerning the projected efficiencies arising from the acquisition. This filing has been provided to the California Department of Insurance for review. The companies expect to reach cost savings of $150 million per year by the second year following the proposed acquisition. [Centene Corporation, Hart-Scott-Rodino Filing, FTC Form C4, 16 CFR Part 803, July 17, 2015.]

Medicare. Centene has an interest in growing these other business lines, and more opportunities in California would only further facilitate Centene's likelihood of entering similar markets outside of California.[30] Entry by Centene into additional commercial insurance markets in other states can only be procompetitive and an important source of consumer benefit, even if the benefits accrue predominantly to consumers outside California.

IV. THERE IS NO COMPETITIVE OVERLAP BETWEEN CENTENE AND HEALTH NET IN CALIFORNIA

28. We have reviewed the California operations of Centene and Health Net to independently assess the competitive overlap between the two companies. There is no competitive overlap between Centene and Health Net. Given the absence of competitive overlap, Centene's proposed acquisition of Health Net is unlikely to create any anticompetitive effects, and it is unlikely to substantially lessen competition in health insurance in California or create a monopoly therein.

A. There is No Overlap in Medi-Cal Coverage

29. Both Health Net and Centene offer Medi-Cal Managed Care coverage in California. Health Net, across all of its subsidiaries, has approximately 1.8 million Medi-Cal members; Centene has 184,193 Medi-Cal members (see Exhibit 6A).[31] Health Net and Centene account for approximately 18 percent and approximately 2 percent of California's Medi-Cal Managed Care members, respectively.[32] There is no competitive overlap between the two companies, however, for the following reasons.

[30] See Centene and Health Net, SEC Form 424(b)(3), September 21, 2015.

[31] HNLIC does not provide Medi-Cal benefits. The data from the California Department of Health Care Services do not differentiate between Health Net of California and Health Net Community Solutions. Health Net enrollment includes CalViva Health and a portion of Molina Healthcare members in San Bernardino and Riverside counties. As shown in Exhibit 6A, total Health Net enrollment includes 1,482,308 Health Net enrollees, 335,810 CalViva Health enrollees, and approximately 12,400 Molina Healthcare beneficiaries.

[32] Note also that Health Net and Centene account for approximately 14 percent and approximately 1 percent of California's Medi-Cal eligible individuals, respectively.

30. First, the two companies do not overlap geographically. As shown in Exhibit 4A, Health Net operates principally in Southern California and the Central Valley, whereas Centene operates principally in rural counties in Central and Northern California. The two companies do not compete to provide coverage to the same Medi-Cal enrollees, and they have not done so in the past.

31. Second, the two companies have not bid against one another to win Medi-Cal Managed Care contracts in California. In 2013, Centene entered Medi-Cal Managed Care by bidding to serve Medi-Cal Managed Care programs in 19 counties (the Regional and Imperial Medi-Cal Managed Care programs). Health Net *did not* submit a bid for any of these 19 counties. Thus, Centene did not compete with Health Net in any of the counties it entered. Moreover, since Centene's entry in 2013, it *has not* bid on Medi-Cal Managed Care programs in any county for which Health Net is currently an incumbent. Based on this bidding history, it is clear that the two companies have not competed with one another over multiple years. Because the proposed acquisition does not combine two companies that compete against each other, the transaction is unlikely to lead to a reduction in competition and bidding for Medi-Cal Managed Care contracts.

B. There is No Overlap in Individual and Small Group Commercial Health Coverage

32. Health Net, across all its subsidiaries, has 236,768 individual members and 243,053 small group members in California (see Exhibit 6B and 6C).[33] HNLIC accounts for 57,683 individual members and 81,154 small group members in California – only 24 and 33 percent of Health Net's overall individual and small group members in California, respectively. Centene does not have any individual or small group members in California. There is no competitive overlap between Centene and Health Net in both the individual and small group commercial health insurance markets in California. Thus, the proposed acquisition does not eliminate or reduce competition in these lines of business.

[33] Health Net, across all its subsidiaries, accounts for approximately 11 percent and approximately 12 percent of California's individual and small group members, respectively.

C. There is No Overlap in Large Group Commercial Health Coverage

33. Health Net, across all its subsidiaries, has 443,191 large group members in California (see Exhibit 6D).[34] HNLIC accounts for 24,199 large group members – only 5 percent of Health Net's overall large group members in California. Centene does not have any large group members in California. There is no competitive overlap between Centene and Health Net in the large group commercial health insurance market in California. Thus, the proposed acquisition does not eliminate or reduce competition in this line of business.

D. There is No Overlap in ASO Coverage

34. Neither Health Net nor Centene have any ASO members in California (see Exhibit 6E). There is no competitive overlap between Centene and Health Net in ASO commercial health insurance in California. Thus, the proposed acquisition does not eliminate or reduce competition in this line of business.

