

- f. GHMSI, the DC Appleseed Center for Law and Justice, Inc. and other interested persons may file rebuttal statements clarifying any issue or responding to questions raised at the hearing or in the submissions described above. The page length limits in 26A DCMR § 4602.4 are hereby waived. Rebuttal statements must be filed no later than 5pm Eastern Time on Friday, October 17, 2014.
4. When the deadline for the last submission has expired, a further order closing the record will be issued.
5. Any request for extension or other modification of the above page limits or deadlines shall be made in writing and submitted to DISB at least seven (7) calendar days before the relevant deadline listed in this Order.
6. All statements, responses to requests for information from DISB and comments on such responses should be sent to the attention of:

Adam Levi
Assistant General Counsel
District of Columbia Department of Insurance, Securities and Banking
810 First Street NE, Suite 701
Washington, D.C. 20002
(202) 442-7759
Adam.Levi@dc.gov

7. Any communications sent to Mr. Levi will be made a part of the official record of this proceeding and may be posted on DISB's website at <http://disb.dc.gov>.

Dated: August 7, 2014



Chester A. McPherson, Acting Commissioner

SEAL



EXHIBIT A

For purposes of the following questions/ information requests:

- “ACA” means the Affordable Care Act.
- “Appleseed” means the DC Appleseed Center for Law and Justice, Inc. and United Health Actuarial Services, collectively
- “BCBS” or “Blues” plans means members of the BlueCross BlueShield Association
- “CFMI” means CareFirst of Maryland, Inc.
- “District” means the District of Columbia
- “GHMSI” means Group Hospitalization and Medical Services, Inc.
- “MIEAA” means The Medical Insurance Empowerment Amendment Act of 2008, effective March 25, 2009 (D.C. Law 17-369, D.C. Official Code § 31-3501 *et seq.*), which amended the Hospital and Medical Services Corporation Regulatory Act of 1996, effective April 9, 1997 (D.C. Law 11-245)
- “Modified Milliman Model” means the Milliman model with the adjustments described in the Rector Report
- “RBC” means Risk Based Capital
- “RBC-ACL” means Risk Based Capital – Authorized Control Level
- “Rector” means Rector & Associates and FTI Consulting, collectively
- “Rector Report” means Rector & Associates, Inc. Report to the D.C. Department of Insurance, Securities and Banking regarding Group Hospitalization and Medical Services, Inc. dated December 9, 2013
- “UHAS” means United Health Actuarial Services.

When responding to the requests below, please indicate specifically which portions (if any) of your response should be deemed confidential and not posted on DISB’s website.

A. Questions for/ Information Requested from Rector

1. Please provide your recommendations regarding how the Commissioner should determine the amount of GHMSI’s surplus that is attributable to the District in accordance with 26A DCMR § 4699.2.
2. Based on the Modified Milliman Model, please provide the surplus target generated if, instead of a 98% confidence level, the following confidence levels are used:
 - a. 90% confidence level;
 - b. 93% confidence level; and
 - c. 95% confidence level.
3. At the hearing, GHMSI indicated that 40% of GHMSI’s surplus comes from its 50% ownership of BlueChoice.

