# EXHIBIT 1

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**

**DEPARTMENT OF INSURANCE, SECURITIES AND BANKING**

**Division No. Five (5)**

IN THE MATTER OF

Surplus Review and Determination for Group Hospitalization and Medical Services, Inc.

Order Nos. 14-MIE-12
14-MIE-19

# EXPERT REPORT OF AARON SONGER, CPA

January 20, 2021

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## 1. INTRODUCTION AND SCOPE

Group Hospitalization and Medical Services, Inc. ("**GHMSI**" or the "**Company**") is a corporation chartered by the United States Congress that operates as a not-for-profit health services plan in Maryland, Northern Virginia, and the District of Columbia.[1] Effective March 25, 2009, the Council of the District of Columbia adopted the Medical Insurance Empowerment Amendment Act of 2008 ("**MIEAA**"). The MIEAA requires the Commissioner of the District of Columbia Department of Insurance, Securities and Banking (the "**Commissioner**"), in coordination with Maryland and Virginia insurance regulators, to review the portion of GHMSI's surplus attributable to the District of Columbia at least every three years to determine whether the surplus is "excessive," as that term is defined in the MIEAA.[2]

This matter relates to a proceeding regarding a Decision and Order issued by the former Acting Commissioner on December 30, 2014 with respect to the 2011 surplus of GHMSI.[3] The Commissioner's Order determined that as of December 31, 2011, GHMSI maintained "excessive" surplus of approximately $267.6 million, of which 21%, or approximately $56.2 million, was attributable to the Company's operations in the District of Columbia ("**D.C.**" or "**the District**").[4]

[1] Charter issued to GHMSI pursuant to an Act of Congress, approved August 11, 1939, as amended October 17, 1984, October 5, 1992, October 29, 1993, December 16, 1997, and December 18, 2015, by Acts of Congress ("**GHMSI Charter**"). The information in this section is provided as summary background information based upon my understanding of documents, case filings produced during these proceedings, and discussions with Company counsel. It is not intended to be a comprehensive summary of each of the case filings in this matter.

[2] *See* MIEAA Sec. 7 (D.C. Official Code § 31-3506).

[3] Decision and Order 14-MIE-012 issued by the Government of the District of Columbia Department of Insurance, Securities and Banking ("**DISB**") dated December 30, 2014 ("**Commissioner's Order**").

[4] Commissioner's Order, p. 1. The National Association of Insurance Commissioner's ("**NAIC**") Glossary of Insurance Terms defines surplus simply as an "insurance term referring to retained earnings." Under U.S. Generally Accepted Accounting Principles, retained earnings refers to the component of a company's equity comprised of its earned capital developed and built up over time from profitable operations, consisting of the undistributed income (*i.e.*, revenues or income less expenses) that remains invested in the company. Under Statutory Accounting Principles, the analogous term to retained earnings is "unassigned funds" or surplus. The term "excessive" surplus is defined by the MIEAA as noted above. The precise amount of "excess" 2011 surplus deemed attributable to the District was originally $56,213,088.72. For the purposes of this report, the "excess" 2011 surplus amount is assumed to be $56,213,088.72 / 21% or $267,681,375. On August 30, 2016, a successor DISB Commissioner issued Decision and Order 14-MIE-19 (the "**August 30, 2016 Order**") adjusting the amount of "excess" 2011 surplus attributable to D.C. to $51,325,470.72, after applying a reduction of $4,887,618 to credit GHMSI for community health reinvestment. *See* August 30, 2016 Order, p. 4 at FN 3 and pp. 27-28.

DISB regulations provide the following regarding the factors to be considered by the Commissioner in the determination of what percentage of GHMSI's surplus is attributable to the District:

> "**Attributable to the District**"- shall mean the process used by the Commissioner to allocate the portion of the surplus of a hospital and medical services corporation that is derived from the company's operations in the District of Columbia based on the following factors:
> (a) The number of policies by geographic area;
> (b) The number of health care providers under contract with the company by geographic area; and
> (c) Any other factor that the Commissioner deems to be relevant based on the record of a public hearing held pursuant to section 4602.[5]

The former Acting Commissioner's determination was based upon an assessment of the two factors specified by the regulation in clauses (a) and (b) above and a risk-weighted reported premium factor, all using 2011 data, resulting in the following estimated percentages of the Company's operations attributable to D.C.:

(i) risk-weighted reported premiums (21%);
(ii) number of policies (19%); and
(iii) number of network providers (15%).[6]

The former Acting Commissioner next applied weightings of 90%, 5%, and 5%, respectively, to these determined percentages, resulting in a weighted average calculation of 21%, as summarized in Table 1 below.[7]

*Table 1 Former Acting Commissioner D.C. Attribution Percentage*

| Allocation Factor | % Allocated to D.C. | x Weight | Weighted Allocation |
|---|---|---|---|
| (1) Reported Premiums | 21% | 90% | 19% |
| (2) Policies by Policyholder Jurisdiction | 19% | 5% | 1% |
| (3) Providers by Provider Jurisdiction | 15% | 5% | 1% |
| **Weighted Average** | | | **21%** |

[5] 26A DCMR §4699.2.
[6] Commissioner's Order, p. 58. The factors for number of policies and number of network providers are from the Response of GHMSI to Supplemental Information Request 1(d) in DISB Order No. 14-MIE-08 (October 3, 2014) Submitted October 31, 2014 ("**GHMSI 1(d) Response**"), Tables 1 and 3, respectively. The premium factor was determined by the former Acting Commissioner as described in the Commissioner's Order, pp. 52-56.
[7] Commissioner's Order, p. 58 (*see* Table 7 Allocation Factors and Weight). Certain percentages used in the former Acting Commissioner's calculations appear to have been rounded.

On January 9, 2015, D.C. Appleseed Center for Law and Justice, Inc. ("**Appleseed**"), a petitioner-intervenor in this matter, submitted a Motion for Reconsideration, attaching a statement issued by Mr. Mark Shaw (the "**Shaw Statement**") prepared on behalf of Appleseed.[8] The Shaw Statement critiqued certain aspects of the former Acting Commissioner's analysis and presented an alternative methodology (referred to herein as the "**Shaw Methodology**") to the methodology applied by the former Acting Commissioner. The Shaw Statement adopted without analysis the former Acting Commissioner's determinations for the two regulatorily required factors of number of policies and number of health care providers and calculated a new premium-related factor (referred to herein generally as the Shaw Statement's "quasi-premium" factor).[9] Based on the Shaw Statement, Appleseed claimed that "63.5% [] of the excess is allocable to the District"—as opposed to the former Acting Commissioner's determination that 21% was attributable to the District.[10]

After a series of pleadings and proceedings that are well-documented in this matter, including appeals by both GHMSI and Appleseed, on August 29, 2019, the D.C. Court of Appeals remanded, *inter alia*, the issue of attribution of 2011 excess surplus to D.C. for further proceedings in which the Commissioner was advised "to more fully address the issues raised by [GHMSI and Appleseed]."[11] In its May 14, 2020 Brief in response to the D.C. Court of Appeals Remand, Appleseed again claimed that the Shaw Methodology is the appropriate methodology by which to apportion GHMSI's excess 2011 surplus to D.C.[12] In addition, Appleseed reduced the amount of excess 2011 surplus that it claimed to be attributable to D.C. from 63.5% to 58.3% (both as

[8] Appleseed Motion for Reconsideration dated January 9, 2015.
[9] The Shaw Statement's premium / underwriting income-based factor is referred to herein as a "quasi-premium" factor as it is partially based on premium. The former Acting Commissioner's factor was based solely on premium with a risk weighting applied. *See* Commissioner's Order, pp. 53-56.
[10] Appleseed Motion for Reconsideration dated January 9, 2015, pp. 1-2.
[11] Judgment of District of Columbia Court of Appeals filed August 29, 2019, in the matters of Nos. 16-AA-895, 16-AA-967, and 18-AA-178 On Petitions for Review of Orders of the District of Columbia Department of Insurance, Securities and Banking, p. 37 ("**D.C. Court of Appeals Remand**"). *See also*, more generally, https://disb.dc.gov/page/review-carefirst's-2011-surplus.
[12] May 14, 2020 Brief for D.C. Appleseed before the DISB on Remand from the August 29, 2019 Decision of the D.C. Court of Appeals ("**Appleseed Brief**"), p. 14.

calculated in the January 2015 Shaw Statement) "given that the Commissioner determined that the attribution should include GHMSI's interest in [CareFirst BlueChoice, Inc.]…"[13] The Shaw Statement's calculation of the claimed D.C. attribution percentage is summarized in Table 2 below.

*Table 2 Shaw Statement D.C. Attribution Percentage*[14]

| Allocation Factor | % Allocated to D.C. | x Weight | Weighted Allocation |
|---|---|---|---|
| (1) Quasi-Premium | 62.9% | 90% | 56.6% |
| (2) Policies by Policyholder Jurisdiction | 19.0% | 5% | 0.9% |
| (3) Providers by Provider Jurisdiction | 15.0% | 5% | 0.8% |
| **Weighted Average** | | | **58.3%** |

I was asked by counsel for GHMSI to respond to certain of the analyses and opinions set forth in the Shaw Statement and adopted in the Appleseed Brief, including the Shaw Methodology of attribution, from accounting, financial and economic perspectives. Specifically, I was asked to address the Shaw Statement's conclusion that 58.3%, or approximately $156.0 million, of GHMSI's 2011 excess surplus is attributable to D.C.[15]

I am a Partner in the Assurance practice of PricewaterhouseCoopers LLP ("**PwC**") focusing on the insurance industry, with over twenty-five years of insurance accounting

[13] Appleseed Brief, p. 14 FN 9; *see also* Shaw Statement, Chart 5 at p. 7. The Company and CareFirst of Maryland, Inc. ("**CFMI**") are both affiliates of a not-for-profit parent company, CareFirst, Inc ("**CareFirst**" or "**CFI**"). CareFirst is the "sole member" of CFMI and GHMSI and the primary licensee of the Blue Cross Blue Shield Association that enables the Company to use the BlueCross BlueShield trademarks in the service areas of Maryland, Northern Virginia, and D.C. CareFirst and CFMI are Maryland not-for-profit health services plans. The affiliates do business as CareFirst BlueCross BlueShield. Until December 31, 2010, CFMI and the Company held a 60% and 40% interest, respectively, in a health maintenance organization subsidiary, CareFirst BlueChoice, Inc. ("**CFBC**," also referred to in this matter as "BlueChoice"). A new holding company, CareFirst Holding LLC ("**CFH**") was formed on December 31, 2010. The Company contributed its 40% interest in CFBC and other assets to CFH. CFH and its subsidiaries are owned 50.001% by CFMI and 49.999% by GHMSI. *See* Annual Statement of the GHMSI for the Year Ended December 31, 2010, Note 10 p. 25.8.

[14] Adapted from Shaw Statement, p. 7 (Chart 5 GHMSI + CFBC, Sched T, NF Profit, FEP Situs). The Shaw Statement's calculations appear to round up the "Policies by Jurisdiction" and "Providers" factors from those reported in the GHMSI 1(d) Response to 19.0% and 15.0%, from 18.92% and 14.88%, respectively. We cannot determine definitively whether the former Acting Commissioner's calculation rounded such amounts.

[15] I was not asked to address, nor did I perform any analyses regarding: (i) the former Acting Commissioner's determination that $267.6 million (or any alternative amount asserted by Appleseed) of GHMSI's 2011 surplus was excessive; or (ii) the Shaw Statement's discussion of the equity portfolio asset value (EPAV) factors adopted by the former Acting Commissioner in reaching that determination. *See* Shaw Statement, pp. 7-12.

experience conducting financial statement audit engagements relating to health, life, and property and casualty insurance companies. My curriculum vitae is attached as Appendix A to this report and further describes my professional credentials. Our services were performed and this report was prepared solely in connection with the Surplus Review and Determination for Group Hospitalization and Medical Services, Inc. Order Nos. 14-MIE-012 and 14-MIE-019 and the associated proceedings. PwC performed the services and developed this report for the use and benefit of its client and disclaims any contractual or other responsibility to others based on their access to or use of this report and the information contained herein.

## 2. INFORMATION CONSIDERED

My opinions are based upon information made available to me as of the date of this report. PwC held discussions with Company personnel and received and considered various documents in preparing this report.[16] The documents considered are identified in Appendix B attached to this report and/or are cited in this report and primarily consisted of selected case filings and pleadings related to this proceeding, the 2003 to 2011 Annual Statements and other related exhibits of GHMSI and CFBC, and other Company accounting and corporate records and agreements.

The analyses, observations, and opinions contained in this report are based on my skills, knowledge, education, and training. I am not an attorney, and the opinions offered in this report are not to be considered legal opinions. I reserve the right to update this report based on new documents or information that may be produced in this proceeding or may otherwise become available to me after the date of this report. In addition, if Appleseed submits an expert report prepared by Mr. Shaw or another expert with regard to this matter, I understand that I may be asked by counsel for the Company to read and respond to it.

[16] "We" or "our" in the context of this report refers to either myself or PwC professional staff working under my direction.

The exhibits developed as of the issuance of this report are attached and referenced herein. In addition, I may create additional exhibits and/or charts after the issuance of this report to be used if necessary for a potential hearing or testimony. I may rely upon the material listed in Appendix B as well as demonstrative exhibits, any expert reports submitted by Appleseed, and testimony or exhibits used by Appleseed's witnesses.

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## 3. EXECUTIVE SUMMARY

PwC was engaged by counsel to perform certain accounting, financial, and economic analyses. I was asked to analyze and formulate an opinion from accounting, financial, and economic perspectives, with respect to the Shaw Statement's conclusion that 58.3% of GHMSI's excess surplus as of December 31, 2011 is attributable to D.C. After performing these analyses, I made the following summary observations and findings, the bases and reasoning for which are set forth in this report.

In sum, based upon the analyses performed and my observations and findings, the Shaw Statement's attribution of 58.3% of GHMSI's excess 2011 surplus to D.C.—an amount that would attribute approximately $156 million, or $100 million more of GHMSI's 2011 excess surplus to the District than determined by the former Acting Commissioner—is significantly overstated. The Shaw Statement fails to present the underlying support for its calculations or jurisdictional allocation methods and is replete with mathematical errors and inconsistencies that further call into question the soundness of its conclusions.

Most significantly, the methodology used in the Shaw Statement to determine the District's quasi-premium allocation factor of 62.9% suffers from numerous conceptual flaws and is an unreasonable and unreliable measure for determining the attribution of GHMSI's 2011 excess surplus to D.C. After adjusting for the primary flaws and computational errors in the Shaw Methodology, the quasi-premium factor is reduced from 62.9% to 30.1%.[17] In addition, the Shaw Statement did not update the 2011 policy and provider factors to reflect the percentage attributable to the District over the same historical period the Shaw Methodology used to calculate

[17] See Table 4 below and Exhibit 1 at Tab 'Chart 4 (Adjusted)'.

the quasi-premium factor. Taking into account 2003 to 2011 data, those factors should be adjusted to 19.9% and 13.3%, respectively.[18]

Moreover, the D.C. Court of Appeals observed that "[t]here may [*sic*] a number of reasonable approaches to allocating excess surplus among jurisdictions."[19] The Court did not address the merits of either: (i) the three factors the former Acting Commissioner selected; or (ii) the former Acting Commissioner's uneven weighting of those three factors—both of which the Shaw Statement simply adopted without commentary. One important issue raised in this matter over the course of the past several years' proceedings is that a "reasonable approach" to the allocation of surplus should place emphasis upon the jurisdictional residence of subscribers (*i.e.*, individual policyholders and for group policies, certificate holders), which is consistent with the powers and purpose of GHMSI as set forth in the GHMSI Charter.[20] Further, as the DISB regulations do not stipulate the weight to be applied to any one considered factor or require that differential weighting be applied at all, a "reasonable approach" to the allocation of surplus would apply an unbiased, or equal weighting to the factors considered.[21]

Accordingly, if a methodology similar to the one proposed in the Shaw Statement is adopted, adjusting the primary flaws and computational errors in the Shaw Methodology results in 2011 excess surplus attributable to the District of at most 28.8% or $77.1 million (adopting the Shaw Statement's weighting of the factors), before adjusting for any credits for community health reinvestment (*see supra* n. 4). Taking the reasonable alternative approach of applying an equal weighting to the three factors, the attribution is 21.1% or $56.6 million. If a fourth subscriber

[18] See Table 3 below and Tables 12 and 13 at Appendix C.

[19] D.C. Court of Appeals Remand, p. 37.

[20] See, *e.g.*, GHMSI's Further Response to Questions in the Third Scheduling Order and Statement Regarding Attribution dated October 10, 2014, pp. 2-4; GHMSI Charter, Sec. 2. *See also* Commissioner's Order, pp. 52-53. For federal employee programs, the term "subscriber" refers to the certificate holder.

[21] *See* 26A DCMR §4699.2.

residency factor of 12.1% is reconsidered and included, the resulting attribution of 2011 excess surplus to the District would be 18.9% or $50.5 million, as summarized in Table 3 below.[22]

*Table 3 Summary of D.C. Attribution Percentage after Adjustments to Shaw Statement (Factors Adjusted for 2003-2011 Results, Equal Weighting, and Subscriber Residency Factor)*[23]

| Allocation Factor | Factor % | Weighting | Weighted | D.C. Portion of Excess Surplus (in millions) |
|---|---|---|---|---|
| Quasi-Premium (Adjusted) (**Table 4**) | 30.1% | 90.0% | 27.1% | |
| No. of Policies | 19.9% | 5.0% | 1.0% | |
| No. of Providers | 13.3% | 5.0% | 0.7% | |
| **Weighted Average (former Acting Commissioner's weighting of factors)** | | | **28.8%** | **$ 77.1** |
| Quasi-Premium (Adjusted) | 30.1% | 33.3% | 10.0% | |
| No. of Policies | 19.9% | 33.3% | 6.6% | |
| No. of Providers | 13.3% | 33.3% | 4.4% | |
| **Weighted Average (equal weighting of factors)** | | | **21.1%** | **$ 56.6** |
| Quasi-Premium (Adjusted) | 30.1% | 25.0% | 7.5% | |
| No. of Policies | 19.9% | 25.0% | 5.0% | |
| No. of Providers | 13.3% | 25.0% | 3.3% | |
| Subscriber Residency | 12.1% | 25.0% | 3.0% | |
| **Weighted Average (equal weighting of factors including subscriber residency)** | | | **18.9%** | **$ 50.5** |

* * * * *

Summary explanations of the errors and inconsistencies in the Shaw Statement that require adjustment are set forth below and discussed in further detail in this report. Table 4 below summarizes the estimated impact on the Shaw Statement's quasi-premium factor, the D.C. attribution percentage, and the estimated excess 2011 surplus attributable to the District after making each of the adjustments for the errors and inconsistencies in the Shaw Methodology, assuming that the Shaw Statement's weighting of the factors (*i.e.*, 90%, 5%, 5%) is adopted.

[22] The 2011 subscriber residency factor was 12.05% per Table 2 of the GHMSI 1(d) Response, the same source used by the former Acting Commissioner for the factors for number of policies and number of network providers. The factor was reviewed for the historical period from 2003 to 2011. See further discussion below in Section 9 and Table 14 in Appendix C.

[23] *See* Exhibit 1 at Tabs 'Chart 4 (Adjusted)' and 'Chart 4 (Adjusted wRes Factor)' and Appendix C. In tables throughout this report, minor footing or cross-footing differences (*e.g.*, 0.1% or $1) may result due to rounding. See Exhibit 1 for the underlying calculations.

*Table 4 Summary of Est. D.C. Attribution Percentage after Adjustments to Shaw Statement*[24]

| Adjustment to Shaw Statement | Quasi-Premium Factor | D.C. Attribution | D.C. Portion of Excess Surplus (in millions) |
|---|---|---|---|
| Shaw Statement | 62.9% | 58.3% | $ 156.0 |
| Reduction of FEP Allocation from 100% to 20% | (14.4%) | (13.0%) | (34.7) |
| Impact of Ceded Expenses on GHMSI Non-FEP Underwriting Income | (16.3%) | (14.7%) | (39.3) |
| Determination of CFBC Non-FEP "Profit Weight" | (0.2%) | (0.2%) | (0.5) |
| Correction of Mathematical Errors and Inconsistencies | (1.8%) | (1.6%) | (4.4) |
| **Shaw Statement Adjusted** | **30.1%** | **28.8%** | **$ 77.1** |

1. The Shaw Methodology Incorrectly Attributes 100% of Federal Employees Health Benefits Program ("**FEP**") Business to D.C. for both GHMSI and CFBC.

   a. The Shaw Statement takes the extreme position that 100% of FEP-related underwriting income should be attributed to D.C. for all years—for both GHMSI and CFBC—claiming without basis that the FEP "situs is solely in the District", without taking into account the nature of the FEP contract.[25] The Shaw Statement's 100% attribution to D.C. is unreasonable and, at a minimum, is inconsistent with 2010 and forward statutory reporting.[26] Conservatively (since less than 20% of CFBC's FEP certificate holders reside in D.C.), a 20% allocation of FEP revenue to D.C. is more reasonable, based upon certificate holder residency. *See* Tables 10 and 11 below.

   b. The Shaw Statement attempts to use GHMSI's pre-2010 state exhibit reporting as partial justification for its flawed claim that the FEP situs is 100% in the District and fails to recognize that insurance companies' jurisdictional reporting requirements changed as a result of the enactment of the Affordable Care Act ("**ACA**"). Previously, the state exhibits were primarily used for premium tax reporting. As FEP business is exempt from such taxes, many companies, including GHMSI and CFBC, did not allocate FEP business across their subscriber bases as a bookkeeping simplification. Numerous Blue Cross Blue Shield companies do not attribute 100% of FEP business to D.C. in their state exhibits; the Shaw Statement implies that all should if D.C. is to be considered the situs of the contract. Regardless, it is not appropriate to focus on state exhibit reporting for this purpose. As a result of this error, the Shaw Statement's quasi-premium factor is overstated by approximately 14.4% as shown in Table 4 above.

[24] See Exhibit 1 at Tab 'Chart 4 (Adjusted)'.
[25] Shaw Statement, p. 5.
[26] See, *e.g.*, Annual Statements of the GHMSI for the Years Ended December 31, 2017 and 2018 at Schedule T, reflecting a D.C. percentage of FEP premium of 19.3% and 19.6%, respectively.

2. The Shaw Methodology Inconsistently Accounts for the Impact of Ceded Expenses on the Estimation of non-FEP Underwriting Income Attributable to D.C.

   a. The Shaw Statement incorrectly asserts that "[f]or the entire 9-year period [of 2003 to 2011] the ratio of profitability for each dollar of District non-FEP premium to each dollar of profitability per non-FEP premium dollar from other jurisdictions is 4.2 to 1."[27] This incorrect purported "profit weight" of 4.2 serves as the primary driver for the Shaw Statement's flawed conclusion that its quasi-premium factor is 62.9%—almost 3 times the former Acting Commissioner's premium factor of 21%.[28]

   b. The Shaw Methodology makes the assumption that 100% of GHMSI's ceded and assumed premiums and losses (referred to herein generally as "reinsurance activity") are attributable to Maryland and Virginia ("**MD/VA**"); however, the Shaw Methodology fails to similarly account for the fact that over the period the relevant reinsurance contract was in place (2008 to 2011), over $227.1 million of expenses were also ceded by, or credited to, GHMSI and therefore should also be allocated to MD/VA.[29] In sum, the Shaw Statement overstates the profitability of the District by approximately $74 million because it excludes 100% of ceded premiums (and claims) from MD/VA results but retains the related administrative expenses, thus making those jurisdictions appear to be less profitable. When the ceded expense credit is also allocated 100% to MD/VA consistent with the Shaw Methodology, the Shaw Statement's quasi-premium factor is reduced by approximately 16.3% as shown in Table 4 above, and the D.C. non-FEP "profit weight" is reduced from 4.2 to approximately 1.3.[30]

   c. As a result of the Shaw Methodology's failure to account for ceded expenses on a basis consistent with that of ceded and assumed premiums and losses, the Shaw Statement incorrectly concludes that "if only the 2011 experience is used as the basis for allocating based on profitability, then 100% of non-FEP profit arises from the District."[31] In 2011, $55.2 million in net expenses were ceded by GHMSI.[32] When that amount is allocated to MD/VA, not only do MD/VA have non-FEP underwriting income rather than a loss in 2011, but the MD/VA underwriting income actually exceeds that of D.C.[33]

   d. The Shaw Methodology's stated sources are inconsistent with the amounts presented, resulting in the unexplained assumption that 100% of GHMSI's

[27] Shaw Statement, p. 3.
[28] N.B. if the former Acting Commissioner's premium factor was calculated in the same manner considering 2003 to 2011 results as it was calculated for 2011 only, the D.C. non-FEP percentage used in the calculation would be 22% (if rounded from 21.8%), the same percentage used in the former Acting Commissioner's calculation. See Commissioner's Order, Tables 3 and 4 at pp. 55-56. *See also* Exhibit 1 at Tab 'Charts 2 & 3 (Shaw).
[29] *See* Table 7 below.
[30] See Exhibit 1 at Tab 'Chart 1 (Corrected)'. Note: The "Non-FEP Profit Weights" tables in Shaw Statement Chart 4 incorrectly reflect the 2011 "D.C. Share" weighted share percentage for "GHMSI + 50% CF Blue Choice" of 54.7% from Shaw Statement Chart 2 rather than the recalculated amount for 2003 to 2011 of 53.9%, resulting in an incorrect weighted average calculation of the quasi-premium factor of 62.9% instead of 62.2%. *See* Exhibit 1 at Tab 'Charts 2 & 3 (Shaw)'. The correction of this error is included in the correction of miscellaneous computational and source errors in Table 4 above.
[31] Shaw Statement, p. 3.
[32] Annual Statement of the GHMSI for the Year Ended December 31, 2011, Note 23 p. 25.18.
[33] *See* Table 8 below.

reinsurance activity is attributable to MD/VA and the assignment of an incorrect "profit weight" to D.C. operations.

i. The Shaw Methodology inconsistently obtains certain gross amounts from the *Exhibits of Premiums, Enrollment, and Utilization* (referred to herein generally as the "state exhibits") and certain net amounts from the *Statements of Revenues and Expenses* or *Analysis of Operations by Lines of Business* on GHMSI's Annual Statements for the period 2003 to 2011, resulting in conclusions that differ from those that would be reached absent such inconsistency.

ii. The Shaw Statement asserts that total non-FEP premiums, incurred claims, and expenses used to determine the amounts shown in Shaw Statement Chart 1 were obtained from the "Statement of Operations by Line of Business exhibits in GHMSI's Annual Statements" and that earned premiums and incurred claims by jurisdiction were obtained from the "Exhibit of Premiums, Enrollment and Utilization in GHMSI's State Pages to their Annual Statements."[34] There is no exhibit entitled the "Statement of Operations by Line of Business" in the GHMSI Annual Statements. There is either the *Statement of Revenue and Expenses*, which is not allocated between FEP and non-FEP business, or the *Analysis of Operations by Lines of Business*. Neither of these exhibits contains data by jurisdiction. Further, the state exhibits do not reflect reinsurance activity. As such, the amounts on Shaw Statement Chart 1 could not have been obtained directly from these exhibits and were essentially backed into. *See, e.g.*, Table 5 below.

3. The Shaw Methodology Applies its GHMSI Non-FEP "Profit Weight" to CFBC Non-FEP Results Without Separately Analyzing CFBC Results.

a. The Shaw Methodology's purported "profit weight" of 4.2 assigned to D.C. non-FEP premium serves as the primary driver for the Shaw Statement's conclusion that the quasi-premium factor is 62.9%. However, the Shaw Methodology assumes that such profit weight is 4.2 for both GHMSI and CFBC without separately analyzing CFBC results. The Shaw Statement claims that "while about 30% of GHMSI's non-FEP premium revenue arose from the District, District residents and businesses accounted for more than 65% of the profits."[35] However, if the Shaw Methodology is applied to CFBC's results, just 11% of non-FEP premium revenue and 31% of the profits relate to D.C., and the CFBC D.C. non-FEP "profit weight" is 3.8 rather than 4.2.[36] As a result of this error, the Shaw Statement's quasi-premium factor is overstated by approximately 0.2% as shown in Table 4 above.

4. The Shaw Statement Fails to Address the D.C. Attribution Percentages for Number of Policies and Number of Network Providers.

a. The Shaw Statement fails to address and simply adopts without comment the former Acting Commissioner's attribution percentages to D.C. for the number of policies (19%) and the number of network providers (15%). The former Acting

[34] Shaw Statement, p. 3.
[35] Ibid.
[36] See Exhibit 1 at Tab 'Chart 1 (BC)' and Table 9 below.

Commissioner's amounts were based upon 2011 data only, and the Shaw Statement makes no effort to address the D.C. Court of Appeals observation that the former Acting Commissioner's determination was based "on a snapshot of 2011."[37]

b. The D.C. percentage of policies calculated in the same manner as the 2011 18.9% attribution percentage used by the former Acting Commissioner ranged over the period 2003 to 2011 between 18.9% and 21.0%, averaging 19.9%. The factor was at its lowest in 2011, indicating that the D.C. "number of policies" factor should be higher.[38] The average percentage of 19.9% is used in this report.

c. The D.C. percentage of network providers calculated in the same manner as the 2011 14.9% attribution percentage used by the former Acting Commissioner ranged over the period 2003 to 2011 between 11.6% and 14.9%, averaging 13.3%. The factor was at its highest in 2011, indicating that the D.C. "number of providers" factor should be lower.[39] The average percentage of 13.3.% is used in this report.

5. The Shaw Statement Fails to Address Inclusion of a Factor for Subscriber Residency in the Determination of the D.C. Attribution Percentage.

a. GHMSI's Charter provides that the Company enters into contracts with individuals and group plans and issues certificates evidencing those contracts to the enrolled subscribers. The Shaw Statement fails to address that the "number of policies" factor places the same weight on an individual policy as a group policy with potentially thousands of geographically-dispersed members. In addressing attribution on remand, some measure of reconsideration should be given to inclusion of a factor based on the residency of the certificate holders, as they, along with their typical medical providers (the subscribers will reasonably obtain medical care near where they live), have a significant impact on the development of GHMSI's surplus. Analysis of GHMSI's and CFBC's subscriber residency by jurisdiction over the period 2003 to 2011 demonstrates that the D.C. percentage remained consistent with the 12.1% reported for 2011 in GHMSI's 1(d) response, and that factor is included herein for consideration.[40]

6. The Shaw Statement Fails to Address the Weighting of the Factors Considered.

a. The Shaw Statement fails to address and simply adopts without comment the former Acting Commissioner's weighting of the three factors considered in his analysis, *i.e.*, premium (90%), number of policies (5%), and number of network providers (5%). The DISB regulations do not require differential weighting or set forth the amount of weighting that should be given to any of the factors. Notably, "number of policies by geographic area" and "number of health care providers under contract with the company by geographic area" are the only two factors that are specifically enumerated in the regulation. Further, no one factor is highlighted as comparatively more relevant than any of the others to the creation of surplus, as each could be considered a reasonable method upon which to attribute surplus.

[37] D.C. Court of Appeals Remand, p. 38.
[38] *See* Table 12 in Appendix C.
[39] *See* Table 13 in Appendix C.
[40] *See* Table 14 in Appendix C.

Yet, the Shaw Statement assigns each of the two specified factors only a 5% weighting with no explanation.

b. The D.C. Court of Appeals acknowledged that "[t]here may [*sic*] a number of reasonable approaches to allocating excess surplus among jurisdictions."[41] While it is for the Commissioner to ultimately determine the appropriate weighting, a reasonable approach is an unbiased, even weighting of the considered factors (as shown in Table 3 above). Further, when a subscriber residency factor is included as discussed above, the even weighting serves to at least partially address the dilemma of how to weight results relative to group health insurance and, more specifically, what weight to give to the jurisdiction where the group policyholder is located versus the residency of the certificate holders.

7. The Shaw Statement Fails to Present Support for its Calculations and is Replete with Mathematical Errors and Inconsistencies.

a. In addition to the methodology and source inconsistencies discussed above, the Shaw Statement contains numerous mathematical errors. For example, Shaw Statement Chart 1 contains a basic mathematical error in the calculation of the Net Underwriting Gain (Loss) for the period 2003 to 2011 (*see* Table 6 below) along with numerous cross-footing errors and other unexplained calculation inconsistencies.[42] Such errors further call into question the soundness of the Shaw Statement's conclusions. As a result of these errors, the Shaw Statement's quasi-premium factor is overstated by approximately 1.8% as shown in Table 4 above.

* * * * *

[41] D.C. Court of Appeals Remand, p. 37.
[42] See also Exhibit 1 at Tab Chart 1 (Corrected).

## 4. OVERVIEW OF SHAW METHODOLOGY USED TO DETERMINE "PROFIT WEIGHT" OF D.C. NON-FEP PREMIUM

In order to understand the nature and impact of the primary errors in the Shaw Methodology, the following section discusses how the Shaw Methodology arrives at its so-called "profit weight" of D.C. non-FEP underwriting results compared to MD/VA non-FEP underwriting results of 4.2.[43]

The former Acting Commissioner determined his allocation to D.C. for his risk-weighted premium factor by obtaining by-jurisdiction direct business premium for both FEP and non-FEP business from the 2011 *Schedule T Premiums and Other Considerations Allocated by States and Territories,* for GHMSI (as amended) and CFBC. The D.C. Court of Appeals Remand directed the Commissioner to address why the former Acting Commissioner's analysis of the jurisdictions' relative contributions to surplus was based solely "on a snapshot of 2011 rather than an effort to analyze GHMSI's surplus history and to determine the District's contributions to that surplus over time…"[44]

The Shaw Statement attempts to address this issue by analyzing a portion of GHMSI's historical results from the period 2003 to 2011, *i.e.*, components of GHMSI's underwriting gain (loss), as summarized in Shaw Statement Chart 1.[45] The claimed purpose of Chart 1 is to demonstrate the "differentiation in profitability" of non-FEP business among D.C., Maryland, and Virginia, in an apparent attempt to address the D.C. Court of Appeals Remand suggestion that the attribution methodology incorporate the "alleged differences among the District, Virginia, and Maryland with respect to the riskiness and profitability of GHMSI's activities."[46]

[43] *See*, generally, Shaw Statement, pp. 1-3.
[44] D.C. Court of Appeals Remand, p. 38.
[45] See Shaw Statement, pp. 1-3.
[46] Shaw Statement, p. 1; D.C. Court of Appeals Remand, p. 38.

The Shaw Statement claims that the information set forth in Chart 1, described as "a summary of the historical record arising from the last nine years (2003-2011)," was obtained as follows:[47]

> Total non-FEP premiums, incurred claims and expenses are from the Statement of Operations by Line of Business exhibits in GHMSI's Annual Statements. By jurisdiction earned premiums and incurred claims are from the Exhibit of Premiums, Enrollment and Utilization in GHMSI's State Pages to their Annual Statements. By jurisdiction claim adjustment expenses are overall expenses allocated by claim dollars. By jurisdiction general administrative expenses are overall expenses allocated by earned premiums.[48]

As an initial matter, there is no exhibit entitled the "Statement of Operations by Line of Business" in the GHMSI Annual Statements. There is either the *Statement of Revenue and Expenses*, which is not allocated between FEP and non-FEP business, or the *Analysis of Operations by Lines of Business*. Neither of these exhibits is presented by jurisdiction. Further, while there are by-jurisdiction *Exhibits of Premiums, Enrollment and Utilization* in the Annual Statements, these do not present ceded and assumed reinsurance premiums, claims, and expenses. Based upon an analysis of the 2003 to 2011 GHMSI and CFBC Annual Statements and related exhibits, the data used in Chart 1 of the Shaw Statement was derived in the following manner.

**Premiums and Claims**. First, "*Total revenues*" and "*Total hospital and medical* [*claims*]" were obtained from either the *Statement of Revenues and Expense*s or the *Analysis of Operations by Lines of Business*. Second, D.C. non-FEP "*Health Premiums Earned*" and "*Amount Incurred for Provision of Health Care Services*" were obtained from the D.C. *Exhibit of Premiums, Enrollment and Utilization* ("**D.C. State Exhibit**") and FEP results were obtained from the *Analysis of Operations by Lines of Business*. Third, the D.C. State Exhibit and total FEP amounts were subtracted from the *Total revenues* and *Total hospital and medical* [*claims*] amounts to purportedly arrive at non-FEP premium earned and claims incurred in MD/VA.

[47] Shaw Statement, p. 1.
[48] Ibid., p. 3.

However, the premium and claim amounts from the *Statement of Revenue and Expenses* are net of assumed and ceded reinsurance and reinsurance recoveries, while the state exhibit amounts are not. Further, *Total revenues* per the *Statement of Revenue and Expenses* include write-ins of other miscellaneous revenue, while the state exhibits do not. In sum, the amounts on Shaw Statement Chart 1 could not have been derived as asserted in the Shaw Statement and were essentially "backed into," as shown in Table 5 below, using 2011 as an example (*see also* Exhibit 1 at Tab 'Chart 1 2011'):

*Table 5 Difference Between Shaw Statement Chart 1 "VA, MD Non-FEP Total Revenue and Incurred for Health Care Services" for 2011 Compared to MD/VA State Exhibits (in 000s)*

| Source | Premiums | Claims | Net |
|---|---|---|---|
| Total per *Statement of Revenue and Expenses* | $ 3,059,417 | $ 2,694,990 | $ 364,427 |
| Less: D.C. Non-FEP per D.C. State Exhibit (Total col. 1 less FEP col. 7) | (467,645) | (363,887) | (103,758) |
| Less: FEP Results per *Analysis of Operations by Lines of Business* | (1,675,981) | (1,569,042) | (106,939) |
| **MD/VA per Shaw Statement Chart 1** | **915,791** | **762,061** | **153,730** |
| Assumed Reinsurance | (65,761) | (48,040) | (17,721) |
| Ceded Reinsurance | 369,607 | 281,856 | 87,751 |
| Write-Ins | (121) | - | (121) |
| **MD/VA per State Exhibits** | **$ 1,219,516** | **$ 995,877** | **$ 223,639** |

The impact of the above differences is that the Shaw Methodology makes the assumption that 100% of GHMSI's ceded and assumed reinsurance premiums and claims are attributable to Maryland and Virginia. However, this assumption is neither discussed nor addressed in any manner whatsoever in the Shaw Statement.

**Claims Adjustment Expenses**. FEP-related claims adjustment expenses ("CAE") were obtained from the *Analysis of Operations by Lines of Business* and were subtracted from total CAE either per that same statement or the *Statement of Revenue and Expenses* to arrive at non-FEP-related CAE. The Shaw Statement asserts that CAE were allocated to either D.C. or MD/VA

"by claim dollars," which is assumed to mean based upon the Shaw Statement's allocation of incurred losses by jurisdiction. As shown on Exhibit 1 on the Tabs denoted 'Chart 1 20XX' (where "XX" is the relevant year), when the allocation of CAE is recalculated on that basis, the allocations for years 2003 through 2008 and 2010 result in amounts directionally similar to, but not the same as, those shown in Shaw Statement Chart 1. However, the recalculation for the years 2009 and 2011 results in unexplained differences of approximately $2 million in each of those years.[49] Over the period 2003 to 2011, the recalculation of the allocation of CAE results in an over-allocation of CAE to MD/VA in the Shaw Statement of approximately $4.8 million or $319.7 million vs. $314.9 million.[50]

**General and Administrative Expenses**. FEP-related general and administrative expenses ("G&A") were obtained from the *Analysis of Operations by Lines of Business* and were subtracted from total G&A either per that same statement or the *Statement of Revenue and Expenses* to arrive at non-FEP-related G&A. The Shaw Statement asserts that G&A was allocated to either D.C. or MD/VA based upon "earned premiums" by jurisdiction. As shown on Exhibit 1 on the Tabs denoted 'Chart 1 20XX', the recalculation of the allocation of G&A between D.C. and MD/VA for years other than 2009 results in amounts directionally similar to, but not the same as, those shown in Shaw Statement Chart 1. However, the recalculation for 2009 results in an unexplained difference of approximately $4.9 million.[51] Over the period 2003 to 2011, the recalculation of the allocation of G&A based on the Shaw Statement's stated allocation basis of "earned premiums" results in an over-allocation of G&A to Maryland and Virginia in the Shaw Statement of approximately $6.2 million or $912.8 million vs. $906.6 million.[52]

[49] See Exhibit 1 at Tabs 'Chart 1 2009' and 'Chart 1 2011' in cells G49 and G50.
[50] See Exhibit 1 at Tabs 'Chart 1 (Shaw)' and 'Chart 1 (Corrected).'
[51] See Exhibit 1 at Tab 'Chart 1 2009.'
[52] See Exhibit 1 at Tabs 'Chart 1 (Shaw)' and 'Chart 1 (Corrected).'

The first section of Shaw Statement Chart 1 summarizes the individual year sections below it but incorrectly calculates the underwriting gain/loss for the period 2003 to 2011, as shown in Table 6 below:[53]

*Table 6 2003 to 2011 Net Underwriting Gain/Loss per Chart 1 of Shaw Statement*[54]

| Description | D.C. Total Non-FEP | VA, MD Non-FEP | All Non-FEP |
|---|---|---|---|
| Total Revenue **(A)** | $ 3,310,018,886 | $ 7,337,127,216 | $ 10,647,146,102 |
| Incurred for Health Care Services | (2,591,503,735) | (6,015,398,160) | (8,606,901,895) |
| Claims Adjustment Expenses | (132,235,327) | (319,741,547) | (451,976,874) |
| General Administrative Expenses | (405,755,016) | (912,787,190) | (1,318,542,206) |
| **Net Underwriting Gain as Recalculated** | **$ 180,524,808** | **$ 89,200,319** | **$ 269,725,127** |
| Unexplained Difference | (4,079,947) | 4,079,947 | - |
| **Net Underwriting Gain per Shaw Statement (B)** | **$ 176,444,861** | **$ 93,280,266** | **$ 269,725,127** |
| Net Underwriting Gain % as Recalculated | 5.45% | 1.22% | 2.53% |
| Net Underwriting Gain % per Shaw Statement **(B)/(A)** | 5.33% | 1.27% | 2.53% |

Based upon the above, the Shaw Statement calculates a self-styled "profit weight" of each dollar of D.C. non-FEP premium to each dollar of non-FEP premium dollar from MD/VA of 4.19 (which the Shaw Statement then rounds up to 4.2), calculated as the ratio of the jurisdictions' net underwriting gain percentage or 5.33% / 1.27%.[55] This "profit weight" is one of the primary drivers of the Shaw Statement's faulty conclusion that the quasi-premium factor in the determination of the attribution of surplus to D.C. is 62.9% compared to the former Acting Commissioner's risk-weighted premium factor of 21%.