E. There is No Overlap in Medicare Coverage

35. Health Net has 166,013 Medicare Advantage members and 22,124 Dual-Eligible Medicare-Medicaid members in California (see Exhibit 6F).[35] Health Net's overall 188,137 Medicare members account for approximately 4 percent of California's Medicare members with privately sponsored coverage and approximately 3 percent of California's Medicare-eligible individuals. Centene does not have any Medicare members in California. There is no competitive overlap between Centene and Health Net in the provision of Medicare health insurance in California. Thus, the proposed acquisition does not eliminate or reduce competition in this line of business.

[34] Health Net, across all its subsidiaries, accounts for approximately 5 percent of California's large group members.

[35] The data from the Centers of Medicare and Medicaid Services do not differentiate between Health Net's different subsidiaries.

V. THE COMPETITIVE EFFECT OF THE PROPOSED TRANSACTION

36. There are many large health insurance carriers that compete in California, and in each line of business, there is considerable competition.

- In Medi-Cal, there are three carriers with over one million lives: L.A. Care, Health Net, and Inland Empire Health Plan. These carriers compete against other carriers that specialize in Medi-Cal (Molina Healthcare, Centene, and numerous other community-sponsored plans, including CalOptima) and carriers that also have a significant presence in the commercial health insurance market (Anthem Blue Cross and Kaiser Permanente) (see Exhibit 6A).
- In commercial health insurance (individual, small group, large group, and ASO), the large carriers competing in California include Kaiser Permanente, Anthem Blue Cross, Blue Shield of California, UnitedHealthcare, Cigna, Aetna, and Health Net (where HNLIC is one of Health Net's three subsidiaries that serve California). Each of these carriers has approximately one million or more members combined across all the different categories of commercial health insurance products (see Exhibits 6B through 6E).
- In Medicare, the carriers include all of the previously referenced commercial insurance carriers. In addition, this market is served by Humana, large pharmacy companies (CVS Health, Rite Aid, and Express Scripts), and numerous other Medicare-focused plans, including Scan Health Plan and Wellcare Health Plans (see Exhibit 6F).

37. As noted above, there is virtually no competitive overlap between Centene and Health Net's three subsidiaries in California. Accordingly, the proposed transaction will not have an anticompetitive effect. Still, we understand that the California Department of Insurance has specifically requested an assessment of the potential effect of the proposed transaction if (a) Centene were to acquire Health Net *and* (b) the two companies (or one of their subsidiaries) were

to then exit one or more of their lines of business in California. To our knowledge, the companies have expressed *no intent* to exit any line of business in California. Moreover, as we discuss below, Health Net and Centene are very unlikely to exit any line of business in California. However, in the hypothetical situation in which Centene and Health Net were to exit a line of business in California, it is unlikely that consumers will be negatively affected. In the sections that follow, we discuss our reasoning in each line of business.

A. Medi-Cal

38. Although both Centene and Health Net operate in Medi-Cal, there is no competitive overlap in any geography. Thus, there is little risk that the proposed acquisition would lead to a reduction in competition. Moreover, as we discussed above, there are certain procompetitive effects from the acquisition, including the potential for growth and an improvement in the quality of the companies' combined Medi-Cal operations. Overall, in weighing these factors, we believe that the acquisition would be a net benefit to Medi-Cal enrollees in California and have a positive effect on competition in Medi-Cal Managed Care.

39. Given their experience and expertise in Medi-Cal, Centene and Health Net are unlikely to exit this line of business. As we discussed above, Medicaid managed care programs are a core part of both companies' operations. Centene is a nationally known Medicaid operator but is not well known in California. Health Net has one of the largest, most successful Medi-Cal Managed Care programs in California. Furthermore, both companies view California as an important Medicaid population and an essential source of future Medi-Cal business. If anything, the proposed acquisition provides the combined company with the ability to offer even better coverage to consumers and the ability to compete even more effectively than the two have in the past as separate companies in separate geographies.

40. If, hypothetically, Health Net and Centene were to exit Medi-Cal, there are a large number of existing competitors and ready entrants. County- and community-sponsored plans are popular and they present an important source of competition in the Medi-Cal marketplace. Moreover, commercial insurance carriers either (a) already compete in Medi-Cal Managed Care or (b) have the infrastructure and provider networks in place in the state to rapidly enter the Medi-Cal Managed Care marketplace were Centene and Health Net to exit and leave a void.

Given the presence of these many competitors and potential entrants, any exit by Health Net and Centene – however unlikely – would do little to diminish competition in Medi-Cal in the future.

