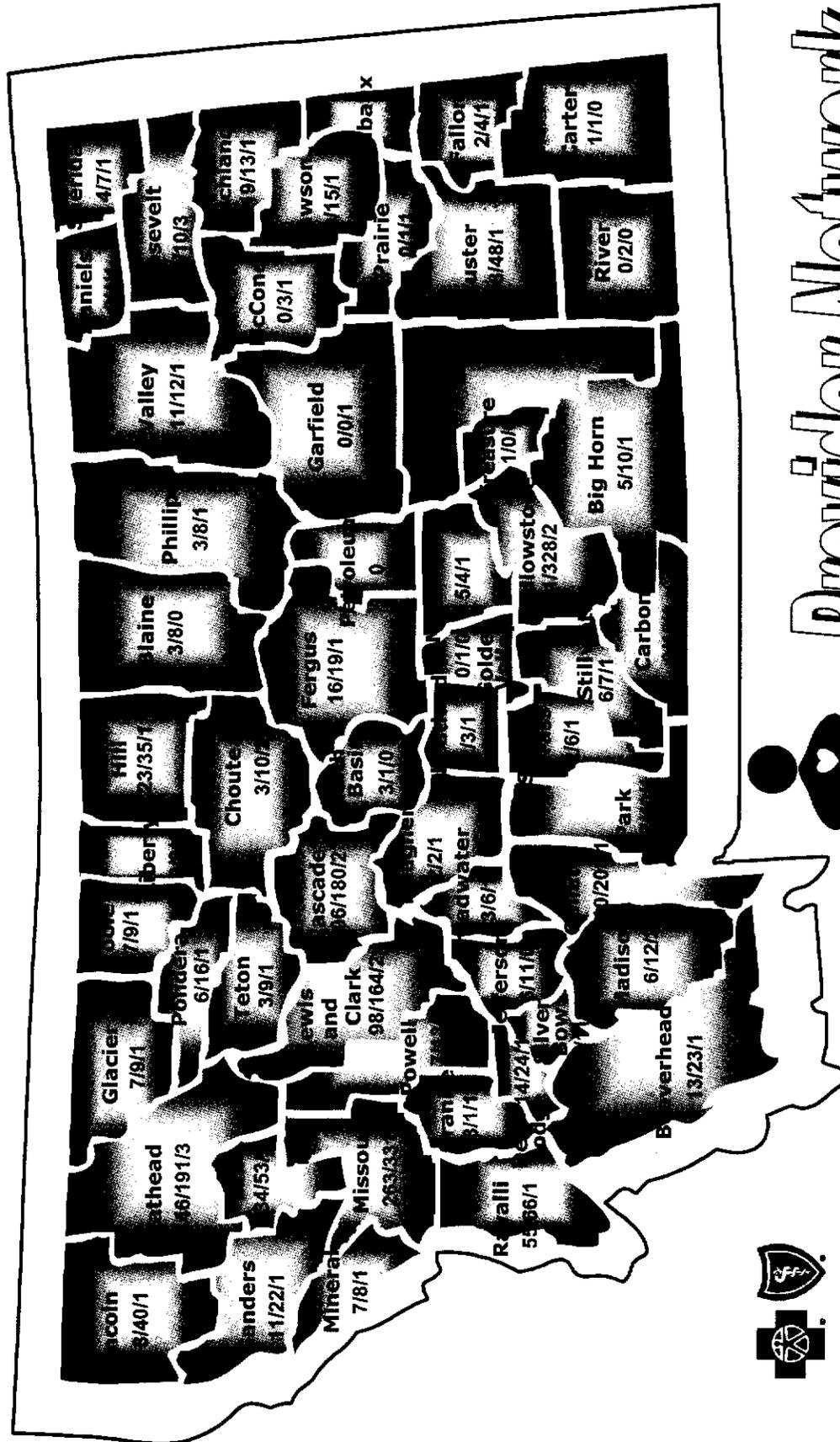


Blue Cross and Blue Shield of Montana

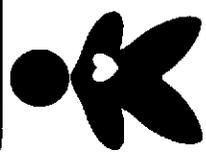
BlueCHIP Information

Prepared for SB 154 Conference Committee
by Tanya Ask
April 14, 2005

- 1) Number of claims processed contract year 2003 – 10/1/03 – 9/30/04
66,641 (Montana children covered by BlueCHIP in their county of residence
information attached) *Net of pharmacy claims*
- 2) Timely claims processing information
Approximately 97% of all claims are processed within 15 days of receipt, and over
99% within 30 days
- 3) A Montana Medical Professional and Facility Network has been put together
specifically for BlueCHIP comprised of 1580 Montana physicians, 1968 allied
medical professionals and 58 facilities. In addition, if a CHIP child is out of state
and suffers a medical emergency, or needs specialty care not available in
Montana, the family has access to the nationwide BlueCard network of medical
professionals and facilities. (Montana BlueCHIP Network information attached)
- 4) Blue Cross and Blue Shield of Montana (BCBSMT) is required by Montana law
and Blue Cross and Blue Shield Association licensing requirements to hold
adequate (not minimum) reserves for the protection of individuals and groups
purchasing health insurance from us. 33-2-1901- 33-2-1913, MCA. (An
overview of Risk Based Capital, the reserving standard now used, is attached.)



