Blue Cross Blue Shield of Rhode Island

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January 22, 2010

Mr. Christopher F. Koller
Health Insurance Commissioner
Office of Health Insurance Commissioner
1511 Pontiac Avenue, Bldg. 69-1
Cranston, Rhode Island 02920

Subject:
1) Rating Factors Applicable to Small Group Subscription Rate Renewals Effective May 1, 2010 through December 1, 2010;

2) Rating Factors Applicable to Rhode Island Builders Association Subscription Rate Renewal Effective November 1, 2010;

3) Rating Factors Applicable to Large Group Subscription Rate Renewals Effective July 1, 2010 through December 1, 2010, including Required Early Notice Renewals Effective January 1, 2011 (Forms on file)

Dear Commissioner Koller:

This letter and the attached documents comprise a group rate factor filing by Blue Cross & Blue Shield of Rhode Island (BCBSRI or Blue Cross) of claims projection trends, reserve contribution factors, and related rating information to be used in group renewal rating.

Filing Overview

This rate filing reflects the escalating cost of medical care. Reasons for these increasing costs include medical provider price increases, expensive new technology, an influx of more expensive prescription medications and a general increase in medical services performed. The ongoing increase in costs results in higher medical care cost projections into the future, which translate to higher health insurance premiums. For every group premium dollar paid to Blue Cross, about 84 cents is expected to pay hospitals, physicians and other healthcare providers.

This filing holds administrative charges at current levels as measured on a percent of premium basis. Blue Cross continues to look inward at our operations to ensure they are as efficient as possible without sacrificing the high quality service we provide to our customers. In the past two years Blue Cross has eliminated 157 full-time positions, eliminated salary increases in 2009 for all employees, eliminated executive salary increases for 2009 and 2010 and increased employee contributions towards benefits. Despite inflation, our operating budget for 2010 is four percent less than it was in 2007. Additionally, our new headquarters is expected to save several million dollars over the long term in comparison to renovating our old locations. As demonstrated in this filing, the administrative charges in this filing are in line with industry norms.

Blue Cross has experienced heavy financial losses in 2009, causing our reserves to fall in excess of $100 million since the end of 2008, or over 25% of its value. This means Blue Cross now has only enough reserves to pay claims for about two months, which puts the Corporation at risk of insolvency. The current level of reserves has fallen well below the safety ranges recommended by several actuarial studies conducted by independent nationally recognized firms, including one commissioned by the Office of the Health Insurance Commissioner (OHIC). This is why we request your approval to increase reserve contribution factors by 1% of premium.

Due to the condition of the Rhode Island economy and the sensitive nature of this filing, we engaged Milliman, Inc., consulting actuaries, to ensure that this filing is sound and reasonable. An opinion letter from Milliman is included in this filing.

Affordability as Addressed in the Rate Filing

In consideration of previous rate decisions issued by the OHIC, Blue Cross has taken many steps to address the issue of affordability in this rate filing. Specifics of these programs are detailed in the Affordability Report attached as Exhibit IV.

Filing Fee

In accordance with the filing fee requirements contained in Section 42-14-18 of the General Laws of Rhode Island, an electronic funds transfer (EFT) transaction in the amount of $125 is submitted via the SERFF system. Policy forms pertaining to this filing are as follows:

- HMC2C SA (01/08) and group amendments GRPAMEND (01/09) and GRPAMEND (01/10)
- Classic SA (01/08) and group amendments GRPAMEND (01/09) and GRPAMEND (01/10)
- BlueCHiP SA (01/08) and group amendments GRPAMEND (01/09) and GRPAMEND (01/10)
- HM HDHP SA (01/08) and group amendments GRPAMEND (01/09) and GRPAMEND (01/10)
- SO PPO SA (01/08) and group amendments GRPAMEND (01/09) and GRPAMEND (01/10)

Effective Dates

Regarding the proposed effective dates for this filing, these have been determined to be the likely effective dates for group rate implementation allowing for the customary regulatory approval process. If the approval process turns out to vary from this expected time frame (earlier or later), we seek OHIC's permission to implement these new rating factors as soon as practicable.

Conclusion

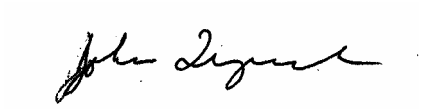
Exhibits displaying the required rating factors and detailed actuarial support documenting the factors are enclosed, including those prescribed pursuant to your Office's filing instructions letter of December 23, 2009. The exhibits and attachments for this filing are listed at the end of this letter.

The actuarial assumptions underlying this filing have been developed by my staff and reviewed by myself. I certify that this rate filing was developed utilizing sound actuarial assumptions and methodologies.

We respectfully ask for your timely consideration and approval of the proposed rating factors as submitted. Blue Cross & Blue Shield of Rhode Island believes that the proposed rating factors are in the best interest of both the public and the Corporation.

As always, we shall be pleased to respond promptly to any questions you, your staff, or your office's consulting actuary, Mr. DeWeese, may have.

Sincerely,



John Lynch, F.S.A., M.A.A.A.
Chief Actuary

Attachments:

Exhibit I, *Actuarial Assumptions for Group Renewal Rating*, outlines the underlying methodology and assumptions used to develop the claims projection trends and reserve contribution factors.

Exhibit II, *BCBSRI Group Reserve Contribution Requirements*, provides further justification for the requested reserve contribution factors.

Exhibit III contains the Small/Large Group Rate Filing Template as prescribed by OHIC.

Exhibit IV, *2010 BCBSRI Affordability Plan*, outlines the Corporation's planned affordability efforts in the format prescribed by OHIC.

Exhibit V, *Administrative Costs Documentation*

Exhibit VI, *Industry Comparables*, compares the requested trends and administrative loads to benchmarks established by national surveys of health carriers.

Exhibit VII, *BCBSRI Average Group Size by Market Segment*, demonstrates how BCBSRI's average group size affects administrative costs.