The Shaw Methodology then multiplies the "profit weight" of 4.2 times D.C.'s portion of non-FEP premium for the period 2003 to 2011 per Schedule T (*i.e.*, earned premium before

[53] There are several footing and cross-footing errors in the individual year sections as shown in the 'Chart 1 20XX' Tabs of Exhibit 1.
[54] See Exhibit 1 at Tab 'Chart 1 (Shaw).'
[55] As shown in Table 6, as recalculated the profit weight would be 5.45% / 1.22% = 4.5 rather than 4.2.

reinsurance activity) to determine D.C.'s "weighted share" of non-FEP profit of 54.7% (no weighting is applied to FEP premium, as the Shaw Methodology assumes that D.C.'s weighted share of FEP profit is 100%).[56] This "weighted share" is then multiplied by the former Acting Commissioner's weighted underwriting risk factors of 82% and 18% (rounded), respectively, for non-FEP and FEP business as follows: 82% X 54.7% + 18% X 100% = 62.9% (*see* Shaw Statement Charts 2 and 3 and Exhibit 1 at Tab 'Charts 2 & 3 (Shaw)').[57]

## 5. THE SHAW METHODOLOGY INCORRECTLY ATTRIBUTES 100% OF FEP BUSINESS TO D.C. FOR BOTH GHMSI AND CFBC

The Shaw Statement reflects bias by unreasonably concluding that 100% of FEP-related underwriting income should be attributed to D.C. for all years. By utilizing a weighting of 100% on FEP results for all years (*i.e.*, the maximum possible amount), the Shaw Methodology relies on flawed conceptual assumptions as discussed further below. The Shaw Methodology also ignores the reported FEP information for at least 2010 and 2011 provided on Schedule T and the state exhibits for both GHMSI and CFBC. At a bare minimum, if the Shaw Statement followed the same method it applied to non-FEP premium for the 2010 and 2011 underwriting years, the D.C. FEP revenue allocation for those years for GHMSI would be between 17.3% and 19.7% while the CFBC allocation would be 6.7% in 2010 and 0.0% in 2011 (percentages that remain consistent until today, as per the 2012 and forward GHMSI and CFBC Annual Statements).[58]

The Shaw Statement's 100% attribution to D.C. is unreasonable given the nature of the FEP contract and is also inconsistent with 2010 and forward statutory reporting. The Shaw Statement attempts to justify its attribution of 100% of FEP premium to the District by stating that "[w]hile GHMSI's Schedule T's are consistent with the situs of contract approach with regard to non-FEP premium, GHMSI's recent such schedules are inconsistent with contact [*sic*] situs in

[56] See *supra* at n. 30 and Exhibit 1 at Tab 'Charts 2 & 3 (Shaw)' regarding the calculation of 53.9% for the period 2003 to 2011 vs. 54.7% for 2011 only.
[57] *See* Commissioner's Order, pp. 55-56.
[58] See Exhibit 1 at Tabs 'Chart 4 (Adjusted)' and 'Sched T Prem CFBC.'

regard to FEP premiums whose situs is solely in the District."[59] The pre-2010 GHMSI and CFBC Schedule T reporting that allocated 100% of FEP premium to D.C. was for expediency and simplicity. Jurisdictional reporting for FEP premium was essentially irrelevant prior to the enactment of the Medical Loss Ratio ("**MLR**") provisions of the Affordable Care Act. The Shaw Statement simply attempts to use the MLR reporting requirements that went into effect in 2011 and that were in the process of development and refinement in 2010 to deflect from the unreasonable application of the 100% factor to FEP premium for all years.[60]

Insurance companies pay premium tax, which is a tax applied by the state where the premium is earned, generally as a substitute for imposition of state corporate income tax on insurance companies. This state-based premium tax is one of the major reasons that insurers report premium by state in their annual statements. Since FEP is a federal program and not underwritten in a specific state, it is not subject to premium tax—rendering its jurisdictional reporting irrelevant prior to the enactment of the ACA. It simply did not matter that FEP was reported by GHMSI and CFBC in D.C. in the 2003 to 2009 timeframe, as it was reported there for simplicity. Conservatively (given that CFBC's D.C.'s reported percentage is lower than 20%), a 20% FEP allocation to D.C. is reasonable, consistent with GHMSI's 2010, 2011 and forward reporting by certificate holder residency as implemented for MLR reporting. See *infra* discussion in Section 8 and Tables 10 and 11 reflecting that the percentage of FEP certificate holders in the District for GHMSI and CFBC averaged 19.8% and 10.2%, respectively, over the period 2003 to 2011.

If the Shaw Statement's premise that the entity entering into the contract is determinative of the situs is to be taken literally, then 0% of FEP underwriting results are attributable to D.C. GHMSI members obtain coverage through an offering coordinated by the Blue Cross and Blue

[59] Shaw Statement, p. 5.
[60] See, generally, https://www.cms.gov/apps/mlr/.

Shield Association ("**the Association**"). The Association—whose situs is in Illinois—contracts with the Office of Personnel Management ("**OPM**") on behalf of all Blues Plans (more than thirty of them). GHMSI administers its portion of this national offering within its defined service territory under the terms of a contract between GHMSI and the Association. GHMSI issues individual certificates to subscribers within that territory. As previously explained by GHMSI during the course of these proceedings:

> Blue Plans participating in FEP attribute FEP membership according to the residency of the subscriber for purposes of MLR and other reporting. It would be absurd for the Blue Plans across the country to attribute all FEP membership to Washington D.C., because that is the location of the [Office of Personnel Management], or to Chicago, Illinois, because that is the location of the Association.[61]

OPM contracts with a number of insurance companies throughout the country. Certain of these other companies are not even licensed in D.C., and therefore they cannot report FEP premium in D.C. as the Shaw Statement's premise suggests. The former Acting Commissioner correctly observed that "Appleseed incorrectly asserts that there is a 'conventional' way to report FEP premiums. By way of example, Kaiser allocates all of its FEP premiums to the District in its Schedule T, while Aetna allocates its FEP premiums across several states."[62] As further examples, per their 2011 Annual Statements, none of the following Blue Plans report their FEP premium 100% to the District:

| Entity | Statutory Home Office | FEP Reporting per Schedule T |
|---|---|---|
| Blue Cross and Blue Shield of Florida, Inc. | Florida | Florida |
| Health Care Service Corporation, a Mutual Legal Reserve Company[63] | Illinois | Illinois, New Mexico, Oklahoma Texas |
| Highmark, Inc. | Pennsylvania | Pennsylvania |
| Horizon Healthcare Services, Inc. | New Jersey | New Jersey |

[61] GHMSI's Further Response to Questions in the Third Scheduling Order and Statement Regarding Attribution dated October 10, 2014, p. 5.
[62] Commissioner's Order, p. 54 at n. 31.
[63] Health Care Service Corporation (HCSC) provides insurance coverage for FEP members in Illinois, New Mexico, Oklahoma, and Texas. As noted in HCSC's Annual Statement, the Association acts as the agent for the various participating plans.

| Entity | Statutory Home Office | FEP Reporting per Schedule T |
|---|---|---|
| Regence BlueCross BlueShield of Oregon | Oregon | Oregon |

As a result, where FEP premium is reported on Schedule T is an inappropriate method by which to attribute FEP results by jurisdiction for the purpose of attributing surplus. It is simply nonsensical to attribute all FEP-related contributions to surplus for either GHMSI or CFBC to D.C. The most reasonable approach to determine the attribution of FEP results is to consider where the certificate holders reside.

Moreover, FEP results could reasonably be completely excluded from the Shaw Methodology's attribution exercise because FEP results are not conventional underwriting income. The FEP contract is an experience-rated contract. As such, the FEP contract generates fee income and provides a process for the return of any unused funds upon termination of the contract after the runoff of claims and reimbursement of allowable administrative expenses. The 2011 GHMSI Annual Statement provides the following:

> The Company participates in the Federal Employee Health Benefits Program (FEHBP) with other BlueCross BlueShield plans. This program includes an experience-rated contract between the Office of Personnel Management (OPM) and the BlueCross BlueShield Association (BCBSA), which acts as an agent for the participating BlueCross BlueShield plans. In addition, each participating plan, including the Company, executes a contract with the BCBSA which obligates each participating plan to underwrite FEP benefits in its service area. Premium rates are developed by BCBSA and approved by OPM annually. These rates determine the funds that will be available to the participating BlueCross BlueShield plans to provide insurance to Federal employees that enroll with the BlueCross BlueShield FEHBP.
>
> The excess of gross premiums for the life of the program over the charges for the life of the program on an accrual basis is considered the special reserve under the contract between OPM and BCBSA. Each year, OPM also allocates additional funds to a contingency reserve which may be utilized by the participating plans in the event that funds set aside from annual premiums are insufficient or fall below certain prescribed levels by OPM. Funds available to each participating BlueCross BlueShield plan, including the special reserve and the contingency reserve, are held at the U.S. Treasury, including amounts unused from prior periods. **Any funds which remain unused upon termination of the BCBSA contract after the claims run-out and reimbursement of allowable administrative expenses would be returned to OPM for the benefit of**

> **the FEHBP**. The BCBSA contract renews automatically each year unless written notice of termination is given by either party.[64]

In sum, since GHMSI is a participant in the federal program with other BlueCross BlueShield plans as part of an experience rated contract, GHMSI does not earn conventional underwriting income as part of this program. Rather, fees collected as part of this program are for the reimbursement of costs incurred.

## 6. THE SHAW METHODOLOGY INCONSISTENTLY ACCOUNTS FOR THE IMPACT OF CEDED EXPENSES ON THE ESTIMATION OF NON-FEP UNDERWRITING INCOME ATTRIBUTABLE TO D.C.

The error in the Shaw Methodology described in Section 4 above results in both inflation of the allocation of non-FEP underwriting results to D.C. and the faulty conclusion in the Shaw Statement that, "[f]or the entire 9-year period [of 2003 to 2011] the ratio of profitability for each dollar of District non-FEP premium to each dollar of profitability per non-FEP premium dollar from other jurisdictions is 4.2 to 1."[65] As explained above, the Shaw Methodology makes the assumption (without offering any explanation for doing so) that 100% of GHMSI reinsurance activity is attributable to Maryland and Virginia. As a result, the Shaw Methodology inconsistently accounts for the fact that over the period 2008 to 2011, over $227.1 million of expenses were also ceded by (credited to) GHMSI, corresponding to that activity, as shown in Table 7 below.

Effective January 1, 2008, GHMSI entered into a cross-jurisdiction reinsurance agreement ("**CJA**") with CFMI as a result of historical cross-selling into the various jurisdictions in which the companies operate.[66] The CJA was historically described in GHMSI's annual statement filings as follows, *e.g.*:

> (**2008**) Certain business has been written by CFMI and GHMSI which represents contracts outside the historic CFMI and GHMSI service areas (cross-jurisdictional sales). In 2006, the Boards of CFI, CFMI and GHMSI approved redistribution of earnings between CFMI and GHMSI related to cross-jurisdictional sales. The

[64] Annual Statement of the GHMSI for the Year Ended December 31, 2011, Note 1.C. p. 25.4 (emphasis added).
[65] Shaw Statement, p. 3.
[66] Quarterly Earnings Redistribution Agreement between CFMI and GHMSI effective January 1, 2008.

> income from operations from this cross-jurisdictional business would be transferred via a quota share reinsurance contract from the company that earned them to the company in whose service area they were earned. The Company received regulatory approval for these earnings redistributions, effective January 1, 2008, and the amounts were recorded in 2008.[67]
>
> (**2011**) Certain business has been written by CFMI and GHMSI which represents contracts outside the historic CFMI and GHMSI service areas (cross-jurisdictional sales). The income or loss from operations from this cross-jurisdictional business is transferred via a quota share reinsurance contract from the company that earned them to the company in whose service area they were earned. The Company remains obligated for amounts ceded in the event that CFMI does not meet its obligations.[68]

Section II of the CJA provides the following:

> Beginning January 1, 2008, each Party will track its Premium Revenues, Administrative Expenses and Care Costs by geographic region, enabling each to determine the extent of these metrics attributable to its Cross-Jurisdictional Business.
>
> Each Party's Underwriting Gain/Loss from its Cross-Jurisdictional Business will be determined for each calendar quarter, by subtracting the Care Costs and Administrative Expenses associated with its Cross-Jurisdictional Business, from the total Premium Revenues received for that Business, on a basis consistent with that reported as Net Underwriting Gain or (Loss) in the Statement of Revenue and Expenses of the statutory Annual Statement.[69]

Accordingly, CFMI and GHMSI are to determine their Underwriting Gain/Loss (as defined in the CJA) for the purpose of making quarterly redistributions. Importantly, "Administrative Expenses" ("**G&A**") and "Care Costs" ("**CAE**") as provided in Section II above are included in the determination of the Underwriting Gain/Loss and are defined in the CJA as follows in relevant part:

> "Administrative Expenses" means salaries, rents, and other general administrative expenses as reported in the Operating Companies' statutory "Annual Statements, Underwriting and Investment Exhibit, Part 3 - Analysis of Expenses"...
>
> "Care Costs" means payments made by CFMI or GHMSI in response to claims for health insurance coverage of policy or contract benefits, on a basis consistent with that reported in the Statement of Revenue and Expenses of the statutory Annual Statement.[70]

[67] Annual Statement of the GHMSI for the Year Ended December 31, 2008, Note 10 p. 25.3.
[68] Annual Statement of the GHMSI for the Year Ended December 31, 2011, Note 23 p. 25.18.
[69] CJA, Section II 1. and 2.
[70] Ibid., Sections I.A. and I.B., p. 2.

GHMSI's annual statements from 2008 to 2011 disclose that as a result of the CJA, the following amounts were assumed from and ceded to CFMI, as summarized below in Table 7:

*Table 7 Summary of CFMI Reinsurance Contract (in 000s)*[71]

| Source | 2008 | 2009 | 2010 | 2011 | Total |
|---|---|---|---|---|---|
| Premiums Assumed (a) | $ 68,439 | $ 65,463 | $ 65,783 | $ 59,463 | $ 259,148 |
| Premiums Ceded (b) | (386,713) | (410,260) | (405,008) | (369,607) | (1,571,588) |
| **Premiums, Net** (c) = (a)+(b) | (318,274) | (344,797) | (339,225) | (310,144) | (1,312,440) |
| Cost of Care Assumed (d) | 53,934 | 54,235 | 47,000 | 42,897 | 198,066 |
| Cost of Care Ceded (e) | (317,320) | (337,211) | (323,668) | (281,857) | (1,260,056) |
| **Cost of Care, Net** (f) = (d)+(e) | (263,386) | (282,976) | (276,668) | (238,960) | (1,061,990) |
| Net (g) = (c)-(f) | (54,888) | (61,821) | (62,557) | (71,184) | (250,450) |
| **G&A Expenses Ceded, Net** (h) | **(55,601)** | **(58,905)** | **(57,382)** | **(55,241)** | **(227,129)** |
| Net Gain Ceded (i) = (g)-(h) | $ 713 | $ (2,916) | $ (5,175) | $ (15,943) | $ (23,321) |

Notably, under the CJA GHMSI retained activity in the cities of Alexandria and Falls Church, Virginia, and certain other parts of Northern Virginia along with Prince George's and Montgomery Counties in Maryland.[72] However, even if assuming, *arguendo*, that one accepts the Shaw Methodology's simplifying, implied assumption that 100% of reinsurance activity relates to MD/VA (*i.e.*, making no adjustment for the MD/VA business retained by GHMSI under the CJA), if estimated gross G&A expenses (*i.e.*, prior to net cession) for the period 2008 to 2011 are first "allocated by earned premiums" (as per the Shaw Statement) and the ceded expense credit of $227.1 million shown in Table 7 above is then 100% allocated to MD/VA (similar to how premiums and claims were treated), underwriting income attributable to the District is reduced by approximately $73.8 million.[73]

[71] Annual Statement of the GHMSI for the Year Ended December 31, 2008, Note 22 p. 25.10; Annual Statement of the GHMSI for the Year Ended December 31, 2009, Note 22 p. 25.15; Annual Statement of the GHMSI for the Year Ended December 31, 2010, Note 23 p. 25.17; Annual Statement of the GHMSI for the Year Ended December 31, 2011, Note 23 p. 25.18.
[72] CJA, Section I.E.
[73] *See* the Adjusted G&A Allocation in Exhibit 1 Tabs 'Chart 1 2008', 'Chart 1 2009', 'Chart 1 2010', and 'Chart 1 2011', "Difference due to Reinsurance".

As a result, the D.C. "profit weight" is reduced from 4.2 to approximately 1.3, as shown in Exhibit 1 Tab 'Chart 1 (Corrected)'.[74] In sum, the Shaw Methodology reflects results for MD/VA that depress earnings for 100% of the ceded premiums and losses of the CJA (*i.e.*, by approximately $250.5 million as shown in Table 7 above) but inconsistently does not increase MD/VA earnings for 100% of the $227.1 million net related expense recovery.

As a result of the Shaw Methodology's failure to properly account for these ceded expenses, the Shaw Statement also incorrectly concludes that "if only the 2011 experience is used as the basis for allocating based on profitability, then 100% of non-FEP profit arises from the District."[75] In 2011, $55.241 million in net expenses were ceded, as shown in Table 7 above.[76] After G&A expenses are first grossed up by that amount, then allocated to the jurisdictions based on premiums earned, and assumed and ceded expenses are allocated consistent with the Shaw Methodology (*i.e.*, 100% to MD/VA), not only does MD/VA have non-FEP underwriting income of approximately $9.6 million rather than a loss of approximately $10.7 million, but the MD/VA underwriting income actually exceeds that of D.C., as demonstrated in Table 8 below:

[74] Both CAE and G&A were ceded. For simplicity, the expense credit is shown as a reduction to G&A only, as the jurisdictional allocation percentage difference between premiums and claims for 2008 to 2011 is minimal (see Chart 1 (Corrected), columns labeled "DC %" and "Prem-Claim %"). We recalculated the expense credit for 2008 to 2011 allocating 30% to CAE and 70% to G&A based upon the approximate allocation of the ceded expense credit from the Annual Statement of the GHMSI for the Year Ended December 31, 2011, p. 42, line 2511, and the difference was immaterial.
[75] Shaw Statement, p. 3.
[76] Annual Statement of the GHMSI for the Year Ended December 31, 2011, p. 25.18. See also p. 42, line 2511, reflecting ceded expenses net of assumed expenses of $53.748 million.

*Table 8 Adjustment of Shaw Statement Chart 1 2011 Underwriting Results*[77]

| Shaw Statement and Adjustments | D.C. Total Non-FEP | VA, MD Non-FEP | All Non-FEP | D.C. % |
|---|---|---|---|---|
| Total Revenue | $ 467,645,209 | $ 915,791,566 | $ 1,383,436,775 | **33.8%** |
| Incurred for Health Care Services | (363,886,653) | (762,060,815) | (1,125,947,468) | **32.3%** |
| Claims Adjustment Expenses (a) | (17,588,599) | (43,155,540) | (60,744,139) | |
| General & Administrative (G&A) Expenses | (61,776,349) | (121,284,107) | (183,060,456) | |
| **2011 Net Underwriting G/(L) per Shaw Chart 1** | **$ 24,393,608** | **$ (10,708,895)** | **$ 13,684,712** | |
| Adjust CAE Allocation to % of Claims[78] (b) | (2,042,851) | 2,042,851 | - | |
| *Adjusted CAE Allocation (a) + (b)* | *(19,631,450)* | *(41,112,689)* | *(60,744,139)* | **32.3%** |
| Reverse G&A Allocation Above | 61,776,349 | 121,284,107 | 183,060,456 | |
| Reallocate Est. Gross G&A Based on Premium % | (80,048,718) | (156,759,738) | (236,808,456) | **33.8%** |
| Assumed G&A, Other | - | (1,493,000) | (1,493,000) | |
| Ceded Expense Credit, Net from CFMI (**Table 7**) | - | 55,241,000 | 55,241,000 | |
| Subtotal Reallocated G&A | (80,048,718) | (103,011,738) | (183,060,456) | |
| **Adjusted 2011 Net Underwriting Gain** | **$ 4,078,388** | **$ 9,606,324** | **$ 13,684,712** | |
| Difference | $ (20, 315,220) | $ 20,315,220 | $ - | |

Moreover, the Shaw Statement attempts to justify the "profit weight" of 4.2 by comparing it to the former Acting Commissioner's underwriting risk factors, as follows: "[f]or the entire 9-year period [of 2003 to 2011] the ratio of profitability for each dollar of District non-FEP premium to each dollar of profitability per non-FEP premium dollar from other jurisdictions is 4.2 to 1. This profitability differentiation is almost as large as the 4.5 to 1 distinction that the Commissioner gave to non-FEP premium vs. FEP premium."[79] This purported comparison is a non sequitur. The former Acting Commissioner's 82% to 18% non-FEP to FEP weighting is likely based upon the risk-based capital (RBC) charge / requirement associated with the relative riskiness of these lines of business.[80] It is not the same as comparing margin on D.C. non-FEP premium to margin on

[77] See Exhibit 1 at Tabs 'Chart 1 (Corrected)' and 'Chart 1 2011'.
[78] See Exhibit 1 at Tab 'Chart 1 2011'.
[79] Shaw Statement, p. 3.
[80] Commissioner's Order, pp. 55-56.

MD/VA non-FEP premium. The Shaw Statement's comparison of its 4.2 "profit weight" to the former Acting Commissioner's RBC factor weighting simply does not make sense.

## 7. THE SHAW METHODOLOGY APPLIES ITS GHMSI NON-FEP "PROFIT WEIGHT" TO CFBC RESULTS WITHOUT SEPARATELY ANALYZING CFBC RESULTS

The Shaw Methodology's purported "profit weight" of 4.2 of D.C. non-FEP premium serves as the primary driver for the Shaw Statement's conclusion that the quasi-premium factor is 62.9% for GHMSI and 50% CFBC. However, the Shaw Methodology applies the 4.2 "profit weight" to both GHMSI's and CFBC's 2003 to 2011 non-FEP premium and fails to separately calculate a "profit weight" for CFBC in the same manner used to calculate the amount for GHMSI.

The Shaw Statement asserts that "about 30% of GHMSI's non-FEP premium revenue arose from the District" and "District residents and businesses accounted for more than 65% of the profits."[81] However, if this same methodology is applied to CFBC's results, just 11% of non-FEP premium revenue and 31% of the profits relate to D.C. Moreover, the "profit weight" is reduced to 3.75, as summarized below in Table 9:

*Table 9 Calculation of CFBC Non-FEP "Profit Weight" Using Shaw Methodology*[82]

| Description | D.C. Non-FEP | MD/VA Non-FEP | All Non-FEP |
|---|---|---|---|
| Total Revenue | $ 1,395,482,323 | $ 11,663,257,646 | $ 13,058,739,969 |
| Incurred for Health Care Services | (996,244,067) | (9,254,096,020) | (10,250,340,087) |
| Claims Adjustment Expenses | (47,070,232) | (427,015,050) | (474,085,282) |
| General Administrative Expenses | (196,554,275) | (1,635,483,266) | (1,832,037,541) |
| **Net Underwriting Gain** | **$ 155,613,749** | **$ 346,663,310** | **$ 502,277,059** |
| **Net Underwriting Gain %** | **11.15%** | **2.97%** | **3.85%** |
| % of Total Underwriting Gain | 30.98% | 69.02% | 100.00% |
| **"Profit Weight" (11.15% / 2.97%)** | | | **3.75** |

[81] Shaw Statement, p. 3.
[82] See Exhibit 1 at Tab 'Chart 1 (BC).'

Holding all else equal (but correcting for computational errors), if a 3.75 "profit weight" is applied to CFBC premium rather than the Shaw Statement "profit weight" of 4.19, the Shaw Statement's overall attribution percentage is reduced by approximately 1.8% (from 58.3% to 56.5%).[83]

## 8. THE SHAW STATEMENT FAILS TO ADDRESS THE D.C. ATTRIBUTION PERCENTAGES FOR NUMBER OF POLICIES AND NUMBER OF NETWORK PROVIDERS

The Shaw Methodology discussed above results in an appreciably higher quasi-premium allocation factor for D.C. of 62.9% compared to the former Acting Commissioner's determination of 21%. However, the Shaw Methodology adopts the former Acting Commissioner's allocation percentages for the factors specified in the DISB regulations—number of policies (19.0%), and number of network providers (15.0%).[84] The Shaw Statement does not address these percentages in any manner whatsoever and simply states, "[t]he [] premium weights then translate to the following allocation percentages when the other weights and values of the Commissioner's allocation formula are adopted."[85]

The May 2020 Appleseed Brief acknowledges that one of the ways in which the D.C. Court of Appeals found that the former Acting Commissioner's explanation for his decision to attribute 21% of GHMSI's excess surplus to D.C. was inadequate was that the analysis of the jurisdictions' relative contributions to surplus was based solely "on a snapshot of 2011 rather than an effort to analyze GHMSI's surplus history and to determine the District's contributions to that surplus over time."[86] Despite this acknowledgement, the Shaw Statement uses the former Acting Commissioner's determinations related to number of policies and number of network providers—

[83] See Exhibit 1 at Tab 'Chart 4 (Adjusted)', section "Correct Math and CFBC Profit Weight".
[84] It appears that the Shaw Statement rounds up these factors to 19.0% and 15.0%, respectively, from the amounts reported in the GHMSI 1(d) response of 18.92% and 14.88% (See Shaw Statement Chart 5). As the Shaw Statement did not provide the details of its calculations, this cannot be determined definitively. When the attribution to D.C. is ultimately determined, rounding should not be used as in this particular matter a 0.01% difference represents approximately $267,000, *i.e.*, it is not negligible. The calculations in Exhibit 1 use factors of 18.92% and 14.88% where applicable.
[85] Shaw Statement, p. 6.
[86] Appleseed Brief, p. 12; D.C. Court of Appeals Remand, p. 38.

determinations that were based solely on 2011 data—and makes no commentary regarding this apparent inconsistency.

With respect to the number of policies factor, an analysis of GHMSI FEP certificates by jurisdiction of certificate / policyholder (such policies comprise almost 80% of GHMSI's total policies) over the period 2003 to 2011 is shown in Table 10 below:

*Table 10 GHMSI FEP Policies (Certificates), By Jurisdiction of Policyholder 2003 to 2011*[87]

| Year | D.C. | MD/VA | Other | Total | D.C.% |
|---|---|---|---|---|---|
| 2011 | 39,062 | 145,871 | 16,992 | 201,925 | 19.3% |
| 2010 | 39,846 | 146,983 | 16,918 | 203,747 | 19.6% |
| 2009 | 39,202 | 145,374 | 17,115 | 201,691 | 19.4% |
| 2008 | 38,471 | 144,386 | 15,850 | 198,707 | 19.4% |
| 2007 | 37,541 | 140,604 | 15,591 | 193,736 | 19.4% |
| 2006 | 36,791 | 137,207 | 15,663 | 189,661 | 19.4% |
| 2005 | 37,181 | 136,762 | 15,347 | 189,290 | 19.6% |
| 2004 | 40,301 | 138,733 | 15,726 | 194,760 | 20.7% |
| 2003 | 40,922 | 137,992 | 15,187 | 194,101 | 21.1% |
| **Average** | | | | | **19.8%** |

As shown in Table 10 above, the simple average over the period for D.C. GHMSI FEP policies was 19.8%, consistent with the 2011 amount used in the former Acting Commissioner's calculation. Importantly, the data above further supports the FEP allocation of 20% discussed above in Section 5. The Shaw Statement fails to acknowledge its own internal inconsistency—for the policy factor, it relies upon the residency of the FEP certificate holder, but for the premium factor, it ignores the certificate holder's residency and uses a D.C. weighting of 100%, purportedly based upon contract situs. Attribution of both FEP certificates and FEP premium is more properly and consistently

[87] 2011 data is per Table 1 (and Table 2) of the GHMSI 1(d) Response. Prior years were obtained from file entitled *FEP_Juris_Response.xlsx* provided by the Company. "Policyholder" refers to the certificate holder for FEP plans. The category "Other" includes overseas certificate holders.

determined based on the jurisdiction where the FEP certificate holders reside (and where the services are provided). Similarly, an analysis of CFBC's FEP certificates by jurisdiction of the certificate holder over the period 2003 to 2011 is shown below in Table 11:

*Table 11 CFBC FEHBP Policies (Certificates), By Jurisdiction of Policyholder 2003 to 2011*[88]

| Year | D.C. | MD/VA | Other | Total | D.C.% |
|---|---|---|---|---|---|
| 2011 | 1,491 | 13,151 | 2,185 | 16,827 | 8.9% |
| 2010 | 1,527 | 12,855 | 2,260 | 16,642 | 9.2% |
| 2009 | 1,327 | 10,355 | 1,842 | 13,524 | 9.8% |
| 2008 | 1,071 | 7,802 | 1,416 | 10,289 | 10.4% |
| 2007 | 903 | 7,375 | 285 | 8,563 | 10.5% |
| 2006 | 715 | 5,717 | 264 | 6,696 | 10.7% |
| 2005 | 638 | 5,108 | 317 | 6,063 | 10.5% |
| 2004 | 628 | 4,840 | 329 | 5,797 | 10.8% |
| 2003 | 771 | 6,097 | 393 | 7,261 | 10.6% |
| **Average** | | | | | **10.2%** |

As shown in Table 11, the CFBC FEP D.C. certificate holder percentage was consistently in the range of approximately 9% to 10% and was in fact decreasing during the period. As such, attributing 100% of CFBC's FEP results to D.C. is an inappropriate method by which to attribute CFBC's contribution to GHMSI's excess surplus by jurisdiction. The certificate holder residency percentage provides a more reasonable basis of attribution.

Table 12 in Appendix C provides the total number of policies when the non-FEP policy counts (*i.e.*, the individual policyholder in the individual market and the employer/group plan in the group insured and self-insured markets) are combined with the above FEP certificate holder amounts. The D.C. percentage of policies ranged over the period 2003 to 2011 between 18.9% and

[88] 2011 data is per Table 1 (and Table 2) of the GHMSI 1(d) Response. Prior years were obtained from file entitled *GHMSI_BC_Enrollment_by_Member_State_and_Situs_Response.xlsx* provided by the Company. "Policyholder" refers to the certificate holder for FEHBP plans. The category "Other" includes out-of-area certificate holders; in the GHMSI 1(d) Response for 2011 certain "Other" were included in MD/VA, the D.C. amount and percentage are unaffected.

21.0%, averaging 19.9%. The factor was at its lowest in 2011, indicating that the D.C. "number of policies" factor should be higher. The average percentage of 19.9% is used in this report.

With respect to the network provider factor, an analysis of GHMSI and CFBC provider network data for the period 2003 to 2011 as shown in Table 13 of Appendix C demonstrates that the D.C. percentage of network providers increased over the period from 11.6% to 14.9%, with the highest percentage of 14.9% observed in 2011 (*i.e.*, the factor used in the Shaw Statement). As shown in Table 13, the simple average over the same period was approximately 13.3% rather than the 2011 percentage incorporated into the former Acting Commissioner's calculation and adopted by the Shaw Statement. In sum, the Shaw Statement used the highest possible GHMSI and 50% weighted CFBC provider network factor attributable to D.C. during the 2003 to 2011 timeframe—similar to the Shaw Statement's use of the highest possible percentage allocation of FEP premium. The average percentage of 13.3% is used in this report.

The Shaw Statement is deficient in that it does not make any mention of either performing an analysis of the years 2003 to 2011 for the two factors or whether any attempt was made to perform such an analysis.

## 9. THE SHAW STATEMENT FAILS TO ADDRESS INCLUSION OF A FACTOR FOR SUBSCRIBER RESIDENCY IN THE DETERMINATION OF THE D.C. ATTRIBUTION PERCENTAGE

GHMSI's Charter provides that the Company will both "enter into contracts with individuals or groups of individuals to provide for hospitalization and medical care" and "issue to such individuals appropriate certificates evidencing such contracts".[89] The Charter further provides that the Company "shall not be conducted for profit, but shall be conducted for the benefit of the aforesaid certificate holders."[90] While the former Acting Commissioner observed

[89] GHMSI Charter Sec. 2.
[90] Ibid., Sec. 3.

that "[i]n terms of surplus contribution and allocation, the Commissioner does not believe that a single, individual policyholder necessarily should be accorded the same weight as a group plan policyholder with thousands of members," the Shaw Statement does not address consideration of a subscriber residency factor that takes into account those "thousands of members."[91] GHMSI previously provided the following regarding this issue:

> For example, consider how surplus should be attributed for a DC-based company that purchases coverage from GHMSI and has 1,000 employees, of whom 800 live in Maryland and Virginia. The 800 subscribers and their covered dependents are residents of Maryland and Virginia, contribute to GHMSI premiums out of their Maryland and Virginia income, and use healthcare services—for which GHMSI pays—primarily in Maryland and Virginia. It would make no sense to attribute all surplus arising out of that relationship to the District.[92]

In the context of the policyholder factor, all surplus arising out of that hypothetical group policy is assigned to the District. On remand, some measure of reconsideration should be given to inclusion of a factor based on the residency of the certificate holders, as they (along with the providers where they obtain medical treatment, as the subscribers will reasonably obtain medical care near where they live) have a significant impact on the development of GHMSI's surplus.

An analysis of GHMSI's and CFBC's subscriber residency by jurisdiction over the period 2003 to 2011 demonstrates that the D.C. percentage remained relatively consistent with the 12.1% reported for 2011 in Table 2 of the GHMSI 1(d) response, as set forth in Table 14 of Appendix C. Accordingly, the impact of the inclusion of a subscriber residency factor of 12.1% is included herein for consideration.

[91] Commissioner's Order, p. 57.
[92] GHMSI's Further Response to Questions in the Third Scheduling Order and Statement Regarding Attribution dated October 10, 2014, p. 4.

## 10. THE SHAW STATEMENT FAILS TO ADDRESS THE WEIGHTING OF THE FACTORS CONSIDERED

The former Acting Commissioner's analysis first determined the allocation percentage to the District by assessing three factors: risk-weighted reported premiums (21%), number of policies (19%), and number of network providers (15%). The former Acting Commissioner next applied factor weightings of 90%, 5%, and 5%, respectively, to these determined percentages, resulting in a weighted average calculation of 21% as shown in Table 1 above. The Shaw Methodology simply adopts the 90%/5%/5% weightings applied by the former Acting Commissioner. The Shaw Statement does not address the factor weightings in any manner whatsoever, simply stating, "[t]he [] premium weights then translate to the following allocation percentages when the other weights and values of the Commissioner's allocation formula are adopted."[93]

DISB regulations provide the following regarding the factors to be considered in the determination of what percentage of GHMSI's surplus is attributable to D.C.:

> **"Attributable to the District"**- shall mean the process used by the Commissioner to allocate the portion of the surplus of a hospital and medical services corporation that is derived from the company's operations in the District of Columbia based on the following factors:
> (a) The number of policies by geographic area;
> (b) The number of health care providers under contract with the company by geographic area; an
> (c) Any other factor that the Commissioner deems to be relevant based on the record of a public hearing held pursuant to section 4602.[94]

The DISB regulation does not set forth the amount of weighting that should be given to any of the factors or require differential weighting at all. Notably, "number of policies by geographic area" and "number of health care providers under contract with the company by geographic area" are the only two factors that are specifically enumerated in the regulation, yet the Shaw Statement assigns each only a 5% weighting. A premium and/or income-related factor is not specified in the

[93] Shaw Statement, p. 6.
[94] 26A DCMR §4699.2.

regulation. Further, no one factor is highlighted by regulation as comparatively more relevant than any of the others to the creation of surplus, as each could be considered a reasonable method upon which to attribute surplus.

The D.C. Court of Appeals acknowledged that "[t]here may [*sic*] a number of reasonable approaches to allocating excess surplus among jurisdictions."[95] For example, one task for the Commissioner is to appropriately determine how to weight results relative to group health insurance and, more specifically, what weight to give to the jurisdiction where the group policyholder is located versus the residency of the individual subscribers. As such, a subscriber residency factor should be reconsidered as discussed in Section 9 above. While it is for the Commissioner to ultimately determine the appropriate weighting, a reasonable approach is to apply an equal weighting to each of the factors.

Importantly, the former Acting Commissioner's determinations of the allocations for each of the three considered factors were relatively clustered—in the range of 15% to 21% as shown in Table 1. Therefore, the impact of a change in the weighting of any one of those factors is relatively minimal—it still results in an amount in the range of 15% to 21%, with an equal weighting of the factors resulting in an attribution amount of approximately 18% (*i.e.*, +/- approximately 3%). The Shaw Statement does not address the more than 40% disparity between its proposed quasi-premium factor of 62.9% and the alternative factors of 19% and 15% (or the subscriber residency factor of 12%)—such a disparity cannot be reasonably explained because of the significant overstatement of the quasi-premium factor as discussed herein. The adjusted quasi-premium factor of 30.1% shown in Table 4 above resides more in the range of reasonableness in comparison to the other two factors, *i.e.*, within approximately 10% to 15% as opposed to 40%.

[95] D.C. Court of Appeals Remand, p. 37.

## 11. THE SHAW STATEMENT FAILS TO PRESENT SUPPORT FOR ITS CALCULATIONS AND IS REPLETE WITH MATHEMATICAL ERRORS AND INCONSISTENCIES

The Shaw Statement fails to present the support for its calculations or jurisdictional allocation methods (*e.g.*, claims adjustment expenses, general administrative expenses) and is replete with mathematical errors and inconsistencies. Such mechanical errors further call into question the soundness of the Shaw Statement's conclusions. The noted errors in addition to the source inconsistencies discussed in Section 4 above include but are not necessarily limited to the following:

- Chart 1 contains numerous cross-footing errors wherein the totals presented for "D.C. Total Non-FEP" plus "VA, MD Non-FEP" do not equal the totals shown for "All Non-FEP". See Exhibit 1 at Tab 'Chart 1 (Shaw)'.

- The allocations of Claims Adjustment Expenses (by claims) and General and Administrative Expenses (by premium) in Chart 1 cannot be recalculated and result in significant differences in 2009 and 2011 and differences over the time period analyzed of $4.8 million and $6.2 million, respectively. See Exhibit 1 at Tab 'Chart 1 (Corrected)' and the individual 'Chart 1 20XX' Tabs for the recalculations.

- Chart 1 contains a $4.1 million footing error in the determination of underwriting income/loss as shown in Table 6 above that impacts the calculation of the purported "profit weight" of 4.2. See also Exhibit 1 at Tab 'Chart 1 (Corrected)'.

- Chart 1 reflects a "D.C. Total Non-FEP" revenue amount of $368,790,524 for 2007 rather than the correct amount of $366,790,524, and Chart 1 reflects 2003 premium amounts by jurisdiction that cannot be verified against the 2003 state exhibits, resulting in a $5.6 million difference. See Exhibit 1 at Tabs 'Chart 1 2003', 'Chart 1 2007' and 'Chart 1 (Corrected)'.

- Chart 1 reflects write-in amounts related to FEP premium in non-FEP results and inconsistently assigns the write-ins to MD/VA (*see, e.g.*, Exhibit 1 at Tabs 'Chart 1 2004', 'Chart 1 2005', 'Chart 1 2006').

- Chart 2 is not labeled as to the presented time frame; inconsistent with the conclusion of the Shaw Statement it reflects a calculation related to 2011 only while the corresponding narrative relates to the period 2003 to 2011. This appears to be the reason for the Shaw Statement error in Chart 4 of using the 2011 only calculated amount of 54.7% as the weighted percentage of GHMSI and 50% CFBC for the period of 2003 to 2011 instead of the calculated amount of 53.9%. See Exhibit 1 at Tabs 'Charts 2 & 3 (Shaw)' and 'Chart 4 (Adjusted)'.

- There are unexplained differences between the totals per Chart 3 and the amounts presented on Schedule T. See Exhibit 1 at Tabs 'Charts 2 & 3 (Shaw)', 'Sched T Prem GHMSI' and 'Sched T Prem CFBC'.

**12. CONCLUSION**

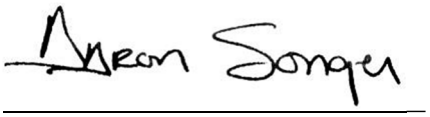
In sum, based upon the analysis performed and my observations and findings, the Shaw Statement's attribution of 58.3% of GHMSI's excess 2011 surplus to D.C.—an amount that would attribute at least $156 million, or approximately $100 million more to the District than determined by the former Acting Commissioner—is significantly overstated. The Shaw Statement fails to present the underlying support for its calculations or jurisdictional allocation methods and is replete with mathematical errors and inconsistencies that further call into question the soundness of its conclusions.

The methodology used in the Shaw Statement to determine the District's quasi-premium allocation factor of 62.9% suffers from numerous conceptual flaws and is an unreasonable and unreliable measure for determining the attribution of GHMSI's 2011 surplus to D.C. However, if a similar methodology is adopted to determine the attribution of surplus to the District, after adjusting for the primary flaws in the Shaw Methodology and other computational errors, the quasi-premium factor should be reduced from 62.9% to 30.1% (*see* Table 4 above).

As summarized above in Table 3, when the policy and provider factors are updated to reflect historical information, the attribution percentage to the District is reduced to at most 28.8% or approximately $77.1 million before adjusting for any credits for community health reinvestment. Further, if the reasonable approach of applying an unbiased, equal weighting to each factor is adopted, the attribution to the District is reduced to 21.1% or approximately $56.6 million. Finally, should the Commissioner reconsider inclusion of a subscriber residency factor, the D.C. attribution percentage would be 18.9% or approximately $50.5 million.

* * * * *

Respectfully submitted,



Aaron Songer, CPA

# APPENDIX A: CURRICULUM VITAE OF AARON SONGER

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## Education

Aaron earned a Bachelor of Science in Accounting & International Business from Pennsylvania State University and a Master of Business Administration from the Wharton School of the University of Pennsylvania. He is a Certified Public Accountant licensed in the states of Maryland and Pennsylvania and is a member of the American Institute of Certified Public Accountants.

## Professional Experience

Aaron is a partner in the assurance practice of PwC focusing on the insurance industry. He has over 25 years of insurance accounting expertise working on numerous audit engagements across life, property and casualty (P&C) and health insurance. His experience includes an understanding of both U.S. Generally Accepted Accounting Principles and Statutory Accounting Principles prescribed by the NAIC. He has worked in PwC's offices in Washington, D.C., London and Philadelphia. He has led more than one hundred audit engagements of financial statements of insurance entities.

## Selected Client Experience

- Led audit engagements for health insurance entities that cover the broad spectrum of products including commercial, individual Affordable Care Act, Medicare Advantage and Medicaid. Engagements include BlueCross BlueShield entities across four states.
- Led public insurance company audit engagements that required auditing under the requirements of the Public Company Accounting Oversight Board. These engagements included performing tests that integrated procedures over the company's financial reporting control environment and their financial statements.
- Led over 75 audit engagements on financial statements prepared under Statutory Accounting Principles.
- Led audit engagement of the Federal Employee Program overseen by the Blue Cross Blue Shield Association.
- Led controls attestation engagements for health insurance companies. These engagements review the financial reporting processes and systems for service providers.

## Prior Expert Report

*United States District Court for the District of Maryland*
CareFirst, Inc., CareFirst of Maryland, Inc., GHMSI, Plaintiffs, v. The Hon. Stephen C. Taylor in his Official Capacity as the Commissioner, DISB, Defendant, The Hon. Alfred W. Redmer, Jr., in his Official Capacity as the Insurance Commissioner of the Maryland Insurance Administration, Defendant/Interested Party, The Hon. James C. Dimitri, Chair, Virginia State Corporation Commission, in his Official Capacity as Chair of the Virginia State Corporation Commission, Defendant/Interested Party. Case No. 1:16-cv-02656-CCB Expert Report (2017).

## APPENDIX B: DOCUMENTS CONSIDERED

Health Annual Statements for the Years Ended December 31, 2003 through December 31, 2011 of the Condition and Affairs of the GHMSI

GHMSI Schedule T Premiums and Other Considerations Allocated by States and Territories for the Years Ended December 31, 2012 through December 31, 2018

Amended Schedules to the Health Annual Statement for the Year Ended December 31, 2011 of the Condition and Affairs of the GHMSI filed May 14, 2012

Health Annual Statements for the Years Ended December 31, 2003 through December 31, 2011 of the Condition and Affairs of the CareFirst BlueChoice, Inc.

