



636 Grand Avenue
PO Box 9232
Des Moines, Iowa 50306-9232
web site: www.wellmark.com

March 4, 2010

The Honorable Charles E. Grassley
Ranking Member, Committee on Finance
United States Senate
Washington, DC 20510-6200

Re: Response to Senator Grassley's Inquiry of February 23, 2010

Dear Senator Grassley:

On behalf of Wellmark, Inc. which does business as Wellmark Blue Cross and Blue Shield of Iowa, and its subsidiaries (collectively "Wellmark" or "the Company"), I am responding to your written request of February 23, 2010, for information relating to the Company's plan to increase health insurance premiums in the Iowa individual market.

Accordingly, please find enclosed with this letter information and tables prepared by Wellmark in response to each of your inquiries below:

1. What factors were taken into consideration when coming up with the health insurance rates for 2010?
2. Were the 2010 rates reviewed by any independent actuarial firm before being presented to the Iowa Insurance Division? If so, please provide a copy of this independent analysis and any supporting documentation.
3. Please provide a report on Wellmark's average Medical Loss Ratio in its individual and small group products for each of the last five years along with a description and explanation of the factors involved.
4. Please provide a report on the amount held in reserves for each year for the past five years along with an explanation of how Wellmark Blue Cross and Blue Shield's reserves compare to any minimum levels required by the Iowa Insurance Division, and whether Wellmark utilized any reserves to mitigate rate increases for 2010 or for any year within the five-year period.
5. In 2007, Wellmark announced its goal to be a pure non-profit and reduce profits to 0 percent. Please provide copies of Wellmark's Form 1120, *U.S. Corporation Income Tax Return*, for the past five years. Please also provide copies of all studies and reports used to determine compensation for the officers listed on Schedule E of Form 1120.

Who is Wellmark, Inc.

Although you did not seek specific background information regarding Wellmark and we know that as Iowa's senior Senator that you are well acquainted with our Company and its history, we believe it is important and appropriate to provide you with a brief description of our Company in the hope that this additional information will assist you in your inquiry and put the underlying information in context.

Wellmark, Inc. is organized under Iowa law as a mutual insurance company owned by its policyholders. Wellmark is not organized as a non-profit corporation. It does business as Wellmark Blue Cross and Blue Shield of Iowa. Wellmark has approximately 2,000 employees located in Des Moines, Cedar Rapids, and Sioux City, Iowa, and in Sioux Falls and Rapid City, South Dakota. Wellmark, Inc. was founded in 1939 in Des Moines, where we continue to maintain our headquarters.

Wellmark also is the parent company of two additional business corporations that write health insurance for individuals and groups. These companies are Wellmark of South Dakota, Inc., doing business as Wellmark Blue Cross and Blue Shield of South Dakota, which writes health insurance in South Dakota and is headquartered in Sioux Falls, South Dakota, and Wellmark Health Plan of Iowa, Inc., an Iowa health maintenance organization headquartered in Des Moines.

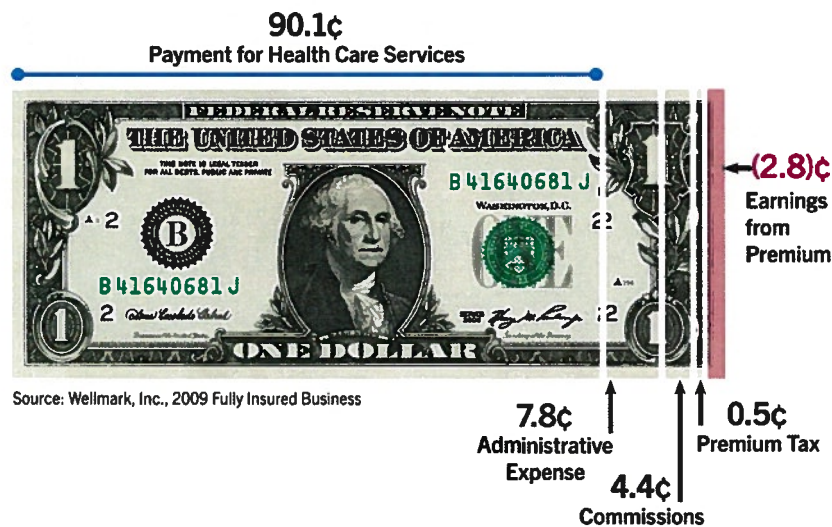
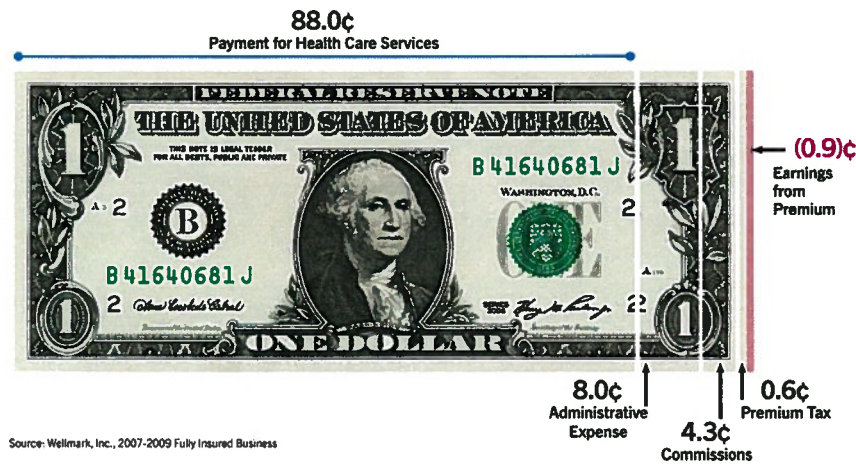
Target Operating Margins and Risk Based Capital