Exhibit VIII, *Actuarial Review Letter from Milliman, Inc*., provides an independent actuarial opinion on this filing.

cc: Ms. Monica Neronha, Esquire

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

ACTUARIAL ASSUMPTIONS FOR GROUP RENEWAL RATING

Applicable Group Rate Renewals

- Small Group Renewals for rating periods commencing May 1, 2010 through December 1, 2010
- Rhode Island Builders Association Renewal for the rate period commencing November 1, 2010
- Large Group Renewals for rating periods commencing July 1, 2010 through December 1, 2010, including Required Early Notice Renewals Effective January 1, 2011
- Factors shall be implemented sooner if timing of regulatory approval process permits.

Utilization Projections

The determination of the projection trends contained in this filing reflects the Corporation's standard methodology for **Surgical/Medical utilization/mix,** and **Prescription Drug price/utilization/mix.** This methodology assumes the annual trend represented by the best-fit linear regression line, based on the percentage rate of increase for the period September 2008 through August 2009 over the period September 2007 through August 2008 and continuing into the future in a geometric progression so that the actual trend (percentage increase) is constant over time.

For **Hospital Inpatient utilization**, the days per thousand rate over the last year has transformed from a slow decrease to an upturn in recent months. None of the regressions using days per thousand data meet our minimum acceptable standards for fit using the standard methodology. We have observed recent significant upturns in the rates of surgical admissions (2%) and medical admissions (over 3%).

Hospitals are being converted, and will continue to convert, their inpatient reimbursement basis from per-diem to per-case. Our standard trending methodology applied to admissions per thousand data also produces poor-fitting regressions that indicate slightly positive trends. In consideration of the reasons above, it is our actuarial judgment to use a hospital inpatient utilization trend of +1.0%. This trend is one point lower than that approved in our April 15, 2008 filing.

For **Hospital Inpatient mix** trend, we performed several measures of depriced cost/day and depriced cost/admission with some results indicating small increases and other results indicating small decreases, with no predominant outcome. Therefore it is our actuarial judgment to use a 0.0% inpatient annual mix adjustment, or one point lower than that approved for 2009 ratings.

For **Hospital Outpatient utilization/mix** trend, we are experiencing a significant upswing. Part of this is a result of increased rates of day surgery both in Rhode Island hospitals and in neighboring states. We have also seen an increase in the use of very high cost cancer therapies, especially at some Boston teaching hospitals, as well as an increase in expensive genetic testing at another Massachusetts teaching hospital. The line of best fit is based on the last 13 points and represents a calculated annual trend of 7.8%. For the reasons cited above we believe outpatient

trends will continue at historically high levels, but we have decided to moderate the calculated trend value. It is our actuarial judgment to use the trend indicated by using all 25 data points in the regression, which is 2.6 points lower than trend indicated by our standard methodology.

Utilization/mix trends for Primary Care and Other Medical/Surgical were determined on a combined basis as one Surgical/Medical utilization/mix trend, consistent with our customary practice in previous filings. Technical complications rendered the determination of separate trends to be unreliable, and the resulting combined trend result is judged to be a reasonable expectation for both segments.

For **Major Medical**, the projection factor has been determined by a meld of Surgical/Medical price/utilization/mix trend and Large Group Prescription Drug price/utilization/mix trend, consistent with an analysis of the percentage of Major Medical group claims in each category.

For **Prescription Drugs price/utilization/mix**, separate trends were determined for Large Groups and Small Groups based on the predominant copayment configuration sold in each segment ($7/$25/$40/$40 for Large Groups, $7/$30/$50/$75 for Small Groups).

Price Projections

Hospital price projections reflect estimated hospital price increases based on existing reimbursement contracts and anticipated payment levels in the future.

The **RI Primary Care** price projections reflect the provider fee adjustments required by the OHIC Primary Care Spend standard.

The **Other Medical/Surgical** projection trends reflect a series of provider fee adjustments and initiatives through the subject rating periods.

Reserve Contribution Factor

The reserve contribution factors in this filing are 2.34% for both small and large group accounts. These factors are filed with the objective of gradually building corporate reserves to ensure the financial viability and stability of Blue Cross & Blue Shield of Rhode Island for the future, and compliance with Risk Based Capital requirements of the Blue Cross and Blue Shield Association. These factors include an additional 0.34% which is intended to recoup extraordinary expenses necessitated by the installation of a new BCBSRI core operational computer system over the span of its anticipated useful life. These expenses have been excluded from our administrative charge determinations. This special reserve contribution component has been approved in recent BCBSRI rate filings.

BCBSRI also anticipates new extraordinary expenses associated with our Integrated Health Management (IHM) initiative. Our IHM initiative aims at transforming BCBSRI from a health insurer to a health management company and will incorporate multiple approaches including benefit design and incentives, enhanced member engagement and communication, and significant provider engagement and incentives. As with the new core operational computer system project

referenced above, any expenses associated with this initiative have been excluded from our administrative charge determinations. Additionally, no provision for funding IHM has been included through reserve contribution. It is our intention to recoup our IHM investment out of the significant net savings we anticipate will be generated in future years.

Please refer to Exhibit II, "BCBSRI Group Reserve Contribution Requirements," for further discussion and justification of our reserve contribution factors submitted in this filing.

Affordability

Please refer to our "2010 Annual Affordability Plan" (Exhibit IV) for more information on BCBSRI's extensive efforts to keep our health plans affordable.

Administrative Expense

Please refer to the enclosed documents "Administrative Costs Documentation" (Exhibit V), "Industry Comparables" (Exhibit VI) and "Group Size Exhibit" (Exhibit VII) for explanation and justification of the administrative charge rate components shown in Exhibit III. Administrative costs set forth in these documents include provisions for broker commissions, federal income taxes, state premium tax, and state assessments on the Corporation resulting from Comprehensive Evaluation, Diagnosis, Assessment, Referral and Re-evaluation (CEDARR), Child Intervention Services and Home Services, the State Child Immunization Fund, and adult influenza vaccine. These costs are offset by the investment income credit.

As shown in Section 1 of Exhibit V we propose to maintain administrative charges at the levels actually in current rates measured as a percent of premium. Section 2 of Exhibit VI demonstrates the reasonableness of this level of charge by contrasting it with industry median levels provided in a recent American Academy of Actuaries report. Exhibit VII provides data on our average group size, which is small by industry standards and tends to inflate our administrative costs on both a per member per month and percent of premium basis in comparison to industry benchmarks.