Amended Schedules to the Health Annual Statement for the Year Ended December 31, 2011 of the Condition and Affairs of the CareFirst BlueChoice, Inc. filed May 14, 2012

November 24, 2020 Order No. 20-OA-8 of the District of Columbia Court of Appeals

November 9, 2020 Status Report of the DISB

November 9, 2020 Appleseed Status Report

November 9, 2020 GHMSI Status Statement Regarding Remand Proceedings

August 10, 2020 Order No. 20-OA-8 of the District of Columbia Court of Appeals

May 22, 2020 GHMSI Response to Motion of D.C. Appleseed Center for Law and Justice, Inc. to Expedite Remand Proceedings

May 14, 2020 Brief for D.C. Appleseed before the Department of Insurance, Securities and Banking on Remand from the August 29, 2019 Decision of the District of Columbia Court of Appeals

November 18, 2019 D.C. Appleseed's Request for Expedited Remand Proceedings

August 29, 2019 Judgment of the District of Columbia Court of Appeals on Petitions for Review of Orders of the District of Columbia Department of Insurance, Securities and Banking

August 30, 2016 Decision and Order No. 14-MIE-19 issued by the Government of the District of Columbia Department of Insurance, Securities and Banking

Charter issued to Group Hospitalization and Medical Services, Inc. pursuant to an Act of Congress, approved August 11, 1939, as amended October 17, 1984, October 5, 1992, October 29, 1993, December 16, 1997, and December 18, 2015, by Acts of Congress

January 9, 2015 D.C. Appleseed's Motion for Reconsideration (with Mark Shaw Statement attached)

December 30, 2014 Decision and Order No. 14-MIE-012 issued by the Government of the District of Columbia Department of Insurance, Securities and Banking

October 31, 2014 Response of GHMSI to Supplemental Information Request 1(d) in DISB Order No. 14-MIE-08 (October 3, 2014)

October 10, 2014 GHMSI's Further Response to Questions in the Third Scheduling Order and Statement Regarding Attribution

October 3, 2014 Order with Supplemental Information Requests No. 14-MIE-008 issued by the Government of the District of Columbia Department of Insurance, Securities and Banking

August 7, 2014 Third Scheduling Order No. 14-MIE-005 issued by the Government of the District of Columbia Department of Insurance, Securities and Banking

Quarterly Earnings Redistribution Agreement between CareFirst of Maryland, Inc., and Group Hospitalization & Medical Services, Inc. effective January 1, 2008

Medical Insurance Empowerment Amendment Act of 2008

NAIC Glossary of Insurance Terms

26A DCMR §4699.2

GHMSI_BC_Enrollment_by_Member_State_and_Situs_Response.xlsx

20XX HMO Data.xlsx

20XX SPP Data Current.xlsx

FEP_Juris_Response.xlsx

2013 NAIC Health Risk-Based Capital Report including Overview and Instructions for Companies as of December 31, 2013

Health Annual Statements for the Year Ended December 31, 2011 of various Blues Plans including but not limited to Blue Cross and Blue Shield of Florida, Inc.; Health Care Service Corporation, a Mutual Legal Reserve Company; Highmark, Inc.; Horizon Healthcare Services, Inc.; Regence BlueCross BlueShield of Oregon.

# APPENDIX C: GHMSI and CFBC ATTRIBUTION DATA 2003 - 2011

*Table 12 Number of Policies by Jurisdiction of Policyholder 2003 to 2011*[96]

| Year | Entity | D.C. | MD/VA | Other | Total | D.C.% |
|---|---|---|---|---|---|---|
| 2011 | GHMSI nonFEP | 12,023 | 43,082 | - | 55,105 | 21.8% |
| | GHMSI FEP | 39,062 | 145,871 | 16,992 | 201,925 | 19.3% |
| | Total GHMSI | 51,085 | 188,953 | 16,992 | 257,030 | 19.9% |
| | CFBC nonFEP | 5,306 | 39,767 | - | 45,073 | 11.8% |
| | CFBC FEP | 1,491 | 13,151 | 2,185 | 16,827 | 8.9% |
| | Total CFBC | 6,797 | 52,918 | 2,185 | 61,900 | 11.0% |
| | **GHMSI + 50% CFBC** | **54,484** | **215,412** | **18,085** | **287,980** | **18.9%** |
| 2010 | GHMSI nonFEP | 14,142 | 44,307 | - | 58,449 | 24.2% |
| | GHMSI FEP | 39,846 | 146,983 | 16,918 | 203,747 | 19.6% |
| | Total GHMSI | 53,988 | 191,290 | 16,918 | 262,196 | 20.6% |
| | CFBC nonFEP | 4,902 | 41,538 | - | 46,440 | 10.6% |
| | CFBC FEP | 1,527 | 12,855 | 2,260 | 16,642 | 9.2% |
| | Total CFBC | 6,429 | 54,393 | 2,260 | 63,082 | 10.2% |
| | GHMSI + 50% CFBC | 57,203 | 218,487 | 18,048 | 293,737 | 19.5% |
| 2009 | GHMSI nonFEP | 16,213 | 40,176 | - | 56,389 | 28.8% |
| | GHMSI FEP | 39,202 | 145,374 | 17,115 | 201,691 | 19.4% |
| | Total GHMSI | 55,415 | 185,550 | 17,115 | 258,080 | 21.5% |
| | CFBC nonFEP | 6,204 | 44,003 | - | 50,207 | 12.4% |
| | CFBC FEP | 1,327 | 10,355 | 1,842 | 13,524 | 9.8% |
| | Total CFBC | 7,531 | 54,358 | 1,842 | 63,731 | 11.8% |
| | GHMSI + 50% CFBC | 59,181 | 212,729 | 18,036 | 289,946 | 20.4% |
| 2008 | GHMSI nonFEP | 16,873 | 36,461 | - | 53,334 | 31.6% |
| | GHMSI FEP | 38,471 | 144,386 | 15,850 | 198,707 | 19.4% |
| | Total GHMSI | 55,344 | 180,847 | 15,850 | 252,041 | 22.0% |
| | CFBC nonFEP | 6,457 | 42,349 | - | 48,806 | 13.2% |
| | CFBC FEP | 1,071 | 7,802 | 1,416 | 10,289 | 10.4% |
| | Total CFBC | 7,528 | 50,151 | 1,416 | 59,095 | 12.7% |
| | GHMSI + 50% CFBC | 59,108 | 205,923 | 16,558 | 281,589 | 21.0% |
| 2007 | GHMSI nonFEP | 12,608 | 39,309 | - | 51,917 | 24.3% |
| | GHMSI FEP | 37,541 | 140,604 | 15,591 | 193,736 | 19.4% |

[96] 2011 Non-FEP policy counts are per Table 1 of the GHMSI 1(d) Response. Prior years were obtained from file entitled *GHMSI_BC_Enrollment_by_Member_State_and_Situs_Response.xlsx* provided by the Company. For policyholders that move out-of-area, in the 2008-2011 data (*i.e.*, after the CJA) the policyholder's jurisdiction remained the state of the policyholder's situs before the move; accordingly, reported "Other" data was -0-. For consistency (and to be conservative) 2003-2007 policyholder counts reported as "Other" were re-allocated between D.C. and MD/VA based upon the percentage of policies in each jurisdiction excluding those classified as "Other." There is no indication that people in one jurisdiction are more likely to move out of the region while keeping their coverage than people in another jurisdiction. FEP certificate holder counts were obtained as described with respect to Tables 10 and 11.

| Year | Entity | D.C. | MD/VA | Other | Total | D.C.% |
|---|---|---|---|---|---|---|
| | Total GHMSI | 50,149 | 179,913 | 15,591 | 245,653 | 20.4% |
| | CFBC nonFEP | 3,737 | 42,721 | - | 46,458 | 8.0% |
| | CFBC FEP | 903 | 7,375 | 285 | 8,563 | 10.5% |
| | Total CFBC | 4,640 | 50,096 | 285 | 55,021 | 8.4% |
| | GHMSI + 50% CFBC | 52,469 | 204,961 | 15,734 | 273,164 | 19.2% |
| 2006 | GHMSI nonFEP | 11,987 | 35,697 | - | 47,684 | 25.1% |
| | GHMSI FEP | 36,791 | 137,207 | 15,663 | 189,661 | 19.4% |
| | Total GHMSI | 48,778 | 172,904 | 15,663 | 237,345 | 20.6% |
| | CFBC nonFEP | 3,425 | 37,259 | - | 40,684 | 8.4% |
| | CFBC FEP | 715 | 5,717 | 264 | 6,696 | 10.7% |
| | Total CFBC | 4,140 | 42,976 | 264 | 47,380 | 8.7% |
| | GHMSI + 50% CFBC | 50,848 | 194,392 | 15,795 | 261,035 | 19.5% |
| 2005 | GHMSI nonFEP | 11,228 | 30,749 | - | 41,977 | 26.7% |
| | GHMSI FEP | 37,181 | 136,762 | 15,347 | 189,290 | 19.6% |
| | Total GHMSI | 48,409 | 167,511 | 15,347 | 231,267 | 20.9% |
| | CFBC nonFEP | 3,155 | 37,902 | - | 41,057 | 7.7% |
| | CFBC FEP | 638 | 5,108 | 317 | 6,063 | 10.5% |
| | Total CFBC | 3,793 | 43,010 | 317 | 47,120 | 8.0% |
| | GHMSI + 50% CFBC | 50,306 | 189,016 | 15,506 | 254,827 | 19.7% |
| 2004 | GHMSI nonFEP | 10,840 | 30,311 | - | 41,151 | 26.3% |
| | GHMSI FEP | 40,301 | 138,733 | 15,726 | 194,760 | 20.7% |
| | Total GHMSI | 51,141 | 169,044 | 15,726 | 235,911 | 21.7% |
| | CFBC nonFEP | 2,691 | 36,241 | - | 38,932 | 6.9% |
| | CFBC FEP | 628 | 4,840 | 329 | 5,797 | 10.8% |
| | Total CFBC | 3,319 | 41,081 | 329 | 44,729 | 7.4% |
| | GHMSI + 50% CFBC | 52,801 | 189,585 | 15,891 | 258,276 | 20.4% |
| 2003 | GHMSI nonFEP | 10,720 | 30,059 | - | 40,779 | 26.3% |
| | GHMSI FEP | 40,922 | 137,992 | 15,187 | 194,101 | 21.1% |
| | Total GHMSI | 51,642 | 168,051 | 15,187 | 234,880 | 22.0% |
| | CFBC nonFEP | 2,493 | 32,110 | - | 34,603 | 7.2% |
| | CFBC FEP | 771 | 6,097 | 393 | 7,261 | 10.6% |
| | Total CFBC | 3,264 | 38,207 | 393 | 41,864 | 7.8% |
| | GHMSI + 50% CFBC | 53,274 | 187,155 | 15,384 | 255,812 | 20.8% |
| **Average** | **Total GHMSI** | | | | | **21.1%** |
| | **Total CFBC** | | | | | **9.6%** |
| | **GHMSI + 50% CFBC** | | | | | **19.9%** |

*Table 13 GHMSI and CFBC Network Providers by Jurisdiction 2003 to 2011*[97]

| Year | Entity | D.C. | MD | VA | Total | D.C.% |
|---|---|---|---|---|---|---|
| 2011 | GHMSI | 6,319 | 26,943 | 7,823 | 41,085 | 15.4% |
| | CFBC | 5,073 | 24,593 | 7,225 | 36,891 | 13.8% |
| | **GHMSI + 50% CFBC** | **8,856** | **39,240** | **11,436** | **59,531** | **14.9%** |
| 2010 | GHMSI | 6,116 | 27,214 | 7,908 | 41,238 | 14.8% |
| | CFBC | 4,967 | 24,058 | 7,164 | 36,189 | 13.7% |
| | GHMSI + 50% CFBC | 8,600 | 39,243 | 11,490 | 59,333 | 14.5% |
| 2009 | GHMSI | 5,631 | 26,303 | 7,480 | 39,414 | 14.3% |
| | CFBC | 4,690 | 23,382 | 6,748 | 34,820 | 13.5% |
| | GHMSI + 50% CFBC | 7,976 | 37,994 | 10,854 | 56,824 | 14.0% |
| 2008 | GHMSI | 5,236 | 24,887 | 6,883 | 37,006 | 14.1% |
| | CFBC | 4,332 | 22,157 | 6,195 | 32,684 | 13.3% |
| | GHMSI + 50% CFBC | 7,402 | 35,966 | 9,981 | 53,348 | 13.9% |
| 2007 | GHMSI | 4,887 | 23,772 | 6,295 | 34,954 | 14.0% |
| | CFBC | 3,299 | 18,752 | 4,861 | 26,912 | 12.3% |
| | GHMSI + 50% CFBC | 6,537 | 33,148 | 8,726 | 48,410 | 13.5% |
| 2006 | GHMSI | 3,993 | 21,999 | 5,699 | 31,691 | 12.6% |
| | CFBC | 3,167 | 19,560 | 5,177 | 27,904 | 11.3% |
| | GHMSI + 50% CFBC | 5,577 | 31,779 | 8,288 | 45,643 | 12.2% |
| 2005 | GHMSI | 3,744 | 21,013 | 5,419 | 30,176 | 12.4% |
| | CFBC | 3,048 | 19,018 | 5,042 | 27,108 | 11.2% |
| | GHMSI + 50% CFBC | 5,268 | 30.522 | 7,940 | 43,730 | 12.0% |

[97] 2011 data is per Table 3 of the GHMSI 1(d) Response. Prior years were compiled from annual files entitled *20XX HMO Data.xlsx* and *20XX SPP Data Current.xlsx* provided by the Company. Counts are based on individual practitioners. A practitioner is counted one time in each jurisdiction where the practitioner has at least one office location. A practitioner with multiple offices in the same jurisdiction is counted once for that jurisdiction. Table 13 includes providers in Maryland, D.C., and Virginia only. There are a small number of providers contracted with GHMSI or BlueChoice outside of the companies' service territory. In addition, members have nationwide access to a very large number of in network providers through the Blue Cross and Blue Shield Association's BlueCard program, utilizing networks maintained by other Blue Cross and Blue Shield Plans. Those providers have not been included. The data provided for 2003 included only the primary provider location; as such, 2003 reflects a slightly lower percentage than the subsequent years. The average excluding 2003 would be 13.5%; however, each year's D.C. percentage is slightly overstated because providers in states other than D.C., Maryland, and Virginia (and the extended nationwide access) are not included. As such, we used the 13.3% amount calculated above. Excluding 2003 and including other states, the D.C. average percentage would be 13.2%. As would be expected, there is overlap between the GHMSI network and the CFBC network which contributes to the percentages for each entity being similar. As shown in the table, the averages for GHMSI and CFBC only over the period were 13.6% and 12.7%, respectively.

| Year | Entity | D.C. | MD | VA | Total | D.C.% |
|---|---|---|---|---|---|---|
| 2004 | GHMSI | 3,977 | 20,297 | 5,181 | 29,455 | 13.5% |
| | CFBC | 3,170 | 17,721 | 4,699 | 25,590 | 12.4% |
| | GHMSI + 50% CFBC | 5,562 | 29,158 | 7,531 | 42,250 | 13.2% |
| 2003 | GHMSI | 3,085 | 20,168 | 4,342 | 27,595 | 11.2% |
| | CFBC | 2,449 | 13,413 | 3,133 | 18,995 | 12.9% |
| | GHMSI + 50% CFBC | 4,310 | 26,875 | 5,909 | 37,093 | 11.6% |
| **Average** | **GHMSI** | | | | | **13.6%** |
| | **CFBC** | | | | | **12.7%** |
| | **GHMSI + 50% CFBC** | | | | | **13.3%** |

*Table 14 Number of Subscribers and Certificate Holders by Jurisdiction 2003 to 2011*

| Year | Entity | D.C. | MD/VA | Other | Total | D.C.% |
|---|---|---|---|---|---|---|
| 2011 | GHMSI nonFEP | 29,658 | 181,495 | 102,967 | 314,120 | 9.4% |
| | GHMSI FEP | 39,062 | 145,871 | 16,992 | 201,925 | 19.3% |
| | Total GHMSI | 68,720 | 327,366 | 119,959 | 516,045 | 13.3% |
| | CFBC nonFEP | 21,101 | 234,351 | 23,191 | 278,643 | 7.6% |
| | CFBC FEP | 1,491 | 13,151 | 2,185 | 16,827 | 8.9% |
| | Total CFBC | 22,592 | 247,502 | 25,376 | 295,470 | 7.6% |
| | **GHMSI + 50% CFBC** | **80,016** | **451,117** | **132,647** | **663,780** | **12.1%** |
| 2010 | GHMSI nonFEP | 31,946 | 209,303 | 92,911 | 334,160 | 9.6% |
| | GHMSI FEP | 39,846 | 146,983 | 16,918 | 203,747 | 19.6% |
| | Total GHMSI | 71,792 | 356,286 | 109,829 | 537,907 | 13.3% |
| | CFBC nonFEP | 20,113 | 232,482 | 20,714 | 273,309 | 7.4% |
| | CFBC FEP | 1,527 | 12,855 | 2,260 | 16,642 | 9.2% |
| | Total CFBC | 21,640 | 245,337 | 22,974 | 289,951 | 7.5% |
| | GHMSI + 50% CFBC | 82,612 | 478,955 | 121,316 | 682,883 | 12.1% |
| 2009 | GHMSI nonFEP | 33,929 | 212,574 | 97,418 | 343,921 | 9.9% |
| | GHMSI FEP | 39,202 | 145,374 | 17,115 | 201,691 | 19.4% |
| | Total GHMSI | 73,131 | 357,948 | 114,533 | 545,612 | 13.4% |
| | CFBC nonFEP | 19,480 | 249,411 | 20,850 | 289,741 | 6.7% |
| | CFBC FEP | 1,327 | 10,355 | 1,842 | 13,524 | 9.8% |
| | Total CFBC | 20,807 | 259,766 | 22,692 | 303,265 | 6.9% |
| | GHMSI + 50% CFBC | 83,535 | 487,831 | 125,879 | 697,245 | 12.0% |
| 2008 | GHMSI nonFEP | 34,385 | 222,901 | 100,292 | 357,578 | 9.6% |
| | GHMSI FEP | 38,471 | 144,386 | 15,850 | 198,707 | 19.4% |
| | Total GHMSI | 72,856 | 367,287 | 116,142 | 556,285 | 13.1% |
| | CFBC nonFEP | 18,203 | 260,460 | 20,648 | 299,311 | 6.1% |
| | CFBC FEP | 1,071 | 7,802 | 1,416 | 10,289 | 10.4% |
| | Total CFBC | 19,274 | 268,262 | 22,064 | 309,600 | 6.2% |
| | GHMSI + 50% CFBC | 82,493 | 501,418 | 127,174 | 711,085 | 11.6% |
| 2007 | GHMSI nonFEP | 34,992 | 252,337 | 69,582 | 356,911 | 9.8% |
| | GHMSI FEP | 37,541 | 140,604 | 15,591 | 193,736 | 19.4% |
| | Total GHMSI | 72,533 | 392,941 | 85,173 | 550,647 | 13.2% |
| | CFBC nonFEP | 14,529 | 249,837 | 8,815 | 273,181 | 5.3% |
| | CFBC FEP | 903 | 7,375 | 285 | 8,563 | 10.5% |
| | Total CFBC | 15,432 | 257,212 | 9,100 | 281,744 | 5.5% |
| | GHMSI + 50% CFBC | 80,249 | 521,547 | 89,723 | 691,519 | 11.6% |
| 2006 | GHMSI nonFEP | 33,952 | 234,639 | 64,046 | 332,637 | 10.2% |
| | GHMSI FEP | 36,791 | 137,207 | 15,663 | 189,661 | 19.4% |

| Year | Entity | D.C. | MD/VA | Other | Total | D.C.% |
|---|---|---|---|---|---|---|
| | Total GHMSI | 70,743 | 371,846 | 79,709 | 522,298 | 13.5% |
| | CFBC nonFEP | 13,177 | 218,601 | 8,335 | 240,113 | 5.5% |
| | CFBC FEP | 715 | 5,717 | 264 | 6,696 | 10.7% |
| | Total CFBC | 13,892 | 224,318 | 8,599 | 246,809 | 5.6% |
| | GHMSI + 50% CFBC | 77,689 | 484,005 | 84,009 | 645,703 | 12.0% |
| 2005 | GHMSI nonFEP | 31,225 | 205,544 | 67,833 | 304,602 | 10.3% |
| | GHMSI FEP | 37,181 | 136,762 | 15,347 | 189,290 | 19.6% |
| | Total GHMSI | 68,406 | 342,306 | 83,180 | 493,892 | 13.9% |
| | CFBC nonFEP | 12,049 | 220,835 | 9,312 | 242,196 | 5.0% |
| | CFBC FEP | 638 | 5,108 | 317 | 6,063 | 10.5% |
| | Total CFBC | 12,687 | 225,943 | 9,629 | 248,259 | 5.1% |
| | GHMSI + 50% CFBC | 74,750 | 455,278 | 87,995 | 618,022 | 12.1% |
| 2004 | GHMSI nonFEP | 30,094 | 205,400 | 58,538 | 294,032 | 10.2% |
| | GHMSI FEP | 40,301 | 138,733 | 15,726 | 194,760 | 20.7% |
| | Total GHMSI | 70,395 | 344,133 | 74,264 | 488,792 | 14.4% |
| | CFBC nonFEP | 10,102 | 196,978 | 8,584 | 215,664 | 4.7% |
| | CFBC FEP | 628 | 4,840 | 329 | 5,797 | 10.8% |
| | Total CFBC | 10,730 | 201,818 | 8,913 | 221,461 | 4.8% |
| | GHMSI + 50% CFBC | 75,760 | 445,042 | 78,721 | 599,523 | 12.6% |
| 2003 | GHMSI nonFEP | 29,511 | 202,981 | 81,845 | 314,337 | 9.4% |
| | GHMSI FEP | 40,922 | 137,992 | 15,187 | 194,101 | 21.1% |
| | Total GHMSI | 70,433 | 340,973 | 97,032 | 508,438 | 13.9% |
| | CFBC nonFEP | 9,181 | 171,679 | 7,451 | 188,311 | 4.9% |
| | CFBC FEP | 771 | 6,097 | 393 | 7,261 | 10.6% |
| | Total CFBC | 9,952 | 177,776 | 7,844 | 195,572 | 5.1% |
| | GHMSI + 50% CFBC | 75,409 | 429,861 | 100,954 | 606,224 | 12.4% |
| **Average** | **Total GHMSI** | | | | | **13.6%** |
| | **Total CFBC** | | | | | **6.0%** |
| | **GHMSI + 50% CFBC** | | | | | **12.1%** |

**Exhibit 1**

| Per Shaw Statement | DC Non FEP | VA, MD Non FEP | Total Non FEP | Total per Shaw Statement | Shaw Statement Cross-Foot Errors |
|---|---|---|---|---|---|
| *Premiums* | | | | | |
| 2003 | $ 255,003,380 | $ 588,106,256 | $ 843,109,636 | | |
| 2004 | 277,810,041 | 593,045,939 | 870,855,980 | | |
| 2005 | 292,483,946 | 714,021,348 | 1,006,505,294 | | |
| 2006 | 316,915,474 | 844,921,017 | 1,161,836,491 | | |
| 2007 | 368,790,524 | 1,020,210,785 | 1,389,001,309 | | |
| 2008 | 415,103,408 | 848,614,576 | 1,263,717,984 | | |
| 2009 | 454,481,964 | 904,205,069 | 1,358,687,033 | 1,293,559,088 | 65,127,945 |
| 2010 | 461,784,940 | 908,210,659 | 1,369,995,599 | 1,339,247,601 | 30,747,998 |
| 2011 | 467,645,209 | 915,791,566 | 1,383,436,775 | 1,314,362,445 | 69,074,330 |
| **Total Revenue (A)** | **3,310,018,886** | **7,337,127,215** | **10,647,146,101** | | |
| *Claims* | | | | | |
| 2003 | 191,170,283 | 480,404,937 | 671,575,220 | | |
| 2004 | 199,599,877 | 459,255,891 | 658,855,768 | | |
| 2005 | 227,466,091 | 600,391,471 | 827,857,562 | | |
| 2006 | 258,861,298 | 687,107,734 | 945,969,032 | | |
| 2007 | 289,836,457 | 843,906,211 | 1,133,742,668 | | |
| 2008 | 343,897,879 | 715,642,962 | 1,059,540,841 | | |
| 2009 | 371,301,359 | 754,718,652 | 1,126,020,011 | 1,074,924,897 | 51,095,114 |
| 2010 | 345,483,838 | 711,909,493 | 1,057,393,331 | 1,033,648,595 | 23,744,736 |
| 2011 | 363,886,653 | 762,060,815 | 1,125,947,468 | 1,067,936,948 | 58,010,520 |
| **Incurred for Healthcare Services (B)** | **2,591,503,735** | **6,015,398,166** | **8,606,901,901** | | |
| **Loss Ratio (B)/(A)** | **78.3%** | **82.0%** | **80.8%** | | |
| *Claims Adjustment Expenses* | | | | | |
| 2003 | 13,821,849 | 34,804,370 | 48,626,219 | | |
| 2004 | 9,774,563 | 22,904,846 | 32,679,409 | | |
| 2005 | 10,543,061 | 28,101,402 | 38,644,463 | | |
| 2006 | 11,258,453 | 30,363,128 | 41,621,581 | | |
| 2007 | 12,254,840 | 36,082,701 | 48,337,541 | | |
| 2008 | 17,543,965 | 36,087,981 | 53,631,946 | | |
| 2009 | 17,205,582 | 41,528,944 | 58,734,526 | 51,947,323 | 6,787,203 |
| 2010 | 22,244,415 | 46,712,635 | 68,957,050 | | |
| 2011 | 17,588,599 | 43,155,540 | 60,744,139 | | |
| **Claims Adjustment Expenses (C)** | **132,235,327** | **319,741,547** | **451,976,874** | | |
| *General & Administrative Expenses* | | | | | |
| 2003 | 21,662,247 | 50,005,495 | 71,667,742 | | |
| 2004 | 29,794,036 | 65,016,725 | 94,810,761 | | |
| 2005 | 33,692,650 | 84,264,569 | 117,957,219 | | |
| 2006 | 37,184,341 | 99,188,408 | 136,372,749 | | |
| 2007 | 47,422,673 | 128,529,516 | 175,952,189 | | |
| 2008 | 53,031,792 | 108,319,414 | 161,351,206 | | |
| 2009 | 58,081,423 | 130,335,196 | 188,416,619 | 175,358,962 | 13,057,657 |
| 2010 | 63,109,505 | 125,843,760 | 188,953,265 | | |
| 2011 | 61,776,349 | 121,284,107 | 183,060,456 | | |
| **General Admin Expenses (D)** | **405,755,016** | **912,787,190** | **1,318,542,206** | | |
| **Net Underwriting Gain (A)-(B)-(C)-(D) = (E1)** | **180,524,808** | **89,200,312** | **269,725,120** | | |
| Unexplained Difference | (4,079,947) | 4,079,954 | 7 | | |
| **Net Underwriting Gain per Shaw Stmt (E2)** | **$ 176,444,861** | **$ 93,280,266** | **$ 269,725,127** | | |
| **Net Underwriting Gain % (E1) / (A)** | 5.45% | 1.22% | 2.53% | | |
| **Net Underwriting Gain % (E2) / (A) = (F)** | 5.33% | 1.27% | 2.53% | | |
| **State % of Premiums (A)** (see Note 1) | 31.1% | 68.9% | 100.0% | | |
| **State % of "Profits" (E2)** (see Note 2) | 65.4% | 34.6% | 100.0% | | |
| **"Profit Weight" = DC (F)/MD/VA (F)** (see Note 3) | **4.19** | | | | |

Note 1: Per Shaw Statement, "about 30% of GHMSI's Non-FEP premium revenue arose from the District."
Note 2: Per Shaw Statement, "District residents and businesses accounted for more than 65% of the profits."
Note 3: Per Shaw Statement, "[f]or the entire 9-year period the ratio of profitability for each dollar of District non-FEP premium to each dollar of profitability per non-FEP premium dollar from other jurisdictions is 4.2 to 1."

**Exhibit 1**

**Net Underwriting Gain (Loss) by Year**

| | Premium | Claims | CAE | G&A | Total |
|---|---|---|---|---|---|
| | | | **DC** | | |
| 2003 | $ 255,003,380 | $ (191,170,283) | $ (13,821,849) | $ (21,662,247) | $ 28,349,001 |
| 2004 | 277,810,041 | (199,599,877) | (9,774,563) | (29,794,036) | 38,641,565 |
| 2005 | 292,483,946 | (227,466,091) | (10,543,061) | (33,692,650) | 20,782,144 |
| 2006 | 316,915,474 | (258,861,298) | (11,258,453) | (37,184,341) | 9,611,382 |
| 2007 | 368,790,524 | (289,836,457) | (12,254,840) | (47,422,673) | 19,276,554 |
| 2008 | 415,103,408 | (343,897,879) | (17,543,965) | (53,031,792) | 629,772 |
| 2009 | 454,481,964 | (371,301,359) | (17,205,582) | (58,081,423) | 7,893,600 |
| 2010 | 461,784,940 | (345,483,838) | (22,244,415) | (63,109,505) | 30,947,182 |
| 2011 | 467,645,209 | (363,886,653) | (17,588,599) | (61,776,349) | 24,393,608 |
| | **$ 3,310,018,886** | **$ (2,591,503,735)** | **$ (132,235,327)** | **$ (405,755,016)** | **$ 180,524,808** |
| | | | **MD/VA** | | |
| 2003 | 588,106,256 | (480,404,937) | (34,804,370) | (50,005,495) | 22,891,454 |
| 2004 | 593,045,939 | (459,255,891) | (22,904,846) | (65,016,725) | 45,868,477 |
| 2005 | 714,021,348 | (600,391,471) | (28,101,402) | (84,264,569) | 1,263,906 |
| 2006 | 844,921,017 | (687,107,734) | (30,363,128) | (99,188,408) | 28,261,747 |
| 2007 | 1,020,210,785 | (843,906,211) | (36,082,701) | (128,529,516) | 11,692,357 |
| 2008 | 848,614,576 | (715,642,962) | (36,087,981) | (108,319,414) | (11,435,781) |
| 2009 | 904,205,069 | (754,718,652) | (41,528,944) | (130,335,196) | (22,377,723) |
| 2010 | 908,210,659 | (711,909,493) | (46,712,635) | (125,843,760) | 23,744,771 |
| 2011 | 915,791,566 | (762,060,815) | (43,155,540) | (121,284,107) | (10,708,896) |
| | **$ 7,337,127,215** | **$ (6,015,398,166)** | **$ (319,741,547)** | **$ (912,787,190)** | **$ 89,200,312** |
| | | | **Total** | | |
| 2003 | 843,109,636 | (671,575,220) | (48,626,219) | (71,667,742) | 51,240,455 |
| 2004 | 870,855,980 | (658,855,768) | (32,679,409) | (94,810,761) | 84,510,042 |
| 2005 | 1,006,505,294 | (827,857,562) | (38,644,463) | (117,957,219) | 22,046,050 |
| 2006 | 1,161,836,491 | (945,969,032) | (41,621,581) | (136,372,749) | 37,873,129 |
| 2007 | 1,389,001,309 | (1,133,742,668) | (48,337,541) | (175,952,189) | 30,968,911 |
| 2008 | 1,263,717,984 | (1,059,540,841) | (53,631,946) | (161,351,206) | (10,806,009) |
| 2009 | 1,358,687,033 | (1,126,020,011) | (58,734,526) | (188,416,619) | (14,484,123) |
| 2010 | 1,369,995,599 | (1,057,393,331) | (68,957,050) | (188,953,265) | 54,691,953 |
| 2011 | 1,383,436,775 | (1,125,947,468) | (60,744,139) | (183,060,456) | 13,684,712 |
| | **$ 10,647,146,101** | **$ (8,606,901,901)** | **$ (451,976,874)** | **$ (1,318,542,206)** | **$ 269,725,120** |

| | DC Non FEP | VA, MD Non FEP | Total Non FEP | DC % | Prem - Claim % |
|---|---|---|---|---|---|
| *Premiums* | | | | | |
| 2003 | $ 260,633,567 | $ 582,476,068 | $ 843,109,635 | 30.9% | |
| 2004 | 277,810,041 | 593,045,939 | 870,855,980 | 31.9% | |
| 2005 | 292,483,946 | 714,021,546 | 1,006,505,492 | 29.1% | |
| 2006 | 316,915,474 | 844,921,017 | 1,161,836,491 | 27.3% | |
| 2007 | 366,790,524 | 1,022,210,785 | 1,389,001,309 | 26.4% | |
| 2008 | 415,103,408 | 848,614,576 | 1,263,717,984 | 32.8% | |
| 2009 | 454,481,964 | 904,205,069 | 1,358,687,033 | 33.5% | |
| 2010 | 461,784,940 | 908,210,659 | 1,369,995,599 | 33.7% | |
| 2011 | 467,645,209 | 915,791,566 | 1,383,436,775 | 33.8% | |
| **Total Revenue (A)** | **3,313,649,073** | **7,333,497,225** | **10,647,146,298** | **31.1%** | |
| *Claims* | | | | | |
| 2003 | 191,170,283 | 480,404,937 | 671,575,220 | 28.5% | |
| 2004 | 199,599,877 | 459,255,891 | 658,855,768 | 30.3% | |
| 2005 | 227,466,091 | 600,391,471 | 827,857,562 | 27.5% | |
| 2006 | 258,861,298 | 687,107,734 | 945,969,032 | 27.4% | |
| 2007 | 289,836,457 | 843,906,211 | 1,133,742,668 | 25.6% | |
| 2008 | 343,897,879 | 715,642,962 | 1,059,540,841 | 32.5% | 0.4% |
| 2009 | 371,301,359 | 754,718,652 | 1,126,020,011 | 33.0% | 0.5% |
| 2010 | 345,483,838 | 711,909,493 | 1,057,393,331 | 32.7% | 1.0% |
| 2011 | 363,886,653 | 762,060,815 | 1,125,947,468 | 32.3% | 1.5% |
| **Incurred for Healthcare Services (B)** | **2,591,503,735** | **6,015,398,166** | **8,606,901,901** | **30.1%** | 1.0% |
| **Loss Ratio (B)/(A)** | **78.2%** | **82.0%** | **80.8%** | | |
| *Claims Adjustment Expenses* | | | | | |
| 2003 | 13,841,916 | 34,784,303 | 48,626,219 | 28.5% | |
| 2004 | 9,900,203 | 22,779,206 | 32,679,409 | 30.3% | |
| 2005 | 10,618,137 | 28,026,326 | 38,644,463 | 27.5% | |
| 2006 | 11,389,608 | 30,231,973 | 41,621,581 | 27.4% | |
| 2007 | 12,357,285 | 35,980,256 | 48,337,541 | 25.6% | |
| 2008 | 17,407,458 | 36,224,488 | 53,631,946 | 32.5% | |
| 2009 | 19,367,515 | 39,367,011 | 58,734,526 | 33.0% | |
| 2010 | 22,530,449 | 46,426,601 | 68,957,050 | 32.7% | |
| 2011 | 19,631,450 | 41,112,689 | 60,744,139 | 32.3% | |
| **Claims Adjustment Expenses (C)** | **137,044,022** | **314,932,852** | **451,976,874** | **30.3%** | |
| *General & Administrative Expenses* | | | | | |
| 2003 | 22,154,908 | 49,512,824 | 71,667,732 | 30.9% | |
| 2004 | 30,245,393 | 64,565,368 | 94,810,761 | 31.9% | |
| 2005 | 34,277,600 | 83,679,619 | 117,957,219 | 29.1% | |
| 2006 | 37,198,551 | 99,174,198 | 136,372,749 | 27.3% | |
| 2007 | 46,463,308 | 129,488,881 | 175,952,189 | 26.4% | |
| 2008 | 70,763,730 | 90,587,476 | 161,351,206 | 43.9% | |
| 2009 | 82,195,428 | 106,221,191 | 188,416,619 | 43.6% | |
| 2010 | 82,415,483 | 106,537,782 | 188,953,265 | 43.6% | |
| 2011 | 80,048,718 | 103,011,738 | 183,060,456 | 43.7% | |
| **General Admin Expenses (D)** | **485,763,119** | **832,779,077** | **1,318,542,196** | **36.8%** | |
| **Adj. Net Underwriting Gain (A) - (B) - (C) - (D) = (E)** | **$ 99,338,197** | **$ 170,387,130** | **$ 269,725,327** | | |
| **Adjusted Net Underwriting Gain % (E) / (A) = (F)** | 3.0% | 2.3% | 2.5% | | |
| **State % of Premiums (A)** | 31.1% | 68.9% | 100.0% | | |
| **State % of Adjusted Net Underwriting Gain (E)** | 36.8% | 63.2% | 100.0% | | |
| **Adjusted "Profit Weight" = DC (F)/MD/VA (F)** | **1.29** | | | | |

**Summary of Adjustments**

| | | | |
|---|---|---|---|
| **Net Underwriting Gain per Shaw Statement** | $ 176,444,861 | $ 93,280,266 | $ 269,725,127 |
| Footing Error | 4,079,947 | (4,079,954) | (7) |
| Agree Earned Premium to Annual Statements | 3,630,187 | (3,629,990) | 197 |
| Allocation of CAE Based on Incurred Claims | (4,808,695) | 4,808,695 | - |
| Allocation of G&A Based on Earned Premium | (6,181,316) | 6,181,326 | 10 |
| Subtotal | 173,164,984 | 96,560,343 | 269,725,327 |
| Allocate 100% of Ceded G&A Net, to MD/VA | (73,826,787) | 73,826,787 | - |
| **Adjusted Net Undewriting Gain** | $ 99,338,197 | $ 170,387,130 | $ 269,725,327 |

**Shaw Statement Net Underwriting Gain (Loss) by Year Corrected for Source/Math Errors**

| | Premiums | Claims | CAE | G&A | Total | % of Rev |
|---|---|---|---|---|---|---|
| | | | **DC** | | | |
| 2003 | $ 260,633,567 | $ (191,170,283) | $ (13,841,916) | $ (22,154,908) | $ 33,466,459 | 12.8% |
| 2004 | 277,810,041 | (199,599,877) | (9,900,203) | (30,245,393) | 38,064,568 | 13.7% |
| 2005 | 292,483,946 | (227,466,091) | (10,618,137) | (34,277,600) | 20,122,117 | 6.9% |
| 2006 | 316,915,474 | (258,861,298) | (11,389,608) | (37,198,551) | 9,466,017 | 3.0% |
| 2007 | 366,790,524 | (289,836,457) | (12,357,285) | (46,463,308) | 18,133,474 | 4.9% |
| 2008 | 415,103,408 | (343,897,879) | (17,407,458) | (53,000,303) | 797,769 | 0.2% |
| 2009 | 454,481,964 | (371,301,359) | (19,367,515) | (63,025,519) | 787,571 | 0.2% |
| 2010 | 461,784,940 | (345,483,838) | (22,530,449) | (63,690,549) | 30,080,104 | 6.5% |
| 2011 | 467,645,209 | (363,886,653) | (19,631,450) | (61,880,201) | 22,246,905 | 4.8% |
| | **$ 3,313,649,073** | **$ (2,591,503,735)** | **$ (137,044,022)** | **$ (411,936,332)** | **$ 173,164,984** | **5.2%** |
| | | | **MD/VA** | | | |
| 2003 | 582,476,068 | (480,404,937) | (34,784,303) | (49,512,824) | 17,774,005 | 3.1% |
| 2004 | 593,045,939 | (459,255,891) | (22,779,206) | (64,565,368) | 46,445,474 | 7.8% |
| 2005 | 714,021,546 | (600,391,471) | (28,026,326) | (83,679,619) | 1,924,131 | 0.3% |
| 2006 | 844,921,017 | (687,107,734) | (30,231,973) | (99,174,198) | 28,407,112 | 3.4% |
| 2007 | 1,022,210,785 | (843,906,211) | (35,980,256) | (129,488,881) | 12,835,437 | 1.3% |
| 2008 | 848,614,576 | (715,642,962) | (36,224,488) | (108,350,903) | (11,603,778) | (1.4%) |
| 2009 | 904,205,069 | (754,718,652) | (39,367,011) | (125,391,100) | (15,271,694) | (1.7%) |
| 2010 | 908,210,659 | (711,909,493) | (46,426,601) | (125,262,716) | 24,611,849 | 2.7% |
| 2011 | 915,791,566 | (762,060,815) | (41,112,689) | (121,180,255) | (8,562,193) | (0.9%) |
| | **$ 7,333,497,225** | **$ (6,015,398,166)** | **$ (314,932,852)** | **$ (906,605,864)** | **$ 96,560,343** | **1.3%** |
| | | | **Total** | | | **"Profit Weight"** |
| 2003 | $ 843,109,635 | $ (671,575,220) | $ (48,626,219) | $ (71,667,732) | $ 51,240,464 | 4.21 |
| 2004 | 870,855,980 | (658,855,768) | (32,679,409) | (94,810,761) | 84,510,042 | 1.75 |
| 2005 | 1,006,505,492 | (827,857,562) | (38,644,463) | (117,957,219) | 22,046,248 | 25.53 |
| 2006 | 1,161,836,491 | (945,969,032) | (41,621,581) | (136,372,749) | 37,873,129 | 0.89 |
| 2007 | 1,389,001,309 | (1,133,742,668) | (48,337,541) | (175,952,189) | 30,968,911 | 3.94 |
| 2008 | 1,263,717,984 | (1,059,540,841) | (53,631,946) | (161,351,206) | (10,806,009) | (0.14) |
| 2009 | 1,358,687,033 | (1,126,020,011) | (58,734,526) | (188,416,619) | (14,484,123) | (0.10) |
| 2010 | 1,369,995,599 | (1,057,393,331) | (68,957,050) | (188,953,265) | 54,691,953 | 2.40 |
| 2011 | 1,383,436,775 | (1,125,947,468) | (60,744,139) | (183,060,456) | 13,684,712 | (5.09) |
| | **$ 10,647,146,298** | **$ (8,606,901,901)** | **$ (451,976,874)** | **$ (1,318,542,196)** | **$ 269,725,327** | **3.97** |