B. Individual and Small Group Commercial Health Insurance

41. Health Net – including its HNLIC subsidiary – currently has large and successful operations in both individual and small group commercial health insurance in California. Exhibits 6B and 6C show that Health Net has a significant share of enrollment in individual and small group insurance statewide, and Exhibit 5B shows Health Net's popularity in Southern California. There is no competitive overlap between Health Net and Centene in either individual or small group commercial health insurance, and there is little risk that the proposed acquisition would lead to a reduction in competition in either line of business.

42. Given the success Health Net has had and the existing popularity of its products, it is very unlikely Centene and Health Net – if combined – would exit either individual or small group insurance. The combined company has an incentive to continue Health Net's success and promote the combined company's growth. Assuming Centene and Health Net do continue to have success, they will not have incentive to take a currently functioning and successful business and exit their operations – such action would defy basic logic and business sense. Furthermore, combining with Centene would only *improve* Health Net's incentive to stay and grow these lines of business because Centene has (a) expressed interest in growing its commercial insurance business, (b) demonstrated recent success growing its individual insurance businesses in other states, and (c) complementary infrastructure in place to facilitate growth in Health Net's commercial insurance business, all of which we discussed in Section III. These are all factors that would facilitate continuing Health Net's operations and continuing competition in individual and small group insurance.

43. Moreover, it is the case that Centene and Health Net's incentives to grow or shrink their operations are aligned with their competitive importance in the marketplace. When a business is large, successful, and growing, this – almost by definition – implies that the business is likely to be an important competitor and play a central role in the marketplace. When a business is small, struggling, and weak, this – again, almost by definition – implies that the business is likely to be insignificant to competition and play a more peripheral role in the

marketplace. Hence, if conditions are ripe for exit from a line of business in the future, it must necessarily be the case that the operations in question are *no longer* able to significantly impact competition. This conclusion follows from basic economic principles.

44. Looking forward, it is unlikely that Centene and Health Net will exit the California individual or small group health insurance markets. The two companies have every incentive to grow – not shrink – their operations. Nonetheless, were Centene and Health Net's operations to decline in the future, their exit from individual or small group insurance would naturally come only at a point where they no longer played an important competitive role. Thus, in the unlikely scenario in which Centene acquires Health Net and then the two companies exit individual or small group insurance in the future, the competitive effect of any hypothetical exit of the combined firm in this line of business would be minimal.

C. Large Group Commercial Health Insurance

45. Health Net – including HNLIC – has large group health insurance operations in California.[36] Compared to the other large commercial insurers in California, Health Net's large group insurance operations are relatively small. Exhibit 6D shows Health Net's share of enrollment in large group insurance statewide. There is no competitive overlap between Health Net and Centene in large group commercial health insurance, and there is little risk that the proposed acquisition would lead to a reduction in competition in this line of business.

46. As with individual and small group insurance, it is very unlikely that Centene and Health Net would exit large group insurance. Health Net continues to have a number of large, loyal customers, including the University of California, Boeing, Walmart, and other large municipal organizations.[37] The companies have every incentive to continue this line of business, and the proposed acquisition would not change this incentive. If anything, the broader benefits from the acquisition are likely to improve the combined companies' large group insurance operations, encouraging them to remain in this line of business.

[36] Neither Health Net nor Centene compete in ASO insurance. The acquisition will have no competitive impact on ASO insurance markets.

[37] Interviews with senior management of Health Net.

47. If Health Net's large group operations were, hypothetically, to decline substantially in the future, exit might become a more likely option. However, the competitive effect of this hypothetical exit would be minimal. Economic principles suggest that Health Net's exit would, in theory, only occur if and when the company has already lost a significant fraction of its large group enrollment and after its operations had already declined significantly. By definition, the company – at that point – would not be a strong or effective competitor. Thus, in the unlikely scenario in which Centene acquires Health Net and then the two companies exit large group insurance in the future, the competitive effect of such an exit is likely to be minimal, if any.

48. In addition, the market for large group insurance has more national reach, which alters the competitive dynamics in large group insurance relative to other lines of business. The presence of other health insurance carriers in this line of business further mitigates the risk to competition if the combined firm were to exit large group insurance. For example, Aetna and UnitedHealthcare are two national carriers that would help ensure that consumers of large group insurance products would continue to benefit from competition if Centene and Health Net were, hypothetically, to exit large group insurance. An exit by the two companies would do nothing to impede competition from these other national insurance carriers.

49. Moreover, many purchasers of large group insurance have multiple options that will enable them to reduce or minimize the impact of any hypothetical exit by Centene and Health Net. Primarily, this is because many large group insurance customers are sizeable, multisite (possibly multistate) employers that purchase insurance from multiple insurance carriers, possibly with a mix of insured (i.e., large group) and self-insured (i.e., ASO) products. Even if, hypothetically, the combined company were to stop providing large group health insurance in California, national health insurance carriers outside California would continue to serve the large employers. It is also even less likely that a large employer who self-insures would be harmed by a hypothetical exit by Centene and Health Net, as any hypothetical exit by the combined company in large group insurance would not diminish the ASO options that are available.

