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CALIFORNIA REINVESTMENT COALITION

April 25, 2016

The Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814

Re: *Concerns regarding the proposed merger of Aetna and Humana*

Dear Commissioner Jones,

The California Reinvestment Coalition (CRC) writes to express concerns about the proposed merger of Aetna and Humana. Thank you for agreeing to hold hearings on the matter. We urge you to make findings consistent with the concerns raised by advocates, and recommend that this merger not be approved unless substantial Undertakings or Conditions are in place in order to ensure that the companies make substantial affordable housing and community development investments that promote better health outcomes for California policy holders and their communities.

CRC is the largest statewide community reinvestment coalition in the country, with over 300 member organizations across California that provide services to tens of thousands of low-income residents. We seek to effectively challenge the root causes of economic inequality affecting low-income, racial minority, rural, and immigrant households. CRC members include affordable housing developers, community development financial institutions, housing counseling agencies, small business technical assistance providers, legal services agencies, and other community based organizations.

The California Reinvestment Coalition is leading a statewide effort to build a fair and inclusive economy that meets the needs of communities of color, low-income communities, and others who have been marginalized and historically underserved. We use strategic advocacy that leads banks and other corporations to provide investments and financial services that expand access to housing that is affordable, entrepreneurial opportunities, good jobs, and other tools to create and sustain household and community wealth.

CRC commends and thanks the Commissioner and the Department for the recent decision to condition approval of the Centene/HealthNet merger on the company’s commitments to COIN-related investments and investments to support job creation. We urge you to use your full authority to encourage similar, yet stronger commitments as part of this merger in order to ensure protection of consumers and the public.

We here offer evidence that the companies have had NO participation in the California Department of Insurance COIN CDFI Tax Credit Investment Program, and only minimal participation in the COIN program and other investment opportunities more broadly that would support a "double bottom line" of sound investing that meets community needs. Further, there is no indication whether either of the two companies have utilized diverse fund managers who may have a greater understanding of, and experience with, the very communities most in need of investment and improved health outcomes.

As such, we urge you to recommend disapproval of this proposed merger as contrary to the public interest and the health outcomes of California communities, unless the companies will make a substantial commitment to "double bottom line" investments that are safe and sound, that support affordable housing and economic development in our state, and that contribute to strengthening the housing and health of the consumers who are impacted by these two companies. The overwhelming amount of research now connecting health to affordable housing should not be overlooked in this merger.

We have a number of concerns with the proposed transaction:

Consumer groups raise a multitude of concerns. CRC supports the concerns raised by Health Access and others, delineating a number of issues relating to actual (and potential) harmful impacts on consumers by the companies (and the proposed merger). Such issues include concerns regarding excessive executive pay (see below), lessened competition, high levels of complaints, enforcement actions, low quality ratings, inadequate local control, improper rate increases, and poor investment in care.

The investment policies of Aetna and Humana ignore the connection between affordable housing, community development and positive health outcomes. Specifically, the companies fail to adequately take advantage of the COIN program and other opportunities to make safe and sound investments that also provide a public or community benefit to California communities. Insurance companies collect billions of dollars in premiums, and must invest these dollars in safe and sound investments. But insurers have an important opportunity, and, we would argue, duty, to not only invest in a fiscally responsible manner, but to do so in projects and initiatives that help build affordable housing, promote economic development and job creation, and otherwise revitalize communities.

This transaction is occurring in the context of a severe affordable housing crisis in California. According to a recent report from the California Housing Partnership Corporation, more than 1.5 million low income households in California do not have access to an affordable home, and that fully 66% of state and federal investment in affordable homes has disappeared since 2008.[1]

And there is a clear and strong connection between housing and health. In a recent review of relevant research and literature, the Center for Housing Policy explored no less than ten pathways through which affordable housing influences the health of people of all ages. This report shows that providing affordable housing is a valuable strategy to support and improve

[1] California Housing Partnership Corporation, "Confronting California's Rent and Poverty Crisis: A Call for State Reinvestment in Affordable Homes," April 12, 2016.