- a. Please describe how the Modified Milliman Model incorporated BlueChoice into its process.
 - b. Please explain how the inclusion of BlueChoice affects the assumptions in the model and whether BlueChoice results should be considered in comparing assumptions to historical experience.
4. For each of the 13 factors used in the stochastic modelling for the Modified Milliman Model — (1) equity portfolio asset values, (2) premium growth rate, (3) rating adequacy and fluctuation, (4) unpaid claim liabilities and other estimates, (5) change in interest/discount rate—impact on bond portfolio and pension plan, (6) bond portfolio impairment, (7) overhead expense recovery and fee income risks-commercial business, (8) overhead expense recovery and fee income risks-FEP indemnity business, (9) overhead expense recovery and fee income risks-FEP operations center business, (10) overhead expense recovery and fee income risks-BlueCard, (11) other business risks, (12) catastrophic events and (13) unidentified development and growth:
 - a. Please provide a brief description of how you arrived at the conclusion that the probability distribution and associated surplus impacts were reasonable and “middle of the fairway” assumptions.
 - b. Please include in your description references to the specific data relied upon in reaching this conclusion.
 - c. Additionally, please briefly describe any validation tests you ran for specific assumptions and the outcome of those tests.
5. For each assumption that affects surplus that was used in the pro forma projections for the Modified Milliman Model — including (1) average expected investment yield, (2) tax carryback assumptions, (3) other income assumptions, (4) other tax assumptions, (5) premium growth assumptions, and (6) any other major assumptions:
 - a. Please provide a brief description of how you arrived at the conclusion that the assumption was a reasonable and “middle of the fairway” assumption.
 - b. Please include in your description references to the specific data relied upon in reaching this conclusion.
 - c. Additionally, please briefly describe any validation tests you ran for specific assumptions and the outcome of those tests.
6. Applesseed testified that, looking at historic results, (1) GHMSI’s premium growth averaged 2.8% over the last five years with a maximum of 6.8%, and (2) the Modified Milliman Model used a 12.5% midpoint assumption for the premium growth factor. *See* Transcript at 193.

- a. Please describe the distribution used in your analysis and the basis for the midpoint used in the Modified Milliman Model.
 - b. Please address the extent to which, if any, the premium growth rates projected in the Modified Milliman Model depart from GHMSI's historical experience and why those projections are appropriate. In other words, how did Rector conclude that GHMSI's premium growth assumptions were right down the middle of the fairway given GHMSI's actual historical premium growth?
 - c. How did GHMSI's post-2011 actual results compare to the assumptions underlying the premium growth rate?
7. Please describe in detail the data underlying the equity portfolio factor distribution, as used in the Modified Milliman Model.
 - a. Did the underlying assumptions change from those in the original Milliman Model? If yes, how?
 - b. Is it correct that the equity portfolio factor, as used in the Modified Milliman Model, has an overall negative return and therefore would require additional surplus?
 - i. If no, please address the argument made by Appleseed in its hearing testimony (*see, e.g.*, Hearing Transcript at pages 214-215) suggesting that the probability distribution for the equity portfolio factor in the Modified Milliman Model has an overall negative return.
 - ii. If yes, can you estimate how much the negative equity returns impacted the calculation of the surplus target?
 - c. How did the post-2011 actual results compare to the assumptions underlying the equity portfolio factor?
8. Please address topics raised in Appleseed's pre-hearing report and hearing testimony including but not limited to the following:
 - a. Whether Rector validated key assumptions in the Modified Milliman Model;
 - b. Appleseed's assertion that FTI's validation of the model did not account for the dispersion of results;
 - c. The use of data from the 1980s and the early 1990s in connection with the ratings and adequacy factor;
 - d. The assumptions in the pro forma statements;
 - e. Whether Rector accounted for risk-mitigating provisions of the ACA – the so-called 3Rs (reinsurance, risk corridors and risk adjustment) – that serve to limit or reduce potential underwriting losses;

- f. Whether Rector overstated the likely increase in GHMSI enrollment;
9. Please address any questions, comments or criticisms in Appleseed's pre-hearing brief or hearing testimony that you wish to address that have not been addressed in your responses to the requests above.
10. Please address any questions, comments or criticisms in GHMSI's pre-hearing brief or hearing testimony that you wish to address that have not been addressed in your responses to the requests above.

