RECTOR & ASSOCIATES, INC.

REBUTTAL TO SEPTEMBER 3, 2010 SUPPLEMENTAL REPORT ON EFFECTS OF FEDERAL HEALTH CARE REFORM AS SUBMITTED BY GROUP HOSPITALIZATION AND MEDICAL SERVICES, INC.

DATED: SEPTEMBER 20, 2010

I. BACKGROUND

Effective September 1, 2009, Rector & Associates, Inc. ("R&A") was retained by the D.C. Department of Insurance, Securities and Banking ("DISB") in accordance with D.C. Statutes §§ 31-1402 and 31-3506(h) to examine Group Hospitalization and Medical Services, Inc. ("GHMSI") and to assist with the DISB's determination as to what portion of the surplus of GHMSI is attributable to the District of Columbia ("District") and whether such surplus is excessive.

On July 21, 2010, the Commissioner for the DISB ("Commissioner") included in the record of the public hearing held on September 10 and 11, 2009 R&A's "Report to the Commissioner of the District of Columbia Department of Insurance, Securities and Banking: Group Hospitalization and Medical Services, Inc." ("R&A Report").

On August 6, 2010, the Commissioner issued her Decision and Order ("Decision and Order") which, among other things, required that GHMSI submit to the Commissioner information regarding the financial impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "Federal Health Care Reform Acts") on GHMSI.

On September 3, 2010, GHMSI issued its Supplemental Report on Effects of Federal Health Care Reform ("Supplemental Report"). In addition to submitting information regarding the financial impact of the Federal Health Care Reform Acts on GHMSI, the Supplemental Report also reacted to and rebutted findings and information contained in the R&A Report, including rebuttals from The Lewin Group (Attachment B to the Supplemental Report) ("Lewin Group Supplement") and Milliman, Inc. (Attachment C to the Supplemental Report) ("Milliman Supplement").

In the Decision and Order, the Commissioner provided for the Commissioner's Experts to rebut any information provided by GHMSI in accordance with the Decision and Order.

II. SUMMARY REBUTTAL

We have carefully reviewed and considered the Supplemental Report, including the Milliman Supplement and Lewin Group Supplement. We continue to believe that the analysis contained in the R&A Report is accurate and appropriate. None of the information or arguments contained in the Supplemental Report pointed out any information that would lead us to change the analysis and information contained in the R&A Report.

The remainder of this Rebuttal addresses specific information presented in the Supplemental Report and generally follows the outline of information contained in the R&A Report.

III. ANALYSIS OF ACTUARIAL MODELING METHODS

Analysis of Actuarial Modeling Methodologies.

In the Supplemental Report, GHMSI, Milliman, and the Lewin Group all presented arguments commenting on our analysis of the actuarial modeling methods. These arguments center around our analysis of the appropriateness of the Milliman modeling approach and various assumptions used in the model. However, none of the reports address or challenge our most important finding: that the analysis performed by all of the consultants, including R&A, result in various data points as of December 31, 2008, including (1) the amount of surplus GHMSI needs to ensure it will remain above a 200% RBC target level and (2) the amount of surplus GHMSI needs to ensure that it will remain above a 375% RBC target level.

The Supplemental Report continues to describe the results of the various analyses as providing "ranges" of surplus needed by GHMSI. In reality, however, the various consultants are not constructing a "range" of needed or optimal surplus. Rather, they are merely calculating various data points designed to project how much initial surplus is needed for GHMSI to stay above certain RBC target levels. How any of these numbers relate to what amount of surplus is "necessary," "optimal," "appropriate," "excessive," of any other such qualitative word depends on the importance one places on the RBC levels that are being protected against. For example, if one believes that it is "necessary" for GHMSI to stay above the 200% RBC threshold level, then GHMSI's "necessary surplus" as of December 31, 2008 would be 750% RBC based on Milliman's own calculations (without any adjustments to Milliman's calculations whatsoever).

It is interesting to note that although the Supplemental Report contains many comments regarding the various assumptions used in the Milliman model, it does challenge our most important finding: that the numbers provided by the various consultants are not "ranges" of needed or optimal surplus, but merely data points showing the amount of surplus needed for GHMSI to stay above various RBC target levels.

Analysis of Milliman Methodology.

In the R&A Report, we indicated that:

> various anomalies and simplifications in Milliman's methodologies … may materially impact Milliman's resulting surplus estimates…. Despite these limitations, the Milliman methodology is helpful in analyzing the amount of surplus GHMSI would need for future operations. Accordingly, we assumed the basic validity of the Milliman methodology and then focused on whether we agreed or disagreed with Milliman's assumptions.