**BlueCross BlueShield
of Montana**
An Independent Licensee of the Blue Cross and Blue Shield Association



BlueCHIP

Provider Network

Physician / Allied / Hospital
1,580 / 1,968 / 58

March 2005 Total Providers

3,606

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For immediate release

October 15, 2004

Contact: Chuck Hunter, Dept. of Public Health & Human Services, 406-444-4458
Linda McGillen, Blue Cross Blue Shield, 406-444-8931

State Renews CHIP Contract with Blue Cross Blue Shield

State health officials announced Friday that they have renewed for another year a contract with Blue Cross Blue Shield of Montana (BCBSMT) to provide health insurance coverage for low-income children.

The two parties signed the contract Friday, according to Gail Gray, director of the state Department of Public Health and Human Services (DPHHS). As a result, BCBSMT will insure the Children's Health Insurance Plan (CHIP) for the fifth year in a row. BCBSMT has been the provider for the plan since its inception in 1999.

Gray said she is especially pleased that BCBSMT agreed to keep premium rates at their existing level and to transfer back to the state about \$2 million—or about 75 percent—of reserve funds that have accumulated from the program over the past five years.

“One thing we wanted to accomplish was to continue to provide coverage for about 1,300 kids who were added to the program in the past year,” Gray said. “The Blues have been a good partner. They agreed that this was the right thing to do, realizing that the alternative was to drop kids from the program. That’s unacceptable to all of us.”

The state was able to add 1,300 kids to CHIP in 2004 using one-time federal money dedicated to CHIP by Gov. Judy Martz. A total of about 10,900 children are currently enrolled in the program.

In the 2005 agreement, BCBSMT and DPHHS also agreed to create a formal rate stabilization reserve account. Up to half of future reserve funds will be placed into the account and used to offset health coverage costs in following years.

Insurers set their premium rates to create a reserve fund to cover all medical claims, including catastrophic expenses. The insurer bears the risk of having to pay for all medical costs even if they exceed the amount in the reserve.

Under the new contract, which runs from Oct. 1, 2004, to Sept. 30, 2005, the monthly premium will remain the same.

Overview of Risk Based Capital

Prepared by Chris Manger,
Blue Cross and Blue Shield
of Montana



What is Risk Based Capital?

- Risk Based Capital (RBC) is a tool created by regulators to objectively and uniformly measure the financial strength of insurers relative to the degree of risk assumed by them within their business operations.
 - It determines if the capital accumulated by the insurer is sufficient.
-

Premiums Must Pay the Claims....

- In a perfect world, premiums would be set at the perfect level to cover all costs
 - It's not a perfect world!
 - An insurer needs to maintain sufficient capital to protect its policyholders during those “rainy days” when costs, including utilization, outpace income.
-

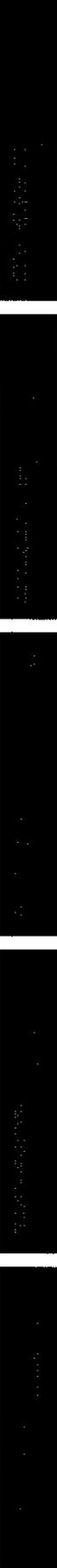


Who is Concerned?

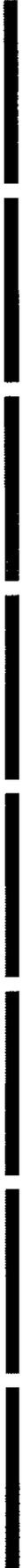
- The insurer is concerned about its ability to continue to service policyholders and pay provider claims
 - The regulators are concerned that policyholders are adequately protected
 - The Blue Cross and Blue Shield Association is concerned about the financial strength of the Blue System
- 

Objectives of the Formula

- The RBC formula analyzes financial risk by applying a statistical formula to selected risk factors
 - The formula is designed to take into account that probably not all adverse events will occur at the same time
-



The Five RBC Risk Factors

- Insurance Affiliate Risk (H0)
 - Invested Asset Risk (H1)
 - Underwriting Risk (H2)
 - Credit Risk (H3)
 - Business Risk (H4)
- 

The Formula

H0 +

H1²+ H2²+ H3²+ H4²



How is the Result Used?

- The result of the calculation is known as RBC after Covariance
 - The Covariance is multiplied by 0.5
 - The result of this calculation is the Authorized Control Level (ACL) – this is basically the minimum amount of capital required to cover the statistical risk the company is exposed to
-

What Does This Tell Us?

- The ACL number is divided into the statutory surplus (or capital) of the insurer to arrive at the RBC percentage
 - The RBC percentage indicates how the size of the surplus or capital measures up against the minimum necessary (ACL)
-

The Importance of Surplus

- The denominator in this calculation is the ACL
 - The numerator is the surplus – the larger this number the better in terms of the RBC outcome
 - Surplus can be increased or decreased by earnings, unrealized investment income, “non-admitted assets” and surplus notes
-

Who cares about RBC?

- The state regulators monitor RBC for solvency concerns:
- If the RBC percentage falls between:
 - 150%-200%: A corrective action plan must be submitted to the regulators
 - 100%-150%: A financial plan must be submitted and the regulator issues corrective orders
 - 70%-100%: Regulators take control

RBC for The “Blues”

- The Blue Cross and Blue Shield Association has a number of financial strength requirements for its members, including RBC
 - If the RBC percentage hits 400% monitoring begins
 - At 375%, the Plan is in the Early Warning Stage
 - At 250%, the Association revokes the Plan’s license
-