B. Questions for/ Information Requested from GHMSI

1. Please provide your recommendations regarding how the Commissioner should determine the amount of GHMSI's surplus that is attributable to the District in accordance with 26A DCMR § 4699.2.
2. Please address if and how post-2011 results should be factored into the review of GHMSI's 2011 surplus.
3. Please explain with specificity the consequence to GHMSI as a Blue Cross Blue Shield Association licensee if its surplus falls below either 200% RBC-ACL or 375% RBC-ACL, distinguishing in each case between discretionary and mandatory actions on the part of the Association. In particular (but without limiting the scope of the foregoing question):
 - a. Does a surplus below 200% RBC-ACL result in automatic loss of GHMSI's license to use BCBS trademarks or does the Association have discretion to revoke the license?
 - b. Please provide the written terms of your license for the BCBS trademarks and any materials relating to the Association's right to revoke the license, place GHMSI under financial scrutiny or take any other actions due to the financial status of GHMSI, including any guidelines the Association would apply in determining whether to take such actions.
4. Beyond GHMSI's own surplus, to what resources does GHMSI have access to protect against insolvency?
5. Please provide any information available to support the projection, asserted at the hearing, that GHMSI's RBC may drop as much as 80 to 100 basis points in 2014. *See* Transcript at 129.
6. GHMSI's hearing testimony discussed the relationship of GHMSI and CareFirst BlueChoice.
 - a. BlueChoice appears to have had a significantly larger operating gain percentage over the past five years as compared to GHMSI; please explain the reason for the difference.
 - b. Please describe how the BlueChoice results are reflected in the Milliman model.

- c. In the Milliman model, do the gains from BlueChoice show up through operating gains or through investment gains?
 - d. Were the operating gains from BlueChoice, whether included in operating gains or investment income, validated in the Milliman model?
 - e. Does the Milliman model assume BlueChoice percentage gains will continue to be greater than GHMSI gains?
7. GHMSI's testimony indicated that (1) CareFirst participated in an analysis of Blues plans to better understand administrative efficiency; *see, e.g.*, Transcript at 125; (2) there was information gathered from BCBS and an analysis performed by the Sherlock Company, *see* Transcript at 141, and (3) GHMSI looked at comparisons to publicly traded carriers (United, Cigna, Humana). *See* Transcript at 143.
- a. Is the analysis performed by the Sherlock Company, the same analysis of the BCBS plans mentioned earlier in GHMSI's testimony as discussed above? If not, please respond to the two questions below for each analysis.
 - i. Does the analysis examine CareFirst as a whole or does it address the separate operating companies?
 - ii. Please provide a copy of the most recent report, the report for 2011 and the report for 2008.
 - b. Please provide a copy of the most recent comparison done to publicly traded companies, and the comparison for 2011 and 2008.
 - c. Please describe how expenses are allocated between GHMSI, BlueChoice, CFMI and CareFirst Inc.
8. GHMSI's testimony indicated that large employers ask direct questions about CareFirst's financial strength. *See, e.g.*, Transcript at 127-128. Please provide representative correspondence from large employers or their advisors asking questions about CareFirst's financial strength during the process of acquiring or renewing coverage and a copy of the responses from CareFirst addressing the question.
9. GHMSI's testimony indicated that the FEHBP program has performance standards for GHMSI. *See, e.g.*, Transcript at 140. Please provide a copy of the most recent performance standards promulgated for the FEHBP program applicable to GHMSI.
10. GHMSI testified that it is under an order from the Maryland Commissioner of Insurance to increase its surplus by 200 points. *See, e.g.*, Transcript at 103. What steps, if any, has GHMSI taken to respond to the Maryland order?
11. GHMSI's testimony indicated that it could break out the community giving for GHMSI alone. *See, e.g.*, Transcript at 158.
- a. For each year from 2008 through 2011, please provide a breakdown of the community giving for GHMSI only, including a list of recipients and amounts for each category

(Catalytic Giving, Targeted Health Giving Through Others, Programmatic Initiatives, Community Sponsorships, and Corporate Memberships) described in your pre-hearing report.

