ATTACHMENT A
SETTLEMENT ACCOUNT AGREEMENT

This Settlement Account Agreement is made a part of and incorporated into the Settlement Agreement (the "Settlement Agreement") to which it is attached. The purpose of this Settlement Account Agreement is to describe the precise manner in which the Settlement Account will operate during the term of the Settlement Agreement, and to set forth the other terms and conditions of the Settlement Account. Unless otherwise defined in this Settlement Account Agreement, capitalized terms shall have the meanings set forth in the Settlement Agreement.

Explanation of Settlement Account Methodology

1. The methodology for the Settlement Account shall be based on Health Net's following lines of business: direct and subcontracted Medi-Cal contracts (including those covering Seniors and Persons with Disabilities), Healthy Families, Dual Eligibles (both the Medi-Cal and Medicare portions), and any Medi-Cal expansion populations.

2. A "Settlement Account Balance" will be established on January 1, 2013, with an initial balance of zero dollars due to Health Net. This balance will be adjusted annually to reflect the calendar year settlement account "surplus" earned or "deficit" incurred by the Department. A surplus results when the settlement percentage is positive as described in Paragraph 6, below. A deficit results when the settlement percentage is negative as described in Paragraph 7, below.

3. For purposes of this Settlement Account Agreement, profit is defined as: premiums earned (excluding premiums to pay for the Gross Premiums Insurance Tax, Health Insurer Fee, and any other similar assessment, hereinafter collectively referred to as the "Assessment Exclusions") less the sum of annual medical costs incurred and general and administrative expenses. Annual medical costs incurred includes claims for services provided and paid during the specific calendar year as well as claims for services provided during the applicable calendar year and paid by June 30 of the following calendar year (the "Run-Out Period"). In the event of early termination, the Run-Out Period shall be the six-month period following the effective date of the termination. The calculation of profit shall not include any other income or expenses, including but not limited to investment income or expenses. Because the Health Insurer Fee is non-deductible for federal and State tax purposes, it is assumed that premiums will include the grossed-up amount of the fee to cover tax costs. If the premium does not include the tax costs, the Actual Profitability Margin, as defined in Paragraph 4, below, will be adjusted accordingly.

4. The Target Profitability Margin to be utilized for purposes of calculating the surplus or deficit for a calendar year shall be three and a quarter percent (3.25%). The Actual Profitability Margin is calculated for a calendar year by taking the profit as defined in paragraph 3 above, divided by the total premiums earned, less the total amount of the Assessment Exclusions.

5. The settlement percentage for a calendar year during the first four years of the Settlement Account Agreement Term (as defined in paragraph 9 below) shall be calculated by subtracting the Target Profitability Margin from the Actual Profitability Margin each as defined in paragraph 4. For example, if the Actual Profitability Margin for a calendar year calculated in accordance with Paragraph 4 is 4.25 percent, then the settlement percentage is a positive 1 percent (4.25 percent – 3.25 percent), creating a surplus. And for example, if the Actual Profitability Margin for a calendar year calculated in accordance with Paragraph 4 is 2.25 percent, then the settlement percentage is a negative 1.0 percent (2.25 percent – 3.25 percent), creating a deficit. Beginning in the fifth year of the Settlement Account

Agreement Term (for avoidance of doubt, the fifth year is calendar year 2017) and throughout the remainder of the Settlement Account Agreement Term, the settlement percentage for a calendar year shall be computed as follows: (a) if the actual Profitability Margin is higher than 3.25%, then the settlement percentage shall be the Actual Profitability Margin minus the Target Profitability Margin; (b) if the Actual Profitability Margin is between 1.25% and 3.25%, then the settlement percentage shall be zero; and (c) if the Actual Profitability Margin is less than 1.25%, then the settlement percentage shall be the Actual Profitability Margin minus 1.25%.

6. If the settlement percentage is positive, then the Department earns a settlement surplus for that calendar year in an amount equal to fifty percent (50%) of the settlement percentage multiplied by the premiums earned as defined in Paragraph 3, less the Assessment Exclusions, on the lines of business identified in Paragraph 1 for the same calendar year. For calendar year 2013 only, the amount of the Department's settlement percentage is seventy-five percent (75%) rather than fifty percent (50%).

7. If the settlement percentage is negative for any calendar year, then the Department incurs a deficit for that calendar year in an amount equal to fifty percent (50%) of the settlement percentage multiplied by the premiums earned as defined in Paragraph 3, less the Assessment Exclusions, on the lines of business identified in Paragraph 1 for the same calendar year. For calendar year 2013 only, the amount of the Department's settlement percentage is seventy-five (75%) rather than fifty percent (50%).

8. The Settlement Account Balance calculation shall be performed by Health Net and submitted to the Department within thirty (30) days after the end of the applicable Run-Out Period. The Department shall have sixty (60) days (the "Certification Period") to certify this calculation submitted by Health Net. Once this calculation has been agreed to by the parties, that dollar amount shall be added (if positive) or subtracted (if negative) to/from the Settlement Account Balance. If there is any change in the premiums earned by Health Net for a calendar year, the settlement percentage, settlement account balance, and alternative minimum amount calculations shall be revised based on the final premiums earned attributable to that calendar year. Additionally, if Health Net and the Department determine that they are unable to agree to the Settlement Account Balance calculation during the Certification Period or the Department has not certified the Settlement Account Balance calculation submitted by Health Net by the end of the Certification Period, then the parties shall promptly refer the matter to an independent certified public accounting firm of nationally recognized standing as mutually agreed upon by Health Net and the Department (the "Disputes Auditor") for determination of the Settlement Account Balance calculation, which determination shall be final and binding on each of Health Net and the Department. Each of Health Net and the Department agree that they will require the Disputes Auditor to render its determination of the Settlement Account Balance calculation within thirty (30) days after the matter is referred to the Disputes Auditor. The fees and costs incurred for the Disputes Auditor shall be split evenly between Health Net and the Department.

