

February 16, 2010

TO: Members of the Health Insurance Advisory Council:

I wanted to provide some additional information regarding a recent rate filing by Blue Cross & Blue Shield of Rhode Island (“BCBSRI”) and give you some background as to why the requested rate increases are necessary at this time. You may recall that, in May 2009, BCBSRI submitted a small and large group rate filing to the Office of Health Insurance Commissioner (“OHIC”). That filing was denied by OHIC, and subsequently BCBSRI withdrew the filing at OHIC’s request. Since that time, BCBSRI’s financial position has steadily declined.

As a result, we have submitted a new small and large group rate filing to OHIC. This filing is necessary. At their present levels, BCBSRI only has enough money in reserves to pay claims for slightly more than two months, significantly less than that three months recommended in a Lewin Group study commissioned by OHIC. As you can imagine, this puts our entire organization at risk for insolvency if this situation is not rectified adequately and quickly. In addition, the cost of delivering healthcare continues to increase in our community despite our efforts to control costs and improve quality in Rhode Island.

We recognize that rate increases of this nature cannot continue, which is why we strongly believe the healthcare system must be reformed now. BCBSRI supports many of the elements of healthcare reform. We believe that all Rhode Islanders should have access to high quality, cost effective, and affordable healthcare. We have already begun implementing changes to our operations that will facilitate the healthcare transformation which we agree is necessary and long overdue. All of these changes will produce a healthier Rhode Island. And, as we begin to live healthier lives, the cost of healthcare insurance will also moderate, providing employers with the relief they need and deserve.

Local and national efforts at reforming the healthcare system will not provide premium relief overnight. BCBSRI recognizes that immediate action is needed and has undertaken several important measures that have brought about quantifiable results.

What BCBSRI is doing to control costs?

- BCBSRI has implemented a number of initiatives that have saved over \$68 million dollars in claims costs since 2005. Some of these programs include high-end imaging pre-authorization, specialty pharmacy, enhanced fraud and abuse investigation, and improvements in our disease and case management programs.
- BCBSRI has reduced its operating expenses by 4% since 2007. We have eliminated 157 full-time positions in the past two years, eliminated pay increases for all employees in 2009, eliminated executive pay increases for both 2009 and 2010, and increased employee contributions to health care benefits.
- After years of operating out of six different buildings around Providence, BCBSRI also recently settled into its new building, a move which is projected to save \$25 million over the next 23 years and which has no adverse impact on member rates or the current rate increase request.

- BCBSRI has implemented a continuous improvement program that will streamline our processes, improve efficiency and make it easier to do business with us.
- BCBSRI is committed to becoming an integrated health management company. This will allow us to improve the health of our members by working with physicians to improve health outcomes and reduce costs. We will design benefits that promote achievement of individual health goals through incentives and rewards.

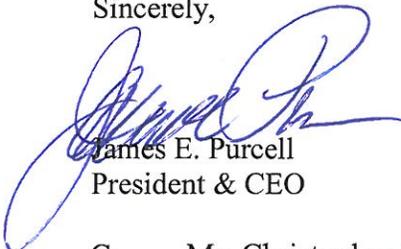
Despite these positive efforts, the financial position of the company has deteriorated because the costs of the care being provided to our subscribers continues to rise dramatically. **In 2008, BCBSRI made \$1.4 billion in total payments to hospitals, physicians, and other healthcare providers. In 2009, total payments to providers are projected to have increased by \$100 million, even though enrollment has declined.** The insufficiency of current rates has required the company to rely on its limited reserves. As a result we had no alternative but to submit this rate filing.

What are the elements of the rate increase?

- Our rate filing reflects increases of approximately 11.5% for small and 14.6% for large groups. This rate increase is the result of inadequate rate increases from the last filing in combination with escalating healthcare costs.
- In recognition of the troubled economy, the requested increase is comprised primarily of the increased costs for medical services and utilization. Our filing does not seek an increase for administrative expense as a percentage of premiums from our previously approved filing.
- The filing includes a contribution to reserves at a level which will only serve to keep reserves from dropping further—far from what would be needed to build reserves back to recommended levels.

During this difficult economic time, we know that the rate increases resulting from this filing (if approved) will be difficult for small and large employers to bear. We've struggled with that, and made all of the adjustments we could to reduce the impact. The truth is that it would be imprudent to sit idly by and watch BCBSRI continue on a financial downturn that will limit our ability to serve Rhode Islanders for years to come.

Sincerely,



James E. Purcell
President & CEO

C: Mr. Christopher F. Koller
Health Insurance Commissioner