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April 13, 2012

Mr. Philip Barlow, Associate Commissioner for Insurance  
District of Columbia Department of Insurance, Securities and Banking  
810 First Street NE  
Suite 701  
Washington, D.C. 20002

Re: Surplus Review of Group Hospitalization and Medical Services, Inc.

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*Steptoe & Johnson LLP*

Dear Mr. Barlow:

We understand from the January 20 *D.C. Register* that the Department intends to review the surplus of Group Hospitalization and Medical Services, Inc. to determine whether GHMSI's surplus complied with MIEAA's requirements as of December 31, 2011.<sup>1</sup> We also understand that the Department is engaging Rector & Associates, and that its analysis will be a major component of the methodology that the Department intends to use to monitor GHMSI's continuing compliance with the statute.

We believe that sound, updated methodologies and assumptions must underlie any analysis that (1) ensures the company's compliance with its statutory obligations and that (2) GHMSI reasonably can and should accept. Toward that end, we would like to offer some suggestions to you and to Rector concerning how Rector's analysis might be done. Our suggestions are set out in the attached letter from Mr. Mark Shaw, Senior Consulting Actuary with United Health Actuarial Services, Inc. Mr. Shaw's curriculum vitae is attached to his letter. He assisted ARM during the last surplus proceeding; he is familiar with that proceeding and with the decision of your predecessor.

Mr. Shaw makes essentially three recommendations in his letter. First, he suggests that Rector develop an independent methodology for estimating a permissible range of surplus for GHMSI rather than accepting or modifying Milliman's methodology, which in its last review Rector determined is flawed. Second, he urges that Rector's work not follow certain of Milliman's assumptions, largely because they are unsubstantiated or not in keeping with modern actuarial practice. And third, Mr. Shaw makes certain recommendations about the use of confidence intervals to develop an appropriate range of surplus for GHMSI consistent with financial soundness. If you or Rector would like to discuss any of these recommendations with us or Mr. Shaw, we are very willing

<sup>1</sup> 59 D.C. Reg. 397 (Jan. 20, 2012).



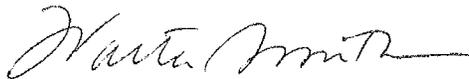
to do that. Based on our understanding of the process you want to establish, our purpose is to encourage that the range of permissible surplus be based on a fair, transparent methodology.

Finally, we would like to ask you to consider a legal argument that is outside Rector's or Mr. Shaw's expertise. The argument concerns the company's statutory obligation to "engage in community health reinvestment to the maximum feasible extent consistent with [both] financial soundness *and* efficiency" [emphasis added]. As Councilmember Cheh pointed out in her amicus brief filed with the DC Court of Appeals (p.5), MIEAA requires DISB to determine whether GHMSI's surplus meets this obligation. And as the Councilmember stated, because the previous Commissioner did not do this in her October 2010 decision, that decision "did not follow the statutory mandate."

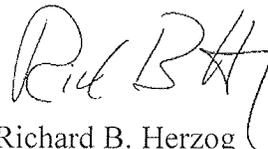
We believe that any surplus within a properly calculated range would satisfy the MIEAA requirement that it not be "unreasonably large." But the further statutory requirement that the company engage in community health reinvestment to the "maximum feasible extent consistent with financial soundness and efficiency" imposes an obligation directly on GHMSI as a regulated hospital and medical services corporation. In our view, only a surplus toward the lower end of a range established by proper and independent actuarial analysis to ensure financial soundness can comply with the statute's efficiency and maximum feasible requirements.

Thank you for allowing us to offer suggestions about Rector's analysis and the Department's use of that analysis. We appreciate the opportunity to have input in this process, and stand ready to work with the Department and Rector.

Sincerely,



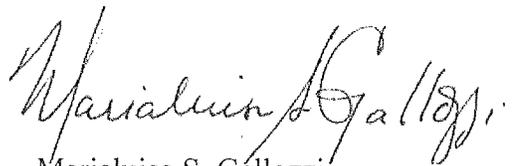
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cc: The Honorable William P. White, Commissioner, D.C. Department of Insurance,  
Securities and Banking  
Thomas M. Glassic, General Counsel, D.C. Department of Insurance, Securities and  
Banking