D. Medicare

50. Centene does not have any Medicare operations in California, and there is no competitive overlap between the two companies. Thus, the proposed acquisition is not likely to lead to any anticompetitive effect in Medicare in California. Moreover, it is possible some of the procompetitive benefits from the acquisition would spill over and help Health Net's Medicare operations.[38]

51. Centene has expressed an interest in growing its Medicare business, and Medicare is an important part of Health Net's operations and it has demonstrated its commitment to Medicare across a spectrum of Medicare products.[39] For these reasons, Centene and Health Net are very unlikely to exit Medicare. If anything, the proposed transaction gives the combined company the ability to be stronger and more efficient overall.

52. As with Medi-Cal, there are a large number of existing competitors in Medicare in California. The Medicare market is served by many commercial insurance carriers and multiple Medicare-focused plans, including pharmacy companies and companies specializing in private Medicare coverage. These many insurance carriers present an important and robust source of competition in the marketplace. Given the presence of many competitors, any exit by Health Net and Centene – however unlikely – would do little to diminish competition in Medicare in California in the future.

VI. CONCLUSIONS

53. We have been asked to evaluate the competitive impact in California of Centene's proposed acquisition of Health Net. Our approach considered the likely procompetitive effects of the acquisition, as well as the competitive overlap between the merging parties. The proposed

[38] As we explained in Section III, having scaled operations in other lines of business would make it easier to offer new products in the future, as the combined companies would have more existing relationships with providers and more recognition among consumers.

[39] Centene's interest in Medicare is expressed in the companies' prospectus. [Centene and Health Net, SEC Form 424(b)(3), September 21, 2015.] For example, Health Net has many Medicare Advantage members, including many Special Needs members. Also, for example, Health Net oversees a large Medicare-Medicaid Dual-Eligible pilot program in Los Angeles and San Diego.

transaction is likely to benefit consumers in California by (a) combining the complementary geographic footprint of Centene and Health Net's operations, (b) combining Centene and Health Net's strengths as low-price leaders in their separate respective markets, (c) creating the opportunity to realize economies of scale and scope, particularly in commercial health insurance markets, and (d) enhancing Centene's ability to enter other markets in the future. At the same time, there is minimal risk of anticompetitive effects from the acquisition because there is no competitive overlap between the two companies. As such, the proposed acquisition will not substantially lessen competition in health insurance in California or create a monopoly therein.

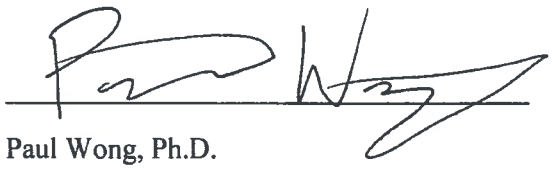
54. In weighing these criteria, we believe the proposed acquisition will be a benefit to consumers in California across all of Centene and Health Net's existing lines of business, including Medi-Cal Managed Care, individual insurance, small group insurance, large group insurance, and Medicare. Moreover, with the efficiencies that will be possible by combining the two companies, the combined company will inject even more competition into the various insurance markets that it will serve in California, which can only benefit consumers.

Dated: January 15, 2016, San Francisco, California.

Lawrence Wu, Ph.D. deposes and says that he is an economist at and President of NERA Economic Consulting, that he has read the foregoing written testimony and knows the contents thereof and that the same are true of his own knowledge.

Lawrence Wu, Ph.D.

Paul Wong, Ph.D. deposes and says that he is an economist and Consultant at NERA Economic Consulting, that he has read the foregoing written testimony and knows the contents thereof and that the same are true of his own knowledge.



Paul Wong, Ph.D.

Exhibit 3
Materials Relied Upon

We have relied upon all documents and citations referenced in the report and exhibits, in addition to the following:

Interviews:

- Interview with Jeff Schwaneke, Senior Vice President, Corporate Controller and CAO at Centene, and Mark Eggert, Senior Vice President, Contractual and Regulatory Affairs, on December 22, 2015.

- Interview with Jesse Hunter, Executive Vice President, Chief Business Development Officer at Centene, on December 23, 2015.

- Interview with Cynthia Brinkley, Executive Vice President, International Operations and Business Integration at Centene, on December 23, 2015.

- Interview with Greg Buchert, California Health and Wellness Plan President and CEO, on December 23, 2015 and follow-up correspondence on December 29, 2015.

- Interview with Health Net employees Steven Sell, President of Health Net Life Insurance Company, Health Net of California, and the Western Region for Health Net, Inc.; Douglas Schur, Vice President & Deputy General Counsel; Kathleen Waters, Senior Vice President, General Counsel and Secretary; Patricia Clarey, Chief State Health Programs & Regulatory Relations Officer; Eric Hause, Vice President, Strategy & Business Development, Commercial; and Susan Hill, Vice President, Strategy and Business Planning, Government Programs, on December 23, 2015.