In the Milliman Supplement, Milliman disagreed with our conclusions in these areas. We have reviewed Milliman's comments, but they have not caused us to change our views: we continue to believe that there are various anomalies and simplifications in Milliman's methodologies that may materially impact Milliman's resulting surplus estimates.

More importantly, however, the debate over whether the Milliman methodology is flawed or perfect is beside the point since (as described in the R&A Report) we assumed the basic validity of Milliman's methodology notwithstanding our questions about it. Accordingly, Milliman's comments in this area are completely irrelevant to the conclusions we reached regarding GHMSI's surplus needs.

Analysis of The Lewin Group Methodology.

The Lewin Group Supplement stated that:

> The Rector report failed to consider the Lewin modeling outcomes in the assessment of Carefirst surplus needs. The report dismisses our modeling by suggesting that the Lewin Group failed to provide assumptions or methodology. In fact, our report provided a fairly detailed description of the structure and assumptions in the analysis we undertook. R&A did not contact us to develop any additional insight into how we arrived at our outcomes. We could have easily worked to help them understand the nature of our analysis and the interpretation and implication of our results.

This is a mischaracterization of the facts.

We considered the work of the Lewin Group as that work was made available to us. As stated in the R&A Report, "We reviewed the surplus analyses performed by Milliman, ***the Lewin Group,*** ARM, and the Invotex Group, as documented in their reports." [Emphasis added.]

The Lewin Group submitted two separate reports regarding its work: an August 31, 2009 Lewin Group Report ("Initial Lewin Group Report") and an October 29, 2009 Report

titled: "Recommended Surplus Range for GHMSI: Approach and Considerations for Determining the Appropriate Range of Surplus" ("Final Lewin Group Report").

The Initial Lewin Group Report indicated that the Lewin Group's work consisted merely of an assessment of the RBC range suggested by Milliman for GHMSI, including whether the approach used and range of RBC was appropriate. In its work, The Lewin Group did not perform its own independent analysis of GHMSI's surplus. Further, it was clear from the testimony at the September 10-11 public hearing regarding GHMSI that the Lewin Group's work served, in essence, merely as a reasonableness check on the work performed by Milliman. It also was clear at the public hearings that the Lewin Group was relying on the actuarial analysis performed by Milliman rather than performing its own actuarial analysis.

After the hearing, Lewin performed additional work, which resulted in the Final Lewin Group Report. We conducted a thorough review of the Final Lewin Group Report—just as we had performed a thorough review of the Initial Lewin Group Report. However, the Final Lewin Group Report did not contain sufficient actuarial detail to allow a reader to determine exactly what the Lewin Group did or what its key assumptions were. In other words, in many ways the Final Lewin Group Report was a "black box". As such, there were limitations as to how much of the Lewin Group's work could be used.

Further, the Final Lewin Group Report was issued well after the September 10-11, 2009 public hearing. As a result, the Lewin Group representatives could not be questioned about their work under oath. In contrast, Milliman's work was presented in a timely fashion so that Milliman could be, and was, questioned under oath regarding key matters.

For these reasons, our analysis focused more on the work performed by Milliman than on the Lewin Group's work (just as GHMSI relied more on Milliman's work than on the Lewin Group's work when determining how much surplus it believes it needs). However, we did review and consider the Lewin Group's work. The Lewin Group's statement that we "failed to consider the Lewin modeling outcomes in the assessment of Carefirst surplus needs" is not accurate.

Assumptions Used By Milliman.

Loss Curve Assumptions.

- Interest Rate and Asset Values
  In the R&A Report, we indicated that:

> In order to develop interest rate assumptions, Milliman estimated a range of deviations of projected asset values and interest rates from a 4% base earned rate assumption. Based on our analysis of Milliman's assumed interest rate changes, we made appropriate adjustments to the loss curve assumptions.

The Milliman Supplement indicated that:

> In view of the historically low market yields and high volatility of security valuations in the current environment, we believe that any reduction to our loss distribution assumption for this item is not prudent or appropriate.

As a threshold matter, the Milliman model is somewhat outdated and does not use more recently developed modeling techniques that use dynamic financial analysis ("DFA") modeling tools and cash flow testing models. Such tools and models would be particularly appropriate for interest rate and asset value testing in order to more accurately develop yield curves and to project interest rate paths.