Note that there is a gap between our proposed administrative charge and projected cost levels. Our current intention is to seek to close that gap through expense reduction efforts rather than increases in future charge levels. Toward that end we have launched a new quality and efficiency improvement effort, the Continuous Improvement initiative, that we expect will result in expense savings.

Projected Average Rate Increases

Average rate increase values displayed on page 3 of Exhibit III are current estimates utilizing the latest available claims experience base. Actual rates for the subject rating periods will be determined using updated claims experience, and thus the resulting average rate increases are not guaranteed.

Blue Cross & Blue Shield of Rhode Island

Group Reserve Contribution Requirements

Blue Cross & Blue Shield of Rhode Island (BCBSRI) has had actuarial studies done by two different nationally recognized actuarial firms to develop a target reserve range. These studies, updated in 2003, resulted in consistent recommendations; shown below as a percent of premium

- Study 1: 26% or higher
- Study 2: 25% - 35%

More recently, the Lewin Group was commissioned by the Office of the Health Insurance Commissioner (OHIC) to perform such a study. That study, as with the others, identified the common risks inherent to all plans providing health insurance in the United States.

These include:

- Medical price inflation
- New technologies
- Changing utilization patterns
- Presence and power of competitors
- Capital adequacy, which is different for non-profits versus for-profits
- The insurers' mix of business
- Catastrophic events, including pandemics

Additionally, there are unique risks for BCBSRI, including:

- Geographic business limitations, in which the company can not use the Blue brands to sell insurance outside of Rhode Island
- Its policies of pricing its products with small margins
- Its non-profit status, which means that it is not open to capital markets
- The fact that BCBSRI is statutorily defined as a charitable corporation, which creates greater public scrutiny
- A regulatory environment that limits premium rate increases

As a result of their analysis, the Lewin Group recommended BCBSRI's target reserve level to be in the range of 23 to 31 percent of premium—again, consistent with the most recent studies identified above.

Appropriate reserve levels

Appropriate reserve levels are needed for a number of reasons, but most important, to protect BCBSRI members. That's why the BCBSRI's reserves must be at a level to withstand a multi-year unfavorable business cycle. There can be, and often are, many different factors that cause an unfavorable business cycle. The most significant is related to predicting the cost of future medical services.

At this point, BCBSRI is facing many challenges, including:

- An economic recession, which is putting strain on Rhode Island's healthcare system
- A rapidly growing uninsured population
- New competition
- Decreasing enrollment
- Increasing healthcare medical trends
- Increasing total premium must be supported by additional reserves
- Emerging higher medical trends than those inherent in rates, resulting in year-to-date (September) underwriting losses, which are significantly worse than forecasted
- The Centers for Medicare and Medicaid Services (CMS) cutbacks in Medicare Advantage reimbursement
- Strong potential for government healthcare reform

While BCBSRI feels the Lewin Group's reserve range of 23 to 31 percent is reasonable, the minimum of 23 percent is insufficient to protect members during an unfavorable business cycle. BCBSRI believes it must manage reserves toward the midpoint of the appropriate reserve range (27% of premium). This is needed in order to adequately protect its members in the event of a multi-year unfavorable business cycle.

Current financial results

BCBSRI has observed negative financial results through September, 2009, and anticipates that this negative trend will continue through the end of the year and beyond. To date, there are significant underwriting losses in the Small Group and Large Group fully insured markets. These losses are attributed to actual medical claims trends being higher than those inherent in the current premium rates.

To date, these results have already had a significant impact on BCBSRI's reserves. Reserves were 23.5% of premium as of December 31, 2008, but have fallen to 19.1% of premium as of September 30, 2009. BCBSRI's reserve level is expected to continue decreasing through 2010.

This is a serious concern, particularly considering the converging challenges identified earlier.

Current rate filing

With all of this in mind, BCBSRI is filing a 2 percent baseline contribution to reserves for Small Group and Large Group. Consistent with previous filings, BCBSRI is adding a 0.34 percent contribution load to fund the development and implementation of a new core computer processing system. Thus, the total reserve component in this filing is 2.34 percent for Small Group and Large Group.

Conclusion

Several actuarial studies produced similar reserve range targets. BCBSRI's current reserve level is below the minimum of all of these ranges. BCBSRI faces a number of challenges today. Given these challenges—along with current and projected financial results in the fully insured markets, as well as the unknown of government healthcare reform—it is critical that BCBSRI have an adequate reserve level.

Blue Cross & Blue Shield of Rhode Island
Small/Large Group Rate Filing Template

Historical Information

Experience Period for Developing Rates	From	To
For Trends:	9/1/2006	8/31/2009
For Rate Increase Estimates:	10/1/2008	9/30/2009

Utilization Data by Quarter (Last 8 available quarters):

Quarter	End Date	IP Days	Member Months	Earned Premium	Incurred Claims Total	Incurred Claims IP	Incurred Claims OP	Incurred Claims RI Primary Care	Incurred Claims M/S Other	Incurred Claims Major Medical	Incurred Claims Rx	Loss Ratio
1 (oldest)	12/31/2007	21,228	805,098	$270,446,840	$228,922,358	$50,810,940	$51,631,611	$9,424,624	$75,983,714	$971,662	$40,099,806	84.6%
2	3/31/2008	20,541	762,075	$265,109,282	$223,290,025	$50,506,179	$50,384,542	$9,191,653	$73,089,179	$702,807	$39,415,664	84.2%
3	6/30/2008	19,677	738,675	$259,989,087	$220,593,774	$50,285,396	$49,940,141	$8,750,903	$72,472,964	$755,229	$38,389,142	84.8%
4	9/30/2008	17,773	704,548	$247,844,385	$205,898,796	$45,250,599	$48,175,533	$8,346,774	$66,523,439	$462,395	$37,140,056	83.1%
5	12/31/2008	18,883	705,708	$251,512,500	$216,837,102	$49,563,447	$50,478,853	$8,649,476	$69,038,142	$270,236	$38,836,948	86.2%
6	3/31/2009	18,939	669,817	$245,004,191	$207,156,117	$47,594,254	$50,251,546	$8,235,162	$64,266,805	$113,886	$36,694,465	84.6%
7	6/30/2009	18,053	664,675	$246,272,574	$215,606,414	$49,325,621	$51,879,260	$8,383,984	$69,034,577	$129,912	$36,853,060	87.5%
8	9/30/2009	16,509	650,724	$240,422,510	$205,559,350	$45,097,080	$49,766,668	$8,830,686	$65,666,512	$112,495	$36,085,908	85.5%

Note: Data is derived from insured business for Large Group, Small Group, and Rhode Island Builders Association combined. Does not include State Assessments.

