Questions for/Information Requested from Rector

1. *Please provide your recommendations regarding how the Commissioner should determine the amount of GHMSI's surplus that is attributable to the District in accordance with 26A DCMR § 4699.2.*

   Response: We dealt with this topic in some depth on pages 18-23 of our report prepared in 2009 that was submitted to the DISB on July 21, 2010 ("our 2009 Report"), issued in connection with the previous review of GHMSI's surplus. As we noted there, 26A DCMR § 4699.2 provides for two specific factors to be considered when determining the surplus attributable to the District: (1) the number of policies by jurisdiction and (2) the number of providers by jurisdiction. In addition, 26A DCMR § 4699.2 provides that the Commissioner may consider "any other factor that the Commissioner deems to be relevant." In our 2009 Report, we identified four additional factors, beyond the two specified in the regulation, that we suggested the Commissioner consider: (1) premiums by jurisdiction, (2) number of certificateholders by jurisdiction, (3) claim expenses by jurisdiction of the policyholder, and (4) paid claim expenses by jurisdiction. We also analyzed the attribution method recommended by Milliman in connection with that review, which allocated GHMSI's operating results to the state of residence of the individual insureds (individual policyholders and, for group insurance, certificateholders).

   In our 2009 Report, we then analyzed each of the seven factors—the two set out in the regulation, the four additional factors we identified, and the Milliman attribution method—and displayed the results in chart form. In 2009, we were not asked to make a specific recommendation as to which factor, or which combination of factors, should be used. Rather, we were asked to identify the various factors and calculate the corresponding results so that those factors and calculations could be considered by the Commissioner.

   As noted in the chart on p. 18 of our 2009 Report, the results varied significantly, depending on the factor, ranging from a low of 10% (number of certificateholders by jurisdiction) to a high of 69.18% (claim expenses by jurisdiction of the policyholder). Of the seven factors we analyzed, four of them hovered around the 10-12% range, two were in the 68-69% range, and one was at 31%.

   What the chart in our 2009 Report made clear was that GHMSI issues a number of master group policies to employers that are located in the District, but that those master group policies mostly cover enrollees (certificateholders) who reside and/or use providers located outside of the District. Accordingly, the factors that focus

primarily on the location of the policy (i.e., the master group policyholder for group policies) led to high attribution percentages: 31.20% (number of policies by jurisdiction), 68.92% (premiums by jurisdiction of the policyholder), and 69.18% (claim expenses by jurisdiction of the policyholder). In contrast, those factors that focus primarily on the location of the enrollee/certificate holder and/or providers used led to low attribution percentages: 10% (number of certificateholders by jurisdiction), 11.6% (Milliman's attribution method, allocating GHMSI's operating results to the residence of the individual insureds), 12% (paid claim expenses by jurisdiction), and 12.5% (number of providers by jurisdiction).

The difficult decision the DISB needs to make, then, pertains to how to evaluate results relative to group health insurance and, more specifically, what weight to give to the location of the master group policyholder vs. the location of enrollees/certificateholders. An argument could be made that the location of the enrollees/certificateholders should be given the most weight since they and the providers they frequent have a critical impact on GHMSI's profitability due to their use of medical care and the cost of that care. However, an argument could also be made that the location of the master group policyholders should be given the most weight since employers chose to locate in the District rather than in one of the contiguous states; since they and their employees consume the District's resources and benefit by being associated with the District; and since the employers (and not the enrollees/certificateholders) typically pay a majority of the premium associated with group health insurance.

We believe both arguments have merit, and we recommend that the DISB give equal weight to each argument. To do so, we recommend that the DISB separate the seven factors we analyzed in our 2009 Report into two groups, with one group consisting of the three factors that focus on the location of the policyholder and the other group consisting of the four factors that focus on the location of the enrollees/certificateholders/providers. We then recommend that the DISB update our results from 2009 and, using current data, calculate the average percentage of each of the two groups separately, and then average those two resulting numbers to arrive at the final result.

In other words, using as an example the numbers from our 2009 Report: (1) the three factors that focus on the location of the policyholder would lead to an average of 56.43% for that group (31.20 + 68.92 + 69.18 = 169.30, divided by 3 = 56.43); (2) the four factors that focus on the location of the enrollee/certificateholder/providers would lead to an average of 11.53% for that group (12.5 + 10.0 + 12.0 + 11.6 = 46.1, divided by 4 = 11.53); and (3) the two average factors arrived at above would be averaged to lead to a final result of 33.98% (56.43 + 11.53 = 67.96, divided by 2 = 33.98).

2. *Based on the Modified Milliman Model, please provide the surplus target generated if, instead of a 98% confidence level, the following confidence levels are used:*

    a. *90% confidence level;*
    b. *93% confidence level; and*
    c. *95% confidence level.*

Response: As we indicated previously, the decision was made early in the review process to use the Modified Milliman Model to calculate the various RBC percentages. As such, the various calculations referenced in our December 9, 2013 Report ("our 2013 Report") were performed by Milliman and not by us (subject, of course, to our oversight and review and using assumptions we approved). Accordingly, to get an answer to your question that is "apples to apples" with the calculations set out in our 2013 Report, we suggest this question be directed to GHMSI or Milliman. When doing so, we also suggest that you clarify that the confidence levels you seek pertain to the 200% RBC threshold, rather than the 375% RBC threshold, and that GHMSI/Milliman be required to perform the calculations by using the same assumptions used in the Modified Milliman Model (other than assumptions regarding the selected confidence level), as follows:

- the probability distributions used in the stochastic modeling process set forth in our 2013 Report with respect to the rating adequacy and fluctuation factor; the unidentified growth and development factor; the catastrophic event factor; and the premium growth level factor;

- the probability distributions used in the stochastic modeling process set forth in Milliman's February 27, 2014 correspondence describing the probability distribution assumptions used in Milliman's analysis for the remaining nine factors; and

- the baseline assumption used in the pro forma projections set forth in our response to Question 5.a.

If desired, we could review the calculations, once performed, to ensure that they are consistent with the other calculations referenced in our 2013 Report.

3. *At the hearing, GHMSI indicated that 40% of GHMSI's surplus comes from its 50% ownership of BlueChoice.*

    a. *Please describe how the Modified Milliman Model incorporated BlueChoice into its process.*

    Response: In general ways, GHMSI's ownership of BlueChoice was considered throughout our analysis. For example, in connection with our review of the trend component of the rating adequacy and fluctuation factor of the stochastic portion of the Modified Milliman Model, we considered the potential for random

fluctuations by market segment, which involved evaluating the characteristics of the business written by BlueChoice separate from those of the business written directly by GHMSI.

In addition to these types of general considerations, BlueChoice's business was specifically incorporated in the Modified Milliman Model in two more direct ways.