As indicated in the R&A Report, Milliman's simplified approach consisted of starting with a 4% base earned rate assumption, assuming deviations from that base rate, and then measuring the effect of such deviations on GHMSI's asset portfolio. However, we noted that Milliman's deviations had a bias in favor of rising interest rates (resulting in lower asset valuations and, therefore, in the need for more surplus). Our adjustments were for the purpose of removing this bias so as to more appropriately consider reductions, as well as increases, in interest rates (thereby resulting in increases, as well as decreases, in the value of GHMSI's asset portfolio).

In this regard, it is interesting to note that after December 31, 2008 (the date as of which we analyzed GHMSI's surplus), interest rates in the market have in fact declined rather than risen. Accordingly, the adjustments we made to remove the bias in favor of rising interest rates appear to have been appropriate when viewed with hindsight.

- <u>Catastrophic Events</u>

  In the R&A Report, we indicated that as a result of the manner in which Milliman takes into account losses from catastrophic events in its modeling, a charge of $75 million occurs in each underwriting cycle (or $25 million each year).

  The Milliman Supplement indicates that its modeling does not include a charge for each underwriting cycle or year but instead includes "a portion of the provision for surplus to be held against the impact of catastrophic events, in case they should materialize at some point in the future."

  We do not wish to debate semantics. What is important to point out is that, regardless of what it is called, holding back $25 million in the model each year for use in paying catastrophic events results in the same economic effect as including a $25 million annual "charge" for catastrophic events. As such, Milliman's model treats catastrophic events as regular occurrences that are part of GHMSI's underwriting cycle.

We continue to believe that it would be more appropriate to deal with catastrophic events differently. As we have indicated previously, Milliman's methodology is somewhat outdated and does not use more recently developed modeling techniques. Use of such techniques would allow for a more sophisticated consideration of catastrophic events and their possible impact on GHMSI's surplus. Given Milliman model, though, we continue to believe that catastrophic losses should be dealt with as outlined in the R&A Report—by making downward adjustments to the loss curve of between 1.50% and 2.00%, depending on the level of confidence chosen in the modeling.

- Growth and Development Charges
  In the R&A Report, we indicated that, similar to the charges for catastrophic events, Milliman's modeling approach results in growth and development charges of $60 million each underwriting cycle (or $20 million each year).

  The Milliman Supplement indicates that: "This risk provision is not a charge or expenditure. It represents a portion of the provision for surplus to be held against the need for such expenditures unexpectedly at some point in the future."

  As with catastrophic events, we do not wish to debate semantics. Regardless of what it is called, holding back $20 million in the model each year to anticipate the need for unexpected growth and development expenditures results in the same economic effect as including a $20 million annual "charge" pertaining to growth and development.

  We continue to believe that it would be more appropriate to deal with growth and development charges differently. Given the Milliman model, we continue to believe that catastrophic losses should be dealt with as outlined in the R&A Report—by making downward adjustments to the loss curve of between 1.25% and 1.75%, depending on the level of confidence chosen in the modeling.

Additional Assumptions.

- Management Intervention Actions
  In the R&A Report, we indicated that: "Milliman staff has indicated that they did not consider the effect that management intervention might have on GHMSI's operations." The Milliman Supplement stated: "We wish to clarify that point. The impacts of such interventions were directly reflected in the underlying loss distribution assumptions."

  Milliman did not provide us with data to support the manner in which management intervention was reflected in its loss distribution assumptions. Further, even if Milliman took potential management intervention into account when developing its underlying loss distribution assumptions, Milliman did not make separate provision for management intervention in the event that GHMSI was in danger of crossing an important RBC threshold.

In other words, it appears that Milliman's model assumes that management will not step in and make a "course correction" to prevent GHMSI from getting into financial trouble. Rather, the Milliman model, in effect, assumes that management would sit back and allow GHMSI to continue operating without change even if GHMSI began to slide into hazardous financial condition.

Based on what we have seen, it appears that GHMSI has active and experienced management, and we do not believe that its management would sit by idly if the company's financial condition were to begin to worsen. Rather, we believe that, if GHMSI were in danger of crossing an important RBC threshold (thus triggering additional regulator oversight and/or reporting), management would take steps in an attempt to keep GHMSI above the RBC threshold, including taking at least some of the management intervention actions outlined in the R&A Report.

- Reserve Margins
  In the R&A Report, we indicated that based on our review of GHMSI's financial information, GHMSI targets redundant reserves of approximately 10%. Consequently, the estimated redundancy for 2008 was $49 million. The R&A Report indicated that we anticipate that if management were concerned about crossing a particular RBC threshold, management would take action to release some or all of the redundant reserves into surplus.

