

ACTUARIAL REPORT
Blue Cross Blue Shield Of Alabama
Prospective Rate Adjustment Program
January 19, 2004

Prepared by:
Actuarial Resources Corporation
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EXAMINER'S AFFIDAVIT

STATE OF FLORIDA
COUNTY OF PINELLAS

John A. MacBain, FSA, MAAA, being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the Prospective Rate Adjustment Program of Blue Cross Blue Shield of Alabama for the period of October 1, 1998 through September 30, 2001;

That the following 100 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And, that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.

John A. MacBain
Name VICE PRESIDENT
Title ACTUARIAL RESOURCES CORP.

Subscribed and sworn to before the undersigned authority this day of January 21, 2004

Michael Geo F Davis
Signature of Notary Public

Michael Geo F Davis, Notary Public
Printed Name



Michael Geo F Davis
Commission # CC960857
Expires Aug. 22, 2004
Bonded Thru
Atlantic Bonding Co., Inc.

In and for the State of Florida
My commission expires Aug 22, 2004



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January 19, 2004

Mr. David Parsons
Deputy Commissioner
State of Alabama Department of Insurance
201 Monroe Street, Suite 1800
Montgomery, AL 36130

Mr. Terry Kellogg, FSA, MAAA
Blue Cross Blue Shield of Alabama
450 Riverchase Parkway East
Birmingham, AL 35298

RE: Final Blue Cross Blue Shield of Alabama Sanderson Report

Gentlemen:

Enclosed you will find the final Report of our review and examination, performed on behalf of the Alabama Department of Insurance, of the Prospective Rate Adjustment Program contained as part of the Order and Final Judgment of the Sanderson v. Blue Cross and Blue Shield of Alabama litigation. This Report covers the second and third years of the Prospective Rate Adjustment Program, covering the period October 1, 1999 through September 30, 2001.

The Report is prepared in accordance with the Guidelines for Public Statements of Actuarial Opinion as promulgated by the Actuarial Standards Board. I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries and meet the qualifications for making such Statements of Actuarial Opinion.

Sincerely,

John A. MacBain, FSA, MAAA

Enclosure

cc: A. Grey Till, Jr., Blue Cross Blue Shield of Alabama
Richard Ford, Chief Examiner, Alabama Department of Insurance ✓

Introduction and Background

On September 10, 1998, the case of Sanderson, et al. v. Blue Cross and Blue Shield of Alabama was resolved through the issuance of the "Order and Final Judgment" (the "Order" - see Attachment 1) entered by Judge Gary McAlily, Circuit Court of Coffee County, Alabama. This Order incorporated two major conclusions impacting Blue Cross Blue Shield of Alabama (BCBSAL) underwritten health benefit plans. First, BCBSAL was ordered to adopt new Capital Benchmark Guidelines establishing levels of Unassigned Funds. Second, BCBSAL was ordered to adopt a Prospective Rate Adjustment Program (PRAP) to make prospective rate reductions to all fully insured categories of BCBSAL's business over the three year period, October 1, 1998 through September 30, 2001.

On behalf of the Alabama Department of Insurance (ADI), Actuarial Resources Corporation (the "examiners") has performed a review of the PRAP for the period October 1, 1999 through September 30, 2001. The Departmental objective of this review is to ensure that the PRAP was administered in accordance with the provisions of the Order. An important aspect of our review was to verify that the methods used by BCBSAL in establishing assumptions underlying procedures prior to the Order did not change materially since the resolution of the Sanderson case. An additional objective of this review was to ascertain and ensure that BCBSAL had completed any and all requirements of the PRAP so that no further examinations relative to compliance with this aspect of the Order would be required.

The PRAP, effective October 1, 1998, established a Rate Adjustment account amount of \$208 million less legal fees and class relief, which was to be exhausted over the target period of three years and allocated among BCBSAL's five fully insured categories of business. The specific allocation percentages for each category are set forth in the PRAP included as Exhibit B of Attachment 1. An aggregate annual target amount of \$69.33 million was established for each of the three years, less pro-rata legal fees and class relief. Each year, no more than 30 days after each anniversary of the PRAP, BCBSAL was to furnish a report to the ADI exhibiting details of the amounts allocated to-date for each category of business. The PRAP reports submitted by BCBSAL in respect of the second and third years of the program and reviewed by the examiners as part of this exam are included as Attachments 2 and 3.

According to the Order, the PRAP Credits to be taken are based upon the difference between the full rate required and the actual rate implemented (see item C., Page 3 of the PRAP in Exhibit B of Attachment 1) taking into account the number of subscribers at the time of the rate calculation. Credits applied from Retrospective Rate Credit (RRC) balances, if available, may be included as credit towards the PRAP account balances. RRC balances for each of the five fully insured categories at year end for years 2000 through 2002 are included as Attachment 4.

On July 12, 2000, the ADI issued the examiners' report on the operation of the PRAP during its full first year of operation (October 1, 1998 through September 30, 1999). This report deals with the specific details and examiners' findings with respect to

BCBSAL's five fully insured categories of health benefit plans, as part of the operation of the PRAP during the second and third years of its operation. In certain situations, the findings of this examination do have retroactive application to the operation of the PRAP during its first year.

Reliances

In preparing this report, the examiners have relied on the accuracy and totality of the information requested and made available by the management and staff of BCBSAL.

The information provided included, but was not limited to, the following:

1. Underwriting worksheets and computer files in respect of BCBSAL's Merit-Rated groups, including the ALFA Health Plans.
2. Information on the enrollment and rate computations with respect to the Small Group and Medicare Select Supplement (C Plus) categories of business of BCBSAL.
3. Rate filings as made to the ADI in respect of the Small Group and Medicare Select (C Plus) categories of business of BCBSAL.

Rate Adjustment Program Review

Merit-Rated groups

The Merit-Rated category of business consists of many separate large groups (>50 insureds), which renew at different months during the year. Each group is rated separately based on the combined experience of the individual group and the entire Merit-Rated pool. BCBSAL does not submit rate filings for this category on an annual basis to the ADI as they do for their other fully-insured categories, excluding the ALFA

Health Plans. The rating procedures applicable to the Merit-Rated groups are subject to the Modified File and Use procedures of Section 10-4-09 of the Code of Alabama 1975, as amended, and its historical interpretation by the ADI. It should be noted here that the prior report had recommended that the procedures currently on file in this regard be updated and submitted to the ADI. The procedures currently on file are dated May 19, 1972. BCBSAL has not yet filed updated rating procedures for this category.

For this exam, as in the prior examination, the examiners reviewed and analyzed the rating procedures of sample Merit-Rated groups, including the actual mechanics of the rate calculations and assumed trend rates. The review centered on maintaining consistency with the prior methodologies and also on the details of the PRAP Credit calculations and its relationship to the requirements of the PRAP portion of the Order. The examiners also reviewed the spreadsheets which included the details of the PRAP Credit calculations for the Merit-Rated groups.

Sample Renewal Rate Calculation and Prospective Rate Adjustment Contribution

As previously, BCBSAL provided several renewal underwriting reports for various Merit-Rated groups. These reports provide data supporting the rate calculations and PRAP Credits for these groups. The examiners first reviewed the operating and underwriting methodology for consistency with those reviewed as part of the previous exam. In addition, the examiners again reviewed the procedures as a whole to insure their continued compliance with the PRAP description in the Order. The examiners determined that the methodology in place essentially mirrored that documented in the

prior report except as noted below. Using the terminology of the prior report, for the Merit-Rated cases, the total Sanderson (PRAP) Credit may be determined by either of formula 1. or 2. below:

1. Total PRAP Credit = Formula required rate adjustment (F) - Actual rate adjustment (C), or equivalently
2. Total PRAP Credit = RRC adjustment (X) + Formula adjustment (Y) - U/W adjustment (U)

In reviewing all the parameters inherent in the PRAP Credit formulas above, the examiners determined that most items continue to be determined according to the identical procedures described in the prior report. There were changes in the procedures applicable to the Formula adjustment (Y) factor. Also, the examiners felt it necessary to clarify the application of this adjustment as documented in the prior report.

First, for the initial year of the PRAP, the Formula adjustment (Y) factor was a percentage of the U/W adjusted required rate (F+U). This percentage was 25% for the first year of the PRAP. This 25% factor was reduced to by 15% BCBSAL for Merit-Rated case renewals beginning approximately in February of 2000. The rationale for the reduction in the Formula adjustment (Y) factor was to slow down the accrual of the PRAP Credits since the 25% factor used by BCBSAL in its renewal rating process for Merit-Rated groups had caused the PRAP Credits to substantially exceed one-third of the total required credits for this category of business in the first year of the PRAP.

Even with the reduced 15% Formula adjustment (Y) factor, the PRAP Credits for this category of business in the second year of the program were enough to exhaust the remaining PRAP account balance for the category. The "Target Adjustments" referred to in the Order (Page 2 of Exhibit B of the Order) represent 1/3 of the total allocations for each category of business. This issue was previously examined, and, as was indicated in the prior report, the examiners' opinion is that exceeding those yearly targets does not violate the intent of the Order so long as the total allocation is exhausted within the three-year target period.

Also, in reviewing the operation of the Formula adjustment (Y) factor, the examiners determined that BCBSAL did not implement any rate adjustment for a group when the total calculated rate adjustment was within +/- 5% of the current rate for the group. In these situations, this procedure had the effect of increasing/decreasing the Formula adjustment (Y) portion of the PRAP Credit from the anticipated 25% (or 15%) of the UW adjusted required rate (F+U), as indicated in the above paragraph. This rate hold procedure is included as part of Attachment 5.

BCBSAL revised this rate hold threshold to +/- 2% beginning with groups renewing in November of 1999, as indicated in Attachment 5. The examiners reviewed these procedures for consistency with the intent of the PRAP and determined that they are not inconsistent with the PRAP.

The examiners noted that, as in the re-rating procedures employed for the prior report, BCBSAL utilized experience periods for determining loss ratios that varied among Merit-Rated groups. The experience periods do not vary by coverage within a Merit-Rated group, however. The examiners questioned BCBSAL management as to the reason for varying experience periods among Merit-Rated groups and were informed that the experience period varied depending on the period of time before the renewal date that the client wanted their renewal rate quoted. The examiners reviewed this procedure to ensure its consistency with the PRAP and determined that the process of utilizing a different experience period for a particular Merit-Rated group was not inconsistent with the intent of the PRAP or with past procedures employed by BCBSAL in their renewal underwriting processes.

Retrospective Rate Credits

Under the PRAP pursuant to the Order, as stated previously, BCBSAL is permitted to use credits applied from RRC balances toward their applicable PRAP Credits.

As stated in the examiners' prior report, RRCs are essentially the accumulation of a Merit-Rated group's surplus position on its coverages. If, in any year, there is a positive excess of earned premiums received from the group over incurred claims and retention charges (including a charge for unassigned funds), then such excess, rather than flowing through to BCBSAL's unassigned funds, is held in a liability account of BCBSAL to be used to defer or mitigate the need for future rate increases for the group. If a group is in a cumulative deficit situation and earnings in any year are negative, those

losses are fully and immediately run through BCBSAL's earnings and only when the group's cumulative position (as determined "off" balance sheet) becomes positive does an RRC liability get established by BCBSAL in respect of that group.

The Order clearly indicates that RRCs are not considered unassigned funds. See Page 4, item 4. of the Order (included as Attachment 1). Based on BCBSAL's second year PRAP report, of the \$39.9 million PRAP Credits taken for the Merit-Rated category, \$15.9 million, or 40%, was attributable to an anticipated reduction in positive RRCs. However, actual losses in excess of this amount which occur will, where possible, be reflected in a reduction of RRCs rather than unassigned funds. In total for the Merit-Rated groups, approximately \$34 million, or 43%, of the total PRAP Credits taken by BCBSAL were attributable to RRCs. In dollar terms for the Merit-Rated category, BCBSAL took \$79.3 million in total PRAP Credits at an implied cost to unassigned funds of \$45.5 million. In many situations, however, PRAP Credits were taken against less than full RRC balances. As a result, unassigned funds ultimately were anticipated to be reduced by less than \$45.5 million.

Trend Assumptions

As done previously, the examiners reviewed BCBSAL's trend assumptions. The trend assumption, which is a somewhat subjective component of the rate calculation, has a significant impact on the final rate adjustment calculated. As before, past trend data for various coverages was requested from BCBSAL to determine the reasonableness of the future trends assumed in the rate calculations.

Attachments 6.1 through 6.8 include a summary of the annual trend data provided for the following coverages:

- Inpatient Hospital
- Outpatient Hospital
- Shield
- PMD (Preferred Medical Doctor)
- Drug Card
- Major Medical - PMD
- Major Medical - Traditional
- Major Medical – POS

For each of the coverages listed above, the Attachments provided show the historical annual trend rates experienced for various runout and incurred periods. In addition, the rating trend that was assumed by BCBSAL for determining rate adjustments has also been provided for comparison.

In comparison to the historical trend rates provided, the trend rates assumed by BCBSAL appear to be reasonable for the various coverages analyzed, as was the case in the prior report. Also, consistent with the examiners' previous analysis, it does not appear that there has been any change in BCBSAL's trend assumption methodology since the Order was adopted.

ALFA Health Plan

The ALFA Health Plan consists of two groups that are rated identically to the methodology used for the Merit-Rated category of groups. The same basic procedure described above for the Merit-Rated category is used to calculate rate adjustments for the ALFA category.

Attachments 7.1 and 7.2 illustrate the determination of the PRAP Credit for the two ALFA groups in year 2 and year 3, respectively, of the PRAP.

Community-Rated and Demographically-Rated Groups

Community-Rated groups (2-14) and Demographically-Rated groups (15-50) constitute the Small Group category of business for purposes of the PRAP. As mentioned in the prior report, the PRAP Credits for the Community-Rated and Demographically-Rated categories of business are each broken into two pieces: a Rate Filing piece, and a Renewal piece calculated the month a group renews. The examiners take no exception to the two-piece methodology utilized in determining PRAP Credits for Community-Rated and Demographically-Rated groups.

The Rate Filing piece is based on the annual rate filing submitted to the ADI that demonstrates the calculation of and provides supporting data for the full required rate increase and the "planned" actual rate increase applicable to groups in this category.

The difference between these two items, multiplied by the average demographic/benefit plan factors, is the basis for determining the PRAP Credit for the Rate Filing piece of the PRAP. This difference is annualized by taking into account the enrollment for this category as of the end of the experience period used in the rate filing. This procedure also assumes that all groups enrolled at the time of the rate filing will renew their contracts over the next 12 months, and that the enrollment in each group will remain constant. As was stated in the prior report, although all groups may not actually renew after the rate filing, this appears to be a reasonable assumption since BCBSAL does not take a Rate Filing PRAP Credit for new business acquired after the annual rate filing and before their next rate filing.

For Demographically-Rated groups, an adjustment to a group's Rate Filing PRAP Credit is made on that group's actual renewal date. Such an adjustment occurs when the actual renewal rate increase given the group is different than the "planned" actual rate increase submitted in the annual rate filing (and subject to the constraints of Regulation 116). The difference between the actual rate and the "planned" actual rate is the basis for determining the PRAP Credit attributable to the Renewal piece.

Some additional commentary is appropriate at this point on the Community-Rated category for purposes of the PRAP. In the first two years of the PRAP, there were two categories of Community-Rated groups. The first category of groups is the "frozen" Community-Rated groups, or those in existence prior to the date of the implementation and adoption of Regulation 116 in Alabama. Community-Rated groups issued after

that date constituted another segment of Community-Rated groups. BCBSAL submitted a separate rate filing for the “frozen” Community-Rated groups during the first two years of the PRAP. The rate filing in respect of the post-Regulation 116 Community-Rated groups was included as part of BCBSAL’s Small Group rate filing. The result was that PRAP Credits were based on two different required rate and actual rate figures, according to the appropriate rate filing. For the third year of the PRAP, BCBSAL assimilated the “frozen” Community-Rated block of business into their Small Group rate filing at the request of the ADI, and therefore PRAP Credit calculations for the Community-Rated groups in the third year reflect only one filed required and actual rate structure.

The PRAP Credit calculations for the frozen portion of the Community-Rated category for the second year of the program are shown in Attachment 8, and indicate that the credit is taken directly as the difference between the required and actual rate increases contained in the applicable rate filings with the ADI, incorporating their total enrollment at the time of the filing. No Renewal PRAP Credits are taken for this segment of the Community-Rated category.

As indicated previously on page 11 of this report, the PRAP Credit in respect of the Demographically-Rated category of business is divided into two pieces, the Rate Filing piece and the Renewal piece. When reviewing the calculation of the PRAP Credit for the Demographically-Rated category of business for the third year of the PRAP, the

examiners noted a number of specific items with respect to the determination of the Rate Filing piece of the credit.

First, during the course of this examination, the examiners determined that, as part of Rate Filing PRAP Credit taken for both the Demographically-Rated and Community-Rated categories, the average demographic/benefit plan factors developed by BCBSAL in determining the filed actual and required rates were not utilized. Demographic/benefit plan factors are applied to the overall experience (required) rate determined by BCBSAL as part of their rate filing. They reflect the distribution of BCBSAL's business by area, benefit plan selection, and age/sex characteristics. In determining the PRAP Credit, BCBSAL utilized only the difference between the required and actual rates, rather than this difference multiplied by the overall average demographic/benefit plan factors. This approach was used by BCBSAL and was overlooked by the examiners in their review of the year one operation of the PRAP. As a result, it was not identified as an issue in the review of the first year's operation of the PRAP. BCBSAL continued this approach consistently for all three years of the PRAP. Since the demographic/benefit plan factors had the effect of decreasing both the required and actual rates (by the same factors), the effect of this omission was to overstate the Rate Filing PRAP Credits taken for these categories of BCBSAL's business. The net reduction made by the examiners to the total Rate Filing PRAP Credit as a result of this item was \$1,802,693 for the Demographic-Rated segment and \$1,254,255 for the Community-Rated segment.

Second, in reviewing the PRAP Credit for this category, the examiners determined that BCBSAL filed a Small Group category rate filing effective April, 2000, nine months after their prior category rate filing of July, 1999. In determining the PRAP Credits for these filings, however, the examiners determined that double Rate Filing PRAP Credits had been taken for the months of April, May, and June, 2000. After adjusting for this item, the total Rate Filing PRAP Credits initially taken by BCBSAL were reduced by a net effect of \$1,675,625 for the Demographically-Rated segment and \$60,206 for the Community-Rated segment.

Third, since the next Community-Rated and Demographically-Rated rate filing after the April 2000 filing was not effective until May 2001, no Rate Filing PRAP Credit was initially taken by BCBSAL for April 2001 renewals. As a result, BCBSAL took an additional \$908,954 Rate Filing PRAP Credit for the Demographically-Rated category and an additional \$122,505 Rate Filing PRAP Credit for the Community-Rated category due to this one-month "gap" between the rating periods. These additional PRAP Credits are included by BCBSAL as an adjustment to Year 2 PRAP Credits recognized in Year 3 (see exhibit C2 of Attachment 9 for details).