**Shaw Statement Net Underwriting Gain (Loss) by Year Corrected for Source/Math Errors and Adj. for Ceded G&A**

| | Premiums | Claims | CAE | G&A | Total | % of Rev |
|---|---|---|---|---|---|---|
| | | | **DC** | | | |
| 2003 | $ 260,633,567 | $ (191,170,283) | $ (13,841,916) | $ (22,154,908) | $ 33,466,459 | 12.8% |
| 2004 | 277,810,041 | (199,599,877) | (9,900,203) | (30,245,393) | 38,064,568 | 13.7% |
| 2005 | 292,483,946 | (227,466,091) | (10,618,137) | (34,277,600) | 20,122,117 | 6.9% |
| 2006 | 316,915,474 | (258,861,298) | (11,389,608) | (37,198,551) | 9,466,017 | 3.0% |
| 2007 | 366,790,524 | (289,836,457) | (12,357,285) | (46,463,308) | 18,133,474 | 4.9% |
| 2008 | 415,103,408 | (343,897,879) | (17,407,458) | (70,763,730) | (16,965,658) | (4.1%) |
| 2009 | 454,481,964 | (371,301,359) | (19,367,515) | (82,195,428) | (18,382,338) | (4.0%) |
| 2010 | 461,784,940 | (345,483,838) | (22,530,449) | (82,415,483) | 11,355,170 | 2.5% |
| 2011 | 467,645,209 | (363,886,653) | (19,631,450) | (80,048,718) | 4,078,388 | 0.9% |
| | **$ 3,313,649,073** | **$ (2,591,503,735)** | **$ (137,044,022)** | **$ (485,763,119)** | **$ 99,338,197** | **3.0%** |
| | | | **MD/VA** | | | |
| 2003 | 582,476,068 | (480,404,937) | (34,784,303) | (49,512,824) | 17,774,005 | 3.1% |
| 2004 | 593,045,939 | (459,255,891) | (22,779,206) | (64,565,368) | 46,445,474 | 7.8% |
| 2005 | 714,021,546 | (600,391,471) | (28,026,326) | (83,679,619) | 1,924,131 | 0.3% |
| 2006 | 844,921,017 | (687,107,734) | (30,231,973) | (99,174,198) | 28,407,112 | 3.4% |
| 2007 | 1,022,210,785 | (843,906,211) | (35,980,256) | (129,488,881) | 12,835,437 | 1.3% |
| 2008 | 848,614,576 | (715,642,962) | (36,224,488) | (90,587,476) | 6,159,649 | 0.7% |
| 2009 | 904,205,069 | (754,718,652) | (39,367,011) | (106,221,191) | 3,898,215 | 0.4% |
| 2010 | 908,210,659 | (711,909,493) | (46,426,601) | (106,537,782) | 43,336,783 | 4.8% |
| 2011 | 915,791,566 | (762,060,815) | (41,112,689) | (103,011,738) | 9,606,324 | 1.0% |
| | **$ 7,333,497,225** | **$ (6,015,398,166)** | **$ (314,932,852)** | **$ (832,779,077)** | **$ 170,387,130** | **2.3%** |
| | | | **Total** | | | **"Profit Weight"** |
| 2003 | $ 843,109,635 | $ (671,575,220) | $ (48,626,219) | $ (71,667,732) | $ 51,240,464 | 4.21 |
| 2004 | 870,855,980 | (658,855,768) | (32,679,409) | (94,810,761) | 84,510,042 | 1.75 |
| 2005 | 1,006,505,492 | (827,857,562) | (38,644,463) | (117,957,219) | 22,046,248 | 25.53 |
| 2006 | 1,161,836,491 | (945,969,032) | (41,621,581) | (136,372,749) | 37,873,129 | 0.89 |
| 2007 | 1,389,001,309 | (1,133,742,668) | (48,337,541) | (175,952,189) | 30,968,911 | 3.94 |
| 2008 | 1,263,717,984 | (1,059,540,841) | (53,631,946) | (161,351,206) | (10,806,009) | (5.63) |
| 2009 | 1,358,687,033 | (1,126,020,011) | (58,734,526) | (188,416,619) | (14,484,123) | (9.38) |
| 2010 | 1,369,995,599 | (1,057,393,331) | (68,957,050) | (188,953,265) | 54,691,953 | 0.52 |
| 2011 | 1,383,436,775 | (1,125,947,468) | (60,744,139) | (183,060,456) | 13,684,712 | 0.83 |
| | **$ 10,647,146,298** | **$ (8,606,901,901)** | **$ (451,976,874)** | **$ (1,318,542,196)** | **$ 269,725,327** | **1.29** |

| Per Shaw Methodology | DC Non FEP | VA, MD Non FEP | Total Non FEP | DC % |
|---|---|---|---|---|
| *Premiums* | | | | |
| 2003 | $ 99,068,725 | $ 676,213,431 | $ 775,282,156 | 12.78% |
| 2004 | 104,200,703 | 909,656,679 | 1,013,857,382 | 10.28% |
| 2005 | 113,497,420 | 1,132,944,592 | 1,246,442,012 | 9.11% |
| 2006 | 132,495,165 | 1,228,040,649 | 1,360,535,814 | 9.74% |
| 2007 | 148,676,818 | 1,382,801,682 | 1,531,478,500 | 9.71% |
| 2008 | 162,380,672 | 1,505,099,341 | 1,667,480,013 | 9.74% |
| 2009 | 191,284,454 | 1,572,619,454 | 1,763,903,908 | 10.84% |
| 2010 | 218,114,602 | 1,635,582,407 | 1,853,697,009 | 11.77% |
| 2011 | 225,763,764 | 1,620,299,411 | 1,846,063,175 | 12.23% |
| **Total Revenue (A)** | **1,395,482,323** | **11,663,257,646** | **13,058,739,969** | 10.69% |
| *Claims* | | | | |
| 2003 | 59,861,467 | 529,587,706 | 589,449,173 | 10.16% |
| 2004 | 65,214,601 | 733,548,178 | 798,762,779 | 8.16% |
| 2005 | 79,259,722 | 935,457,076 | 1,014,716,798 | 7.81% |
| 2006 | 94,203,695 | 984,944,659 | 1,079,148,354 | 8.73% |
| 2007 | 103,538,059 | 1,101,913,825 | 1,205,451,884 | 8.59% |
| 2008 | 127,467,212 | 1,259,943,763 | 1,387,410,975 | 9.19% |
| 2009 | 141,761,567 | 1,268,972,275 | 1,410,733,842 | 10.05% |
| 2010 | 147,740,318 | 1,167,295,246 | 1,315,035,564 | 11.23% |
| 2011 | 177,197,426 | 1,272,433,292 | 1,449,630,718 | 12.22% |
| **Incurred for Healthcare Services (B)** | **996,244,067** | **9,254,096,020** | **10,250,340,087** | 9.72% |
| **Loss Ratio (B)/(A)** | **71.4%** | **79.3%** | **78.5%** | |
| *Claims Adjustment Expenses* | | | | |
| 2003 | 3,487,492 | 30,853,450 | 34,340,942 | 10.16% |
| 2004 | 3,337,633 | 37,542,425 | 40,880,058 | 8.16% |
| 2005 | 3,156,911 | 37,259,210 | 40,416,121 | 7.81% |
| 2006 | 3,398,851 | 35,536,610 | 38,935,461 | 8.73% |
| 2007 | 3,905,106 | 41,560,465 | 45,465,571 | 8.59% |
| 2008 | 4,871,791 | 48,154,998 | 53,026,789 | 9.19% |
| 2009 | 6,347,919 | 56,823,115 | 63,171,034 | 10.05% |
| 2010 | 8,297,482 | 65,558,345 | 73,855,827 | 11.23% |
| 2011 | 10,267,048 | 73,726,431 | 83,993,479 | 12.22% |
| **Claims Adjustment Expenses (C)** | **47,070,232** | **427,015,050** | **474,085,282** | 9.93% |
| *General & Administrative Expenses* | | | | |
| 2003 | 12,031,349 | 82,122,382 | 94,153,731 | 12.78% |
| 2004 | 13,876,160 | 121,136,817 | 135,012,977 | 10.28% |
| 2005 | 15,698,108 | 156,700,355 | 172,398,463 | 9.11% |
| 2006 | 17,299,449 | 160,341,149 | 177,640,598 | 9.74% |
| 2007 | 19,528,564 | 181,629,732 | 201,158,296 | 9.71% |
| 2008 | 21,504,506 | 199,324,328 | 220,828,834 | 9.74% |
| 2009 | 28,709,967 | 236,035,135 | 264,745,102 | 10.84% |
| 2010 | 33,667,537 | 252,463,753 | 286,131,290 | 11.77% |
| 2011 | 34,238,636 | 245,729,614 | 279,968,250 | 12.23% |
| **General Admin Expenses (D)** | **196,554,275** | **1,635,483,266** | **1,832,037,541** | 10.73% |
| **Net Underwriting Gain (A)-(B)-(C)-(D) = (E)** | **$ 155,613,748** | **$ 346,663,311** | **$ 502,277,059** | 30.98% |
| **Net Underwriting Gain % (E) / (A) = (F)** | 11.15% | 2.97% | 3.85% | |
| **State % of Premiums (A)** (see Note 1) | 10.7% | 89.3% | 100.0% | |
| **State % of "Profits" (E)** (see Note 2) | 31.0% | 69.0% | 100.0% | |
| **"Profit Weight" = DC (F)/MD/VA (F)** (see Note 3) | **3.75** | | | |

Note 1: Per Shaw Statement, "about 30% of GHMSI's Non-FEP premium revenue arose from the District." This is not the case for CFBC.
Note 2: Per Shaw Statement, "District residents and businesses accounted for more than 65% of the profits." This is not the case for CFBC.

Note 3: Per Shaw Statement, "[f]or the entire 9-year period the ratio of profitability for each dollar of District non-FEP premium to each dollar of profitability per non-FEP premium dollar from other jurisdictions is 4.2 to 1." Using the Shaw Methodology, the ratio for CFBC is 3.75.

**Net Underwriting Gain (Loss) by Year**

| | Premium | Claims | CAE | G&A | Total | % of Rev |
|---|---|---|---|---|---|---|
| | | | **DC** | | | |
| 2003 | $ 99,068,725 | $ (59,861,467) | $ (3,487,492) | $ (12,031,349) | $ 23,688,417 | 23.91% |
| 2004 | 104,200,703 | (65,214,601) | (3,337,633) | (13,876,160) | 21,772,310 | 20.89% |
| 2005 | 113,497,420 | (79,259,722) | (3,156,911) | (15,698,108) | 15,382,680 | 13.55% |
| 2006 | 132,495,165 | (94,203,695) | (3,398,851) | (17,299,449) | 17,593,170 | 13.28% |
| 2007 | 148,676,818 | (103,538,059) | (3,905,106) | (19,528,564) | 21,705,090 | 14.60% |
| 2008 | 162,380,672 | (127,467,212) | (4,871,791) | (21,504,506) | 8,537,162 | 5.26% |
| 2009 | 191,284,454 | (141,761,567) | (6,347,919) | (28,709,967) | 14,465,001 | 7.56% |
| 2010 | 218,114,602 | (147,740,318) | (8,297,482) | (33,667,537) | 28,409,266 | 13.02% |
| 2011 | 225,763,764 | (177,197,426) | (10,267,048) | (34,238,636) | 4,060,653 | 1.80% |
| | **$ 1,395,482,323** | **$ (996,244,067)** | **$ (47,070,232)** | **$ (196,554,275)** | **$ 155,613,748** | 11.15% |
| | | | **MD/VA** | | | |
| 2003 | 676,213,431 | (529,587,706) | (30,853,450) | (82,122,382) | 33,649,893 | 4.98% |
| 2004 | 909,656,679 | (733,548,178) | (37,542,425) | (121,136,817) | 17,429,258 | 1.92% |
| 2005 | 1,132,944,592 | (935,457,076) | (37,259,210) | (156,700,355) | 3,527,950 | 0.31% |
| 2006 | 1,228,040,649 | (984,944,659) | (35,536,610) | (160,341,149) | 47,218,231 | 3.85% |
| 2007 | 1,382,801,682 | (1,101,913,825) | (41,560,465) | (181,629,732) | 57,697,659 | 4.17% |
| 2008 | 1,505,099,341 | (1,259,943,763) | (48,154,998) | (199,324,328) | (2,323,747) | (0.15%) |
| 2009 | 1,572,619,454 | (1,268,972,275) | (56,823,115) | (236,035,135) | 10,788,929 | 0.69% |
| 2010 | 1,635,582,407 | (1,167,295,246) | (65,558,345) | (252,463,753) | 150,265,062 | 9.19% |
| 2011 | 1,620,299,411 | (1,272,433,292) | (73,726,431) | (245,729,614) | 28,410,075 | 1.75% |
| | **$ 11,663,257,646** | **$ (9,254,096,020)** | **$ (427,015,050)** | **$ (1,635,483,266)** | **$ 346,663,311** | 2.97% |
| | | | **Total** | | | **"Profit Weight"** |
| 2003 | $ 775,282,156 | $ (589,449,173) | $ (34,340,942) | $ (94,153,731) | $ 57,338,310 | 4.81 |
| 2004 | 1,013,857,382 | (798,762,779) | (40,880,058) | (135,012,977) | 39,201,568 | 10.91 |
| 2005 | 1,246,442,012 | (1,014,716,798) | (40,416,121) | (172,398,463) | 18,910,630 | 43.52 |
| 2006 | 1,360,535,814 | (1,079,148,354) | (38,935,461) | (177,640,598) | 64,811,401 | 3.45 |
| 2007 | 1,531,478,500 | (1,205,451,884) | (45,465,571) | (201,158,296) | 79,402,749 | 3.50 |
| 2008 | 1,667,480,013 | (1,387,410,975) | (53,026,789) | (220,828,834) | 6,213,415 | (34.05) |
| 2009 | 1,763,903,908 | (1,410,733,842) | (63,171,034) | (264,745,102) | 25,253,930 | 11.02 |
| 2010 | 1,853,697,009 | (1,315,035,564) | (73,855,827) | (286,131,290) | 178,674,328 | 1.42 |
| 2011 | 1,846,063,175 | (1,449,630,718) | (83,993,479) | (279,968,250) | 32,470,728 | 1.03 |
| | **$ 13,058,739,969** | **$ (10,250,340,087)** | **$ (474,085,282)** | **$ (1,832,037,541)** | **$ 502,277,059** | **3.75** |

| | Non-FEP Premium | Profit Weight | Profit-Weighted Non-FEP Premium | % of Non-FEP |
|---|---|---|---|---|
| **2003 - 2011** | | | | |
| **GHMSI & 50% BC** | | | | |
| DC | 4,022,205,599 | 3.97 | 15,963,575,241 | **52.5%** |
| MD & VA | 14,442,489,037 | 1 | 14,442,489,037 | 47.5% |
| Total | 18,464,694,636 | | 30,406,064,278 | 100.0% |
| | | | | |
| **GHMSI Only** | | | | |
| DC | 3,321,601,732 | 3.97 | 13,182,975,824 | 60.5% |
| MD & VA | 8,614,528,959 | 1 | 8,614,528,959 | 39.5% |
| **Total** | **11,936,130,691** | | **21,797,504,783** | **100.0%** |

**"As Reported in Schedule T of Annual Statement Filings"**

| | Total Non-FEP | D.C. Non-FEP | D.C. % of Non-FEP | Total FEP | D.C. FEP | D.C. % of FEP |
|---|---|---|---|---|---|---|
| | | | **GHMSI** | | | |
| GHMSI Sch T | 11,936,130,691 | 3,321,601,732 | **27.8%** | 12,560,554,331 | 9,816,674,342 | **78.2%** |
| | | | **CF Blue Choice** | | | |
| CFBC Sch T | 13,057,127,889 | 1,401,207,734 | **10.7%** | 697,278,227 | 410,765,112 | **58.9%** |
| | | | **GHMSI + 50% of CF Blue Choice** | | | |
| GHMSI + 50% CFBC | 18,464,694,636 | 4,022,205,599 | **21.8%** | 12,909,193,445 | 10,022,056,898 | **77.6%** |

**Corrections:**

In all adjusted scenarios, the 2003 - 2011 weight is used vs. the 2011 weight.

In all adjusted scenarios, the miscellaneous differences in Schedule T premium are corrected.

| | Non-FEP Premium | Profit Weight | Profit-Weighted Non-FEP Premium | % of Non-FEP | |
|---|---|---|---|---|---|
| **2003 - 2011** | | | | | |
| **GHMSI & 50% BC** | | | | | |
| DC - GHMSI | 3,321,601,732 | 3.97 | 13,182,975,824 | **43.6%** | |
| DC - 50% BC | 700,603,867 | 3.75 | 2,628,500,978 | **8.7%** | **52.3%** |
| MD & VA - GHMSI | 8,614,528,959 | 1 | 8,614,528,959 | 28.5% | |
| MD & VA - 50% BC | 5,827,960,078 | 1 | 5,827,960,078 | 19.3% | |
| Total | 18,464,694,636 | | 30,253,965,838 | 100.0% | |
| | | | | | |
| **GHMSI Only** | | | | | |
| DC | 3,321,601,732 | 3.97 | 13,182,975,824 | 60.5% | |
| MD & VA | 8,614,528,959 | 1 | 8,614,528,959 | 39.5% | |
| **Total** | **11,936,130,691** | | **21,797,504,783** | **100.0%** | |

**"As Reported in Schedule T of Annual Statement Filings"**

| | Total Non-FEP | D.C. Non-FEP | D.C. % of Non-FEP | Total FEP | D.C. FEP | D.C. % of FEP |
|---|---|---|---|---|---|---|
| | | | **GHMSI** | | | |
| GHMSI Sch T | 11,936,130,691 | 3,321,601,732 | **27.8%** | 12,560,554,331 | 9,816,674,342 | **78.2%** |
| | | | **CF Blue Choice** | | | |
| CFBC Sch T | 13,057,127,889 | 1,401,207,734 | **10.7%** | 697,278,227 | 410,765,112 | **58.9%** |
| | | | **GHMSI + 50% of CF Blue Choice** | | | |
| GHMSI + 50% CFBC | 18,464,694,636 | 4,022,205,599 | **21.8%** | 12,909,193,445 | 10,022,056,898 | **77.6%** |

**Corrections:**

In all adjusted scenarios, the 2003 - 2011 weight is used vs. the 2011 weight.

In all adjusted scenarios, the miscellaneous differences in Schedule T premium are corrected.

The "math" is corrected in this scenario, *i.e.* the GHMSI profit weight is corrected for math but not for the ceded G&A adjustment.

| | Non-FEP Premium | Profit Weight | Profit-Weighted Non-FEP Premium | % of Non-FEP | |
|---|---|---|---|---|---|
| **2003 - 2011** | | | | | |
| **GHMSI & 50% BC** | | | | | |
| DC - GHMSI | 3,321,601,732 | 1.29 | 4,285,797,666 | **20.1%** | |
| DC - 50% BC | 700,603,867 | 3.75 | 2,628,500,978 | **12.3%** | **32.4%** |
| MD & VA - GHMSI | 8,614,528,959 | 1 | 8,614,528,959 | 40.3% | |
| MD & VA - 50% BC | 5,827,960,078 | 1 | 5,827,960,078 | 27.3% | |
| Total | 18,464,694,636 | | 21,356,787,680 | 100.0% | |
| | | | | | |
| **GHMSI Only** | | | | | |
| DC | 3,321,601,732 | 1.29 | 4,285,797,666 | 33.2% | |
| MD & VA | 8,614,528,959 | 1 | 8,614,528,959 | 66.8% | |
| **Total** | **11,936,130,691** | | **12,900,326,625** | **100.0%** | |

**"As Reported in Schedule T of Annual Statement Filings"**

| | Total Non-FEP | D.C. Non-FEP | D.C. % of Non-FEP | Total FEP | D.C. FEP | D.C. % of FEP |
|---|---|---|---|---|---|---|
| | | | **GHMSI** | | | |
| GHMSI Sch T | 11,936,130,691 | 3,321,601,732 | **27.8%** | 12,560,554,331 | 9,816,674,342 | **78.2%** |
| | | | **CF Blue Choice** | | | |
| CFBC Sch T | 13,057,127,889 | 1,401,207,734 | **10.7%** | 697,278,227 | 410,765,112 | **58.9%** |
| | | | **GHMSI + 50% of CF Blue Choice** | | | |
| GHMSI + 50% CFBC | 18,464,694,636 | 4,022,205,599 | **21.8%** | 12,909,193,445 | 10,022,056,898 | **77.6%** |

**Corrections:**

In all adjusted scenarios, the 2003 - 2011 weight is used vs. the 2011 weight.

In all adjusted scenarios, the miscellaneous differences in Schedule T premium are corrected.

Both the "math" is corrected and ceded G&A is adjusted for in the GHMSI profit weight.

*Shaw Statement Chart 2 is not labeled with the time period displayed or the source of the amounts used.*
*It appears to be incorrectly based upon 2011 Only, using amounts from Chart 3.*

**Shaw Statement Chart 2 - "Impact of Weighting Non-FEP Premium with Profitability"**

| | Unweighted by Profit | Profit Weights | Weighted Share | |
|---|---|---|---|---|
| GHMSI & 50% BC | 22.3% | 4.2 | **54.7%** | (1) |
| | 77.7% | 1.0 | 45.3% | (2) |
| GHMSI ONLY | 27.8% | 4.2 | 61.8% | (3) |
| | 72.2% | 1.0 | 38.2% | (4) |
| | A | B | C | |

A - ratio of nonFEP premium to total nonFEP premium using Schedule T - see Chart 3 Recalculation below

B - Shaw relative contribution of DC compared to VA/MD (Shaw Methodology "profit percentage" calculation of 4.2 to 1) based on GHMSI results ONLY

C - multiplies premium times the profit weighting and calculates a new ratio of nonFEP premium using Schedule T

| | Non-FEP Premium | Profit Weight (Chart 1) | Profit-Weighted Non-FEP Premium | % of Non-FEP | |
|---|---|---|---|---|---|
| **2011 ONLY** | | | | | |
| **GHMSI & 50% BC** | | | | | |
| DC | 589,098,343 | 4.2 | 2,474,213,041 | **54.7%** | (1) |
| MD & VA | 2,046,981,126 | 1 | 2,046,981,126 | 45.3% | (2) |
| Total | 2,636,079,469 | | 4,521,194,166 | 100.0% | |
| **GHMSI Only** | | | | | |
| DC | 473,305,211 | 4.2 | 1,987,881,886 | 61.8% | (3) |
| MD & VA | 1,226,956,378 | 1 | 1,226,956,378 | 38.2% | (4) |
| **Total** | **1,700,261,589** | | **3,214,838,264** | **100.0%** | |
| ***If 2003 to 2011 Data from Chart 3 Was Used*** | | | | | |
| **2003 - 2011** | | | | | |
| **GHMSI & 50% BC** | | | | | |
| DC | 4,023,005,403 | 4.2 | 16,896,622,693 | **53.9%** | |
| MD & VA | 14,441,877,954 | 1 | 14,441,877,954 | 46.1% | |
| Total | 18,464,883,357 | | 31,338,500,647 | 100.0% | |
| **GHMSI Only** | | | | | |
| DC | 3,322,401,535 | 4.2 | 13,954,086,447 | 61.8% | |
| MD & VA | 8,613,729,155 | 1 | 8,613,729,155 | 38.2% | |
| **Total** | **11,936,130,690** | | **22,567,815,602** | **100.0%** | |

**Shaw Statement Chart 3 - "As Reported in Schedule T of Annual Statement Filings"**

| | Total Non-FEP | DC Non-FEP | DC % of Non-FEP | Total FEP | DC FEP | DC % of FEP |
|---|---|---|---|---|---|---|
| | | | **GHMSI** | | | |
| **2011 ONLY** | | | | | | |
| GHMSI Sch T | 1,700,261,589 | 473,305,211 | **27.8%** | 1,730,368,058 | 331,882,869 | **19.2%** |
| **2003 - 2011** | | | | | | |
| GHMSI Sch T | 11,936,130,690 | 3,322,401,535 | **27.8%** | 12,560,554,331 | 9,816,674,342 | **78.2%** |
| | | | **CF Blue Choice** | | | |
| **2011 ONLY** | | | | | | |
| CFBC Sch T | 1,871,635,759 | 231,586,264 | **12.4%** | 174,470,124 | - | **0.0%** |
| **2003 - 2011** | | | | | | |
| CFBC Sch T | 13,057,505,334 | 1,401,207,736 | **10.7%** | 697,278,227 | 410,765,112 | **58.9%** |
| | | | **GHMSI + 50% of CF Blue Choice** | | | |
| **2011 ONLY** | | | | | | |
| GHMSI + 50% CFBC | 2,636,079,469 | 589,098,343 | **22.3%** | 1,817,603,120 | 331,882,869 | **18.3%** |
| **2003 - 2011** | | | | | | |
| GHMSI + 50% CFBC | 18,464,883,357 | 4,023,005,403 | **21.8%** | 12,909,193,445 | 10,022,056,898 | **77.6%** |

**Chart 4 "Sched T 2003 - 2011 vs. 2011, Non-FEP Profit Weighted, DC Share of FEP 100% (based on contract situs)"**

| | Commissioner's Non-FEP Weight | DC Weighted Share of Non-FEP Profit | | Commissioner's FEP Weight | DC Share of FEP [3] | Weighted Avg DC Share |
|---|---|---|---|---|---|---|
| | (a) | (b) | | (c) | (d) | (a)X(b) + (c)X(d) |
| ***2011 Only*** | | | | | | |
| **GHMSI & 50% BC** | 82.0% | 100.0% | **1** | 18.0% | 100.0% | 100.0% |
| **GHMSI Only** | 82.0% | 100.0% | **1** | 18.0% | 100.0% | 100.0% |
| ***2003 - 2011*** | | | | | | |
| **GHMSI & 50% BC** | 82.0% | **54.7%** | **2** | 18.0% | 100.0% | **62.9%** |
| GHMSI Only | 82.0% | 61.8% | | 18.0% | 100.0% | 68.7% |
| *GHMSI & 50% BC Corrected* | *82.0%* | *53.9%* | | *18.0%* | *100.0%* | *62.2%* |

1. The Shaw Statement uses 100% for 2011 because "if only the 2011 experience is used as the basis for allocating based on profitability, then 100% of non-FEP profit arises from the District."
2. The Shaw Statement incorrectly used the 2011 ONLY calculation from Chart 2. 53.9% is the 2003 - 2011 amount.
3. The Shaw Statement claims this is based on situs of FEP contract and assumes all FEP premium is allocable to D.C.

| **GHMSI +50% CFBC** | **Est. Commissioner's Order Table 7 (2011 Only)** | | |
|---|---|---|---|
| Measure | Factor | Weighting | Weighted |
| Premium | 21% | 90% | 19% |
| Policies | 19% | 5% | 1% |
| Providers | 15% | 5% | 1% |
| | | **100%** | **21%** |

| **GHMSI ONLY** | **Shaw Statement** | | |
|---|---|---|---|
| Measure | Factor | Weighting | Weighted |
| Quasi-Premium | 68.7% | 90% | 61.8% |
| Policies | 18.9% | 5% | 0.9% |
| Providers | 14.9% | 5% | 0.7% |
| | | **100%** | **63.5%** |

| **GHMSI +50% CFBC** | **Shaw Statement** | | |
|---|---|---|---|
| Measure | Factor | Weighting | Weighted |
| Quasi-Premium | **62.9%** | 90% | 56.6% |
| Policies | 18.9% | 5% | 0.9% |
| Providers | 14.9% | 5% | 0.7% |
| | | **100%** | **58.3%** |

***The Shaw Statement appears to have rounded up the Policy and Provider percentages to 19% and 15%, respectively.*

| **GHMSI +50% CFBC** | **Shaw Statement Using 2003-2011 Amount** | | |
|---|---|---|---|
| Measure | Factor | Weighting | Weighted |
| Quasi-Premium | 62.2% | 90% | 56.0% |
| Policies | 18.9% | 5% | 0.9% |
| Providers | 14.9% | 5% | 0.7% |
| | | **100%** | **57.7%** |

| | | Commissioner's Non-FEP Weight (a) | D.C. Weighted Share of Non-FEP Profit (b) | Commissioner's FEP Weight (c) | D.C. Share of FEP (d) | Weighted Avg. D.C. Share (a)X(b) + (c)X(d) |
|---|---|---|---|---|---|---|
| **Shaw Statement** | (a)X(b) + (c)X(d) | 82.0% | 54.7% | 18.0% | 100.0% | 62.9% |
| | **Measure** | **Factor** | **Weighting** | **Weighted** | **Weighting** | **Weighted** |
| | Quasi-Premium | 62.9% | 90% | 56.6% | 33% | 21.0% |
| | Policies | 18.9% | 5% | 0.9% | 33% | 6.3% |
| | Providers | 14.9% | 5% | 0.7% | 33% | 5.0% |
| | | | **100%** | **58.3%** | **100%** | **32.2%** |
| **Correct Chart 2 Error** | (a)X(b) + (c)X(d) | 82.0% | 53.9% | 18.0% | 100.0% | 62.2% |
| | **Measure** | **Factor** | **Weighting** | **Weighted** | **Weighting** | **Weighted** |
| | Quasi-Premium | 62.2% | 90% | 56.0% | 33% | 20.7% |
| | Policies | 18.9% | 5% | 0.9% | 33% | 6.3% |
| | Providers | 14.9% | 5% | 0.7% | 33% | 5.0% |
| | | | **100%** | **57.7%** | **100%** | **32.0%** |
| **Correct Chart 1 Math Errors** | | 82.0% | 52.5% | 18.0% | 100.0% | 61.1% |
| | **Measure** | **Factor** | **Weighting** | **Weighted** | **Weighting** | **Weighted** |
| | Quasi-Premium | 61.1% | 90% | 54.9% | 33% | 20.4% |
| | Policies | 18.9% | 5% | 0.9% | 33% | 6.3% |
| | Providers | 14.9% | 5% | 0.7% | 33% | 5.0% |
| | | | **100%** | **56.6%** | **100%** | **31.6%** |
| **Correct Math & Adjust CFBC Profit Weight** | | 82.0% | 52.3% | 18.0% | 100.0% | 60.9% |
| | **Measure** | **Factor** | **Weighting** | **Weighted** | **Weighting** | **Weighted** |
| | Quasi-Premium | 60.9% | 90% | 54.8% | 33% | 20.3% |
| | Policies | 18.9% | 5% | 0.9% | 33% | 6.3% |
| | Providers | 14.9% | 5% | 0.7% | 33% | 5.0% |
| | | | **100%** | **56.5%** | **100%** | **31.6%** |
| **Correct Math & Adjust FEP to 20%** | | 82.0% | 52.5% | 18.0% | 20.0% | 46.7% |
| | **Measure** | **Factor** | **Weighting** | **Weighted** | **Weighting** | **Weighted** |
| | Quasi-Premium | 46.7% | 90% | 42.0% | 33% | 15.6% |
| | Policies | 18.9% | 5% | 0.9% | 33% | 6.3% |
| | Providers | 14.9% | 5% | 0.7% | 33% | 5.0% |
| | | | **100%** | **43.7%** | **100%** | **26.8%** |
| **Correct Math, Adj. CFBC Profit Wt., & Adj. FEP to 20%** | | 82.0% | 52.3% | 18.0% | 20.0% | 46.5% |
| | **Measure** | **Factor** | **Weighting** | **Weighted** | **Weighting** | **Weighted** |
| | Quasi-Premium | 46.5% | 90% | 41.8% | 33% | 15.5% |
| | Policies | 18.9% | 5% | 0.9% | 33% | 6.3% |
| | Providers | 14.9% | 5% | 0.7% | 33% | 5.0% |
| | | | **100%** | **43.5%** | **100%** | **26.8%** |
| **Correct Math, Adj. CFBC Profit Wt., & Adj. Ceded G&A** | | 82.0% | 32.4% | 18.0% | 100.0% | 44.5% |
| | **Measure** | **Factor** | **Weighting** | **Weighted** | **Weighting** | **Weighted** |
| | Quasi-Premium | 44.5% | 90% | 40.1% | 33% | 14.8% |
| | Policies | 18.9% | 5% | 0.9% | 33% | 6.3% |
| | Providers | 14.9% | 5% | 0.7% | 33% | 5.0% |
| | | | **100%** | **41.8%** | **100%** | **26.1%** |
| **As Adjusted for All Above** | | 82.0% | 32.4% | 18.0% | 20.0% | **30.1%** |
| | **Measure** | **Factor** | **Weighting** | **Weighted** | **Weighting** | **Weighted** |
| | Quasi-Premium | 30.1% | 90% | 27.1% | 33% | 10.0% |
| | Policies | 18.9% | 5% | 0.9% | 33% | 6.3% |
| | Providers | 14.9% | 5% | 0.7% | 33% | 5.0% |
| | | | **100%** | **28.8%** | **100%** | **21.3%** |
| **With Updated Policy & Provider Factors** | | 82.0% | 32.4% | 18.0% | 20.0% | 30.1% |
| | **Measure** | **Factor** | **Weighting** | **Weighted** | **Weighting** | **Weighted** |
| | Quasi-Premium | 30.1% | 90% | 27.1% | 33% | 10.0% |
| | Policies | **19.9%** | 5% | 1.0% | 33% | 6.6% |
| | Providers | **13.3%** | 5% | 0.7% | 33% | 4.4% |
| | | | **100%** | **28.8%** | **100%** | **21.1%** |

| | State Exhibits | | Statement of Rev. and Exp. | |
|---|---|---|---|---|
| **FEP %** | **2010** | **2011** | **2010** | **2011** |
| DC | 264,893,048 | 319,215,621 | 278,272,048 | 330,872,621 |
| Total | 1,534,054,033 | 1,664,323,671 | 1,547,433,033 | 1,675,980,671 |
| | 17.3% | 19.2% | 18.0% | 19.7% |
| Average | | 18.2% | | 18.9% |

| | Commissioner's Non-FEP Weight (a) | D.C. Weighted Share of Non-FEP Profit (b) | Commissioner's FEP Weight (c) | D.C. Share of FEP (d) | Weighted Avg. D.C. Share (a)X(b) + (c)X(d) |
|---|---|---|---|---|---|
| **Shaw Statement** | 82.0% | 54.7% | 18.0% | 100.0% | 62.9% |
| **Measure** | **Factor** | | | **Weighting** | **Weighted** |
| Quasi-Premium | 62.9% | | | 25% | 15.7% |
| Policies | 18.9% | | | 25% | 4.7% |
| Providers | 14.9% | | | 25% | 3.7% |
| Subscribers | 12.1% | | | 25% | 3.0% |
| | | | | **100%** | **27.2%** |
| **Correct Chart 2 Error** | 82.0% | 53.9% | 18.0% | 100.0% | 62.2% |
| **Measure** | **Factor** | | | **Weighting** | **Weighted** |
| Quasi-Premium | 62.2% | | | 25% | 15.6% |
| Policies | 18.9% | | | 25% | 4.7% |
| Providers | 14.9% | | | 25% | 3.7% |
| Subscribers | 12.1% | | | 25% | 3.0% |
| | | | | **100%** | **27.0%** |
| **Correct Chart 1 Math Errors** | 82.0% | 52.5% | 18.0% | 100.0% | 61.1% |
| **Measure** | **Factor** | | | **Weighting** | **Weighted** |
| Quasi-Premium | 61.1% | | | 25% | 15.3% |
| Policies | 18.9% | | | 25% | 4.7% |
| Providers | 14.9% | | | 25% | 3.7% |
| Subscribers | 12.1% | | | 25% | 3.0% |
| | | | | **100%** | **26.7%** |
| **Correct Math & Adjust CFBC Profit Weight** | 82.0% | 52.3% | 18.0% | 100.0% | 60.9% |
| **Measure** | **Factor** | | | **Weighting** | **Weighted** |
| Quasi-Premium | 60.9% | | | 25% | 15.2% |
| Policies | 18.9% | | | 25% | 4.7% |
| Providers | 14.9% | | | 25% | 3.7% |
| Subscribers | 12.1% | | | 25% | 3.0% |
| | | | | **100%** | **26.7%** |
| **Correct Math & Adjust FEP to 20%** | 82.0% | 52.5% | 18.0% | 20.0% | 46.7% |
| **Measure** | **Factor** | | | **Weighting** | **Weighted** |
| Quasi-Premium | 46.7% | | | 25% | 11.7% |
| Policies | 18.9% | | | 25% | 4.7% |
| Providers | 14.9% | | | 25% | 3.7% |
| Subscribers | 12.1% | | | 25% | 3.0% |
| | | | | **100%** | **23.1%** |
| **Correct Math, Adj. CFBC Profit Wt., & Adj. FEP to 20%** | 82.0% | 52.3% | 18.0% | 20.0% | 46.5% |
| **Measure** | **Factor** | | | **Weighting** | **Weighted** |
| Quasi-Premium | 46.5% | | | 25% | 11.6% |
| Policies | 18.9% | | | 25% | 4.7% |
| Providers | 14.9% | | | 25% | 3.7% |
| Subscribers | 12.1% | | | 25% | 3.0% |
| | | | | **100%** | **23.1%** |
| **Correct Math, Adj. CFBC Profit Wt. & Ceded G&A** | 82.0% | 32.4% | 18.0% | 100.0% | 44.5% |
| **Measure** | **Factor** | | | **Weighting** | **Weighted** |
| Quasi-Premium | 44.5% | | | 25% | 11.1% |
| Policies | 18.9% | | | 25% | 4.7% |
| Providers | 14.9% | | | 25% | 3.7% |
| Subscribers | 12.1% | | | 25% | 3.0% |
| | | | | **100%** | **22.6%** |
| **Correct Math, Adj. CFBC Profit Wt., Ceded G&A & FEP %** | 82.0% | 32.4% | 18.0% | 20.0% | 30.1% |
| **Measure** | **Factor** | | | **Weighting** | **Weighted** |
| Quasi-Premium | 30.1% | | | 25% | 7.5% |
| Policies | 18.9% | | | 25% | 4.7% |
| Providers | 14.9% | | | 25% | 3.7% |
| Subscribers | 12.1% | | | 25% | 3.0% |
| | | | | **100%** | **19.0%** |
| | | | | **Est. Excess** | **50,864,580** |
| **With Updated Policy, Provider & Subscriber Factors** | 82.0% | 0.0% | 18.0% | 20.0% | 3.6% |
| **Measure** | **Factor** | | | **Weighting** | **Weighted** |
| Quasi-Premium | 30.1% | | | 25% | 7.5% |
| Policies | **19.9%** | | | 25% | 5.0% |
| Providers | **13.3%** | | | 25% | 3.3% |
| Subscribers | **12.1%** | | | 25% | 3.0% |
| | | | | **100%** | **18.9%** |
| | | | | **Est. Excess** | **50,496,518** |

**Schedule T Premium - GHMSI**

**Allocation (non-FEP)**

| | | D.C. | % of Total | MD | VA | VA+MD | % of Total | Total |
|---|---|---|---|---|---|---|---|---|
| 2011 | Health Premiums Earned | $ 473,305,211 | 27.84% | $ 710,702,600 | $ 516,253,778 | $ 1,226,956,378 | 72.16% | $ 1,700,261,589 |
| 2010 | Health Premiums Earned | 461,784,940 | 27.12% | 728,755,811 | 511,986,055 | 1,240,741,866 | 72.88% | 1,702,526,806 |
| 2009 | Health Premiums Earned | 454,481,964 | 26.78% | 761,323,562 | 481,059,080 | 1,242,382,642 | 73.22% | 1,696,864,606 |
| 2008 | Health Premiums Earned | 415,103,408 | 26.35% | 721,455,267 | 438,659,662 | 1,160,114,929 | 73.65% | 1,575,218,337 |
| 2007 | Health Premiums Earned | 363,896,063 | 26.37% | 631,314,306 | 384,792,858 | 1,016,107,164 | 73.63% | 1,380,003,227 |
| 2006 | Health Premiums Earned | 321,702,050 | 27.71% | 496,440,116 | 342,619,427 | 839,059,543 | 72.29% | 1,160,761,593 |
| 2005 | Health Premiums Earned | 293,058,224 | 29.09% | 407,191,416 | 307,183,889 | 714,375,305 | 70.91% | 1,007,433,529 |
| 2004 | Health Premiums Earned | 277,625,752 | 31.91% | 313,458,050 | 278,857,014 | 592,315,064 | 68.09% | 869,940,816 |
| 2003 | Health Premiums Earned | 260,644,120 | 30.91% | 315,661,020 | 266,815,048 | 582,476,068 | 69.09% | 843,120,188 |
| | **Total** | **3,321,601,732** | **27.83%** | **5,086,302,148** | **3,528,226,811** | **8,614,528,959** | **72.17%** | **11,936,130,691** |
| | *Shaw Statement* | 3,322,401,535 | | | | | | 11,936,130,690 |
| | *Unreconciled Difference* | $ (799,803) | | | | | | $ 1 |

**Allocation (FEP)**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2011 | Health Premiums Earned | $ 331,882,869 | 19.18% | $ 733,798,465 | $ 664,686,724 | $ 1,398,485,189 | 80.82% | $ 1,730,368,058 |
| 2010 | Health Premiums Earned | 280,804,196 | 17.27% | 759,324,671 | 586,070,129 | 1,345,394,800 | 82.73% | 1,626,198,996 |
| 2009 | Health Premiums Earned | 1,568,732,026 | 100.00% | - | - | - | 0.00% | 1,568,732,026 |
| 2008 | Health Premiums Earned | 1,551,610,700 | 100.00% | - | - | - | 0.00% | 1,551,610,700 |
| 2007 | Health Premiums Earned | 1,326,978,986 | 100.00% | - | - | - | 0.00% | 1,326,978,986 |
| 2006 | Health Premiums Earned | 1,295,757,388 | 100.00% | - | - | - | 0.00% | 1,295,757,388 |
| 2005 | Health Premiums Earned | 1,250,938,856 | 100.00% | - | - | - | 0.00% | 1,250,938,856 |
| 2004 | Health Premiums Earned | 1,161,884,273 | 100.00% | - | - | - | 0.00% | 1,161,884,273 |
| 2003 | Health Premiums Earned | 1,048,085,048 | 100.00% | - | - | - | 0.00% | 1,048,085,048 |
| | **Total** | **9,816,674,342** | **78.15%** | **1,493,123,136** | **1,250,756,853** | **2,743,879,989** | **21.85%** | **12,560,554,331** |
| | *Shaw Statement* | 9,816,674,342 | | | | | | 12,560,554,331 |
| | *Difference* | $ - | | | | | | $ - |

**Allocation (non-FEP)**

| | | D.C. | % of Total | MD | VA | VA+MD | % of Total | Total |
|---|---|---|---|---|---|---|---|---|
| 2011 | Health Premiums Earned | $ 231,586,264 | 12.37% | $ 1,406,340,822 | $ 233,708,673 | $ 1,640,049,495 | 87.63% | $ 1,871,635,759 |
| 2010 | Health Premiums Earned | 218,114,602 | 11.82% | 1,383,503,878 | 243,442,992 | 1,626,946,870 | 88.18% | 1,845,061,472 |
| 2009 | Health Premiums Earned | 191,284,454 | 10.90% | 1,344,428,118 | 218,735,794 | 1,563,163,912 | 89.10% | 1,754,448,366 |
| 2008 | Health Premiums Earned | 162,380,672 | 9.79% | 1,302,444,830 | 194,548,619 | 1,496,993,449 | 90.21% | 1,659,374,121 |
| 2007 | Health Premiums Earned | 148,676,818 | 9.71% | 1,208,168,885 | 173,742,193 | 1,381,911,078 | 90.29% | 1,530,587,896 |
| 2006 | Health Premiums Earned | 132,495,165 | 9.74% | 1,078,838,269 | 149,202,380 | 1,228,040,649 | 90.26% | 1,360,535,814 |
| 2005 | Health Premiums Earned | 113,497,420 | 9.11% | 1,010,070,227 | 122,874,365 | 1,132,944,592 | 90.89% | 1,246,442,012 |
| 2004 | Health Premiums Earned | 104,200,703 | 10.28% | 805,611,193 | 104,045,486 | 909,656,679 | 89.72% | 1,013,857,382 |
| 2003 | Health Premiums Earned | 98,971,636 | 12.77% | 574,938,515 | 101,274,916 | 676,213,431 | 87.23% | 775,185,067 |
| | **Total** | **1,401,207,734** | **10.73%** | **10,114,344,737** | **1,541,575,418** | **11,655,920,155** | **89.27%** | **13,057,127,889** |
| | *Shaw Statement* | 1,401,207,736 | | | | | | 13,057,505,334 |
| | *Unreconciled Difference* | $ (2) | | | | | | $ (377,445) |

**Allocation (FEP)**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2011 | Health Premiums Earned | $ - | 0.00% | $ 174,470,124 | $ - | $ 174,470,124 | 100.00% | $ 174,470,124 |
| 2010 | Health Premiums Earned | 8,023,748 | 6.68% | 83,866,206 | 28,176,785 | 112,042,991 | 93.32% | 120,066,739 |
| 2009 | Health Premiums Earned | 110,213,436 | 100.00% | - | - | - | 0.00% | 110,213,436 |
| 2008 | Health Premiums Earned | 75,936,367 | 100.00% | - | - | - | 0.00% | 75,936,367 |
| 2007 | Health Premiums Earned | 60,761,701 | 100.00% | - | - | - | 0.00% | 60,761,701 |
| 2006 | Health Premiums Earned | 43,518,701 | 100.00% | - | - | - | 0.00% | 43,518,701 |
| 2005 | Health Premiums Earned | 38,784,169 | 100.00% | - | - | - | 0.00% | 38,784,169 |
| 2004 | Health Premiums Earned | 30,238,331 | 100.00% | - | - | - | 0.00% | 30,238,331 |
| 2003 | Health Premiums Earned | 43,288,659 | 100.00% | - | - | - | 0.00% | 43,288,659 |
| | **Total** | **410,765,112** | **58.91%** | **258,336,330** | **28,176,785** | **286,513,115** | **41.09%** | **697,278,227** |
| | *Shaw Statement* | 410,765,112 | | | | | | 697,278,227 |
| | *Unreconciled Difference* | $ - | | | | | | $ - |

| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | *see Note* | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 260,644,120 | | 260,644,120 | 260,644,120 | 283,440 | (293,993) | 260,633,567 |
| MD | 315,661,020 | | 315,661,020 | 315,661,020 | | | 315,661,020 |
| VA | 266,815,048 | | 266,815,048 | 266,815,048 | | | 266,815,048 |
| **Subtotal MD/VA** | 582,476,068 | 0 | 582,476,068 | 582,476,068 | 0 | 0 | 582,476,068 |
| Unallocated to Jurisdiction | | | 0 | 0 | | | 0 |
| **Non-FEP** | 843,120,188 | 0 | 843,120,188 | 843,120,188 | 283,440 | (293,993) | 843,109,635 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 1,048,085,048 | 0 | 1,048,085,048 | 1,048,085,048 | | | 1,048,085,048 |
| MD | | | 0 | 0 | | | 0 |
| VA | | | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | | | 0 | 0 | | | 0 |
| **FEP** | 1,048,085,048 | 0 | 1,048,085,048 | 1,048,085,048 | 0 | 0 | 1,048,085,048 |
| | | | | | | | |
| **Total** | 1,891,205,236 | 0 | 1,891,205,236 | 1,891,205,236 | 283,440 | (293,993) | 1,891,194,683 |