First, as part of the stochastic modeling process, due to the differences between BlueChoice's business and that of GHMSI, BlueChoice's business was analyzed separately from that of GHMSI in connection with the premium growth probability distribution assumption. The manner in which this was done is described in FTI's May 16, 2013 memorandum titled "Premium Growth Assumption," and particularly on pp. 2-5 of that memorandum. A copy of that memorandum has been previously provided to the DISB.

Second, as part of the pro forma modeling process, GHMSI's ownership of BlueChoice was taken into account in determining the appropriate baseline assumptions and starting values used, as described further in the DISB's May 13, 2014 response to Appleseed's questions, and particularly on pp. 6-8 of that letter.

b. Please explain how the inclusion of BlueChoice affects the assumptions in the model and whether BlueChoice results should be considered in comparing assumptions to historical experience.

Response: As noted above, in addition to considering BlueChoice in a general way throughout our analysis, the inclusion of BlueChoice affected two specific assumptions in the Modified Milliman Model: (1) the premium growth probability distribution assumption in the stochastic modeling component of the Modified Milliman Model; and (2) the baseline assumptions and starting values used in the pro forma modeling component of the Modified Milliman Model. At a minimum, BlueChoice's results should be considered when comparing assumptions to historical experience in those two areas.

4. For each of the 13 factors used in the stochastic modeling for the Modified Milliman Model—(1) equity portfolio asset values, (2) premium growth rate, (3) rating adequacy and fluctuation, (4) unpaid claim liabilities and other estimates, (5) change in interest/discount rate, (6) bond portfolio impairment, (7) overhead expense recovery and fee income risks-commercial business, (8) overhead expense recovery and fee income risks-FEP indemnity business, (9) overhead expense recovery and fee income risks-FEP operations center business, (10) overhead expense recovery and fee income risks-BlueCard, (11) other business risks, (12) catastrophic events and (13) unidentified development and growth:

a. Please provide a brief description of how you arrived at the conclusion that the probability distribution and associated surplus impacts were reasonable and "middle of the fairway" assumptions.

Response: We analyzed the probability distributions for each of the 13 factors used in the stochastic model for the purpose of determining whether they were reasonable and "middle of the fairway" assumptions. We revised the probability distributions that Milliman used for four of the 13 factors: 1) rating adequacy and fluctuation; 2) premium growth rate; 3) catastrophic events; and 4) unidentified development and growth. For the other nine factors, we concluded that the probability distributions selected by Milliman were appropriate.

In performing our analysis, we took into account GHMSI's historical experience and credible industry data. We also took into account anticipated future trends with respect to each of the factors, especially for those factors that might be affected by health care reform. In our response to Question 4.b. below, we briefly describe our work relative to each of the 13 factors.

b. Please include in your description references to the specific data relied upon in reaching this conclusion.

Response: The following is a brief description of how we arrived at the conclusion that the probability distributions and associated surplus impacts of each of the 13 factors were reasonable and "middle of the fairway" assumptions as well as the specific data relied upon in reaching those conclusions.

(1) Equity Portfolio Asset Values

As indicated in our response to Question 7, the pro forma projections start with an average annual investment earnings rate of 3.75% as a baseline (beginning) assumption. That baseline assumption is based on the anticipated return for GHMSI's investment portfolio, which consists of a blend of equity and fixed income investments. GHMSI's investment portfolio is weighted toward fixed income and other such investments rather than toward equity holdings. As such, anticipated earnings pertaining to equity investments are part of—but only a part of—the anticipated returns that collectively comprise the average annual investment earnings rate of 3.75%. The equity portfolio asset value factor being asked about here pertains to potential deviation and variation from one portion of that baseline (beginning) assumption—the portion of the assumption pertaining to equity investments.

In evaluating both the reasonableness of the baseline assumption and the potential for deviations from the baseline, we reviewed Standard & Poor's index data from 1957 to 2012. Equity values have increased on average at a rate of 7.3% as measured by the S&P index over the last 50 years. While on average there has been a history of equity growth, there is significant volatility around the average.

By comparing the deviations of the S&P 500 over a 50 year period, we were able to validate the equity assumptions in the stochastic portion of the model and, therefore, the reasonableness of the potential for deviation and variation from the equity portion of the average annual investment earnings rate assumption under the pro forma portion of the Modified Milliman Model.

(2) Premium Growth Rate

Our response to Question 6 provides a detailed description of our analysis of the premium growth rate factor and the specific data relied upon in our analysis. In addition, as noted in Question 6.a., a detailed description of the manner in which the premium growth probability distributions were determined is contained in FTI's May 16, 2013 memorandum titled "Premium Growth Assumption," a copy of which has been previously provided to the DISB.

In addition to historical information pertaining to GHMSI and CareFirst, industry sources that we reviewed include NHE data; HCI medical loss trend data provided by Milliman; National Healthcare Expenditure data; a PWC study titled "Medical Cost Trend: Behind the Numbers 2013"; and a Society of Actuaries' March 2013 SOA research report titled "Cost of the Future Newly Insured Under the Affordable Care Act".

(3) Rating Adequacy and Fluctuation

The rating adequacy and fluctuation factor incorporates a number of different variables with a focus on the effect of changes in medical trends on future premium rate adequacy. With respect to our analysis of medical trend, we spent considerable time reviewing the various components of the standard trend deviation that Milliman used in its modeling. For the secular trend component (i.e., the trend deviation component that represents the trend variation based on health care cost changes), we took into account the annual change in the HCI index for the period of 1986-2010. For the other components of the standard trend deviation, we reviewed GHMSI's historical experience and industry data to confirm the appropriateness of Milliman's assumptions.

In addition to examining historical experience and industry data, we also took into account the effect of health care reform on the probability distributions. A detailed description of the manner in which the effects of health care reform were taken into account is contained in FTI's September 12, 2013 memorandum titled "ACA Reform and Surplus Requirements," a copy of which has been previously provided to the DISB.

(4) Unpaid Claims Liabilities and Other Estimates

The unpaid claims liability and other estimates factor takes into account risks associated with nonpayment of claims and other liabilities due to reserving errors. The probability distributions for this factor correlate with the probability

distributions for the rating adequacy and fluctuation factor. In other words, in instances where there is a high probability that rates are unknowingly inadequate, there is also a high probability that reserves will be unknowingly inadequate. Accordingly, the analysis we performed with respect to this unpaid claims liability and other estimates factor, and the specific data relied upon, is the same as that with respect to the rating adequacy and fluctuation factor, as described above.