Attachment 9, provided by BCBSAL, indicates the effect on the BCBSAL originally submitted PRAP Credits for the above three items. As can be seen from the Attachment, the net overall dollar effect was to decrease the originally submitted PRAP Credits by \$3,761,320 in respect of these items.

Last, BCBSAL had determined an annualized Rate Filing PRAP Credit for groups renewing after September 30, 2001, the target expiration date of the PRAP. In determining the PRAP Credits for the Demographically-Rated category of business in the first year of the PRAP, BCBSAL had taken a Renewal PRAP Credit only for renewals occurring during the period of the PRAP and starting in October of 1998. This Renewal PRAP Credit was an annualized amount based on the difference between the “planned” actual rate submitted as part of the then most recent rate filing and the actual rate implemented for each group.

In light of the approach taken by BCBSAL, the examiners revisited the language of the “Rate Adjustment Differential” on page 3 of the PRAP. This language indicates that the Rate Adjustment Differential should be “...annualized by taking into account the current number of subscribers of that particular category...in effect at the time of the rate calculation” for purposes of determining the total PRAP Credit. For the Demographically-Rated category of business, this phraseology, in the examiners’ opinion and in the absence of any other well-documented interpretation, could be interpreted in one of three ways as indicated below.

Interpretation #1

Under this interpretation of the language of the PRAP under discussion, annualized PRAP Rate Filing PRAP Credits would be taken in respect of groups in force on the date of each rate filing occurring within the three year PRAP period, similar to

Interpretation #3, discussed later in this report. In particular, as with the Interpretation #3 situation, an annualized Rate Filing PRAP Credit could be taken for a group whose next renewal date occurs after the target expiration date of the PRAP.

Where this Interpretation differs from Interpretation #3 is in the handling of Renewal PRAP Credits. In this situation, an annualized Renewal PRAP Credit would be taken in respect of any group on its renewal date occurring within the three year PRAP period. Such Renewal PRAP Credits would be set based on the difference, if any, between the "planned" actual rate and the actual rate determined for the group on its renewal date. No Renewal PRAP Credit would be taken in respect of any group on its renewal date occurring prior to October 1, 1998 or after September 30, 2001.

There are two differences between the handling of Renewal PRAP Credits under this Interpretation and the handling of such Renewal PRAP Credits under Interpretation #3. First, any groups renewing between October 1, 1998 and the first rate filing subsequent to that date for the category would receive an annualized Renewal PRAP Credit determined using the "planned" actual rate contained in the rate filing immediately prior to October 1, 1998. Second, any group having a renewal date occurring after September 30, 2001 and before the next rate filing would not receive any Renewal PRAP Credit.

The examiners determined that the PRAP Credits taken by BCBSAL were consistent with this Interpretation of the subject language of the Order and BCBSAL used this approach consistently.

Interpretation #2

Under this Interpretation an annualized PRAP Credit would be taken with respect to each Demographically-Rated group renewing during the three year period envisioned by the PRAP (October 1, 1998 through September 30, 2001). Accordingly, an annualized Rate Filing PRAP Credit could be taken in respect of any Demographically-Rated group in effect at the time of a rate filing, provided that group's renewal date occurred within the anticipated three year PRAP period. An annualized Renewal PRAP Credit could also be taken on each renewal date for a group occurring within the three year PRAP period. A slight modification of this procedure would occur at the beginning of the PRAP period and at the end of the period. At the beginning of the period, an annualized Rate Filing PRAP Credit and a Renewal PRAP Credit would be made available to each group renewing between the commencement date of the PRAP program (October 1, 1998) and the first rate filing occurring thereafter. At the end of the three year PRAP period, an annualized Rate Filing PRAP Credit would be taken only in respect of those groups in force at the time of the last rate filing whose renewal date occurred prior to the end of the three year PRAP period (September 30, 2001). Annualized Renewal PRAP Credits would be taken in respect of each of these groups as they renewed.

The examiners estimated that, under this Interpretation, the PRAP Credits taken by BCBSAL were overstated by \$8,462,198. See Attachment 10.

Interpretation #3

Under this interpretation of the aforementioned language of the PRAP, annualized Rate Filing PRAP Credits would be taken in respect of groups in force on the date of each rate filing occurring within the three year PRAP period. In particular, an annualized Rate Filing PRAP Credit could be taken for a group whose next renewal date occurs after the target expiration date of the PRAP. In addition, annualized Renewal PRAP Credits would be taken in respect of groups actually renewing within the 12-month period following the last rate filing occurring during the three year PRAP period, even if that renewal date occurred beyond September 30, 2001, the expiration of the three year period defined in the PRAP.

The development of the PRAP under this interpretation of the language mentioned previously in respect of Demographically-Rated groups excludes the annualized Renewal PRAP Credits taken in respect of Demographically-Rated groups renewing between October 1, 1998 and the date of the first rate filing thereafter since the taking of those credits would appear to be inconsistent with this interpretation of the language of the PRAP. The examiners estimated that, under this Interpretation, the PRAP Credits taken by BCBSAL were overstated by \$4,567,166.

C Plus Medicare Select

The \$9,490,821 and \$12,660,621 PRAP Credits for the C Plus Medicare Select category for the second and third years, respectively, of the PRAP were based upon the difference between the required and actual rate increases implemented, with that information being taken directly from the applicable rate filings. The calculation incorporates the total enrollment at the time of the rate filing. The effective date of the rate increase occurs for all policyholders on the date the rate filing is approved (subject to any required notice).

The PRAP Credits for this category for the last two years of the PRAP were calculated as follows:

| | <u>Year 2</u> | <u>Year 3</u> |
|---------------------------|---------------------------------|------------------------------------|
| Required Rate (Composite) | \$102.65 | \$116.05 |
| <u>LESS</u> | | |
| Planned Rate (Composite) | <u>97.69</u> | <u>109.42</u> |
| Rate Relief Per Contract | \$4.96 | \$6.63 |
| Enrollment | 159,456 | 159,133 |
| Rate Relief Per Month | \$790,902 (\$4.96 x 159,456) | 1,055,052 (\$6.63 x 159,133) |
| PRAP Credit (annualized) | \$9,490,821 (\$790,902 x 12) | \$12,660,621 (\$1,055,052 x 12) |

Summary of Findings/Recommendations

The following is a summary of the examiners' major findings based on our review of the final two years of the BCBSAL PRAP under the Order:

- In the examiners' prior report covering the Order, it was recommended that revised rating procedures be filed with the ADI clearly indicating BCBSAL's current methodology utilized for rating and re-rating Merit-Rated groups. The general rating procedures for Merit-Rated category of groups (including the ALFA Health Plans) is, pursuant to an agreement reached in the past between BCBSAL and the ADI, subject to the Modified File and Use procedures of Section 10-4-109 of the Code of Alabama 1975, as amended. The examiners note that such rating and re-rating procedures, revised to date, have not been filed with the ADI.
- The PRAP Credits originally taken by BCBSAL, for both the Demographically-Rated and Community-Rated categories in all three years of the PRAP, did not account for the average demographic/benefit plan factors developed by BCBSAL in determining the filed actual and required rates. This omission lead to an overstatement of the Rate Filing PRAP Credits of \$1,802,693 for the Demographically-Rated category and \$1,254,255 for Community-Rated category over the three years of the PRAP. Revisions provided by BCBSAL for these overstated Rate Filing PRAP Credits are reflected accordingly in Attachment 9.

- For the Demographically-Rated and Community-Rated categories of business, BCBSAL had originally overstated the Rate Filing PRAP Credit taken due to the fact the rate increase for the Demographically-Rated and (post-Regulation 116) Community-Rated categories of business was filed effective in April, 2000, a period of only nine months since the prior filing. This overstatement of the PRAP Credit has been removed by BCBSAL, and the revised Credit as part of this report reflects that modification (see Attachment 9).
- Since the next Demographically-Rated and Community-Rated rate filing after the April 2000 filing was not effective until May 2001, no Rate Filing PRAP credit was initially taken by BCBSAL for April 2001 renewals. As a result, BCBSAL understated their originally-filed Rate Filing PRAP Credit for these categories, and took an additional \$908,954 Rate Filing PRAP Credit for the Demographically-Rated category and an additional \$122,505 Rate Filing PRAP Credit for the Community-Rated category due to this one-month "gap" between the rating periods. These additional Rate Filing PRAP Credits are reflected in Attachment 9.
- As is indicated earlier in this report and in this concluding section of the report, the examiners, in the course of their review, determined a number of situations where the PRAP Credits originally determined by BCBSAL in accordance with the Order, were, in the examiner's opinion, not consistent with the requirements of the PRAP section of the Order. BCBSAL personnel have revised the PRAP

Credit calculations for these inconsistencies and provided revised information as to the PRAP Credit to the examiners. This information is contained in Attachment 10.

- As was noted earlier in this report, with respect to determination of PRAP Credits for Demographically-Rated groups, certain language in the description of the PRAP is subject to various interpretations. Under Interpretation #1, the PRAP Credit contributions under the Order were completed prior to September 30, 2001. Under the remaining two Interpretations (#'s 2 and 3) considered by the examiners, the PRAP Credits taken by BCBSAL would result in the completion of the PRAP financial requirements after September 30, 2001, the targeted expiration date of the PRAP.

The examiners were unable to locate any definitive documentation as to the specific intent of the language of the PRAP indicating that the Rate Adjustment Differential should be "...annualized by taking into account the current number of subscribers of that particular category...in effect at the time of the rate calculation". The fact that BCBSAL makes a rate filing for its Demographically-Rated groups to the ADI at one point in time and then actually re-rates each group on its annual renewal date (at a rate which may actually be lower than the required rate filed) additionally complicates the process of determining PRAP Credits for this category.

- Since the examiners were not present when the language of the PRAP was developed, the examiners can offer no opinion on which of the three Interpretations is appropriate. Regardless of which Interpretation of the aforementioned language is held to be most valid, the examiners concluded that BCBSAL continued without interruption to implement actual renewal rates for Demographically-Rated groups renewing after the targeted expiration date of the PRAP (September 30, 2001) that were less than the required rates filed with the ADI. As a result, the examiners determined that rates for Demographically-Rated groups continued to be reduced by amounts consistent with the PRAP for groups with renewal dates after the targeted expiration date of the PRAP. Attachment 10 indicates that additional rate adjustments in the amount of approximately \$8.5 million were made within the seven-month period immediately following the targeted expiration date of the PRAP. In fact, the procedure of renewing some Demographically-Rated groups at actual rates that were less than the required rate filed with the ADI continued, as determined by the examiners, at least through the period after the targeted expiration date of the PRAP to October, 2002, when the next rate filing for this category of business was made with the ADI. The examiners therefore determined that BCBSAL did in fact continue re-rating Demographically-Rated groups as during the period of the PRAP.

The examiners' opinion is that financial commitments in amounts equal to those set forth in the PRAP have been met without interruption by BCBSAL and, as a result, the

examiners feel that no further examination of BCBSAL's compliance with the Order is appropriate or necessary.

Attachment 1

Sanderson Order and Final Judgment

IN THE CIRCUIT COURT OF COFFEE COUNTY, ALABAMA
ELBA DIVISION

GREY HILL

SEP 14 1998

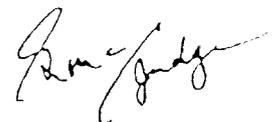
MARTHA H. SANDERSON, et al,)
)
Plaintiffs,)
)
v.)
)
BLUE CROSS AND BLUE)
SHIELD OF ALABAMA,)
)
Defendant.)

VERBERT AND
GENERAL COUNSEL

CASE NO. CV-88-34

ORDER AND FINAL JUDGMENT

The Settlement Hearing having been held before this Court on September 10, 1998, pursuant to this Court's order of August 14, 1998, to determine whether this Court should approve as fair, adequate and reasonable a settlement of this action upon the terms and conditions of the attached Stipulation and Agreement of Compromise and Settlement dated August 14, 1998 ("Settlement Stipulation"): that a period of due notice of this Settlement Hearing was given in accordance with the terms of the aforesaid Order; the Court having determined that notice to the Class, as described in the aforesaid Order, was the best practicable notice under the circumstances, and fully complies with all the requirements of Due Process, and all requirements of Alabama Rule of Civil Procedure 23; the respective parties having appeared by their attorneys of record; the Court having received and considered arguments and evidence in connection with the proposed Compromise and Settlement of the action; the attorneys for the respective parties having been heard; and opportunity to be heard having been given to all persons requesting to be heard in accordance with the aforesaid Order; and the proposed Settlement and all other matters



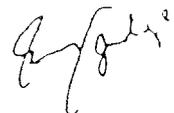
of record in this action having been heard and considered by the Court; and based on the findings of fact and conclusions of law set forth herein.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED as follows:

1. For purposes of considering, approving and effectuating the Settlement Stipulation and to fairly and adequately protect the interests of the members of the Class, this Court has previously ordered and hereby orders and confirms that this action is to be maintained as a mandatory no opt-out Class Action pursuant to A.R.Civ.P. 23(b)(2) for a Plaintiff Class consisting of:

"All subscribers who have an approved health care benefits contract with Blue Cross Blue Shield of Alabama which was in effect on April 1, 1988, the date of filing this action, or entered into such contract after such date to the present. Subscriber is a person or entity which subscribes or enters into an approved health benefits contract with Blue Cross Blue Shield of Alabama."

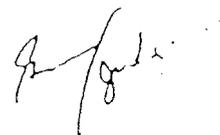
2. The Court has heretofore found and hereby finds and reaffirms for the purposes of the Settlement that the Named Plaintiffs and Class Counsel are adequate representatives of the Class and counsel for the Class respectively, and that all requirements of A.R.Civ.P. 23(a) and 23(b) have been met. The Court expressly finds, for the purposes of these Settlement proceedings, that the Class is so numerous that the joinder of all members is impracticable, that Class Counsel is experienced and has adequately represented and will adequately represent the Class; that there are questions of law and fact common to the Class, the claims of the Named Plaintiffs are typical of the claims of the Class; that these Plaintiffs are adequate representatives of the Class, and that the representative parties have fairly and adequately protected the interests of the Class and that



continue to do so. The Court finds that the maintenance of this action as a Class Action pursuant to A.R.Civ.P. 23(b)(2) is superior to any other means of adjudicating the claims raised in this litigation. The Court further finds, for the purposes of these Settlement proceedings, that Blue Cross' alleged conduct is generally applicable to the Class, thereby making appropriate declaratory and other equitable relief with respect to the Class as a whole. The Court further finds, for the purposes of these Settlement proceedings, that maintenance of this action pursuant to Rule 23(b)(2) is superior to maintenance of this action pursuant to Rule 23(b)(3), and that one of the remedies is a prospective rate adjustment program applicable to all of Blue Cross' underwritten health benefit plans and the vast majority of Class Members have incurred little or no actual monetary damage as a result of the matters made the basis of the complaint, as amended. Moreover, the primary relief justified by the conduct alleged and the primary relief under the Settlement is declaratory and other equitable relief whereby Blue Cross is ordered to adopt new Capital Benchmark Guidelines establishing levels of Unassigned Funds and to adopt a Rate Adjustment Program to make prospective rate adjustments to all Class Members of Blue Cross' underwritten plans. In these circumstances, the Court finds that certification of a mandatory no opt-out Class pursuant to Rule 23(b)(2) will best facilitate the provision of maximum relief to the entire Class as a whole.

3. The Court finds that:

(a) Blue Cross is a non-profit corporation organized pursuant to Code of Alabama 1975 §§ 10-4-100 through -115, inclusive, to establish, maintain and operate a health care plan under which health care services are furnished to such of the public who become subscribers to the plan pursuant to contracts with Blue Cross; and



(b) Blue Cross is subject to regulation of the Alabama Commissioner of Insurance, and by the Commissioner's delegation, the Alabama Department of Insurance (collectively "ADI"), pursuant to Alabama Code 1975 §§ 10-4-100 through -115, including the regulation of its rates, charges, fees and dues pursuant to § 10-4-109. Nothing contained in this Final Judgment or in any Court order entered in this Litigation, shall rescind, modify or alter this regulatory authority of ADI over Blue Cross.

4. The Court finds that (a) Contingency Reserve as defined, used and applied by Blue Cross and ADI is the difference between (i) the amount of the Plan's assets, which is established in accordance with the instructions from the National Association of Insurance Commissioners ("NAIC") and (ii) the amount of the Plan's liabilities, which is established in accordance with instructions from NAIC, and, as defined, used and applied by Blue Cross and ADI, constitutes the surplus of Blue Cross; (b) this 1986 Contingency Reserve Guidelines was properly filed and approved by the Commissioner and established the only applicable guidelines with respect to the level of Blue Cross' Contingency Reserve; (c) that, at the time the 1986 Contingency Reserve Guidelines was adopted, Blue Cross and ADI defined and applied that target range of two (2) to four (4) months to include claims and operating expenses of all lines of business, including the inclusion of claims and expenses of underwritten plans and of self-funded or self-insured plans administered by Blue Cross under administrative service contracts; (d) that at the time the 1986 Contingency Reserve Guidelines was adopted, and all times thereafter, Contingency Reserve was defined and applied by ADI and Blue Cross to include only Unassigned Funds as designated and reported in the annual statement on the NAIC form, and did not measure reserves by inclusion of any item set forth as liabilities on the NAIC form for annual reports, such as, without limiting the



generality of the foregoing, reserves for Claims unpaid, Unearned premium, C Plus Active Life Reserve or Retrospective Rate Credits; (e) the 1986 Contingency Reserve Guidelines remains, and will remain, the lawful Contingency Reserve target range or guidelines until set aside by a valid order of ADI establishing a new guideline or authorized level of Unassigned Funds as provided in the Settlement Stipulation and in Section 5 of this Order; (f) Blue Cross has charged only rates in accordance with its periodic rate filings with ADI, and accumulated its Contingency Reserve pursuant to the foregoing interpretation and application of the 1986 Contingency Reserve Guidelines filed with and approved by ADI; (g) Blue Cross' Contingency Reserve had increased substantially by the proper use and application of the 1986 Contingency Reserve Guidelines which included claims and expenses administered for self-insured plans under administrative service contracts, as well as the claims and expenses for underwritten plans; and (h) this accumulation of Contingency Reserve under the 1986 Contingency Reserve Guidelines, in conjunction with the adoption by the ADI of a more modern methodology of measuring Unassigned Funds based on the national Blue Cross Blue Shield Association's "Capital Benchmark" standard for the future of Blue Cross' on-going strategic plans to continue to make meaningful health care benefits accessible and affordable to Alabama citizens, will enable Blue Cross to establish a Prospective Rate Adjustment Program available to its insured subscribers.

