Blue Shield of California’s Tax and Not-for-Profit Status

Not-for-Profit Status vs. Tax-Exempt Status
- Blue Shield’s tax-exempt status is separate from its not-for-profit status.
- The company will remain not-for-profit, regardless of the state tax exemption.
- Blue Shield became subject to federal income tax starting in 1987.
- Several Blue Cross and Blue Shield plans in other states pay state income taxes while maintaining not-for-profit status.

What Blue Shield Already Pays in Taxes
- Blue Shield pays a much higher tax rate than most California companies.
- Not including state income tax, Blue Shield’s effective tax rate for 2014 was more than 40% of operating income.
- Blue Shield pays full federal income taxes, the state gross premium tax, and Affordable Care Act taxes and fees.

Blue Shield’s Disagreement with the Franchise Tax Board
- Blue Shield believes the company meets the requirements for a state income tax exemption and has challenged the FTB’s finding.
- The protest could take more than a year to work its way through the FTB.
- After the FTB makes a final decision, it can be appealed to the State Board of Equalization.

Why Blue Shield Maintains High Reserves
- Blue Shield currently maintains $4.2 billion in its stabilization fund, sometimes called the reserve fund.
- Reserves are a critical safety net for members and provide security against the unknown, ensuring member claims can always be paid.
- Last year, Blue Shield announced its agreement to acquire Care1st, a Los Angeles-based Medi-Cal plan, for $1.2 billion, using cash reserves.
- After the acquisition is completed, Blue Shield’s reserves will be at the level independent actuaries confirm is needed to maintain an A financial rating; an A rating is necessary to insure large employers and CalPERS.
How Blue Shield Acts Differently from For-Profit Companies

• Blue Shield limits its net income to 2% of revenue, and has given $560 million back to customers and the community.

• Employees do not receive additional pay if the company earns more than 2%.

• The company has also contributed $325 million to the Blue Shield of California Foundation’s efforts to strengthen the health safety net and address domestic violence.

• Blue Shield is a longtime supporter of universal coverage, dating back to 2002, and has a history of policy advocacy for the benefit of the public, including federal health reform, mandatory maternity coverage, and the law establishing the California Health Benefits Exchange.