  The Milliman Supplement stated that:

  > We disagree with the conclusion that the company could elect to dampen the reported losses on its statutory blank by weakening its accounting policies and practices regarding the reporting of its liability for unpaid claims. In our experience, auditors require a consistent level of provision for adverse deviation (or margin) in claim reserves over time. At a time of potential financial impairment, in particular, such an action would not likely be accepted, since it would weaken provision by the company to pay outstanding claims. Maintaining adequate surplus avoids the need for attempting to pursue imprudent actions such as this during a time of financial downturn, even (or especially) a severe one.

  Milliman's response mischaracterizes our views. We are not advocating that GHMSI weaken its accounting policies and practices. Rather, we are simply pointing out that GHMSI actually holds in loss reserves approximately $49 million more than what its actuaries believe is necessary to pay claims. Accordingly, GHMSI actually has approximately $49 million more in "real surplus" than it reports.

  Our observation is that if GHMSI was in danger of crossing an important RBC threshold, it would be expected—and appropriate—for management to

reclassify some or all of this "excess" amount from loss reserves to surplus. Under insurance regulatory principles, it is entirely acceptable for an insurer to release redundant reserves when necessary to maintain adequate surplus, especially if the insurer is in danger of crossing an RBC threshold that would result in regulatory action. Since only the "redundant" portion of the reserves would be released, GHMSI would continue to have the ability to pay outstanding claims in full.

As previously stated, GHMSI's estimated redundancy for 2008 was $49 million. If GHMSI was in danger of crossing an important RBC threshold, we find it difficult to believe that management, with the support of its auditors, would not consider avoiding regulatory action relating to its RBC level by releasing at least some portion of the $49 million loss reserve redundancy.

- Pricing Margins and Underwriting Standards
  In the R&A Report, we indicated that:

  > … if management were concerned about crossing a particular RBC threshold, management would react by increasing pricing margins and/or implementing more stringent underwriting standards. For purposes of developing assumptions for these actions, we assumed that management would identify and respond to a deteriorating situation in year two and implement changes that affect pricing margins and underwriting standards in year three.

  The Milliman Supplement states that:

  > The 2 and 2.5 year rating correction periods used in our modeling were based on an assessment as to the time required to identify and respond to deterioration in financial results due to rate inadequacy…. Thus, our loss distribution assumptions directly reflect the impact of timely management response and intervention to correct for emerging adverse experience deviations.

  Virtually all of Milliman's rebuttal on this point stresses that it will take 2 to 2.5 years for GHMSI to implement changes in its rates and that Milliman accordingly used a 2 to 2.5 year rating correction period in its model. We do not disagree with the amount of time necessary for rating changes; in fact, the R&A Report, as quoted above, assumed that management will identify a deteriorating situation in year two and make rating changes in year three. As a result, we have assumed virtually the same rating correction period as Milliman used in its model.

  We do disagree with Milliman's assumption that the only reason GHMSI's management would take action to make rate changes is to correct for inadequate rates. We believe that it would be just as appropriate for

management to make rate changes if GHMSI was in danger of crossing an important RBC threshold, regardless of the reason. Regardless of whether its rates were adequate when compared to the loss development for its book of business, management could choose to increase rates to help to support its failing financial condition.

In this regard, it is our understanding that GHMSI's pricing margins have fluctuated between 2.7% and 5.0% within the last decade and that Milliman used a pricing margin of 3.5% in its model. Based on GHMSI's historical pricing margins, we expect that if management were concerned about crossing a particular RBC threshold, management would consider increasing its pricing margins to at least a margin that is consistent with its historical margins.

- Infrastructure Investments
  In the R&A Report, we indicated that GHMSI incurred baseline capital expenditures of approximately $45 million during the past decade. We anticipate that if management were concerned about crossing a particular RBC threshold, management would react by delaying or canceling at least some infrastructure investments.

  The Milliman Supplement states that:

  > Our experience is that capital expenditures are typically part of a longer term business planning and development process…. These often cannot be altered quickly without severe cost and/or operational consequences. Avoidance of such consequences by having sufficient surplus is, we believe, a compelling reason to hold sufficient surplus.

  We acknowledge what Milliman has written, but we continue to believe that if GHMSI was in danger of crossing a particular RBC threshold, management would take action to protect GHMSI's financial condition, including reducing its infrastructure expenditures. We find it difficult to believe that management would continue infrastructure investments without change even if doing so would put the company's RBC level at risk.