5. The Court finds that Blue Cross has filed new guidelines with ADI, and ADI has approved the Guidelines attached as Exhibit A hereto, conditioned on the Court's approval of the Settlement. Based on such approval by ADI, the Court orders that such new guidelines establish for the future, authorized levels of the Unassigned Funds. Unassigned Funds is defined as the difference between (i) the amount of the Plan's assets, which is established in accordance with



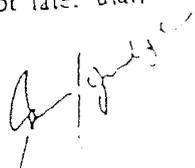
instructions from the National Association of Insurance Commissioners ("NAIC") and (ii) the amount of the Plan's liabilities, which also is established in accordance with instructions of NAIC, such liabilities to include reserves for any item set forth as liabilities by Blue Cross on its annual reports filed on the NAIC form, such as, without limiting the generality of the foregoing, reserves for Claims unpaid, Unearned premium, C Plus Active Life Reserve and Retrospective Rate Credits. The guidelines for authorized level of Unassigned Funds shall be based on the "Capital Benchmark" formula developed by the national Blue Cross and Blue Shield Association ("BCBSA"). Unassigned Funds shall be Blue Cross' sole surplus account, and surplus shall not be maintained in any account other than Unassigned Funds for measuring the Capital Benchmark formula. The Blue Cross Plan hereby is required by the new Capital Benchmark Guidelines to maintain Unassigned Funds in a range between 110% and 250% of its Capital Benchmark measure, as that formula is constituted, defined, and applied by BCBSA as of October 1, 1998, which the Court orders will be controlling for six (6) years, except as hereinafter provided. Nothing herein shall preclude Blue Cross from filing and ADI approving (or failing to disapprove) a modification of the Capital Benchmark Guidelines as herein defined, or preclude the authority of the ADI to require the use of another methodology to calculate minimum levels of Unassigned Funds upon ADI's determination that the Capital Benchmark Guidelines as herein defined do not adequately protect Blue Cross' subscribers.

6. (a) The Court finds that, with the adoption of the Capital Benchmark Guidelines, it will be appropriate for Blue Cross to establish a program of prospective rate adjustment ("Rate Adjustment Program") effective with the adoption and approval of the Capital Benchmark guidelines. The Court further finds that Blue Cross has filed a Rate Adjustment Program



ADI, and ADI has approved that Rate Adjustment Program attached as Exhibit B hereto, conditioned on the Court's approval of the Settlement. Based upon such approval by ADI, the Court orders that the Rate Adjustment Program will be implemented by setting up a rate adjustment account ("Rate Adjustment Account") for the benefit of Blue Cross' subscribers whose benefits are provided through the following types of underwritten coverage: ALFA Health Plan contracts; Community-Rated contracts; Demographically Rated contracts; C Plus Medicare Select contracts; and Merit-Rated contracts (collectively "Underwritten Contracts"). Under the Rate Adjustment Program, health benefit plan rates or premiums applicable to those underwritten lines of business will be adjusted downward approximately \$69,335,000 (less deduction for counsel fees and other Class relief) annually during the three (3) year period commencing October 1, 1998. The Rate Adjustment Account in the total amount of \$208 Million shall be fully exhausted by the Prospective Rate Adjustment Program (which will include Retrospective Rate Credit amounts applied) over a period of three (3) years commencing on October 1, 1998; provided Blue Cross, for demonstrated economic reasons, may extend the rate adjustment period from three (3) years to four (4) years; and provided further, in the event Unassigned Funds calculated on the Capital Benchmark formula drops below 110%, as verified and certified by ADI, and filed with Class Counsel, the Rate Adjustment Program in its entirety will be suspended until the level of Unassigned Funds is restored to 135% of the applicable Capital Benchmark measure, as verified and certified by ADI; if suspended, the target period shall be tolled during the suspension period. Blue Cross shall immediately give notice to Class Counsel of any extension or suspension hereunder.

(b) An annual report of the rate adjustments made pursuant hereto, and of the balance and accounting for the Rate Adjustment Account shall be filed with the ADI not later than



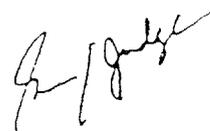
November 1, 1999, November 1, 2000, and November 1, 2001 (and if necessary, not later than November 1, 2002), and six (6) copies shall be delivered to designated Class Counsel contemporaneous with such filing. A final report of the balance and accounting for the Rate Adjustment Account shall be filed with the Court not later than thirty (30) days after completion of the Rate Adjustment Program.

7. Subject to this Court's retention of jurisdiction to enforce this Order and the Settlement Stipulation, all Released Claims as defined in Section III of the Settlement Stipulation are DISMISSED in their entirety on the merits, with prejudice, and Defendant Blue Cross and the Released Parties set forth in Section III of the Settlement Stipulation are hereby RELEASED from such claims, causes of action or liabilities as set forth as Released Claims as defined in Section III of the Settlement Stipulation. The Release provided in Section III of the Stipulation is hereby approved and made effective and incorporated herein by reference.

8. Named Plaintiffs and each and all Class Members are hereby permanently ENJOINED, precluded and barred from filing, initiating, asserting, maintaining, pursuing or continuing or participating as a litigant (by intervention or otherwise, in any action, whether an individual lawsuit or class action) in any court, asserting any of the claims dismissed herein or any of the Released Claims as defined in Section III of the Settlement Stipulation.

9. There being no reason for delay, the Clerk of the Court is hereby directed, pursuant to A.R.Civ.P. 54(b), to enter this Order as a FINAL JUDGMENT. Subject to the terms and conditions of the Settlement Stipulation:

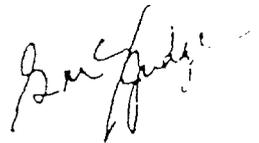
A. The individual Named Plaintiffs heretofore approved by the Court as Class Representatives, together with Martha Sanderson and Rosie Morley, shall be paid



\$20,000 each. Corporate Class Representatives Stall worth Timber Company, Inc. and ABC Enterprises shall not receive any payment. These payments will be paid from and charged to the Unassigned Funds account, and will be accounted for as such on the annual statement prepared by Blue Cross on the NAIC reporting form and shall reduce the balance in the Rate Adjustment Account.

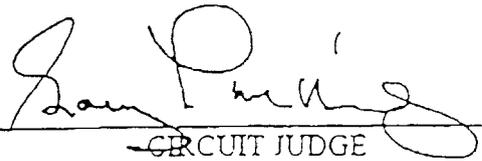
B. Plaintiffs' Counsel, heretofore approved by the Court as Class Counsel, are jointly awarded \$/0,400,000 in full payment of all attorneys' fees for representation of the Class in these proceedings, which will be paid from and charged to the Unassigned Funds account, and will be accounted for as such on the annual statement prepared by Blue Cross on the NAIC reporting form and shall reduce the balance in the Rate Adjustment Account. Class Counsel shall further be paid by Blue Cross all expenses incurred or to be incurred in the prosecution of this Litigation, and Class Counsel shall additionally be paid fees by Blue Cross to monitor the Rate Adjustment Program annually for three years for such monitoring in their continuing role as Class Counsel, which fees and expenses shall be paid from and charged to the Unassigned Funds account but not from the Rate Adjustment Account. These payments will be made in accordance with the Settlement Stipulation.

C. Court costs are taxed against Defendant Blue Cross, which costs shall consist of all expenses and costs of publication of the Class Notice, and all supervisory and monitoring fees of ADI, including independent actuarial experts employed by ADI.



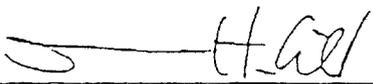
10. This Court reserves and maintains continuing jurisdiction over all matters relating to the Settlement or the consummation of the Settlement; the validity of the Settlement, and the entry and enforcement of this Final Judgment, including, in the event of reversal, vacation or modification of this Final Judgment, jurisdiction to reinstate all claims dismissed or claims, actions, causes of action and liabilities released pursuant to Paragraph 7 hereof; to enforce the payment of the monitoring fees as provided in the Settlement Stipulation, and all other matters pertaining to the Settlement or its implementation and enforcement.

DONE this 10th day of September, 1998.

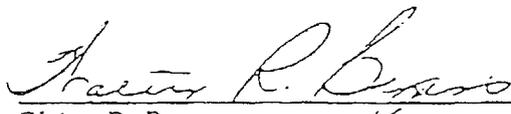


 CIRCUIT JUDGE

APPROVED AS TO FORM:



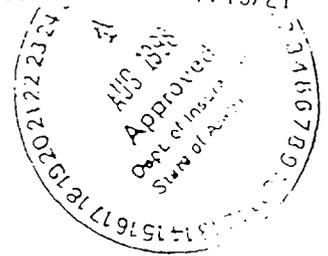
 Richard H. Gill



 Walter R. Byars



Blue Cross and Blue Shield of Alabama
Authorized Levels of Unassigned Funds



Blue Cross and Blue Shield of Alabama (the "Plan") is a not for profit, health care services corporation organized under the provisions of Section 10-4-100, et seq. of the Alabama Code. By virtue of its membership in the national Blue Cross and Blue Shield Association (the "BCBSA"), the Plan is entitled to use the "Blue Cross" and the "Blue Shield" names and service marks. Among the BCBSA membership standards is the requirement that the Plan maintain certain levels of Unassigned Funds. Unassigned Funds is the difference between: (1) the amount of the Plan's assets, which is established in accordance with instructions from the National Association of Insurance Commissioners (the "NAIC") and (2) the amount of the Plan's liabilities, which also is established in accordance with instructions from the NAIC. For Blue Cross and or Blue Shield plans around the country, Unassigned Funds, as designated on NAIC annual statement form, is commonly referred to as and is synonymous with Contingency Reserve.

The BCBSA has developed a formula, which it labels "Capital Benchmark", to measure a plan's Unassigned Funds. The Plan is hereby required to maintain Unassigned Funds for the following reasons and at the following levels of Capital Benchmark, as that formula is construed, defined, and applied by the BCBSA as of October 1, 1998.

I. Need for Unassigned Funds

The Plan has a need for maintenance of Unassigned Funds at levels which provide adequate protection for the security and soundness of the Plan's financial resources and a source of ^{annual} funds to fund future growth and development opportunities.

II. Authorized Range of Unassigned Funds Levels

The Plan is hereby authorized and required to maintain Unassigned Funds at levels

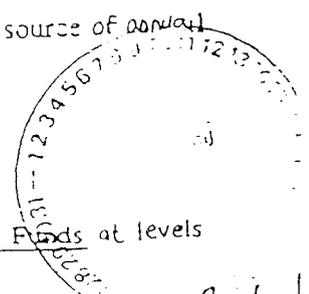


Exhibit A

between 110% and 250% of its Capital Benchmark measure, as that formula is currently defined, and applied as of October 1, 1998. This range is intended to provide the Plan's subscribers and other customers with reasonable assurance that all of their benefit obligations and service commitments will be met by the Plan while simultaneously providing a reasonable restriction on the accumulation of unnecessary and redundant surplus. Unassigned Funds does not include Blue Cross' designated reserves for liabilities it expects to occur, or which are likely to occur, including but not limited to Unpaid Claims, Unearned Premium, C Plus Active Life Reserves, and Retrospective Rate Credits.

III. Interventions For Unassigned Funds Levels Outside the Range

Recognizing the uncertainties inherent in the Plan's operating environment, circumstances may cause the actual level of Unassigned Funds to move outside of this range. The course of action pursued by the Plan to bring the Unassigned Funds back into the range established herein would be based principally on considerations dealing with the circumstances which created the overage/shortage and marketplace considerations of the impact of such action. The Plan will apprise appropriate Department of Insurance personnel of the interventions it will take to return its Unassigned Funds to the range required herein.

A. Interventions in the Event of Insufficient Unassigned Funds

In the event that the Unassigned Funds levels are less than 110% of Capital Benchmark, Blue Cross, acting on its own initiative or at the direction of ADI shall evaluate and implement the following interventions:

1. In the event of a continued and unanticipated increase in the cost of providing contractual benefits, rate levels would be immediately reevaluated for all or some classes of risk.

2. Under similar, but perhaps more severe circumstances referenced under 1 above benefit levels would be reduced for some or all classes of risk.
3. In the event of extreme losses from contractual agreements with specific group accounts or providers, these contracts would be canceled under the termination and notice provisions provided in those contracts.
4. In the event of a severe financial downturn which threatened Plan solvency, the Plan could liquidate certain of its assets, reduce staffing and service capabilities, and cut off funding to all activities other than short-term claim obligations. Any of these actions would severely restrict the Plan's future growth and competitive position.
5. In the event of continued and financially insupportable anti-selection from individual subscribers, the Plan would either discontinue or restrict coverage on this class of subscribers.

B. Redundant Unassigned Funds Interventions

In the event that Unassigned Funds levels are greater than 250% of Capital Benchmark, Blue Cross, acting in its own initiative or at the direction of ADI shall evaluate and implement the following interventions:

1. Immediate premium level stabilizations and/or reductions would be granted to group accounts (consistent with the mutual consent of the affected group) and classes of subscribers which have established Retrospective Rate Credit ("RRC") balances.
2. Enhanced benefits could be made available to those market segments or categories contributing to increased Unassigned Funds levels on either a temporary or continuing basis.

Expansion of benefits in less-costly settings, broadened scope of benefits into such areas as wellness and preventive care measures, broader options among service benefit plans and other similar initiatives could be taken based upon appropriate market research.

3. Closely related to the foregoing, the Plan could experiment with various customer and provider groups, as it has in the past, in the design and development of new benefit programs in a test marketing environment to develop attractive benefit delivery mechanisms which are meaningful to and desirable by the marketplace. Examples of past experimental programs which have resulted in popular market products include: hospice programs, prescription drug programs, preferred provider products such as the Preferred Medical Doctor program, and "Point of Sale" programs such as the "Personal Choice" physician benefit programs.

4. In the absence of appropriate opportunities referenced above or in the event such actions are not sufficient, prospective rate adjustments would be made in a manner that assures equity and recognition of contribution to the Unassigned Funds among various classes of subscribers.

IV. Effective Date

These revised guidelines shall take effect upon final approval by the Alabama Commissioner of Insurance and their approval and adoption by the Circuit Court of Coffee County in the pending action styled Sanderson v. Blue Cross Blue Shield of Alabama, Case No. CV 88 94, at which time the Blue Cross and Blue Shield of Alabama Contingency Reserve Guideline adopted by the Alabama Commissioner of Insurance on April 18, 1986 shall be superseded and no longer in effect.

BLUE CROSS BLUE SHIELD OF ALABAMA
PROSPECTIVE RATE ADJUSTMENT PROGRAM

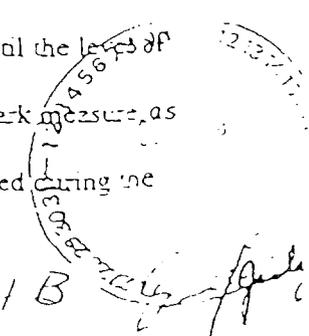


This Prospective Rate Adjustment Program is filed by Blue Cross and Blue Shield of Alabama ("Blue Cross") with the Alabama Commissioner of Insurance and, by his delegation, the Alabama Department of Insurance ("ADI"):

A. The Rate Adjustment Program shall be applicable to all fully-insured categories of Blue Cross' business, including its merit-rated groups. Rate Adjustments shall commence effective October 1, 1998, and shall extend until the earlier of:

- (i) the exhaustion of the full Rate Adjustment allocation for each applicable category, as set forth herein; or
- (ii) The expiration of a target period (within which it is contemplated that Blue Cross will be able to complete these allocated Rate Adjustments) of three (3) years ending September 30, 2001; provided, however, that an additional one (1) year extension, ending September 30, 2002, shall be available to Blue Cross to complete the program if it is unable, upon demonstrated economic circumstances to the ADI, to fully exhaust the contemplated adjustments within the initial three (3) year period.

Provided, however, that in the event Blue Cross' level of Unassigned Funds drops to or below 110% of the applicable Capital Benchmark measure, as verified and certified by ADI, this Rate Adjustment Program in its entirety shall be suspended until the level of Unassigned Funds is restored to 135% of the applicable Capital Benchmark measure, as verified and certified by ADI, if suspended, the target period shall be tolled during the



suspension period. Class Counsel will be notified in the event the suspension level is reached.

- B. The Rate Adjustment account to be applied to the benefit of subscribers of Blue Cross fully insured categories shall be an aggregate annual target amount \$69,335,000 for each of the three (3) years, less all counsel fees and other class relief otherwise set forth in the Order and Final Judgment, such amount to be allocated among Blue Cross' fully insured categories, as follows:

| <u>Categories</u> | <u>Allocation</u> | <u>Annual Target Adjustment</u> |
|------------------------|-------------------|---------------------------------|
| Merit-Rated | 39% | \$27,041,000 |
| Alfa Health Plan | 3% | \$ 2,080,000 |
| Demographically-Rated | 18% | \$12,480,000 |
| Community-Rated | 26% | \$18,027,000 |
| C-Plus Medicare Select | 14% | <u>\$ 9,707,000</u> |

Amounts not fully adjusted to the applicable category account during one(1) year shall carryover to, and amounts in excess of such yearly adjustment shall be credited to, the remaining account for each specified category such that, over the full three (3) year period of this program, the full amount of Rate Adjustment of \$208 million (less fees and other class relief) shall be applied pro rata to each category of insured business. Fees and other class relief shall be allocated among the insured category accounts according to the foregoing percentages.

C. The Rate Adjustment to be applied pursuant to this Program is the difference between:

- (i) the full rate requirement resulting from application of Blue Cross rate factors and formulae currently on file with the ADI, and
- (ii) the actual rate implemented by Blue Cross pursuant to this Program.

The Rate Adjustment difference in (i) and (ii) (the "Rate Adjustment Differential") shall be annualized by taking into account the current number of subscribers of that particular category, or group in the case of the Merit Rated category, in effect at the time of the rate calculation. The total Rate Adjustment thus determined shall be deducted from the Prospective Rate Adjustment account established for the applicable category.

D. In addition to adjustments derived from any Rate Adjustment Differential as set forth in C. above, credits applied from Retrospective Rate Credit balances applied to a category (or to a merit group, within the merit category) shall be credited toward the applicable Rate Adjustment account for the respective category.

E. Blue Cross shall maintain an account of the initial Prospective Rate Adjustment allocation for each fully-insured category, the Rate Adjustment applied to each respective category, the fees and other class relief allocated to each category, and the remaining amount to be adjusted to each category. Such accounts shall be maintained throughout the Prospective Rate Adjustment Program. A copy of accounting of all Rate Adjustment allocations and

credits shall be furnished to the ADI annually, or otherwise upon its request, and a final accounting shall be furnished to ADI and filed with the Circuit Court of Coffee County.

- F. Blue Cross' work papers and records substantiating its compliance with this Program shall be maintained at its home office and shall be available for review and examination by the ADI's personnel and/or independent actuary, as deemed appropriate by the ADI. Costs of any independent actuary personnel selected by ADI to verify Blue Cross' compliance with this Program shall be paid by Blue Cross.
- G. No more than thirty(30) days after each anniversary of this Program while it remains in effect, Blue Cross shall furnish an interim report to ADI and to designated class counsel exhibiting, by insured category, the Rate Adjustment accounts, credits and other deductions allocated to-date and the remaining amounts to be adjusted pursuant to the Program.
- H. Upon completion of all Rate Adjustments contemplated by this Program to all affected categories, Blue Cross shall certify such fact of compliance with the Program to the ADI. The ADI shall thereupon examine and verify the completion of the Rate Adjustment Program contemplated, and shall certify its findings to Blue Cross, to designated class counsel and to the Circuit Court of Coffee County.

I. Nothing herein is intended to otherwise modify or limit Blue Cross' authority and discretion in determining rate levels and factors that are part of the rate-making process.