<u>Terms and Conditions</u>

9. The term of this Settlement Account Agreement is seven calendar years, commencing on January 1, 2013 (" Settlement Account Agreement Term"); provided, however, that as long as the Settlement Account Balance is not in a deficit by more than Two Hundred and Sixty Four Million Dollars ($264,000,000) as of the conclusion of the original term, the Department shall have the option to extend the Settlement Agreement Term for up to three, one year contract extensions (the "Extended Settlement Agreement Term"). In order to exercise such option, (1) the Department must notify Health Net of its election to extend the Settlement Agreement Term by no later than the end of the Settlement Agreement Term, and, where applicable, by the end of each one year option period; and (2) the Settlement Account Balance must not be in deficit by more than Two-Hundred and Sixty-Four Million Dollars ($264,000,000)

10. Upon termination of the Settlement Account Agreement Term and the applicable Run-Out Period, the Settlement Account Balance shall be reconciled and settled. In the event the Settlement Account Balance in is a deficit position, the Department shall remit to Health Net the amount of the deficit subject to the alternative minimum amount payable to Health Net under Paragraph 13. In no event shall the amount payable by the Department to Health Net exceed Two-Hundred and Sixty-Four Million Dollars ($264,000,000). In the event the Settlement Account Balance is in a surplus position, then neither party shall be obligated to pay the other any monies except for the alternative minimum amount payable to Health Net under Paragraph 13 below.

11. If the Department terminates any of Health Net's contracts for the lines of business described in Paragraph 1 prior to the expiration of the Settlement Agreement Term, then a partial settlement of the Settlement Account Balance shall occur as described in Paragraph 12 below. If the Department terminates a contract for the lines of business described in Paragraph 1 where Health Net is a subcontractor prior to the expiration of the Settlement Agreement Term, then a partial settlement of the Settlement Balance shall also occur (if Health Net becomes the contractor or retains a subcontractor relationship with the new contractor, then no partial settlement shall occur). If Health Net is a subcontractor and that subcontract is terminated not due to the Department's action, then there will be no partial settlement of the Settlement Account Balance. In addition, there will not be a partial settlement of the Settlement Account Balance if Health Net elects to terminate a contract for the lines of business described in Paragraph 1, or terminates a subcontract for the lines of business described in Paragraph 1.

12. Health Net shall calculate the percentage of revenue the terminated contract(s) provided for all lines of business as specified in Paragraph 1. This calculation shall be based on the last full calendar year the terminated contract was in effect. Health Net shall also calculate the Alternative Minimum Amount payable (as described in Paragraph 13) based on all calendar years of the Settlement Account Agreement completed prior to contract termination. The Department shall, within 90 days of receiving the required calculations from Health Net, make a partial settlement payment to Health Net equal to the percentage of revenue provided by the terminated contract(s) multiplied by the Alternative Minimum Amount payable calculated in Paragraph 13 below.

13.   At the conclusion of the Settlement Agreement Term (or, where applicable, the Extended Settlement Agreement Term), the Settlement Account Balance will be reconciled and settled. The amount payable by the Department to Health Net shall not be less than an alternative minimum amount. The alternative minimum amount shall be equal to Two-Hundred and Sixty-Four Million Dollars ($264,000,000), less Alternative Minimum Credits earned up to the date of the calculation. "Alternative Minimum Credits" shall include the sum of: (1) any partial settlement payments made pursuant to Paragraph 12, plus (2) for each calendar year where Health Net's Actual Profitability Margin is above two percent (2%), the amount of that difference multiplied by 50 percent (50%) and that amount multiplied by the premiums earned as defined in Paragraph 3, less the Assessment Exclusions, on the lines of business identified in Paragraph 1 for the applicable calendar year. In no event shall the Settlement Account Percentage be negative for the purposes of this paragraph.

14. Cash settlement of the Settlement Agreement will take place at the conclusion of the Settlement Agreement Term (or, where applicable, the Extended Settlement Agreement Term). Interest shall accrue on the Settlement Account Balance during the Extended Settlement Term at an annual interest rate equal to the California Surplus Money Investment Fund interest rate in effect as of the end of the Settlement Agreement Term.

15. A Settlement Account Balance calculation made in accordance with Paragraph 8 shall be recalculated in the event of a change in premiums which change the value of a cash settlement after the cash settlement has occurred. The difference between the original cash settlement and the recalculated cash settlement shall result in a payment from the Department to Health Net, or from Health Net to the Department, and shall be due no later than thirty (30) days after payment of revised premiums is made. Interest shall be assessed on any payment required by this paragraph at the same rate as is assessed on any revised premiums that triggered payment pursuant to this paragraph. Interest shall accrue from the date the original cash settlement is paid.

16. Section 17 of the Settlement Agreement applies to all payments made by the Department under this Settlement Account Agreement.