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BEFORE THE DEPARTMENT OF MANAGED HEALTH CARE  
OF THE STATE OF CALIFORNIA

In the Matter of the:  

Health Net of California, Inc.,  

Respondent.  

Enforcement Matter No.: 07-206

CONSENT AGREEMENT

This Consent Agreement is made and entered into on this 16th day of November, 2007 by and between HEALTH NET OF CALIFORNIA, INC., (Health Net) and the DEPARTMENT OF MANAGED HEALTH CARE (the Department) solely for the purpose of resolving the Department’s findings that Health Net representatives did not appropriately disclose the existence of Health Net’s bonus and incentive plan for employees in its underwriting department. Health Net’s representations occurred during the Department’s Non-Routine Medical Survey assessing its practices relating to rescission of individual health care coverage.

Health Net is a full service health care service plan, license number 933 0300, subject to the regulatory jurisdiction of the Department under the Knox-Keene Health Care Service Plan Act, Health and Safety Code, section 1340 et seq. (the Act).

In October of 2006, after receiving numerous complaints regarding rescissions of individual health care coverage, the Department initiated a Non-Routine Medical Survey to assess Health Net’s compliance with section 1389.3 of the Act. The Department

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conducted interviews with Health Net management, staff, and counsel and reviewed key
documents including policies, procedures, underwriting guidelines, and computer
programs. On October 17, 2007, representatives of the Department’s Survey Team
conducted initial interviews of Health Net representatives and made inquiries whether
incentives for employees in its underwriting department were tied to the number of
recessions completed. Health Net representatives affirmatively represented to the Survey
Team that no such incentives existed. On November 6, 2007, the Survey Team again
questioned Health Net representatives regarding bonuses, incentives, or additional
compensation to its employees based on either the number of rescissions completed or
the cost savings to Health Net arising from rescissions. Health Net representatives again
failed to provide full information regarding these issues.

On November 8, 2007, following an Order requiring Health Net to produce Health
Net’s Senior Risk Analyst’s Performance Evaluations and make them public in the Bates
v. Health Net matter the Plan offered this information to the Department.

The Performance Evaluations disclosed that Barbara Fowler’s compensation and
bonus structure included consideration of the overall cost savings to Health Net resulting
from pursuing misrepresentations in individual applications.

The Performance Evaluations confirm that Health Net’s Senior Risk Analyst
received a portion of her annual bonus for pursuing misrepresentations on individual
applications that saved Health Net money by avoiding payment of claims.

The Department and Health Net agree that it is in the best interests of Health Net
to enter into this Consent Agreement, and thereby settle the above-referenced findings
that Health Net failed to appropriately disclose the existence of its bonus and incentive
plan to the Department in violation of section 1386(b)(7) of the Act. This Consent
Agreement is limited solely to Health Net’s misrepresentations to the Department and has
no effect on any other aspect of the Non-Routine Medical Survey currently underway, or
any other pending enforcement matters alleging violations of the Act.
NOW, THEREFORE, the Department of Managed Health Care and Health Net of California mutually agree to enter into this Consent Agreement, as follows:

A. Health Net shall not award performance bonuses, incentives, or any other compensation that is tied in any way to the number of rescissions completed during a certain time period, and/or the resulting cost savings to Health Net.

B. Health Net acknowledges the Department's findings and agrees to pay an administrative penalty in the amount of $1 million, via electronic payment, to settle this matter.

Dated: November 16, 2007

By: Patricia Sturdevant
   PATRICIA STURDEVANT
   Assistant Chief Counsel
   Department of Managed Health Care

By: [Signature]
   Stephen Lynch
   President
   Health Net of California