



Calvert Memorial Hospital

Tradition. Quality. Progress.

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DEPARTMENT OF INSURANCE
SECURITIES AND BANKING

The Honorable Gennet Purcell, Esq.
Commissioner
D.C. Department of Insurance, Securities and Banking
810 First Street, NE, Suite 701
Washington, DC 20002

Dear Commissioner Purcell:

I am writing from the perspective of my dual roles as President & CEO of Calvert Memorial Hospital and as a member of the CFMI Board regarding the efforts by the District of Columbia to impose special community obligations on GHMSI.

As a hospital executive, health insurers' payments on claims of their members enable Calvert Memorial to accomplish its mission to provide health care to residents of the communities we serve. Private carriers account for nearly 45 percent of Calvert Memorial's total revenues. As the region's largest health insurer, CareFirst BlueCross BlueShield and its Washington-area affiliate GHMSI represents a disproportionate percentage of these payments [approximately 50 percent], which makes it all the more imperative that GHMSI have sufficient reserves to pay their subscribers' claims. In fact, 40 percent of GHMSI's members are Maryland residents, many of whom receive care at Calvert Memorial Hospital.

As a member of one of CareFirst's governing Boards, I have watched with increasing concern the repeated efforts by the District of Columbia to impose special community obligations on GHMSI that go far beyond the intent of its Federal Charter to serve as a non-profit health services plan that exists to provide quality, affordable health care coverage for its 1 million members in the Washington Metropolitan Area. GHMSI's fundamental legal obligations have been confirmed by Congress, the DC Attorney General, and the DC Insurance Commissioner.

Despite this clear articulation of the company's mission, it's amazing that some organizations and officials in the District persist in their attempts to wrest money set aside for the protection of GHMSI's subscribers for other uses. For instance, the assertions by a perhaps well-intentioned but misinformed advocacy group that \$300 million of the company's reserves represent excess that should be redistributed for the benefit of the larger community are, quite simply, foolish and dangerous. You, in your role as regulator, should be far more focused on whether insurers have sufficient and appropriate reserves to cover the current and future claims of its members.

Instead, I fear there may be a concerted effort to pressure this agency into a finding that GHMSI's reserves are excessive so that such alleged "excess" funds can be redirected for purposes other than that for which they were created. Given the current economy and the health threats we face, having sufficient reserves is imperative. At the same time, it is possible for an insurer to accumulate too much in reserves.

That's why the CareFirst Boards have engaged expert, independent outside consultants to provide guidance on an appropriate range of reserves for CareFirst's two operating affiliates. An objective review of GHMSI's reserves, as measured by the percentage of Risk-Based Capital maintained, shows that the company has consistently stayed in the lower half of the range recommended by Milliman, Inc, the actuarial consultant engaged by CareFirst. Even more telling, when RBC levels crept higher in 2004, the CareFirst Board reduced its targeted net margins for the following year by providing \$60 million in rate relief to subscribers. This resulted in materially reducing RBC levels in 2005.

This demonstrates that members of CareFirst's Boards take seriously their responsibility to adhere to the company's not-for-profit mission by taking appropriate steps to ensure that reserves held for the protection of members are sufficient but not excessive. Since we alone have the fiduciary responsibility to protect the interests of the members who rely on us for their health care coverage, decisions on how those reserves are used should rest solely with the CareFirst, Inc. and GHMSI Boards.

That is not to say that the company does not perceive a role in contributing to the greater community. CareFirst has demonstrated over and over again that it is a responsible and responsive corporate citizen. CareFirst contributes more to the community than all other health insurers operating in the region *combined*. Indeed, CareFirst ranks among the top 10 corporate contributors in the metropolitan area, according to the *Washington Business Journal*.

In summary, as a Board member, I must ensure that CareFirst meets its core responsibility of providing quality health coverage for its subscribers, as well as other philanthropic activities the Board may decide to undertake. I urge you not to do anything that will make that task more difficult.

Sincerely,

A handwritten signature in black ink that reads "James J. Xinis". The signature is written in a cursive, flowing style.

JAMES J. XINIS
President & CEO