Introducing Producer Service Fee to fully insured employer groups with 101+ eligible employees

Effective October 1, 2018, Blue Shield of California will be transitioning from a commission-based payment model to a Producer Service Fee payment model for broker compensation. The Producer Service Fee will commonly be referred to as PSF.

This will apply to large groups with 101+ eligible employees, with fully insured coverage filed with the Department of Managed Health Care (DMHC). This new model will not apply to Individual and Family Plans (IFP), Small Group Business (SGB), senior plans, or specialty (dental, vision, and life) products.

Why is Blue Shield making this change?

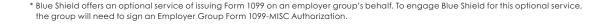
This model aligns with Blue Shield's strategy to reduce administrative costs so that Blue Shield can invest in innovation to create a high-quality healthcare system that is sustainably affordable. This payment model more accurately reflects the relationship between you and your producer.

What is not changing

- The critical value of your relationship with Blue Shield.
- The level of service that you experience.
- · Your monthly invoice will look the same and will include a notation that the total billed amount will include the PSF.
- Our 2% Pledge.

What is changing

- Similar to what you do today, you will negotiate Producer Service Fees directly with your producer.
- There will be updated language regarding PSF within the Group Service Agreement (GSA) and on the billing invoice.
- Your organization may have the responsibility for tax reporting related to the payment of the PSF to the producer.
 Consult your producer or tax adviser. Upon request, Blue Shield will make Form 1099 data available to you annually in January.*
- Form 5500 will be updated to reflect PSF payments along with any applicable commission payments.





Producer Service Fee (PSF) Employer group frequently asked questions (FAQs)

September 2018

- 1. Q. Why is Blue Shield changing the payment model for producer compensation?
 - A. Part of our mission is to lower the cost of quality health care and make it sustainably affordable. There is increased pressure from the regulatory and market environment for insurers to reduce administrative costs. Reducing our administrative costs allows Blue Shield to invest in innovative solutions to further our mission of ensuring access to high-quality, affordable health care.
- 2. Q. When will this change take effect?
 - A. For all new and renewing fully insured groups with 101+ eligible employees, this change will take effect on October 1, 2018.
- 3. Q. How will service fees be paid under the new PSF payment model?
 - A. The total billed amount for the employer group will include the Producer Service Fee. Blue Shield will collect the total amount due from the employer group and pay the service fee to the producer.
- 4. Q. What is the difference between service fees and commission?
 - A. Generally, commission refers to a payment made by Blue Shield to the producer for services provided by the producer on Blue Shield's behalf.
 - Service fee refers to a payment made by the employer group for services provided by the producer on the group's behalf.
- 5. Q. Is there an additional agreement that producers and employer groups need to sign because of PSF?
 - A. Producers will negotiate service fees directly with the employer group. Producers and employer groups are not required to sign any additional agreements with Blue Shield to participate in the PSF payment model.
- 6. Will there be specific language about the service fee on all billing invoices or only those that are affected by this new arrangement?
 - A. Language will be included only on the invoices for groups that have the PSF model. The PSF amount will not be broken out separately at this time. The PSF is included in the total billed amount due, but it is not a component of the premium.

The following language will be added to the section titled "Miscellaneous Credits and Debits" on the billing invoice: "The total amount due includes the premium due to Blue Shield, as well as the PSF owed to your producer as outlined in your Group Service Agreement. Please refer to your Group Service Agreement for details."

- 7. Q. Will a formal agreement between the employer group and the producer be required for Blue Shield to pay the service fee to the producer?
 - A. The agreement regarding the service fee is between the employer group and the producer. The producer must be appointed by Blue Shield in order for Blue Shield to collect and pass on the service fee.
- 8. Q. Is Blue Shield the only health plan adopting this payment model?
 - A. No. Health plans have already adopted the PSF payment model in the majority of states.

- 9. Will Blue Shield charge for the billing, collection, and payment of service fees?
 - A. No. Blue Shield will administer this service without charge.
- 10. Q. Does this new arrangement apply to specialty (dental, vision, and life) products?
 - A. No. The PSF affects compensation payment on DMHC medical products only.
- 11. Q. Does this change affect self-funded ASO or Shared Advantage® plans?
 - A. No. The new PSF applies to fully insured medical plans only.
- 12. Q. Does this change Blue Shield's contract with the employer group?
 - A. Yes. This change will become part of the Group Service Agreement (GSA) between each employer group and Blue Shield. Producer Service Fee language will be included in any GSA that includes products subject to PSF.
- 13. \mathbf{Q} . Who is responsible for providing the producer with Form 1099?
 - A. The employer group will be responsible for following IRS guidelines in issuing their producer(s) a completed Form 1099. If applicable, Blue Shield will make data available to the employer group to assist them in submitting such information to the IRS, if necessary.

Blue Shield will not file Form 1099 data with the IRS on behalf of the employer group. An employer group should discuss this process with their producer and determine if they need to issue Form 1099. In some circumstances, a producer may be exempt from Form 1099.

An employer group may request that Blue Shield issue Form 1099 to a producer on the employer group's behalf. In order for Blue Shield to do this, a completed Producer Service Fee Form 1099 Authorization must be submitted to Blue Shield.

- 14. Q. When will employer groups receive 1099 data from Blue Shield?
 - A. If necessary, Blue Shield will provide each employer group with the preceding calendar year's data in January.
- 15. **Q.** What is a 5500 Report?
 - A. The Form 5500, Annual Return/Report of Employee Benefit Plan, is the form used to file an employee benefit plan's annual information return with the Department of Labor.
- 16. Q. Will the 5500 information that Blue Shield provides to employer groups include service fees?
 - A. Yes. Service fees will be included in the 5500 information on Schedule C/Other that Blue Shield provides to the employer group. The employer group will continue to be responsible for filing the 5500 Form with the Department of Labor.
- 17. Q. Does the PSF need to be renegotiated annually?
 - A. The PSF will continue as initially negotiated between the producer and the employer group unless one of the following occurs: an employer group notifies Blue Shield of a change in service fees; the employer group's coverage terminates; or a new broker of record is appointed. Employer groups shall notify Blue Shield of any change in service fees in writing. Payment of the total billed amount on the employer group's invoice assumes agreement to terms.