*Note: D.C. "State Exhibit" amount was adjusted to agree to Schedule T to adjust for the amounts shown as "Reinsurance Ceded and Assumed" on the Underwriting & Investment Exhibit.*

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 191,170,283 | | 191,170,283 | 191,170,283 | 0 |
| MD | 268,205,389 | | 268,205,389 | 0 | 268,205,389 |
| VA | 212,199,548 | | 212,199,548 | 0 | 212,199,548 |
| **Subtotal MD/VA** | 480,404,937 | 0 | 480,404,937 | 0 | 480,404,937 |
| Unallocated to Jurisdiction | 0 | | 0 | 0 | 0 |
| **Non-FEP** | 671,575,220 | 0 | **671,575,220** | **191,170,283** | **480,404,937** |
| | | | **Shaw Chart 1** | | |
| ***FEP*** | | | | | |
| DC | 1,003,218,987 | | 1,003,218,987 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | | | |
| **FEP** | 1,003,218,987 | 0 | 1,003,218,987 | | |
| | | | | | |
| **Total** | 1,674,794,207 | 0 | 1,674,794,207 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | | Shaw Statement | Unidentified Difference |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD | | |
| ***Non-FEP*** | | | | | | | |
| DC | | | 260,633,567 | 260,633,567 | 0 | **255,003,380** | 5,630,187 |
| MD | | | 315,661,020 | 0 | 315,661,020 | 588,106,256 | (272,445,236) |
| VA | | | 266,815,048 | 0 | 266,815,048 | 0 | 266,815,048 |
| **Subtotal MD/VA** | 0 | 0 | 582,476,068 | 0 | 582,476,068 | **588,106,256** | (5,630,188) |
| Unallocated to Jurisdiction | 0 | | 0 | | 0 | | |
| **Non-FEP** | 0 | 0 | **843,109,635** | 260,633,567 | 582,476,068 | **843,109,636** | (1) |
| | | | **Shaw Chart 1** | | | | |
| ***FEP*** | | | | | | | |
| DC | | | 1,048,085,048 | | | | |
| MD | 0 | | 0 | | | | |
| VA | 0 | | 0 | | | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | | | |
| Unallocated to Jurisdiction | 0 | | 0 | | | | |
| **FEP** | 0 | 0 | 1,048,085,048 | | | | |
| **Total** | 0 | 0 | 1,891,194,683 | | | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 48,626,219 | 17,454,647 | 66,080,866 |
| General Administrative Expenses | 71,667,732 | 25,725,524 | 97,393,256 |

| Claims Adjustment Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 13,841,916 | 13,821,849 | 20,067 | 13,841,916 | (20,067) |
| MD & VA | 34,784,303 | 34,804,370 | (20,067) | 34,784,303 | 20,067 |
| **Non-FEP** | 48,626,219 | 48,626,219 | 0 | 48,626,219 | (0) |

| General Administrative Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 22,155,528 | 21,662,247 | 493,281 | 22,154,908 | (492,661) |
| MD & VA | 49,512,204 | 50,005,495 | (493,291) | 49,512,824 | 492,671 |
| **Non-FEP** | 71,667,732 | 71,667,742 | (10) | 71,667,732 | 10 |

| **Non-FEP Summary** | **Shaw Methodology** | | |
|---|---|---|---|
| | **DC** | **MD/VA** | **Total** |
| Revenue | 255,003,380 | 588,106,256 | 843,109,636 |
| Claims Incurred | (191,170,283) | (480,404,937) | (671,575,220) |
| Claims Adjustment Expenses | (13,821,849) | (34,804,370) | (48,626,219) |
| General Administrative Expenses | (21,662,247) | (50,005,495) | (71,667,742) |
| Net Underwriting Gain (Loss) | 28,349,001 | 22,891,454 | 51,240,455 |
| | | | |
| "Profit Percentage" | 11.1% | 3.9% | 6.1% |
| "Profit Weight" | 2.9 | | |

*Claims Adjustment and General Administrati*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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**Non-FEP Summary**

Revenue
Claims Incurred
Claims Adjustment Expenses
General Administrative Expenses
Net Underwriting Gain (Loss)

"Profit Percentage"
"Profit Weight"

| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Reinsurance Assumed | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 277,625,752 | 184,289 | 277,810,041 | 277,625,752 | 184,289 | | 277,810,041 |
| MD | 313,458,050 | 219,453 | 313,677,503 | 313,458,050 | 219,453 | | 313,677,503 |
| VA | 278,857,014 | 170,572 | 279,027,586 | 278,857,014 | 170,572 | | 279,027,586 |
| **Subtotal MD/VA** | 592,315,064 | 390,025 | 592,705,089 | 592,315,064 | 390,025 | 0 | 592,705,089 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **Non-FEP** | 869,940,816 | 574,314 | 870,515,130 | 869,940,816 | 574,314 | 0 | 870,515,130 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 1,161,884,273 | | 1,161,884,273 | 1,161,884,273 | | | 1,161,884,273 |
| MD | | | 0 | 0 | | | 0 |
| VA | | | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 1,161,884,273 | 0 | 1,161,884,273 | 1,161,884,273 | 0 | 0 | 1,161,884,273 |
| | | | | | | | |
| **Total** | 2,031,825,089 | 574,314 | 2,032,399,403 | 2,031,825,089 | 574,314 | 0 | 2,032,399,403 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 199,599,877 | | 199,599,877 | 199,599,877 | 0 |
| MD | 249,256,766 | | 249,256,766 | 0 | 249,256,766 |
| VA | 209,586,556 | | 209,586,556 | 0 | 209,586,556 |
| **Subtotal MD/VA** | 458,843,322 | 0 | 458,843,322 | 0 | 458,843,322 |
| Unallocated to Jurisdiction | 0 | 412,569 | 412,569 | 0 | 412,569 |
| **Non-FEP** | 658,443,199 | 412,569 | **658,855,768** | **199,599,877** | **459,255,891** |
| | | | **Shaw Chart 1** | | |
| ***FEP*** | | | | | |
| DC | 1,111,636,911 | | 1,111,636,911 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | | | |
| **FEP** | 1,111,636,911 | 0 | 1,111,636,911 | | |
| | | | | | |
| **Total** | 1,770,080,110 | 412,569 | 1,770,492,679 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | | | 277,810,041 | 277,810,041 | 0 |
| MD | | | 313,677,503 | 0 | 313,677,503 |
| VA | | | 279,027,586 | 0 | 279,027,586 |
| **Subtotal MD/VA** | 0 | 0 | 592,705,089 | 0 | 592,705,089 |
| Unallocated to Jurisdiction | 0 | 340,850 | 340,850 | | 340,850 |
| **Non-FEP** | 0 | 340,850 | **870,855,980** | **277,810,041** | **593,045,939** |
| | | | | **Shaw Chart 1** | |
| ***FEP*** | | | | | |
| DC | 0 | | 1,161,884,273 | | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | 0 | 0 | | |
| **FEP** | 0 | 0 | 1,161,884,273 | | |
| | | | | | |
| **Total** | 0 | 340,850 | 2,032,740,253 | | |

*Note: The Write-in is classifed as "Other Health" in the Annual Statement but is FEP related; not reclassified to FEP.*

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 32,679,409 | 30,463,995 | 63,143,404 |
| General Administrative Expenses | 94,810,761 | 25,747,442 | 120,558,203 |

| Claims Adjustment Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 9,906,407 | 9,774,563 | 131,844 | 9,900,203 | (125,640) |
| MD & VA | 22,773,002 | 22,904,846 | (131,844) | 22,779,206 | 125,640 |
| **Non-FEP** | 32,679,409 | 32,679,409 | (0) | 32,679,409 | 0 |

| General Administrative Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 30,257,236 | 29,794,036 | 463,200 | 30,245,393 | (451,357) |
| MD & VA | 64,553,525 | 65,016,725 | (463,200) | 64,565,368 | 451,357 |
| **Non-FEP** | 94,810,761 | 94,810,761 | 0 | 94,810,761 | 0 |

| **Non-FEP Summary** | **Shaw Methodology** | | |
|---|---|---|---|
| | **DC** | **MD/VA** | **Total** |
| Revenue | 277,810,041 | 593,045,939 | 870,855,980 |
| Claims Incurred | (199,599,877) | (459,255,891) | (658,855,768) |
| Claims Adjustment Expenses | (9,774,563) | (22,904,846) | (32,679,409) |
| General Administrative Expenses | (29,794,036) | (65,016,725) | (94,810,761) |
| Net Underwriting Gain (Loss) | 38,641,565 | 45,868,477 | 84,510,042 |
| | | | |
| "Profit Percentage" | 13.9% | 7.7% | 9.7% |
| "Profit Weight" | 1.8 | | |

*Claims Adjustment and General Administra*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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**Non-FEP Summary**

Revenue
Claims Incurred
Claims Adjustment Expenses
General Administrative Expenses
Net Underwriting Gain (Loss)

"Profit Percentage"
"Profit Weight"

| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 293,058,224 | (574,278) | 292,483,946 | 293,058,224 | | | 293,058,224 |
| MD | 407,191,416 | (830,183) | 406,361,233 | 407,191,416 | | | 407,191,416 |
| VA | 307,183,889 | (567,110) | 306,616,779 | 307,183,889 | | | 307,183,889 |
| **Subtotal MD/VA** | 714,375,305 | (1,397,293) | 712,978,012 | 714,375,305 | 0 | 0 | 714,375,305 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | (75,666) | | (75,666) |
| **Non-FEP** | 1,007,433,529 | (1,971,571) | 1,005,461,958 | 1,007,433,529 | (75,666) | 0 | 1,007,357,863 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 1,250,938,856 | | 1,250,938,856 | 1,250,938,856 | | | 1,250,938,856 |
| MD | | | 0 | 0 | | | 0 |
| VA | | | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 1,250,938,856 | 0 | 1,250,938,856 | 1,250,938,856 | 0 | 0 | 1,250,938,856 |
| | | | | | | | |
| **Total** | 2,258,372,385 | (1,971,571) | 2,256,400,814 | 2,258,372,385 | (75,666) | 0 | 2,258,296,719 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | | |
|---|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD | |
| ***Non-FEP*** | | | | | | |
| DC | 227,466,091 | | 227,466,091 | 227,466,091 | 0 | |
| MD | 345,190,631 | | 345,190,631 | 0 | 345,190,631 | |
| VA | 255,188,393 | | 255,188,393 | 0 | 255,188,393 | |
| **Subtotal MD/VA** | 600,379,024 | 0 | 600,379,024 | 0 | 600,379,024 | |
| Unallocated to Jurisdiction | 0 | 12,416 | 12,416 | 0 | 12,416 | |
| **Non-FEP** | 827,845,115 | 12,416 | 827,857,531 | **227,466,091** | 600,391,440 | |
| | | | | **Shaw Chart 1** | | |
| ***FEP*** | | | | Misc Difference | 31 | **Total** |
| DC | 1,187,153,769 | | 1,187,153,769 | **Per Chart 1** | **600,391,471** | **827,857,562** |
| MD | | | 0 | | | |
| VA | | | 0 | | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | | |
| Unallocated to Jurisdiction | 0 | | | | | |
| **FEP** | 1,187,153,769 | 0 | 1,187,153,769 | | | |
| | | | | | | |
| **Total** | 2,014,998,884 | 12,416 | 2,015,011,300 | | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | (574,278) | | 292,483,946 | 292,483,946 | 0 |
| MD | (830,183) | | 406,361,233 | 0 | 406,361,233 |
| VA | (567,110) | | 306,616,779 | 0 | 306,616,779 |
| **Subtotal MD/VA** | (1,397,293) | 0 | 712,978,012 | 0 | 712,978,012 |
| Unallocated to Jurisdiction | 0 | 1,119,200 | 1,043,534 | | 1,043,534 |
| **Non-FEP** | (1,971,571) | 1,119,200 | 1,006,505,492 | **292,483,946** | 714,021,546 |
| | | | | **Shaw Chart 1** | |
| ***FEP*** | | | | Misc Difference | (198) |
| DC | 0 | | 1,250,938,856 | **Per Chart 1** | **714,021,348** |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | **Total** | **1,006,505,294** |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | 0 | 0 | | |
| **FEP** | 0 | 0 | 1,250,938,856 | | |
| **Total** | (1,971,571) | 1,119,200 | 2,257,444,348 | | |

*Note: The Write-in is classifed as "Other Health" in the Annual Statement but is FEP related; not reclassified to FEP.*

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 38,644,463 | 30,051,626 | 68,696,089 |
| General Administrative Expenses | 117,957,219 | 20,414,894 | 138,372,113 |

| Claims Adjustment Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 10,618,297 | 10,543,061 | 75,236 | 10,618,137 | (75,076) |
| MD & VA | 28,026,166 | 28,101,402 | (75,236) | 28,026,326 | 75,076 |
| **Non-FEP** | 38,644,463 | 38,644,463 | (0) | 38,644,463 | 0 |

| General Administrative Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 34,313,176 | 33,692,650 | 620,526 | 34,277,600 | (584,950) |
| MD & VA | 83,644,043 | 84,264,569 | (620,526) | 83,679,619 | 584,950 |
| **Non-FEP** | 117,957,219 | 117,957,219 | 0 | 117,957,219 | 0 |

| **Non-FEP Summary** | **Shaw Methodology** | | |
|---|---|---|---|
| | **DC** | **MD/VA** | **Total** |
| Revenue | 292,483,946 | 714,021,348 | 1,006,505,294 |
| Claims Incurred | (227,466,091) | (600,391,440) | (827,857,531) |
| Claims Adjustment Expenses | (10,543,061) | (28,101,402) | (38,644,463) |
| General Administrative Expenses | (33,692,650) | (84,264,569) | (117,957,219) |
| Net Underwriting Gain (Loss) | 20,782,144 | 1,263,937 | 22,046,081 |
| | | | |
| "Profit Percentage" | 7.1% | 0.2% | 2.2% |
| "Profit Weight" | 40.1 | | |

*Claims Adjustment and General Administrat*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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**Non-FEP Summary**

Revenue
Claims Incurred
Claims Adjustment Expenses
General Administrative Expenses
Net Underwriting Gain (Loss)

"Profit Percentage"
"Profit Weight"

| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 321,702,050 | (4,786,576) | 316,915,474 | 321,702,050 | | | 321,702,050 |
| MD | 496,440,116 | | 496,440,116 | 496,440,116 | | | 496,440,116 |
| VA | 342,619,427 | | 342,619,427 | 342,619,427 | | | 342,619,427 |
| **Subtotal MD/VA** | 839,059,543 | 0 | 839,059,543 | 839,059,543 | 0 | 0 | 839,059,543 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 4,798,974 | | 4,798,974 |
| **Non-FEP** | 1,160,761,593 | (4,786,576) | 1,155,975,017 | 1,160,761,593 | 4,798,974 | 0 | 1,165,560,567 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 1,295,757,388 | | 1,295,757,388 | 1,295,757,388 | | | 1,295,757,388 |
| MD | | | 0 | 0 | | | 0 |
| VA | | | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 1,295,757,388 | 0 | 1,295,757,388 | 1,295,757,388 | 0 | 0 | 1,295,757,388 |
| | | | | | | | |
| **Total** | 2,456,518,981 | (4,786,576) | 2,451,732,405 | 2,456,518,981 | 4,798,974 | 0 | 2,461,317,955 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 258,861,298 | | 258,861,298 | 258,861,298 | 0 |
| MD | 406,547,014 | | 406,547,014 | 0 | 406,547,014 |
| VA | 276,534,584 | | 276,534,584 | 0 | 276,534,584 |
| **Subtotal MD/VA** | 683,081,598 | 0 | 683,081,598 | 0 | 683,081,598 |
| Unallocated to Jurisdiction | 0 | 4,026,136 | 4,026,136 | 0 | 4,026,136 |
| **Non-FEP** | 941,942,896 | 4,026,136 | **945,969,032** | **258,861,298** | **687,107,734** |
| | | | **Shaw Chart 1** | | |
| ***FEP*** | | | | | |
| DC | 1,231,447,414 | | 1,231,447,414 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | | | |
| **FEP** | 1,231,447,414 | 0 | 1,231,447,414 | | |
| | | | | | |
| **Total** | 2,173,390,310 | 4,026,136 | 2,177,416,446 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | (4,786,576) | | 316,915,474 | 316,915,474 | 0 |
| MD | 0 | | 496,440,116 | 0 | 496,440,116 |
| VA | 0 | | 342,619,427 | 0 | 342,619,427 |
| **Subtotal MD/VA** | 0 | 0 | 839,059,543 | 0 | 839,059,543 |
| Unallocated to Jurisdiction | 0 | 1,062,500 | 5,861,474 | | 5,861,474 |
| **Non-FEP** | (4,786,576) | 1,062,500 | **1,161,836,491** | **316,915,474** | **844,921,017** |
| | | | **Shaw Chart 1** | | |
| ***FEP*** | | | | | |
| DC | 0 | | 1,295,757,388 | | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | 0 | 0 | | |
| **FEP** | 0 | 0 | 1,295,757,388 | | |
| | | | | | |
| **Total** | (4,786,576) | 1,062,500 | 2,457,593,879 | | |

*Note: The Write-in is classifed as "Other Health" in the Annual Statement but is FEP related; not reclassified to FEP.*

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 41,621,581 | 32,356,853 | 73,978,434 |
| General Administrative Expenses | 136,372,749 | 20,789,447 | 157,162,196 |

| Claims Adjustment Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 11,438,291 | 11,258,453 | 179,838 | 11,389,608 | (131,155) |
| MD & VA | 30,183,290 | 30,363,128 | (179,838) | 30,231,973 | 131,155 |
| **Non-FEP** | 41,621,581 | 41,621,581 | 0 | 41,621,581 | 0 |

| General Administrative Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 37,387,170 | 37,184,341 | 202,829 | 37,198,551 | (14,210) |
| MD & VA | 98,985,579 | 99,188,408 | (202,829) | 99,174,198 | 14,210 |
| **Non-FEP** | 136,372,749 | 136,372,749 | 0 | 136,372,749 | 0 |

| **Non-FEP Summary** | **Shaw Methodology** | | |
|---|---|---|---|
| | **DC** | **MD/VA** | **Total** |
| Revenue | 316,915,474 | 844,921,017 | 1,161,836,491 |
| Claims Incurred | (258,861,298) | (687,107,734) | (945,969,032) |
| Claims Adjustment Expenses | (11,258,453) | (30,363,128) | (41,621,581) |
| General Administrative Expenses | (37,184,341) | (99,188,408) | (136,372,749) |
| Net Underwriting Gain (Loss) | 9,611,382 | 28,261,747 | 37,873,129 |
| | | | |
| "Profit Percentage" | 3.0% | 3.3% | 3.3% |
| "Profit Weight" | 0.9 | | |

*Claims Adjustment and General Administra*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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**Non-FEP Summary**

Revenue
Claims Incurred
Claims Adjustment Expenses
General Administrative Expenses
Net Underwriting Gain (Loss)

"Profit Percentage"
"Profit Weight"

| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 363,896,063 | 2,894,461 | 366,790,524 | 363,896,063 | | | 363,896,063 |
| MD | 631,314,306 | | 631,314,306 | 631,314,306 | | | 631,314,306 |
| VA | 384,792,858 | | 384,792,858 | 384,792,858 | | | 384,792,858 |
| **Subtotal MD/VA** | 1,016,107,164 | 0 | 1,016,107,164 | 1,016,107,164 | 0 | 0 | 1,016,107,164 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 6,103,621 | | 6,103,621 |
| **Non-FEP** | 1,380,003,227 | 2,894,461 | 1,382,897,688 | 1,380,003,227 | 6,103,621 | 0 | 1,386,106,848 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 1,326,978,986 | 99,049,343 | 1,426,028,329 | 1,326,978,986 | | | 1,326,978,986 |
| MD | | | 0 | 0 | | | 0 |
| VA | | | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 1,326,978,986 | 99,049,343 | 1,426,028,329 | 1,326,978,986 | 0 | 0 | 1,326,978,986 |
| | | | | | | | |
| **Total** | 2,706,982,213 | 101,943,804 | 2,808,926,017 | 2,706,982,213 | 6,103,621 | 0 | 2,713,085,834 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 289,836,457 | | 289,836,457 | 289,836,457 | 0 |
| MD | 518,531,491 | | 518,531,491 | 0 | 518,531,491 |
| VA | 320,314,860 | | 320,314,860 | 0 | 320,314,860 |
| **Subtotal MD/VA** | 838,846,351 | 0 | 838,846,351 | 0 | 838,846,351 |
| Unallocated to Jurisdiction | 0 | 5,059,860 | 5,059,860 | 0 | 5,059,860 |
| **Non-FEP** | 1,128,682,808 | 5,059,860 | **1,133,742,668** | **289,836,457** | **843,906,211** |
| | | | | **Shaw Chart 1** | |
| ***FEP*** | | | | | |
| DC | 1,373,601,042 | | 1,373,601,042 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | | | |
| **FEP** | 1,373,601,042 | 0 | 1,373,601,042 | | |
| | | | | | |
| **Total** | 2,502,283,850 | 5,059,860 | 2,507,343,710 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | | Shaw Statement | Unidentified Difference |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD | | |
| ***Non-FEP*** | | | | | | | |
| DC | 2,894,461 | | 366,790,524 | 366,790,524 | 0 | **368,790,524** | (2,000,000) |
| MD | 0 | | 631,314,306 | 0 | 631,314,306 | 1,020,210,785 | (388,896,479) |
| VA | 0 | | 384,792,858 | 0 | 384,792,858 | 0 | 384,792,858 |
| **Subtotal MD/VA** | 0 | 0 | 1,016,107,164 | 0 | 1,016,107,164 | **1,020,210,785** | (4,103,621) |
| Unallocated to Jurisdiction | 0 | | 6,103,621 | | 6,103,621 | | 6,103,621 |
| **Non-FEP** | 2,894,461 | 0 | **1,389,001,309** | 366,790,524 | 1,022,210,785 | **1,389,001,309** | 0 |
| | | | | **Shaw Chart 1** | | | |
| ***FEP*** | | | | | | | |
| DC | 99,049,343 | 13,452,426 | 1,439,480,755 | | | | |
| MD | 0 | | 0 | | | | |
| VA | 0 | | 0 | | | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | | | |
| Unallocated to Jurisdiction | 0 | | 0 | | | | |
| **FEP** | 99,049,343 | 13,452,426 | 1,439,480,755 | | | | |
| **Total** | 101,943,804 | 13,452,426 | 2,828,482,064 | | | | |

*Note: The Write-in described as "Trigon Fee" was classified in FEP in the 2007 Annual Statement only; not reclassified to Non-FEP. Amount is immaterial.*

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 48,337,541 | 34,158,733 | 82,496,274 |
| General Administrative Expenses | 175,952,189 | 21,759,076 | 197,711,265 |

| Claims Adjustment Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 12,412,683 | 12,254,840 | 157,843 | 12,357,285 | (102,445) |
| MD & VA | 35,924,858 | 36,082,701 | (157,843) | 35,980,256 | 102,445 |
| **Non-FEP** | 48,337,541 | 48,337,541 | 0 | 48,337,541 | 0 |

| General Administrative Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 46,668,381 | 47,422,673 | (754,292) | 46,463,308 | 959,365 |
| MD & VA | 129,283,808 | 128,529,516 | 754,292 | 129,488,881 | (959,365) |
| **Non-FEP** | 175,952,189 | 175,952,189 | 0 | 175,952,189 | 0 |

| **Non-FEP Summary** | **Shaw Methodology** | | |
|---|---|---|---|
| | **DC** | **MD/VA** | **Total** |
| Revenue | 368,790,524 | 1,020,210,785 | 1,389,001,309 |
| Claims Incurred | (289,836,457) | (843,906,211) | (1,133,742,668) |
| Claims Adjustment Expenses | (12,254,840) | (36,082,701) | (48,337,541) |
| General Administrative Expenses | (47,422,673) | (128,529,516) | (175,952,189) |
| Net Underwriting Gain (Loss) | 19,276,554 | 11,692,357 | 30,968,911 |
| | | | |
| "Profit Percentage" | 5.2% | 1.1% | 2.2% |
| "Profit Weight" | 4.6 | | |

*Claims Adjustment and General Administra*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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**Non-FEP Summary**

Revenue
Claims Incurred
Claims Adjustment Expenses
General Administrative Expenses
Net Underwriting Gain (Loss)

"Profit Percentage"
"Profit Weight"

| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 415,103,408 | | 415,103,408 | 415,103,408 | | | 415,103,408 |
| MD | 721,455,267 | | 721,455,267 | 721,455,267 | | | 721,455,267 |
| VA | 438,659,662 | | 438,659,662 | 438,659,662 | | | 438,659,662 |
| **Subtotal MD/VA** | 1,160,114,929 | 0 | 1,160,114,929 | 1,160,114,929 | 0 | 0 | 1,160,114,929 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 75,097,709 | (386,712,596) | (311,614,887) |
| **Non-FEP** | 1,575,218,337 | 0 | 1,575,218,337 | 1,575,218,337 | 75,097,709 | (386,712,596) | 1,263,603,450 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 1,551,610,700 | (71,218,678) | 1,480,392,022 | 1,551,610,700 | | | 1,551,610,700 |
| MD | | | 0 | 0 | | | 0 |
| VA | | | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 1,551,610,700 | (71,218,678) | 1,480,392,022 | 1,551,610,700 | 0 | 0 | 1,551,610,700 |
| | | | | | | | |
| **Total** | 3,126,829,037 | (71,218,678) | 3,055,610,359 | 3,126,829,037 | 75,097,709 | (386,712,596) | 2,815,214,150 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 343,897,879 | | 343,897,879 | 343,897,879 | 0 |
| MD | 598,101,589 | | 598,101,589 | 0 | 598,101,589 |
| VA | 375,175,422 | | 375,175,422 | 0 | 375,175,422 |
| **Subtotal MD/VA** | 973,277,011 | 0 | 973,277,011 | 0 | 973,277,011 |
| Unallocated to Jurisdiction | 0 | (257,634,049) | (257,634,049) | 0 | (257,634,049) |
| **Non-FEP** | 1,317,174,890 | (257,634,049) | **1,059,540,841** | **343,897,879** | **715,642,962** |
| | | | **Shaw Chart 1** | | |
| ***FEP*** | | | | | |
| DC | 1,418,987,790 | | 1,418,987,790 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | | | |
| **FEP** | 1,418,987,790 | 0 | 1,418,987,790 | | |
| | | | | | |
| **Total** | 2,736,162,680 | (257,634,049) | 2,478,528,631 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 0 | | 415,103,408 | 415,103,408 | 0 |
| MD | 0 | | 721,455,267 | 0 | 721,455,267 |
| VA | 0 | | 438,659,662 | 0 | 438,659,662 |
| **Subtotal MD/VA** | 0 | 0 | 1,160,114,929 | 0 | 1,160,114,929 |
| Unallocated to Jurisdiction | 0 | 114,534 | (311,500,353) | | (311,500,353) |
| **Non-FEP** | 0 | 114,534 | **1,263,717,984** | **415,103,408** | **848,614,576** |
| | | | | **Shaw Chart 1** | |
| ***FEP*** | | | | 32.8% | 67.2% |
| DC | (71,218,678) | 13,401,000 | 1,493,793,022 | Alloc. Basis of G&A | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | 0 | 0 | | |
| **FEP** | (71,218,678) | 13,401,000 | 1,493,793,022 | | |
| | | | | | |
| **Total** | (71,218,678) | 13,515,534 | 2,757,511,006 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 53,631,946 | 31,853,758 | 85,485,704 |
| General Administrative Expenses | 161,351,206 | 22,629,501 | 183,980,707 |

| Claims Adjustment Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 14,002,630 | 17,543,965 | (3,541,335) | 17,407,458 | 136,507 |
| MD & VA | 39,629,316 | 36,087,981 | 3,541,335 | 36,224,488 | (136,507) |
| **Non-FEP** | 53,631,946 | 53,631,946 | 0 | 53,631,946 | 0 |

| General Administrative Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 42,519,462 | 53,031,792 | (10,512,330) | 53,000,303 | 31,489 |
| MD & VA | 118,831,744 | 108,319,414 | 10,512,330 | 108,350,903 | (31,489) |
| **Non-FEP** | 161,351,206 | 161,351,206 | 0 | 161,351,206 | 0 |

| **Non-FEP Summary** | Shaw Methodology | | |
|---|---|---|---|
| | **DC** | **MD/VA** | **Total** |
| Revenue | 415,103,408 | 848,614,576 | 1,263,717,984 |
| Claims Incurred | (343,897,879) | (715,642,962) | (1,059,540,841) |
| Claims Adjustment Expenses | (17,543,965) | (36,087,981) | (53,631,946) |
| General Administrative Expenses | (53,031,792) | (108,319,414) | (161,351,206) |
| Net Underwriting Gain (Loss) | 629,772 | (11,435,781) | (10,806,009) |
| | | | |
| "Profit Percentage" | 0.2% | (1.3%) | (0.9%) |
| "Profit Weight" | (0.1) | | |

| **Adjustment of G&A Allocation** | Adjusted G&A Allocation | | | Shaw Methodology | | | |
|---|---|---|---|---|---|---|---|
| | **DC** | **MD/VA** | **Total** | **DC** | **MD/VA** | **Total** | **DC %** |
| Est. Gross G&A (before reinsurance) | 70,763,730 | 144,665,476 | 215,429,206 | 70,763,730 | 144,665,476 | 215,429,206 | 32.8% |
| Assumed G&A from FirstCare | - | 1,523,000 | 1,523,000 | 500,272 | 1,022,728 | 1,523,000 | 32.8% |
| Ceded G&A, net from CFMI | - | (55,601,000) | (55,601,000) | (18,263,699) | (37,337,301) | (55,601,000) | 32.8% |
| Subtotal | 70,763,730 | 90,587,476 | 161,351,206 | 53,000,303 | 108,350,903 | 161,351,206 | 32.8% |
| Calculation Difference | - | - | - | 31,489 | (31,489) | 0 | |
| G&A, Net | 70,763,730 | 90,587,476 | 161,351,206 | 53,031,792 | 108,319,414 | 161,351,206 | 32.9% |

| | | |
|---|---|---|
| Ceded G&A, net per Annual Statement (p. 25.10) | | (55,601,000) |
| FirstChoice Assumed G&A per Annual Statement (p. 25.8) | | 1,523,000 |
| Difference due to Reinsurance | $ | 17,763,427 |
| Calculation Difference | | (31,489) |
| Total Difference | $ | 17,731,938 |

*Claims Adjustment and General Administrat*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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**Non-FEP Summary**

Revenue
Claims Incurred
Claims Adjustment Expenses
General Administrative Expenses
Net Underwriting Gain (Loss)

"Profit Percentage"
"Profit Weight"

**Adjustment of G&A Allocation**

Est. Gross G&A (before reinsurance)
Assumed G&A from FirstCare
Ceded G&A, net from CFMI
Subtotal
Calculation Difference
G&A, Net

Ceded G&A, net per Annual Statement (p. 25.
FirstChoice Assumed G&A per Annual Statem
Difference due to Reinsurance
Calculation Difference
Total Difference

| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 454,481,964 | | 454,481,964 | 454,481,964 | | | 454,481,964 |
| MD | 761,323,562 | | 761,323,562 | 761,323,562 | | | 761,323,562 |
| VA | 481,059,080 | | 481,059,080 | 481,059,080 | | | 481,059,080 |
| **Subtotal MD/VA** | 1,242,382,642 | 0 | 1,242,382,642 | 1,242,382,642 | 0 | 0 | 1,242,382,642 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 72,021,266 | (410,259,620) | (338,238,354) |
| **Non-FEP** | 1,696,864,606 | 0 | 1,696,864,606 | 1,696,864,606 | 72,021,266 | (410,259,620) | 1,358,626,252 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 1,568,732,026 | (50,511,159) | 1,518,220,867 | 1,568,732,026 | | | 1,568,732,026 |
| MD | | | 0 | 0 | | | 0 |
| VA | | | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 1,568,732,026 | (50,511,159) | 1,518,220,867 | 1,568,732,026 | 0 | 0 | 1,568,732,026 |
| | | | | | | | |
| **Total** | 3,265,596,632 | (50,511,159) | 3,215,085,473 | 3,265,596,632 | 72,021,266 | (410,259,620) | 2,927,358,278 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 371,301,359 | | 371,301,359 | 371,301,359 | 0 |
| MD | 633,633,072 | | 633,633,072 | 0 | 633,633,072 |
| VA | 398,085,758 | | 398,085,758 | 0 | 398,085,758 |
| **Subtotal MD/VA** | 1,031,718,830 | 0 | 1,031,718,830 | 0 | 1,031,718,830 |
| Unallocated to Jurisdiction | 0 | (277,000,178) | (277,000,178) | 0 | (277,000,178) |
| **Non-FEP** | 1,403,020,189 | (277,000,178) | 1,126,020,011 | **371,301,359** | **754,718,652** |
| | | | | **Shaw Chart 1** | |
| ***FEP*** | | | | | |
| DC | 1,450,425,693 | | 1,450,425,693 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | | | |
| **FEP** | 1,450,425,693 | 0 | 1,450,425,693 | | |
| | | | | | |
| **Total** | 2,853,445,882 | (277,000,178) | 2,576,445,704 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 0 | | 454,481,964 | 454,481,964 | 0 |
| MD | 0 | | 761,323,562 | 0 | 761,323,562 |
| VA | 0 | | 481,059,080 | 0 | 481,059,080 |
| **Subtotal MD/VA** | 0 | 0 | 1,242,382,642 | 0 | 1,242,382,642 |
| Unallocated to Jurisdiction | 0 | 60,781 | (338,177,573) | | (338,177,573) |
| **Non-FEP** | 0 | 60,781 | 1,358,687,033 | **454,481,964** | **904,205,069** |
| | | | **Shaw Chart 1** | | |
| ***FEP*** | | | | 33.5% | 66.5% |
| DC | (50,511,159) | 13,960,000 | 1,532,180,867 | Alloc. Basis of G&A | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | 0 | 0 | | |
| **FEP** | (50,511,159) | 13,960,000 | 1,532,180,867 | | |
| **Total** | (50,511,159) | 14,020,781 | 2,890,867,900 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 58,734,526 | 38,548,952 | 97,283,478 |
| General Administrative Expenses | 188,416,619 | 29,854,627 | 218,271,246 |

| Claims Adjustment Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 15,543,760 | 17,205,582 | (1,661,822) | 19,367,515 | (2,161,933) |
| MD & VA | 43,190,766 | 41,528,944 | 1,661,822 | 39,367,011 | 2,161,933 |
| **Non-FEP** | 58,734,526 | 58,734,526 | 0 | 58,734,526 | (0) |

| General Administrative Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 50,464,813 | 58,081,423 | (7,616,610) | 63,025,519 | (4,944,096) |
| MD & VA | 137,951,806 | 130,335,196 | 7,616,610 | 125,391,100 | 4,944,096 |
| **Non-FEP** | 188,416,619 | 188,416,619 | 0 | 188,416,619 | 0 |

| **Non-FEP Summary** | **Shaw Methodology** | | | **Chart 1 Cross-Foot Errors** | |
|---|---|---|---|---|---|
| | **DC** | **MD/VA** | **Total** | **All Non-FEP** | |
| Revenue | 454,481,964 | 904,205,069 | 1,358,687,033 | 1,293,559,088 | 65,127,945 |
| Claims Incurred | (371,301,359) | (754,718,652) | (1,126,020,011) | (1,074,924,897) | (51,095,114) |
| Claims Adjustment Expenses | (17,205,582) | (41,528,944) | (58,734,526) | (51,947,323) | (6,787,203) |
| General Administrative Expenses | (58,081,423) | (130,335,196) | (188,416,619) | (175,358,962) | (13,057,657) |
| Net Underwriting Gain (Loss) | 7,893,600 | (22,377,723) | (14,484,123) | (8,672,094) | (5,812,029) |
| **Chart 1 Footing Error** | 3,813,652 | (18,297,777) | (14,484,125) | | |
| "Profit Percentage" | 1.7% | (2.5%) | (1.1%) | Note: These percentage are miscalculated on Chart 1 due to the footing error. | |
| "Profit Weight" | (0.7) | | | | |

| **Adjustment of G&A Allocation** | **Adjusted G&A Allocation** | | | **Shaw Methodology** | | | |
|---|---|---|---|---|---|---|---|
| | **DC** | **MD/VA** | **Total** | **DC** | **MD/VA** | **Total** | **DC %** |
| Est. Gross G&A (before reinsurance) | 82,195,428 | 163,530,191 | 245,725,619 | 82,195,428 | 163,530,191 | 245,725,619 | 33.5% |
| Assumed G&A from FirstCare | - | 1,596,000 | 1,596,000 | 533,863 | 1,062,137 | 1,596,000 | 33.5% |
| Ceded G&A, net from CFMI | - | (58,905,000) | (58,905,000) | (19,703,772) | (39,201,228) | (58,905,000) | 33.5% |
| Subtotal | 82,195,428 | 106,221,191 | 188,416,619 | 63,025,519 | 125,391,100 | 188,416,619 | 33.5% |
| Calculation Difference | - | - | - | (4,944,096) | 4,944,096 | - | |
| G&A, Net | 82,195,428 | 106,221,191 | 188,416,619 | 58,081,423 | 130,335,196 | 188,416,619 | 30.8% |

| | |
|---|---|
| Ceded G&A, net per Annual Statement (p. 25.15) | (58,905,000) |
| FirstChoice Assumed G&A per Annual Statement (p. 25.8) | 1,596,000 |
| Difference due to Reinsurance | $ 19,169,909 |
| Calculation Difference | 4,944,096 |
| Total Difference | $ 24,114,005 |

*Claims Adjustment and General Administrat*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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**Non-FEP Summary**

Revenue
Claims Incurred
Claims Adjustment Expenses
General Administrative Expenses
Net Underwriting Gain (Loss)

**Chart 1 Footing Error**
"Profit Percentage"
"Profit Weight"

**Adjustment of G&A Allocation**

Est. Gross G&A (before reinsurance)
Assumed G&A from FirstCare
Ceded G&A, net from CFMI
Subtotal
Calculation Difference
G&A, Net

Ceded G&A, net per Annual Statement (p. 25.
FirstChoice Assumed G&A per Annual Statem
Difference due to Reinsurance
Calculation Difference
Total Difference

| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 461,784,940 | | 461,784,940 | 461,784,940 | | | 461,784,940 |
| MD | 728,755,811 | | 728,755,811 | 728,755,811 | | | 728,755,811 |
| VA | 511,986,055 | | 511,986,055 | 511,986,055 | | | 511,986,055 |
| **Subtotal MD/VA** | 1,240,741,866 | 0 | 1,240,741,866 | 1,240,741,866 | 0 | 0 | 1,240,741,866 |
| Allocated to MD/VA | 0 | 0 | 0 | 0 | 72,401,319 | (405,007,775) | (332,606,456) |
| **Non-FEP** | 1,702,526,806 | 0 | 1,702,526,806 | 1,702,526,806 | 72,401,319 | (405,007,775) | 1,369,920,350 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 280,804,196 | (15,911,148) | 264,893,048 | 280,804,196 | | | 280,804,196 |
| MD | 759,324,671 | (43,025,450) | 716,299,221 | 759,324,671 | | | 759,324,671 |
| VA | 586,070,129 | (33,208,365) | 552,861,764 | 586,070,129 | | | 586,070,129 |
| **Subtotal MD/VA** | 1,345,394,800 | (76,233,815) | 1,269,160,985 | 1,345,394,800 | 0 | 0 | 1,345,394,800 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 1,626,198,996 | (92,144,963) | 1,534,054,033 | 1,626,198,996 | 0 | 0 | 1,626,198,996 |
| | | | | | | | |
| **Total** | 3,328,725,802 | (92,144,963) | 3,236,580,839 | 3,328,725,802 | 72,401,319 | (405,007,775) | 2,996,119,346 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 345,483,838 | | 345,483,838 | 345,483,838 | 0 |
| MD | 582,330,668 | | 582,330,668 | 0 | 582,330,668 |
| VA | 401,428,933 | | 401,428,933 | 0 | 401,428,933 |
| **Subtotal MD/VA** | 983,759,601 | 0 | 983,759,601 | 0 | **983,759,601** |
| Allocated to MD/VA | 0 | (271,850,108) | (271,850,108) | 0 | (271,850,108) |
| **Non-FEP** | 1,329,243,439 | (271,850,108) | 1,057,393,331 | **345,483,838** | **711,909,493** |
| | | | | **Shaw Chart 1** | |
| ***FEP*** | | | | | |
| DC | 251,916,843 | | 251,916,843 | | |
| MD | 681,210,168 | | 681,210,168 | | |
| VA | 525,778,954 | | 525,778,954 | | |
| **Subtotal MD/VA** | 1,206,989,122 | 0 | 1,206,989,122 | | |
| Unallocated to Jurisdiction | 0 | | | | |
| **FEP** | 1,458,905,965 | 0 | 1,458,905,965 | | |
| | | | | | |
| **Total** | 2,788,149,404 | (271,850,108) | 2,516,299,296 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 0 | | 461,784,940 | 461,784,940 | 0 |
| MD | 0 | | 728,755,811 | 0 | 728,755,811 |
| VA | 0 | | 511,986,055 | 0 | 511,986,055 |
| **Subtotal MD/VA** | 0 | 0 | 1,240,741,866 | 0 | **1,240,741,866** |
| Allocated to MD/VA | 0 | 75,249 | (332,531,207) | | (332,531,207) |
| **Non-FEP** | 0 | 75,249 | **1,369,995,599** | **461,784,940** | **908,210,659** |
| | | | | **Shaw Chart 1** | |
| ***FEP*** | | | | 33.7% | 66.3% |
| DC | (15,911,148) | 13,379,000 | 278,272,048 | Alloc. Basis of G&A | |
| MD | (43,025,450) | | 716,299,221 | | |
| VA | (33,208,365) | | 552,861,764 | | |
| **Subtotal MD/VA** | (76,233,815) | 0 | 1,269,160,985 | | |
| Unallocated to Jurisdiction | 0 | | 0 | | |
| **FEP** | (92,144,963) | 13,379,000 | 1,547,433,033 | | |
| | | | | | |
| **Total** | (92,144,963) | 13,454,249 | 2,917,428,632 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Allocated to MD/VA
**Non-FEP**

***FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 68,957,050 | 47,360,782 | 116,317,832 |
| General Administrative Expenses | 188,953,265 | 35,060,005 | 224,013,270 |

| Claims Adjustment Expenses, Net | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 17,922,636 | 22,244,415 | (4,321,779) | 22,530,449 | (286,034) |
| MD & VA | 51,034,414 | 46,712,635 | 4,321,779 | 46,426,601 | 286,034 |
| **Non-FEP** | 68,957,050 | 68,957,050 | 0 | 68,957,050 | (0) |

| General Administrative Expenses, Net | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 51,250,748 | 63,109,505 | (11,858,757) | 63,690,549 | (581,044) |
| MD & VA | 137,702,517 | 125,843,760 | 11,858,757 | 125,262,716 | 581,044 |
| **Non-FEP** | 188,953,265 | 188,953,265 | 0 | 188,953,265 | 0 |

| | Shaw Methodology | | | Chart 1 Cross-Foot Errors | |
|---|---|---|---|---|---|
| **Non-FEP Summary** | **DC** | **MD/VA** | **Total** | **All Non-FEP** | |
| Revenue | 461,784,940 | 908,210,659 | 1,369,995,599 | 1,339,247,601 | 30,747,998 |
| Claims Incurred | (345,483,838) | (711,909,493) | (1,057,393,331) | (1,033,648,595) | (23,744,736) |
| Claims Adjustment Expenses | (22,244,415) | (46,712,635) | (68,957,050) | (68,957,050) | 0 |
| General Administrative Expenses | (63,109,505) | (125,843,760) | (188,953,265) | (188,953,265) | 0 |
| Net Underwriting Gain (Loss) | **30,947,182** | **23,744,771** | **54,691,953** | 47,688,691 | 7,003,262 |
| | | | | | |
| "Profit Percentage" | 6.7% | 2.6% | 4.0% | | |
| "Profit Weight" | 2.6 | | | | |

| **Adjustment of G&A Allocation** | Adjusted G&A Allocation | | | Shaw Methodology | | | |
|---|---|---|---|---|---|---|---|
| | **DC** | **MD/VA** | **Total** | **DC** | **MD/VA** | **Total** | **DC %** |
| Est. Gross G&A (before reinsurance) | 82,415,483 | 162,089,782 | 244,505,265 | 82,415,483 | 162,089,782 | 244,505,265 | 33.7% |
| Assumed G&A from FirstCare | - | 1,830,000 | 1,830,000 | 616,839 | 1,213,161 | 1,830,000 | 33.7% |
| Ceded G&A, net from CFMI | - | (57,382,000) | (57,382,000) | (19,341,773) | (38,040,227) | (57,382,000) | 33.7% |
| Subtotal | 82,415,483 | 106,537,782 | 188,953,265 | 63,690,549 | 125,262,716 | 188,953,265 | 33.7% |
| Calculation Difference | - | - | - | (581,044) | 581,044 | 0 | |
| G&A, Net | 82,415,483 | 106,537,782 | 188,953,265 | 63,109,505 | 125,843,760 | 188,953,265 | 33.4% |

| | |
|---|---|
| Ceded G&A, net per Annual Statement (p. 25.17) | (57,382,000) |
| FirstChoice Assumed G&A per Annual Statement (p. 25.9) | 1,830,000 |
| Difference due to Reinsurance | $ 18,724,934 |
| Calculation Difference | 581,044 |
| Total Difference | $ 19,305,978 |

*Claims Adjustment and General Administrative Ex*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses, Net
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses, Net
***Non-FEP***
DC
MD & VA
**Non-FEP**

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**Non-FEP Summary**
Revenue
Claims Incurred
Claims Adjustment Expenses
General Administrative Expenses
Net Underwriting Gain (Loss)

"Profit Percentage"
"Profit Weight"

**Adjustment of G&A Allocation**

Est. Gross G&A (before reinsurance)
Assumed G&A from FirstCare
Ceded G&A, net from CFMI
Subtotal
Calculation Difference
G&A, Net

Ceded G&A, net per Annual Statement (p. 25.17)
FirstChoice Assumed G&A per Annual Statement (p
Difference due to Reinsurance
Calculation Difference
Total Difference

| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 473,305,211 | (5,660,002) | 467,645,209 | 473,305,211 | | | 473,305,211 |
| MD | 710,702,600 | (1,069,998) | 709,632,602 | 710,702,600 | | | 710,702,600 |
| VA | 516,253,778 | (6,370,000) | 509,883,778 | 516,253,778 | | | 516,253,778 |
| **Subtotal MD/VA** | 1,226,956,378 | (7,439,998) | 1,219,516,380 | 1,226,956,378 | 0 | 0 | 1,226,956,378 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 65,761,411 | (369,606,987) | (303,845,576) |
| **Non-FEP** | 1,700,261,589 | (13,100,000) | 1,687,161,589 | 1,700,261,589 | 65,761,411 | (369,606,987) | 1,396,416,013 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 331,882,869 | (12,667,248) | 319,215,621 | 331,882,869 | | | 331,882,869 |
| MD | 733,798,465 | (28,007,492) | 705,790,973 | 733,798,465 | | | 733,798,465 |
| VA | 664,686,724 | (25,369,647) | 639,317,077 | 664,686,724 | | | 664,686,724 |
| **Subtotal MD/VA** | 1,398,485,189 | (53,377,139) | 1,345,108,050 | 1,398,485,189 | 0 | 0 | 1,398,485,189 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 1,730,368,058 | (66,044,387) | 1,664,323,671 | 1,730,368,058 | 0 | 0 | 1,730,368,058 |
| | | | | | | | |
| **Total** | 3,430,629,647 | (79,144,387) | 3,351,485,260 | 3,430,629,647 | 65,761,411 | (369,606,987) | 3,126,784,071 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 363,886,653 | | 363,886,653 | 363,886,653 | 0 |
| MD | 570,018,486 | | 570,018,486 | 0 | 570,018,486 |
| VA | 425,858,971 | | 425,858,971 | 0 | 425,858,971 |
| **Subtotal MD/VA** | 995,877,457 | 0 | 995,877,457 | 0 | **995,877,457** |
| Unallocated to Jurisdiction | 0 | (233,816,642) | (233,816,642) | 0 | (233,816,642) |
| **Non-FEP** | 1,359,764,110 | (233,816,642) | 1,125,947,468 | **363,886,653** | **762,060,815** |
| | | | | **Shaw Chart 1** | |
| ***FEP*** | | | | | |
| **DC** | 241,731,727 | | 241,731,727 | | |
| MD | 712,235,350 | | 712,235,350 | | |
| VA | 615,075,374 | | 615,075,374 | | |
| **Subtotal MD/VA** | 1,327,310,724 | 0 | 1,327,310,724 | | |
| Unallocated to Jurisdiction | 0 | | | | |
| **FEP** | 1,569,042,451 | 0 | 1,569,042,451 | | |
| | | | | | |
| **Total** | 2,928,806,561 | (233,816,642) | 2,694,989,919 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | (5,660,002) | | 467,645,209 | 467,645,209 | 0 |
| MD | (1,069,998) | | 709,632,602 | 0 | 709,632,602 |
| VA | (6,370,000) | | 509,883,778 | 0 | 509,883,778 |
| **Subtotal MD/VA** | (7,439,998) | 0 | 1,219,516,380 | 0 | **1,219,516,380** |
| Unallocated to Jurisdiction | 0 | 120,762 | (303,724,814) | | (303,724,814) |
| **Non-FEP** | (13,100,000) | 120,762 | **1,383,436,775** | **467,645,209** | **915,791,566** |
| | | | **Shaw Chart 1** | | |
| ***FEP*** | | | | 33.8% | 66.2% |
| DC | (12,667,248) | 11,657,000 | 330,872,621 | Alloc. Basis of G&A | |
| MD | (28,007,492) | | 705,790,973 | | |
| VA | (25,369,647) | | 639,317,077 | | |
| **Subtotal MD/VA** | (53,377,139) | 0 | 1,345,108,050 | | |
| Unallocated to Jurisdiction | 0 | | 0 | | |
| **FEP** | (66,044,387) | 11,657,000 | 1,675,980,671 | | |
| | | | | | |
| **Total** | (79,144,387) | 11,777,762 | 3,059,417,446 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
**DC**
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 60,744,139 | 58,007,688 | 118,751,827 |
| General Administrative Expenses | 183,060,456 | 47,910,706 | 230,971,162 |

| Claims Adjustment Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 16,255,747 | 17,588,599 | (1,332,852) | 19,631,450 | (2,042,851) |
| MD & VA | 44,488,392 | 43,155,540 | 1,332,852 | 41,112,689 | 2,042,851 |
| **Non-FEP** | 60,744,139 | 60,744,139 | (0) | 60,744,139 | (0) |

| General Administrative Expenses | State Exhibits | Shaw Stmt. Chart 1 | Difference | Shaw Methodology (Expected) | Unidentified Difference |
|---|---|---|---|---|---|
| ***Non-FEP*** | | | | | |
| DC | 50,740,454 | 61,776,349 | (11,035,895) | 61,880,201 | (103,852) |
| MD & VA | 132,320,002 | 121,284,107 | 11,035,895 | 121,180,255 | 103,852 |
| **Non-FEP** | 183,060,456 | 183,060,456 | 0 | 183,060,456 | 0 |

| | Shaw Methodology | | | Chart 1 Cross-Foot Errors | |
|---|---|---|---|---|---|
| **Non-FEP Summary** | **DC** | **MD/VA** | **Total** | **All Non-FEP** | |
| Revenue | 467,645,209 | 915,791,566 | 1,383,436,775 | 1,314,362,445 | 69,074,330 |
| Claims Incurred | (363,886,653) | (762,060,815) | (1,125,947,468) | (1,067,936,948) | (58,010,520) |
| Claims Adjustment Expenses | (17,588,599) | (43,155,540) | (60,744,139) | (60,744,139) | 0 |
| General Administrative Expenses | (61,776,349) | (121,284,107) | (183,060,456) | (183,060,456) | 0 |
| Net Underwriting Gain (Loss) | 24,393,608 | (10,708,896) | 13,684,712 | 2,620,902 | 11,063,810 |
| | | | | | |
| "Profit Percentage" | 5.2% | (1.2%) | 1.0% | | |
| "Profit Weight" | (4.5) | | | | |

| **Adjustment of G&A Allocation** | Adjusted G&A Allocation | | | Shaw Methodology | | | |
|---|---|---|---|---|---|---|---|
| | **DC** | **MD/VA** | **Total** | **DC** | **MD/VA** | **Total** | **DC %** |
| Est. Gross G&A (before reinsurance) | 80,048,718 | 156,759,738 | 236,808,456 | 80,048,718 | 156,759,738 | 236,808,456 | 33.8% |
| Assumed G&A from FirstCare/other (Est.) | - | 1,493,000 | 1,493,000 | 504,681 | 988,319 | 1,493,000 | 33.8% |
| Ceded G&A, net from CFMI | - | (55,241,000) | (55,241,000) | (18,673,198) | (36,567,802) | (55,241,000) | 33.8% |
| Subtotal | 80,048,718 | 103,011,738 | 183,060,456 | 61,880,201 | 121,180,255 | 183,060,456 | 33.8% |
| Calculation Difference | | | | (103,852) | 103,852 | 0 | |
| G&A, Net | 80,048,718 | 103,011,738 | 183,060,456 | 61,776,349 | 121,284,107 | 183,060,456 | 33.7% |

| | | | |
|---|---|---|---|
| CFMI Ceded G&A, net per Annual Statement (p. 25.18) | | (55,241,000) | |
| Ceded G&A, net per Annual Statement (p. 42) | | 53,748,136 | |
| Estimated FirstChoice/other Assumed G&A | | (1,493,000) | **2008 - 2011** |
| Difference due to Reinsurance | $ | 18,168,517 | $ 73,826,787 |
| Calculation Difference | | 103,852 | 5,597,502 |
| Total Difference | $ | 18,272,369 | $ 79,424,289 |

*Claims Adjustment and General Administrati*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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**Non-FEP Summary**
Revenue
Claims Incurred
Claims Adjustment Expenses
General Administrative Expenses
Net Underwriting Gain (Loss)

"Profit Percentage"
"Profit Weight"

**Adjustment of G&A Allocation**

Est. Gross G&A (before reinsurance)
Assumed G&A from FirstCare/other (Est.)
Ceded G&A, net from CFMI
Subtotal
Calculation Difference
G&A, Net

CFMI Ceded G&A, net per Annual Statement (
Ceded G&A, net per Annual Statement (p. 42)
Estimated FirstChoice/other Assumed G&A
Difference due to Reinsurance
Calculation Difference
Total Difference

| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 231,586,264 | (5,810,000) | 225,776,264 | 231,586,264 | - | (12,500) | 231,573,764 |
| MD | 1,406,340,822 | (20,320,000) | 1,386,020,822 | 1,406,340,822 | 7,334,228 | (12,500) | 1,413,662,550 |
| VA | 233,708,673 | (6,850,000) | 226,858,673 | 233,708,673 | - | - | 233,708,673 |
| **Subtotal MD/VA** | 1,640,049,495 | (27,170,000) | 1,612,879,495 | 1,640,049,495 | 7,334,228 | (12,500) | 1,647,371,223 |
| Allocated to MD/VA | 0 | 0 | 0 | 0 | | | 0 |
| **Non-FEP** | 1,871,635,759 | (32,980,000) | 1,838,655,759 | 1,871,635,759 | 7,334,228 | (25,000) | 1,878,944,987 |
| | | | | | | | |
| ***FEP*** | | | | | *[From Suppl. Exhibits - Line 1.9]* | | |
| DC | 0 | | 0 | 0 | | | 0 |
| MD | 174,470,124 | (13,825,835) | 160,644,289 | 174,470,124 | | | 174,470,124 |
| VA | 0 | | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 174,470,124 | (13,825,835) | 160,644,289 | 174,470,124 | 0 | 0 | 174,470,124 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 174,470,124 | (13,825,835) | 160,644,289 | 174,470,124 | 0 | 0 | 174,470,124 |
| | | | | | | | |
| **Total** | 2,046,105,883 | (46,805,835) | 1,999,300,048 | 2,046,105,883 | 7,334,228 | (25,000) | 2,053,415,111 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 177,197,426 | | 177,197,426 | 177,197,426 | 0 |
| MD | 1,093,641,635 | 5,792,736 | 1,099,434,371 | 0 | 1,099,434,371 |
| VA | 172,998,921 | | 172,998,921 | 0 | 172,998,921 |
| **Subtotal MD/VA** | 1,266,640,556 | 5,792,736 | 1,272,433,292 | 0 | **1,272,433,292** |
| Unallocated to Jurisdiction | 0 | | 0 | 0 | 0 |
| **Non-FEP** | 1,443,837,982 | 5,792,736 | 1,449,630,718 | **177,197,426** | **1,272,433,292** |
| | | *[Supp Exh - Line 5.1]* | | | |
| ***FEP*** | | | | | |
| **DC** | 0 | | 0 | | |
| MD | 147,386,385 | | 147,386,385 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 147,386,385 | 0 | 147,386,385 | | |
| Unallocated to Jurisdiction | 0 | | | | |
| **FEP** | 147,386,385 | 0 | 147,386,385 | | |
| | | | | | |
| **Total** | 1,591,224,367 | 5,792,736 | 1,597,017,103 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | (5,810,000) | | 225,763,764 | 225,763,764 | 0 |
| MD | (20,320,000) | | 1,393,342,550 | 0 | 1,393,342,550 |
| VA | (6,850,000) | | 226,858,673 | 0 | 226,858,673 |
| **Subtotal MD/VA** | (27,170,000) | 0 | 1,620,201,223 | 0 | **1,620,201,223** |
| Allocated to MD/VA | 0 | 98,188 | 98,188 | | 98,188 |
| **Non-FEP** | (32,980,000) | 98,188 | 1,846,063,175 | **225,763,764** | **1,620,299,411** |
| | | | | | |
| ***FEP*** | | | | | |
| DC | 0 | | 0 | | |
| MD | (13,825,835) | | 160,644,289 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | (13,825,835) | 0 | 160,644,289 | | |
| Unallocated to Jurisdiction | 0 | | 0 | | |
| **FEP** | (13,825,835) | 0 | 160,644,289 | | |
| | | | | | |
| **Total** | (46,805,835) | 98,188 | 2,006,707,464 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
**DC**
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 83,993,479 | 6,667,201 | 90,660,680 |
| General Administrative Expenses | 279,968,250 | 5,778,200 | 285,746,450 |

Claims Adjustment Expenses

***Non-FEP***

| | |
|---|---|
| DC | 10,267,048 |
| MD & VA | 73,726,431 |
| **Non-FEP** | 83,993,479 |

General Administrative Expenses

***Non-FEP***

| | |
|---|---|
| DC | 34,238,636 |
| MD & VA | 245,729,614 |
| **Non-FEP** | 279,968,250 |

*Claims Adjustment and General Administrat*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 218,114,602 | 0 | 218,114,602 | 218,114,602 | | | 218,114,602 |
| MD | 1,383,503,878 | 0 | 1,383,503,878 | 1,383,503,878 | 8,573,123 | (25,000) | 1,392,052,001 |
| VA | 243,442,992 | 0 | 243,442,992 | 243,442,992 | | | 243,442,992 |
| **Subtotal MD/VA** | 1,626,946,870 | 0 | 1,626,946,870 | 1,626,946,870 | 8,573,123 | (25,000) | 1,635,494,993 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **Non-FEP** | 1,845,061,472 | 0 | 1,845,061,472 | 1,845,061,472 | 8,573,123 | (25,000) | 1,853,609,595 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 8,023,748 | 1,250,298 | 9,274,046 | 8,023,748 | | | 8,023,748 |
| MD | 83,866,206 | 13,068,421 | 96,934,627 | 83,866,206 | | | 83,866,206 |
| VA | 28,176,785 | 4,390,638 | 32,567,423 | 28,176,785 | | | 28,176,785 |
| **Subtotal MD/VA** | 112,042,991 | 17,459,059 | 129,502,050 | 112,042,991 | 0 | 0 | 112,042,991 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 120,066,739 | 18,709,357 | 138,776,096 | 120,066,739 | 0 | 0 | 120,066,739 |
| | | | | | | | |
| **Total** | 1,965,128,211 | 18,709,357 | 1,983,837,568 | 1,965,128,211 | 8,573,123 | (25,000) | 1,973,676,334 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 147,740,318 | 0 | 147,740,318 | 147,740,318 | 0 |
| MD | 991,815,778 | 4,463,230 | 996,279,008 | 0 | 996,279,008 |
| VA | 171,016,238 | 0 | 171,016,238 | 0 | 171,016,238 |
| **Subtotal MD/VA** | 1,162,832,016 | 4,463,230 | 1,167,295,246 | 0 | **1,167,295,246** |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 0 |
| **Non-FEP** | 1,310,572,334 | 4,463,230 | 1,315,035,564 | **147,740,318** | **1,167,295,246** |
| | | | | | |
| ***FEP*** | | | | | |
| **DC** | 8,518,782 | | 8,518,782 | 6.68% | |
| MD | 89,040,425 | | 89,040,425 | 69.85% | |
| VA | 29,915,183 | | 29,915,183 | 23.47% | |
| **Subtotal MD/VA** | 118,955,608 | 0 | 118,955,608 | 93.32% | |
| Unallocated to Jurisdiction | | | | | |
| **FEP** | 127,474,390 | 0 | 127,474,390 | 100.00% | |
| | | | | | |
| **Total** | 1,438,046,724 | 4,463,230 | 1,442,509,954 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| *Premiums Earned* | | | | | |
| ***Non-FEP*** | | | | | |
| DC | 0 | | 218,114,602 | 218,114,602 | 0 |
| MD | 0 | | 1,392,052,001 | 0 | 1,392,052,001 |
| VA | 0 | | 243,442,992 | 0 | 243,442,992 |
| **Subtotal MD/VA** | 0 | 0 | 1,635,494,993 | 0 | **1,635,494,993** |
| Unallocated to Jurisdiction | 0 | 87,414 | 87,414 | | 87,414 |
| **Non-FEP** | 0 | 87,414 | 1,853,697,009 | **218,114,602** | **1,635,582,407** |
| | | | | | |
| ***FEP*** | | | | | |
| DC | 1,250,298 | | 9,274,046 | | |
| MD | 13,068,421 | | 96,934,627 | | |
| VA | 4,390,638 | | 32,567,423 | | |
| **Subtotal MD/VA** | 17,459,059 | 0 | 129,502,050 | | |
| Unallocated to Jurisdiction | 0 | | 0 | | |
| **FEP** | 18,709,357 | 0 | 138,776,096 | | |
| | | | | | |
| **Total** | 18,709,357 | 87,414 | 1,992,473,105 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
**DC**
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 73,855,827 | 5,791,336 | 79,647,163 |
| General Administrative Expenses | 286,131,290 | 4,656,629 | 290,787,919 |

Claims Adjustment Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 8,297,482 |
| MD & VA | 65,558,345 |
| **Non-FEP** | 73,855,827 |

General Administrative Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 33,667,537 |
| MD & VA | 252,463,753 |
| **Non-FEP** | 286,131,290 |

*Claims Adjustment and General Administra*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 191,284,454 | 0 | 191,284,454 | 191,284,454 | | | 191,284,454 |
| MD | 1,344,428,118 | 0 | 1,344,428,118 | 1,344,428,118 | | | 1,344,428,118 |
| VA | 218,735,794 | 0 | 218,735,794 | 218,735,794 | | | 218,735,794 |
| **Subtotal MD/VA** | 1,563,163,912 | 0 | 1,563,163,912 | 1,563,163,912 | 0 | 0 | 1,563,163,912 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 9,416,937 | (25,000) | 9,391,937 |
| **Non-FEP** | 1,754,448,366 | 0 | 1,754,448,366 | 1,754,448,366 | 9,416,937 | (25,000) | 1,763,840,303 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 110,213,436 | 2,637,531 | 112,850,967 | 110,213,436 | | | 110,213,436 |
| MD | 0 | 0 | 0 | 0 | | | 0 |
| VA | 0 | 0 | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 110,213,436 | 2,637,531 | 112,850,967 | 110,213,436 | 0 | 0 | 110,213,436 |
| | | | | | | | |
| **Total** | 1,864,661,802 | 2,637,531 | 1,867,299,333 | 1,864,661,802 | 9,416,937 | (25,000) | 1,874,053,739 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 141,761,567 | | 141,761,567 | 141,761,567 | 0 |
| MD | 1,095,889,413 | | 1,095,889,413 | 0 | 1,095,889,413 |
| VA | 167,001,775 | | 167,001,775 | 0 | 167,001,775 |
| **Subtotal MD/VA** | 1,262,891,188 | 0 | 1,262,891,188 | 0 | **1,262,891,188** |
| Unallocated to Jurisdiction | 0 | 6,081,087 | 6,081,087 | 0 | 6,081,087 |
| **Non-FEP** | 1,404,652,755 | 6,081,087 | 1,410,733,842 | **141,761,567** | **1,268,972,275** |
| | | | | | |
| ***FEP*** | | | | | |
| **DC** | 107,571,102 | | 107,571,102 | | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | | | | | |
| **FEP** | 107,571,102 | 0 | 107,571,102 | | |
| | | | | | |
| **Total** | 1,512,223,857 | 6,081,087 | 1,518,304,944 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 0 | | 191,284,454 | 191,284,454 | 0 |
| MD | 0 | | 1,344,428,118 | 0 | 1,344,428,118 |
| VA | 0 | | 218,735,794 | 0 | 218,735,794 |
| **Subtotal MD/VA** | 0 | 0 | 1,563,163,912 | 0 | **1,563,163,912** |
| Unallocated to Jurisdiction | 0 | 63,605 | 9,455,542 | | 9,455,542 |
| **Non-FEP** | 0 | 63,605 | 1,763,903,908 | **191,284,454** | **1,572,619,454** |
| | | | | | |
| ***FEP*** | | | | | |
| DC | 2,637,531 | | 112,850,967 | | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | 0 | | |
| **FEP** | 2,637,531 | 0 | 112,850,967 | | |
| | | | | | |
| **Total** | 2,637,531 | 63,605 | 1,876,754,875 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
**DC**
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 63,171,034 | 2,635,583 | 65,806,617 |
| General Administrative Expenses | 264,745,102 | 2,267,347 | 267,012,449 |

Claims Adjustment Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 6,347,919 |
| MD & VA | 56,823,115 |
| **Non-FEP** | 63,171,034 |

General Administrative Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 28,709,967 |
| MD & VA | 236,035,135 |
| **Non-FEP** | 264,745,102 |

*Claims Adjustment and General Administra*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR / Misc. Difference | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 162,380,672 | 0 | 162,380,672 | 162,380,672 | | | 162,380,672 |
| MD | 1,302,444,830 | 0 | 1,302,444,830 | 1,302,444,830 | | | 1,302,444,830 |
| VA | 194,548,619 | 0 | 194,548,619 | 194,548,619 | | | 194,548,619 |
| **Subtotal MD/VA** | 1,496,993,449 | 0 | 1,496,993,449 | 1,496,993,449 | 0 | 0 | 1,496,993,449 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 8,028,065 | (25,000) | 8,003,065 |
| **Non-FEP** | 1,659,374,121 | 0 | 1,659,374,121 | 1,659,374,121 | 8,028,065 | (25,000) | 1,667,377,186 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 75,936,367 | 2,999,388 | 78,935,755 | 75,936,367 | | | 75,936,367 |
| MD | 0 | 0 | 0 | 0 | | | 0 |
| VA | 0 | 0 | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 75,936,367 | 2,999,388 | 78,935,755 | 75,936,367 | 0 | 0 | 75,936,367 |
| | | | | | | | |
| **Total** | 1,735,310,488 | 2,999,388 | 1,738,309,876 | 1,735,310,488 | 8,028,065 | (25,000) | 1,743,313,553 |

*Note: Adjusted for apparent error in MD amount reported on Schedule T; FEP agrees to U/W Exhibit.*

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 127,467,212 | | 127,467,212 | 127,467,212 | 0 |
| MD | 1,099,076,683 | | 1,099,076,683 | 0 | 1,099,076,683 |
| VA | 156,090,641 | | 156,090,641 | 0 | 156,090,641 |
| **Subtotal MD/VA** | 1,382,634,536 | 0 | 1,255,167,324 | 0 | **1,255,167,324** |
| Unallocated to Jurisdiction | 0 | 4,776,439 | 4,776,439 | 0 | 4,776,439 |
| **Non-FEP** | 1,382,634,536 | 4,776,439 | 1,387,410,975 | **127,467,212** | **1,259,943,763** |
| | | | | | |
| ***FEP*** | | | | | |
| **DC** | 75,058,778 | | 75,058,778 | | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | | | | | |
| **FEP** | 75,058,778 | 0 | 75,058,778 | | |
| | | | | | |
| **Total** | 1,457,693,314 | 4,776,439 | 1,462,469,753 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 0 | 0 | 162,380,672 | 162,380,672 | 0 |
| MD | 0 | 0 | 1,302,444,830 | 0 | 1,302,444,830 |
| VA | 0 | 0 | 194,548,619 | 0 | 194,548,619 |
| **Subtotal MD/VA** | 0 | 0 | 1,496,993,449 | 0 | **1,496,993,449** |
| Unallocated to Jurisdiction | 0 | 102,827 | 8,105,892 | | 8,105,892 |
| **Non-FEP** | 0 | 102,827 | 1,667,480,013 | **162,380,672** | **1,505,099,341** |
| | | | | | |
| ***FEP*** | | | | | |
| DC | 2,999,388 | 0 | 78,935,755 | | |
| MD | 0 | 0 | 0 | | |
| VA | 0 | 0 | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | 0 | 0 | | |
| **FEP** | 2,999,388 | 0 | 78,935,755 | | |
| | | | | | |
| **Total** | 2,999,388 | 102,827 | 1,746,415,768 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
**DC**
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 53,026,789 | 1,745,963 | 54,772,752 |
| General Administrative Expenses | 220,828,834 | 1,721,801 | 222,550,635 |

Claims Adjustment Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 4,871,791 |
| MD & VA | 48,154,998 |
| **Non-FEP** | 53,026,789 |

General Administrative Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 21,504,506 |
| MD & VA | 199,324,328 |
| **Non-FEP** | 220,828,834 |

*Claims Adjustment and General Administrati*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 148,676,818 | 0 | 148,676,818 | 148,676,818 | | | 148,676,818 |
| MD | 1,208,168,885 | 0 | 1,208,168,885 | 1,208,168,885 | | | 1,208,168,885 |
| VA | 173,742,193 | 0 | 173,742,193 | 173,742,193 | | | 173,742,193 |
| **Subtotal MD/VA** | 1,381,911,078 | 0 | 1,381,911,078 | 1,381,911,078 | 0 | 0 | 1,381,911,078 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 0 | (25,000) | (25,000) |
| **Non-FEP** | 1,530,587,896 | 0 | 1,530,587,896 | 1,530,587,896 | 0 | (25,000) | 1,530,562,896 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 60,761,701 | (3,607,872) | 57,153,829 | 60,761,701 | | | 60,761,701 |
| MD | 0 | 0 | | 0 | | | 0 |
| VA | 0 | 0 | | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 60,761,701 | (3,607,872) | 57,153,829 | 60,761,701 | 0 | 0 | 60,761,701 |
| | | | | | | | |
| **Total** | 1,591,349,597 | (3,607,872) | 1,587,741,725 | 1,591,349,597 | 0 | (25,000) | 1,591,324,597 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 103,538,059 | 0 | 103,538,059 | 103,538,059 | 0 |
| MD | 972,833,120 | 0 | 972,833,120 | 0 | 972,833,120 |
| VA | 129,080,705 | 0 | 129,080,705 | 0 | 129,080,705 |
| **Subtotal MD/VA** | 1,101,913,825 | 0 | 1,101,913,825 | 0 | **1,101,913,825** |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 0 |
| **Non-FEP** | 1,205,451,884 | 0 | 1,205,451,884 | **103,538,059** | **1,101,913,825** |
| | | | | | |
| ***FEP*** | | | | | |
| **DC** | 53,808,354 | | 53,808,354 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | | | | | |
| **FEP** | 53,808,354 | 0 | 53,808,354 | | |
| | | | | | |
| **Total** | 1,259,260,238 | 0 | 1,259,260,238 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 0 | | 148,676,818 | 148,676,818 | 0 |
| MD | 0 | | 1,208,168,885 | 0 | 1,208,168,885 |
| VA | 0 | | 173,742,193 | 0 | 173,742,193 |
| **Subtotal MD/VA** | 0 | 0 | 1,381,911,078 | 0 | **1,381,911,078** |
| Unallocated to Jurisdiction | 0 | 915,604 | 890,604 | | 890,604 |
| **Non-FEP** | 0 | 915,604 | 1,531,478,500 | **148,676,818** | **1,382,801,682** |
| | | | | | |
| ***FEP*** | | | | | |
| DC | (3,607,872) | | 57,153,829 | | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | 0 | | |
| **FEP** | (3,607,872) | 0 | 57,153,829 | | |
| | | | | | |
| **Total** | (3,607,872) | 915,604 | 1,588,632,329 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
**DC**
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 45,465,571 | 1,401,659 | 46,867,230 |
| General Administrative Expenses | 201,158,296 | 1,392,564 | 202,550,860 |

Claims Adjustment Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 3,905,106 |
| MD & VA | 41,560,465 |
| **Non-FEP** | 45,465,571 |

General Administrative Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 19,528,564 |
| MD & VA | 181,629,732 |
| **Non-FEP** | 201,158,296 |

*Claims Adjustment and General Administrati*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 132,495,165 | 0 | 132,495,165 | 132,495,165 | | | 132,495,165 |
| MD | 1,078,838,269 | 0 | 1,078,838,269 | 1,078,838,269 | | | 1,078,838,269 |
| VA | 149,202,380 | 0 | 149,202,380 | 149,202,380 | | | 149,202,380 |
| **Subtotal MD/VA** | 1,228,040,649 | 0 | 1,228,040,649 | 1,228,040,649 | 0 | 0 | 1,228,040,649 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **Non-FEP** | 1,360,535,814 | 0 | 1,360,535,814 | 1,360,535,814 | 0 | 0 | 1,360,535,814 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 43,518,701 | 0 | 43,518,701 | 43,518,701 | | | 43,518,701 |
| MD | 0 | 0 | | 0 | | | 0 |
| VA | 0 | 0 | | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 43,518,701 | 0 | 43,518,701 | 43,518,701 | 0 | 0 | 43,518,701 |
| | | | | | | | |
| **Total** | 1,404,054,515 | 0 | 1,404,054,515 | 1,404,054,515 | 0 | 0 | 1,404,054,515 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 94,203,695 | | 94,203,695 | 94,203,695 | 0 |
| MD | 871,331,810 | | 871,331,810 | 0 | 871,331,810 |
| VA | 113,612,849 | | 113,612,849 | 0 | 113,612,849 |
| **Subtotal MD/VA** | 984,944,659 | 0 | 984,944,659 | 0 | **984,944,659** |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 0 |
| **Non-FEP** | 1,079,148,354 | 0 | 1,079,148,354 | **94,203,695** | **984,944,659** |
| | | | | | |
| ***FEP*** | | | | | |
| **DC** | 41,398,401 | | 41,398,401 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | | | | | |
| **FEP** | 41,398,401 | 0 | 41,398,401 | | |
| | | | | | |
| **Total** | 1,120,546,755 | 0 | 1,120,546,755 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 0 | | 132,495,165 | 132,495,165 | 0 |
| MD | 0 | | 1,078,838,269 | 0 | 1,078,838,269 |
| VA | 0 | | 149,202,380 | 0 | 149,202,380 |
| **Subtotal MD/VA** | 0 | 0 | 1,228,040,649 | 0 | **1,228,040,649** |
| Unallocated to Jurisdiction | 0 | | 0 | | 0 |
| **Non-FEP** | 0 | 0 | 1,360,535,814 | **132,495,165** | **1,228,040,649** |
| | | | | | |
| ***FEP*** | | | | | |
| DC | 0 | | 43,518,701 | | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | 0 | | |
| **FEP** | 0 | 0 | 43,518,701 | | |
| | | | | | |
| **Total** | 0 | 0 | 1,404,054,515 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
**DC**
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 38,935,461 | 1,096,838 | 40,032,299 |
| General Administrative Expenses | 177,640,598 | 1,059,289 | 178,699,887 |

Claims Adjustment Expenses

***Non-FEP***

| | |
|---|---|
| DC | 3,398,851 |
| MD & VA | 35,536,610 |
| **Non-FEP** | 38,935,461 |

General Administrative Expenses

***Non-FEP***

| | |
|---|---|
| DC | 17,299,449 |
| MD & VA | 160,341,149 |
| **Non-FEP** | 177,640,598 |

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 113,497,420 | 0 | 113,497,420 | 113,497,420 | | | 113,497,420 |
| MD | 1,010,070,227 | 0 | 1,010,070,227 | 1,010,070,227 | | | 1,010,070,227 |
| VA | 122,874,365 | 0 | 122,874,365 | 122,874,365 | | | 122,874,365 |
| **Subtotal MD/VA** | 1,132,944,592 | 0 | 1,132,944,592 | 1,132,944,592 | 0 | 0 | 1,132,944,592 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **Non-FEP** | 1,246,442,012 | 0 | 1,246,442,012 | 1,246,442,012 | 0 | 0 | 1,246,442,012 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 38,784,169 | 0 | 38,784,169 | 38,784,169 | | | 38,784,169 |
| MD | 0 | 0 | | 0 | | | 0 |
| VA | 0 | 0 | | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 38,784,169 | 0 | 38,784,169 | 38,784,169 | 0 | 0 | 38,784,169 |
| | | | | | | | |
| **Total** | 1,285,226,181 | 0 | 1,285,226,181 | 1,285,226,181 | 0 | 0 | 1,285,226,181 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 79,259,722 | | 79,259,722 | 79,259,722 | 0 |
| MD | 839,276,003 | | 839,276,003 | 0 | 839,276,003 |
| VA | 96,181,073 | | 96,181,073 | 0 | 96,181,073 |
| **Subtotal MD/VA** | 935,457,076 | 0 | 935,457,076 | 0 | **935,457,076** |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 0 |
| **Non-FEP** | 1,014,716,798 | 0 | 1,014,716,798 | **79,259,722** | **935,457,076** |
| | | | | | |
| ***FEP*** | | | | | |
| **DC** | 36,733,798 | | 36,733,798 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | | | | | |
| **FEP** | 36,733,798 | 0 | 36,733,798 | | |
| | | | | | |
| **Total** | 1,051,450,596 | 0 | 1,051,450,596 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 0 | | 113,497,420 | 113,497,420 | 0 |
| MD | 0 | | 1,010,070,227 | 0 | 1,010,070,227 |
| VA | 0 | | 122,874,365 | 0 | 122,874,365 |
| **Subtotal MD/VA** | 0 | 0 | 1,132,944,592 | 0 | **1,132,944,592** |
| Unallocated to Jurisdiction | 0 | | 0 | | 0 |
| **Non-FEP** | 0 | 0 | 1,246,442,012 | **113,497,420** | **1,132,944,592** |
| | | | | | |
| ***FEP*** | | | | | |
| DC | 0 | | 38,784,169 | | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | 0 | | |
| **FEP** | 0 | 0 | 38,784,169 | | |
| | | | | | |
| **Total** | 0 | 0 | 1,285,226,181 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
**DC**
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 40,416,121 | 907,091 | 41,323,212 |
| General Administrative Expenses | 172,398,463 | 1,119,696 | 173,518,159 |

Claims Adjustment Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 3,156,911 |
| MD & VA | 37,259,210 |
| **Non-FEP** | 40,416,121 |

General Administrative Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 15,698,108 |
| MD & VA | 156,700,355 |
| **Non-FEP** | 172,398,463 |

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR | Premium Earned | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 104,200,703 | 0 | 104,200,703 | 104,200,703 | | | 104,200,703 |
| MD | 805,611,193 | 0 | 805,611,193 | 805,611,193 | | | 805,611,193 |
| VA | 104,045,486 | 0 | 104,045,486 | 104,045,486 | | | 104,045,486 |
| **Subtotal MD/VA** | 909,656,679 | 0 | 909,656,679 | 909,656,679 | 0 | 0 | 909,656,679 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **Non-FEP** | 1,013,857,382 | 0 | 1,013,857,382 | 1,013,857,382 | 0 | 0 | 1,013,857,382 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 30,238,331 | 0 | 30,238,331 | 30,238,331 | | | 30,238,331 |
| MD | 0 | 0 | | 0 | | | 0 |
| VA | 0 | 0 | | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 30,238,331 | 0 | 30,238,331 | 30,238,331 | 0 | 0 | 30,238,331 |
| | | | | | | | |
| **Total** | 1,044,095,713 | 0 | 1,044,095,713 | 1,044,095,713 | 0 | 0 | 1,044,095,713 |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 65,214,601 | | 65,214,601 | 65,214,601 | 0 |
| MD | 657,069,916 | | 657,069,916 | 0 | 657,069,916 |
| VA | 76,478,262 | | 76,478,262 | 0 | 76,478,262 |
| **Subtotal MD/VA** | 733,548,178 | 0 | 733,548,178 | 0 | **733,548,178** |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | 0 |
| **Non-FEP** | 798,762,779 | 0 | 798,762,779 | **65,214,601** | **733,548,178** |
| | | | | | |
| ***FEP*** | | | | | |
| **DC** | 30,713,184 | | 30,713,184 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | | | | | |
| **FEP** | 30,713,184 | 0 | 30,713,184 | | |
| | | | | | |
| **Total** | 829,475,963 | 0 | 829,475,963 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| *Premiums Earned* | | | | | |
| ***Non-FEP*** | | | | | |
| DC | 0 | | 104,200,703 | 104,200,703 | 0 |
| MD | 0 | | 805,611,193 | 0 | 805,611,193 |
| VA | 0 | | 104,045,486 | 0 | 104,045,486 |
| **Subtotal MD/VA** | 0 | 0 | 909,656,679 | 0 | **909,656,679** |
| Unallocated to Jurisdiction | 0 | | 0 | | 0 |
| **Non-FEP** | 0 | 0 | 1,013,857,382 | **104,200,703** | **909,656,679** |
| | | | | | |
| ***FEP*** | | | | | |
| DC | 0 | | 30,238,331 | | |
| MD | 0 | | 0 | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | 0 | | |
| **FEP** | 0 | 0 | 30,238,331 | | |
| | | | | | |
| **Total** | 0 | 0 | 1,044,095,713 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
**DC**
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 40,880,058 | 1,002,908 | 41,882,966 |
| General Administrative Expenses | 135,012,977 | 1,207,830 | 136,220,807 |

Claims Adjustment Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 3,337,633 |
| MD & VA | 37,542,425 |
| **Non-FEP** | 40,880,058 |

General Administrative Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 13,876,160 |
| MD & VA | 121,136,817 |
| **Non-FEP** | 135,012,977 |

*Claims Adjustment and General Administra*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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| | State Exhibit | | | Underwriting & Investment Exhibit | | | |
|---|---|---|---|---|---|---|---|
| *Premiums Earned* | Direct Business | Change in UPR / Misc. Difference | Premium Earned | Direct Business | Misc. Difference | Reinsurance | Net Premium Income |
| ***Non-FEP*** | | | | | | | |
| DC | 98,971,636 | 97,089 | 99,068,725 | 98,971,636 | | | 98,971,636 |
| MD | 574,938,515 | 0 | 574,938,515 | 574,938,515 | | | 574,938,515 |
| VA | 101,274,916 | 0 | 101,274,916 | 101,274,916 | | | 101,274,916 |
| **Subtotal MD/VA** | 676,213,431 | 0 | 676,213,431 | 676,213,431 | 0 | 0 | 676,213,431 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **Non-FEP** | 775,185,067 | 97,089 | 775,282,156 | 775,185,067 | 0 | 0 | 775,185,067 |
| | | | | | | | |
| ***FEP*** | | | | | | | |
| DC | 43,288,659 | 468,807 | 43,757,466 | 43,288,659 | 468,807 | | 43,757,466 |
| MD | 0 | 0 | 0 | 0 | | | 0 |
| VA | 0 | 0 | 0 | 0 | | | 0 |
| **Subtotal MD/VA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated to Jurisdiction | 0 | 0 | 0 | 0 | | | 0 |
| **FEP** | 43,288,659 | 468,807 | 43,757,466 | 43,288,659 | 468,807 | 0 | 43,757,466 |
| | | | | | | | |
| **Total** | 818,473,726 | 565,896 | 819,039,622 | 818,473,726 | 468,807 | 0 | 818,942,533 |

*Note: Adjusted for apparent error in MD amount reported on Schedule T; FEP agrees to U/W Exhibit.*

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Incurred for HealthCare Services (Claims)* | State Exhibits | Reinsurance Recoveries | Claims Incurred | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 59,861,467 | | 59,861,467 | 59,861,467 | 0 |
| MD | 454,332,238 | | 454,332,238 | 0 | 454,332,238 |
| VA | 75,279,399 | | 75,279,399 | 0 | 75,279,399 |
| **Subtotal MD/VA** | 529,611,637 | 0 | 529,611,637 | 0 | **529,611,637** |
| Unallocated to Jurisdiction | 0 | (23,931) | (23,931) | 0 | (23,931) |
| **Non-FEP** | 589,473,104 | (23,931) | 589,449,173 | **59,861,467** | **529,587,706** |
| | | | | | |
| ***FEP*** | | | | | |
| **DC** | 32,871,429 | | 32,871,429 | | |
| MD | (60,418) | | (60,418) | | |
| VA | 0 | | 0 | | |
| **Subtotal MD/VA** | (60,418) | 0 | (60,418) | | |
| Unallocated to Jurisdiction | | | | | |
| **FEP** | 32,811,011 | 0 | 32,811,011 | | |
| | | | | | |
| **Total** | 622,284,115 | (23,931) | 622,260,184 | | |

| | Statement of Revenues and Expenses | | | Shaw Methodology | |
|---|---|---|---|---|---|
| *Premiums Earned* | Change in UPR | Write-Ins | Total Revenues | DC | VA/MD |
| ***Non-FEP*** | | | | | |
| DC | 97,089 | | 99,068,725 | 99,068,725 | 0 |
| MD | | | 574,938,515 | 0 | 574,938,515 |
| VA | | | 101,274,916 | 0 | 101,274,916 |
| **Subtotal MD/VA** | 0 | 0 | 676,213,431 | 0 | **676,213,431** |
| Unallocated to Jurisdiction | 0 | | 0 | | 0 |
| **Non-FEP** | 97,089 | 0 | 775,282,156 | **99,068,725** | **676,213,431** |
| | | | | | |
| ***FEP*** | | | | | |
| DC | | | 43,757,466 | | |
| MD | | | 0 | | |
| VA | | | 0 | | |
| **Subtotal MD/VA** | 0 | 0 | 0 | | |
| Unallocated to Jurisdiction | 0 | | 0 | | |
| **FEP** | 0 | 0 | 43,757,466 | | |
| | | | | | |
| **Total** | 97,089 | 0 | 819,039,622 | | |

*Incurred for HealthCare Services (Claims)*
***Non-FEP***
DC
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**Non-FEP**

***FEP***
**DC**
MD
VA
**Subtotal MD/VA**
Unallocated to Jurisdiction
**FEP**

**Total**

*Claims Adjustment and General Administrative Exp per Statement of Revenues and Expenses*

| | Non-FEP | FEP | Total |
|---|---|---|---|
| Claims Adjustment Expenses | 34,340,942 | 762,764 | 35,103,706 |
| General Administrative Expenses | 94,153,731 | 2,091,297 | 96,245,028 |

Claims Adjustment Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 3,487,492 |
| MD & VA | 30,853,450 |
| **Non-FEP** | 34,340,942 |

General Administrative Expenses

| | |
|---|---|
| ***Non-FEP*** | |
| DC | 12,031,349 |
| MD & VA | 82,122,382 |
| **Non-FEP** | 94,153,731 |

*Claims Adjustment and General Administrat*

Claims Adjustment Expenses
General Administrative Expenses

Claims Adjustment Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

General Administrative Expenses
***Non-FEP***
DC
MD & VA
**Non-FEP**

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# EXHIBIT 2

ACT OF AUGUST 11, 1939,
CH. 698, 53 STAT. 1412

as amended by

ACT OF OCTOBER 17, 1984,
PUB. L. NO. 98-493, 98 STAT. 2272,

ACT OF OCTOBER 5, 1992,
PUB. L. NO. 102-382, § 137, 106 STAT. 1442,

ACT OF OCTOBER 29, 1993,
PUB. L. NO. 103-127, § 138, 107 STAT. 1336

ACT OF DECEMBER 16, 1997,
PUB. L NO. 105-149, 111 STAT. 2684

and

ACT OF DECEMBER 18, 2015
PUB. L. NO. 114-113, 129 STAT. 2242



# GROUP HOSPITALIZATION AND MEDICAL SERVICES, INC.

## CHARTER

Certification of Charter
Group Hospitalization and Medical Services, Inc.

