

BLUE SHIELD OF CALIFORNIA ACQUISITION OF GEMCARE HEALTH PLAN FREQUENTLY ASKED QUESTIONS (FAQ)

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BACKGROUND

As the health insurance market continues to evolve, Blue Shield of California remains committed to providing access to quality health care at an affordable price. Consistent with our mission, we are pleased to announce Blue Shield's agreement to acquire GEMCare Health Plan, a mid-size Bakersfield-based plan with a reputation for high-quality, affordable products in the commercial and Medicare markets.

With the planned acquisition, Blue Shield will broaden total membership and provider networks and add Medicare members in Kern, San Luis Obispo and Santa Barbara counties for the first time. The plan has 8,000 Medicare members and over 12,000 commercial members and operates in Kern County as "GEMCare Health Plan" and on the California Central Coast (San Luis Obispo, Northern Santa Barbara and Ventura counties) as "Physicians Choice Health Plan."

Expanding into new markets aids Blue Shield's mission of increasing access to quality, affordable health care for all Californians.

This FAQ provides details about what to expect from the transition and how the acquisition of GEMCare will help make Blue Shield a better health plan.

PURPOSE OF THE GEMCARE HEALTH PLAN ACQUISITION

Why is Blue Shield of California acquiring GEMCare?

Acquiring GEMCare Health Plan will enable Blue Shield to broaden its presence in the Bakersfield and Central Coast areas and increase membership. Expanding into new markets is good for the company and its members, who will benefit from enhanced provider networks and innovative programs and services.

Why is this acquisition happening now?

This is a dynamic and exciting time for the healthcare industry in California, with the 2014 launch of the nation's largest exchange marketplace. In order to stay true to its mission, Blue Shield needs a strong membership base and provider network.

How does acquiring GEMCare Health Plan aid Blue Shield in fulfilling its affordability mission?

By making strategic investments in acquisitions, Blue Shield increases its membership base, provider network and broker relationships. The acquisition agreement also facilitates new patient-centered medical homes and accountable care organizations, furthering improvements in quality and lowering costs.

Why is Blue Shield acquiring a Medicare plan?

Blue Shield brings 20+ years of Medicare experience to the marketplace. Expanding into a larger Medicare market brings that expertise to more Medicare beneficiaries. This is the first time Blue Shield will be serving individual Medicare members in Kern, San Luis Obispo and Santa Barbara counties.

Blue Shield's existing Medicare plans rank highly in quality. The company's Medicare Advantage Prescription Drug plan (MAPD plan) received a four-star quality award from the Centers for Medicare & Medicaid Services (CMS) for the third year in a row, and GEMCare Health Plan has also received an overall four-star rating. Blue Shield's Medicare Advantage plans for Sacramento and Ventura counties both received the 2014 Senior Choice Gold Award in recognition of their exceptional medical and Part D prescription drug benefits and value.

Why does this acquisition make sense for GEMCare Health Plan?

GEMCare Health Plan, although a successful health plan, has encountered challenges operating in a large, increasingly consolidated insurance market. Blue Shield will enhance the ability to keep pace with product development and the needs of members who require access to providers outside the company's existing service area.

Blue Shield's not-for-profit status and commitment to access to high-quality, affordable care appealed to GEMCare Health Plan, as did the company's competitive pricing and products. Blue Shield's patient-centered care model also resembles systems GEMCare Health Plan has already developed for its members.

What is the GEMCare Health Plan purchase price?

The purchase price is confidential.

When will the deal be closed?

Blue Shield entered into an agreement to acquire GEMCare Health Plan in mid-December 2013. The purchase agreement is signed and Blue Shield will now work with the appropriate state regulators for final approvals. We are hopeful that these reviews will be completed in the first quarter of 2014.

HOW THIS CHANGE WILL AFFECT BLUE SHIELD AND GEMCARE BUSINESS**How will GEMCare Health Plan integrate with existing commercial and Medicare business?**

GEMCare members will experience minimal changes. GEMCare Health Plan Medicare beneficiaries will continue to receive the same benefit plan at the same price and access to existing doctors and hospitals. Pending regulatory approval, GEMCare products will continue to be sold. Following the anticipated approval, GEMCare Health Plan members will retain employer-based coverage at current premiums until their next renewal date.

How will GEMCare Health Plan employees be affected by this acquisition?

GEMCare has 21 employees. No layoffs are anticipated at this time. Under the terms of the acquisition, all GEMCare Health Plan employees will be transferred to Managed Care Systems, a third party administrator. Blue Shield will then enter into a "transition service agreement" with Managed Care Systems until membership and health plan services can be fully integrated into Blue Shield operations. The transition is likely to be completed by January 2015.

How will Blue Shield leverage the GEMCare Health Plan network for innovative care delivery?

The existing GEMCare Medical Group network includes a National Committee for Quality Assurance-certified patient-centered medical home and maintains close collaboration with Dignity Health. This structure offers an exciting opportunity to improve clinical integration and cooperation between Blue Shield, GEMCare and Dignity to improve quality and reduce costs.

Blue Shield will build on the success of GEMCare's PCMH in other parts of California, as well as establishing accountable care organizations for both the commercial and Medicare market, in collaboration with GEMCare Medical Group and Dignity Health.

How does this acquisition change the types of services in Medicare, if any?

Current Blue Shield members will be unaffected. Services offered to GEMCare Medicare members will not change in 2014, as they will remain on GEMCare Health Plan and Physician's Choice contracts. Physician's Choice is a Central Coast-based independent medical group.

Will there be any rate increases?

GEMCare Health Plan members will retain employer-based coverage at current premiums until their next renewal date.

Will GEMCare's provider network change?

No. There will be no changes to the GEMCare Health Plan and Physician's Choice provider network as a result of this acquisition.

Will GEMCare's broker relationships change?

No. All broker agreements and sales relationships with GEMCare Health Plan will remain in place. As of the closing date, GEMCare Health Plan commercial products will no longer be offered and Blue Shield products will be available to quote.

How will Blue Shield's service area change?

In 2014, Blue Shield's service area for Medicare will broaden from 10 to 13 counties to include Kern, San Luis Obispo and Santa Barbara counties.

How is membership expanding as a result of the acquisition?

Blue Shield will acquire GEMCare Health Plan's approximately 20,000 members (8,000 Medicare/12,000 commercial). Dignity Health in Kern County employs 7,000 of the commercial members. Blue Shield will enter into a four-year agreement with Dignity Health to provide HMO health benefits to their current employees.

Who will Blue Shield compete with in Kern County?

Kaiser is the most prominent carrier in Kern County, though no Kaiser hospitals are located in Kern. Anthem Blue Cross is a major player in the region.

ADMINISTRATION, CONTRACTING AND REGULATORY IMPACT

What regulatory approvals are required?

The acquisition requires review from the California Department of Managed Health Care.

Is GEMCare retaining a Knox Keene license? Can GEMCare take risk for hospital services?

Dignity Health and GEMCare physician partners will continue to own and operate Managed Care Systems. A limited Knox-Keene license through Managed Care Systems will be obtained in order to take global risk for both hospital and physician services.

Will GEMCare's networks still remain in San Luis Obispo and Santa Maria?

Managed Care Systems will continue to administer the Physician Choice IPAs San Luis Obispo and Santa Maria.

Will there be any changes to the governance, administration, or ownership of GEMCare Medical Groups?

GEMCare Medical Group and Physician's Choice Medical Group will remain independent medical groups with a focus on network development and provider recruitment, while continuing to work with Dignity Health and Blue Shield on clinical integration. The governance and administration of both medical groups will also remain in place.