Documents Received From Counsel:

- Centene and Health Net, SEC Form 424(b)(3), September 21, 2015.

- Centene Corporation, Hart-Scott-Rodino Filing, FTC Form C4, 16 CFR Part 803, July 17, 2015.

- Confidential Health Net Data.

Publicly Available Data:

- California Health and Benefit Exchange, 2014 Covered California Data, 2014 Product Prices for all Health Insurance Companies.

- California Health and Benefit Exchange, 2015 Covered California Data, 2015 Product Prices for all Health Insurance Companies.

- California Health and Benefit Exchange, 2016 Covered California Data, 2016 Product Prices for all Health Insurance Companies.

- California Health and Benefit Exchange, 2015 Covered California Data, 2015 Active Member Profiles, June 2015.

- California Department of Health Care Services, Medi-Cal Managed Care Enrollment Reports, November 2015.

- State of California, Department of Health Care Services, Medical Certified Eligibles, Summary Pivot Table by County, Most Recent 24 Months, December 2015.

- California Department of Managed Health Care, Enrollment Summary Report - 2014.

- California Department of Insurance, Health Insurance Covered Lives Report, December 31, 2014.

- Centers for Medicare & Medicaid Services, Medicare Advantage/Part D Contract and Enrollment Data, Monthly Enrollment by Contract/Plan/State/County, December 2015.

- Centers for Medicare & Medicaid Services, State County Penetration Data for Medicare Advantage, December 2015.

- Kaiser Family Foundation, State Health Facts on Health Costs & Budgets, http://kff.org/state-category/health-costs-budgets/, accessed on January 13, 2016.

Publicly Available Documents:

- Centene Corporation, 10-Q for period ending September 30, 2015.

- Centene Corporation, 10-K for period ending December 31, 2014.

- Health Net, Inc., 10-Q for period ending September 30, 2015.

- Dafny, L., Duggan, M., & Ramanarayanan, S. 2012. Paying a Premium on Your Premium? Consolidation in the US Health Insurance Industry. *American Economic Review*, 102(2): 1161–1185.

- Wholey, D., Feldman, R., Christianson, J., & Engberg, J. 1996. Scale and scope economies among health maintenance organizations. *Journal of Health Economics*, 15(6): 657-684.

- Wu, V. 2009. Managed care's price bargaining with hospitals. *Journal of Health Economics*, 28(1): 350-360.

- California Department of Health Care Services, Medi-Cal Managed Care Program Fact Sheet, November 2014.

Exhibit 4A
Medi-Cal Managed Care Operations for Centene and Health Net[1]
2015

Note: [1]Health Net operations report those by all Health Net companies combined, including Health Net Life Insurance Company, Health Net of California, Inc., and Health Net Community Solutions, Inc., where applicable.

Source: California Department of Health Care Services, Medi-Cal Managed Care Enrollment Reports, November 2015.

Exhibit 4B
Covered California (Health Insurance Exchange) Operations for Health Net[1]
2015

Note: [1] Health Net operations report those by all Health Net companies combined, including Health Net Life Insurance Company, Health Net of California, Inc., and Health Net Community Solutions, Inc., where applicable.

Source: California Health and Benefit Exchange, 2015 Covered California Data, 2015 Active Member Profiles, June 2015, sheet "Product By Region".

Exhibit 4C
Small Group Insurance Operations for Health Net[1]
2015

Note: [1]Health Net operations report those by all Health Net companies combined, including Health Net Life Insurance Company, Health Net of California, Inc., and Health Net Community Solutions, Inc., where applicable.

Source: Confidential Health Net Data.

Exhibit 4D
Large Group Insurance Operations for Health Net[1]
2015

Note: [1]Health Net operations report those by all Health Net companies combined, including Health Net Life Insurance Company, Health Net of California, Inc., and Health Net Community Solutions, Inc., where applicable.

Source: Confidential Health Net Data.

Exhibit 5A
Centene's Health Insurance Exchange Operations
Total Enrollment and Price Position
Individual Insurance

2014 - 2016

State	Share of Centene's Rating Regions in which it is the Lowest or Second Lowest Priced Issuer		
	2014	2015	2016
(1)	(2)	(3)	(4)
	(Percent)		
Arkansas	0.0 %	100.0 %	85.7 %
Florida	33.3	33.3	66.7
Georgia	66.7	100.0	100.0
Illinois	-	0.0	100.0
Indiana	33.3	70.0	25.0
Massachusetts	0.0	14.3	0.0
Mississippi	100.0	66.7	100.0
Ohio	25.0	85.7	100.0
Texas	42.9	37.5	87.5
Washington	100.0	100.0	100.0
Wisconsin	-	0.0	50.0
Totals:	**46.2 %**	**60.0 %**	**66.7 %**
Total Enrollment:[1]	**74,500**	**155,600**	

Notes: [1] Enrollment figures are from Centene's 10-Q filing and are reported as of December 31, 2014 and September 30, 2015.