Financial Projections Assumptions.

- Tax Impact
  The R&A Report indicated that:

  > The Milliman projections do not include the value of deferred tax credits that would result from GHMSI's projected losses. Because such tax credits would have value if GHMSI remains a going concern, it appears appropriate to recognize such credits in the financial projections.

  The Milliman Supplement stated that:

> We do not agree with this treatment of the tax assumption, for the purposes of evaluating surplus needs. In our modeling, we are testing periods of multi-year losses that will lead to financial impairment of the type defined by our loss thresholds (i.e., the 375% and 200% RBC thresholds). Under such circumstances, we do not believe that there would be any reportable tax benefit to GHMSI on its statutory blank.
>
> The assumption proposed by Rector is that GHMSI could accumulate a deferred tax asset on its statutory balance sheet during a period of severe multi-year losses. In our experience, this is not consistent with company accounting policies or with auditor practices. Instead, creation of a deferred tax asset is generally restricted to periods of demonstrated and anticipated continuing gains, in order to assure its validity as an asset (conditions not present during a multi-year adverse loss period).

GHMSI should be able to recoup a significant portion of the tax benefits arising from GHMSI's projected losses, whether such benefits would take the form of tax loss carrybacks or deferred tax assets. These benefits would be created and realized, at least to a significant extent, even under multi-year loss scenarios. Further, although we included assumptions relating to the potential tax impact arising from GHMSI's operations in our modeling, those assumptions had a minimal impact on our results.

For these reasons, we do not believe our assumptions in this area need to be adjusted.

Changes in District and US Regulatory Frameworks

The R&A Report indicated that:

> As noted above, the analyses performed by all of the consultants, including R&A, sought to measure GHMSI's surplus needs as of December 31, 2008. However, there have been very significant changes in the District and US regulatory frameworks since that time that will have a significant impact on GHMSI's future operations and results. The analysis performed by all of the consultants, including R&A, did not attempt to incorporate or measure the effect of such changes on GHMSI's surplus.
>
> …
>
> It is not yet clear how many of the changes and reforms will ultimately operate. In many instances, rules and other implementing guidance and procedures still need to be adopted. Further, a number of the changes and reforms have effective dates that are phased in over the next four years. Accordingly, it is expected that there will be significant evolution over time in how the health care industry will react to the changes and reforms and how such changes and reforms will impact all health insurers, including GHMSI.

The Supplemental Report stated that:

> We do not agree, however, with Rector's suggestion that nothing can yet be determined about which way FHCR's impact will cut.

In addition, the Lewin Supplement stated that:

> The R&A report and DISB order raises questions as to the impact of potential changes in healthcare insurance and delivery, but R&A actually only says that 'it is not clear' and that 'there will be significant evolution in terms of payer impact."

The R&A Report simply pointed out what is commonly understood in the health care industry: federal health care reform will significantly alter the industry's operations in ways that cannot yet be fully determined because important provisions of the reforms have not yet been developed and because the bulk of the reforms have not yet been implemented.

The Supplement Report also implies that R&A should have analyzed how the effects of federal health care reform will affect GHMSI's surplus needs. As indicated in the R&A Report, R&A was asked to analyze GHMSI's surplus as of December 31, 2008 (before federal health care reform was enacted). We were not asked to analyze how the federal health care reform might impact GHMSI's surplus in future years. As a result, we thought it prudent not to speculate on how health care reform might impact GHMSI's financial condition and operations.

IV. PEER REVIEW ANALYSIS

The R&A Report sets out the result of various peer group analyses. One aspect of the peer review analysis—but just one—pertained to various for-profit stock insurance holding company systems. We indicated that:

> We believe that it is appropriate to consider for-profit insurers as additional data points in the peer review analysis in part because of the provisions of DC law that GHMSI engage in community health reinvestment to the maximum feasible extent consistent with financial soundness and "efficiency". Because for-profit insurers often are recognized as having efficient operations due to the pressures exerted by the capital markets on for-profit insurers' profitability goals, considering such companies may provide additional information regarding what level of capital may be consistent with efficient operations.
>
> At the same time, for-profit stock insurers often have access to capital that is not available to nonprofit Blue Cross/Blue Shield plans. In many situations, for-profit stock insurers have ultimate parents that are publicly traded companies that can

> capitalize their insurers, as needed. Consequently, a for-profit insurer might not need as much surplus as a nonprofit insurer.