Attachment 2

Blue Cross and Blue Shield of Alabama

Second Year

Prospective Rate Adjustment Program Report

**Blue Cross and Blue Shield of Alabama
Prospective Rate Adjustment Program**

Second Year Report - October 31, 2000

**For the Period
October 1, 1999 through September 30, 2000**

Prospective Rate Adjustment Program

| | | | | | | | | | |
|-------------------------------|---------------------|---------------------------|--|--|--|--------------------------|--|--|--|
| Total Rate Adjustment amount | | \$208,000,000 | | | | | | | |
| less: Legal fees | | \$10,200,000 | | | | | | | |
| Net Rate Adjustment amount | | \$197,800,000 | | | | | | | |
| Fully-insured Category | Allocation % | Initial Allocation | Year 1 Rate Adjustments Applied | Year 2 Rate Adjustments Applied | Cumulative Rate Adjustments Applied | Remaining Balance | | | |
| Merit-Rated group | 39% | \$77,142,000 | (\$39,441,888) | (\$39,894,372) | (\$79,336,260) | \$0 | | | |
| ALFA Health Plan | 3% | \$5,934,000 | \$663,732 | (\$3,541,777) | (\$2,878,045) | \$3,055,955 | | | |
| Demographically-Rated groups | 18% | \$35,604,000 | (\$11,788,471) | (\$11,216,774) | (\$23,005,245) | \$12,598,755 | | | |
| Community-Rated groups | 26% | \$51,428,000 | (\$14,865,598) | (\$19,689,816) | (\$34,555,414) | \$16,872,586 | | | |
| C Plus Medicare Select | 14% | \$27,692,000 | (\$10,149,235) | (\$9,490,821) | (\$19,640,056) | \$8,051,944 | | | |
| Total | 100% | \$197,800,000 | (\$75,581,461) | (\$83,833,560) | (\$159,415,021) | \$40,579,239 | | | |

Rate Adjustment Program - Merit-Rated Group

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|-----------------------------|--------------------------|-------------------|
| | Initial Allocation | | \$77,142,000 |
| | Year 1 | (\$39,441,888) | \$37,700,112 |
| 10/01/99 | RRC - October renewals | (\$2,864,280) | |
| | Formula - October renewals | (\$2,755,560) | |
| | | \$5,619,840 | \$32,080,272 |
| 11/01/99 | RRC - November renewals | (\$1,630,836) | |
| | Formula - November renewals | (\$2,354,076) | |
| | | (\$3,984,912) | \$28,095,360 |
| 12/01/99 | RRC - December renewals | (\$2,010,480) | |
| | Formula - December renewals | (\$2,037,984) | |
| | | (\$4,048,464) | \$24,046,896 |
| 01/01/00 | RRC - January renewals | (\$5,045,376) | |
| | Formula - January renewals | (\$7,909,512) | |
| | | (\$12,954,888) | \$11,092,008 |
| 02/01/00 | RRC - February renewals | (\$543,948) | |
| | Formula - February renewals | (\$1,516,704) | |
| | | (\$2,060,652) | \$9,031,356 |
| 03/01/00 | RRC - March renewals | (\$942,336) | |
| | Formula - March renewals | (\$1,495,056) | |
| | | (\$2,437,392) | \$6,593,964 |
| 04/01/00 | RRC - April renewals | (\$1,040,856) | |
| | Formula - April renewals | (\$2,331,420) | |
| | | (\$3,372,276) | \$3,221,688 |
| 05/01/00 | RRC - May renewals | (\$657,360) | |
| | Formula - May renewals | (\$2,088,600) | |
| | | (\$2,745,960) | \$475,728 |
| 06/01/00 | RRC - June renewals | (\$1,190,304) | |
| | Formula - June renewals | (\$1,479,684) | |
| | | (\$2,669,988) | (\$2,194,260) |
| | Total - Year 2 | (\$39,894,372) | |
| | Cumulative Total | (\$79,336,260) | \$0 |

Rate Adjustment Program - ALFA Health Plan

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|------------------------------------|--------------------------------|----------------------|
| | Initial Allocation | | \$5,934,000 |
| | Year 1 | \$663,732 | \$6,597,732 |
| 07/01/00 | Renewal Rates eff. 7/1/00 & 8/1/00 | | |
| | RRC | (\$3,909,052) | |
| | Formula | <u>\$367,275</u> | |
| | | (\$3,541,777) | \$3,055,955 |
| | Total - Year 2 | (\$3,541,777) | |
| | Cumulative Total | <u>(\$2,878,045)</u> | \$3,055,955 |

Rate Adjustment Program - Demographically-Rated Groups

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|---------------------------------------|--------------------------------|----------------------|
| | Initial Allocation | | \$35,604,000 |
| | Year 1 | (\$11,788,471) | \$23,815,529 |
| 10/01/99 | Rate Formula - October renewals | (\$196,154) | \$23,619,375 |
| 11/01/99 | Rate Formula - November renewals | (\$146,543) | \$23,472,831 |
| 12/01/99 | Rate Formula - December renewals | (\$156,801) | \$23,316,030 |
| 01/01/00 | Rate Formula - January renewals | (\$312,168) | \$23,003,862 |
| 02/01/00 | Rate Formula - February renewals | (\$143,088) | \$22,860,774 |
| 03/01/00 | Rate Formula - March renewals | (\$79,212) | \$22,781,563 |
| 04/01/00 | Rate Formula - April renewals | (\$111,015) | \$22,670,548 |
| 04/01/00 | Small Group Rate Filing - eff. 4/1/00 | (\$9,715,591) | \$12,954,957 |
| 05/01/00 | Rate Formula - May renewals | (\$119,987) | \$12,834,970 |
| 06/01/00 | Rate Formula - June renewals | (\$106,377) | \$12,728,593 |
| 07/01/00 | Rate Formula - July renewals | (\$57,080) | \$12,671,513 |
| 08/01/00 | Rate Formula - August renewals | (\$30,817) | \$12,640,696 |
| 09/01/00 | Rate Formula - September renewals | (\$41,941) | \$12,598,755 |
| | Total - Year 2 | (\$11,216,774) | |
| | Cumulative Total | (\$23,005,245) | \$12,598,755 |

Rate Adjustment Program - Community-Rated Groups

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|---|--------------------------------|----------------------|
| | Initial Allocation | | \$51,428,000 |
| | Year 1 | (\$14,865,598) | \$36,562,402 |
| 10/01/99 | Rate Formula - October renewals | (\$22,296) | \$36,540,105 |
| 11/01/99 | Rate Formula - November renewals | (\$37,521) | \$36,502,584 |
| 12/01/99 | Rate Formula - December renewals | (\$19,498) | \$36,483,086 |
| 01/01/00 | Rate Formula -January renewals | (\$31,982) | \$36,451,105 |
| 02/01/00 | Rate Formula -February renewals | (\$21,761) | \$36,429,344 |
| 03/01/00 | Rate Formula -March renewals | (\$12,670) | \$36,416,673 |
| 03/01/00 | Community Rate Filing - eff. 03/01/00 | (\$17,532,334) | \$18,884,339 |
| 04/01/00 | Rate Formula -April renewals | (\$40,915) | \$18,843,425 |
| 04/01/00 | Small Group Rate Filing - eff. 04/01/00 | (\$1,901,032) | \$16,942,393 |
| 05/01/00 | Rate Formula -May renewals | (\$49,641) | \$16,892,752 |
| 06/01/00 | Rate Formula -June renewals | (\$3,697) | \$16,889,055 |
| 07/01/00 | Rate Formula -July renewals | (\$11,258) | \$16,877,797 |
| 08/01/00 | Rate Formula -August renewals | (\$5,683) | \$16,872,114 |
| 09/01/00 | Rate Formula -September renewals | \$471 | \$16,872,586 |
| | Total - Year 2 | (\$19,689,816) | |
| | Cumulative Total | (\$34,555,414) | \$16,872,586 |

Attachment 3

Blue Cross and Blue Shield of Alabama

Third Year

Prospective Rate Adjustment Program Report

Blue Cross and Blue Shield of Alabama
Prospective Rate Adjustment Program

Revised Third Year Report - October 31, 2001

For the Final Report Period
October 1, 2000 through September 30, 2001

Prospective Rate Adjustment Program

Total Rate Adjustment amount \$208,000,000
 less Legal fees \$10,200,000
 Net Rate Adjustment amount \$197,800,000

| Fully-insured Category | Allocation % | Initial Allocation | Year 1 Rate Adjustments Applied | Year 2 Rate Adjustments Applied | Year 3 Rate Adjustments Applied | Cumulative Rate Adjustments Applied | Remaining Balance |
|------------------------------|--------------|--------------------|---------------------------------------|---------------------------------------|---------------------------------------|---|----------------------|
| Merit-Rated group | 39% | \$77,142,000 | (\$39,441,888) | (\$39,894,372) | \$0 | (\$79,336,260) | \$0 |
| ALFA Health Plan | 3% | \$5,934,000 | \$663,732 | (\$3,541,777) | (\$3,489,159) | (\$6,367,204) | \$0 |
| Demographically-Rated groups | 18% | \$35,604,000 | (\$11,788,471) | (\$11,216,774) | (\$15,269,305) | (\$38,274,550) | \$0 |
| Community-Rated groups | 26% | \$51,428,000 | (\$14,865,598) | (\$19,689,816) | (\$18,900,875) | (\$53,456,289) | \$0 |
| C Plus Medicare Select | 14% | \$27,692,000 | (\$10,149,235) | (\$9,490,821) | (\$12,660,621) | (\$32,300,677) | \$0 |
| Total | 100% | \$197,800,000 | (\$75,581,461) | (\$83,833,560) | (\$50,319,960) | (\$209,734,981) | \$0 |

Rate Adjustment Program - Merit-Rated Group

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|------|--------------------|--------------------------------|----------------------|
| | Initial Allocation | | \$77,142,000 |
| | Year 1 | (\$39,441,888) | \$37,700,112 |
| | Year 2 | (\$39,894,372) | (\$2,194,260) |
| | Year 3 | \$0 | \$0 |
| | Cumulative Total | (\$79,336,260) | \$0 |

Rate Adjustment Program - ALFA Health Plan

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|--|--------------------------------|----------------------|
| | Initial Allocation | | \$5,934,000 |
| | Year 1 | \$663,732 | \$6,597,732 |
| | Year 2 | (\$3,541,777) | \$3,055,955 |
| 07/01/01 | Renewal Rates eff. 7/1/01 & 8/1/01 RRC Formula | (\$3,079,138) (\$410,021) | |
| | Total - Year 3 | (\$3,489,159) | (\$433,204) |
| | Cumulative Total | (\$6,367,204) | \$0 |

Rate Adjustment Program - Demographically-Rated Groups

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|---------------------------------------|--------------------------------|----------------------|
| | Initial Allocation | | \$35,604,000 |
| | Year 1 | (\$11,788,471) | \$23,815,529 |
| | Year 2 | (\$11,216,774) | \$12,598,755 |
| | Adjustment to Year 2 | \$76,031 | \$12,674,786 |
| 10/01/00 | Rate Formula - October renewals | (\$62,346) | \$12,612,440 |
| 11/01/00 | Rate Formula - November renewals | (\$31,774) | \$12,580,666 |
| 12/01/00 | Rate Formula - December renewals | (\$63,379) | \$12,517,287 |
| 01/01/01 | Rate Formula - January renewals | (\$119,911) | \$12,397,376 |
| 02/01/01 | Rate Formula - February renewals | (\$53,160) | \$12,344,216 |
| 03/01/01 | Rate Formula - March renewals | (\$106,953) | \$12,237,263 |
| 04/01/01 | Rate Formula - April renewals | (\$63,162) | \$12,174,101 |
| 05/01/01 | Small Group Rate Filing - eff. 5/1/01 | (\$14,844,651) | (\$2,670,550) |
| | Total - Year 3 | (\$15,269,305) | |
| | Cumulative Total | (\$38,274,550) | \$0 |

Rate Adjustment Program - Community-Rated Groups

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|---|--------------------------------|----------------------|
| | Initial Allocation | | \$51,428,000 |
| | Year 1 | (\$14,865,598) | \$36,562,402 |
| | Year 2 | (\$19,689,816) | \$16,872,586 |
| | Adjustment to Year 2 | \$128,955 | \$17,001,541 |
| 10/01/00 | Rate Formula - October renewals | (\$710) | \$17,000,831 |
| 11/01/00 | Rate Formula - November renewals | \$203 | \$17,001,034 |
| 12/01/00 | Rate Formula - December renewals | (\$292) | \$17,000,742 |
| 01/01/01 | Rate Formula -January renewals | (\$16,301) | \$16,984,441 |
| 02/01/01 | Rate Formula -February renewals | (\$8,864) | \$16,975,577 |
| 03/01/01 | Rate Formula -March renewals | (\$1,293) | \$16,974,284 |
| 04/01/01 | Rate Formula -April renewals | (\$11,541) | \$16,962,743 |
| 05/01/01 | Small Group Rate Filing - eff. 05/01/01 | (\$18,991,032) | (\$2,028,289) |
| | Total - Year 3 | (\$18,900,875) | |
| | Cumulative Total | (\$53,456,289) | \$0 |

Rate Adjustment Program - C Plus Medicare Select

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|---------------------------|--------------------------------|----------------------|
| | Initial Allocation | | \$27,692,000 |
| | Year 1 | (\$10,149,235) | \$17,542,765 |
| | Year 2 | (\$9,490,821) | \$8,051,944 |
| 01/01/01 | Rate Filing - eff. 1/1/01 | (\$12,660,621) | (\$4,608,677) |
| | Total - Year 3 | (\$12,660,621) | |
| | Cumulative Total | (\$32,300,677) | \$0 |

Attachment 4

Blue Cross and Blue Shield of Alabama

Retrospective Rate Credit Balances

Retrospective Rate Credit

| Description | December 2002 | December 2001 | December 2000 |
|------------------------|------------------|------------------|------------------|
| Merit RRC | 40,802,510 | 38,582,502 | 37,408,960 |
| ALFA Health Plan RRC | 3,040,460 | 6,171,052 | 4,270,817 |
| Small Group | (87,235,336) | (47,513,503) | (51,845,838) |
| Community-Rated Groups | (78,996,528) | (80,399,499) | (80,203,009) |
| C Plus Med Select | (129,345,471) | (143,730,504) | (177,987,359) |

Attachment 5

Merit-Rated Underwriting Discretion

RENEWAL RATING

Underwriting Discretion

The renewal rating formula should generally produce an appropriate renewal rate adjustment for the vast majority of merit-size underwritten accounts. However, the formula renewal results may be adjusted when necessary by utilizing the following guidelines:

1) If the formula calls for an adjustment of plus or minus 5%,^{*} use the factor necessary to change the adjustment to a rate hold.

2) Occasionally, specific knowledge about the group, area, and/or industry may warrant consideration for deviating from the formula results. This would include, but not necessary be limited to, the following:

a) Historical claims history of the specific group. Have there been significant fluctuations in the overall paid claims from one year to the next? Has the groups specific claims trend consistently exceeded the corporate trend over the past few years? Are inpatient hospital claims substantially below the inpatient hospital claims in previous years? Is the level of incurred claims in the last six months of the experience period significantly higher than the incurred claims for the first six months (assuming little change in enrollment)?

b) Enrollment variations: Has the enrollment varied substantially during the experience period - especially during the last 6 months? This should be reviewed on total contract exposure as well as fluctuations in the single/family mix. Is there a possibility of significant change in enrollment in the rating period?

c) Overall economic factors that may be expected to materially affect the specific industry.

3) Any modification of the required formula rate adjustment will be subject to management review and approval.

* Change to $\pm 2\%$ eff 11/99

BCBS of Alabama
Prospective Rate Adjustment Program

Attachment 6.1

Inpatient Hospital Annual Trend Data (%)

| Runout | For Claims Incurred 12 Months Prior To: | | | | | | | | | | | | | | | | | | | | | |
|--------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|--|
| | Nov-98 | Dec-98 | Jan-99 | Feb-99 | Mar-99 | Apr-99 | May-99 | Jun-99 | Jul-99 | Aug-99 | Sep-99 | Oct-99 | Nov-99 | Dec-99 | Jan-00 | Feb-00 | Mar-00 | Apr-00 | May-00 | Jun-00 | | |
| Jan-99 | | 3.2 | | | | | | | | | | | | | | | | | | | | |
| Feb-99 | | 3.3 | 3.0 | | | | | | | | | | | | | | | | | | | |
| Mar-99 | | 3.9 | 3.8 | 3.0 | | | | | | | | | | | | | | | | | | |
| Apr-99 | | 3.7 | 3.8 | 3.2 | 3.5 | | | | | | | | | | | | | | | | | |
| May-99 | | 3.5 | 3.9 | 3.4 | 3.8 | 4.6 | | | | | | | | | | | | | | | | |
| Jun-99 | | 3.3 | 3.6 | 3.2 | 3.7 | 4.4 | 5.0 | | | | | | | | | | | | | | | |
| Jul-99 | | 4.0 | 4.3 | 3.7 | 4.2 | 4.9 | 5.3 | 4.9 | | | | | | | | | | | | | | |
| Aug-99 | | 4.0 | 4.4 | 3.8 | 4.2 | 4.8 | 5.1 | 4.6 | 4.7 | | | | | | | | | | | | | |
| Sep-99 | | 3.9 | 4.2 | 3.7 | 4.4 | 5.0 | 5.4 | 5.0 | 5.6 | 6.8 | | | | | | | | | | | | |
| Oct-99 | | 3.9 | 4.3 | 3.7 | 4.6 | 5.2 | 5.5 | 5.2 | 5.7 | 6.7 | 6.1 | | | | | | | | | | | |
| Nov-99 | | 3.9 | 4.3 | 3.7 | 4.4 | 5.0 | 5.2 | 5.1 | 5.4 | 6.1 | 5.2 | 4.9 | | | | | | | | | | |
| Dec-99 | | 4.0 | 4.1 | 3.5 | 4.2 | 4.7 | 5.0 | 4.9 | 5.2 | 5.9 | 4.9 | 4.6 | 5.6 | | | | | | | | | |
| Jan-00 | | 4.1 | 4.2 | 3.6 | 4.3 | 4.8 | 5.0 | 4.9 | 5.2 | 5.8 | 4.8 | 4.8 | 5.6 | 5.8 | | | | | | | | |
| Feb-00 | | 4.0 | 4.1 | 3.5 | 4.5 | 5.0 | 5.2 | 5.2 | 5.4 | 6.0 | 4.9 | 5.0 | 5.8 | 6.2 | 7.3 | | | | | | | |
| Mar-00 | | 4.0 | 4.2 | 3.6 | 4.8 | 5.3 | 5.6 | 5.6 | 5.9 | 6.6 | 5.6 | 5.9 | 7.1 | 7.4 | 8.7 | 9.7 | | | | | | |
| Apr-00 | | 4.1 | 4.2 | 3.8 | 5.0 | 5.5 | 5.9 | 5.9 | 6.2 | 7.0 | 6.1 | 6.6 | 7.8 | 7.9 | 9.0 | 9.7 | 8.4 | | | | | |
| May-00 | | 4.1 | 4.3 | 3.9 | 5.1 | 5.6 | 5.9 | 5.8 | 6.2 | 7.0 | 6.1 | 6.6 | 7.9 | 8.0 | 9.0 | 9.8 | 8.4 | 7.6 | | | | |
| Jun-00 | | 4.4 | 4.6 | 4.2 | 5.4 | 5.9 | 6.2 | 6.2 | 6.5 | 7.4 | 6.3 | 6.8 | 8.1 | 8.1 | 9.2 | 9.9 | 8.2 | 7.5 | 7.0 | | | |

BCBSAL Assumed

Rating Trend (work mo.)