Blue Cross & Blue Shield of Rhode Island
Small/Large Group Rate Filing Template

Prospective Information

Trend Factors for Projection Purposes (Annualized):

CY 2010 / CY 2009

	IP	OP	RI Primary Care	Other M/S	Major Medical	Large Group Rx	Small Group Rx
Total	***8.21%***	***12.47%***	***16.78%***	***5.88%***	***8.68%***	***10.25%***	***10.98%***
Price Only	7.14%	6.93%	12.58%	2.07%			
Utilization[(1)]	1.00%	5.18%	3.73%	3.73%			
Mix[(2)]	0.00%						

CY 2011 / CY 2010

	IP	OP	RI Primary Care	Other M/S	Major Medical	Large Group Rx	Small Group Rx
Total	***9.73%***	***13.52%***	***21.88%***	***6.38%***	***9.19%***	***10.25%***	***10.98%***
Price Only	8.64%	7.93%	17.50%	2.55%			
Utilization[(1)]	1.00%	5.18%	3.73%	3.73%			
Mix[(2)]	0.00%						

(1) Utilization trend also incorporates Mix for Outpatient, Primary Care, and Other M/S.
Major Medical and Rx trends are in total only, not broken down into Price, Utilization, and Mix.

(2) Inpatient Mix is the measure of the effect on average cost per unit of changes in average intensity of service, type of service, and hospital provider.

Blue Cross & Blue Shield of Rhode Island
Small/Large Group Rate Filing Template

	SMALL GROUP					
Quarter	Beginning Date	Estimated Average % Rate Increase[1]	Expected Medical Loss Ratio	Reserve Contribution Factor[2]	Administrative Expense Charge [3]	Estimated Average Commissions as Percent
1	5/1/2010	10.7%	82.1%	2.34%	15.58%	2.8%
2	7/1/2010	10.9%	82.1%	2.34%	15.58%	2.8%
3	10/1/2010	12.8%	82.1%	2.34%	15.58%	2.8%

	LARGE GROUP					
Quarter	Beginning Date	Estimated Average % Rate Increase[1]	Expected Medical Loss Ratio	Reserve Contribution Factor[2]	Administrative Expense Charge [3]	Estimated Average Commissions as Percent
1	7/1/2010	13.8%	84.0%	2.34%	13.62%	1.4%
2	10/1/2010[4]	15.4%	84.0%	2.34%	13.62%	1.4%

	RHODE ISLAND BUILDERS ASSOCIATION					
Quarter	Beginning Date	Estimated Average % Rate Increase[1]	Expected Medical Loss Ratio	Reserve Contribution Factor[2]	Administrative Expense Charge [3]	Estimated Average Commissions as Percent
1	11/1/2010	11.1%	81.2%	2.34%	16.46%	2.8%

[1] Rate Increases are estimated based on current experience and rates. Actual increases will differ due to use and consideration of updated experience, cancellations, new business, etc.

[2] Reserve includes 0.34% for funding of the core system replacement project.

[3] Administrative Expense incorporates federal and state taxes and assessments, investment income credit, and broker commissions. In the event that Rhode Island or the federal government enacts increases to premium tax and/or assessments, BCBSRI reserves the right to modify the administrative rate components to fund such increases going forward.

[4] Includes January 2011 early notice renewals that utilize the same claims experience periods.

Blue Cross & Blue Shield of Rhode Island

2010 Affordability Plan Update

Current Situation: Projected Trend rates

(Per Section C of OHIC Affordability Report Guidance – March 27, 2009)

Expense Category	Share of Total Medical Expense (%)	Price Trend (%)	Utilization Trend	Overall Trend 2009 to 2010 (%)	Prior Year (2008-2009)
Inpatient Hospital	20.3%	7.1%	1.0%[1]	8.2%	9.0%
Outpatient Hospital	22.5%	6.9%	5.2%[1]	12.5%	7.9%
Pharmacy: Small Group Large Group	20.4%			 11.0%[2] 10.3%[2]	 11.6% 10.5%
RI Primary Care Physician	4.1%	12.6%	3.7%[1]	16.8%	9.2%[3]
Other Physician/Other	32.6%	2.1%	3.7%[1]	5.9%	9.2%[3]
Major Medical	0.1%			8.7%[2]	15.5%

[1] Utilization and mix trend

[2] Price, utilization and mix trend

[3] Total Physician trend. Trend was not split between PCP and Other last year.

System Affordability Strategy

(Per Section D of OHIC Affordability Report Guidance – March 27, 2009)

1. **List and comment on the three most significant drivers affecting medical costs that you see in the Rhode Island market in the next five years.**

    1. Brand name pharmacy costs: As more drug classes include generic alternatives, brand manufacturers are struggling to maintain profits. The per-script cost trend increased 13.6% in both 2007 and 2008 and is projected to increase at a similar rate moving forward.
    2. Advances in technology: These include medical devices, 'specialty' pharmaceuticals, imaging, etc. In addition to new technology being introduced, added use of existing technology will increase utilization, thus increasing costs.
    3. Hospital payments: Reimbursement increases to hospitals are expected to continue as a major cost driver in the Rhode Island market. Over the last several years we have seen very modest increases overall in hospital volumes, shortfalls in payments from Medicare and Medicaid programs and declines in the value of endowments. Commercial payors are the only major source to make up the resulting shortfalls and cover increasing costs.

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2. Briefly (in less than 1 page), what is your company's strategy – given these cost drivers – to improve the overall affordability of health care in RI in the next five years?

