

**Direct Pay Data Request - 2009**

**AG**

**AG1 - 15**

We note that Blue Cross has again included a component to premium to fund a new "core system" (Exhibit 5, pages 54).

(a) How is the amount of the component determined? Please provide schedule of system cost investments and premium projections that support the level of the proposed premium component.

(b) Please provide a history of monthly cash outlays and monthly incurred expenses (as reflected in statutory financials) on this effort from inception to date.

(c) Please describe what steps have been taken to assure that none of the expenses related to the new "core system" are included as duplicative charges in Exhibits 7 and 8 of the Filing.

***Person Responsible:*** Fogerty.D

***Answer:***

- (a) The amount of the reserve component needed to fund the implementation of the new "core system" is accomplished by:
1. estimating the amount of implementation expenses (less those that were included in the base budget)
  2. estimating the premium and premium equivalents over the 15 years recovery period
  3. dividing the total cost that needs to be recovered by the estimated premium to arrive at the percentage to be added to the reserve component of the rate

The succeeding schedule illustrates the cost of the system that needs to be recovered

SYSTEM REPLACEMENT PROJECT  
2008 - 2022  
RATE IMPACT  
(\$ Millions)

	Premium & Premium Equiv.	Rate Recovery	Rate Impact	Premium Increase
2008	2,585	\$16.3		
2009	2,522	8.6	0.34%	-2.45%
2010	2,575	8.8	0.34%	2.11%
2011	2,718	9.2	0.34%	5.58%
2012	2,936	10.0	0.34%	8.00%
2013	3,112	10.6	0.34%	6.00%
2014	3,299	11.2	0.34%	6.00%
2015	3,497	11.9	0.34%	6.00%
2016	3,707	12.6	0.34%	6.00%
2017	3,929	13.4	0.34%	6.00%
2018	4,165	14.2	0.34%	6.00%
2019	4,415	15.0	0.34%	6.00%
2020	4,679	15.9	0.34%	6.00%
2021	4,960	16.9	0.34%	6.00%
2022	5,258	17.9	0.34%	6.00%
2023	5,573	4.1	0.07%	6.00%
		\$196.4		

CY 2008 - 2011 Premium based on 2010 Plan

CY 2013 - 2022 Premium assumes an annual 6% increase.

Total Project Cost is estimated at \$205M

\$196.4M estimated to be recovered through reserve inclusion.

\$8.6M estimated for costs included in ongoing rates.

(b) The history of cash outflows is as follows:

CY2007				
	Operational	Non-Operational	Capital Asset Costs	Total
January	\$0	\$0	\$0	\$0
February	0	0	0	0
March	0	127,112	0	127,112
April	0	201,753	0	201,753
May	0	120,443	0	120,443
June	0	420,330	0	420,330
July	0	8,092	0	8,092
August	0	319,992	0	319,992
September	0	104,412	0	104,412
October	0	210,109	0	210,109
November	0	730,840	0	730,840
December	0	382,846	7,119,854	7,502,700
<b>Total</b>	<b>\$0</b>	<b>\$2,625,930</b>	<b>\$7,119,854</b>	<b>\$9,745,784</b>

CY2008				
	Operational	Non-Operational	Capital Asset Costs	Total
January	\$417,649	\$343,374	(\$61,353)	\$699,670
February	359,783	936,637	(16,292)	1,280,128
March	372,746	1,028,942	0	1,401,688
April	415,324	1,215,833	162,935	1,794,092
May	368,097	1,247,179	1,839,855	3,455,131
June	371,308	1,604,044	1,212,001	3,187,354
July	373,018	2,164,179	1,214,089	3,751,286
August	356,286	1,693,655	1,711,420	3,761,362
September	414,725	1,376,457	4,449,465	6,240,647
October	344,984	2,791,838	1,077,835	4,214,657
November	331,482	451,066	3,978,043	4,760,591
December	455,621	1,446,320	6,541,666	8,443,608
<b>Total</b>	<b>\$4,581,022</b>	<b>\$16,299,525</b>	<b>\$22,109,665</b>	<b>\$42,990,212</b>

2009				
	Operational	Non-Operational	Capital Asset Costs	Total
January	\$371,968	\$1,393,549	\$2,308,664	\$4,074,181
February	436,025	1,213,635	3,513,236	5,162,896
March	405,840	2,798,196	3,190,834	6,394,870
April	441,133	1,743,652	5,516,211	7,700,997
May	327,153	2,647,545	3,550,918	6,525,616
June	405,793	3,090,600	3,796,627	7,293,020
July	405,793	3,062,488	3,924,952	7,393,233
August	396,849	2,823,032	4,178,263	7,398,143
September	262,178	1,767,070	4,296,849	6,326,097
October	266,947	2,237,148	3,033,533	5,537,628
November	249,768	1,599,326	3,136,245	4,985,338
December	0	0	0	0
<b>Total</b>	<b>\$3,969,448</b>	<b>\$24,376,242</b>	<b>\$40,446,331</b>	<b>\$68,792,021</b>

Project - To - Date				
	Operational	Non-Operational	Capital Asset Costs	Total
<b>Total</b>	<b>\$8,550,470</b>	<b>\$43,301,696</b>	<b>\$69,675,850</b>	<b>\$121,528,017</b>

Operational expenses are included in the rate factor as they were part of BCBSRI prior to the start of the project. Once the project is complete, a determination will be made as to how much the reserve contribution will need to be in regards to the non-operational expenses.

(c) BCBSRI has created specific cost centers to capture all expenditures related to the new "core system". Expenses are verified and validated on a monthly basis to ensure that expenses have not been miscoded. At project completion BCBSRI will determine the final total; that needs to be recovered and will adjust the dedicated reserve contribution percentage as necessary.

- c. N. Benoit, Esquire  
B. Niehus, FSA, MAAA

12/18/2009

**Direct Pay Data Request - 2009**

**AG**

**AG1 - 15Revised (A) Only**

We note that Blue Cross has again included a component to premium to fund a new “core system” (Exhibit 5, pages 54).

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***Person Responsible:*** Fogerty.D

***Answer:***

It has just come to our attention that the System Replacement Project schedule that was part of response (a) is incorrect. The \$16.3 million rate recovery number for 2008 was overstated. The \$196.4 million total does not change. The excess was moved to the 2023 out year. A corrected schedule is attached.

(a)

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c. N. Benoit, Esquire  
J. Cogan, Jr., Esquire  
B. Niehus, FSA, MAAA

01/14/2010