I hereby certify that the document attached hereto, consisting of two pages, and providing for the incorporation of certain persons as Group Hospitalization and Medical Services, Inc. is a true and accurate copy of the Charter issued to Group Hospitalization and Medical Services, Inc. pursuant to an Act of Congress, approved August 11, 1939, as amended October 17, 1984, October 5, 1992, October 29, 1993, December 16, 1997, and December 18, 2015, by Acts of Congress. There are no further amendments to this Charter.

Date: 3-9-2016

By: _____
Meryl D. Burgin
General Counsel and Secretary
Group Hospitalization and
Medical Services, Inc.

# AN ACT

*Providing for the incorporation of certain persons as Group Hospitalization and Medical Services, Inc.*

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That Arthur C. Christie, doctor of medicine; Major General Charles R. Reynolds; Mrs. Joshua Evans, Junior; Joseph H, Himes; General Frank T. Hines; Frank R. Jelleff; Howard W. Kacy; Mark Lansburgh; Admiral Ross T. McIntire; George H. O'Connor; Sidney F. Taliaferro; Charles S. White, doctor of medicine; Roger J. Whiteford; Thomas W. Brahany; and E. Barrett Prettyman, and their successors to be selected in the manner hereinafter declared, be, and they hereby are, incorporated and made a body politic and corporate, by the name of "Group Hospitalization and Medical Services, Inc.", and by that name may contract and be contracted with, sue and be sued, plead and be impleaded in any court of law or equity of competent jurisdiction, and may have and use a common seal. The District of Columbia shall be the legal domicile of the corporation.

**SEC. 2.** Said corporation is hereby authorized and empowered (a) to enter into contracts with individuals or groups of individuals to provide for hospitalization and medical care of such individuals, upon payment of specified rates or premiums, and to issue to such individuals appropriate certificates evidencing such contracts; (b) to enter into contracts with hospitals and other providers for the care and treatment of such individuals, in accordance with the terms of such certificates; (c) to cooperate, consolidate, or contract with individuals, groups, or organizations interested in promoting and safeguarding the public health; and (d) to engage in any lawful business that is incidental to or supportive of the business and affairs of this corporation.

**SEC. 3.** Said corporation shall not be conducted for profit, but shall be conducted for the benefit of the aforesaid certificate holders. The business and affairs of this corporation shall be conducted by its board of trustees, who shall have full power and authority in the premises, including authority to provide for all expenses incident to the conduct and management of its business and affairs. The number of trustees, their terms of office, and the manner in which they may be elected shall be fixed by the bylaws.

**SEC. 4.** The first board of trustees shall meet within ten days after the approval of this Act and elect a president, vice president, secretary and treasurer, and from time to time such additional officers as the bylaws may provide, and also transact such other business as may properly come before them, including the preparation for approval, from time to time, of the necessary bylaws for the proper conduct of the corporation. The treasurer shall give bond to the corporation with sufficient surety, in such penalty as the trustees determine, for the faithful discharge of his duty. Thereafter the meetings of the trustees shall be held at such time and place as provided in the bylaws. In case of vacancy in the board of trustees caused otherwise than by expiration of term of office, such vacancy shall be filled by the remaining trustees for the unexpired term of such former trustee.

**SEC. 5.** The corporation shall be licensed and regulated by the District of Columbia in accordance with the laws and regulations of the District of Columbia.

**SEC. 6.** The funds of this company may be invested only in securities in which the funds of insurance companies may be invested, as provided by the laws of the District of Columbia.

**SEC. 7.** The corporation shall reimburse the District of Columbia for the costs of insurance regulation (including financial and market conduct examinations) of the corporation and its affiliates and subsidiaries by the District of Columbia.

**SEC. 8.** This corporation is hereby declared to be a charitable and benevolent institution, and all of its funds and property shall be exempt from taxation other than taxes on real estate and unemployment compensation.

**SEC. 9.** The corporation is hereby authorized and empowered to take over, carry out, and assume all contracts, obligations, assets, and liabilities of a corporation heretofore organized and now doing business in the District of Columbia under the name of Group Hospitalization, Inc.

**SEC. 10.** The corporation may have 1 class of members, consisting of at least 1 member and not more than 30 members, as determined appropriate by the board of trustees. The bylaws for the corporation shall prescribe the designation of such class as well as the rights, privileges and qualifications of such class, which may include, but shall not be limited to – (1) the manner of election, appointment or removal of a member of the corporation; (2) matters on which a member of the corporation has the right to vote; and (3) meeting, notice, quorum, voting and proxy requirements and procedures. If a member of the corporation is a corporation, such member shall be a nonprofit corporation.

**SEC. 11.** The surplus of the corporation is for the benefit and protection of all of its certificate holders and shall be available for the satisfaction of all obligations of the corporation regardless of the jurisdiction in which such surplus originated or such obligations arise. The corporation shall not divide, attribute, distribute, or reduce its surplus pursuant to any statute, regulation, or order of any jurisdiction without the express agreement of the District of Columbia, Maryland, and Virginia--(1) that the entire surplus of the corporation is excessive; and (2) to any plan for reduction or distribution of surplus.[1]

**SEC. 12.** This Act may be altered, amended, or repealed at the pleasure of the Congress of the United States of America. The corporation may not be dissolved without approval by Congress.

Approved August 11, 1939; amended on October 17, 1984, October 5, 1992, October 29, 1993, December 16, 1997, and December 18, 2015.

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[1] Section 747(b) of the Financial Services and General Government Appropriations Act, 2016, enacted as part of the Act of December 18, 2015, Pub. L. No. 114-113, 129 Stat. 2242, states "[t]he amendments made by subsection (a) shall apply with respect to the surplus of Group Hospitalization and Medical Services, Inc. for any year after 2011."

# EXHIBIT 3

Milliman

# Group Hospitalization and Medical Services, Inc.

## Milliman Response to June 10, 2014 Reports by D.C. Appleseed and Mark E. Shaw, FSA, MAAA, CERA, FLMI

November 6, 2014

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# Group Hospitalization and Medical Services, Inc.

## Milliman Response to June 10, 2014 Reports by D.C. Appleseed and Mark E. Shaw

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November 6, 2014

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# Background and Introduction

This report has been prepared by Milliman for Group Hospitalization and Medical Services, Inc. (GHMSI) and is submitted in connection with proceedings before the District of Columbia Department of Insurance Securities and Banking (DISB) to review GHMSI's 2011 year-end surplus. This report responds to several analyses advanced by Mark E. Shaw of United Health Actuarial Services, Inc., and arguments raised by D.C. Appleseed, in reports filed with DISB on June 10, 2014[1] and at a June 25, 2014 hearing before the D.C. Insurance Commissioner.

Section I responds to two arguments raised by D.C. Appleseed. First, D.C. Appleseed has no reasonable basis to advocate for a 90% confidence level, when used with the 200% RBC-ACL threshold. As we address below in Section I.A., we find that the use of a 98% confidence level is reasonable, financially sound, and widespread in the insurance industry, and that the use of a 90% confidence level would not be consistent with financial soundness. Second, D.C. Appleseed is wrong when it seeks to minimize the consequences to GHMSI if its surplus were to fall below 200% of RBC-ACL. As we address in Section II.A, the consequences to GHMSI of falling below 200% of RBC-ACL would be catastrophic.

Section II responds to various errors, inaccuracies, and misstatements by Mr. Shaw. Mr. Shaw proposes "adjustments" to the surplus targets developed by Milliman and by Rector that, taken together with Appleseed's proposals, produce a surplus target as low as 205% of RBC-ACL. That result on its face discredits Mr. Shaw's work. Mr. Shaw also asserts that GHMSI's target surplus could be reduced by an additional $153 million[2], which equates to a further reduction of approximately 150% of RBC-ACL, in recognition of purported "inefficiencies" reflected in GHMSI's administrative expense levels. The net effect of Mr. Shaw's adjustments, and the confidence level advocated by D.C. Appleseed, would therefore produce a surplus target of approximately 55% of RBC-ACL – far below the NAIC Authorized Control Level of 100%. Such a position is clearly beyond any level of reasonable consideration.

We assert that Mr. Shaw's criticisms, assumptions, and conclusions regarding Milliman's analysis and results are inaccurate and without foundation – apparently reflecting either incorrect understandings or simply being actuarially unsound – and that his report is grossly misleading. In Section II of this report we address Mr. Shaw's allegations and describe many of his errors and misstatements.

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[1] D.C. Appleseed, *Report to the D.C. Department of Insurance, Securities and Banking: Surplus Review of Group Hospitalization and Medical Services, Inc.* dated June 10, 2014 (hereinafter *"D.C. Appleseed"*), and Mark E. Shaw, FSA, MAAA, CERA, FLMI, *Report to the D.C. Department of Insurance, Securities and Banking; Group Hospitalization and Medical Services Inc.; MIEAA Surplus Review* dated June 10, 2014, (hereinafter *"Shaw"*), *available at* http://disb.dc.gov/node 844192.

[2] *Shaw*, Page 37.

# I. Comments on D.C. Appleseed Report of June 10, 2014

## A. D.C. Appleseed's Contention that a Confidence Level of 90% is Consistent with Financial Soundness

D.C. Appleseed proposes in its June 10, 2014 report that the Commissioner should adopt an analysis giving GHMSI only 90% confidence of remaining above 200% RBC-ACL, as follows: ***"... as Rector says, 'although the health RBC formula was not originally calibrated to achieve specific confidence levels with respect to the entire formula or individual risk factors, certain risk factors were developed on the basis of a 90% to 95% confidence level.' This confirms that confidence levels in the 90% to 95% range have industry support. Given that those levels were assigned even in the absence of a command to maximize community reinvestment, a 90% level is a sensible accommodation of that command and is the most reasonable level..."***[3]

D.C. Appleseed concludes that a 90% confidence level, for use in developing a surplus target for GHMSI that will prevent the company from dropping below 200% of RBC-ACL, is consistent with financial soundness. D.C. Appleseed appears to draw this conclusion by asserting that there is "industry support" for a 90% confidence level, based on the quote from Rector's report[4], which was taken from the Report of the American Academy of Actuaries (AAA) to the NAIC Capital Adequacy (E) Task Force dated January 31, 2011[5]. This conclusion and its apparent basis are simply unfounded and incorrect.

As the Rector quote states[6], the health RBC formula was not originally calibrated to achieve specific confidence levels with respect to the entire formula or even to individual risk factors identified in the formula. Instead, only certain very specific components that go into some of the individual risk factors were developed in such a way that they had a statistical foundation which supported the identification of a 90-95% confidence level for that specific component alone. Other specific components that go into the various individual risk factors had no specific confidence levels established, neither 90-95% nor any other level; and the entire formula had no specific confidence level established.

The cited AAA report states that ***"The Work Group's research has not discovered any intended or expected safety levels for RBC in aggregate for the original Health RBC formula or any***

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[3] *D.C. Appleseed*, Page 17.

[4] Rector & Associates, Inc., *Report to the D.C. Department of Insurance, Securities and Banking Group Hospitalization And Medical Services, Inc.*, report dated December 9, 2013, Page 13, Footnote 21 (hereinafter *"Rector"), available at* http://disb.dc.gov/node 756762.

[5] American Academy of Actuaries, report to Capital Adequacy (E) Task Force, National Association of Insurance Commissioners; January 31, 2011 (hereinafter *"AAA"*), *available at* http://www.actuary.org/pdf/life/American_Academy_of_Actuaries_SMI_RBC-Report.pdf.

[6] *Rector,* Page 13, Footnote 21.

***safety level calibrations underlying individual risk factors within the current formulas."***[7] The meaning of this quotation is clear: there is no finding that the RBC formula was calibrated to achieve specific confidence levels.

The fact that certain components are indicated to have been developed on the basis of a 90% to 95% confidence level is a statement of fact regarding the statistical characteristics of the development of some of the factors involved. It is not an indication of industry support or endorsement regarding the appropriateness of such a range for any particular purpose. To conclude that the cited AAA report conveys actuarial or NAIC regulatory endorsement for a specific application – development of a surplus target for GHMSI or otherwise – is completely unfounded and incorrect.

The implications of GHMSI having a surplus level that drops below the level of 200% of RBC-ACL are severe, as discussed in the subsection below. That is why it is paramount to assure financial soundness at a high degree of confidence. D.C. Appleseed's proposed confidence level permits an excessive level of risk – under its approach, the Company would have a 1 in 10 chance of falling below 200% RBC-ACL. In other words, one could expect that GHMSI's surplus would fall below 200% RBC-ACL, triggering regulatory supervision and potential loss of the BlueCross BlueShield trademarks, once every ten years. Such a risk is exceedingly high and not financially sound. By contrast, this adverse result would be expected to occur every 50 years using a 98% confidence level, which is the confidence level used by Milliman and Rector in their respective analyses.

No actuary in this proceeding has supported use of a 90% confidence level to assess GHMSI's likelihood of remaining above 200% RBC-ACL. By contrast, there has been wide support among other actuaries who have reviewed GHMSI's surplus – including Mark Shaw in connection with this very proceeding[8] – for a confidence level of 98%. During a January 2013 meeting at DISB's offices – and in subsequent correspondence – both Mr. Shaw and representatives of D.C. Appleseed agreed that 98% was the appropriate confidence level for assessing GHMSI's likelihood of remaining above 200% RBC-ACL. In addition, Walter Smith of D.C. Appleseed has stated, with respect to the use of a standard involving *". . . a surplus that avoids falling below 200% RBC with 98% confidence. . .,"* that *"It seems to us that this is sufficient to protect soundness and efficiency, both as a matter of actuarial soundness, as well as under the MIEAA standard."*[9]

The State of Maryland has also endorsed a 98% confidence level. In its 2012 Consent Order, it adopted the analysis of its consultant, RSM McGladrey, Inc., which approved a 98% confidence metric as reasonable.

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[7] *AAA*, page 48

[8] Letter from Mark Shaw to Walter Smith, dated April 12, 2012, Page 5, *available at* http://disb.dc.gov/node/311282; and Letter from Mark Shaw to Walter Smith, dated January 18, 2013, Page 4, *available at* http://disb.dc.gov/node/850492

[9] Letter from Walter Smith to Sarah Schroeder, dated January 18, 2013, Page 4, *available at* http://disb.dc.gov/node/850492

Those conclusions comport with other analogous data points in the industry. To take just one example, under the Standard & Poor's Rating Services' risk-based capital (RBC) adequacy model for insurers, a 99.4% confidence level is required for A ratings, 99.7% for AA, and 99.9% for AAA. In other words, under the S&P rating system a confidence level of at least 99% is required to avoid dropping to a BBB or lower rating. Furthermore, a 90% confidence level would equate to junk status under the S&P rating system. The Standard & Poor's confidence levels are somewhat higher than the 98% confidence level used by Milliman and Rector for GHMSI, and are clearly incompatible with the 90% recommended by D.C. Appleseed.

Further, Milliman consulting actuaries in the life, health, and casualty insurance sectors have observed that the use of a 99% confidence level in capitalization (surplus) and enterprise risk management development work is widespread in the industry. In developing a target surplus level for GHMSI, we find that the use of a confidence level as high as 98% is reasonable, financially sound, and widely accepted in the insurance industry, and that the use of a 90% confidence level would not be consistent with financial soundness.

## B. D.C. Appleseed Comments on Prospects for and Consequences of Falling Below 200% of RBC-ACL

D.C. Appleseed takes issue with the significance of the 200% RBC-ACL threshold, stating that BCBSA would not act to terminate GHMSI's license if GHMSI fell below that level: ***"BCBSA maintains various capital requirements because it and its members consider a failure by any licensee to reduce the credibility of the Blues brand for all licensees. However, termination of the Blues mark requires a supermajority vote of three-fourths of other Blues licensees . . . . Such a vote would bring about the result that the BCBSA and its licensees seek to avoid, i.e., reducing the credibility of the Blues brand. The vote would be self-defeating unless the licensee in question, in addition to having fallen below 200%, had no reasonable prospect of regaining its footing."***[10] ***"And, the likelihood is low that supermajorities of BCBSA licensees would vote to withdraw GHMSI's license to use the Blues marks."***[11]

D.C. Appleseed, however, provides no support for its assertion, which appears to be unfounded. The BCBSA has maintained capital benchmarks and minimum surplus requirements for many years, substantially pre-dating the development and adoption of RBC as the basis for its standards. The reasons are not only the "credibility of the Blues brand" as cited by D.C. Appleseed, but also because of the risk of liability to all other Blues entities if one member plan becomes insolvent.

In this regard, BCBSA has informed Commissioner McPherson in its letter dated June 24, 2014[12] that *"If a Plan's HRBC ratio were to fall below 200 percent, BCBSA's Board of Directors (composed of the CEO's of all 37 Plans and BCBSA) would immediately commence actions to terminate that company's license to use the Blue Brands. BCBSA intentionally set its minimum capital requirement at the same point as the highest of the four Levels of Action under the NAIC''s Risk-Based Capital Model Act."*

Thus, D.C. Appleseed's argument about the lack of seriousness of BCBSA and its member licensees regarding the loss of trademark threshold and the severity of the consequences should GHMSI fail to meet licensure requirements is without merit. More broadly, D.C. Appleseed's argument that falling below 200% RBC-ACL would not entail serious consequences for GHMSI is baseless and unsupported by any evidence.

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[10] *D.C. Appleseed,* Page 12.

[11] *D.C. Appleseed,* Page 15.

[12] Letter from Scott B. Serota, President and Chief Executive Officer, BlueCross BlueShield Association, to The Honorable Chester A. McPherson, Interim Insurance Commissioner, DISB, dated June 24, 2014, *available at* http://disb.dc.gov/node/853782.

# II. Comments on Mark Shaw Report of June 10, 2014

## A. Rating Adequacy and Fluctuation

The surplus target analyses undertaken by Milliman and Rector & Associates ("Rector") incorporate assumptions regarding risks associated directly with rating adequacy and fluctuation. These assumptions, in the form of probability distributions, were appropriately developed and reflect the manner in which rating assumptions were incorporated in our pro forma modeling approach. In addition, Milliman's approach directly reflects the potential impact of the ACA on rating adequacy and fluctuation.

Mr. Shaw has taken a completely different and more highly aggregated approach to evaluating the combination of the risk of rating adequacy and fluctuation and a number of other unspecified variables. His conclusions are based on an approach that is indirect, potentially biased, and of limited (if any) applicability to GHMSI and therefore should be disregarded.

Mr. Shaw's assertion that the surplus target established by Rector should be reduced by $193 million, based on the alternate assumptions that he has proposed, is unfounded.

### Comparison of Approaches

In choosing his assumptions for rating adequacy and fluctuation, Mr. Shaw has chosen to tabulate underwriting results from a disparate group of health plans as a "proxy" which he attempts to extend to GHMSI. For this proxy, he uses the underwriting results reported by a handpicked group of 10 companies reflecting varying corporate structures, conducting business in different markets, offering a different mix of products, and operating under widely varying practices and circumstances (some of the problematic issues with his analysis are addressed in a subsequent section below); therefore, Mr. Shaw's approach relies on indirect inferences and is potentially biased in any applicability to rating adequacy and fluctuation for GHMSI.

By utilizing reported underwriting results he does not measure rating adequacy and fluctuation, which in turn serves to obscure and may materially distort an assessment of this important variable. Historical underwriting results as measured from the statutory statements of health insurance companies are subject to numerous structural, operating, and accounting differences which significantly affect gross comparisons among companies. For example, premium taxes and fees often vary by state. Corporate business structures and practices – such as the use of subsidiaries versus lines of business for different types of health care plans and products; owning versus leasing of plant, equipment, and technology; and direct provision of services versus contracting for or purchasing such capabilities – severely distort broad-based comparisons among companies. The relative magnitude and accounting treatment of self-funded or ASC groups and of the "other income/expense" category in a particular company's

statutory reporting can vary greatly among companies. The existence, magnitude, and reporting of community investment and charitable expenditures may differ significantly among companies. All of these types of differences, when not addressed in detail, serve to distort gross comparisons of reported underwriting results among companies.

Further, Mr. Shaw's approach of simply making a gross comparison among disparate companies does not enable the direct recognition of GHMSI's business characteristics or rating processes, or the market constraints under which the company operates. These include pricing margins, as well as the mix of product lines and the characteristics unique to each, such as regulatory restrictions on pricing or average rating lag (i.e., time lag between historical experience and rate effective period). It also does not allow for appropriate recognition of the impact of changes to the rating process resulting from the ACA. Further, he limited his analysis of these companies to the period from 2002 to 2013, apparently selecting the time period most favorable to his argument.

Overall, we believe that it cannot be reasonably assumed that the many factors affecting underwriting results at a handful of selected companies – factors such as pricing practices, regulatory restrictions, marketing strategy, mix of products, healthcare delivery networks and competitive environments, and state and local taxes and fees – are sufficiently consistent with those of GHMSI to justify the use of these results to assess surplus requirements for GHMSI. In addition, there are a number of specific problems with the information relied upon by Mr. Shaw in his development of particular assumptions, including the choice of companies to represent "peers" of GHMSI, and the potential for inconsistencies in the tabulated data, as discussed further below.

Milliman and Rector, by contrast, evaluated directly the various underlying elements affecting rating adequacy and fluctuation. The methodological approaches taken by Milliman and Rector to evaluate the rating adequacy and fluctuation risk are comparable (albeit with certain differences in specific assumptions made by each firm). The remainder of this section will focus on this common methodology as employed by Milliman.

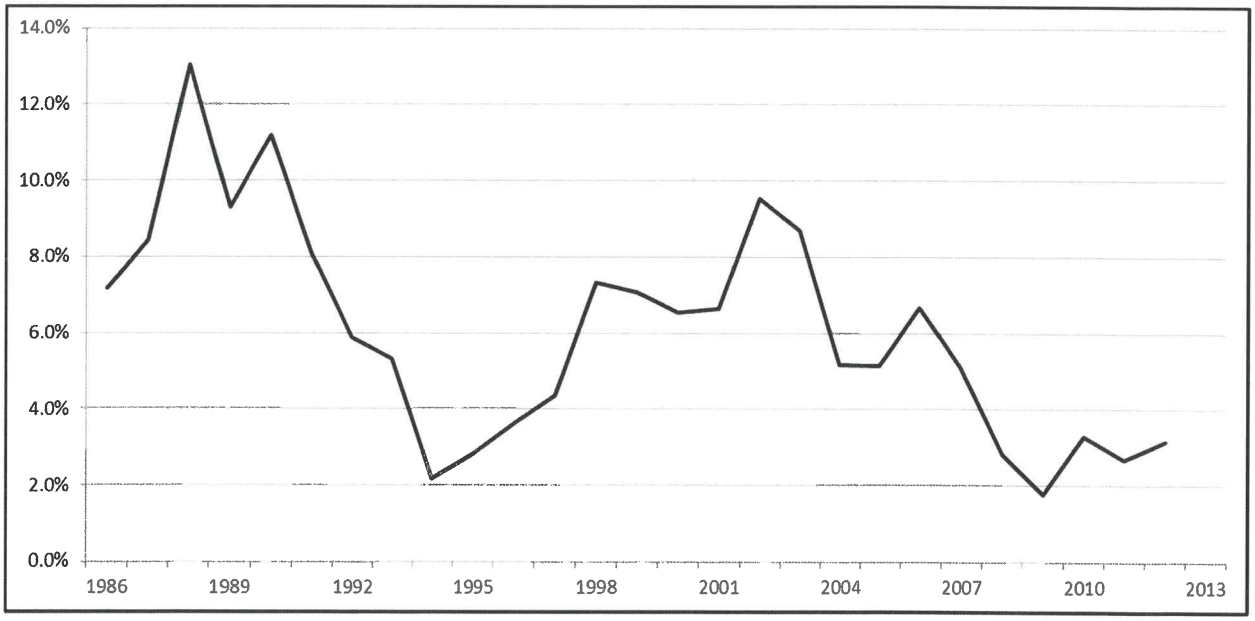
In contrast to Mr. Shaw's arbitrary selection of 10 companies, which involved using underwriting gain/loss percentages from statutory filings for each of the companies for a specific period of 12 years, Milliman's approach simulates GHMSI's rating processes using a large universe of health care costs (nationwide health expenditures for the non-Medicare population), measured over an extended period of time (from 1986 through 2010). This approach focused directly on measuring rating adequacy and fluctuations, using GHMSI's rating approaches applied to a data set of health care cost variations that represents a diverse range of potential circumstances. From these data we have measured the inherent underlying fluctuation in cost levels, net of underlying medical care inflation, that characterizes the commercial health care marketplace. We then simulated GHMSI's rating process in order to observe the impact of fluctuations in health care costs on rating, and the resulting range of experience patterns (gains and losses) that emerge.

## Foundation for Milliman's Rating Fluctuation Assumptions

As described above, Milliman simulated GHMSI's rating processes for its major business segments using a stochastic process for developing claim costs underlying the simulation of the company's rating processes. The claim costs used in this process were generated from a probability distribution, reflecting the period-to-period fluctuations that could reasonably be expected to arise based on historical experience. We used a large universe of health care costs (nationwide health expenditures for the non-Medicare population), measured over an extended period of time, in order to represent a diverse range of potential circumstances. The data used were adjusted to remove the effects of underlying medical care inflation (which was addressed as a separate rating parameter).

Chart A-1 below presents data representing the non-Medicare component of the National Health Expenditures (NHE)[13] for the period from 1986 to 2012. It indicates the pattern of annual changes, or trends, in the per capita health care expenditures throughout this time, illustrating the degree of trend variation that has occurred.

**Chart A-1**
**National Healthcare Expenditures (NHE) Per Capita Expenditure Excluding Medicare: Annual Trend Observations**

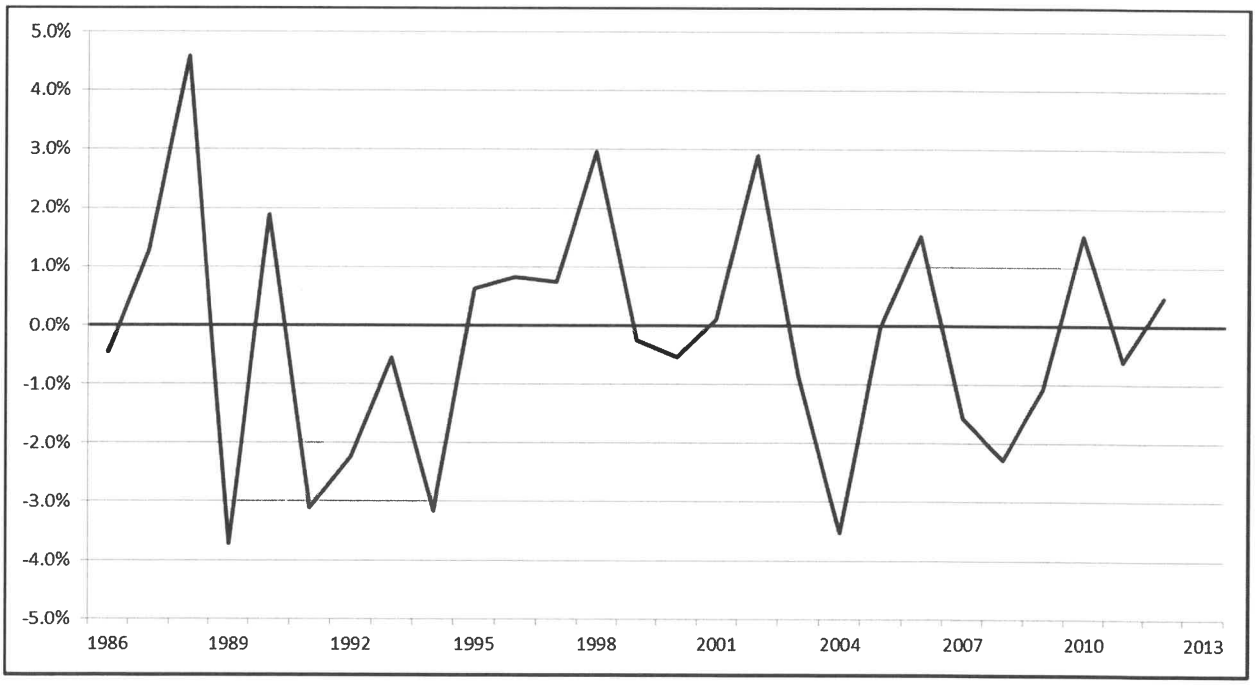



[13] See description at: http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html?redirect=/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp
Non-Medicare expenditures were based on Medicare data as reported in the NHE data, as well as estimates of beneficiary copayment amounts.

The patterns in this chart highlight the volatility in health care cost levels and the resulting uncertainty associated with predicting trends and future cost levels. One consequence of this sort of pattern is that health insurers tend to under-estimate future premium levels needed during periods when trends are rising, thereby tending to produce losses; and conversely, they tend to over-estimate future premium levels needed during period when trends are falling, thereby tending to produce gains. The overall decline in trend rates during recent time periods explains, at least in part, why health insurer underwriting results have tended to be more favorable than normal during the last few years.

Chart A-2 displays the year over year change in observed per capita trends from Chart A-1.

**Chart A-2**
**National Healthcare Expenditures (NHE) Per Capita Expenditure Excluding Medicare: Year Over Year Change in Observed Trends**




The approach that Milliman followed in developing our assumptions related to rating adequacy and fluctuation was to measure fluctuations in historical health costs using a proprietary index that produces results similar to those of the non-Medicare NHE tabulations presented above. In addition, we considered other sources of fluctuation that affect underwriting results. We also incorporated in our modeling of this impact the potential effects of the medical loss ratio (MLR) provisions and the effects of regulatory review, including delay of rate increases, under health care reform.

This approach, which considers the range of factors that contribute to the risk that actual claims and expenses differ from the amounts for which provision is made in premium rates, is an appropriate basis for evaluation of GHMSI's surplus target.

## Problems with Mr. Shaw's Application of His Approach

It is our opinion that the approach that Mr. Shaw has taken in establishing assumptions related to rating adequacy and fluctuation, relying on results for an arbitrary selection of companies, is not appropriate. In addition to the fact that his approach does not address rating adequacy and fluctuation directly, Mr. Shaw's approach is highly sensitive to the particular set of companies and the specific time period for measurement selected.

Mr. Shaw describes his selection of companies and time period for measurement as follows: ***"To establish an appropriate peer group for rating adequacy, we selected the 10 Blue Cross Blue Shield Plans most comparable to GHMSI in non-FEP premium revenue in the 2000's"***[14], and goes on to say: "***We sourced the Annual Statements for each of the peers for the 12-year period from 2002–2013 and for GHMSI for the 15-year period from 1999–2013, and used the underwriting gain/loss for each company in each time period as the historical proxy for rating adequacy."***[15]

Our first observation is that Mr. Shaw did not, in fact, select the 10 Blue Cross Blue Shield Plans most comparable to GHMSI in non-FEP premium revenue in the 2000's as he asserts in the above statement from his report. His analysis includes other problems as well; for example, in one instance he has misidentified a Blue Plan subsidiary as the company itself; and in no instance has he included ownership interests in health insuring subsidiaries and affiliates (i.e., the parent Blue Cross Blue Shield Plan plus its subsidiaries and owned affiliates).

While Mr. Shaw referenced the Invotex report as a source for some of the companies that he selected[16], there were two companies identified by Invotex that Mr. Shaw chose not to include. Those two companies experienced net underwriting losses overall during the 2002-2013 time period that Mr. Shaw selected, while each of the companies that he did include experienced overall net gains during that period. Mr. Shaw makes no effort to explain why other companies were excluded from his analysis.

In order to illustrate the significance of the particular set of companies selected, we have tabulated data for a different set of 10 companies. We selected the 10 non-profit BCBS plans (generally the primary licensee[17]) closest in size to GHMSI based on average reported non-FEP

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[14] *Shaw,* Page 9.

[15] *Shaw*, Page 10.

[16] *Shaw*, Page 9, footnote 21.

[17] This analysis was based on data for BCBS primary licensees, with the exception of certain Pennsylvania plans (Independence Blue Cross, Capital Blue Cross, and Blue Cross of Northeastern Pennsylvania) for which the majority of the company's indemnity (non-HMO) business is underwritten by a subsidiary; in those instances the larger subsidiaries, rather than the primary licensees, were considered.

premium revenue for the period of 2002 to 2013. This is the same period and stated criteria as indicated by Mr. Shaw; however, we excluded any for-profit BCBS Plans due to their fundamentally different control, expense, and capitalization structures. We did not include health insuring affiliates and subsidiaries, although we would have done so if we were to use the results for any meaningful analysis.

Chart A-3 summarizes the average premium amounts for these 10 companies, along with the same information for the companies actually selected by Mr. Shaw. Only one company among those in Mr. Shaw's group meets our criteria in terms of size and non-profit status. We observe that Mr. Shaw's list has a clear bias toward Blue Cross Blue Shield Plans that are larger than GHMSI, and therefore likely to exhibit less volatility in their underwriting results.

## Chart A-3
## Summary of Reported Non-FEP Premium Revenue for 2002-2013[1]
## For Selected Blue Cross Blue Shield Reporting Entities

| Reporting Entities Similar in Size to GHMSI[2] | | Reporting Entities Included in Shaw Analysis | |
|---|---|---|---|
| **Company Name** | **Average Annual Premium (Millions)** | **Company Name** | **Average Annual Premium (Millions)** |
| Blue Cross & Blue Shield of RI[3] | $1,392 | QCC Insurance Co.[5] | $2,574 |
| Louisiana Hlth Svc & Indem Co. | $1,324 | Horizon Healthcare of NJ Inc.[6] | $2,502 |
| BC&BS of Kansas Inc. | $1,260 | BlueCross BlueShield of TN Inc | $2,418 |
| Blue Cross & Blue Shield of SC | $1,234 | Blue Cross Blue Shield of MN | $2,188 |
| **Grp Hospitalization & Med Svcs** | **$1,176** | Premera Blue Cross | $2,066 |
| Capital Advantage Insurance Co[4] | $1,044 | Regence BlueShield | $1,862 |
| Blue Cross & Blue Shield of NE | $938 | Regence BCBS of OR | $1,715 |
| Blue Cross Blue Shield of AZ | $911 | BC&BS of Georgia Inc. | $1,535 |
| Blue Cross Blue Shield of AR | $877 | Blue Cross & Blue Shield of RI[3] | $1,392 |
| Blue Cross of Idaho Health Svc | $856 | **Grp Hospitalization & Med Svcs** | **$1,176** |
| CareFirst of Maryland Inc. | $813 | Regence BCBS of UT | $581 |

(1) Based on data reported by SNL Financial.
(2) Includes the 10 non-profit BCBS plans closest to GHMSI in terms of average annual non-FEP premium for 2002-2013.
(3) Plan was included under both selection criteria.
(4) Subsidiary of Capital Blue Cross
(5) Subsidiary of Independence Blue Cross
(6) HMO subsidiary. This company was incorrectly identified as Horizon BCBS of New Jersey by Mr. Shaw.

Chart A-4 presents the results of a tabulation of the mean and standard deviation of 3-year underwriting gain/loss amounts for each set of companies, consistent with the calculations presented in Chart 2 on page 11 of Mr. Shaw's report. The alternative set of companies exhibits a lower mean and higher standard deviation of results than Mr. Shaw's companies. As this comparison illustrates, Mr. Shaw's approach is infinitely malleable – selection of ten different companies would lead to completely different results from those posited by him.

We note that the standard deviation of underlying gain/loss observations (12.3%) exceeds the standard deviation of the Rector rating adequacy distribution (10.7%, as shown on page 11 of Shaw Report) and the mean of the two Milliman distributions (10.6% and 13.1%). If Mr. Shaw

had used this set of companies, following his same approach in other respects, his calculations would have produced a much smaller reduction in surplus requirements.[18]

**Chart A-4**
**Summary of Reported 3-Year Underwriting Gain/Loss for Non-FEP Lines of Business**
**For the Above Reporting Entities, 2002-2013:**

| Reporting Entities Similar in Size to GHMSI | | Reporting Entities Included in Shaw Analysis | |
|---|---|---|---|
| Number of Reporting Entities | 11 | Number of Reporting Entities | 11 |
| Gain/Loss Observations(1) | 132 | Gain/Loss Observations(2) | 134 |
| Mean Gain/Loss | 8.2% | Mean Gain/Loss | 8.5% |
| Standard Deviation | 12.3% | Standard Deviation | 9.8% |

(1) Number of distinct annual underwriting gain/loss amounts reported by SNF Financial for 2002-2013.
(2) Shaw analysis included 3 additional underwriting gain/loss observations for GHMSI – for the period 1999-2001 – but not for any other reporting entity.

Beyond Mr. Shaw's failure to meet his own selection criteria, failure to combine parent and insuring subsidiaries and affiliates, and a bias toward relatively larger Plans, we note a number of problems regarding specific "peer" companies selected by Mr. Shaw. Among them are several companies of different structures and circumstances that make them poor choices for comparison to GHMSI:

- Blue Cross Blue Shield of Georgia is a for-profit company, and is part of a large and very differently structured corporation (Wellpoint).

- Data for the company that Mr. Shaw indicates as Horizon Blue Cross Blue Shield of New Jersey is actually information only for Horizon HMO, a subsidiary of BCBS of New Jersey.

- QCC is one of many subsidiaries of Independence Blue Cross.

In addition to the inappropriateness of the approach and problems with Mr. Shaw's selection of "peer" companies, the time period he selected, 2002 to 2013, was historically unprecedented in terms of the relative stability of underwriting results. Among the 10 companies that Mr. Shaw

[18] We are not proposing this alternative approach. It is still limited to a period of relatively favorable underwriting results, fails to include insuring affiliates and subsidiaries, and relies on reported statutory results that are subject to the same concerns outlined above. Rather, we point to these results as illustration of the arbitrary nature of any selection of "peer" companies.

analyzed, all but 3 experienced underwriting losses at some point in the preceding 3 years (1999-2001) and all but 1 of them in the preceding 5 years (1997-2001). Leaving such periods of loss out of the study period results in a distorted distribution of gain/loss amounts.

Over time, health insurance business in this country has been characterized by periods of external change due to factors such as changes in government policy, changing trends in the health insurance marketplace, economic developments, or changes in the practice of medicine. Despite the major restructuring of health insurance that is now beginning to take place as a result of health care reform, and that will significantly affect GHMSI's operations over the next several years, Mr. Shaw has selected as a basis for evaluation of underwriting fluctuations a period where conditions were largely favorable.

For purposes of developing a surplus target which is intended to ensure the company's financial viability, it is not appropriate to assume that this level of stability will continue in the future nor to assume that a limited sample of observed events represents the universe of potential outcomes. Even in the absence of health care reform, it is important to acknowledge and allow for the possibility that the types of experience deviations that have occurred over a longer term period, such as the period from 1986 through 2009 that underlies the assumptions in Milliman's and Rector's analyses, will recur.

## Impact of ACA

The passage of federal health care reform legislation in the form of the ACA in 2010 has resulted in significant changes in the health insurance marketplace. The effects of these changes continue to emerge with the startup of the health care exchanges and the implementation of the risk mitigation programs this year, and the ongoing evolution of the regulatory environment. GHMSI and other health plans will continue to face uncertainty and challenges over the next several years, as the effects of the various components of the law unfold.

Mr. Shaw addresses his interpretation of the expected impact of certain ACA provisions through application of adjustments to the historical underwriting experience of the 10 "peer" plans he selected. In his discussion of the Affordable Care Act Mr. Shaw inappropriately limits his analysis to those provisions intended to mitigate risk while downplaying the features of the ACA that will enhance risk. Further, his application of the provisions he does consider is flawed in a number of several respects.

These issues are discussed in more detail below, in Section F ("Impact of Affordable Care Act").

## B. Equity Portfolio Asset Values

Mr. Shaw argues that Rector's surplus target should be reduced by $216 million based on a supposed evaluation of the Company's expected equity returns, but his analysis underlying that argument is completely wrong based on a number of analytical errors. First, he double-counts the revenue generated by returns on corporate equity assets. Second, he inappropriately includes returns on pension assets, which are already reflected in the pension valuation; this treatment is duplicative. Third, he omits CareFirst BlueChoice ("CFBC") premium and equity asset amounts from his adjustment ratio, thereby significantly overstating the impact of any change in expected asset returns. As a result of these inappropriate assumptions, he has claimed that Rector's estimate of needed surplus is overstated by approximately $216 million.

The surplus analyses carried out by Milliman and Rector incorporate assumptions regarding the risks associated with equity portfolio asset values. These assumptions, in the form of a probability distribution, were appropriately developed and reflect the manner in which the investment rate of return was incorporated in our modeling approach.

### Milliman and Rector Assumptions

In the analysis underlying both the Milliman and the Rector reports, an overall average annual investment rate of return of 3.75% on corporate assets was assumed. This investment yield assumption includes dividends, coupons, and realized and unrealized capital gains, and reflects the entire portfolio (stocks, bonds, and cash). This 3.75% assumption was provided by CareFirst as representing the company's expectations for its portfolio. It was incorporated in the pro forma model and applied to projected investment funds on an annual basis.

In our modeling we have reflected underlying average rates of return of 7.0% for equities, and 3.5% for the bond portfolio, consistent with this overall 3.75% rate of return. The risk and contingency distribution for equity asset portfolio values, summarized below, represents the potential impact on surplus of a deviation from the assumed 7.0% underlying rate of return on equities, due to fluctuations in market values during the projection period.

**Chart B-1**
**Milliman and Rector**
**Risk and Contingency Category: Equity Portfolio Asset Values**

| Probability | 3- Year Surplus Change as % of Non-FEP Insured Premium |
|---|---|
| 10% | 11.5% |
| 12 | 3.8 |
| 25 | 0.9 |
| 29 | -3.0 |
| 14 | -6.9 |
| 10 | -10.7 |
| 100% | |

This distribution reflects an underlying assumption that the distribution of variations in asset values over a three-year period will be consistent with the distribution of three-year price changes in the Standard and Poor's (S&P) 500 Index for the period from 1/1/1950 through 4/1/2011. The surplus change values shown above include the following components:

- The impact of variations in the rate of return on corporate assets, from the assumed 7% average rate of return on equities assumed in our pro forma model.