Our strategy is to measurably improve the health of our members and reduce the growth rate of their healthcare costs. We will help our members navigate through the healthcare system and we will partner with physicians and providers to help them deliver high quality and cost efficient care. We will accomplish this by integrating new consumer engagement tools and programs, innovative physician and provider partnerships and new innovative products. A successful implementation of this strategy will result in lower premium rate increases, higher physician satisfaction and improvements in the health of BCBSRI's membership, and a more efficient and higher quality delivery system for Rhode Island. One of our strategies is to improve the infrastructure of primary care, through Electronic Medical Record (EMR) and Patient Centered Medical Home (PCMH) adoption to improve the quality of care and overall experience for chronic patients. This strategy will also lead to decreases in the utilization of unnecessary services.

3. Anticipated overall annual trend for the next three years:

a) Baseline trend: Assuming consistent membership + benefit mix, with no new programs.
b) Baseline trend: After adjusting for membership/benefit mix.
c) Adjusted trend: Adjusted for impact of affordability strategy outlined in your response to question number two.

		2010/2009	2011/2010	2012/2011
a)	Small Group	9.3%	10.3%	9.4%
	Large Group	9.2%	10.1%	9.2%
b)	Small Group	7.3%	8.3%	7.4%
	Large Group	6.2%	7.1%	6.2%
c)	Small Group	See Note		
	Large Group			

Note: Affordability strategies are anticipated to produce savings over the long term; however, their impact is difficult to estimate. Furthermore, administrative costs will be higher than savings in the initial years.

Rate Factor Standards for Medical Cost Improvement
(Per Section E of OHIC Affordability Report Guidance – March 27, 2009)
BCBSRI commitment to OHIC-detailed affordability standards may be found on Pages 5 & 6 of this document.

Blue Cross & Blue Shield of Rhode Island

2010 Affordability Plan Update

Company Specific System Affordability Initiatives

(Per Section F of OHIC Affordability Report Guidance – March 27, 2009)

Please list the five most significant (in term of overall financial impact) initiatives your company is undertaking to improve the affordability of healthcare in Rhode Island in the next three years.

Initiative	**OHIC Affordability Principles targeted**	**Description**	**Implementation Strategies employed**	**Approximate expected return (Savings as % of spend)**
1.Patient Centered Medical Home expansion	I, II, IV	Implementation of physician practice model which results in the delivery of high quality, cost efficient care for the chronically ill. Care is provided by a team of providers, with the primary care physician at the center of care.	BCBSRI has begun implementing PCMHs across the state. This process will be fostered by collaborative learning among practices as well as through training and resources geared toward transforming practices to become PCMHs.	See note below
2.Radiology Management Program	IV.	Continuation of prior authorization program for high tech radiology services	Continuation of existing program. Modifications made to program as warranted.	Estimated minimum 6 to 1 return vs. investment
3.Best practices in clinical care (Evidence Based Medicine)	II.	Establishment of nationally (and locally) recognized clinical guidelines to be adhered to in a variety of specialties.	Identify areas of opportunity where significant variation exists. Engage appropriate providers in development of standards of care.	See note below
4.EMR Grant Program	I, II, and III	Program offers funding for the purchase of a qualified EMR and practice readiness assessment.	Grant application process began in the Spring of 2009 with payouts beginning in the Summer of 2009. Preference are given to the specialties most involved in the IHM strategy.	See note below

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5.Health Coaching and Expanded Disease management programs	II.	BCBSRI's Health Management and Integration program enhanced our triage and member identification processes through integrating various referral sources into a single source referral system that prioritizes members based on recent treatment events. This system allows for more timely identification and outreach to members to maximize our ability to positively impact member health.	Internal triage and case management processes were redesigned to allow for a team centered approach that creates opportunities for timelier member outreach, increased access to both case managers and case management services and greater support for members in reaching health goals. BCBSRI has revised our case management assessments and care plans to offer members more customized action items to meet their specific health goals. In addition, we streamlined the process by which case managers communicate the care plan to the member's primary care physician and seek the physician's input.	See note below

Note: See Section 2 of this Affordability Report. It is difficult to estimate with precision the savings that will flow from any new affordability initiatives. Additionally, since this is an integrated strategy that includes items 1, 3, 4 and 5 above (as well as other efforts) it is not possible to segregate the financial impact of individual initiatives. We are estimating a return on investment on our commercially insured business for the first five years (2010-2014) of 1.5:1 for the overall strategy.

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2010 Affordability Plan Update

Commitments to Standards

Standard #1: Primary Care Spend

BCBSRI commits that the rates proposed in this filing were developed such that the portion of medical expense allocated to primary care for the 12 months starting January 1, 2010 is one percentage point of total medical expense greater than for the twelve month period beginning January 1, 2008.

Standard #2 Chronic Care Model Medical Home

BCBSRI commits to supporting the expansion of a multipayer Patient Centered Medical Home project during the period July 2009 to June 2010 in the following ways:

a. Said expansion will entail an increase of at least 15 PCP FTEs from the current 28 FTE level, including the addition of new practices beyond the existing 5 Chronic Care Sustainability Initiative – Rhode Island (CSI-RI) practice participants.
b. This expansion shall include some of the elements included in the initial CSI-RI implementation including training in the Chronic Care Model, and funding of a nurse case manager, among other CSI-RI elements. However, the details of this expansion may not exactly mirror that of the existing CSI-RI program.

Standard #3 Mandated EMR Incentive

BCBSRI commits to implementation of a physician (primary care and/or specialty) EMR adoption incentive on or before January 2010, that meets the following standards:

a. The incentive must be applied to practice adoption of EMRs with:
    i. certification by the Commission for Healthcare Information Technology (CCHIT)
    ii. registry functionality to promote patient tracking in the manner prescribed by NCQA PPC-PCMH standards for a medical home

b. The incentive will be equivalent in value to one or more of the following thresholds:
    i. initial payment per physician to subsidize the cost of EMR acquisition as follows: $5,000 or more, up to practice maximum of $15,000.
    ii. support for the cost of EMR implementation and operation in the form of pay-for-participation payments equal to $0.60 PMPM or in increased fees, totaling in value at least 3% greater than the insurer's standard fee schedule.

Blue Cross & Blue Shield of Rhode Island
2010 Affordability Plan Update

Commitments to Standards (cont.)