Pricing data for Oregon was unavailable.

Centene will also begin offering individual health insurance coverage in New Hampshire in 2016.

Sources: Pricing data are from a collection of publicly available sources, including www.Healthcare.gov, Massachusetts Health Connector, and Washington Health Benefit Exchange.

Centene Corporation 10-Q for period ending September 30, 2015, p. 20.

Exhibit 5B
Health Net's Covered California (Health Insurance Exchange) Operations[1]
Total Enrollment and Price Position
Individual Insurance

2014 - 2016

Rating Region[2]	Rating Regions in which Health Net is the Lowest or Second Lowest Priced Issuer[3]		
	2014	2015	2016
(1)	(2)	(3)	(4)
Region 15 (Los Angeles)	X	X	X
Region 16 (Los Angeles)	X	X	X
Region 17 (Inland Empire)	X	X	X
Region 18 (Orange)	X	X	X
Region 19 (San Diego)	X	X	X
Totals:	**5**	**5**	**5**
Total Enrollment:[4]	**237,000**	**267,000**	

Notes: [1] Health Net operations and enrollment reported by all Health Net companies combined, including Health Net Life Insurance Company, Health Net of California, Inc., and Health Net Community Solutions, Inc., where applicable.

[2] Only rating regions in which Health Net had at least 1,000 members in 2015 are displayed.

[3] Based on data produced by the California Health and Benefit Exchange. An "X" denotes that Health Net's Silver Plan sold to a 40 year-old individual is the lowest or second lowest priced Silver Plan available in the rating region.

[4] Enrollment figures are from Health Net's 10-K and 10-Q filings and are reported as of December 31, 2014 and September 30, 2015.

Sources: California Health and Benefit Exchange, 2014-2016 Covered California Data, 2014-2016 Product Prices for all Health Insurance Companies.

Health Net, Inc., 10-Q for period ending September 30, 2015, p. 49.

Health Net, Inc., 10-K for period ending December 31, 2014, p. 76.

Exhibit 6A
California Insurance Enrollment and Shares
By Carrier
Medi-Cal

Carrier	Medi-Cal[1] Enrolled	Share of Medi-Cal Managed Care	Share of Medi-Cal Eligible[2]
(1)	(2)	(3)	(4)
	------(Count)-----	----------(Percent)----------	
L.A. CARE	1,832,424	18.1 %	14.3 %
HEALTH NET[3]	**1,482,308**	**14.6**	**11.5**
INLAND EMPIRE HEALTH PLAN	1,094,746	10.8	8.5
CALOPTIMA	783,079	7.7	6.1
ANTHEM BLUE CROSS	752,869	7.4	5.9
PARTNERSHIP HEALTH PLAN OF CA	563,434	5.6	4.4
MOLINA HEALTHCARE[4]	450,456	4.4	3.5
CENTRAL CALIFORNIA ALLIANCE FOR HEALTH	340,762	3.4	2.7
CALVIVA HEALTH[5]	**335,810**	**3.3**	**2.6**
HEALTH PLAN OF SAN JOAQUIN	320,389	3.2	2.5
COMMUNITY HEALTH GROUP	264,639	2.6	2.1
ALAMEDA ALLIANCE FOR HEALTH	257,285	2.5	2.0
SANTA CLARA FAMILY HEALTH	255,119	2.5	2.0
KERN FAMILY HEALTH	218,750	2.2	1.7
GOLD COAST HEALTH PLAN	202,217	2.0	1.6
CA HEALTH & WELLNESS (CENTENE)	**184,193**	**1.8**	**1.4**
CENCAL	173,370	1.7	1.3
CONTRA COSTA HEALTH PLAN	172,568	1.7	1.3
SAN FRANCISCO HEALTH PLAN	131,392	1.3	1.0
KAISER PERMANENTE	131,179	1.3	1.0
HEALTH PLAN OF SAN MATEO	113,202	1.1	0.9
CARE 1ST HEALTH PLAN	71,831	0.7	0.6
Other Carriers[6]	853	0.0	0.0
Totals:	**10,132,875**	**100 %**	**78.8 %**
Total Medi-Cal Eligible:	**12,858,756**		

Notes: [1] Medi-Cal enrollment as of November 2015.

[2] Total Medi-Cal eligible based on latest available (August 2015) Medi-Cal Certified Eligibles from California Department of Health Care Services.

[3] Health Net operations and enrollment reported by all Health Net companies combined, including Health Net Life Insurance Company, Health Net of California, Inc., and Health Net Community Solutions, Inc., where applicable.

