
VETO

Bill No: SB 1037
Author: Weber Pierson (D)
Enrolled: 8/27/26
Vote: 27

SENATE HEALTH COMMITTEE: 7-1, 4/15/26

AYES: Weber Pierson, Caballero, Durazo, Gonzalez, Padilla, Rubio, Smallwood-Cuevas

NOES: Grove

NO VOTE RECORDED: Valladares, Menjivar, Pérez

SENATE APPROPRIATIONS COMMITTEE: 5-1, 5/14/26

AYES: Cervantes, Cabaldon, Grayson, Richardson, Wahab

NOES: Seyarto

NO VOTE RECORDED: Dahle

SENATE FLOOR: 30-9, 5/27/26

AYES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Reyes, Richardson, Rubio, Smallwood-Cuevas, Stern, Umberg, Wahab, Weber Pierson, Wiener

NOES: Alvarado-Gil, Choi, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares

NO VOTE RECORDED: Dahle

SENATE FLOOR: 30-10, 8/25/26

AYES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Reyes, Richardson, Rubio, Smallwood-Cuevas, Stern, Umberg, Wahab, Weber Pierson, Wiener

NOES: Alvarado-Gil, Choi, Dahle, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares

ASSEMBLY FLOOR: 59-15, 8/24/26 - See last page for vote

SUBJECT: Health care coverage: rate review

SOURCE: Author

DIGEST: This bill (1) requires the Department of Managed Health Care (DMHC) and the Department of Insurance (CDI) to include in an existing annual report on health insurance premiums if health plan and insurer rates meet the Affordable Care Act affordability standard for an individual, a couple, and a family of four with household income, as specified; (2) requires health plans and insurers to demonstrate the impact of the Office of Health Care Affordability (OHCA) cost targets and whether a plan's or insurer's annual rate of growth exceeds or will exceed the cost target for the rating period; and, (3) requires, if rate growth is expected to exceed cost targets for the rating period, plans and insurers to include specified information in rate filings.

ANALYSIS:

Existing law:

- 1) Establishes OHCA, within the Department of Health Care Access and Information (HCAI), to, among other things, be responsible for creating a state strategy for controlling the cost of health care and ensuring affordability for consumers and purchasers; and, enforcing cost targets, including those established by the OHCA board. [Health and Safety Code (HSC) §127501]
- 2) Establishes DMHC to regulate health plans under the Knox-Keene Health Care Service Plan Act of 1975 (Knox-Keene Act) and CDI to regulate health insurance. [HSC §1340, et seq. and Insurance Code (INS) §106, et seq.]
- 3) Requires health plans and health insurers, for the group and individual markets, to file with DMHC and CDI, at a specified minimum length of time prior to implementing any rate change (generally 120 days prior), specified rate information so that the departments can review the information for unreasonable and unjustified rate increases. [HSC §1385.03 and INS §10181.3]
- 4) States legislative intent to ensure enrollees and insureds benefit from reductions in the health care growth rates resulting from OHCA cost targets and requires in submitting health plans and insurer rates for review, health plans and insurers to demonstrate the impact of any changes in the growth rate because of the targets,

and requires the DMHC director and CDI commissioner to consider the impact of targets in premium rate reviews. [HSC §1385.035 and INS §10181.35]

This bill:

- 1) Codifies the meaning of “unreasonable rate increase” as defined in federal law and clarifies that the DMHC director or CDI commissioner determines if the rate increase is excessive, unjustified, or unfairly discriminatory, or otherwise unreasonable (which are the terms used in the federal law).
- 2) Permits DMHC and CDI, as part of the existing rate review process, to consult with OHCA to consider information pursuant to the law, as specified.
- 3) Requires health plans and insurers to demonstrate the impact of OHCA cost targets and whether its annual rate growth exceeds or will exceed the cost target for the rating period. If rate growth is expected to exceed cost targets for the rating period the following shall be included in a rate filing:
 - a) A detailed list of any proactive steps it is taking, or plans to take, for annual rate growth to meet the cost targets.
 - b) A delineation of factors driving rate increases to exceed the cost targets described in this bill.
 - c) Response to any requests for additional information deemed necessary by regulators.
- 4) Makes a failure to sufficiently provide all information, an unreasonable rate increase.
- 5) Requires in existing aggregate rate reports, DMHC and CDI to report on if rates, by plan and in aggregate, meet the affordability standard for an individual, a couple, and a family of four. Requires the report to include the annual change in premiums and cost-sharing for the prior five years.
- 6) Establishes the affordability standard as the average gross premium and average deductible totals less than the percent of income described in the Revenue and Taxation Code (Affordable Care Act standard), for an individual, a couple, a family of four with household incomes at 200%, 400%, and 800% of the federal poverty level.
- 7) Permits DMHC and CDI to implement, interpret, or make specific this bill by means of all plan letters, guidance, methodologies, rules, definitions, policies,

forms, templates, information or data requests, or similar instructions, without taking regulatory action.