(5) Change in Interest/Discount Rate

As indicated in our response to Question 4.b.(1) above, and in our response to Question 7, the pro forma projections start with an average annual investment earnings rate of 3.75% as a baseline (beginning) assumption. That baseline assumption is based on the anticipated return for GHMSI's investment portfolio, which consists of a blend of equity and fixed income investments. The change in interest/discount rate factor being asked about here pertains to potential deviation and variation from one portion of that baseline (beginning) assumption—a portion of the assumption pertaining to how interest and discount rates impact investment earnings.

To evaluate the probability distributions for this factor, we assessed various components and characteristics relating to the bond market that could affect the impact of changes in interest/discount rates. For example, we considered the interest rate environment, the degree of volatility of the bond market, the inflation outlook, the characteristics of the bond portfolio (term of maturity, market yield, and unrealized gains or losses), etc., as described in the Milliman Technical Materials dated February 23, 2013 ("Technical Materials). [1]

We also think it appropriate to respond to a comment Mr. Shaw made on p. 39 of his pre-hearing report:

> 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.

[1] Please note that the Technical Materials were provided to R&A after R&A entered into a Confidentiality Agreement with both Milliman and GHMSI. It is our understanding that the Technical Materials were intended to be covered by our Confidentiality Agreements.

Below are the probability distributions used in the Modified Milliman Model:

Modified Milliman Model Interest/Discount Rate Surplus Change as a % of Non-FEP Insured Premiums	
Probability	**Charge**
10.0%	0.5%
35.0%	-0.1%
45.0%	-1.0%
10.0%	-1.9%

We believe this chart reflects the view in the investment community that it is more likely that interest rates will increase than decrease in coming years. Our view is based on the current low interest rate environment and indications from the U.S. Federal Reserve that it intend to increase interest rates.

In addition, we note that these probability distributions include a 35% probability of only a -0.1% surplus change (expressed as a percentage of non-FEP premium) due to interest/discount rate changes. This probability selection would not have had a material impact on the stochastic modeling results. In other words, contrary to Mr. Shaw's statement, the probability selections essentially provide a 45% chance that interest rates will stay relatively the same or decrease, and a 55% chance (not 90%) that they will increase by a material amount.

(6) Bond Portfolio Impairment

As indicated in our response to Question 4.b.(1) above, and in our response to Question 7, the pro forma projections start with an average annual investment earnings rate of 3.75% as a baseline (beginning) assumption. That baseline assumption is based on the anticipated return for GHMSI's investment portfolio, which consists of a blend of equity and fixed income investments. The change in the bond portfolio impairment factor being asked about here pertains to potential deviation and variation from one portion of that baseline (beginning) assumption—a portion of the assumption pertaining to bond investments.

To determine the probability distributions for this factor, we assessed various components and characteristics relating to the bond market that could affect bond portfolio impairments. For example, we considered the portfolio rating mix, bond market conditions, the economic environment, and specific characteristics of the bond portfolio, as described in the Technical Materials.

We also noted that this factor would not have a material impact on the results of the modeling process. In fact, there was an 83% probability that this factor would have little or no impact on surplus at all.

(7) Overhead Expense Recovery and Fee Income Risks-Commercial Business
(8) Overhead Expense Recovery and Fee Income Risks-FEP Indemnity Business
(9) Overhead Expense Recovery and Fee Income Risks-FEP Operations Center Business
(10) Overhead Expense Recovery and Fee Income Risks-BlueCard
(11) Other Business Risks

These five factors are intended to capture risks associated with GHMSI's fixed expenses if GHMSI loses business. In other words, although GHMSI could cut some expenses if it lost business, it could not reduce all expenses proportionately, thereby increasing GHMSI's loss expense ratio beyond what it had factored into pricing.

To evaluate the probability distributions for this factor, we assessed various components of GHMSI's overhead. These components included the general and administrative expenses for each of its business segments; the correction period that would be required to eliminate the overhead expenses involved; and the likelihood that GHMSI will lose certain business segments, as described in the Technical Materials.

We also noted that these factors would not have a material impact on the results of the modeling process. In fact, the probability that any one of these factors would have no little or impact on surplus at all ranged from 75% to 90%, depending on the factor.

(12) Catastrophe Events

As indicated on p. 24 of our 2013 Report, catastrophic events are potential events affecting GHMSI's operations that are infrequent, severe and unpredictable. Because of the nature of catastrophic events (events that have a low probability of occurring but have a large severity when they do occur), there is little GHMSI data available to estimate the probability and severity of future catastrophic events. Accordingly, it is more difficult to select assumptions relative to the possible effect of catastrophic events on GHMSI's operations than it is to select assumptions for factors as to which data readily exists.

Below are the probability distributions used in the Modified Milliman Model:

Modified Milliman Model Catastrophic Events Surplus Change as a % of Non-FEP Insured Premiums	
Probability	**Charge**
90.0%	0.0%
7.5%	2.5%
2.5%	7.5%

To give some context to the distributions used, a 2.5% probability of a catastrophic event occurring within the three-year time period (the time period used in the pro forma projections) corresponds to a catastrophe occurring in just 1 out of every 40 such periods. Similarly, a 7.5% probability of a catastrophic event occurring within the three-year time period (the time period used in the pro forma projections) corresponds to a catastrophe occurring in just 1 out of 13.3 such periods.

(13) Unidentified Growth and Development

As we indicated on p. 25 of our 2013 Report:

> … unidentified growth and development are extraordinary expenditures resulting from unanticipated growth and investment needs, including technology and infrastructure investments, new product development, and responses to legislative changes.

The specific data that we took into account in analyzing this component included the following:

- The average one-year growth of GHMSI's non-admitted assets was 20% from 1998 – 2012. This figure excludes non-admitted assets related to investments, taxes and pension plan expenditures, which could obscure more general trends. GHMSI's growth in non-admitted assets is a way to capture GHMSI's investment in electronic and data processing equipment ("EDP").

- The health insurance industry as a whole experienced an average one-year growth of 6.5% in total non-admitted assets of 6.5% and of 9.0% in EDP that was treated as non-admitted assets during the same 1998-2012 time period.

- As of December 31, 2011, GHSMI held $126 million in non-admitted assets (excluding non-admitted assets related to investments, taxes, and pension plan expenditures). Assuming growth in EDP that is treated as non-admitted assets at the industry pace of 9% per year, GHMSI would experience approximately a $37 million total increase in non-admitted assets over a three year period. Such an increase would represent an additional charge of approximately 1.7% of GHMSI's non-FEP premium.

c. Additionally, please briefly describe any validation tests you ran for specific assumptions and the outcome of those tests.