well-being and that it is important for policymakers to understand that safe, adequate, and affordable housing is not just shelter but also an investment in good health for low-income households.[2]

Additionally, in a large scale study conducted in 2009 in Los Angeles County, researchers compared the costs of providing supportive housing to homeless people to the costs that homeless persons with similar characteristics imposed on government resources. The researchers found that the public cost savings of providing supportive housing was $1,190 per person per month.[3]

The Robert Woods Johnson Foundation has also documented the extensive linkages between quality, affordable housing and health in the context of the physical conditions within homes, conditions in neighborhoods, and housing affordability. In reviewing numerous studies, the Foundation noted that poor quality and inadequate housing contributes to health problems such as infectious and chronic diseases, injuries and poor childhood development. Further, the social, physical and economic characteristics of neighborhoods have been increasingly shown to affect short term and long term health quality and longevity. Additionally, the shortage of affordable housing relegates low income households to unsafe, overcrowded neighborhoods, and places a financial strain on families that leaves them unable to meet other basic needs such as health care and nutrition.[4]

PolicyLink has made the connection between quality housing and health as far back as 2007, and has highlighted the disproportionate impact that poor housing and poor health outcomes have on people of color, low income residents, and their communities. In a 2007 report, PolicyLink noted "We know that residents of low-income communities and communities of color suffer disproportionately from negative environmental factors, including …poorly maintained homes with mold," lead and other adverse health indicators. And "because so many American communities are informally but thoroughly segregated by race as well as by income, racial and ethnic health disparities need to be seen as a place-based issue, one where improving community conditions could make a real difference. Segregation and racial isolation lead to concentrated poverty, lower individual incomes, and poor air quality."[5]

In the midst of the state's profound affordable housing crisis and its clear and substantial impact on the health of California and Californians, in particular low and moderate income and of color people and neighborhoods, the California Department of Insurance through its COIN program

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[2] Nabihah Maqbool, Janet Viveiros, and Mindy Ault "The Impacts of Affordable Housing on Health: A Research Summary," Center for Housing Policy: Insights from Housing Policy Research, April 2015, available at: http://www2.nhc.org/HSGandHealthLitRev_2015_final.pdf

[3] Lisa Sturtevant and Janet Viveiros, "How Investing in Housing Can Save on Health Care: A Research Review and Comment on Future Directions for Integrating Housing and Health Services," National Housing Conference's Housing + Health Innovations in the Field, January 2016, p. 7.

[4] Paula Braveman, M.D., M.P.H., Mercedes Dekker, M.P.H., Susan Egerter, Ph.D., Tabashir Sadegh-Nobari, M.P.H. (all with University of California, San Francisco Center on Disparities in Health) and Craig Pollack, M.D., M.H.S. (Johns Hopkins School of Medicine), "Exploring the Social Determinants of Health," Robert Woods Johnson Foundation, Issue Brief 7, May, 2011.

[5] Judith Bell and Victor Rubin, "Why Place Matters: Building a Movement for Healthy Communities," PolicyLink, 2007.

provides a ready-made and simple pathway for insurance companies to make safe and sound investments that also help address California's critical housing and other community development needs. In fact, "COIN was established in 1996 at the request of the insurance industry as an alternative to state legislation that would have required insurance companies to invest in underserved communities, similar to the federal Community Reinvestment Act (CRA) that applies to the banking industry."[6]

But what have Aetna and Humana done to help meet the needs of California's low to moderate income and rural communities?

COIN data suggest Aetna and Humana are doing a poor job investing in Low and Moderate Income (LMI) communities as a means of fostering positive health outcomes. According to the most recent California Department of Insurance report**:**

With regard to making investments that "provide a positive environmental or social impact to low-to-moderate income (LMI) households or areas, as well as rural and reservation based communities in California"….

- Aetna reported ZERO participation in the state COIN CDFI Tax Credit Investment Program, going all the way back to 1997;

- Humana reported ZERO participation in the state COIN CDFI Tax Credit Investment Program, going all the way back to 1997.

- Aetna reported ZERO "High Impact Holdings;" and a meager $275,553 in "2012 COIN Qualified Holdings," against a whopping $1.9 billion in California premiums in 2012.

