



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Interim Commissioner

March 14, 2014

VIA EMAIL

Walter Smith
Executive Director
DC Appleseed Center
111 Fourteenth Street, NW, Suite 510
Washington, DC 20005

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

Dear Mr. Smith:

I write in response to your letter dated February 14, 2014, requesting a postponement of the March 12 surplus review hearing, as well as your letters dated January 29, 2014 and February 19, 2014, requesting additional information in advance of the hearing.

As you know, after consultation with other interested persons, including GHMSI, the surplus review hearing was postponed and has been rescheduled for April 29, 2014. A copy of the new hearing notice is enclosed.

To date, the Department of Insurance, Securities and Banking (DISB) has provided you with initial responses to your information requests; conferred with you to clarify your additional requests; and forwarded supplemental materials provided by GHMSI. Below, including the attachments referenced, is a complete recitation of information provided by DISB in response to your request. The numbers correspond to the requests in Attachment A to your January 29 letter.

- 1. The rating adequacy and fluctuation factor is only one of 12 factors used in the Milliman model. The analysis of that factor appropriately did not include an analysis of the other 11 factors.*

*For items 1.a. and 1.b., the documents provided to and used by Rector & Associates ("R&A") consist of the May 31, 2011 report from Milliman titled *Need for Statutory Surplus and Development of Optimal Surplus Target Range (Milliman Report)* and the February 13, 2013 *Presentation of Technical Material Related to the Milliman Report (Milliman Technical Materials)* which are proprietary and confidential.*

For item 1.c., attached is correspondence dated March 7, 2014 from R&A to Philip Barlow and correspondence dated March 6, 2014 from FTI Consulting to R&A that discusses in the response to Question 2 the quantification of the impact of revisions made to the variables for the rating adequacy and fluctuation factor.

2. *The pro forma financial projection stage of the model does not result in the creation of a spreadsheet; instead, the result of the pro forma financial projection process determines GHMSI's financial results after including the selected loss outcome into the projections.*

For item 2.a., Milliman provided an illustration of its stochastic modeling approach in Attachment B of the letter that was provided to you.

For item 2.b., R&A does not believe it is possible to generate such a spreadsheet during the pro forma financial projection component of the modeling process.

3. *For item 3, Milliman provided the requested information in Attachment A of the letter that was provided to you.*

4. *For item 4.a.:*

- i. *The available research regarding estimated increases in the individual market primarily consisted of Society of Actuaries' March 2013 research report titled "Cost of the Future Newly Insured Under the Affordable Care Act." Other research materials were consulted as general references on this subject.*
- ii. *The documents containing the current size of enrollment in GHMSI's individual products consist of the Milliman Technical Materials and the GHMSI 2013-2015 Strategy and 2013 Annual Business Plan (GHSMI Business Plan), both of which are proprietary and confidential. However current enrollment data is available in the annual statement and if there is specific current enrollment data that is not in the annual statement that you want, please provide the specific request to Philip Barlow.*
- iii. *The documents containing the projected size of enrollment in GHMSI's individual products in each future year consist of the Milliman Technical Materials and the GHSMI Business Plan, both of which are proprietary and confidential.*

For item 4.b., the lines of GHMSI's business to which the Non-FEP premium growth rate was applied consist of all of GHMSI's business that is not attributable to GHMSI's FEP participation.

For item 4.c., the modeling was not performed in such a way to isolate the specific impacts of each of these considerations.