In our response to Question 8.b., we describe in detail tests used to validate the assumptions selected in the Modified Milliman Model to GHMSI's historical experience. Further, we validated the selections made relative to each individual assumption to GHMSI's experience, to industry experience, and/or in other analytic ways as described in our assumption-by-assumption response to Question

4.b. above. In other words, we performed validation testing of assumptions in both a bottom up fashion (validating the selections made relative to each assumption against company, industry or other such experience), and in a top down fashion (comparing the assumptions selected, as a group, to GHMSI's historical operating results).

5. *For each assumption that affects surplus that was used in the pro forma projections for the Modified Milliman Model—including (1) average expected investment yield, (2) tax carryback assumptions, (3) other income assumptions, (4) other tax assumptions, (5) premium growth assumptions, and (6) any other major assumptions:*

   a. *Please provide a brief description of how you arrived at the conclusion that the assumption was a reasonable and "middle of the fairway" assumption.*

      Response: The baseline assumptions that were used in the pro forma projections were set forth in the DISB's May 13, 2014 response to Appleseed's questions, beginning on p. 6 of that letter, and are set forth again below:

      i. Average expected investment yield -- 3.75%, including realized and unrealized capital gains

      ii. Pricing margin for non-FEP insured business – 2.8%

      iii. Tax carryback assumptions -- tax loss carryback was assumed to be available at the onset of the loss cycle in the amount of $100 million (equal to one year's expected pre-tax net gain)

      iv. Other tax assumptions -- annual tax rate of 28.2% (average of 20% for GHMSI and 36.5% for CFBC); no tax loss carry forwards applicable (non-admitted under the conditions of the loss scenarios); and any existing deferred tax asset is non-admitted

      v. Pro forma financial statements projection time period -- 3 years

      vi. ASC average annual growth rate (claims plus fee income) – 8.3%

      vii. Other income assumptions -- $1.1 million annually (includes Non-Risk Other, FEP service center (SBP) and other subsidiaries (NCIA, Willse and Associates, and NCAS))

      viii. FEP net gain -- .2% of FEP premium

      ix. ASC net gain -- .8% of claims plus fee income

The DISB's May 13, 2014 response to Appleseed's questions also describes the source of (the support and basis for) each assumption. Milliman's Technical Materials contained further information regarding the basis of the assumptions.

We reviewed the assumptions, the source information, and the Technical Materials on an assumption-by-assumption basis, and also took into account industry data and relevant historical information for GHMSI and, as appropriate, for BlueChoice. We also determined that the baseline assumptions were consistent with assumptions used by GHMSI and, as appropriate, by BlueChoice in their internal corporate projections and in annual statement and other regulatory filings.

In connection with this question, it is also important to remember that the assumptions in the pro forma part of the Modified Milliman Model do not determine the result. Rather, they are only the beginning assumptions. The result is determined by a combination of those beginning assumptions and potential deviations and variability from those beginning assumptions as measured and determined pursuant to the stochastic modeling portion of the Modified Milliman Model.

For example, the first baseline assumption described above is an average expected investment yield of 3.75%, including realized and unrealized capital gains. The source for that baseline assumption is that it is an average of GHMSI's historical investment yield. However, that number is only one part of what effectively is the Modified Milliman Model assumption pertaining to investment yield. A number of potential deviations from that baseline are measured and evaluated as part of the stochastic modeling process—factors such as the equity portfolio assets value factor, a factor for changes in interest discount rates, etc. What drives the result is the beginning factor of 3.75%, as modified by variation from that factor, and the various probabilities assigned to potential variations. Accordingly, our analysis as to whether the assumptions were appropriate and "middle of the fairway" included not only an analysis of the baseline (beginning) assumptions themselves—the specific question being posed here—but also an analysis of the deviations and variability from that baseline as measured by the various components of the stochastic modeling process, as described further in our response to Question 4. One should not be viewed in isolation of the other.

In our response to Question 5.b. below, we briefly describe our work relative to each of the pro forma assumptions.

b. Please include in your description references to the specific data relied upon in reaching this conclusion.

Response: The following describes the specific data and analysis we performed in reaching the conclusion that the baseline assumptions were reasonable and "middle of the fairway" assumptions.

i. Average expected investment yield -- 3.75%, including realized and unrealized capital gains
The average expected investment yield represents the expected yield for GHMSI's investments (not including investments held separately for the GHMSI pension plan). We determined that although this assumption could be somewhat high given the current economic environment, it is consistent with GHMSI's recent investment results. We also noted that lowering the expected yield would increase the amount of needed surplus since GHMSI would need more starting surplus to make up for the lower earnings assumption. Further, we found that the factors relating to investment risks that were included as part of the stochastic modeling process appropriately make adjustments for the variability around this baseline assumption.

ii. Pricing margin for non-FEP insured business – 2.8%
We determined that this assumption is consistent with GHMSI's recent historical experience. We noted that GHMSI's pricing margins for non-FEP business vary by year, but found the selected baseline assumption to be reasonable and "middle of the fairway." Further, we found that the rating adequacy and fluctuation factor that was included as part of the stochastic modeling process appropriately makes adjustments for the variability around this baseline assumption.

iii. Tax carryback assumptions – a tax loss carryback was assumed to be available at the onset of the loss cycle in the amount of $100 million (equal to one year's expected pre-tax net gain).
We determined that in a loss cycle, it is reasonable to assume that a tax loss carryback of this size would be available. We noted that the combined effect of the assumed tax carryback and other tax assumptions, described below in the response to Question 5.b.iv., is a net positive impact on surplus of $9.6 million during the first year of the projection period for a downward loss cycle.

iv. Other tax assumptions – annual tax rate of 28.2% (average of 20% for GHMSI and 36.5% for CFBC); no tax loss carry forwards applicable (non-admitted under the conditions of the loss scenarios); and any existing deferred tax asset is non-admitted.
We determined that this assumption is consistent with GHMSI's recent historical experience. Although a 28.2% annual tax rate is below the 35% federal tax rate, we determined that the assumption is reasonable, in part because the lower rate has the effect of reducing the amount of necessary surplus. In addition, the choice of an annual tax rate assumption is complicated by the possible effect of deferred tax assets and loss carryforwards. We noted that the combined effect of the tax carryback, described above in response to Question 5.b.iii., and other tax assumptions is a net positive impact on surplus of $9.6 million during the first year of the projection during a downward loss cycle.

v. Pro forma financial statements projection time period – 3 years
We determined that this time period is reasonable for a pro forma projection period. Given possible future changes in GHMSI's operations, particularly resulting from health care reform, we believe a three-year projection period is appropriate. If a longer projection period is used (for example, a five-year projection period), the resulting surplus need findings might vary considerably from surplus resulting from GHMSI's actual operations because of changes in operations over such an extended time period.

vi. ASC average annual growth rate (claims plus fee income) – 8.3%
We determined that this assumption is consistent with GHMSI's 2009 and 2010 reported experience.

