

Chet Burrell  
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June 30, 2014

Hon. Chester A. McPherson  
Acting Commissioner  
DC Department of Insurance, Securities, and Banking  
810 First Street NE, Suite 701  
Washington, DC 20002

Dear Acting Commissioner McPherson:

I write on behalf of Group Hospitalization and Medical Services, Inc. ("GHMSI" or "Company") to submit this report regarding GHMSI's surplus at Year-End 2013, pursuant to 26A DCMR 4601.1. GHMSI's surplus at Year-End 2013 was 932 percent RBC-ACL, up slightly from 921 percent RBC-ACL from Year-End 2012, but still well below the bottom of GHMSI's Board's approved target surplus range of 1000-1300 percent RBC-ACL. This is also below Rector and Associates' recommended target level of 958% RBC-ACL that they have proposed in their review of GHMSI's surplus in the context of the Medical Insurance Empowerment Amendment Act (MIEAA).

On December 9, 2013, the Boards of CareFirst, Inc., GHMSI, and CareFirst of Maryland Inc., ("CareFirst"), reviewed and approved CareFirst's three-year financial plan for the years 2014 through 2016 including the financial plans for GHMSI. As part of this annual review, the Boards reviewed the target surplus ranges for GHMSI, as well as the expected final 2013 surplus and the projected 2014 surplus for each entity. The Boards approved the 2014 surplus ranges and projections as part of its approval of GHMSI's financial plans. The 2014 target ranges approved in December 2013 for 2014 are the same as those used in 2012 and 2013 - 1000-1300 percent RBC-ACL for GHMSI.

In June 2014, GHMSI obtained a full, actuarial surplus analysis performed by Milliman. Milliman's analysis is attached. In its analysis, Milliman noted the uncertainties caused by federal health care reform with respect to product pricing, the impact of risk adjustment mechanisms, medical loss ratio and rating constraints, and other uncertainties that relate to the major market changes due to the implementation of the ACA.

The DISB is currently engaged in a review on GHMSI's 2011 surplus, and we have provided extensive information as part of those proceedings.

We refer you to those documents for more information on the challenges that the Company faces in maintaining an appropriate level of surplus in these extraordinary times, as well as documentation of our extensive community giving in light of those challenges.

Please do not hesitate to contact me if you have any questions.

Sincerely,



Chet Burrell  
President and CEO

Enclosure

cc (by e-mail): Philip Barlow, DISB Associate Commissioner for Insurance  
Mark Chaney, CareFirst CFO  
Meryl Burgin, CareFirst General Counsel