[4] Health Net is a subcontractor to Molina Healthcare (the direct contractor) in San Bernardino and Riverside counties and manages approximately 12,400 beneficiaries as of November 2015.

[5] CalViva Health's Medi-Cal Managed Care programs are administered by Health Net.

[6] Other Carriers include all carriers with a share of Medi-Cal Managed care enrollees less than 0.5%.

Source: California Department of Health Care Services, Medi-Cal Managed Care Enrollment Reports, November 2015.

State of California, Department of Health Care Services, Medical Certified Eligibles, Summary Pivot Table by County, Most Recent 24 Months, December 2015.

Exhibit 6B
California Insurance Enrollment and Shares
By Carrier
Individual Insurance

Carrier	Individual Insurance[1]			
	DMHC[2]	CDI[3]	Total	Share
(1)	(2)	(3)	(4)	(5)
	(Count)			(Percent)
ANTHEM BLUE CROSS	564,197	164,341	728,538	33.4 %
BLUE SHIELD OF CALIFORNIA	503,901	55,629	559,530	25.6
KAISER PERMANENTE	504,730	0	504,730	23.1
HEALTH NET	**179,085**	**57,683**	**236,768**	**10.8**
CIGNA	2	64,180	64,182	2.9
TIME INS. CO.	0	39,290	39,290	1.8
CHINESE COMMUNITY HEALTH PLAN	12,795	0	12,795	0.6
SHARP HEALTH PLAN	11,781	0	11,781	0.5
Other Carriers[4]	12,151	13,169	25,320	1.2
Totals:	**1,788,642**	**394,292**	**2,182,934**	**100 %**

Notes: [1] Represents most recent available data through December 31, 2014.

[2] Represents data from the California Department of Managed Health Care. Includes Individual, PPO Individual, and POS Individual.

[3] Represents data from the California Department of Insurance. Includes PPO, POS, EPO, FFS, HDHP, and Other.

[4] Other Carriers include all carriers with a share of individual insurance less than 0.5%.

Source: California Department of Managed Health Care, Enrollment Summary Report - 2014.

California Department of Insurance, Health Insurance Covered Lives Report, December 31, 2014.

Exhibit 6C
California Insurance Enrollment and Shares
By Carrier
Small Group Insurance

Carrier	Small Group Insurance[1]			
	DMHC[2]	CDI[3]	Total	Share
(1)	(2)	(3)	(4)	(5)
	(Count)			(Percent)
KAISER PERMANENTE	665,076	843	665,919	31.5 %
ANTHEM BLUE CROSS	380,780	116,470	497,250	23.5
BLUE SHIELD OF CALIFORNIA	187,851	224,813	412,664	19.5
HEALTH NET	**161,899**	**81,154**	**243,053**	**11.5**
AETNA	144,721	111	144,832	6.9
UNITEDHEALTHCARE	34,583	45,974	80,557	3.8
WESTERN HEALTH ADVANTAGE	28,004	0	28,004	1.3
SHARP HEALTH PLAN	12,254	0	12,254	0.6
Other Carriers[4]	10,786	17,336	28,122	1.3
Totals:	**1,625,954**	**486,701**	**2,112,655**	**100 %**

Notes: [1] Represents most recent available data through December 31, 2014.

[2] Represents data from the California Department of Managed Health Care. Includes Small Group Commercial, PPO Small Group, and POS Small Group.

[3] Represents data from the California Department of Insurance. Includes PPO, POS, EPO, FFS, HDHP, and Other.

[4] Other Carriers include all carriers with a share of small group insurance less than 0.5%.

Source: California Department of Managed Health Care, Enrollment Summary Report - 2014.

California Department of Insurance, Health Insurance Covered Lives Report, December 31, 2014.

Exhibit 6D
California Insurance Enrollment and Shares
By Carrier
Large Group Insurance

Carrier	Large Group Insurance[1]			
	DMHC[2]	CDI[3]	Total	Share
(1)	(2)	(3)	(4)	(5)
	(Count)			(Percent)
KAISER PERMANENTE	4,629,161	3,882	4,633,043	47.7 %
BLUE SHIELD OF CALIFORNIA	1,452,918	15,823	1,468,741	15.1
ANTHEM BLUE CROSS	1,235,966	135,419	1,371,385	14.1
UNITEDHEALTHCARE	398,140	133,576	531,716	5.5
AETNA	259,385	218,723	478,108	4.9
HEALTH NET	**418,992**	**24,199**	**443,191**	**4.6**
CIGNA	189,893	244,182	434,075	4.5
WESTERN HEALTH ADVANTAGE	77,159	0	77,159	0.8
SHARP HEALTH PLAN	61,173	0	61,173	0.6
EPIC HEALTH PLAN	44,348	0	44,348	0.5
Other Carriers[4]	105,699	54,691	160,390	1.7
Totals:	**8,872,834**	**830,495**	**9,703,329**	**100 %**

Notes: [1] Represents most recent available data through December 31, 2014.