vii. Other income assumptions – $1.1 million annually (includes Non-Risk Other, FEP service center (SBP) and other subsidiaries (NCIA, Willse and Associates, and NCAS))
We determined that this assumption is consistent with GHMSI's 2009 and 2010 reported experience.

viii. FEP net gain – .2% of FEP premium
The FEP pricing margin was set at 0.2%, a negligible amount. Although this business segment generates substantial premium volume, it is not possible for this line of business to generate significant profits due to the nature of the contractual relationships involved. Accordingly, it is unlikely that this line will have more than a marginal impact on the bottom line.

ix. ASC net gain – (.8)% of claims plus fee income
Because of the nature of GHMSI's ASC business (i.e., administrative services contract business), this business impacts GHMSI's finances in a more material fashion than its FEP business. Based on the assumed net gain for ASC business, this business generates losses of approximately $35 million over the course of the three year projection period. GHMSI's reported ASC losses in 2009 and 2010 were $30.6 million and $20.2 million, respectively. Accordingly, the projected losses of ASC business that are assumed in the pro forma projection of approximately $12 million per year for the three year projection period is in line with GHMSI's recent historical experience for this line of business.

c. *Additionally, please briefly describe any validation tests you ran for specific assumptions and the outcome of those tests.*

The baseline assumptions described above, if viewed in isolation, are not particularly complicated. We reviewed and analyzed the bases and sources for each assumption, as described above. Accordingly, we did not believe it to be necessary to run any validation tests specifically for the baseline assumptions. As indicated above, however, the baseline assumptions are only the beginning assumptions. The result is determined by a combination of those beginning

assumptions and potential deviations and variability from those beginning assumptions as measured and determined pursuant to the stochastic modeling portion of the Modified Milliman Model. The baseline assumptions should not be viewed in isolation of the probability distributions for the factors employed in the stochastic modeling. Accordingly, the validation tests described in Questions 4.c. and 8.d of this response also serve as validation tests relative to the baseline assumptions and, more specifically, to what are, in effect, the final assumptions in each of the topic areas covered by the baseline assumptions.

6. *Appleseed testified that, looking at historic results, (1) GHMSI's premium growth averaged 2.8% over the last five years with a maximum of 6.8%, and (2) the Modified Milliman Model used a 12.5% midpoint assumption for the premium growth factor. See Transcript at 193.*

   a. *Please describe the distribution used in your analysis and the basis for the midpoint used in the Modified Milliman Model.*

   Response: Appleseed's testimony is inaccurate or, more specifically, incomplete. The Modified Milliman Model does not use just one premium growth assumption. Rather, it incorporates a range of assumptions, and the range of assumptions used for FEP business is different from the range used for non-FEP business. The probability distributions that were used in the Modified Milliman Model are as follows:

Modified Milliman Model Annual Premium Growth Rates			
Non-FEP Business		**FEP Business**	
Growth Rate	**Probability**	**Growth Rate**	**Probability**
9.1%	25.0%	6.5%	25.0%
12.4%	50.0%	7.5%	50.0%
16.1%	25.0%	8.4%	25.0%

These probability distributions were included in our 2013 Report.

Further, Appleseed's testimony regarding GHMSI's growth rate average "over the last five years" is based on a different time period than the period we used to determine the historic growth rate average. Based on information in the pre-hearing reports filed by Appleseed and by United Health Actuarial Services, Inc. ("UHAS") on Appleseed's behalf, it appears that Appleseed used the 2009-2013 time period to calculate its averages whereas we used the period 2003-2012. Because our work was finalized in 2013, year-end information for 2013 was not available to us when we did our work, so we did not include that information, and we believe periods earlier than 2009 should also have been considered. Accordingly, whereas Appleseed testified to a growth rate average of 2.8% for the dates it selected, our analysis showed that the growth rate average was 7.5% for the 10-year period we analyzed and was 8.4% for that period if you exclude 2008,

the data for which was an anomaly due to the impact of a significant reinsurance agreement that caused a one-time change to GHMSI's insured population.

More importantly, we believe historical experience should constitute only one part of the analysis. Historical information is helpful, and it should be considered, but it should not control, especially in situations where the future may be quite different from the past. In light of the adoption and implementation of ACA (the bulk of the impact of which will take place in the future and cannot be seen in the historic numbers) and in light of the impact of the financial crisis (whereby policyholders in the years considered by Appleseed had the strong financial incentive to lower premiums in whatever way possible), we concluded both that assumptions about the future should not necessarily be the same as the historical experience and that, even when looking at historical experience, a longer period of time was needed rather than just looking at the years in the immediate aftermath of the financial crisis.

An overview of the manner in which the premium growth probability distributions used in the Modified Milliman Model were determined, including the midpoint for the distributions, is described in our 2013 Report on pp. 27-30. In addition, a detailed description of the manner in which the premium growth probability distributions were determined is contained in FTI's May 16, 2013 memorandum titled "Premium Growth Assumption," a copy of which has been previously provided to the DISB.

b. *Please address the extent to which, if any, the premium growth rates projected in the Modified Milliman Model depart from GHMSI's historical experience and why those projections are appropriate. In other words, how did Rector conclude that GHMSI's premium growth assumptions were right down the middle of the fairway given GHMSI's actual historical premium growth?*

Response: As noted above, we believe historical experience should constitute only one part of the analysis. Historical information is helpful, and it should be considered, but it should not control, especially in situations where the future may be quite different from the past. In light of the future impact of ACA, and in light of the probable distortion of premium information in the years immediately following the financial crisis, we concluded that assumptions as to future premium growth should be different from historical experience.

As noted above, our analysis started with an historical analysis covering the period 2003-2012. For that period, the growth rate average was 7.5% for the entire period we analyzed and 8.4% for the period if you exclude 2008, the year of an anomalous impact due to the reinsurance agreement leading to a one-time change to GHMSI's insured population.

After analyzing GHMSI's historical premium growth levels, we then took into account the following factors in determining the premium growth probability

distributions used in the Modified Milliman Model (note that these factors also were described in our 2013 Report and in FTI's May 16, 2013 memorandum):

1) ***Changes in future enrollment, including enrollment due to ACA implementation.*** We considered anticipated changes in enrollment in GHMSI's individual products resulting from health care reform. On balance, we believed that, all other things being equal, this would cause GHMSI's premiums to increase more quickly than historic averages.

2) ***Rising health care costs.*** We considered health care costs that were anticipated to continue to rise as a result of medical inflation. In other words, we factored the anticipated rise in medical "trend" into the required increase in premiums needed to cover such costs.

