

**Blue Cross Blue Shield Reserve and Surplus Determination
Official Statement of Pennsylvania Insurance Commissioner Diane Koken
Wednesday, February 9, 2005**

My name is Diane Koken and I serve as Pennsylvania's Insurance Commissioner.

I want to thank you for joining us here today. I know it is a busy day with many important budget announcements.

I am pleased today to have the opportunity to share with you the results of our review of the reserves and surplus for the Pennsylvania Blues Plans. This is an important issue for Pennsylvania and we have devoted substantial time and effort to the Determination issued today.

With me today on behalf of the Insurance Department is my Chief Actuary, Chet Szczepanski. Chet and his team of actuarial and financial experts investigated and evaluated these surplus applications.

The reserve and surplus levels of the four Pennsylvania Blue Plans have been the subject of much public debate over the years. Recognizing the importance of this, we have made the process as transparent as we could to encourage participation. Before reaching a decision we reviewed all information presented in the 329 comments filed with the Department as well as the information provided by the Blues.

I would urge each of you who have been following this issue to read the Determination. Copies are available here and are on the Insurance Department website at www.insurance.state.pa.us

So, what have we determined?

Based upon our statutory authority and the responsibilities granted by the Health Plan Corporations Act (particularly 40 Pa.C.S.A. sections 6124, 6329) the Department performed its analysis. We have determined that the Plans are not operating with inefficient or excess surplus.

And let me explain that.

In undertaking our analysis we created a new and innovative model that offers a regulatory continuum against which each of the Blue Plans can be properly measured based on each Plan's size, level of diversification and risk exposure. These are likely to be the most stringent standards used anywhere in the country based on risk-based capital.

We have identified an upper level of surplus that we identify as inefficient. Any Blue Plan operating in the inefficient surplus range must file a report with the Commissioner justifying the current level of surplus or file a plan explaining how the Blue Plan will divest itself of surplus in a manner that benefits its policyholders. Based on financial reports, for calendar year 2003, there are no Blue Plans at this level. We will look at the 2004 numbers when they are reported in March.

In addition, we have identified a range of sufficient surplus for each plan where we will not allow a risk and contingency factor for any filed premium rates. There are

three Blue Plans that were at a sufficient surplus level, based on 2003 numbers. They are Highmark, Capital and Northeast.

Plans operating in the efficient range – that range below the sufficient surplus range -- are not restricted. IBC is at this level.

We do have a hand-out that will help further explain the ranges we have established and will provide the overview of where the Plans were at the time of our review. You will note that our analysis recognizes the differences among the Plans and results in different ranges for the Blues. The sufficient range for Highmark and IBC is from 550 percent to 750 percent of the lower of the NAIC Health Risk Based Capital ratio or the consolidated risk factor ratio. The sufficient range for CBC and NEPA is 750 percent to 950 percent.

Each Blue Plan is required to file a Risked-Based Capital (RBC) report with the Department annually on March 1st. By law, this RBC report must be maintained as confidential. The consolidated risk factor ratio for each of the Blues is included in our Determination along with an explanation of our method of calculation.

The Insurance Department has reached what many will consider as a benchmark and historic conclusion to the most complex, voluminous and sometimes contentious task we have undertaken -- at least during my tenure at the Department.

I do realize, however, that many will be disappointed in hearing that there is no excess surplus. I believe it is important to highlight that Pennsylvania has four Blue Plans that are being operated efficiently and our evaluation assures that they are financially capable of meeting their obligations to their insureds in the near future. Some states in our country do not have this fortunate situation and must contend instead with issues related to Blue Plans in financial trouble.

Foremost in our determination was our duty to protect consumers and see that Pennsylvania's Blue Plans can continue to serve Pennsylvanians, while holding these Plans to a stricter standard that will monitor their surplus levels and assure that any "excess" surplus is promptly identified and used to benefit the citizens of the Commonwealth.

We would welcome your questions.