

MARYLAND INSURANCE ADMINISTRATION

IN RE:

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TARGETED SURPLUS RANGES FOR:

*

CAREFIRST OF MARYLAND, INC.

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CASE NO. MIA-2011-05-040

NAIC #47058

10455 MILL RUN CIRCLE

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OWINGS MILLS, MARYLAND 21117

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AND

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GROUP HOSPITALIZATION AND

MEDICAL SERVICES, INC.

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NAIC #53007

840 FIRST STREET NE

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WASHINGTON, DC 20065

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CONSENT ORDER

This Consent Order is entered into by the Maryland Insurance Commissioner and CareFirst of Maryland, Inc. ("CFMI") and Group Hospitalization and Medical Services, Inc. ("GHMSI") (CFMI and GHMSI being sometimes referred to individually as a "Company" and collectively as the "Companies"). The Consent Order memorializes discussions and a mutual voluntary agreement among the parties regarding the review of surplus held by both CFMI and GHMSI following the issuance of the Maryland Insurance Administration's (MIA's) Report in January 2010, as referred to in paragraph 6 below. The facts supporting this Consent Order are as follows:

1. CFMI is a nonprofit health service plan under Maryland law, which is chartered and domiciled in Maryland.
2. GHMSI, a Congressionally chartered entity, also is licensed in Maryland as a nonprofit health service plan.
3. CFMI and GHMSI are under the common control of CareFirst, Inc., a nonprofit health service plan under Maryland law, which is chartered and domiciled in Maryland ("CFI").

4. Pursuant to § 14-117 of the Insurance Article, nonprofit health service plans such as CFMI and GHMSI must maintain surplus that is at least equal to the greater of \$75,000 or 8% of the total earned premium received by the corporation in the immediately preceding calendar year. *See* Md. Code, Ins. § 14-117(b). If after a hearing the Commissioner determines that a larger surplus is necessary for the protection of subscribers, the Commissioner may require a nonprofit health service plan to maintain a surplus in an amount greater than the amount required by § 14-117(b).

5. The surplus of a nonprofit health service plan may be considered excessive only if (i) the surplus is greater than the appropriate risk based capital requirements as determined by the Commissioner for the immediately preceding calendar year and (ii) after a hearing, the Commissioner determines that the surplus is unreasonably large. *See id.* § 14-117(e)(1). If the surplus is determined to be excessive, the Commissioner may order the nonprofit health service plan to submit a plan for distribution of the excess in a fair and equitable manner, or if the nonprofit health service plan fails to submit a plan of distribution within 60 days, may compile a plan and order the nonprofit health service plan to implement it. *See id.* § 14-117(e)(2). Such a distribution may be made only to subscribers who are covered by the nonprofit health service plan at the time the distribution is made. *See id.* § 14-117(e)(3).

6. In 2009, the MIA initiated a review of the surplus held by GHMSI and CFMI as of December 31, 2008. To assist with such review, the MIA engaged an outside firm (Invotex Group) to perform an independent analysis and recommend a targeted surplus range. Following a hearing, the MIA issued a Report in January 2010 entitled: Report on CareFirst Premiums and Surplus (herein the "Report"), which found that the respective surpluses for CFMI and GHMSI were neither unreasonably large nor excessive.

7. The Report identified the need for CFMI, GHMSI and the Commissioner to establish a "new working relationship" relating to the surpluses, that the parties work to maintain the surpluses within the targeted surplus ranges and that the Companies and the MIA use these targeted surplus ranges during rate reviews.

8. This Consent Order is meant to establish a framework for this new working relationship and to establish a means by which the parties will review the targeted surplus ranges of the Companies on an ongoing basis.

9. The Companies recognize and agree that they will maintain up-to-date targeted surplus ranges that meet their solvency and other needs, and that these ranges will be disclosed to the MIA together with the underlying methodology, data, and assumptions and any expert, independent evaluation that may have been relied upon by the Board of Directors of CFMI and the Board of Trustees of GHMSI in determining

them. The parties recognize that it is the responsibility of CFI's Board of Directors to oversee the establishment by the respective Boards of CFMI and GHMSI of targeted surplus ranges for CFMI and GHMSI to provide for the financial soundness of the Companies and allow sufficient capital for the Companies to satisfy the requirements of § 14-102 of the Insurance Article.

10. The Companies further agree that they will undertake a review of their targeted surplus ranges by qualified actuarial experts no less frequently than every three years. The Companies will consider the results of these reviews in establishing anew the targeted surplus ranges for each Company, or in revising these ranges as may be necessary given changing circumstances.