- b. Please clarify whether, and if so why, you consider premium taxes paid to the District as a community health reinvestment.
12. GHMSI's testimony seemed to indicate that reducing a proposed rate in response to actual expenditures being less than projected would count as community health reinvestment. *See, e.g.,* Transcript at 157.
- a. Please clarify under what circumstances community health reinvestment would be part of a rate filing and how it would be identified.
 - b. GHMSI's testimony stated that it would "moderate or cut rates to our subscribers if our surplus gets too high above a target point. And ... we did do that in 2010 going into '11." *See* Transcript at 157.
 - i. Please identify which rate filing was submitted with a reduction of rates in 2010 going into 2011.
 - ii. What was the target point referenced in GHMSI's testimony?
 - iii. Please provide examples of any other rate filings submitted in response to a high surplus.
13. Please describe (or provide a copy of) GHMSI's current policy(ies) for determining (a) the amount to give each year to charitable organizations, (b) when and how much to reduce rates, and (c) charitable giving relative to rate reduction.
14. Please address any questions, comments or criticisms in Rector's pre-hearing brief or hearing testimony that you wish to address that have not been addressed in your responses to the requests above.
15. Please address any questions, comments or criticisms in Appleseed's pre-hearing brief or hearing testimony that you wish to address that have not been addressed in your responses to the requests above.

C. Questions for/ Information Requested from Appleseed

1. Please provide your recommendations regarding how the Commissioner should determine the amount of GHMSI's surplus that is attributable to the District of Columbia in accordance with 26A DCMR § 4699.2.
2. Please address if and how post-2011 results should be factored into the review of GHMSI's 2011 surplus.

3. Hearing testimony seemed to contemplate that there are four components involved in modeling to determine a required surplus: (1) the model, (2) the assumptions, (3) the surplus threshold and (4) the confidence level. In Rector's testimony, it was brought out that a model is really just a complicated calculator and that all models should return similar results if the same inputs are used. *See, e.g.,* Transcript at 20.
 - a. Do you agree that the model itself should not have a material impact on the results if it is functionally correctly?
 - b. Do you have any reason to be concerned about the operation of the Modified Milliman Model, as opposed to the assumptions and confidence level underlying the Modified Milliman Model?
4. Appleseed's testimony argued that the modeling done to date, other than by Mr. Shaw, did not incorporate the specific requirements of District law to balance financial soundness and community reinvestment. The testimony also indicated that efficiency should guide the choice of assumptions, and that assumptions should use historical results to predict the future, but that you don't tie yourself exclusively to that. *See, e.g.,* Transcript at 192-193.
 - a. Are there criteria other than the four components mentioned above (model, assumptions, threshold, confidence level) that should be considered in determining the level of surplus GHMSI should maintain to balance financial soundness and community reinvestment?
 - b. Are there objectively correct assumptions to be used to balance financial soundness and community reinvestment or is there subjectivity in determining the appropriate assumptions?
 - c. Does balancing financial soundness and community reinvestment impact assumptions differently than efficiency? Does balancing financial soundness and community reinvestment impact different assumptions than efficiency?
 - d. What criteria should be used to determine when to depart from the historical record when considering future assumptions?
5. Appleseed's testimony raised issues about the use of a range focusing on when GHMSI was above the target about which the range was created, but within the range.
 - a. Do you agree that, when using a surplus range with a targeted midpoint, if GHMSI is below the target but above the low end of the range, GHMSI's level of community health reinvestment would not decrease? If no, please explain.
 - b. Do you agree that, if there is a single target point for surplus, GHMSI would reasonably be expected to reduce their community health reinvestment any time they were below the target? If no, please explain.
 - c. If you answer "no" to either (a) or (b) above, please explain why situations below the target should be treated differently than those above?

- d. Is it Appleseed's position that the Commissioner must (or should) use a single target RBC number rather than a range? Please explain.
6. GHMSI's testimony discussed the relationship of GHMSI and CareFirst BlueChoice and that 40% of GHMSI's surplus comes from its 50% ownership of BlueChoice. *See, e.g.*, Transcript at 100.
 - a. Please describe how the UHAS model incorporated BlueChoice into its process. Do you know if this is similar to the way Milliman/ Rector included BlueChoice?
 - b. Please explain how the inclusion of BlueChoice should affect the assumptions in the model and whether BlueChoice results should be considered in comparing assumptions to historical experience.
7. Please address any questions, comments or criticisms in Rector's pre-hearing brief or hearing testimony that you wish to address that have not been addressed in your responses to the requests above.
8. Please address any questions, comments or criticisms in GHMSI's pre-hearing brief or hearing testimony that you wish to address that have not been addressed in your responses to the requests above.