3) ***Policyholder cost-sharing decisions.*** Due to the rising costs of health insurance, and the impact of the financial crisis, policyholders in recent years made health care purchasing decisions that increased their share of health care costs while reducing health insurance premium levels. This had the effect of causing recent historical experience of premium growth to be lower than longer term averages. We anticipated that policyholders had reached a point where cost-sharing decisions will no longer drive policyholder's premium level choices so that premium growth levels would return to a more typical growth pattern in the future.

4) ***Distinction between FEP and non-FEP premium.*** Although GHMSI's FEP business is an insured program, the program is constructed in a manner that significantly reduced GHMSI's short-term underwriting risk with respect to its FEP participation. In addition, the NAIC RBC formula applies a significantly lower risk charge to FEP business. We also anticipated greater potential for growth in GHMSI's non-FEP business than in its FEP business because of ACA implementation. As a result, we distinguished between FEP and non-FEP premium in the premium growth probability distributions used in the Modified Milliman Model.

A detailed description of the manner in which we determined and took into account GHMSI's historical premium growth levels in our analysis of the premium growth probability distributions that were used in the Modified Milliman Model is contained in FTI's May 16, 2013 memorandum titled "Premium Growth Assumption," a copy of which has been provided to the DISB.

c. How did GHMSI's post-2011 actual results compare to the assumptions underlying the premium growth rate?

Response: As indicated in our response to Question 6.a., above, the midpoint of the premium growth probability distribution for non-FEP premium in the Modified Milliman Model was a 12.4% growth rate. The other probability distributions for non-FEP premium growth were a 25% probability of a 9.1%

growth rate and a 25% probability of a 16.1% growth rate. GHMSI's actual post-2011 non-FEP premium levels decreased by 5% during 2012 and by 6% during 2013.[2]

As indicated in our response to Question 6.a., above, the midpoint of the premium growth probability distribution for FEP premium in the Modified Milliman Model was a 7.5% growth rate. The other probability distributions for FEP premium growth were a 25% probability of a 6.5% growth rate and a 25% probability of a 8.4% growth rate. GHMSI's actual post-2011 FEP premium levels increased by 5% during 2012 and decreased by 3% in 2013.[3]

It appears that GHMSI's non-FEP premium reductions were largely driven by an unanticipated reduction in membership enrollment. In particular, there were significant reductions in enrollment in GHMSI's group medical insurance products during 2012 and 2013. Further, national medical trends have been lower than was anticipated at the time our 2013 Report was prepared. Both of these factors caused GHMSI's actual post-2011 non-FEP premium to be lower than had been anticipated.

Early results for 2014 indicates modest levels of premium increase, as compared to 2013 average quarterly premium levels, which are attributable both to increases in membership and premium. Based on our analysis, it appears that the non-FEP premium level increase was driven by an increase in the individual product enrollment by double digits.

7. *Please describe in detail the data underlying the equity portfolio factor distribution, as used in the Milliman Model.*

Response: Before responding to the specific questions below, we think it would be helpful to describe the approach taken in the Modified Milliman Model to capturing risks associated with GHMSI's investment earnings.

The pro forma projections start with an average annual investment earnings rate of 3.75% as a baseline (beginning) assumption. That average annual investment earnings rate is based on the anticipated return for GHMSI's investment portfolio, which consists of a blend of equity and fixed income investments. As such, anticipated earnings pertaining to equity investments are part of—but only a part of—the anticipated returns that collectively comprise the average annual investment earnings rate of 3.75%. In fact, GHMSI's investment portfolio is weighted more toward bonds and other such investments than towards equities.

As discussed further in our response to Question 6.a, the baseline assumption is only the beginning assumption pertaining to investment earnings. The stochastic portion

[2] Total direct written non-FEP premium for GHMSI and for 50% of BlueChoice totaled $1.98 billion in 2011, $1.88 billion in 2012; and $1.78 billion in 2013.
[3] Total direct written FEP premium for GHMSI and for 50% of BlueChoice totaled $1.73 million in 2011; $1.82 million in 2012; and $1.76 million in 2013.

of the Modified Milliman Model also captures potential deviations from the baseline assumption. Because GHMSI's investments include both equities and bonds, and because GHMSI holds assets in both its general account and in the pension plan, the stochastic portion of the Modified Milliman Model captures these potential deviations through several different factors. Potential deviations from the 3.75% baseline assumption are not captured just through the equity portfolio assets factor. In other words, the equity portfolio assets factor asked about here pertains to potential deviations from the portion of the baseline assumption that involves equity investments. Other factors capture the potential for deviations in other parts of the investment portfolio. Thus, the factor being asked about here is one—but only one—of the factors used in the stochastic modeling process to capture potential deviation from the baseline investment earnings assumption.

a. Did the underlying assumptions change from those in the original Milliman Model? If yes, how?

Response: There was no change in the underlying assumptions (the probability distributions) relating to the equity portfolio factor during the current surplus review. In other words, the probability distributions for the equity portfolio factor that were used in the Modified Milliman Model are the same probability distributions used for the equity portfolio factor in Milliman's Report dated May 31, 2011, which is the report Milliman issued relative to the current review period ("Milliman 2011 Report").

Although not directly responsive to your question, we wish to note that Milliman handled the assumption differently in connection with the current review than it did in connection with the prior review. In the prior review, Milliman did not take into account the risks and contingencies associated with the pension plan's equity portfolio holdings in determining the probability distributions for the equity portfolio factor. In our 2009 Report, we criticized that approach, saying that risks associated with the pension plan's equity portfolio holdings should have been considered. In response to our criticism, Milliman changed the approach in its 2011 review. Accordingly, although there was no change to the approach taken to the equity portfolio factor between the Milliman 2011 Report and the Modified Milliman Approach, there was a change to the approach taken with respect to the equity portfolio factor between Milliman's 2009 approach and the Milliman 2011 Report. Milliman described the change in approach on page 16 of the Milliman 2011 Report. That change, taken between review periods, also was noted in response to questions raised by Appleseed seeking to compare the current results to those from the prior review.

b. Is it correct that the equity portfolio factor, as used in the Modified Milliman Model, has an overall negative return and therefore would require additional surplus?

Response: No, that is not correct.

i. If no, please address the argument made by Appleseed in its hearing testimony (see, e.g., Hearing Transcript at pages 214-215) suggesting that the probability distribution for the equity portfolio factor in the Modified Milliman Model has an overall negative return.

Response: The statement made in testimony by Mark Shaw of UHAS on behalf of Appleseed is "… the fact of the matter is they assumed that there's a loss on the equity portfolio asset factor 53 percent of the time…." (p. 215 of the Hearing Transcript).

That statement is not accurate. We believe Mr. Shaw and Appleseed are confusing assumptions pertaining to deviations from the baseline (beginning) assumption with the final assumption itself.