- Humana reported ZERO "High Impact Holdings," and ZERO "COIN Qualified Holdings," against $254 million in California premiums in 2012.[7]

This raises the question - have Aetna or Humana made an adequate level of "double bottom line" investments since 2012? If not, why not? The Commissioner should consider and review the response to this question before finalizing any report or recommendations on this proposed merger. We understand that the California Department of Insurance has put out a data call asking for information about any such investments since 2012. If the companies have not responded to this data call as of yet, the Commissioner should ask that they do so in the short term, and before the proposed merger is finalized.

Big profits and outsized executive compensation. In 2014, Aetna collected over $2 billion in profits, while Humana collected over $1 billion. Despite providing problematic care to California policyholders and failing to adequately invest premiums in California's affordable housing and community development infrastructure, the CEOs of these companies were paid handsomely.

[6] COIN "About Us," available at: http://www.insurance.ca.gov/0250-insurers/0700-coin/05-About-Us/
[7] Insurer Investments and 2012 Data Call Results available at: http://www.insurance.ca.gov/0250-insurers/0700-coin/upload/2012-Insurer-COIN-Holdings.pdf

According to SEC filings, Aetna's CEO Mark Bertolini earned $15 million in 2014 (or, $57,745 per day), while Bruce Broussard of Humana earned $13.1 million (or, $50,319 per day). What does this say about the managerial resources of these companies? Do oversized CEO salaries result in higher costs or fewer health services to consumers, and less impactful investment in communities?

Centene/HealthNet Undertakings as Model. The primary question we raise in the context of this transaction is whether these companies will make a clear, substantial, and public commitment to participate in the state COIN program, in particular the CDFI Tax Credit Investment Program, as well as other double bottom line investments, so as to make safe and sound investments that will also contribute to the state's efforts to meet critically needed affordable housing, which also has demonstrable impacts on Californian's health care needs?

The Centene/HealthNet approval by the Department of Insurance provides a helpful and welcome framework, at least as far as investments in job creation and COIN are concerned. Again, we applaud the Commissioner for overseeing a process that resulted in strong community Undertakings relating to investments. Specifically, Centene/HealthNet committed to $200 million in investments in job creation, the development of a multi-building Service Center in a distressed area of California, the employment of at least 300 individuals, and $30 million in COIN-related investments in health care facilities and services for Low and Moderate Income residents.

The Commissioner should here urge a commitment from these parties to similar community development investments. Yet as this merger is more problematic, the concerns greater, and the companies larger, we urge the Commissioner to go farther in urging Aetna/Humana to commit to substantial job creation in underserved communities in California, to greater participation in the CDFI Tax Credit Program, and to larger investments in affordable housing and community development activities that lead to better health outcomes, whether those investments come through COIN, or otherwise.

Conclusion. We urge the Commissioner to engage the companies and work to build off of the Undertakings in the Centene/HealthNet merger. We note however that the Centene/HealthNet merger represents a mere fraction of the value and the premiums associated with this Aetna/Humana proposed merger.

We urge the companies to make a significant commitment, commensurate with their size, to invest in:

- Jobs and economic development in distressed communities, perhaps by investing in a fund managed or overseen by the California Department of Insurance;
- Affordable housing in California, including through direct investments in affordable housing projects; and
- Substantial participation in COIN, the CDFI Tax Credit Program in particular.
- The companies should develop a robust community investment policy and program, and make a commitment to work with Diverse Fund Managers who are familiar with community development investments, affordable housing, and the California market in order to achieve these goals.

In the absence of a substantial investment commitment, we urge the Commissioner to highlight the deficiencies in this merger application and to declare that this merger proposal is contrary to the public interest. We hope that it does not come to that, and that Aetna/Humana will take responsibility to improve the provision of health care services to California policy holders, and to substantially increase investments in job creation, affordable housing, and community development for the benefit of low and moderate income communities in our state.

Thank you for the opportunity to comment. If you have any questions, feel free to contact Kevin Stein at (415) 864-3980.

Very Truly Yours,

Kevin Stein
Associate Director