Standard #4 Fundamental Payment Reform

BCBSRI commits to participation in a state facilitated process to explore, assess, recommend and adopt reforms to health care service payment in Rhode Island. Participation shall include:

a. active engagement as a member of the stakeholder body to be convened by OHIC in coordination with other state government entities
b. Provision of non-competitive information to the body to assist in its deliberations

Agreement to participate in this state facilitated process does not constitute agreement with the outcomes and/or recommendations of the process.

Blue Cross & Blue Shield of Rhode Island

Large and Small Group Rate Factor Filing
Administrative Costs Documentation

1. The following table gives the expense charges used in 2009 ratings and the proposed small and large group administrative charges for 2010 ratings.

	% of Premium		%
Large Group	2009	2010	Change
3 Qtr	13.7%	13.6%	
4 Qtr	13.6%	13.6%	
Weighted Average	13.6%	13.6%	0.0%
Small Group	2009	2010	
May / June	14.9%	15.6%	
3 Qtr	15.8%	15.6%	
4 Qtr	15.8%	15.6%	
Weighted Average	15.6%	15.6%	0.0%

Blue Cross & Blue Shield of Rhode Island

Large and Small Group Rate Factor Filing
Administrative Costs Documentation

2. The following table details the actual administrative costs pmpm, allocated among the NAIC-approved administrative cost categories.

	2009		2010		% Change	
	Small	Large	Small	Large	Small	Large
Breakdown of Administrative Costs ($ PMPM)						
a. Payroll and Benefits	$32.04	$24.17	$37.69	$27.52	17.6%	13.9%
b. Outsourced Services	$23.19	$20.25	$27.28	$23.05	17.6%	13.8%
c. Auditing/Consulting	$2.30	$1.87	$2.70	$2.13	17.4%	13.9%
d. Commissions	$10.76	$5.00	$12.66	$5.69	17.7%	13.8%
e. Marketing and Advertising	$1.14	$0.97	$1.34	$1.10	17.5%	13.4%
f. Legal Expenses	$0.24	$0.19	$0.29	$0.21	20.8%	10.5%
g. Taxes, Licenses and Fees	$7.85	$7.51	$9.24	$8.55	17.7%	13.8%
h. Reimbursements by Unisured Plans	($21.48)	($17.19)	($24.31)	($18.74)	13.2%	9.0%
i. Other Admin Expense Total	$16.38	$14.52	$19.27	$16.53	17.6%	13.8%
Administrative Cost (PMPM)	$72.42	$57.29	$86.16	$66.04	19.0%	15.3%
Administrative Cost as % of premium	18.8%	15.4%	19.9%	16.1%	1.1%	0.7%
Investment Income %	-1.0%	-1.6%	-1.0%	-1.4%	0.0%	0.2%
State Mandated Assessments %	1.3%	1.3%	1.4%	1.5%	0.1%	0.2%
Reclassification of Claims and Admin	-1.2%	-1.2%	-1.3%	-1.3%	-0.1%	-0.1%
Federal Tax Factor	0.0%	0.0%	0.5%	0.5%	0.5%	0.5%
Total Administrative Costs %	**17.9%**	**13.9%**	**19.5%**	**15.4%**	**1.6%**	**1.5%**

Notes:

1) Unlike BCBSRI, some carriers treat utilization and other medical management expenses as medical expenses in rating which can distort the comparability of administrative charge levels in section 1.
2) Administrative Costs displayed in section 2 include additional elements not found in the NAIC's "Analysis of Expense" exhibit in order to develop "Total Administrative Costs" that are comparable to our section 1 administrative charge levels as well as adjustments to forecasted expenses. The adjustments remove anticipated expenses associated with our Integrated Health Management initiative and system replacement project since these costs are being excluded from our retention charges.

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Blue Cross & Blue Shield of Rhode Island

Large and Small Group Rate Factor Filing
Administrative Costs Documentation

3. Fully Insured Commercial Administrative Costs

Fully Insured Commercial Administrative Cost History				
	2005	2006	2007	2008
Total Administrative Cost	121,480	130,878	147,839	175,358
Total Member Months	3,362	3,394	3,327	3,050
Administrative Cost PMPM	$36.13	$38.56	$44.44	$57.49
Breakdown of Administrative Expenses ($ PMPM)				
a. Payroll and Benefits	$21.22	$22.34	$24.14	$25.14
b. Outsourced Services (EDP, Claims, etc.)	$13.44	$16.34	$21.93	$24.05
c. Auditing/Consulting	$2.96	$3.11	$2.99	$8.31
d. Commissions	$5.00	$5.43	$5.49	$6.06
e. Marketing/Advertising	$0.91	$0.83	$0.81	$0.99
f. Legal Expenses	$1.04	$0.40	$1.02	$0.33
g. Taxes, Licenses and Fees	$0.10	$0.21	$0.14	$3.72
h. Reimbursements by Uninsured Plans	($18.25)	($18.62)	($18.94)	($20.42)
i. Other Admin Expenses	$9.72	$8.51	$6.85	$9.31

Note: Administrative Cost history in section 3 ties to statutory filings which include Direct Pay, system replacement expenses and Integrated Health Management expenses.

Blue Cross & Blue Shield of Rhode Island

Industry Comparables

1. Industry Comparables: Trend

Trend Comparison			
	Medical	Drug	Total
BCBSRI Filed Trend 2010/2009			
Large Group	9.2%	10.3%	9.4%
Small Group	9.2%	11.0%	9.6%
BCBSRI Trend Approved in 2008 for 2009			
Large Group	8.8%	10.5%	9.1%
Small Group	8.8%	11.6%	9.3%
United Trend Approved in 2008 for 2009			
Large Group	10.1%	12.5%	10.6%
Small Group	10.3%	12.5%	10.7%
Tufts Trend Approved Sept 2009 for 2010			
Large & Small Group	9.7%	10.1%	9.8%
Survey PPO Trends			
Oliver Wyman Survey [2]	9.0%	11.9%	9.6%[1]
Aon Consulting Survey [3]	11.0%	9.3%	10.7%
Milliman Survey (US) [4]	10.7%	9.6%	10.5%[1]
Milliman Survey (New England) [4]	11.4%	9.8%	11.1%[1]
Segal Survey [5]	10.8%	9.1%	10.5%
Average of National Surveys [6]	10.4%	10.0%	10.3%