11. In order to determine the appropriateness of the targeted surplus ranges established by the Companies, the Commissioner may periodically undertake an independent analysis such as that undertaken by Invotex in 2009.

12. The Companies recognize the Commissioner's authority to use either the Commissioner's own adopted targeted surplus ranges or the Companies' ranges in determining whether and to what extent contingency margins should be included in rate filings.

ACCORDINGLY, it is hereby mutually agreed between the parties and therefore **ORDERED** by the Commissioner as follows:

A. CFI shall submit to the Commissioner the targeted surplus range for both CFMI and GHMSI for approval by July 1, 2011. The submittal shall include the relevant data, assumptions, and external expert opinions and analyses relied upon by the Boards on which the new targeted surplus ranges are based.

B. If and when the Boards, or either of them, consider it necessary to establish new targeted surplus ranges for CFMI and/or GHMSI, but not less than every three years, CFI shall submit such targeted surplus ranges to the Commissioner for approval within 30 days of their establishment by the respective Boards. These submittals shall contain all of the information listed in paragraph A.

C. The Commissioner shall review the submittal or submittals filed by CFI. When the Commissioner is determining the appropriateness of the targeted surplus ranges by the Companies, the Commissioner shall consider:

1. The risks identified by CFMI and GHMSI;
2. The availability of capital within the group of companies controlled directly or indirectly by CFI, including CFMI and GHMSI and their subsidiaries and affiliates;

3. The distribution of the business of CFMI and GHMSI, including both risk and non-risk business;
4. The missions of CFMI and of GHMSI;
5. Whether the surpluses are adequate for the protection of the subscribers of CFMI and GHMSI; and
6. Any other relevant factors.

D. In reviewing each targeted surplus range for each Company, the Commissioner may procure, at the expense of each Company, appropriate experts to advise the Commissioner on the appropriateness of the targeted surplus range. To facilitate the Commissioner's review, the Companies agree to ensure reasonable access to the relevant data, assumptions, and expert opinions and analyses relied upon by the Boards of the Companies and to the experts providing such opinions and analyses and whatever other materials of the Companies and their affiliates and subsidiaries the Commissioner considers reasonably necessary for her review.

E. Upon completion of the Commissioner's review of each targeted surplus range for each Company, the Commissioner shall inform the Companies whether, based on the Commissioner's independent review, the Commissioner intends to approve the targeted surplus range established by each of the Companies or adopt an alternative targeted surplus range for each of the Companies.

F. In the event the Commissioner intends to adopt an alternative targeted surplus range, the parties shall attempt to resolve their differences. In the event that the Commissioner and the Companies are unable to resolve their differences, the Commissioner will hold a quasi-legislative hearing to consider the appropriate targeted surplus range for either CFMI or GHMSI as the case may be. The hearing will be held in accordance with COMAR 31.02.06, after which the Commissioner may issue an order adopting an alternative targeted surplus range for, or approving the targeted surplus range established by, CFMI or GHMSI, as the case may be.

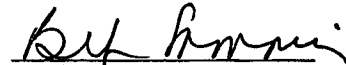
G. GHMSI and CFMI will seek to maintain their respective surplus within their targeted surplus ranges as approved or adopted by the Commissioner, until and unless such ranges are changed in accordance with the terms of this Order.

H. With their Annual Statements filed with the Commissioner under § 14-121 of the Insurance Article, both GHMSI and CFMI shall specify:

1. Their targeted surplus range applicable to the calendar year for which the Annual Statement is filed; and

2. Their actual surplus as a percent of authorized control level RBC at the close of the calendar year for which the Annual Statement is filed.

So ORDERED this 26th day of May, 2011.



Beth Sammis
Acting Insurance Commissioner

CONSENT OF CAREFIRST OF MARYLAND, INC. AND GROUP HOSPITALIZATION AND MEDICAL SERVICES, INC.

CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc. hereby consent to the entry of this Consent Order, as well as to the terms contained herein. Furthermore, Chet Burrell acknowledges, in his capacity as the President and Chief Executive Officer of CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc., that he has the authority to enter into this Consent Order and bind CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc. to the terms contained herein.

CAREFIRST OF MARYLAND, INC.
GROUP HOSPITALIZATION AND MEDICAL SERVICES, INC.

By: 

Name: Chet Burrell

Title: President and Chief Executive Officer

5/24/11
Date


Witness

24 May 2011
Date