For various reasons described below, the Supplement Report and Milliman Supplement take the position that it is not appropriate to include for-profit insurers in a peer review analysis.

It is important to note that we suggested that for-profit insurers be considered as one of several data points in the analysis. We do not suggest that for-profit insurers be the sole point of comparison to GHMSI. We continue to believe that including an analysis of for-profit insurers' RBC as a data point is appropriate for the reason described in the R&A Report: just as for-profit insurers have efficient operations because of market pressures, GHMSI is tasked with engaging in community health reinvestment to the maximum feasible extent consistent with financial soundness and "efficiency".

In addition, the Supplement Report states:

> Moreover, it is worth noting that the two corporations identified as having reserves below 500% RBC-ACL are not individual companies but instead 'holding company systems' that 'consist of over 20 individual insurers, 'including 'subsidiary insurers that are similar to GHMSI in terms of revenue size, lines of business written (including FEP business), and the number of states in which the insurers operate.'… That provides a second reason why these for-profit holding companies can operate with a lower surplus: Since the appropriate RBC-ACL range is inversely proportional to the company's size, these much larger, more diversified groups need not carry as much in reserve percentage-wise, as a smaller, regional insurer like GHMSI.

We think there might be some confusion regarding the methodology we used to determine the 2008 weighted average RBC ratio for the publicly traded holding company systems. We gathered the 2008 RBC ratios for each of the insurers within the for-profit insurance holding company systems and then calculated a weighted average of these RBC ratios. Accordingly, each insurer's individual RBC ratio was included in the average RBC ratio. We did not attempt to determine a combined RBC ratio for the entire insurance holding company system.

As previously stated, the individual insurers within these systems are similar to GHMSI in terms of revenue size, lines of business written, and the number of states in which the insurers operate. As a result, we think it is helpful to compare the weighted average RBC ratio of the insurers within these holding company systems to GHMSI's RBC ratio.

The Milliman Supplement provides a final argument for why Milliman believes it is not appropriate to include publicly-held for-profit insurers in a peer review analysis.

> In the case of publicly held companies, their holding company structures enable (and encourage) holding capital and maintaining access to additional insurance

company surplus outside of the insurance operating companies themselves. As a result, these organizations are simply not comparable when it comes to the structuring, reporting, and level of statutory surplus held – within the broader context of enterprise capitalization.

We acknowledge that due to market pressures, insurers that are part of a publicly-held system are encouraged to maintain efficient operations so that capital can either be maintained at the holding company level or, more likely, distributed to shareholders. However, these market pressures are the very reason we think it is appropriate to include for-profit insurers in the analysis as another data point: to recognize GHMSI's mandate to engage in community health reinvestment to the maximum feasible extent consistent with financial soundness and "efficiency".

V. SURPLUS ATTRIBUTION ANALYSIS

In the R&A Report, we analyzed two specific factors to be considered when determining the surplus attributable to the District: the number of policies by jurisdiction and the number of providers by jurisdiction. In addition, we identified four additional factors that the Commissioner might wish to consider.

In the Supplement Report, GHMSI includes in its discussion comments regarding R&A's attribution data. However, GHMSI's analysis focuses on what factors it considers to be appropriate for the Commissioner to consider. Since we only identified particular factors for the Commissioner's consideration and analyzed those factors as they relate to GHMSI's operations, we do not believe GHMSI's comments relate to our analysis.

The Lewin Group Supplement states:

> Regarding the R & A report's discussion on attribution, we realize that R & A may not have been tasked with outlining political decisions when discussing attribution. However we feel that the political considerations are at least as important as purely mathematical exercise of attributing surplus to a group of policyholders. Other areas of the R & A report thoroughly discuss the conclusions of The Invotex Group. However, the attribution discussion does not mention Invotex or other regulatory agencies' comments and actions. This strikes us as a gap in the report, since it assumed that Maryland's Department of Insurance and Virginia's Department of Insurance will have no jurisdiction or input on the attribution of surplus.

The Lewin Group is correct in stating that R&A was not "tasked with outlining political decisions when discussing attribution." As outlined in the R&A Report, the Commissioner asked us to analyze the factors that the Commissioner might wish to consider when determining the surplus attributable to the District. We were not asked to make any recommendations regarding which factors are the most appropriate or whether factors such as political considerations or potential actions to be taken by the Maryland Insurance Administration or the Virginia Bureau of Insurance should be considered.

Because we were not asked to analyze the items described by the Lewin Group, the R&A Report did not contain a gap in its analysis by not including a discussion of these items.