

Direct Pay Data Request - 2007

AG

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We note that Blue Cross has added a component to premium to fund a new "core system" (Exhibit 5, page 19).

- (a) Please describe what is meant by "core system", including the functionality to be included as well as the benefits to be gained, as compared to the current system.
- (b) What are the expected total costs of the system, and how will these costs be reflected over time? How is the amount of the component built into the proposed Class DIR rates determined? Please provide any studies which support the cost estimates.
- (c) Will there be costs associated with shutting down the current system? Are there unamortized costs which need to be recognized? If so, how much, and how will this affect costs for Class DIR?

Person Responsible : Fogerty.D

Answer:

- (a) The core system refers to our claim processing system, enrollment processing, benefit administration, medical management and network management abilities. It is at "the core" of virtually every other ancillary system and application used in the company, numbering approximately 70. These ancillary systems drive our financial forecasting, rating processes, provider profiling, customer service call tracking, etc. The new system will pay claims more accurately, will allow far faster speed to market with new products, and will be far easier to maintain moving forward. The system is currently used by 14 other BCBS plans, which will also provide for significantly smaller incremental costs for future enhancements.
- (b) BCBSRI is estimating that the system will cost approximately \$140 million to purchase and install. Initial estimates are that approximately \$65 million will be capitalized and amortized over a 10 year period and the remaining \$75 million will be expensed as it is incurred over a 42 month period. The expenses for the System Implementation will not be included in rates, rather we will use a 0.5% reserve factor over a 15 year period to recover the cost of the system.
- (c) There are no unamortized costs associated with the current system.

c. N. Benoit, Esquire
C. DeWeese, F.S.A., M.A.A.A.
C. Koller, Health Insurance Commissioner

12/17/2007

AG EXHIBIT F

AG Exhibit G