

Attachment 5
to Covered California for Small Business 2026-2028 QHP Issuer Contract
2028 Plan Year Amendment

Small Group Distribution Costs for CCSB QHP Premiums

To meet the requirements of the ACA and this contract set forth in section 6.1, this Attachment outlines a rating process that accounts for the differences in distribution costs between QHP-issued small group business sold inside Covered California and business sold directly by Contractors outside of Covered California. Covered California distribution related expenses include but are not limited to Agent and General Agency commissions, sales channel related incentive programs, establishment of sales channel related online services, sales distribution educational resources, and other channel development related efforts. For purposes of this contract, sales channel and sales channel services include but are not limited to, sales outsourcing, using a third party as a sales force, using a sales force to establish a network of customers and sell to them, ecommerce, personal selling, retail, automated retail, and direct marketing. This rating process provides a mechanism to spread these distribution cost differences to produce a single premium rate for QHPs sold inside and outside the CCSB. Subject to the Statement of Risk as discussed below, this process further enables Covered California to collect sufficient funds for distribution related expenses.

CCSB Distribution Cost Percentage for 2028 Rates: 6.75%

Annually Covered California will finalize the CCSB distribution cost percentage as noted above, and Contractor shall use the below formula to determine their expected average distribution cost across on CCSB and off CCSB and submit their final CCSB rates based on this percentage.

Composite distribution percentage for use by Contractor in rate setting =

$$\begin{aligned} & (\text{Distribution Cost Percentage for CCSB}) * (\text{Assumed \% of QHP premium to be sold on CCSB}) \\ & \quad + \\ & (\text{Contractor distribution compensation as \% of premium for non-CCSB}) * (\text{Assumed \% of QHP premium to be sold off CCSB}) \end{aligned}$$

Statement of Risk

The Contractor, not Covered California, is at risk for the assumptions used in the Contractor bid regarding what percentage of business will be on and off the CCSB. In addition, the Contractor assumes the risk for any miscalculation of the Contractor distribution costs which may include but are not limited to Agent and General Agent Compensation.

- Each Contractor is responsible for its own assumption about the percentage of QHP business sold through the CCSB. If the percentage assumption proves to be insufficient to cover the Contractor's costs, then this will be a loss to the Contractor.

Covered California is solely responsible for estimating its own distribution costs and covering any miscalculations.

- Covered California is responsible for the assumption about the distribution percentage it will charge against QHP premiums collected via the CCSB. If the distribution cost percentage is insufficient to cover Covered California's distribution costs, then this will be a loss to Covered California. If the distribution cost percentage sufficiently covers the distribution costs and results in excess funds, then this will be a gain to Covered California. The Contractor is not at risk for Covered California's assumption about Covered California's compensation levels.