[2] Represents data from the California Department of Managed Health Care. Includes Large Group Commercial, PPO Large Group, and POS Large Group.

[3] Represents data from the California Department of Insurance. Includes PPO, POS, EPO, FFS, HDHP, and Other.

[4] Other Carriers include all carriers with a share of large group insurance less than 0.5%.

Source: California Department of Managed Health Care, Enrollment Summary Report - 2014.
California Department of Insurance, Health Insurance Covered Lives Report, December 31, 2014.

Exhibit 6E
California Insurance Enrollment and Shares
By Carrier
ASO Insurance

Carrier	ASO Insurance[1]			
	DMHC[2]	CDI[3]	Total	Share
(1)	(2)	(3)	(4)	(5)
	(Count)			(Percent)
ANTHEM BLUE CROSS	224,232	2,137,565	2,361,797	37.0 %
CIGNA	0	1,557,973	1,557,973	24.4
UNITEDHEALTHCARE	0	842,104	842,104	13.2
BLUE SHIELD OF CALIFORNIA	803,160	0	803,160	12.6
AETNA	0	664,255	664,255	10.4
KAISER PERMANENTE	0	141,044	141,044	2.2
Other Carriers[4]	4,248	11,729	15,977	0.3
Totals:	**1,031,640**	**5,354,670**	**6,386,310**	**100 %**

Notes: [1] Represents most recent available data through December 31, 2014.

[2] Represents data from the California Department of Managed Health Care.

[3] Represents data from the California Department of Insurance.

[4] Other Carriers include all carriers with a share of ASO insurance less than 0.5%.

Source: California Department of Managed Health Care, Enrollment Summary Report - 2014.

California Department of Insurance, Health Insurance Covered Lives Report, December 31, 2014.

Exhibit 6F
California Insurance Enrollment and Shares
By Carrier
Medicare

Carrier	Medicare[1]					
	Medicare Advantage[2]	Prescription Drug Plans	Dual and Other[3]	Total	Share of Medicare Plans	Share of Medicare Eligible[4]
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	(Count)				(Percent)	
KAISER PERMANENTE	1,037,408	0	963	1,038,371	23.6 %	18.2 %
UNITEDHEALTH GROUP	341,595	441,915	0	783,510	17.8	13.8
CVS HEALTH	0	521,845	0	521,845	11.8	9.2
HUMANA	65,707	418,539	0	484,246	11.0	8.5
BLUE SHIELD OF CALIFORNIA	164,326	90,348	8,427	263,101	6.0	4.6
ANTHEM BLUE CROSS	76,980	130,033	8,976	215,989	4.9	3.8
HEALTH NET[5]	**166,013**	**0**	**22,124**	**188,137**	**4.3**	**3.3**
SCAN HEALTH PLAN	160,607	0	0	160,607	3.6	2.8
RITE AID	0	155,776	0	155,776	3.5	2.7
AETNA	24,603	91,538	0	116,141	2.6	2.0
WELLCARE HEALTH PLANS	32,219	55,606	0	87,825	2.0	1.5
EXPRESS SCRIPTS	0	72,134	0	72,134	1.6	1.3
GRANITE CREEK FLEXCAP	0	61,648	0	61,648	1.4	1.1
AHMC CENTRAL HEALTH	29,384	0	0	29,384	0.7	0.5
CIGNA	29	28,276	0	28,305	0.6	0.5
INLAND EMPIRE HEALTH PLAN	932	0	22,034	22,966	0.5	0.4
INTERVALLEY HEALTH PLAN	21,828	0	0	21,828	0.5	0.4
Other Carriers[6]	61,839	30,216	61,779	153,834	3.5	2.7
Total:	**2,183,470**	**2,097,874**	**124,303**	**4,405,647**	**100 %**	**77.4 %**
Total Medicare Eligible:	**5,694,859**					

Notes: [1] Medicare enrollment as reported in December 2015.

[2] Medicare Advantage includes Special Needs Plans.

[3] Dual and Other includes Dual-Eligible, Health Care Prepayment, and Medical Savings Account plans.

[4] Total Medicare eligible based on reported Medicare eligible for California.

[5] Health Net operations and enrollment reported by all Health Net companies combined, including Health Net Life Insurance Company, Health Net of California, Inc., and Health Net Community Solutions, Inc., where applicable.

[6] Other Carriers include all carriers with a share of Medicare plans less than 0.5%.

Source: Centers for Medicare & Medicaid Services, Medicare Advantage/Part D Contract and Enrollment Data, Monthly Enrollment by Contract/Plan/State/County, December 2015.

Centers for Medicare & Medicaid Services, State County Penetration Data for Medicare Advantage, December 2015.