Direct Pay Data Request - 2010
AG

AG1 - 18

We understand that you held premium deficiency reserves in 2009. When did Blue Cross first establish deficiency reserves for Class DIR business? What amount of premium deficiency reserves were held with respect to Class DIR business for each calendar quarter beginning with first quarter, 2009, through third quarter 2010? Please provide detail support for the deficiency reserves held at 12/31/09 and 9/30/10. Have these deficiency reserves impacted the proposed rate increases in the Filing? If so, please explain the impact.

Person Responsible: Lynch.J

Answer:

A premium deficiency reserve (PDR) is a reserve that is established when future premiums are not sufficient to cover future claim payments and expenses over current and future contract periods. The PDR represents the estimated future losses that will be incurred as a result of inadequate premiums and is recognized in current earnings as a separate expense included in underwriting results. The reserve is then released as those losses are realized. A PDR helps ensure that a carrier's contractual obligations are adequately funded and is required under both GAAP and statutory accounting standards. Booking a PDR impacts the timing of the recognition of financial results but does not change the actual results. These deficiency reserves have had no impact on our rate filing.

A premium deficiency reserve (PDR) was first established for Class DIR business at June 30, 2009 on a statutory basis. Quarterly PDR amounts for Class DIR business are as follows on a statutory basis:

3/31/09	$0.0 M
6/30/09	$2.9 M
9/30/09	$3.4 M
12/31/09	$3.9 M
3/31/10	$3.6 M
6/30/10	$4.7 M
9/30/10	$7.0 M

At 12/31/2009, the PDR for Class DIR was $3.9 M in recognition of projected losses for the remaining months of the 2009 rate year and the 2010 rate year as follows:

RY 2009 (1/10-3/10)	$0.2 M	
RY 2010 (4/10-3/11)	$3.9 M	(A)
Sub-Total	$4.1 M	
Less Margin	$0.2 M	(B)
12/31/09 Quote	$3.9 M	

AG EXHIBIT J

(A) The OHIC issued a 3.4% rate cut to our "break-even" filing. In addition, the rating process did not reflect the net cost of the IHM initiative and it did not include the cost of the system replacement project in excess of the 0.34% charge included in the filing.
(B) Guidelines suggest that deficiencies may be offset by claim reserve margin held at valuation date.

At 9/30/2010, the PDR for Class DIR was $7.0 M in recognition of projected losses for the remaining months of the 2010 rate year and the 2011 rate year as follows:

RY 2010 (10/10-3/11)	$2.5 M	(A)
RY 2011 (4/11-3/12)	$4.8 M	(B)
Sub-Total	$7.3 M	
Less Margin	$0.3 M	(C)
12/31/09 Quote	$7.0 M	

(A) The OHIC issued a 3.4% rate cut to our "break-even" filing. In addition, the rating process did not reflect the net cost of the IHM initiative and it did not include the cost of the system replacement project in excess of the 0.34% charge included in the filing.
(B) Includes a provision for a 3.5% rate cut to actuarially justified "break-even" rates based on recent OHIC filing decisions for Class DIR. In addition, the rating process does not reflect the net cost of the IHM initiative and it does not include the cost of the system replacement project in excess of the 0.34% charge included in the filing.
(C) Guidelines suggest that deficiencies may be offset by claim reserve margin held at valuation date.

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

12/14/2010