As noted above, the pro forma projections start with an average annual investment earnings rate of 3.75% as a baseline (beginning) assumption. As noted, that baseline assumption covers GHMSI's entire investment portfolio, only one portion of which consists of equity investments. The probability distribution Appleseed references in Mr. Shaw's testimony pertains solely to potential deviations from the portion of the baseline assumption that pertains to equities.

We believe that Mr. Shaw's testimony relates to the following chart, which was provided in Milliman's February 27, 2014 correspondence that was provided to Appleseed by the DISB on March 5, 2014:

Modified Milliman Model **Equity Portfolio Asset Values Risk Factor Surplus Change as a % of Non-FEP Insured Premiums**	
Probability	**Charge**
10%	11.5%
12%	3.8%
25%	0.9%
29%	-3.0%
14%	-6.9%
10%	-10.7%

It is easy to see that the bottom three rows consist of negative "charges," and the probabilities associated with those three rows add to 53% (29% + 14% + 10% = 53%). We believe Mr. Shaw and Appleseed incorrectly concluded that this chart means that the Modified Milliman Model assumed that the equity portfolio would lose money 53% of the time when, instead, it means that 53% of the time the portfolio would earn less than the positive gain assigned to it in connection with the baseline assumption calculation. The deviation factors referenced here provide that, slightly more than half of the time, the actual equity portfolio will earn less than was originally assumed in the pro forma.

ii. If yes, can you estimate how much the negative equity returns impacted the calculation of the surplus target?

Response: N/A.

c. How did the post-2011 actual results compare to the assumptions underlying the equity portfolio?

Response: As noted above, the pro forma projections start with an average annual investment earnings rate of 3.75% as a baseline (beginning) assumption. That average annual investment earnings rate is based on the anticipated return for GHMSI's investment portfolio, which consists of a blend of equity and fixed income investments. As such, anticipated earnings pertaining to equity investments are part of—but only a part of—the anticipated returns that collectively comprise the average annual investment earnings rate of 3.75%.

We compared GHMSI's post-2011 actual investment results to the baseline assumption used in the pro forma projections. Based on our analysis, we found that GHMSI's investment earnings rates were 3.13% and 3.31% as of December 31, 2012 and December, 31, 2013, respectively.[4]

We note that the baseline assumption used in the Modified Milliman Model for the annual investment earnings rate (3.75%) was higher than GHMSI's post-2011 actual investment results. However, this actually led to less of a surplus need than if the baseline assumption had been more in line with what GHMSI actually earned on investments post-2011. In other words, using an earnings assumption that was in line with GHMSI's actual earnings would have meant that GHMSI would need more starting surplus to make up for the lower earnings assumption.

8. Please address topics raised in Appleseed's pre-hearing report and hearing testimony including but not limited to the following:

a. Whether Rector validated key assumptions in the Modified Milliman Model;

Response: As described above, the Modified Milliman Model consists of two categories of assumptions. First, certain baseline assumptions were used in the pro forma projections that act as beginning assumptions. Second, potential deviations and variability from those baseline (beginning) assumptions are captured by the stochastic portion of the Modified Milliman Model.

[4] To determine GHMSI's investment earnings rate for 2013, we first determined GHMSI's average total cash and invested assets for 2012 and 2013 (total of Cash & Invested Assets for 2013 (Line 12, Column 3 from the Assets Page) + Cash & Invested Assets for 2012 (Line 12, Column 4 from the Assets Page), divided by two). We then divided GHMSI's 2013 net investment gains (Line 27, Column 2 from the Statement of Revenue & Expenses) by GHMSI's average total cash and invested assets to arrive at GHMSI's 2013 investment earnings rate. We repeated the same formula to determine GHMSI's investment earnings rate for 2012, except using 2012 and 2011 Annual Statement information.

The validation tests we performed relative to the baseline (beginning) assumptions and to potential deviations and variability from those baseline (beginning) assumptions are described above in our responses to Questions 4.c. and 5.b.

Further validation tests performed are described in our response to Question 8.b.

b. *Appleseed's assertion that FTI's validation of the model did not account for the dispersion of results;*

Response: In his pre-hearing report, Mr. Shaw stated that we validated the Modified Milliman Model only for median output values. Mr. Shaw indicated that:

> Validating the median output value may be one step in validation, but it is not sufficient. The whole purpose of the Milliman model or any model used to calculate needed surplus is not to provide protection against the median, but to provide protection against outlier results. Because it is the outlier results that may endanger the surplus of the company, an appropriate dispersion of results is the most crucial requisite for validation. (p. 47 of Mr. Shaw's pre-hearing report)

We agree with Mr. Shaw that validation testing is needed not only for the median output values, but also for the dispersion of results. However, contrary to Mr. Shaw's understanding, we in fact performed such testing. In addition to considering dispersion of results on an assumption-by-assumption basis as part of our evaluation of the reasonableness of the specific probability distribution inputs selected for each assumption (as described further in Questions 4, 5, 6, and 7 above), we also performed specific dispersion validation testing comparing the assumptions in the Modified Milliman Model to GHMSI's historic operating results. For that test, we evaluated GHMSI's underwriting gains and losses by year over a 30-year period. We grouped those gains and losses into 3-year segments to match up to the 3-year time period covered by the Modified Milliman Model and calculated standard deviations and related confidence levels based on various ways of aggregating that data: data aggregated for the total period, for the last 10 years, for the last 15 years, and for the last 20 years. These calculations therefore captured the dispersion of GHMSI's actual results in multiple ways over a 30-year period. We then compared the various underwriting assumptions in the Modified Milliman Model, including the variation (dispersions) relative to each assumption, to GHMSI's actual dispersion of results. Although we evaluated the dispersion of results relative to each aggregation of data, we specifically made sure that the assumptions selected were in line with the volatility for the 20 year period 1991-2010 because that period contained times of underwriting loss as well as gain and because it had more independent (uncorrelated) data points as compared to the shorter time periods.

Consequently, from both a bottom up perspective (assumption-by-assumption evaluation) and a top down one (comparing the assumptions as a group to GHMSI's actual dispersion of results), we validated the Modified Milliman Model in a manner that demonstrated a reasonable distribution and that considered an appropriate dispersion of results.

c. The use of data from the 1980s and the early 1990s in connection with the rating and adequacy factor;

Response: In testimony submitted at the public hearing on behalf of GHMSI, Milliman indicated:

> … 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….[5]

In its pre-hearing reports and testimony at the public hearing, Appleseed and Mr. Shaw indicated that they do not believe it is appropriate to consider industry data from the 1980s and early 1990s in the development of probability distributions for the rating adequacy and fluctuation factor. Mr. Shaw points out that, in more recent years, health care cost trends have been more stable than during the 1980s and early 1990s. Accordingly, Mr. Shaw suggests that only industry data since 2000 be used in the analysis of the rating adequacy and fluctuation factor.