2.0 5.0 5.0 5.0 5.0 5.0 5.0 5.0 5.0 5.0 6.0 6.0 6.0 6.0 6.5 7.0 8.5 8.5 8.5 8.5 8.5 8.0 8.0

BCBS of Alabama
Prospective Rate Adjustment Program

Attachment 6.2

Outpatient Hospital Annual Trend Data (%)

| Runout | For Claims Incurred 12 Months Prior To: | | | | | | | | | | | | | | | | | | | | |
|--------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----|
| | Nov-98 | Dec-98 | Jan-99 | Feb-99 | Mar-99 | Apr-99 | May-99 | Jun-99 | Jul-99 | Aug-99 | Sep-99 | Oct-99 | Nov-99 | Dec-99 | Jan-00 | Feb-00 | Mar-00 | Apr-00 | May-00 | Jun-00 | |
| Jan-99 | 9.7 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Feb-99 | 9.6 | 9.5 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Mar-99 | 9.4 | 9.5 | 9.6 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Apr-99 | 9.8 | 9.8 | 10.3 | 10.2 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| May-99 | 9.9 | 9.9 | 10.4 | 10.3 | 10.1 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Jun-99 | 9.5 | 9.5 | 10.0 | 10.0 | 9.9 | 10.0 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Jul-99 | 10.2 | 10.1 | 10.5 | 10.5 | 10.5 | 10.7 | 11.8 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Aug-99 | 10.1 | 10.0 | 10.4 | 10.4 | 10.3 | 10.5 | 11.3 | 11.5 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Sep-99 | 9.8 | 9.8 | 10.3 | 10.3 | 10.2 | 10.5 | 11.4 | 11.7 | 11.3 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Oct-99 | 9.9 | 9.9 | 10.4 | 10.4 | 10.4 | 10.7 | 11.6 | 11.8 | 11.3 | 12.3 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Nov-99 | 9.8 | 9.8 | 10.2 | 10.3 | 10.3 | 10.6 | 11.4 | 11.5 | 11.0 | 11.7 | 12.1 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Dec-99 | 9.4 | 9.3 | 9.6 | 9.6 | 9.4 | 9.6 | 10.2 | 10.2 | 9.6 | 10.3 | 10.5 | 9.5 | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Jan-00 | 9.5 | 9.3 | 9.7 | 9.6 | 9.4 | 9.6 | 10.2 | 10.2 | 9.6 | 10.2 | 10.5 | 9.4 | 8.5 | --- | --- | --- | --- | --- | --- | --- | --- |
| Feb-00 | 9.5 | 9.3 | 9.7 | 9.6 | 9.5 | 9.7 | 10.3 | 10.2 | 9.6 | 10.2 | 10.6 | 9.5 | 8.7 | 8.3 | --- | --- | --- | --- | --- | --- | --- |
| Mar-00 | 9.4 | 9.2 | 9.6 | 9.6 | 9.4 | 9.6 | 10.2 | 10.2 | 9.6 | 10.3 | 10.6 | 9.6 | 8.7 | 8.5 | 8.1 | --- | --- | --- | --- | --- | --- |
| Apr-00 | 9.2 | 9.0 | 9.4 | 9.3 | 9.0 | 9.2 | 9.7 | 9.7 | 9.0 | 9.7 | 9.9 | 9.0 | 8.2 | 8.1 | 7.7 | 8.0 | --- | --- | --- | --- | --- |
| May-00 | 9.3 | 9.2 | 9.5 | 9.5 | 9.2 | 9.4 | 10.0 | 9.9 | 9.3 | 9.9 | 10.1 | 9.2 | 8.4 | 8.2 | 7.8 | 8.0 | 7.7 | --- | --- | --- | --- |
| Jun-00 | 9.2 | 9.2 | 9.6 | 9.5 | 9.2 | 9.4 | 10.0 | 9.9 | 9.2 | 9.8 | 10.0 | 9.0 | 8.2 | 7.9 | 7.4 | 7.7 | 7.3 | 6.3 | --- | --- | --- |

BCBSAL Assumed

Rating Trend (work mo.) 10.0 12.0 12.0 12.0 12.0 12.0 12.0 12.0 12.0 12.0 12.0 12.0 13.0 13.0 13.0 14.5 14.5 14.5 14.0 14.0 14.0

BCBS of Alabama
Prospective Rate Adjustment Program

Attachment 6.4

PMD Annual Trend Data (%)

| Runout | For Claims Incurred 12 Months Prior To: | | | | | | | | | | | | | | | | | | | | |
|--------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----|
| | Nov-98 | Dec-98 | Jan-99 | Feb-99 | Mar-99 | Apr-99 | May-99 | Jun-99 | Jul-99 | Aug-99 | Sep-99 | Oct-99 | Nov-99 | Dec-99 | Jan-00 | Feb-00 | Mar-00 | Apr-00 | May-00 | Jun-00 | |
| Jan-99 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Feb-99 | --- | -0.9 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Mar-99 | --- | -0.8 | -0.3 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Apr-99 | --- | -0.5 | 0.2 | 1.1 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| May-99 | --- | -0.4 | 0.3 | 1.2 | 2.0 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Jun-99 | --- | -0.5 | 0.2 | 1.0 | 1.7 | 2.1 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Jul-99 | --- | -0.4 | 0.3 | 1.2 | 1.9 | 2.4 | 3.6 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Aug-99 | --- | -0.4 | 0.3 | 1.1 | 1.8 | 2.3 | 3.4 | 4.0 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Sep-99 | --- | -0.3 | 0.4 | 1.2 | 1.9 | 2.4 | 3.5 | 4.2 | 4.7 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Oct-99 | --- | -0.3 | 0.4 | 1.3 | 2.0 | 2.5 | 3.6 | 4.2 | 4.7 | 5.4 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Nov-99 | --- | -0.4 | 0.4 | 1.2 | 2.0 | 2.5 | 3.6 | 4.2 | 4.6 | 5.3 | 5.8 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Dec-99 | --- | -0.3 | 0.4 | 1.3 | 2.0 | 2.5 | 3.6 | 4.3 | 4.7 | 5.4 | 5.9 | 6.3 | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Jan-00 | --- | -0.3 | 0.4 | 1.2 | 2.0 | 2.4 | 3.5 | 4.2 | 4.6 | 5.2 | 5.7 | 6.0 | 5.6 | --- | --- | --- | --- | --- | --- | --- | --- |
| Feb-00 | --- | -0.3 | 0.4 | 1.3 | 2.0 | 2.5 | 3.5 | 4.2 | 4.5 | 5.2 | 5.7 | 6.0 | 5.7 | 6.2 | --- | --- | --- | --- | --- | --- | --- |
| Mar-00 | --- | -0.3 | 0.4 | 1.3 | 2.0 | 2.5 | 3.6 | 4.3 | 4.6 | 5.3 | 5.8 | 6.1 | 5.9 | 6.4 | 6.5 | --- | --- | --- | --- | --- | --- |
| Apr-00 | --- | -0.3 | 0.4 | 1.2 | 2.0 | 2.5 | 3.6 | 4.3 | 4.7 | 5.3 | 5.8 | 6.2 | 5.9 | 6.4 | 6.5 | 6.4 | --- | --- | --- | --- | --- |
| May-00 | --- | -0.4 | 0.4 | 1.2 | 1.9 | 2.4 | 3.5 | 4.2 | 4.6 | 5.2 | 5.8 | 6.1 | 5.8 | 6.3 | 6.4 | 6.4 | 5.6 | --- | --- | --- | --- |
| Jun-00 | --- | -0.4 | 0.3 | 1.1 | 1.9 | 2.3 | 3.4 | 4.1 | 4.5 | 5.1 | 5.7 | 6.0 | 5.7 | 6.2 | 6.3 | 6.3 | 5.6 | 5.0 | --- | --- | --- |

BCBSAL Assumed

Rating Trend (work mo.) 3.5 3.5 3.5 3.5 3.5 3.5 3.5 3.5 3.5 3.5 3.5 4.0 6.0 8.0 8.0 8.0 8.0 8.0 8.0 8.0 8.0 8.0

BCBS of Alabama
Prospective Rate Adjustment Program

Attachment 6.5

Drug Card Annual Trend Data (%)

| Runout | For Claims Incurred 12 Months Prior To: | | | | | | | | | | | | | | | | | | | |
|--------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|
| | Dec-98 | Jan-99 | Feb-99 | Mar-99 | Apr-99 | May-99 | Jun-99 | Jul-99 | Aug-99 | Sep-99 | Oct-99 | Nov-99 | Dec-99 | Jan-00 | Feb-00 | Mar-00 | Apr-00 | May-00 | Jun-00 | |
| Jan-99 | 27.3 | --- | | | | | | | | | | | | | | | | | | |
| Feb-99 | 27.4 | 27.3 | --- | | | | | | | | | | | | | | | | | |
| Mar-99 | 27.3 | 27.4 | 29.0 | --- | | | | | | | | | | | | | | | | |
| Apr-99 | 25.7 | 25.8 | 27.4 | 29.0 | --- | | | | | | | | | | | | | | | |
| May-99 | 25.8 | 25.8 | 27.4 | 29.0 | 29.8 | --- | | | | | | | | | | | | | | |
| Jun-99 | 25.7 | 25.7 | 27.3 | 28.8 | 29.7 | 30.1 | --- | | | | | | | | | | | | | |
| Jul-99 | 24.0 | 24.1 | 25.7 | 27.3 | 28.3 | 28.7 | 29.1 | --- | | | | | | | | | | | | |
| Aug-99 | 24.0 | 24.0 | 25.7 | 27.3 | 28.2 | 28.6 | 28.9 | 28.9 | --- | | | | | | | | | | | |
| Sep-99 | 24.1 | 24.1 | 25.8 | 27.5 | 28.4 | 28.8 | 29.2 | 29.2 | 29.8 | --- | | | | | | | | | | |
| Oct-99 | 24.0 | 24.1 | 25.8 | 27.4 | 28.3 | 28.8 | 29.1 | 29.0 | 29.7 | 31.1 | --- | | | | | | | | | |
| Nov-99 | 24.0 | 24.1 | 25.7 | 27.4 | 28.3 | 28.7 | 29.0 | 29.0 | 29.6 | 31.0 | 30.6 | --- | | | | | | | | |
| Dec-99 | 22.2 | 22.3 | 24.1 | 25.8 | 26.9 | 27.4 | 27.8 | 27.8 | 28.4 | 29.9 | 30.8 | 31.7 | --- | | | | | | | |
| Jan-00 | 22.2 | 22.4 | 24.1 | 25.8 | 26.9 | 27.4 | 27.8 | 27.8 | 28.3 | 29.9 | 30.7 | 31.5 | 33.2 | --- | | | | | | |
| Feb-00 | 22.2 | 22.3 | 24.0 | 25.8 | 26.8 | 27.4 | 27.7 | 27.7 | 28.3 | 29.8 | 30.6 | 31.5 | 33.2 | 32.7 | --- | | | | | |
| Mar-00 | 22.0 | 21.4 | 22.5 | 23.6 | 24.6 | 25.2 | 25.6 | 25.6 | 26.2 | 27.8 | 28.7 | 29.6 | 31.5 | 32.4 | 32.2 | --- | | | | |
| Apr-00 | 21.8 | 21.3 | 22.3 | 23.4 | 24.5 | 25.1 | 25.5 | 25.5 | 26.1 | 27.6 | 28.5 | 29.4 | 31.4 | 32.3 | 32.1 | 30.1 | --- | | | |
| May-00 | 21.8 | 21.2 | 22.3 | 23.3 | 23.7 | 23.7 | 23.6 | 23.6 | 24.2 | 25.8 | 26.6 | 27.6 | 29.4 | 30.3 | 30.2 | 28.4 | 27.6 | --- | | |
| Jun-00 | 21.8 | 21.2 | 22.3 | 23.3 | 23.8 | 23.7 | 23.6 | 23.7 | 24.3 | 25.8 | 26.7 | 27.6 | 29.5 | 30.4 | 30.3 | 28.4 | 27.6 | 28.6 | --- | |

BCBSAL Assumed

Rating Trend (work mo.)

25.0 25.0 25.0 25.0 25.0 25.0 25.0 26.0 26.0 26.0 26.0 27.0 27.0 29.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0

BCBS of Alabama
Prospective Rate Adjustment Program

Attachment 6.6

Major Medical Annual Trend Data - PMD (%)

| Runout | For Claims Incurred 12 Months Prior To: | | | | | | | | | | | | | | | | | | | | | |
|--------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|--|
| | Nov-98 | Dec-98 | Jan-99 | Feb-99 | Mar-99 | Apr-99 | May-99 | Jun-99 | Jul-99 | Aug-99 | Sep-99 | Oct-99 | Nov-99 | Dec-99 | Jan-00 | Feb-00 | Mar-00 | Apr-00 | May-00 | Jun-00 | | |
| Jan-99 | 10.6 | | | | | | | | | | | | | | | | | | | | | |
| Feb-99 | 11.1 | 12.6 | | | | | | | | | | | | | | | | | | | | |
| Mar-99 | 11.6 | 13.4 | 13.7 | | | | | | | | | | | | | | | | | | | |
| Apr-99 | 10.6 | 12.1 | 12.7 | 13.5 | | | | | | | | | | | | | | | | | | |
| May-99 | 10.4 | 11.9 | 12.5 | 13.3 | 13.5 | | | | | | | | | | | | | | | | | |
| Jun-99 | 10.1 | 11.5 | 12.1 | 12.9 | 13.1 | 13.5 | | | | | | | | | | | | | | | | |
| Jul-99 | 9.4 | 10.8 | 11.5 | 12.2 | 12.4 | 12.8 | 13.8 | | | | | | | | | | | | | | | |
| Aug-99 | 9.4 | 10.8 | 11.6 | 12.4 | 12.7 | 13.4 | 14.4 | 13.7 | | | | | | | | | | | | | | |
| Sep-99 | 9.6 | 11.1 | 11.8 | 12.6 | 12.9 | 13.7 | 14.9 | 14.3 | 13.2 | | | | | | | | | | | | | |
| Oct-99 | 9.8 | 11.2 | 11.9 | 12.8 | 13.1 | 13.9 | 15.1 | 14.3 | 13.0 | 12.2 | | | | | | | | | | | | |
| Nov-99 | 9.8 | 11.3 | 12.0 | 12.9 | 13.4 | 14.3 | 15.6 | 15.0 | 13.8 | 13.0 | 11.4 | | | | | | | | | | | |
| Dec-99 | 9.5 | 10.8 | 11.6 | 12.5 | 13.0 | 14.0 | 15.3 | 14.7 | 13.6 | 12.8 | 11.4 | 10.3 | | | | | | | | | | |
| Jan-00 | 9.5 | 10.8 | 11.6 | 12.6 | 13.2 | 14.3 | 15.7 | 15.3 | 14.4 | 13.9 | 13.0 | 12.4 | 12.0 | | | | | | | | | |
| Feb-00 | 9.5 | 10.9 | 11.7 | 12.7 | 13.3 | 14.4 | 15.8 | 15.5 | 14.7 | 14.5 | 13.8 | 13.5 | 13.5 | 13.2 | | | | | | | | |
| Mar-00 | 9.6 | 11.0 | 11.7 | 12.6 | 13.0 | 14.0 | 15.4 | 15.1 | 14.2 | 14.1 | 13.3 | 12.9 | 12.5 | 12.4 | 12.1 | | | | | | | |
| Apr-00 | 9.6 | 10.9 | 11.7 | 12.6 | 13.1 | 14.1 | 15.6 | 15.2 | 14.4 | 14.2 | 13.3 | 12.9 | 12.6 | 12.0 | 11.7 | 11.0 | | | | | | |
| May-00 | 9.7 | 11.0 | 11.8 | 12.8 | 13.2 | 14.1 | 15.3 | 14.7 | 13.7 | 13.4 | 12.3 | 11.7 | 11.1 | 10.2 | 9.7 | 8.8 | 7.1 | | | | | |
| Jun-00 | 9.7 | 11.1 | 11.8 | 12.8 | 13.2 | 14.2 | 15.4 | 14.9 | 13.8 | 13.4 | 12.3 | 11.6 | 10.9 | 9.9 | 9.3 | 8.3 | 6.7 | 5.2 | | | | |

BCBSAL Assumed

Rating Trend (work mo.)
(Wrap-w/PMD)
(Wrap-w/PMD&Drug Card)

| | | | | | | | | | | | | | | | | | | | |
|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 15.0 | 15.0 | 15.0 | 17.5 | 18.5 | 21.5 | 21.5 | 21.5 | 21.5 | 21.5 | 21.0 | 21.0 |
| 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.5 | 14.0 | 14.0 | 14.0 | 14.0 | 14.0 | 14.0 | 14.0 |

BCBS of Alabama

Prospective Rate Adjustment Program

Attachment 6.7

Major Medical Annual Trend Data - Trad (%)

| Runout | For Claims Incurred 12 Months Prior To: | | | | | | | | | | | | | | | | | | | |
|--------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|
| | Dec-98 | Jan-99 | Feb-99 | Mar-99 | Apr-99 | May-99 | Jun-99 | Jul-99 | Aug-99 | Sep-99 | Oct-99 | Nov-99 | Dec-99 | Jan-00 | Feb-00 | Mar-00 | Apr-00 | May-00 | Jun-00 | |
| Jan-99 | | | | | | | | | | | | | | | | | | | | |
| Feb-99 | | | | | | | | | | | | | | | | | | | | |
| Mar-99 | | | | | | | | | | | | | | | | | | | | |
| Apr-99 | | | | | | | | | | | | | | | | | | | | |
| May-99 | | | | | | | | | | | | | | | | | | | | |
| Jun-99 | | | | | | | | | | | | | | | | | | | | |
| Jul-99 | | | | | | | | | | | | | | | | | | | | |
| Aug-99 | | | | | | | | | | | | | | | | | | | | |
| Sep-99 | | | | | | | | | | | | | | | | | | | | |
| Oct-99 | 6.4 | 8.0 | 7.5 | 10.5 | 9.5 | 8.5 | 6.4 | 3.3 | 4.2 | | | | | | | | | | | |
| Nov-99 | 6.4 | 8.0 | 7.5 | 10.5 | 9.5 | 8.5 | 6.5 | 3.2 | 4.0 | 1.9 | | | | | | | | | | |
| Dec-99 | 6.3 | 7.8 | 7.3 | 10.3 | 9.4 | 8.4 | 6.3 | 3.3 | 4.1 | 2.2 | 4.8 | | | | | | | | | |
| Jan-00 | 6.2 | 7.7 | 7.3 | 10.0 | 9.4 | 8.5 | 6.4 | 3.5 | 4.2 | 2.7 | 5.6 | | | | | | | | | |
| Feb-00 | 6.2 | 7.8 | 7.4 | 10.4 | 9.5 | 8.5 | 6.5 | 3.6 | 4.4 | 2.9 | 6.1 | 10.1 | 6.0 | | | | | | | |
| Mar-00 | 6.4 | 7.8 | 7.4 | 10.3 | 9.3 | 8.4 | 6.3 | 3.3 | 4.1 | 2.4 | 5.6 | 9.6 | 5.3 | | | | | | | |
| Apr-00 | 6.3 | 8.0 | 7.6 | 10.6 | 9.5 | 8.6 | 6.5 | 3.4 | 4.1 | 2.3 | 5.5 | 9.3 | 4.7 | 8.5 | | | | | | |
| May-00 | 6.3 | 8.0 | 7.6 | 10.6 | 9.4 | 8.4 | 6.3 | 3.0 | 3.7 | 1.8 | 4.7 | 8.3 | 3.4 | 6.7 | 2.9 | | | | | |
| Jun-00 | 6.3 | 8.1 | 7.7 | 10.7 | 9.4 | 8.5 | 6.3 | 3.1 | 3.6 | 1.6 | 4.5 | 8.0 | 2.9 | 6.1 | 2.0 | 1.9 | | | | |

BCBSAL Assumed

Rating Trend (work mo.)