[1] Melded using current BCBSRI weights
[2] Oliver Wyman Survey trend for July 2009 rating
[3] Aon Consulting Survey trend for July 2009 rating
[4] Milliman Survey trend for July 2008 rating
[5] Segal Survey trend for January 2010 rating
[6] Linear average of national surveys

Blue Cross & Blue Shield of Rhode Island
Industry Comparables

2. Industry Comparables: Retention Charges

	BCBSRI filed		
	Large Group	Small Group	National Average[1]
Standard Administrative Costs	10.2%	12.2%	10.4%
State Premium Tax	2.0%	2.0%	2.0%[2]
State Assessments	1.4%	1.4%	1.4%[2]
Total Administrative Charge	13.6%	15.6%	13.8%
Reserve / Profit Charges	2.3%	2.3%	4% - 8%
Total Retention Charges	15.9%	17.9%	18% – 22%

(1) From the American Academy of Actuaries, September 2009 "Critical Issues in Health Reform: Administrative Expenses." Expenses include all lines of business. If just fully insured commercial group business were considered, the administrative cost ratio reported above would be higher because both Medicare Advantage and self insured plans have lower charges as a percent of premium.

(2) Uses Rhode Island values for comparability purposes.

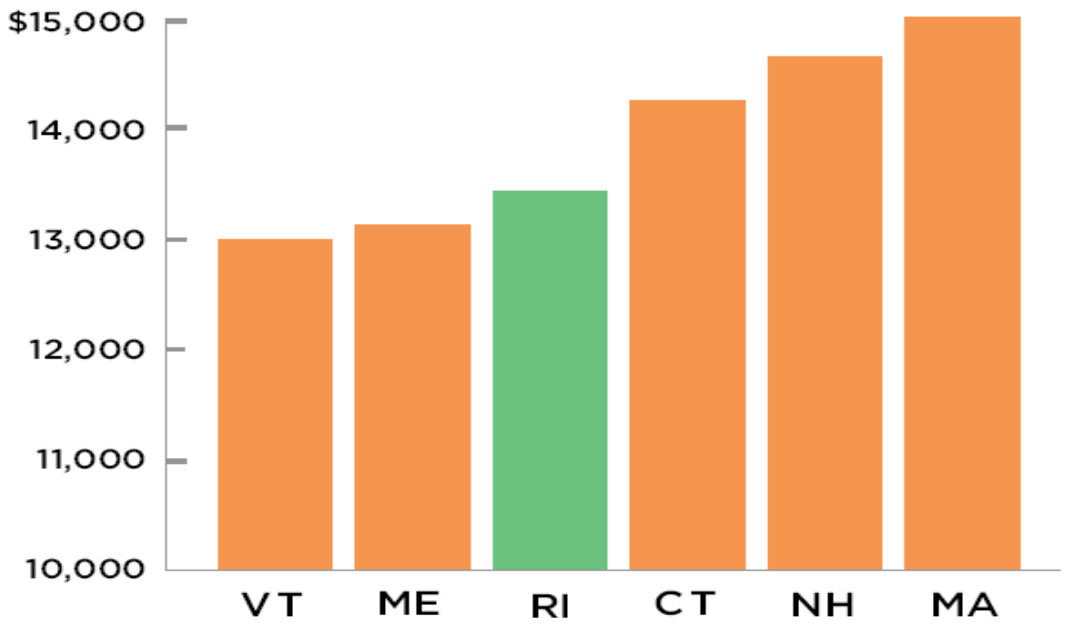
Note: The above referenced American Academy of Actuaries report also states: "A typical minimum required surplus level might be 25 percent of premium or more." This statement is consistent with the findings of the actuarial studies cited in Exhibit II.

Blue Cross & Blue Shield of Rhode Island
Industry Comparables

3. Industry Comparables: Average Premium Level

New England States' Average Annual Family Health Insurance Premiums (2008)

The average annual premium in Rhode Island is significantly lower than in neighboring states.



Source: The Commonwealth Fund

Note also that a report jointly issued by the Rhode Island Department of Health and OHIC in October 2009, entitled "The Health of Rhode Island's Health Insurers (2008)," states that Rhode Island commercial premiums in 2008 were about 3.5% below the New England average.

Blue Cross & Blue Shield of Rhode Island
Average Group Size BCBSRI

BCBSRI Average Group Size by Market Segment

Small Group			
	Groups of 1	**All Others**	**Grand Total**
Groups	4,576	5,659	10,235
Groups % of Segment	44.7%	55.3%	100.0%
Employees	4,576	33,050	37,626
Employees/Group	1.0	5.8	3.7

Large Group Underwritten				
	<50	**50-250**	**250+**	**Total**
Groups	209	227	44	480
Groups % of Segment	43.5%	47.3%	9.2%	100.0%
Employees	5,908	22,877	39,889	68,674
Employees/Group	28.3	100.8	906.6	143.1

Total Group			
	Commercial	**Self-Funded**	**Grand Total**
Groups	10,715	57	10,772
Employees	106,300	93,298	199,598
Employees/Group	9.9	1,636.8	18.5

Typically, the larger the group the more attractive it is to a carrier. This is true for two major reasons. First, the cost of the administrative work effort required to attract, enroll, and maintain a group is spread across more enrollees. In addition, smaller groups are generally presumed to be poorer risks because they are most motivated to purchase coverage only when someone needs it. This latter reason is especially true of groups of one.

Rhode Island statute defines a small employer as any group of 1 to 50 eligible employees the majority of whom are employed in the state. Including sole proprietors in this definition (only mandated in a handful of states) increases the number of groups, lowers the average group size, and increases administrative expenses in this market segment. Requiring the majority of workers to be employed in Rhode Island causes many otherwise small employers to be classified as large groups, again increasing the number of groups, lowering average group size, and increasing administrative expenses in the large group market segment.