5. *Attached is correspondence dated February 4, 2014 from FTI Consulting to R&A that describes the validation methods that were used.*
6. *For item 6.a., the first step in R&A's analysis was to consider in a conceptual way many different RBC thresholds and confidence levels that would allow GHMSI to satisfy the two necessary determinations: that GHMSI engages in community health reinvestment to the maximum feasible extent consistent with financial soundness and efficiency and does not possess surplus that is unreasonably large and inconsistent with GHMSI's community health reinvestment mandate. During R&A's analysis, R&A held several lengthy discussions in person with Milliman, GHMSI, Appleseed, and ARM representatives regarding the RBC thresholds and confidence levels to be used in order to gain input from all representatives. During this step, no calculations were run as to any specific RBC thresholds or confidence levels.*

At the conclusion of this first step in R&A's analysis, R&A determined that the appropriate tests to be used to satisfy the two necessary determinations are 1) a 200% RBC threshold at a 98% confidence level, and 2) a 375% RBC threshold at an 85% confidence level. Calculations were then run as to those specific RBC thresholds and confidence levels. In connection with test 2) (i.e., the test relative to the 375% RBC threshold), R&A also ran calculations at a 75% confidence level (resulting in a 604% RBC level) and at a 95% confidence level (resulting in a 1007% RBC level). As you know, both threshold levels must be examined together.

For item 6.b., R&A's reasoning regarding why these numbers (a 98% confidence level that GHMSI's RBC level will remain above a 200% RBC threshold, and an 85% confidence level that GHMSI's RBC level will remain above a 375% RBC threshold) are described in detail in Section III.C. of the Rector Report (Quantification of Standards To Be Used In Actuarial Model For Determinations for GHMSI's Surplus Position).

For item 6.c., as indicated throughout the Rector Report, R&A performed its analysis of GHMSI's surplus needs by taking into account D.C. statutes and regulations, including MIEAA statutes and regulations, and the Appeals Court Decision. In other words, R&A did not perform any separate analysis of an appropriate surplus level for GHMSI in the absence of MIEAA statutes and regulations.

For item 6.d., as indicated in the response to item 6.c., above, R&A did not perform any separate analysis of an appropriate surplus level for GHMSI in the absence of MIEAA statutes and regulations. Accordingly, no amount of reduction in an appropriate surplus level for GHMSI was determined.

7. *For item 7, attached is correspondence dated March 7, 2014 from R&A to Philip Barlow and correspondence dated March 6, 2014 from FTI Consulting to R&A that discusses in the response to Question 3 the quantification of the impact of health care reform.*

8. *For item 8, attached is correspondence dated March 7, 2014 from R&A to Philip Barlow and correspondence dated March 6, 2014 from FTI Consulting to R&A that discusses in the response to Question 1 the quantification of the change in surplus level findings for GHMSI from the 2009 Rector Report to the 2013 Rector Report.*
9. *Section IV.B. of the Rector Report describes the manner in which R&A made adjustments to the probability of the occurrence and the severity of events related to the factors employed by Milliman in the stochastic modeling process. As indicated in Section IV.B.:*

[R&A] first analyzed each of the factors and determined that each, in concept, is appropriate for inclusion in the stochastic modeling process. Next, [R&A] analyzed the probability of the occurrence and the outcome of certain events related to each of the 12 factors. For nine of the 12 factors, [R&A] agreed with Milliman's conclusions. However, for three of the factors, [R&A] made modifications to the probability of the occurrence and the outcome of certain events related to these factors, as described for each factor, below.

Sections IV.B.1. through 4. of the Rector Report describe the specific adjustments to the probability of the occurrence and the severity of events related to three factors to which R&A made adjustments.

DISB appreciates Appleseed's ongoing efforts to assist it with the review of GHMSI's surplus and compliance with D.C. law. The questions Appleseed raised will help to clarify the issues that should be addressed at the upcoming hearing and in my final determination, in accord with D.C. Official Code § 31-3501 *et seq.* (2012 Repl.) and the court's decision in *D.C. Appleseed Center for Law & Justice, Inc. v. District of Columbia Dept. of Ins., Sec. & Banking*, 54 A.3d 1188 (D.C. 2012), about whether GHMSI's surplus is unreasonably large and inconsistent with its obligation to engage in community health reinvestment to the maximum feasible extent consistent with financial soundness and efficiency.

Again, DISB appreciates Appleseed's contributions to this process and we look forward to continuing to work with you.

If you have any questions, please contact Philip Barlow, Associate Commissioner of Insurance.

Sincerely,



Chester A. McPherson
Interim Commissioner

Enclosures