(Wrap - Trad)

11.0 11.0

BCBS of Alabama
Prospective Rate Adjustment Program

Attachment 6.8

Major Medical Annual Trend Data - POS (%)

| Runout | For Claims Incurred 12 Months Prior To: | | | | | | | | | | | | | | | | | | | |
|--------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----|
| | Dec-98 | Jan-99 | Feb-99 | Mar-99 | Apr-99 | May-99 | Jun-99 | Jul-99 | Aug-99 | Sep-99 | Oct-99 | Nov-99 | Dec-99 | Jan-00 | Feb-00 | Mar-00 | Apr-00 | May-00 | Jun-00 | |
| Jan-99 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Feb-99 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Mar-99 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Apr-99 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| May-99 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Jun-99 | -7.4 | -5.8 | -2.9 | 0.7 | 0.7 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Jul-99 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Aug-99 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Sep-99 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Oct-99 | -7.8 | -6.2 | -3.7 | -0.6 | -1.4 | 0.3 | 3.6 | 7.0 | 11.8 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Nov-99 | -7.8 | -6.2 | -3.6 | -0.6 | -1.3 | 0.5 | 3.7 | 7.0 | 11.4 | 12.5 | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Dec-99 | -8.0 | -6.3 | -3.8 | -0.8 | -1.4 | 0.2 | 3.3 | 6.4 | 10.6 | 11.4 | 13.3 | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Jan-00 | -8.0 | -6.4 | -3.9 | -0.9 | -1.5 | 0.1 | 3.3 | 6.4 | 10.6 | 11.6 | 13.4 | 13.4 | --- | --- | --- | --- | --- | --- | --- | --- |
| Feb-00 | -8.1 | -6.5 | -4.0 | -1.0 | -1.6 | 0.0 | 3.2 | 6.3 | 10.5 | 11.5 | 13.6 | 13.6 | 15.7 | --- | --- | --- | --- | --- | --- | --- |
| Mar-00 | -8.1 | -6.5 | -4.0 | -1.1 | -1.8 | -0.2 | 2.9 | 5.8 | 9.9 | 10.7 | 12.8 | 12.6 | 14.2 | 15.3 | --- | --- | --- | --- | --- | --- |
| Apr-00 | -8.1 | -6.5 | -4.1 | -1.1 | -1.8 | -0.2 | 2.8 | 5.7 | 9.7 | 10.5 | 12.5 | 12.1 | 13.5 | 13.9 | 13.4 | --- | --- | --- | --- | --- |
| May-00 | -8.1 | -6.5 | -4.0 | -1.1 | -1.8 | -0.3 | 2.6 | 5.4 | 9.1 | 9.5 | 11.3 | 10.7 | 11.8 | 11.5 | 10.0 | 8.3 | --- | --- | --- | --- |
| Jun-00 | -8.1 | -6.5 | -4.0 | -1.1 | -1.3 | -0.3 | 2.6 | 5.3 | 9.0 | 9.3 | 11.0 | 10.3 | 11.4 | 11.0 | 9.3 | 7.1 | 8.0 | --- | --- | --- |

BCBSAL Assumed
Rating Trend (work mo.)
(Wrap - POS)

| | | | | | | | | | | | | | | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|------|------|------|------|------|------|------|
| 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.5 | 6.5 | 6.5 | 7.5 | 9.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|------|------|------|------|------|------|------|

Attachment 7.1

ALFA Year 2

Prospective Rate Adjustment Program

Credit Calculations

10/26/2000
JLH

Prospective Rate Relief Effective 7/1/2000 and 8/1/2000

| | Rural Health | ALFA | Combined |
|------------------------------------|---------------------|-----------------------|-----------------------|
| Current Fees in Force at 2/29/2000 | \$89,738.20 | \$4,091,961.07 | \$4,181,699.27 |
| Times 12 months | 12 | 12 | |
| Annualized Current Fees in Force | \$1,076,858.40 | \$49,103,532.84 | \$50,180,391.24 |
| Required Increase | 48.01% | -1.84% | |
| Required Annual Fees in Force | \$1,593,858.12 | \$48,200,027.84 | \$49,793,885.96 |
| RRC % | 7.79% | 7.79% | |
| RRC Credit | \$83,887.27 | \$3,825,165.21 | \$3,909,052.48 |
| Final Increase % | 0.00% | -8.00% | |
| Formula Credit | \$433,112.45 | (\$800,387.58) | (\$367,275.13) |
| Total Rate Relief | <u>\$516,999.72</u> | <u>\$3,024,777.63</u> | <u>\$3,541,777.35</u> |

Attachment 7.2

ALFA Year 3

Prospective Rate Adjustment Program

Credit Calculations

10/08/2001
JLH

Prospective Rate Relief Effective 7/1/2001 and 8/1/2001

| | Rural Health | ALFA | Combined |
|------------------------------------|---------------------|-----------------------|-----------------------|
| Current Fees in Force at 2/28/2001 | \$78,421.98 | \$4,431,371.81 | \$4,509,793.79 |
| Times 12 months | 12 | 12 | |
| Annualized Current Fees in Force | \$941,063.76 | \$53,176,461.72 | \$54,117,525.48 |
| Required Increase | 56.59% | 5.56% | |
| Required Annual Fees in Force | \$1,473,611.74 | \$56,133,072.99 | \$57,606,684.73 |
| RRC % | 13.02% | 5.56% | |
| RRC Credit | \$122,526.50 | \$2,956,611.27 | \$3,079,137.77 |
| Final Increase % | 0.00% | 0.00% | |
| Formula Credit | \$410,021.48 | \$0.00 | \$410,021.48 |
| Total Rate Relief | <u>\$532,547.98</u> | <u>\$2,956,611.27</u> | <u>\$3,489,159.25</u> |

Attachment 8

“Frozen” Community-Rated
Year 2 PRAP Credit Calculation

10/24/00
JLH

COMMUNITY 3/1/2000

Prospective Rate Relief

For the period: 3/1/2000-4/30/2000

| | <u>Required</u> | <u>Actual</u> | <u>Rate Relief per Contract</u> | <u>10/31/99 Contracts</u> | <u>Annualized Relief</u> |
|---------------|-----------------|---------------|-------------------------------------|---------------------------------|------------------------------|
| Health | | | | | |
| Single | \$185.00 | \$162.00 | \$23.00 | 42,490 | \$1,954,540.00 |
| Family | \$475.00 | \$414.00 | \$61.00 | <u>30,478</u> | <u>\$3,718,316.00</u> |
| | | | | 72,968 | \$5,672,856.00 |
| Dental | | | | | |
| Single | \$20.00 | \$18.00 | \$2.00 | 49,983 | \$199,932.00 |
| Family | \$52.00 | \$47.00 | \$5.00 | <u>40,993</u> | <u>\$409,930.00</u> |
| | | | | 90,976 | \$609,862.00 |
| | | | | TOTAL 3/1/2000-4/30/2000 | <u>\$6,282,718.00</u> |

For the period: 5/1/2000-4/30/2001

| | <u>Required</u> | <u>Actual</u> | <u>Rate Relief per Contract</u> | <u>10/31/99 Contracts</u> | <u>Annualized Relief</u> |
|---------------|-----------------|---------------|-------------------------------------|---------------------------------|-------------------------------|
| Health | | | | | |
| Single | \$185.00 | \$178.00 | \$7.00 | 42,490 | \$3,569,160.00 |
| Family | \$475.00 | \$454.00 | \$21.00 | <u>30,478</u> | <u>\$7,680,456.00</u> |
| | | | | 72,968 | \$11,249,616.00 |
| Dental | | | | | |
| Single | \$20.00 | \$20.00 | \$0.00 | 49,983 | \$0.00 |
| Family | \$52.00 | \$52.00 | \$0.00 | <u>40,993</u> | <u>\$0.00</u> |
| | | | | 90,976 | \$0.00 |
| | | | | TOTAL 5/1/2000-4/30/2001 | <u>\$11,249,616.00</u> |

TOTAL **\$17,532,334.00**

Attachment 9

BCBSAL Revisions to
Prospective Rate Adjustment Program Credits

Part I

Rate Adjustment Program - Demographically-Rated Groups

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|---------------------------------------|--------------------------|-------------------|
| | Initial Allocation | | \$35,604,000 |
| | Year 1 | (\$11,788,471) | \$23,815,529 |
| | Year 2 | (\$11,216,774) | \$12,598,755 |
| | Adjustment to Year 1 | \$2,097,937 | \$14,696,692 |
| | Adjustment to Year 2 | (\$350,809) | \$14,345,883 |
| 10/01/00 | Rate Formula - October renewals | (\$62,346) | \$14,283,537 |
| 11/01/00 | Rate Formula - November renewals | (\$31,774) | \$14,251,763 |
| 12/01/00 | Rate Formula - December renewals | (\$63,379) | \$14,188,384 |
| 01/01/01 | Rate Formula - January renewals | (\$119,911) | \$14,068,473 |
| 02/01/01 | Rate Formula - February renewals | (\$53,160) | \$14,015,313 |
| 03/01/01 | Rate Formula - March renewals | (\$106,953) | \$13,908,360 |
| 04/01/01 | Rate Formula - April renewals | (\$63,162) | \$13,845,198 |
| 05/01/01 | Small Group Rate Filing - eff. 5/1/01 | (\$13,946,384) | (\$101,186) |
| | Total - Year 3 | (\$12,699,941) | |
| | Cumulative Total | (\$35,705,186) | \$0 |

Rate Adjustment Program - Community-Rated Groups

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|---|--------------------------|-------------------|
| | Initial Allocation | | \$51,428,000 |
| | Year 1 | (\$14,865,598) | \$36,562,402 |
| | Year 2 | (\$19,689,816) | \$16,872,586 |
| | Adjustment to Year 1 | \$76,662 | \$16,949,248 |
| | Adjustment to Year 2 | \$95,079 | \$17,044,327 |
| 10/01/00 | Rate Formula - October renewals | (\$710) | \$17,043,617 |
| 11/01/00 | Rate Formula - November renewals | \$203 | \$17,043,820 |
| 12/01/00 | Rate Formula - December renewals | (\$292) | \$17,043,528 |
| 01/01/01 | Rate Formula - January renewals | (\$16,301) | \$17,027,227 |
| 02/01/01 | Rate Formula - February renewals | (\$8,864) | \$17,018,363 |
| 03/01/01 | Rate Formula - March renewals | (\$1,293) | \$17,017,070 |
| 04/01/01 | Rate Formula - April renewals | (\$11,541) | \$17,005,529 |
| 05/01/01 | Small Group Rate Filing - eff. 05/01/01 | (\$17,841,862) | (\$836,333) |
| | Total - Year 3 | (\$17,708,919) | |
| | Cumulative Total | (\$52,264,333) | \$0 |

02/03/2003
JLS

Summary of Adjustments to Year 1 Credit to be Recognized in Year 3

Groups 15-50 (Type Rate K) - Demographic

| | |
|--|--------------------|
| Reduction in Rate Relief due to Average Demographic Factor Adjustment (Exhibit A1) | \$422,312 |
| Reduction in Rate Relief due to 3-month Overlap of Rating Periods (Exhibit B1) | <u>\$1,675,625</u> |
| Adjustment to Year 1 | <u>\$2,097,937</u> |

Groups 2-14 (Type Rate J) - Community

| | |
|--|-----------------|
| Reduction in Rate Relief due to Average Demographic Factor Adjustment (Exhibit A1) | \$16,456 |
| Reduction in Rate Relief due to 3-month Overlap of Rating Periods (Exhibit B1) | <u>\$60,206</u> |
| Adjustment to Year 1 | <u>\$76,662</u> |

EXHIBIT A1

02/03/2003
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Adjustment to Year 1 Credit to be Recognized in Year 3

Reduction in Rate Relief due to Average Demographic Factor Adjustment:

Groups 15-50 (Type Rate K) - Demographic

| | | |
|---|---------------|------------------|
| Rate Filing effective 7/1/99 - Rate Adjustment Applied in Year 1 Report | | (\$6,602,604) |
| Average Area Adjustment* | 0.9243 | |
| Average Benefit Plan Adjustment* | 1.0127 | |
| Average Age/Sex Adjustment Factor* | <u>1.0000</u> | |
| Average Demographic Adjustment Factor | | <u>0.9360</u> |
| Rate Filing effective 7/1/99 - Restated Rate Adjustment for Year 1 | | (\$6,180,292) |
| Adjustment to Year 1 to be Recognized in Year 3 | | <u>\$422,312</u> |

Groups 2-14 (Type Rate J) - Community

| | | |
|---|---------------|-----------------|
| Rate Filing effective 7/1/99 - Rate Adjustment Applied in Year 1 Report | | (\$257,280) |
| Average Area Adjustment* | 0.9243 | |
| Average Benefit Plan Adjustment* | 1.0127 | |
| Average Age/Sex Adjustment* | <u>1.0000</u> | |
| Average Demographic Adjustment Factor | | <u>0.9360</u> |
| Rate Filing effective 7/1/99 - Restated Rate Adjustment for Year 1 | | (\$240,824) |
| Adjustment to Year 1 to be Recognized in Year 3 | | <u>\$16,456</u> |

*Source Base Rate Calculation for 7/1/99 Rate Filing

FIX456.123

01/31/2003
JLS

EXHIBIT B1

Adjustment to Year 1 Credit to be Recognized in Year 3

Reduction in Rate Relief for 4/2000, 5/2000, and 6/2000 renewals due to 3-month overlap of rating periods:

Groups 15-50 (Type Rate K) - Demographic

| | <u>Required Rate</u> | <u>Actual Rate</u> | <u>Rate Relief per contract</u> | <u>Enrollment</u> | <u>12 Months of Rate Relief</u> |
|--------------------|----------------------|--------------------|---------------------------------|-------------------|-----------------------------------|
| <u>PMC</u> | | | | | |
| Single | \$168.00 | \$165.00 | \$3.00 | 7 | \$252.00 |
| Family | \$446.00 | \$434.00 | \$12.00 | 5 | \$720.00 |
| <u>PMD</u> | | | | | |
| Single | \$179.00 | \$175.00 | \$4.00 | 6,186 | \$296,928.00 |
| Family | \$474.00 | \$462.00 | \$12.00 | 5,469 | \$787,536.00 |
| <u>PMD w/ Card</u> | | | | | |
| Single | \$192.00 | \$187.00 | \$5.00 | 3,573 | \$214,380.00 |
| Family | \$507.00 | \$494.00 | \$13.00 | <u>3,143</u> | <u>\$490,308.00</u> |
| | | | | 18,383 | \$1,790,124.00 |
| | | | | | annualized sub-total Demographic |
| | | | | X | 0.936 Avg Demographic Factor |
| | | | | | \$1,675,625.18 Demographic |

Reduction in Rate Relief due to 3-month overlap of rating periods:

Groups 2-14 (Type Rate J) - Community

| | <u>Required Rate</u> | <u>Actual Rate</u> | <u>Rate Relief per contract</u> | <u>Enrollment</u> | <u>3 Months of Rate Relief</u> |
|--------------------|----------------------|--------------------|---------------------------------|-------------------|--------------------------------|
| <u>PMC</u> | | | | | |
| Single | \$168.00 | \$165.00 | \$3.00 | 1,570 | \$14,130.00 |
| Family | \$446.00 | \$434.00 | \$12.00 | 921 | \$33,156.00 |
| <u>PMD</u> | | | | | |
| Single | \$179.00 | \$175.00 | \$4.00 | 207 | \$2,484.00 |
| Family | \$474.00 | \$462.00 | \$12.00 | 180 | \$6,480.00 |
| <u>PMD w/ Card</u> | | | | | |
| Single | \$192.00 | \$187.00 | \$5.00 | 200 | \$3,000.00 |
| Family | \$507.00 | \$494.00 | \$13.00 | <u>130</u> | <u>\$5,070.00</u> |
| | | | | 3,208 | \$64,320.00 |
| | | | | | 3-month sub-total Community |
| | | | | X | 0.936 Avg Demographic Factor |
| | | | | | \$60,206.00 Community |
| | | | | Grand Total | 21,591 |
| | | | | | <u>\$1,735,831.18</u> |

Source for Enrollment DB2 Enrollment Table - GRP ENRL_HIST
Source for Rates 7/1/99 Rate Filing

02/03/2003
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Summary of Adjustments to Year 2 Credit to be Recognized in Year 3

Groups 15-50 (Type Rate K) - Demographic

| | |
|--|--------------------|
| Reduction in Rate Relief due to Average Demographic Factor Adjustment (Exhibit A2) | \$485,917 |
| Restated Reduction in Rate Relief due to Demographic Factor Adjustment to 1-month Overstatement for 4/1 renewals (Exhibit B2) | \$72,228 |
| Increase in Rate Relief due to 1-month gap between rating periods (Exhibit C2) | (\$908,954) |
| Adjustment to Year 2 | <u>(\$350,809)</u> |

Groups 2-14 (Type Rate J) - Community

| | |
|---|-----------------|
| Reduction in Rate Relief due to Average Demographic Factor Adjustment (Exhibit A2) | \$95,079 |
| Restated Reduction in Rate Relief due to Demographic Factor Adjustment to 1-month Overstatement (Exhibit B2) | \$122,505 |
| Increase in Rate Relief due to 1-month gap between rating periods (Exhibit C2) | (\$122,505) |
| Adjustment to Year 2 | <u>\$95,079</u> |

EXHIBIT A2

02/03/2003
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Adjustment to Year 2 Credit to be Recognized in Year 3

Reduction in Rate Relief due to Average Demographic Factor Adjustment:

