

June 25, 2009

**VIA SERFF**

Mr. Christopher F. Koller  
Health Insurance Commissioner  
Office of the Health Insurance Commissioner  
1511 Pontiac Ave, Building #69, First Floor  
Cranston, RI 02920

Re: Claims Projections and Reserve Factors applicable to Blue Cross & Blue Shield of Rhode Island's Large Group and Small Group Subscription Rates, Filed May 15, 2009

Dear Commissioner Koller:

Blue Cross & Blue Shield of Rhode Island ("Blue Cross") is in receipt of your June 17<sup>th</sup> letter requesting that we withdraw our May 15<sup>th</sup> filing. We have carefully considered your request, and the alternatives. We understand the economic climate in which we operate, but we were surprised that your request doesn't take into consideration that Blue Cross is one of the Rhode Island employers facing difficult financial times, and that our employees are among those struggling to make ends meet. In deference to these difficult economic times and your office, we took time to reconsider our filing to make sure we absolutely needed every element. We have concluded that we do.

Of further surprise was your indication that we had submitted "inadequate justification" in support of our filing. Our filing included all of the information that was requested by your office, and more. We have responded to all of the questions submitted to us by your actuarial consultant. If additional information was necessary for your review, you simply needed to request it. By your own words earlier this month, we submitted "ample information for review and analysis by [OHIC]." (Providence Journal, June 3, 2009) Further, you publicly acknowledged that this filing is driven by increased medical costs. On June 9, 2009, the Providence Business News reported that you "back[ed] up what the insurers have been saying, that medical costs, not administration, are the primary drivers of rate hikes. What's noteworthy . . . is that price inflation is a more significant factor on the hospital side – the biggest part of medical costs – than utilization growth."

When reviewing a rate filing, your statutory obligation is to make a determination based upon whether the filing is "consistent with the proper conduct of [Blue Cross'] business and with the interest of the public." (R.I. Gen. Laws § 27-19-6(c)) This filing meets both requirements. Your further obligation is to ensure the solvency of Blue Cross. Blue Cross is currently below the range for reserves adopted by your office. The filing is actuarially justified and necessary to ensure that Blue Cross is here to serve Rhode Islanders for years to come. It is based upon a significant increase in utilization and payment to providers – at least part of which, increased payments to primary care physicians, is due to your mandate.

Mr. Christopher F. Koller

June 25, 2009

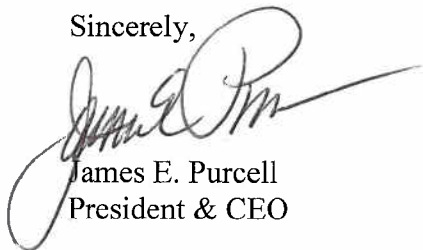
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We are constantly barraged by the need to provide payment increases to hospitals and physicians in this State and, as you know, receive little support when we try to hold the line on increases. We are working diligently to change the way the system works, adopting a strategic plan that will change the way our members receive care and how providers and hospitals are reimbursed. Blue Cross is at the forefront of efforts to bring electronic medical records to this State in order to ensure quality of care. We have cooperated fully with your efforts to pilot advanced medical homes and your other efforts to address affordability. We advanced the cause of primary care even before you made that one of your goals as well. We have been a resource to your office, and hope to continue to be. But your decision puts the viability of Blue Cross at risk.

Granting Blue Cross no increase for the rating year will not only deplete our reserves by a projected \$125 Million after tax, but also will create an entirely untenable situation in 2010 when we file for the following year. Then, we would have a "normal" increase, whatever that may be, and we will have to make up the embedded shortfall, which we estimate to be perhaps 15%. Can you imagine the outcry then, when we would have no choice but to ask for an increase of approximately 25%? And the economic times likely will not be dramatically different then. The facts have to be faced honestly and bravely.

You and I share a common duty to ensure the financial stability of Blue Cross. Neither of us wants to see a financially ailing Blue Cross on our watch. And we have talked enough over the years so that I know you realize the truth of what I say in this letter. Therefore, we will not withdraw our filing. Rather, we ask that you stand up to current pressures, reconsider our filing, and approve the rates as filed.

Sincerely,

A handwritten signature in black ink, appearing to read 'James E. Purcell', with a long, sweeping underline that extends to the right.

James E. Purcell  
President & CEO