Background

According to the author of this bill:

Health care costs are growing at unsustainable rates. Federal policies are putting even more pressure on state budgets and more importantly the budgets of California families and small businesses. Federal tax subsidies to help offset health insurance premiums and other policies that contributed to coverage rates in California of 94% are being rolled back. At the same time new federal policies are creating more bureaucratic hurdles that will also result in coverage losses. More has to be done in all health care sectors to control health care costs and health insurance premiums. California's OHCA was created to rein in health care spending growth and has adopted health cost growth targets to limit growth in line with median household incomes and families' food and housing budgets. This bill will require health insurance regulators to focus their reviews of proposed rate increases with an eye toward affordability for Californians. This bill will require regulators to connect their health plan and insurer rate reviews with the work of OHCA and require retrospective reviews of medical trends and cost-sharing requirements reported by health plans and insurers and take into account plan and insurer financial indicators that are well in excess of minimum standards.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

According to the Assembly Appropriations Committee DMHC estimates the total cost of this bill to be approximately \$461,000 for two staff positions in fiscal year (FY) 2026-27 and \$1.2 million for four positions in FY 2027-28, and annually thereafter. The costs would be for additional workload to conduct legal review, promulgate complex regulations and draft legal memoranda to clarify the requirements in this bill, revise rate filing templates and review premium rate filings for compliance (Managed Care Fund).

CDI estimates costs of \$2.4 million in FY 2027-28 and \$459,000 in FY 2028-29 and annually thereafter. These costs would be for actuarial work, to coordinate rate review work with OHCA, develop regulations in coordination with DMHC,

analyze filings, assess affordability, request clarifications from insurers, and develop written findings (Insurance Fund).

HCAI anticipates minor and absorbable costs.

SUPPORT: (Verified 9/28/26)

California Alliance for Retired Americans
California Hospital Association
California LGBTQ Health and Human Services Network
California Federation of Teachers
California Pan-Ethnic Health Network
California Teachers Association
Courage California
Health Access California
Healthy California Now
National Union of Healthcare Workers

OPPOSITION: (Verified 9/28/26)

Association of California Life & Health Insurance Companies
California Association of Health Plans

ARGUMENTS IN SUPPORT: Health Access California writes that despite California's progress to expand health care coverage in the last two decades, rising health care costs have prevented many Californians from getting the care they need and forced many into crushing debt. According to Health Access California, health care costs have risen faster than wages, inflation and what Californians can afford for decades. Health Access California writes with the health care affordability crisis being exacerbated by HR 1 and the loss of the subsidies, it's even more critical the state scrutinizes health insurance and plan rate increases with consumer affordability in mind. Health Access writes this bill requires enhanced rate review to include the annual change in premiums and cost-sharing for the last five years to consider what rate increases mean for consumers, and this bill ensures that rate review aligns with OHCA's cost growth targets. The California Hospital Association writes that this bill would provide a necessary and logical framework to ensure OHCA and other state regulators can examine root causes of excessive premium growth and instability. The California Pan Ethnic Health Network writes, "adding a consumer affordability factor will increase rate transparency and accountability by requiring plans to consider the extent to which rate increases will lead to massive disenrollments. Instead of justifying rate increases based solely on

medical costs or utilization, plans would now be required to estimate how those increases affect people's ability to stay enrolled including how many members might drop coverage, which groups are most at risk and how premiums compare to wages or household budget. This will discourage excessive or poorly justified rate hikes." The California Teachers Association (CTA) believes health care should be a bridge to well-being, not a barrier to financial security. CTA says hard-won wage increases are frequently eroded by double-digit hikes in medical costs. CTA writes even if a union secures a 4% or 5% annual raise for its members, a 10% or more hike in health care premiums effectively neutralizes that increase in take-home pay.

ARGUMENTS IN OPPOSITION: The California Association of Health Plans (CAHP) and the Association of California Life and Health Insurance Companies (ACLHIC) write that this increases administrative costs instead of tackling cost drivers. CAHP and ACLHIC believe the bill conflates prospective rate review and retrospective OHCA targets and is unworkable. CAHP and ACLHIC write that California already operates some of the most transparent rate review processes in the country. They believe this bill risks destabilizing the insurance market while doing little to control underlying costs.

GOVERNOR'S VETO MESSAGE:

I am returning Senate Bill 1037 without my signature.

This bill requires health plans and insurers to provide additional information in premium rate filings submitted to the Department of Managed Health Care (DMHC) and Department of Insurance (CDI), including whether annual rate growth will exceed cost targets established by the Office of Health Care Affordability (OHCA).

In 2022, in partnership with the Legislature, my administration established OHCA, a first-of-its-kind effort in California to rein in rising healthcare costs, provide relief to consumers, and improve overall quality of care. In 2024, OHCA approved a cost growth target that applies system-wide to all healthcare entities, including hospitals, health plans, and large physician organizations. OHCA's work is ongoing, and there has not been sufficient time for enforcement or to determine the impact of the statewide cost targets.

This bill approach is premature, but the intention to address rising healthcare costs could not be more timely. As such, I am directing the DMHC and OHCA, and requesting CDI, to continue to work collaboratively to ensure

that health plans' efforts to comply with the statewide cost target are considered in the premium rate review process under existing law.

For this reason, I cannot sign this bill.

ASSEMBLY FLOOR: 59-15, 8/24/26

AYES: Addis, Aguiar-Curry, Ahrens, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Connolly, Elhawary, Fong, Gabriel, Garcia, Gipson, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Ward, Wicks, Wilson, Zbur, Rivas

NOES: Alanis, Castillo, Chen, Davies, DeMaio, Ellis, Flora, Jeff Gonzalez, Hadwick, Hoover, Johnson, Macedo, Patterson, Sanchez, Tangipa

NO VOTE RECORDED: Dixon, Lackey, McKinnor, Ta, Wallis

Prepared by: Teri Boughton / HEALTH / (916) 651-4111

10/2/26 11:29:25

**** END ****