- With respect to the equity portfolio of the pension plan, the impact of variations in the future rate of return from the rate of return assumed in the pension valuation.[19]

## Alternative Assumptions Presented by Mr. Shaw

The alternative assumptions and calculations presented by Mr. Shaw start with a summary of three year changes in the Dow Jones Industrial Average (DJIA) for the period from 1/1/1975 to 12/31/2013 (Chart 10 on page 30 of his report). While our analysis was based on the S&P 500 Index, we find that our results would not have changed materially if we had instead used the DJIA.

Milliman's pro forma projection model generates annual investment income based on an expected average rate of return on invested assets. The purpose of the risk assessment for

[19] The "assumed" rate of return is reflected in the calculations underlying the pension valuation as reported in the statutory statement. To the extent that actual returns do not conform to the assumed rate of return, a below-the-line adjustment to surplus is required, consistent with Statutory Accounting Principles (SAP).

return on equities is to reflect the risk that the actual rate of return deviates from this average rate, and our assumed Equity Portfolio Asset Values (EPAV) values represent the financial impact of such deviations. While we have used the S&P Index to measure potential deviations from our assumed rate of return on equities, Mr. Shaw has developed a distribution of values that represent three-year full rates of return, rather than deviations from an expected rate of return. This results in a redundancy, in effect including the return on corporate equities twice.

In addition, we noted the following issues with respect to the information presented in Chart 11 on page 30 of Mr. Shaw's report:

- Mr. Shaw's calculations of alternative risk factors for equity portfolio asset values include returns on pension assets. This produces an overstatement in the level of expected returns, because future returns on pension assets are incorporated in reported pension values. Changes in the rate of return on pension assets affect the company differently, as outlined above.

- In Chart 11 of Mr. Shaw's report he purports to present a summary of GHMSI investment in stocks as a percentage of non-FEP premiums by year for 2008 through 2013. His table indicates a material reduction in this percentage for 2010 through 2013 (ranging from 22% to 26% during that period) compared to the percentage in 2008 and 2009 (when he shows it to be 32%). He goes on to state that ***"Rector increased the EPAV factor dramatically between its 2009 and 2013 reports, despite total assets invested in stocks having significantly declined as a percentage of non-FEP premiums since 2009."***

  However, the asset amounts shown in Mr. Shaw's chart erroneously include the value of affiliates for 2008 and 2009, overstating the assets for those years and thereby leading to his false conclusion that there was a significant reduction in assets invested in stocks as a percentage of non-FEP premiums subsequent to 2009. He correctly excludes such affiliate values for 2010 and later, although apparently he does not realize the inconsistency (and inappropriate amounts he shows for 2008 and 2009). When this error is corrected by excluding affiliates from his stock investment amounts, the values for 2008 and 2009 decrease from 32% to 17%, leading to an observed increase in the percentage between 2009 and subsequent years.

- CFBC premium and equity asset amounts were omitted from the development of the ratio of equity assets to non-FEP premium. The resulting ratio is therefore overstated (25% vs. the correct ratio of 16%), which in turn leads to an overstatement of the impact of any change in expected asset returns on GHMSI's surplus.

It is the inclusion of the redundancies in returns on corporate and pension assets, and a failure to properly reflect the CFBC premium and equity assets, that produces Mr. Shaw's purported $216 million overstatement in the surplus target; if these errors were corrected, this "overstatement" would be eliminated.

## C. Premium Growth Assumptions

Mr. Shaw's analysis of the premium growth ratio is based on an examination of premium increases for the limited and uncharacteristic five-year period between 2009 and 2013. GHMSI experienced atypically low growth rates for the non-FEP business during that period, almost certainly driven to a significant degree by the recent economic recession. It is our understanding that this period was also characterized by significant benefit downgrades (i.e., increases in member cost-sharing) and other changes in mix of business, which tend to obscure the underlying rate of growth in premium. This produces an average growth assumption that is unreasonably low for the purpose of establishing a surplus target for the company, particularly in anticipation of an improving economy and the implementation of health care reform.

Potential growth due to the individual and employer mandates, as well as possible increases in medical costs due to enrollment of higher-cost individuals, coupled with the ACA fees and other marketplace influences all increase the likelihood that premium growth rates will increase in future years. Further, when the rate of benefit downgrades slows or reverses, the premium growth rate will increase, all other factors remaining equal.

As is true of Mr. Shaw's rating adequacy analysis, there is no reasonable basis to believe that the negative patterns with respect to premium growth that occurred during the particular years that he selected will continue. To the contrary, improving economic circumstances and the implementation of health care reform are likely to lead to an upturn in premium growth. The 3.8% average premium growth assumption developed by Mr. Shaw for GHMSI's total non-FEP business is, in our judgment, unreasonably low for the purpose of establishing a surplus target for the company. Accordingly, we disagree with his contention that the 958% of RBC-ACL surplus target proposed by Rector should be reduced by $207 million dollars to reflect this inappropriately low growth rate.

The influence of these factors as well as the expected enrollment increases due to the ACA lead us to conclude that future premium growth rates are likely to be higher than those selected by Mr. Shaw, perhaps materially so.

### Considerations for Premium Growth Assumptions

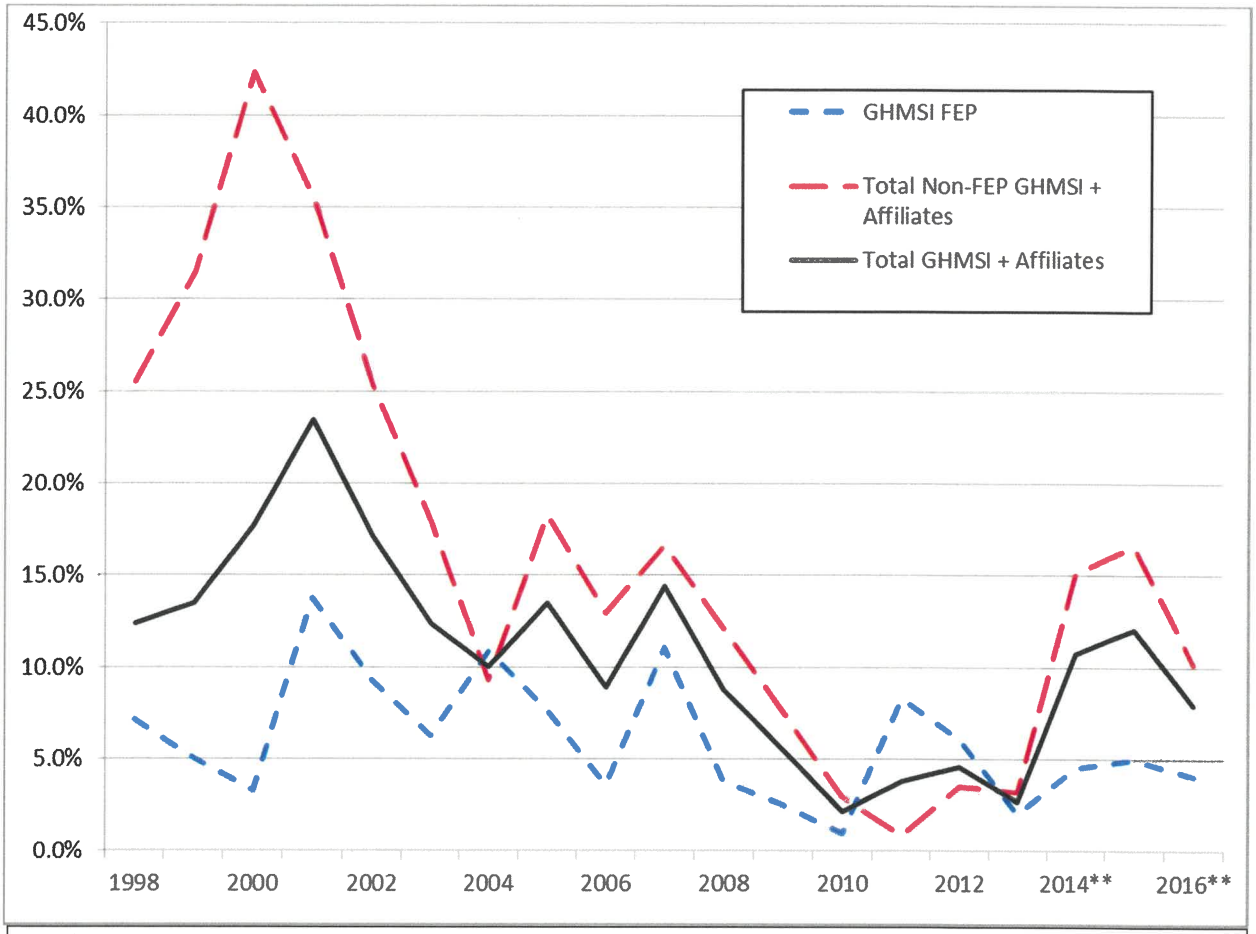
The premium growth assumptions utilized to assess surplus requirements for a company such as GHMSI should represent a range of potential growth rates that could occur over the next several years. Such growth assumptions need to incorporate a number of important elements of change in aggregate premium income for GHMSI. These include enrollment changes, medical care cost and utilization changes, changes in the mix of business by market segment and geographic area, demographic changes, benefit level changes, and the impact of fixed dollar cost sharing amounts on benefit costs.

## Historical GHMSI Premium Growth Rates

Mr. Shaw has selected annual premium growth rates that produce a mean value of 3.8% for non-FEP business and 5.8% for FEP business. He points to recent growth rates experienced by GHMSI for the period 2009 through 2013, and describes these mean values as being consistent with actual average historical growth for this period.

Chart C-1 shows historical and projected premium growth rates for GHMSI's FEP segment, its non-FEP business (directly written business plus its proportionate share of affiliate business), and for the company as a whole (including its share of affiliate business). The company's growth rate has varied significantly over time, as evidenced by this graph. Also evident is the fact that the growth rates experienced by GHMSI for the non-FEP insured segment during the 2009 through 2013 period that Mr. Shaw relied upon are lower than those of any other period shown.

**Chart C-1**
**Historical and Projected Annual Premium Growth Rates**
**For GHMSI Including Proportional Share of Affiliates***




**Notes:**

* Growth rates for 2008 have been adjusted to neutralize the impact of the population changes that occurred at that time as a result of the new cross-jurisdictional reinsurance arrangement; For purposes of consistency, growth rates for 2002 and later all reflect the current 50% ownership percentage in CareFirst BlueChoice.

**Values for 2014 through 2016 reflect projected growth rates, prepared by GHMSI management for its Board of Directors.

The selection of a range of premium growth rates should take into consideration a number of factors, one of which is historical growth rates – both longer term patterns and more recent rates of change. This is not simply a matter of assuming that growth will continue at either longer term average rates or some recent historical levels. Rather, an important component of

this process is considering the conditions and factors that underlie the experience observed, how those may differ in the future, and the uncertainty surrounding any expectations.

## Expectations for Future Premium Growth

Chart C-1 includes projected growth rates for 2014 – 2016, prepared by GHMSI management for its Board of Directors. Projected growth is higher than experienced during very recent years, but not as high as experienced during some of the prior years. The step-up in premium growth anticipated for the next several years reflects the conditions that are expected, which involve some notable differences from those experienced during the very recent past.

For example, economic conditions have changed and are expected to continue to do so. Economic contractions such as the recent recession that began in 2008 tend to result in declines in health plan membership, as employment rates decline. According to a study published by the Employee Benefit Research Institute[20], employment-based insurance coverage declined nationwide by 6 % during the period 2008 through 2011. In addition, health care utilization often declines during such periods. These factors are likely to have depressed recent premium growth rates for GHMSI, and point to the potential for higher growth rates as the economy recovers.

Further, while medical care cost trends have recently been at relatively low levels, the potential for higher inflation in the economy generally and in the health care sector specifically cannot be prudently ignored or disregarded.

Finally, the implementation of health care reform, with its individual and employer mandates, is expected to produce substantial growth in certain market segments, and such growth is expected to continue for a period of time. Increased medical costs associated with ACA growth, due to disproportionate enrollment of higher cost individuals, are likely to occur; and the ACA imposes new fees and alters market conditions in ways that almost certainly will increase costs.

Although ACA enrollment was lower in early 2014 than expected for GHMSI and for most if not all other health plans, CareFirst enrollment accelerated at the end of the Open Enrollment period and will likely end 2014 close to expectations. Technical problems with the exchanges have been a significant factor in these low enrollment results, as have been a number of unexpected delays and extensions in implementation provisions. From all indications to date, it is reasonable to assume that ACA enrollment will grow over time, and this growth could prove to be significant.

In light of the economic improvements that are occurring and expected to continue, the prospects for substantial future growth over the next several years under the ACA, and the uncertainty present in the health insurance market today, the assumptions made by Milliman in

[20] Employee Benefit Research Institute, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2013 Current Population Survey*, dated September 2013, available at http://www.ebri.org/pdf/briefspdf/EBRI_IB_09-13.No390.Sources1.pdf, page 5.

its 2011 surplus target study of 7% and 11% appear reasonable, if not potentially on the low side for use in evaluating surplus needs. The 3-year mean assumption developed by Mr. Shaw of 3.8% for GHMSI's total non-FEP business (including its share of affiliate premium) is, in our judgment, unreasonably low for the purpose of establishing a surplus target for the company.

# D. Administrative Expenses

Mr. Shaw's conclusion regarding a reduction in GHMSI's expense and the impact that such a reduction would have on the company's target surplus is incorrect and should be disregarded completely. Mr. Shaw's treatment of this item implies that he believes that any reduction in expense level that might occur for GHMSI would be kept by the company year after year as profit; this obviously would not be the case, either as a matter of GHMSI policy or of DISB oversight.

Further, Mr. Shaw concludes that GHMSI is inefficient administratively using only a gross comparison among a selection of hand-picked "peer" companies, with no attempt to adjust for differences in characteristics among companies and their marketing and operating environments, some of which are clearly apparent without any detailed analysis. He then goes on to say that "***It is possible (depending on how Milliman and Rector derived their RAAF factor curves) that GHMSI's relative inefficiency caused Milliman and Rector to assume surplus changes that are systematically more negative than an efficient company would experience.***"[21]

In fact, neither Rector's nor Milliman's surplus analysis would change if GHMSI reduced its administrative expenses, because annual rate filings and group rate renewals reflect actual and expected future administrative expenses. If GHMSI reduces expenses, those reductions will be passed on to members and GHMSI's surplus requirements would remain unchanged. Accordingly, the "projected reduction in required surplus" of $153 million as put forth by Mr. Shaw to reflect the purported expense inefficiency has no basis in fact.

## Flaws in Mr. Shaw's Analysis

Mr. Shaw bases his claim of GHMSI's supposed administrative inefficiency on a tabulation of claims adjudication and other administrative expenses as a percentage of revenue as reported in the 2013 statutory statements of each of the "peer" companies that he identified previously. From this tabulation he concludes that GHMSI was significantly less efficient than all but one peer company, due to a higher expense ratio.

Mr. Shaw's comparison of the administrative expenses incurred by GHMSI's supposed "peer" companies is skewed. As we stated previously, a number of the "peer" companies have significantly different characteristics than GHMSI. For example, BCBS of Georgia is a Wellpoint company, and as such is a part of a large for-profit corporation. The expense structure of such a company can be expected to reflect the ability of such a large organization to spread or allocate costs across many operating companies, meaning direct comparisons are not meaningful. In addition, Horizon (an HMO) and QCC represent subsidiaries of their parent BCBS

[21] *Shaw*, Page 37.

plans (BCBS of New Jersey and Independence Blue Cross), and are subject to unknown arrangements with those parent companies with respect to allocation of expenses.

Further, statutory reporting has several limitations that make direct comparison of reported expenses between companies difficult. In particular, the SAP treatment of fees for self-funded or ASC business, as well as variations in treatment of expense amounts included in the "other income/expense" line, can greatly distort the comparison of expense ratios among companies. For this reason, most expense analysis is based on GAAP accounting rather than statutory.

There are other reasons that a direct comparison of expense data for these companies is not useful. These data may reflect different levels of taxes and fees, including premium taxes, which often vary by state. Each company may have a different mix of market segments, requiring different levels of administrative expenses. Mr. Shaw makes no effort to adjust his analysis for these differences or other factors.

For all of these reasons, the tabulations of expense ratios presented in Mr. Shaw's report do not provide a valid basis on which to judge the relative efficiency of GHMSI, and his analysis does not support any conclusion that GHMSI is less efficient than other carriers.

# E. Other Risk Factors

## 1. Provision for Impact of Catastrophic Events

Every health insurer faces the risk of catastrophic events occurring. Such events include dramatic increases in medical costs due to terrorism, epidemics or pandemics, and natural or public health disasters. They also include other events with a potentially extraordinary adverse financial impact – such as major fire or other business interruption disaster, excessive damage awards from major class action or other litigation, or extraordinarily large changes in the financial markets with attendant adverse impacts on asset valuations and financial obligations.

A prudent insurer must provide protection against such risks, so that the company is not exposed to ruin or incapacity from such an event. This is necessary to remain a viable company. It is also necessary to protect the ability of GHMSI's members, providers, and vendors to safely rely on the company for the financial security that they believe they have contracted for or purchased. Prudence dictates that surplus for GHMSI be sufficient to withstand the risk created by such threats, to the maximum extent possible.

Mr. Shaw argues that there should be no additional provision for catastrophic events, on the presumption that they would already be reflected in historical underwriting results and hence to include them separately would amount to double counting. But this statement reflects an erroneous assumption that Milliman's development of assumptions for the rating adequacy and fluctuation component of our risk assessment involved looking at historical underwriting results for GHMSI and peer companies. He states that ***"many catastrophic events would already be reflected in underwriting results and therefore in the RAAF factors.*** This is a completely false premise by Mr. Shaw; as we described previously, our approach did not consider historical underwriting results for any individual company.

The occurrence of catastrophic events is expected to be infrequent, and may encompass events that have not recently occurred and therefore cannot be measured in a meaningful way from historical underwriting results (e.g., extreme pandemics, natural disasters or terrorism events), or even events that may not have been envisioned – so-called "unknown unknowns" – perhaps resulting from the occurrence of multiple events simultaneously. Should they occur, however, the effect could be truly devastating medically, operationally, and financially – to the community and to GHMSI. We believe it is critically important to ensure adequate provision for such events in surplus, for the benefit of these parties.

The selection of assumptions related to catastrophic events requires a considerable degree of judgment. Data to support such modeling for health insurers have not been captured or reported. The probability assumptions that have been used by Milliman and those that have been used by Rector are not intended to reflect a prediction of the frequency with which such events will occur in the short term. Rather, they are intended to reflect a minimal level of

financial protection that a prudent company should reasonably maintain in order to withstand a potential catastrophic event along with the other risks that it faces and retain financial viability.

## 2. Change in Interest/Discount Rate – Impact on Bond Portfolio and Pension Plan

As with our assumptions regarding equity asset values, our analysis of surplus requirements for GHMSI incorporated a probability distribution to recognize the risks associated with changes in interest and discount rates on the company's bond portfolio and pension plan values.

Regarding our assumptions, Mr. Shaw stated that ***"It is a remarkable proposition that the company should expect over any given 3-year period that a change in the interest/discount rate will occur, and that 90% of the time it will increase and have a negative impact on the company's bond portfolio and the value of the pension plan."***[22] He has proposed that these risk assumptions be ignored, implying that as a result Rector's estimate of needed surplus is overstated by an estimated $20 million.

Mr. Shaw makes three errors with respect to the interest/discount rates. First, he misinterprets the probabilities in Milliman's development, which relate to the impact on surplus of (i) potential changes in interest rates affecting the value of corporate bonds that are liquidated, and (ii) potential changes in discount rates affecting the pension plan valuation. They reflect a 55% probability of increase in bond interest rates over three years, not a 90% probability as asserted by Mr. Shaw. The Milliman assumptions are supported by an analysis of historical interest rate patterns, and they are consistent with and reasonable in view of today's very low interest-rate environment.

Second, his assertion, or at least clearly implied position and treatment in his analysis, that rates would not change over three years is contradicted by actual experience, which shows that rates are continually changing. Third, Mr. Shaw simply ignores the fact that interest rates in 2011 were historically low and thus more likely to go up than down.

The following chart presents the history of the market yield on 5-year Treasury bonds. This pattern illustrates the fluctuation that has occurred generally over time, as well as the historically low levels that today's interest rates represent.

[22] *Shaw*, Page 39.

**Chart E-1**
**Market Yield on U.S. Treasury Securities**
**at 5-year Constant Maturity**


In order to demonstrate the reasonableness of our assumptions, we tabulated historic interest rates by month as reported by the Federal Reserve Bank for the period from April, 1950 through December, 2013. For each month we derived an average portfolio yield rate reflecting the distribution of GHMSI bond holdings by class and duration as of December 31, 2010, as well as the 3-year change in these average portfolio yield rates.

We then identified those 3-year periods for which the average portfolio yield at the beginning of the period ranged from 1.75% to 2.75%, which includes values within a .5-point range of the approximately 2.25 % average portfolio yield applicable in the first quarter of 2011, when our study was carried out. Of the 41 such instances that were observed, 92% involved a net increase in the average portfolio yield rate over a 3-year period, demonstrating the reasonableness of our assumption that interest rates are substantially more likely to increase over a 3-year period than to decrease, in the current interest rate environment.

Chart E-2 summarizes the components of the assumed impact on surplus due to changes in interest rates, as reflected in the Milliman and Rector surplus analyses.

**Chart E-2**
**Milliman and Rector**
**Risk and Contingency Category: Change in Interest/Discount Rate –**
**Impact on Bond Portfolio and Pension Plan by Component**

| Change in Interest/Discount Rate [1] | | | | | |
|---|---|---|---|---|---|
| Amount of Change | Probability | Surplus Change as % of Non-FEP Insured Premium | | | |
| | | (a) Held by Corporation | (b) Held by Pension Plan | (c) Pension Plan Valuation (PBO) | (a)+(b)+(c) Total Surplus Impact |
| -1.0% | 10% | 1.6% | 0.2% | -1.4% | 0.5% |
| 0.0 | 35 | 0.0 | -0.1 | 0.0 | -0.1 |
| 2.0 | 45 | -2.9 | -0.6 | 2.5% | -1.0 |
| 4.0 | 10 | -5.5 | -1.1 | 4.7% | -1.9 |
| | 100% | | | | |

[1] Deviation of actual interest/discount rates from current valuation rates, over a three-year period. Positive deviation percentages reflect a rise in market interest rates generally, which would have an adverse impact on the market value of the bond portfolio and a favorable impact on the projected Pension Benefit Obligation (PBO).

As outlined in this table, the assumed changes in interest rates result in: (i) changes in the value of the corporate bond portfolio, to the extent that such bonds must be liquidated to meet the company's financial obligations, (ii) changes in the value of bonds held by the pension plan, to the extent they change from those assumed in the pension valuation, which will directly affect the pension values reported in the statutory statement, and (iii) changes in the value of the Projected Benefit Obligation (PBO), which again will directly affect the pension values reported. With respect to the pension plan PBO, recognition of a change in interest rate (i.e., a change in the discount rate used to calculate the PBO) will result in a below-the-line adjustment to surplus, consistent with Statutory Accounting Principles (SAP).

## 3. Overhead Expense Recovery and Fee Income Risks – Commercial Business

The assumptions related to overhead expense recovery and fee income risks for commercial business represent the likelihood of unanticipated fluctuation in the level of administrative expense recoveries. These recoveries are made, under normal circumstances, through the administrative expense component of premium rates for insured business, fees paid by self-

funded groups, and fees or revenue generated from other business activities. An adverse fluctuation may occur, for example, because a large group terminates unexpectedly, with a resulting decrease in expense revenue or self-funded fees. A corresponding decrease in expenses would not occur immediately, and expense ratios would therefore increase.

Mr. Shaw has erroneously eliminated the impact of this risk component, stating that ***"Presumably, as we have done in our alternative RAAF calculations, [Milliman] derived the RAAF factor and its proposed distribution of results by looking at the historical underwriting results for GHMSI and peer companies. If so, any excess expenses or fee income shortfalls would already be reflected in underwriting results and therefore in the RAAF factor."***[23] As a result of this elimination, Mr. Shaw understated the required surplus target by an estimated $10 million.

Contrary to Mr. Shaw's presumption, Milliman's development of assumptions for the rating adequacy and fluctuation component of our risk assessment did not involve looking at historical underwriting results for GHMSI and peer companies. As discussed earlier, our approach considers the range of factors that contribute to the risk that actual claims and expenses differ from the amounts for which provision is made in premium rates. Therefore the rating adequacy and fluctuation assumptions do not reflect any shortfall in expense recovery.

The assumptions for this risk component recognize the expected portion of overhead expense that would not be eliminated or replaced through future rates or self-funded fess over the short term, and are appropriately incorporated separate and apart from the assumptions related to rating adequacy and fluctuation.

## 4. Expense Recovery and Fee Income Risks – FEP Indemnity Business and FEP Operations Center

The risk related to loss of overhead expense recovery and fee income for FEP business is similar to that of commercial business. FEP premium revenue and revenue from the FEP Operations Center contribute to coverage of GHMSI overhead expenses, and an unexpected loss in this revenue represents a financial risk to the company.

Mr. Shaw comments that ***"As of 12/31/2013 GHMSI reported a special reserve of $681 million for GHMSI's FEP business that, per the footnotes on page 26.3 of its annual statement, "may be utilized by the participating plans in the event that funds set aside from annual premiums are insufficient or fall below certain prescribed levels by OPM.". . . It appears that GHMSI has unfettered access to the special reserve to address any shortfalls in expenses due to FEP***

[23] *Shaw*, Page 39.

***business."***[24] Mr. Shaw inappropriately eliminated this risk factor from his analysis, resulting in a reduction of an estimated $6 million in the required surplus target.

The above comments by Mr. Shaw demonstrate a fundamental misunderstanding of the purpose of the OPM reserve fund and how it works. GHMSI does not have "unfettered access" to the special reserve fund held by OPM with respect to administrative expenses. Rather, the Blue Cross Blue Shield Association (BCBSA) negotiates a contract expense limitation with OPM each year, and allocates a portion of that to each plan. It is reasonable to assume that if GHMSI were to experience a material reduction in FEP membership, it could expect the expense allocation to decline accordingly, resulting in a reduction in reimbursement for a portion of overhead expense that could not be immediately eliminated.

The FEP Operations Center also contributes to the offset of certain overhead expenses for CareFirst, which would be forfeited if GHMSI were to lose the Operations Center contract. Under the circumstance of a significant reduction in GHMSI surplus of the nature simulated in Milliman's analysis, leading to potential concerns about the long-term viability of the company, there is the risk, which cannot be ignored, that the Operations Center contract would be terminated by BCBSA.

## 5. Provision for Unidentified Development and Growth

To maintain competitiveness and ongoing viability, GHMSI must periodically make substantial investments in developmental activities and the acquisition of operational capabilities. These include such far ranging items as new product development, rebuilding of delivery networks, enhancement of care management capabilities, acquisition of new communications or information technology capacities, and adaptation of existing and integration of new administrative processes.

Often these capital expenditures do not produce admitted assets, which means that they generally must be absorbed directly and immediately out of surplus. Milliman's assumptions for the provision for unidentified development and growth are intended to recognize the risks associated with such expenditures due to their impact on surplus.

Mr. Shaw states that in his report that ***"any excess expenses for unidentified growth and development would have been reflected in underwriting results and therefore are already embedded in the RAAF factors."***[25] As described previously, this reflects an incorrect premise by Mr. Shaw that Milliman looked at historical underwriting results for GHMSI and peer companies in order to develop assumptions for the rating adequacy and fluctuation component of our risk assessment. Therefore, his claim that any excess expenses for unidentified growth and development are imbedded in these assumptions is false. Mr. Shaw also criticizes Rector's

[24] *Shaw*, Page 40.
[25] *Shaw*, Page 41.

assertion that "Because non-admitted assets cannot be included in an insurer's total assets for purposes of determining the insurer's financial condition, increases in non-admitted assets result in a direct charge to an insurer's surplus position."[26] He claims that *"[T]his is an incomplete and misleading description of how non-admitted asset purchases affect an insurer: it does not address how non-admitted asset purchases affect underwriting results as shown in the Statement of Revenue and Expenses as shown on page 4 of the Statutory Annual Statement. A more complete and accurate statement would be as follows:*

> *Because non-admitted assets cannot be included in an insurer's total assets for purposes of determining the insurer's financial condition, purchase of (i.e., increases in) non-admitted assets results in such expenses flowing through an insurer's underwriting results in the year of purchase and the reduced underwriting results impacts the insurer's surplus position."*[27]

This characterization of the treatment of non-admitted assets by Mr. Shaw is incorrect. Under statutory accounting principles a company does not charge the entire expense for such assets in the first year. Rather, the expense is amortized and the company reflects the change in non-admitted assets directly to surplus. In subsequent years the company charges amortization to underwriting gain/loss and releases the non-admitted asset, and surplus is increased.

[26] *Rector*, Page 26.
[27] *Shaw*, Page 41.

# F. Impact of the Affordable Care Act

In his discussion of the impact of the Affordable Care Act (ACA) in relation to the rating adequacy and fluctuation risk (see Section A. above), Mr. Shaw dramatically underestimates the downward pressure the ACA will impose on GHMSI's surplus. His discussion of the ACA's impact inappropriately downplays those provisions intended to mitigate risk, and Mr. Shaw makes mistakes in how he applies those provisions.

The passage of federal health care reform legislation in 2010 has resulted in significant changes in the health insurance marketplace. The effects of these changes continue to emerge with the startup of the health care exchanges and the implementation of the risk mitigation programs this year, and the ongoing evolution of the regulatory environment. GHMSI and other health plans will continue to face uncertainty and challenges over the next several years, as the effects of the various components of the law unfold.

As noted in Milliman's 2011 report, we reflected the impact of health care reform provisions related to the medical loss ratio (MLR) and premium rate reviews that had been implemented at that point in time, but did not attempt to reflect provisions to be implemented in 2014 and later, due to lack of information regarding the details of the implementation as of that point in time. We did, however, estimate the impact on the GHMSI surplus target range of potential increases in adverse selection in the individual and small group markets that would not be anticipated in premium rates, and would not be fully offset by the risk mitigation programs that are required by the PPACA to be established after the implementation of new rating and underwriting rules in 2014.

While any such estimate was then and is now subject to significant uncertainty, we estimated that the surplus target range for GHMSI could be expected to increase by 100% to 150% of RBC-ACL, if the potential for such adverse selection were taken into account. We characterized this estimate as an indication of the directional nature of the impact of the health care exchanges, rather than a precise quantification of their potential financial consequences.

## Risks Associated with ACA Implementation

The ACA has brought a wide range of operational changes to the health care marketplace, including an individual mandate for coverage and an employer mandate (which has been delayed as a result of regulatory changes). A series of new market rules have been implemented, requiring guaranteed availability of coverage and restrictions on the manner in which premium rates can vary by age and by geographic area. One of the largest changes involves the health care exchanges, premium subsidies, and the standardization of benefits sold through the exchanges.

The combination of these marketplace changes can be expected to lead to increased adverse selection, both in terms of the population choosing to enroll and in the selection of benefit

levels. Recent regulatory changes allowing for the temporary renewal of certain individual and small group plans that did not comply with the ACA are likely to exacerbate such adverse selection, as the affected members choose whether to retain their plans or select new ones on the exchange.

At the same time, health plans are now subjected to extended timelines for the filing of new premium rates, as well as increased regulatory scrutiny of such rates. GHMSI must file its individual and small group premium rates in May and June for the following year. This timing does not allow the company to assess any of the experience of the current year in making assumptions for the subsequent year. Given the rapidly changing environment, such timing lags add significantly to the risk of inadequate premium rates. Further, while it is impossible to anticipate the impact of increased regulatory scrutiny of rates, it is reasonable to assume that, in combination with the competitive nature of the exchanges, there will be pressure on GHMSI to limit rate increases.

The medical loss ratio standards and rebate requirements established by the ACA were first implemented in 2011. These provisions require GHMSI to separately report experience by market segment (individual, small group and large group), jurisdiction (D.C., Maryland and Virginia), and company (GHMSI and CareFirst BlueChoice), resulting in 18 different segments for reporting purposes. Rebates must be paid for any such segment that does not meet the minimum medical loss ratio, with no opportunity to offset losses in other segments. This situation severely limits the ability of the company to increase surplus levels if they should become depleted.

In addition to the impacts of these changes in market rules and medical loss ratio standards, the ultimate costs of the new exchange plans will be affected by the cost transfers under the new premium stabilization or risk mitigation programs which became effective on January 1, 2014. These include the permanent risk adjustment provision as well as the transitional reinsurance and temporary risk corridor programs, both of which will expire at the end of 2016. The effects of these new programs are unknown and will not be determined until after the close of each respective plan year – and after the submission of the following year's premium rates.

GHMSI has provided a more extensive discussion of the impact of the ACA on the company's operations and on its surplus in its Pre-Hearing Brief[28], which opens with the following comments:

***"The Affordable Care Act (ACA) has dramatically changed the market rules under which Group Hospitalization and Medical Services, Inc. d/b/a CareFirst BlueCross BlueShield ("GHMSI") and its HMO subsidiary CareFirst BlueChoice, Inc. ("BlueChoice") must operate. Because of these sweeping changes, GHMSI believes that its surplus level is likely to fall in future years. The real concern should not be whether GHMSI's surplus is too high at present, but whether***

[28] Group Hospitalization and Medical Services, Inc., *Pre-Hearing Brief, DISB Review of GHMSI Surplus Pursuant to the Medical Insurance Empowerment Act of 2008, D.C. Code §31-3501, et seq.,* June 10, 2014; See Exhibit 2: *Report by GHMSI on the Impact of the Affordable Care Act on GHMSI's Surplus ("ACA Impacts Report"),* (hereinafter "*GHMSI Pre-Hearing Brief Exhibit 2*"), available at http://disb.dc.gov/node/844182.

***GHMSI will be able to maintain surplus levels that are adequate to ensure that it remains financially sound in the future.***

***Under the new market rules created by the ACA and uncertainties regarding the medical costs of new members in the new plans, it is more likely than ever before that an insurer such as GHMSI will face rate inadequacies due to misjudging the nature of the risk pool of covered members. Once rates become inadequate, the ACA will make it harder than ever before to increase those rates to an adequate level for future years, and very unlikely that a carrier would recover past losses."***[29]

## Mr. Shaw's Calculations of ACA Impact

Mr. Shaw addresses his interpretation of the expected impact of certain ACA provisions through application of adjustments to the historical underwriting experience of the 10 "peer" plans he selected. In his discussion of the Affordable Care Act Mr. Shaw inappropriately limits his analysis to those provisions intended to mitigate risk while downplaying the features of the ACA that will enhance risk. Further, his application of the provisions he does consider is flawed in a number of respects.

Specifically, Mr. Shaw misapplies the medical loss ratio ("MLR") rules by effectively assuming that every segment of a company's business will achieve a gain if the company achieves an overall gain. That is not correct. As outlined above, between GHMSI and BlueChoice there are 18 different market segments in which GHMSI may suffer a loss or be required to pay rebates independent of any other results in any other market segments. Mr. Shaw also erroneously or inappropriately applied the risk corridors to all market segments, even though the risk corridor program only applies to Qualified Health Plans sold in the individual and small group markets.

Mr. Shaw downplays the potential effects of the ACA's guaranteed issue requirements by assuming that they would be completely offset by reinsurance and risk adjustment. The reinsurance program is temporary, and its effects will diminish each of the next two years before it terminates. The risk adjustment program is completely new, and the extent to which it will benefit or harm GHMSI is unknown.

Regarding the risk corridors program, as noted by GHMSI in its Pre-Hearing Brief[30], there is a risk that there will be more carriers with losses than carriers with gains, and there may not be sufficient appropriated funds to cover the full needs of the program, in which case the protections intended by this feature of the ACA would not be fully available. In addition, the risk corridor program is temporary; any benefit to GHMSI will be limited to the three year transition period.

In addition, Mr. Shaw fails to acknowledge the changes to GHMSI's distribution channels

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[29] *GHMSI Pre-Hearing Brief Exhibit,* Page 1.
[30] *GHMSI Pre-Hearing Brief Exhibit,* Page 10.

wrought by the ACA, and the individual and employer mandates, all of which increase GHMSI's risks and costs, particularly in the short-term, while at the same time increasing enrollment in the long term. These are fundamental components of the ACA, which cannot be reasonably ignored as Mr. Shaw has done.

# G. Validation

An essential component of Milliman's approach to developing a target surplus level for GHMSI was to test the impact of the risks identified and quantified in the course of our analysis on the company's surplus level. This testing was a forward-looking process, applied using a pro forma financial projection model.

Milliman undertook a rigorous process of validating all aspects of its target surplus development for GHMSI. This included: (i) the production of a baseline pro forma model projection that reproduced GHMSI forecast results; (ii) verification that all risk variable distributions were consistent with information available and informed actuarial judgment and that appropriate mean values were reproduced using the identified risk probability distributions; (iii) validation tests that rating simulations reproduced appropriate overall mean rate increase values; and (iv) detailed checking to determine that all calculations were being performed correctly throughout all model components. Further, all variable changes introduced to the simulation and pro forma models were tested separately for accuracy and reasonableness.

Mr. Shaw asserts, with no foundation or evidence, that "Rector and Milliman have provided very little validation of assumptions and results" (page 44). This assertion is simply false. Milliman's work was documented for its intended users, and every component of our analysis, results, and work product were fully checked and validated.

# III. Milliman Compliance with Actuarial Standards of Practice

Mr. Shaw states in his report that ***"Milliman and Rector Fail to Explain their Work in Accordance with Actuarial Standards of Practice".***[31] This assertion by Mr. Shaw has no basis in fact.

Milliman documented all of our work in accordance with Actuarial Standard of Practice No. 41(ASOP 41), as explained below:

- ASOP 41 states the following:

  > *"The actuary should complete an actuarial report if the actuary intends the actuarial findings to be relied upon by any intended user. The actuary should consider the needs of the intended user in communicating the actuarial findings in the actuarial report.*
  > *An actuarial report may comprise one or several documents. The report may be in several different formats (such as formal documents produced on word processing, presentation or publishing software, e-mail, paper, or web sites). Where an actuarial report for a specific intended user comprises multiple documents, the actuary should communicate which documents comprise the report.*
  > *In the actuarial report, the actuary should state the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal"*[32]

- In our May 31, 2011 report document we addressed the fact that our report was intended for CareFirst management, and gave permission for it to be provided to the DISB (collectively, the intended users), as follows: *"Milliman has prepared this report for the specific purpose of providing results and assumptions for our optimal surplus analysis. This report should not be used for any other purpose. This report has been prepared solely for the internal business use of and is only to be relied upon by the management of CareFirst. We understand that GHMSI may wish to share this report with regulators and their professional advisors in the District of Columbia, Maryland and Virginia, or other appropriate regulators. We hereby grant permission, so long as the entire report is provided. We recommend that any party receiving this report have its own actuary or other qualified professional review this report to ensure that the party understands the assumptions and uncertainties inherent in our estimates. Judgments as to the conclusions contained in our report should be made only after studying the report in its entirety.*

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[31] *Shaw,* Page 6.

[32] *Actuarial Standard of Practice No. 41, Revised Edition, Actuarial Communications;* Adopted by the Actuarial Standards Board December 2010; Section 3.2, Page 3, *available at* http://www.actuarialstandardsboard.org/pdf/asops/asop041_120.pdf.

*Furthermore, conclusions reached by review of a section or sections on an isolated basis may be incorrect. Milliman does not intend to benefit any third party either through this analysis or by granting permission for this report to be shared with other parties."*

- In addition to our May 31, 2011 report document, we issued an additional set of documentation materials that included the elements outlined above as required by ASOP 41 to CareFirst management, and communicated that these materials were intended to comprise part of our overall report. We later provided these same materials to the DISB through Rector and FTI Consulting.

In sum, Milliman provided extensive documentation of its model to GHMSI, its client, and to the DISB – i.e., to its intended users – consistent with the requirements of Actuarial Standard of Practice 41. Moreover, it is our understanding that Rector and the DISB provided Mr. Shaw extensive information regarding Milliman's model. That is confirmed by the fact that Mr. Shaw has indicated that he was able to run his own simulations and largely replicate Milliman's analysis.

# IV. Limitations and Caveats

This report relates in part to Milliman's 2011 GHMSI report on the Development of an Optimal Surplus Target Range. It should be considered only in conjunction with the 2011 report; applicable terms and concepts are not repeated here. Judgments as to the conclusions contained in this letter should be made only after studying both reports in their entirety. The material in both reports was developed for the exclusive use of CareFirst management, for its internal consideration in connection with surplus targets. We understand that CareFirst, with Milliman's permission, has shared our 2011 report with certain regulators and their professional advisors in the District of Columbia, Maryland and Virginia, or other appropriate regulators, and that CareFirst may wish to share the current report with the same parties. We hereby grant permission, so long as the entire report is provided. We recommend that any party receiving this material have its own actuary or other qualified professional review this material, along with our 2011 report, to ensure that the party understands the assumptions and uncertainties inherent in our estimates. Milliman does not intend to benefit any third party either through this analysis or by granting permission for this material to be shared with other parties.

In developing this material we relied on data and other information provided by CareFirst. We have not audited or verified this data or information. The expectations for CareFirst in the future and the subsequent actual experience of CareFirst may vary materially from the assumptions used in this analysis.

The authors of this material are Consulting Actuaries for Milliman, are members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

# EXHIBIT 4

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January 21, 2021

Randolph S. Sergent
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Re: Equity Portfolio Asset Values Issue

Randy,

Milliman prepared a report dated November 6, 2014 entitled "Milliman Response to June 10, 2014 Reports by D.C. Appleseed and Mark Shaw." The report includes a table on page 16, Chart B-1, which shows probabilities of various surplus changes resulting from fluctuations in equity asset values. On the same page, the report indicates that the surplus change values result from changes in corporate equity assets and changes in pension equity assets. Chart B-1 (Expanded), below, provides a split of each surplus change value shown in Chart B-1 between the change caused by fluctuations in corporate equity assets and pension equity assets. Chart B-1 (Expanded) also provides the percentage fluctuation in equity assets that caused the surplus change values.

**Chart B-1 (Expanded)**
**Risk and Contingency Category Distribution Assuptions**
**Equity Portfolio Asset Values**

| (a) Probability[1] | (b) Percentage Change in Equity Asset Value[2] | 3-Year Surplus Change as % of Non-FEP Insured Premium | | |
|---|---|---|---|---|
| | | (c) Corporate Equity Assets | (d) Pension Equity Assets | (c)+(d) Total |
| 10 % | 65 % | 4.5 % | 7.0 % | 11.5 % |
| 12 | 25 | 1.7 | 2.0 | 3.8 |
| 25 | 10 | 0.7 | 0.2 | 0.9 |
| 29 | -10 | -0.7 | -2.3 | -3.0 |
| 14 | -30 | -2.1 | -4.8 | -6.9 |
| 10 | -50 | -3.5 | -7.3 | -10.7 |
| 100 % | 0 % | 0.0 % | -1.0 % | -1.0 % |

[1] Probability of change in equity asset value.
[2] Fluctuation in market value of equities cumulatively over a 3-year period relative to an expected 22.5% return (i.e., 7% annual over a 3-year period), where adverse deviations are shown as negatives. Based on monthly S&P Index price changes 1/1/1950 through 4/1/2011.

Limitations

I prepared this communication for the exclusive use of CareFirst management. I understand this communication will be included by CareFirst in its legal brief in connection with the ongoing legal case regarding surplus levels in the District of Columbia, and hereby grant permission so long as the entire communication is provided. Milliman does not intend to benefit any third party either through this analysis or by granting permission for this material to be shared with other parties.

In developing this material we relied on data and other information provided by CareFirst. We have not audited or verified this data or information. The expectations for CareFirst in the future and the subsequent actual experience of CareFirst may vary materially from the assumptions used in this analysis.

I am a member of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Sincerely

James A. Dunlap, FSA, MAAA
Actuary

FJC/go