We agree with Mr. Shaw that variability in health care cost trends has decreased in recent years, and we factored that conclusion into our analysis. However, we believe that relying only on industry data after 2000 provides fewer data points to credibly assess variability of industry health care costs over time. By analyzing health care cost trends over a longer time period, we can draw on more data points, including time periods during trend shifts, to reach conclusions on the future variability of industry health care cost trends. The mere fact that something has not happened with as much frequency in recent years as it has in past years does not mean that what happened in the past could not happen again, and it is precisely this potential for "variability" that the stochastic modeling assumptions are designed to capture. Excluding the data entirely—as sought by Appleseed and Mr. Shaw—has the practical effect of giving zero (0) probability to the chance that health care cost trends could in the future be as they were during the 1980s and early 1990s. We believe the better approach is to consider that data, but to give more weight to what has happened recently.

Selecting the number of years to examine to determine industry health care costs trends is a tradeoff between data that is stable (from analyzing a larger number of years) and data that is responsive to recent conditions (from limiting review to the

[5] See p. 5 of Testimony of Phyllis Doran, F.S.A., M.A.A.A., consulting actuary with Milliman.

most recent years). We believe the approach used in the Modified Milliman Model was able to achieve a balance between a credible dataset that is also responsive to more recent years' results.

d. The assumptions in the pro forma statements;

Response: We have responded to the topics raised in Appleseed's pre-hearing report and hearing testimony with respect to the assumptions in the pro forma statements in our responses to Questions 5 and 7, above.

e. Whether Rector accounted for risk-mitigating provisions of the ACA—the so-called 3Rs (reinsurance, risk corridors and risk adjustment)—that serve to limit or reduce potential underwriting losses;

Response: We considered the impact of ACA's risk-mitigating provisions—the reinsurance, risk corridor and risk adjustment programs (the so-called "3Rs").

For two of the 3R programs—the risk adjustment and risk corridor programs—the reconciliation process is not scheduled to take place until mid–2015, which is after the period covered by the Modified Milliman Model. Neither of those programs should have any impact on GHMSI's financial position during the current review period. However, we believe those programs should be considered further in connection with future surplus reviews.

Although the reconciliation process with respect to the reinsurance program is scheduled to take place in 2014, we concluded that the impact of any payments due from or received by GHMSI under the reinsurance program will be minimal. Accordingly, we concluded that no adjustments to the Modified Milliman Model for the reinsurance program were needed.

f. Whether Rector overstated the likely increase in GHMSI enrollment.

Response: Based on the information available at the time of our analysis, we do not believe we overstated the likely increase in GHMSI's enrollment. We believe we responded to the topics raised in Appleseed's pre-hearing report and hearing testimony with respect to the probability distributions for GHMSI's premium growth rate in our response to Question 6, above.

9. Please address any questions, comments or criticisms in Appleseed's pre-hearing brief or hearing testimony that you wish to address that have not been addressed in your responses to the requests above.

Response: There are a number of items in Appleseed's pre-hearing brief or hearing testimony that we would want to address if time and space were unlimited. However, in keeping with your request that all responses be concise in the interest of administrative economy, there is only one item not addressed above that we would like to address here, and that is Mr. Smith's testimony that our work was not

performed in accordance with the legal requirements of the statute as interpreted by the Court of Appeals.

Mr. Smith testified:

> In our view, under the requirements of the DC Court of Appeals decision – and I want to get these words right, so let me read them – you, Mr. Commissioner, are required to calibrate the confidence level and to show how surplus and community reinvestment are to be calculated and balanced.
>
> And in calibrating the confidence level, according to the Court of Appeals, you have to take into account the community reinvestment requirement. And that is what Rector has not done, as we laid out in our papers. (P. 185 of the Hearing Transcript)

We agree with Mr. Smith that the Commissioner needs to take the community reinvestment requirement into account when calibrating the confidence level. However, we vigorously disagree that we did not do so in our work.

The various components of the statute, as interpreted by the Court of Appeals, are addressed in our Report and testimony. Ultimately, though, the difficult task facing the Commissioner is to find the proper balance between the two determinations that the Commissioner is required to make:

1. Whether GHMSI has engaged in community health reinvestment to the maximum feasible extent consistent with financial soundness and efficiency; and
2. Whether GHMSI's surplus exceeds appropriate RBC requirements and is unreasonably large and inconsistent with GHMSI's community health reinvestment mandate.

The task is to find a balance—how much surplus is large enough so as not to undermine GHMSI's financial soundness and efficiency yet not so large as to be inconsistent with the mandate that GHMSI engage in community health reinvestment to the maximum feasible extent consistent with that financial soundness and efficiency? Ultimately, it is a policy decision that the Commissioner must make. Should GHMSI engage in community health reinvestment to the extent where it has a 10% probability of breaching the 200% RBC threshold over a 3-year period—in other words, should GHMSI engage in community health reinvestment to the extent that such an adverse circumstance would be expected, statistically, to occur once every 10 years? If so, then a 90% confidence level should be selected. Once every 20 years? If so, then a 95% confidence level should be selected. Once every 50 years? If so, then a 98% confidence level should be selected.

We believe this is precisely the balancing required by the statute, as interpreted by the Court of Appeals, and this is precisely what we did in reaching our conclusions. For the reasons articulated in our 2013 Report and in our testimony, we concluded that a

98% confidence level relative to the 200% RBC threshold and an 85% confidence level relative to the 375% RBC threshold achieved the balance required by the statute. However, as we also have indicated, we believe the policy decision as to that balance, ultimately, must be made by the Commissioner rather than by us, and, as Mr. Rector noted at the conclusion of his testimony:

> As I have indicated on several occasions during my testimony today, there are no right or wrong answers on the key items that drive the result. Our sole motivation in reaching our conclusions has been to try to faithfully carry out the intent of the statutes. We recognize, though, that the questions are complex and difficult and we cannot claim a monopoly as to the answers.
>
> We're glad you will hear some opposing views so that you will have in front of you a full range of views which collectively should allow you to make the best decision possible based on what the law requires and what's best for the people of the District of Columbia. We look forward to being of whatever further help you think appropriate.

10. *Please address any questions, comments or criticisms in GHMSI's pre-hearing brief or hearing testimony that you wish to address that have not been addressed in your responses to the requests above.*

    Response: There are a number of items in GHMSI's pre-hearing brief or hearing testimony that we would want to address if time and space were unlimited. However, in keeping with your request that all responses be concise in the interest of administrative economy, there are no questions, comments or criticisms from GHMSI's pre-hearing brief or hearing testimony that we believe need to be addressed that were not addressed in our responses above.