Groups 15-50 (Type Rate K) - Demographic

| | | |
|---|---------------|------------------|
| Rate Filing effective 4/1/00 - Rate Adjustment Applied in Year 2 Report | | (\$9,715,591) |
| Average Area Adjustment* | 0.9299 | |
| Average Benefit Plan Adjustment* | 1.0216 | |
| Average Age/Sex Adjustment* | <u>1.0000</u> | |
| Average Demographic Adjustment Factor | | <u>0.9500</u> |
| Rate Filing effective 4/1/00 - Restated Rate Adjustment for Year 2 | | (\$9,229,674) |
| Adjustment to Year 2 to be Recognized in Year 3 | | <u>\$485,917</u> |

Groups 2-14 (Type Rate J) - Community

| | | |
|---|---------------|-----------------|
| Rate Filing effective 4/1/00 - Rate Adjustment Applied in Year 2 Report | | (\$1,901,032) |
| Average Area Adjustment* | 0.9299 | |
| Average Benefit Plan Adjustment* | 1.0216 | |
| Average Age/Sex Adjustment* | <u>1.0000</u> | |
| Average Demographic Adjustment Factor | | <u>0.9500</u> |
| Rate Filing effective 4/1/00 - Restated Rate Adjustment for Year 2 | | (\$1,805,953) |
| Adjustment to Year 2 to be Recognized in Year 3 | | <u>\$95,079</u> |

*Source: Required Rate Calculation for 4/1/00 Rate Filing

EXHIBIT B2

02/03/2003
JLS

Adjustment to Year 2 Credit to be Recognized in Year 3

Revised Reduction in Rate Relief due to Overstatement for the period 5/1/2000 - 4/30/2001:
(Revision due to Demographic Factor Adjustment)Groups 15-50 (Type Rate K) - Demographic

| | | |
|---|---------------|--|
| Adjustment to Year 2 Applied in Previous Year 3 Report | | \$76,031 |
| Average Area Adjustment* | 0.9299 | |
| Average Benefit Plan Adjustment* | 1.0216 | |
| Average Age/Sex Adjustment* | <u>1.0000</u> | |
| Average Demographic Adjustment Factor | | <u>0.9500</u> |
| Restated Adjustment for Year 2 to be recognized in Year 3 | | \$72,228 |

Groups 2-14 (Type Rate J) - Community

| | | |
|---|---------------|---|
| Adjustment to Year 2 Applied in Previous Year 3 Report | | \$128,955 |
| Average Area Adjustment* | 0.9299 | |
| Average Benefit Plan Adjustment* | 1.0216 | |
| Average Age/Sex Adjustment* | <u>1.0000</u> | |
| Average Demographic Adjustment Factor | | <u>0.9500</u> |
| Restated Adjustment for Year 2 to be recognized in Year 3 | | \$122,505 |

*Source: Required Rate Calculation for 4/1/00 Rate Filing

FIX4.123

01/31/2003
JLS

EXHIBIT C2

Adjustment to Year 2 Credit to be Recognized in Year 3

Increase In Rate Relief for 4/2001 renewals due to 1-month gap between rating periods:

Groups 15-50 (Type Rate K) - Demographic

| | <u>Required Rate</u> | <u>Actual Rate</u> | <u>Rate Relief per contract</u> | <u>Enrollment</u> | <u>12 Months of Rate Relief</u> | |
|--------------------|----------------------|--------------------|---------------------------------|-------------------|---------------------------------|----------------------------------|
| <u>PMC</u> | | | | | | |
| Single | \$189.00 | \$183.00 | \$6.00 | 0 | \$0.00 | |
| Family | \$500.00 | \$484.00 | \$16.00 | 0 | \$0.00 | |
| <u>PMD</u> | | | | | | |
| Single | \$201.00 | \$195.00 | \$6.00 | 2,315 | \$166,680.00 | |
| Family | \$532.00 | \$515.00 | \$17.00 | 1,992 | \$406,368.00 | |
| <u>PMD w/ Card</u> | | | | | | |
| Single | \$215.00 | \$209.00 | \$6.00 | 1,490 | \$107,280.00 | |
| Family | \$569.00 | \$551.00 | \$18.00 | <u>1,280</u> | <u>\$276,480.00</u> | |
| | | | | 7,077 | \$956,808.00 | annualized sub-total Demographic |
| | | | | | X 0.950 | Avg Demographic Factor |
| | | | | | | <u>\$908,954.05</u> Demographic |

Increase In Rate Relief due to 1-month gap between rating periods:

Groups 2-14 (Type Rate J) - Community

| | <u>Required Rate</u> | <u>Actual Rate</u> | <u>Rate Relief per contract</u> | <u>Enrollment</u> | <u>1 Month of Rate Relief</u> | |
|--------------------|----------------------|--------------------|---------------------------------|-------------------|-------------------------------|-------------------------------|
| <u>PMC</u> | | | | | | |
| Single | \$189.00 | \$183.00 | \$6.00 | 6,205 | \$37,230.00 | |
| Family | \$500.00 | \$484.00 | \$16.00 | 3,668 | \$58,688.00 | |
| <u>PMD</u> | | | | | | |
| Single | \$201.00 | \$195.00 | \$6.00 | 985 | \$5,910.00 | |
| Family | \$532.00 | \$515.00 | \$17.00 | 803 | \$13,651.00 | |
| <u>PMD w/ Card</u> | | | | | | |
| Single | \$215.00 | \$209.00 | \$6.00 | 611 | \$3,666.00 | |
| Family | \$569.00 | \$551.00 | \$18.00 | <u>545</u> | <u>\$9,810.00</u> | |
| | | | | 12,817 | \$128,955.00 | 1-month sub-total Community |
| | | | | | X 0.950 | Avg Demographic Factor |
| | | | | | | <u>\$122,505.42</u> Community |
| Grand Total | | | | 19,894 | <u>\$1,085,763.00</u> | |

Source for Enrollment DB2 Enrollment Table - GRP.ENRL_HIST
Source for Rates 4/1/00 Rate Filing

Summary of Changes to Year 3 Credit

Groups 15-50 (Type Rate K) - Demographic

| | |
|--|-----------------------|
| Original entry for Small Group Rate Filing - eff. 5/1/01 | (\$14,844,651) |
| Revised entry for Small Group Rate Filing - eff. 5/1/01 (Exhibit A3) | (\$13,946,384) |
| Change in Credit | (\$898,267) |

Groups 2-14 (Type Rate J) - Community

| | |
|--|-----------------------|
| Original entry for Small Group Rate Filing - eff. 5/1/01 | (\$18,991,032) |
| Revised entry for Small Group Rate Filing - eff. 5/1/01 (Exhibit A3) | (\$17,841,862) |
| Change in Credit | (\$1,149,170) |

EXHIBIT A3

02/03/2003
JLS

Adjustment to Year 3 Credit to be Recognized in Year 3

Reduction in Rate Relief due to Average Demographic Factor Adjustment:

Groups 15-50 (Type Rate K) - Demographic

| | |
|---|-----------------------|
| Rate Filing effective 5/1/01 - Rate Adjustment Applied in Year 3 Report | (\$14,844,651) |
| Average Area Adjustment* | 0.9654 |
| Average Benefit Plan Adjustment* | 0.9818 |
| Average Age/Sex Adjustmenr* | 1.0000 |
| Average Group Size Adjustment* | <u>0.9912</u> |
| Average Demographic Adjustment Factor | <u>0.9395</u> |
| Rate Filing effective 5/1/01 - Restated Rate Adjustment for Year 3 | <u>(\$13,946,384)</u> |

Groups 2-14 (Type Rate J) - Community

| | |
|---|-----------------------|
| Rate Filing effective 5/1/01 - Rate Adjustment Applied in Year 3 Report | (\$18,991,032) |
| Average Area Adjustment* | 0.9654 |
| Average Benefit Plan Adjustment* | 0.9818 |
| Average Age/Sex Adjustmenr* | 1.0000 |
| Average Group Size Adjustment* | <u>0.9912</u> |
| Average Demographic Adjustment Factor | <u>0.9395</u> |
| Rate Filing effective 5/1/01 - Restated Rate Adjustment for Year 3 | <u>(\$17,841,862)</u> |

*Source: Required Rate Calculation for 5/1/01 Rate Filing

Attachment 10

BCBSAL Revisions to
Prospective Rate Adjustment Program Credits

Part II

Rate Adjustment Program - Demographically-Rated Groups

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|---|--------------------------|-------------------|
| | Initial Allocation | | \$35,604,000 |
| | Year 1 | (\$11,788,471) | \$23,815,529 |
| | Year 2 | (\$11,216,774) | \$12,598,755 |
| | Adjustment to Year 1 | \$2,097,937 | \$14,696,692 |
| | Adjustment to Year 2 | (\$350,809) | \$14,345,883 |
| 10/01/00 | Rate Formula - October renewals | (\$62,346) | \$14,283,537 |
| 11/01/00 | Rate Formula - November renewals | (\$31,774) | \$14,251,763 |
| 12/01/00 | Rate Formula - December renewals | (\$63,379) | \$14,188,384 |
| 01/01/01 | Rate Formula - January renewals | (\$119,911) | \$14,068,473 |
| 02/01/01 | Rate Formula - February renewals | (\$53,160) | \$14,015,313 |
| 03/01/01 | Rate Formula - March renewals | (\$106,953) | \$13,908,360 |
| 04/01/01 | Rate Formula - April renewals | (\$63,162) | \$13,845,198 |
| 05/01/01 | Small Group Rate Filing - eff. 5/1/01 (5/1/01 - 9/1/01 renewals only) | <u>(\$5,484,186)</u> | \$8,361,012 |
| | Subtotal - Year 3 | <u>(\$4,237,743)</u> | |
| | Cumulative Total | <u>(\$27,242,988)</u> | \$8,361,012 |
| 05/01/01 | Small Group Rate Filing - eff. 5/1/01 (10/1/01 - 4/1/02 renewals only) | <u>(\$8,462,198)</u> | (\$101,186) |
| | Total | <u>(\$12,699,941)</u> | |
| | Cumulative Total | <u>(\$35,705,186)</u> | \$0 |

04/16/2003

JLS

Summary of Changes to Year 3 Credit - Revised

Groups 15-50 (Type Rate K) - Demographic

Revised entry for Small Group Rate Filing - eff. 5/1/01 (Exhibit A3)

(\$5,484,186)

Groups 15-50 (Type Rate K) - Demographic

Revised entry for Small Group Rate Filing - eff. 5/1/01 (Exhibit A3)

(\$8,462,198)

EXHIBIT A3

04/16/2003
JLS

Adjustment to Year 3 Credit to be Recognized in Year 3

Reduction in Rate Relief due to Average Demographic Factor Adjustment:

Groups 15-50 (Type Rate K) - Demographic

Rate Filing effective 5/1/01 - Rate Adjustment for Year 3 Report - 5/1/01-9/1/01 renewals (\$5,837,415)

Average Area Adjustment* 0.9654

Average Benefit Plan Adjustment* 0.9818

Average Age/Sex Adjustment* 1.0000

Average Group Size Adjustment* 0.9912

Average Demographic Adjustment Factor 0.9395

Rate Filing effective 5/1/01 - Restated Rate Adjustment for Year 3 (\$5,484,186)Groups 15-50 (Type Rate K) - Demographic

Rate Filing effective 5/1/01 - Rate Adjustment for Year 3 Report - 10/1/01-4/1/02 renewals (\$9,007,236)

Average Area Adjustment* 0.9654

Average Benefit Plan Adjustment* 0.9818

Average Age/Sex Adjustment* 1.0000

Average Group Size Adjustment* 0.9912

Average Demographic Adjustment Factor 0.9395

Rate Filing effective 5/1/01 - Restated Rate Adjustment for Year 3 (\$8,462,198)

Summary - Small Group Rate Filing - 5/1/2001

Demographic:

5/1/2001 Renewals -

Health Rate Relief for the period 5/1/2001 - 5/31/2001 (one month rate hold) \$332,588.00

Health Rate Relief for the period 6/1/2001 - 4/30/2002 (11 months @ new rate) \$1,232,671.00

6/1/2001 - 9/1/2001 Renewals -

Health Rate Relief for the period 6/1/2001 - 5/31/2002 \$4,272,156.00

Total Demographic Rate Relief

\$5,837,415.00

10/1/2001 - 4/1/2002 Renewals -

Health Rate Relief for the period 6/1/2001 - 5/31/2002

\$9,007,236.00

SMGRYR3_JH2

01/26/2001
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Small Group Rate Filing - 5/1/2001

Rate Relief for the period 5/1/2001 - 5/31/2001:

Groups 15-50 (Type Rate K + Type Rate B) - Demographic - 5/1/2001 renewals only

| | <u>Required Rate</u> | <u>Actual Rate*</u> | <u>Rate Relief per contract</u> | <u>Enrollment**</u> | <u>Rate Relief per month</u> | |
|------------------------|----------------------|---------------------|---------------------------------|---------------------|------------------------------|-----------------------|
| <u>PMC</u> | | | | | | |
| Single | \$208.00 | \$183.00 | \$25.00 | 0 | \$0.00 | |
| Family | \$549.00 | \$484.00 | \$65.00 | 0 | \$0.00 | |
| <u>PMD</u> | | | | | | |
| Single | \$221.00 | \$195.00 | \$26.00 | 2,315 | \$60,190.00 | |
| Family | \$584.00 | \$515.00 | \$69.00 | 1,992 | \$137,448.00 | |
| <u>PMD w/ Card</u> | | | | | | |
| Single | \$236.00 | \$209.00 | \$27.00 | 1,490 | \$40,230.00 | |
| Family | \$625.00 | \$551.00 | \$74.00 | <u>1,280</u> | <u>\$94,720.00</u> | |
| | | | | 7,077 | \$332,588.00 | sub-total Demographic |
| Total 5/1/01-5/31/2001 | | | | 7,077 | \$332,588.00 | total |

Rate Relief for the period 6/1/2001 - 4/30/2002:

Groups 15-50 (Type Rate K + Type Rate B) - Demographic - 5/1/2001 renewals only

| | <u>Required Rate</u> | <u>Actual Rate***</u> | <u>Rate Relief per contract</u> | <u>Enrollment**</u> | <u>11 Months of Rate Relief</u> | |
|--------------------------|----------------------|-----------------------|---------------------------------|---------------------|---------------------------------|-------|
| <u>PMC</u> | | | | | | |
| Single | \$208.00 | \$199.00 | \$9.00 | 0 | \$0.00 | |
| Family | \$549.00 | \$527.00 | \$22.00 | 0 | \$0.00 | |
| <u>PMD</u> | | | | | | |
| Single | \$221.00 | \$212.00 | \$9.00 | 2,315 | \$229,185.00 | |
| Family | \$584.00 | \$561.00 | \$23.00 | 1,992 | \$503,976.00 | |
| <u>PMD w/ Card</u> | | | | | | |
| Single | \$236.00 | \$227.00 | \$9.00 | 1,490 | \$147,510.00 | |
| Family | \$625.00 | \$600.00 | \$25.00 | <u>1,280</u> | <u>\$352,000.00</u> | |
| | | | | 7,077 | \$1,232,671.00 | |
| Total 6/1/2001-4/30/2002 | | | | 7,077 | \$1,232,671.00 | total |

*Actual rate from 2000 rate filing

**Groups with 5/1/01 renewal date

***Actual rate from 2001 rate filing

Source for Enrollment: DB2 Enrollment Table: GRP ENRL_HIST and GRP GRP_HIST

SMGRYR3_JH3.123

Small Group Rate Filing - 5/1/2001

Revised Rate Relief for Year 3:

Groups 15-50 (Type Rate K) - Demographic - renewal dates 6/1/2001 - 9/1/2001

| | <u>Required Rate</u> | <u>Actual Rate</u> | <u>Rate Relief per contract</u> | <u>Enrollment*</u> | <u>Annualized Rate Relief</u> |
|--|----------------------|--------------------|-------------------------------------|--------------------|-----------------------------------|
| <u>PMC</u> | | | | | |
| Single | \$208.00 | \$199.00 | \$9.00 | 52 | |
| Family | \$549.00 | \$527.00 | \$22.00 | 25 | \$5,616.00 |
| | | | | | \$6,600.00 |
| <u>PMD</u> | | | | | |
| Single | \$221.00 | \$212.00 | \$9.00 | 7,088 | \$765,504.00 |
| Family | \$584.00 | \$561.00 | \$23.00 | 6,208 | \$1,713,408.00 |
| <u>PMD w/ Card</u> | | | | | |
| Single | \$236.00 | \$227.00 | \$9.00 | 5,391 | \$582,228.00 |
| Family | \$625.00 | \$600.00 | \$25.00 | <u>3,996</u> | <u>\$1,198,800.00</u> |
| | | | | 22,760 | \$4,272,156.00 |
| Demographic Total - renewal dates 6/1/2001 - 9/1/2001: | | | | | \$4,272,156.00 |

*Groups with 6/1/01 - 9/1/01 renewal dates

Source for Enrollment: DB2 Enrollment Table - GRP ENRL_HIST 11/30/2000

SMGRYR3_JH4.123

Small Group Rate Filing - 5/1/2001

Revised Rate Relief - Year 3:

Groups 15-50 (Type Rate K) - Demographic - renewal dates 10/1/2001-4/1/2002

| | <u>Required Rate</u> | <u>Actual Rate</u> | <u>Rate Relief per contract</u> | <u>Enrollment*</u> | <u>Annualized Rate Relief</u> |
|--|----------------------|--------------------|-------------------------------------|--------------------|-----------------------------------|
| <u>PMC</u> | | | | | |
| Single | \$208.00 | \$199.00 | \$9.00 | 35 | |
| Family | \$549.00 | \$527.00 | \$22.00 | 10 | \$3,780.00 |
| | | | | | \$2,640.00 |
| <u>PMD</u> | | | | | |
| Single | \$221.00 | \$212.00 | \$9.00 | 14,270 | \$1,541,160.00 |
| Family | \$584.00 | \$561.00 | \$23.00 | 12,394 | \$3,420,744.00 |
| <u>PMD w/ Card</u> | | | | | |
| Single | \$236.00 | \$227.00 | \$9.00 | 10,989 | \$1,186,812.00 |
| Family | \$625.00 | \$600.00 | \$25.00 | <u>9,507</u> | <u>\$2,852,100.00</u> |
| | | | | 47,205 | \$9,007,236.00 |
| Demographic Total - renewal dates 10/1/2001 - 4/1/2002 | | | | | \$9,007,236.00 |

*Groups with 10/1/01 - 4/1/02 renewal dates

Source for Enrollment: DB2 Enrollment Table - GRP ENRL_HIST and GRP GRP_HIST



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

November 7, 2003

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. G. Philip Pope
President
Blue Cross and Blue Shield of Alabama
450 Riverchase Parkway East
Birmingham, AL 35244

**RE: Blue Cross and Blue Shield of Alabama
Actuarial Report as of October 15, 2003**

Dear Mr. Pope:

Enclosed is a copy of the Actuarial Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program as of October 15, 2003. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE, CIE
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE, CIE
David Parsons
Jill E. Baker

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Philip Pope
 President
 Blue Cross and Blue Shield of Alabama
 450 Riverchase Parkway East
 Birmingham, AL 35244

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) PHILIP POPE B. Date of Delivery 7/11/93

C. Signature [Signature]
 Agent
 Addressee

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

2. Article Number (Copy from service label)

7002 2030 0000 9484 1703

MAYNARD, COOPER & GALE, P.C.