In the small group market, BCBSRI has both the smallest average size group and the largest number of the smallest groups as cited in the OHIC "Effectiveness of the Small

Blue Cross & Blue Shield of Rhode Island

Average Group Size BCBSRI

Employer Health Insurance Availability Act in Promoting Rate Stability, Product Availability, and Coverage Affordability Report" which stated BCBSRI's average group size was 3.8 subscribers compared to 5.2 for United, a 38% difference.

The report went on to state: "When we look at the percent of subscribers by group size, as would be expected, most subscribers are concentrated in the larger group sizes. However, it is interesting to note that United has a higher percentage of subscribers in groups of 11 subscribers or more than does Blue Cross. In 2005, for United, 14% of groups and 52% of subscribers were in groups of 11 or more, while for BCBSRI only 7% of groups and 39% of subscribers were in groups of 11 or more."

The above facts illustrate the administrative burdens faced by BCBSRI and the necessity for administrative expense charges at the levels presented in this filing. The appropriateness of BCBSRI's administrative premium percents are borne out in the December 2008 Congressional Budget Office report "Key Issues in Analyzing Major Health Insurance Proposals"; "Among employment-based plans, the share of the premium that pays for administrative costs varies significantly by the size of firms, from about 7 percent for firms with at least 1,000 employees to 26 percent for firms with 25 or fewer employees. The latter loading factor is comparable with the one seen in the individual insurance market, where administrative costs Group for nearly 30 percent of premiums."

Exhibit VIII

Blue Cross & Blue Shield of Rhode Island

Actuarial Review Letter from Milliman, Inc.

January 22, 2010

1550 Liberty Ridge Drive, Suite 200
Wayne, PA 19087-5572
Tel + 610 687.5644
Fax + 610 687.4236
www.milliman.com

January 19, 2010

John J. Lynch, FSA
Chief Actuary
Blue Cross & Blue Shield of Rhode Island
500 Exchange Street
Providence, RI 02903-2699

Re: Actuarial Review of Rating Factors Applicable to Small and Large Group Subscription Rate Renewals ("Group Rating Factor Filing")

Dear Mr. Lynch:

Blue Cross & Blue Shield of Rhode Island (BCBSRI) has asked Milliman to review the development of rating factors applicable to Small Group subscription rate renewals effective May 1, 2010 through December 1, 2010 and Large Group renewals effective July 1, 2010 through December 1, 2010, including required Early Notice Renewals effective January 1, 2011. We the undersigned are Members of the American Academy of Actuaries and meet its Qualification Standards for Statements of Actuarial Opinion.

This review was performed for the purpose of assessing the reasonableness of the methods and assumptions used in the development of the rating factors contained in BCBSRI's filing; it may not be appropriate for any other use. We understand that you intend to include a copy of this letter with BCBSRI's Group Rating Factor Filing, and we hereby consent.

We have reviewed BCBSRI's development of required rating factors in the filing, and we have done our own testing as we deemed appropriate. In our opinion, the actuarial methods and assumptions used in BCBSRI's calculation of required rating factors are sound and, when applied through its group rating formula, will produce group rates that are appropriate and reasonable. We observe that BCBSRI is proposing to limit the provision developed for recoupment of administrative costs in its group rates; as a result, the resulting rates may not produce adequate revenue to cover all of the costs identified in the development.

We would characterize the trend factors developed by BCBSRI for use in projecting claims cost as falling within the range of most likely anticipated outcomes, generally toward the lower end of that range, based on information provided to us and our own independent research and actuarial judgment at this time. We observe, as well, that BCBSRI is making provision in the rating factors for its insured group business of $5 million in costs during 2010 and $14.5 million during 2011 for certain healthcare cost management programs and infrastructure, incorporated specifically as a component of the price factor for PCP medical/surgical services.

As part of our review, we compared commercial inpatient hospital per unit reimbursement levels reported for Rhode Island to those for its two neighboring states, and found the levels in Rhode Island to be lower. Comparative measures indicate that commercial outpatient hospital reimbursement are lower in Rhode Island, as well. The overall level of trend factors assumed in the Group Rating Factor Filing is in line with the levels reported in various surveys of competitors and other health plans nationally, and not inconsistent with overall measures of healthcare inflation.

We reviewed BCBSRI's development of required administrative costs, which is defined for purposes of the Group Rating Factor Filing to include the net of operating and related administrative expenses, Federal income tax, premium tax, various state mandated assessments, and investment income (credit). We found BCBSRI's development to be sound, recognizing the loss in insured group enrollment that BCBSRI has experienced. We note that BCBSRI proposes to actually charge in its group renewals a lower amount. In addition, costs incorporated in the development do not include the full cost of certain long-term development projects. As a result, we think that it is likely that the renewal group rates developed by BCBSRI using its proposed administrative cost factors will not produce sufficient revenue to offset all of its corresponding costs.

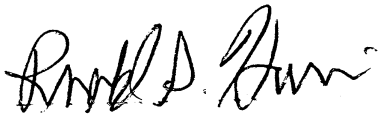
We believe the stated required reserve contribution factor to be sufficient, but at the low end of a reasonable range. However, due to potential shortfalls in the proposed administrative cost factors along with the impact of certain long-term development projects, we believe the actual contribution to corporate reserves based on this filing will likely be less than the stated level requested in it. There is a material possibility of no contribution to corporate reserves at all. In addition, even with fully adequate rates in all lines of business, reserve contribution factors will likely need to be increased in the future, in order for BCBSRI to achieve an appropriate corporate reserve target within a reasonable period of time.

In performing this analysis, we relied on data and other information provided by BCBSRI. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

It is certain that actual experience will not conform exactly to the assumptions and factors developed in the rate filing and reviewed by us. Since BCBSRI has elected to limit the rating factor for administrative costs, the likelihood of losses arising even with the rating factors requested in the filing is increased. Further, to the extent that emerging experience differs from the assumptions used in the filing, the actual required rates produced by them will also deviate from the projected required amounts produced using the rating factors in the filing. In accepting risks such as these, it is imperative that BCBSRI maintain adequate reserves for the protection of the Plan and its subscribers.

Sincerely,

James A. Dunlap, FSA, MAAA
Actuary



Ronald G. Harris, FSA, MAAA
Consulting Actuary

JAD/lc/jpj
Enclosure