ATTORNEYS AT LAW

1901 SIXTH AVENUE NORTH

2400 AMSOUTH/HARBERT PLAZA

BIRMINGHAM, ALABAMA 35203-2618

(205) 254-1000

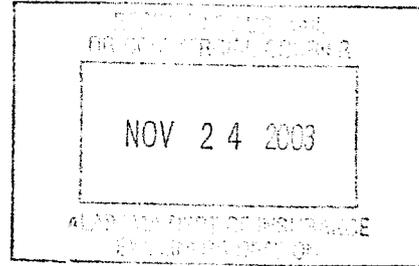
FACSIMILE (205) 254-1999

James L. Priester

(205) 254-1052

November 21, 2003

Mr. Richard L. Ford, CFE, CIE
Chief Examiner
State of Alabama
Department of Insurance
201 Monroe Street, Suite 1700
Post Office Box 303351
Montgomery, AL 36130-3351



**Re: Blue Cross and Blue Shield of Alabama Draft Actuarial Report as of
October 15, 2003**

Dear Mr. Ford:

This is to clarify the nature of your letter of November 7, 2003 about the above-referenced draft report. The letter was addressed to Mr. Philip Pope of Blue Cross and Blue Shield of Alabama, who received that letter on November 14, 2003. Mr. Pope has asked me to respond on behalf of the company.

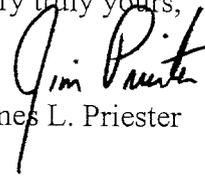
The cover letter to the report in question included an invitation from Mr. John MacBain, the author, to provide comments. Based upon the opportunity for comment, and the fact that the report was not verified under oath as required by Regulation 103, Blue Cross understood the report to be in the nature of a draft. Blue Cross supplied comments and understands they are being taken into consideration as Mr. MacBain prepares his final report.

We therefore write you to confirm our understanding that the report is a draft. As a result, it is not, and will not be, considered public as suggested by your letter. Rather, once Mr. McBain issues a final report in conformance with Regulation 103, it is that report that may be filed as a public document. We will be so notified by your office and have 20 days from receipt of that notice to follow the procedures provided for in the regulation.

Mr. Richard L. Ford, CFE, CIE
November 21, 2003
Page 2

If the understanding of Blue Cross is not correct, please let me know by calling me at 205-254-1052.

Very truly yours,

A handwritten signature in cursive script that reads "Jim Priester". The signature is written in black ink and is positioned above the printed name.

James L. Priester

JLP/ng

cc: Mr. David Parsons



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
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INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

December 2, 2003

James L. Priester
Maynard, Cooper & Gale, P.C.
Attorneys At Law
1901 Sixth Avenue North
2400 AmSouth/Harbert Plaza
Birmingham, AL 35203-2618

Dear Mr. Priester:

You may consider the previous copy of the Blue Cross report to be a draft copy.

Sincerely,

Richard L. Ford, CFE, CIE
Chief Examiner

RLF:dk



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
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WALTER A. BELL
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ASSISTANT COMMISSIONER
RAGAN INGRAM
DEPUTY COMMISSIONERS
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL (ACTING)
RICHARD MONTGOMERY
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

January 22, 2004

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. G. Philip Pope
President
Blue Cross and Blue Shield of Alabama
450 Riverchase Parkway East
Birmingham, AL 35244

**RE: Blue Cross and Blue Shield of Alabama
Actuarial Report as of January 19, 2004**

Dear Mr. Pope:

Enclosed is a copy of the Actuarial Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program as of January 19, 2004. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE, CIE
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE, CIE
David Parsons
Jill E. Baker

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. G. Philip Pope
 President
 Blue Cross and Blue Shield of
 Alabama
 450 Riverchase Parkway East
 Birmingham, AL 35244

2. Article Number (Copy from service label)

7002 2030 0000 9484 1451

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery

1/29/94

C. Signature

X Self-Delivered

 Agent Addressee

D. Is delivery address different from item 1?

 Yes

If YES, enter delivery address below:

 No

3. Service Type

 Certified Mail Express Mail Registered Return Receipt for Merchandise Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee)

 Yes



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
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WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL (ACTING)
RICHARD MONTGOMERY
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

**BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA**

IN THE MATTER OF:)
ACTUARIAL EXAMINATION REPORT OF)
BLUE CROSS AND BLUE SHIELD OF ALABAMA'S)
PROSPECTIVE RATE ADJUSTMENT PROGRAM)
AS OF JANUARY 19, 2004)

ORDER

ON THE 17th day of February, 2004, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Blue Cross and Blue Shield of Alabama is a domestic insurer licensed as a non-profit health care service plan corporation in the State of Alabama.

FINDINGS OF FACT

1. That on January 19, 2004, the verified Actuarial Examination Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program was filed with the Insurance Department.
2. That following receipt of the January 19, 2004 Actuarial Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the January 19, 2004, Actuarial Examination Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

**ORDER
ACTUARIAL EXAMINATION
PAGE 3**

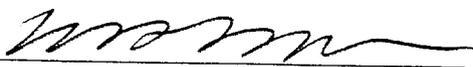
ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the January 19, 2004 Actuarial Examination Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program is hereby Adopted.
2. That Blue Cross and Blue Shield of Alabama file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Blue Cross and Blue Shield of Alabama file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.

WITNESS My Hand and Official Seal this 17th day of February, 2004.

(SEAL)



Walter A. Bell
Insurance Commissioner
201 Monroe Street, Suite 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of _____ Company, do hereby certify that the Report of Examination of _____ Company as of _____, _____, was filed with all states in which _____ Company is licensed, and with the office of the National Association of Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the _____ day of _____, 2004.

Seal

Notary

7002 2030 0000 9484 1925

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CERTIFIED MAIL™ RECEIPT
(Domestic Mail Only; No Insurance Coverage Provided)

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| Postage | \$ | |
| Certified Fee | | |
| Return Receipt Fee (Endorsement Required) | | |
| Restricted Delivery Fee (Endorsement Required) | | |
| Total Postage & Fees | \$ | |

Postmark
Here

40-61-2 2/21/02

Sent To

Street, Apt. No.,
or PO Box No.

City, State, ZIP+4

PS Form 3800, June 2002

See Reverse for Instructions

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. G. Philip Pope
President
Blue Cross and Blue Shield of Alabama
450 Riverchase Parkway East
Birmingham, AL 35244

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

2/21/4

C. Signature

X 

Agent
 Addressee

D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type

Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

2 Article Number (Copy from service label)
7002 2030 0000 9484 1925



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.gov

WALTER A. BELL
COMMISSIONER
ASSISTANT COMMISSIONER
RAGAN INGRAM
DEPUTY COMMISSIONERS
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL (ACTING)
RICHARD MONTGOMERY
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

March 23, 2004

Mr. G. Philip Pope
President
Blue Cross and Blue Shield of Alabama
450 Riverchase Parkway East
Birmingham, AL 35244

**Re: Actuarial Report of Blue Cross and Blue Shield of Alabama's
Prospective Rate Adjustment Program as of January 19, 2004**

Dear Mr. Pope:

I have enclosed a copy of the February 17, 2004, Commissioner's Order relating to the actuarial examination of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program as of January 19, 2004.

This Order requires that the company file an affidavit stating that a copy of the adopted report and related orders was reviewed by the board of directors within thirty (30) days of the issuance of the adopted report. The Order further requires that Blue Cross and Blue Shield of Alabama file an affidavit within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC.

These affidavits have not been received by the Department of Insurance as of this date. In accordance with the Commissioner's Order, you are requested to file these affidavits within ten (10) days of the receipt of this letter.

Sincerely,

Richard L. Ford, CFE, CIE
Chief Examiner

RLF:dk

Enclosures

cc: Jack Brown, CFE
David Parsons
Jill E. Baker

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. G. Philip Pope
President
Blue Cross and Blue Shield of Alabama
450 Riverchase Parkway East
Birmingham, AL 35244

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

Penny Conner *9/25/94*

C. Signature

X Penny Conner Agent Addressee

D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type

- Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

2. Article Number (Copy from service label)

7002 2030 0000 9484 2328

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL (ACTING)
RICHARD MONTGOMERY
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

**BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA**

IN THE MATTER OF:)
ACTUARIAL EXAMINATION REPORT OF)
BLUE CROSS AND BLUE SHIELD OF ALABAMA'S)
PROSPECTIVE RATE ADJUSTMENT PROGRAM)
AS OF JANUARY 19, 2004)

ORDER

ON THE 17th day of February, 2004, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Blue Cross and Blue Shield of Alabama is a domestic insurer licensed as a non-profit health care service plan corporation in the State of Alabama.

FINDINGS OF FACT

1. That on January 19, 2004, the verified Actuarial Examination Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program was filed with the Insurance Department.

2. That following receipt of the January 19, 2004 Actuarial Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.

3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.

4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the January 19, 2004, Actuarial Examination Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

**ORDER
ACTUARIAL EXAMINATION
PAGE 3**

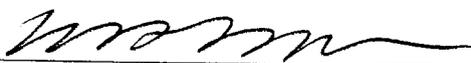
ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the January 19, 2004 Actuarial Examination Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program is hereby Adopted.
2. That Blue Cross and Blue Shield of Alabama file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Blue Cross and Blue Shield of Alabama file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.

WITNESS My Hand and Official Seal this 17th day of February, 2004.

(SEAL)



Walter A. Bell
Insurance Commissioner
201 Monroe Street, Suite 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of
_____ Company, do hereby certify that the Report of Examination of
_____ Company as of _____, _____, was filed with all states in
which _____ Company is licensed, and with the office of the National Association of
Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the ____ day of _____, 2004.

Seal

Notary



f.b w/ report

**BlueCross BlueShield
of Alabama**

**RECEIVED BY US MAIL
OR COMMERCIAL COURIER**

A. Grey Till
Vice President and
General Counsel

March 29, 2004

MAR 31 2004

Mr. Richard L. Ford, CFE, CIE
Chief Examiner
State of Alabama
Department of Insurance
201 Monroe Street, Ste. 1700
P. O. Box 303351
Montgomery, AL 36130-3351

**ALABAMA DEPT OF INSURANCE
EXAMINERS DIVISION**

RE: Actuarial Report of Blue Cross and Blue Shield of Alabama's
Prospective Rate Adjustment Program of as January 19, 2004

Dear Mr. Ford:

Responding to your letter of March 23, 2004 concerning the recently concluded Prospective Rate Adjustment Program and the Actuarial Report concerning same dated January 19, 2004, enclosed is a copy of my letter dated March 10, 2004 to the National Association of Insurance Commissioners transmitting a copy of a Certification (a copy enclosed), a copy of Commissioner Bell's Order dated February 17, 2004, and Examination Report dated January 19, 2004, all as required by Commissioner Bell's aforesaid Order. Copies of this transmittal were mailed directly to the office of Commissioner Bell on that same date. The Certification enclosed contains all of the requirements set out in the Commissioner's Order dated February 17, 2004.

If there is anything further we need to do in this regard, please so advise.

With kindest regards, I remain,

Very truly yours,

A. Grey Till, Jr.
Vice President and General Counsel

AGT/dc
Enclosures

cc: Jack Brown, CFE
David Parsons
Jill E. Baker



**BlueCross BlueShield
of Alabama**

A. Grey Till
Vice President and
General Counsel

March 10, 2004

National Association of Commissioners
2301 McGee Street, Ste. 800
Kansas City, MO 64108

RE: Prospective Rate Adjustment Program

Gentlemen:

In accordance with the Order by Walter A. Bell, Insurance Commissioner, State of Alabama dated February 17, 2004 In the Matter of Actuarial Examination Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program as of January 19, 2004 requiring that a copy of the Actuarial Examination Report dated January 19, 2004 be filed with the offices of the National Association of Insurance Commissioners, enclosed is a copy of both the Actuarial Examination Report of Blue Cross and Blue Shield of Alabama Prospective Rate Adjustment Program as of January 19, 2004 and a copy of the Commissioner's aforesaid Order adopting same dated February 17, 2004 for filing with your office.

Very truly yours,



A. Grey Till, Jr.

Vice President and Corporate Secretary

Enclosures

cc: Walter A. Bell, Insurance Commissioner
State of Alabama, Department of Insurance
201 Monroe Street, Ste. 1700
Montgomery, AL 36130

IN THE MATTER OF:

Actuarial Examination Report of)
Blue Cross and Blue Shield of Alabama's)
Prospective Rate Adjustment Program)
as of January 19, 2004)

CERTIFICATION

I, A. Grey Till, Jr., Vice President and Corporate Secretary of Blue Cross and Blue Shield of Alabama, do hereby certify that, in compliance with the Order of Walter A. Bell, Insurance Commissioner, State of Alabama in the above-referenced matter dated February 17, 2004:

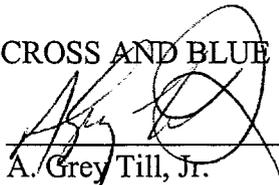
(1) Copies of the Report of Examination of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program dated January 19, 2004, and the aforesaid Order dated February 17, 2004 adopting same, were made available to and reviewed by the Board of Directors of Blue Cross and Blue Shield of Alabama at its regular monthly meeting duly held on Wednesday, February 25, 2004,

(2) The Report of Examination of Blue Cross and Blue Shield of Alabama as of January 19, 2004 and the aforesaid Order adopting same dated February 17, 2004 have been filed with the office of the National Association of Insurance Commissioners, and

(3) Blue Cross and Blue Shield of Alabama is only licensed as a Health Care Service Corporation in the State of Alabama and in no other states, thus no filing of above-referenced documents are required to be filed with any other state licensure officials.

BLUE CROSS AND BLUE SHIELD OF ALABAMA

BY:


A. Grey Till, Jr.

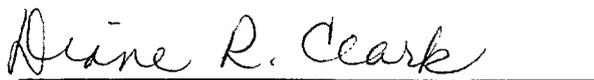
As its: Vice President and Corporate Secretary

NOTARY:

SWORN AND SUBSCRIBED before the undersigned authority on the 10th day of

March, 2004.

(Seal)



Notary

MY COMMISSION EXPIRES MARCH 30, 2005



BOB RILEY
GOVERNOR

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STATE FIRE MARSHAL (ACTING)
RICHARD MONTGOMERY
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

**BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA**

IN THE MATTER OF:)
ACTUARIAL EXAMINATION REPORT OF)
BLUE CROSS AND BLUE SHIELD OF ALABAMA'S)
PROSPECTIVE RATE ADJUSTMENT PROGRAM)
AS OF JANUARY 19, 2004)

PHILLIP POPE
PRESIDENT AND CEO

FEB 23 2004

RECEIVED

GINNEY TUDAL
VICI HASKINS AND
GENERAL COUNSEL

ORDER

ON THE 17th day of February, 2004, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Blue Cross and Blue Shield of Alabama is a domestic insurer licensed as a non-profit health care service plan corporation in the State of Alabama.

FINDINGS OF FACT

1. That on January 19, 2004, the verified Actuarial Examination Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program was filed with the Insurance Department.
2. That following receipt of the January 19, 2004 Actuarial Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the January 19, 2004, Actuarial Examination Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

**ORDER
ACTUARIAL EXAMINATION
PAGE 3**

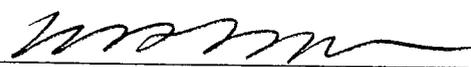
ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the January 19, 2004 Actuarial Examination Report of Blue Cross and Blue Shield of Alabama's Prospective Rate Adjustment Program is hereby Adopted.
2. That Blue Cross and Blue Shield of Alabama file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Blue Cross and Blue Shield of Alabama file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.

WITNESS My Hand and Official Seal this 17th day of February, 2004.

(SEAL)



Walter A. Bell
Insurance Commissioner
201 Monroe Street, Suite 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of
_____ Company, do hereby certify that the Report of Examination of
_____ Company as of _____, _____, was filed with all states in
which _____ Company is licensed, and with the office of the National Association of
Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the ____ day of _____, 2004.

Seal

Notary

ALABAMA DEPARTMENT OF INSURANCE

DEPARTMENTAL REGULATION NO. 103

Effective: July 15, 1994

**SUBJECT: CONDUCT OF EXAMINATIONS AND FILING OF
REPORTS OF EXAMINATION**

Section 1. Purpose.

The purpose of this regulation is to generally set forth the guidelines for conducting financial examinations and the time requirements for filing of reports of examination.

Section 2. Authority.

This regulation is promulgated by the Commissioner of Insurance pursuant to Section 27-2-17, Code of Alabama 1975.

Section 3. Conduct of Examinations.

A. Upon determining that an examination report should be conducted, the commissioner will issue an examination warrant appointing one or more examiners to perform the examination and instructing them as to the scope of the examination.

B. In conducting the examination, the examiner shall observe those guidelines and procedures set forth in the Examiners' Handbook adopted by the National Association of Insurance Commissioners.

Section 4. Examination Reports.

A. No later than sixty (60) days following completion of the examination, the examiner in charge shall file with the Chief Examiner a verified report of examination under oath. Upon receipt of the verified report, the Chief Examiner shall transmit a copy of the report to the person examined, together with a notice which shall afford the examinee twenty (20) days to make a written submission or rebuttal with respect to any matters contained in the examination report. The written submission by the examinee shall specify

ALABAMA INSURANCE REGULATION NO. 103

any item or items to which the examinee objects, including any affected page numbers of the report if necessary.

B. Within thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the commissioner will fully consider and review the report, together with any written submissions or rebuttals, and any relevant portions of the examiners' work papers and will enter an order doing one of the following:

1. Adopting the examination report as filed or with modifications or corrections. If the examination report reveals that the company is operating in violation of any law, regulation, or prior order of the commissioner, the commissioner may order the company to take any action the commissioner considers necessary and appropriate to cure the violation.

2. Rejecting the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation, or information, and refiling pursuant to Subsection A above.

3. Calling for an investigatory hearing for purposes of obtaining additional documentation, data, information, and testimony.

Section 5. Hearings, Procedures and Orders.

A. Any order calling for an investigatory hearing in accordance with Section 4 shall provide the examinee with no less than twenty (20) days' notice of the date of the hearing, and shall include providing the examinee with a copy of the rules of procedure to be followed at the hearing (Departmental Regulation 65).

B. The Commissioner will enter an order in accordance with Section 4(B)(1) within twenty (20) days of the conclusion of the investigatory hearing.

Section 6. Effective Date.

This regulation shall become effective ten (10) days from the date of certification that the properly executed regulation was delivered to the Secretary of State.

Approved by Commissioner of Insurance: July 5, 1994
Filed in office of the Secretary of State: July 5, 1994
Effective Date: July 15, 1994

Rate Adjustment Program - C Plus Medicare Select

| Date | Description | Rate Adjustments Applied | Remaining Balance |
|----------|---------------------------|--------------------------------|----------------------|
| | Initial Allocation | | \$27,692,000 |
| | Year 1 | (\$10,149,235) | \$17,542,765 |
| 01/01/00 | Rate Filing - eff. 1/1/00 | (\$9,490,821) | \$8,051,944 |
| | Total - Year 2 | (\$9,490,821) | |
| | Cumulative Total | (\$19,640,056) | \$8,051,944 |