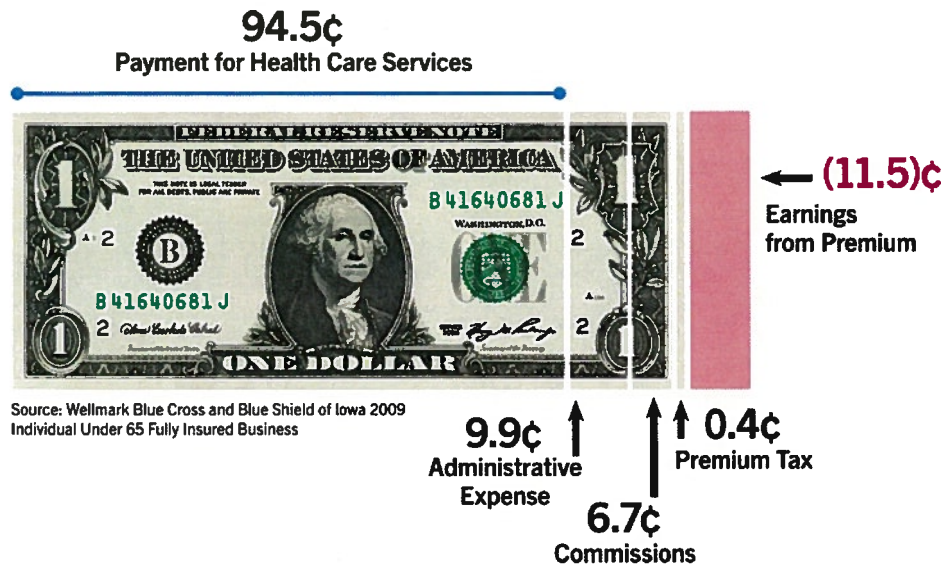
In late 2006, the Board of Directors of Wellmark approved a strategic plan that in its judgment returned the best value to policyholders over the long term. Key elements of this strategic plan include remaining as an independent company, focused in Iowa and South Dakota, delivering health insurance and related health benefit administrative services at affordable rates for customers. Under this strategic plan, Wellmark targets its overall operating margins at effectively break-even (or 0%), using investment income and reserves to provide lower rates to our members. As part of this strategy the Board set a capital adequacy goal as measured by a target range of 650 - 950 for the risk based capital score (RBC). The Company's RBC scores for 2005 through 2009 have moved toward the lower end of the targeted RBC range in part due to operating losses since 2007 and as shown in the response to question 4. In 2007, Wellmark lost 0.6 percent on operations. In 2008, the Company's operating margin was minus 1.9 percent and in 2009, the Company's operating margin was minus 3.3 percent. The Company's operating margin strategy going forward will target a 0% to 3% operating margin based on generally accepted accounting principles, although for 2010 the Company is projecting a minus 2% operating margin even with higher premium rates.

While some believe that health insurance rate increases are solely or predominantly driven by an attempt by insurance companies to increase profitability, this has not been the case for Wellmark given its long term strategy. The premium increases proposed in any year by Wellmark are directly related to the rising cost of health care claims, which represent more than 88 cents of every premium dollar for insured business from 2007 through 2009. With regard to

the Iowa individual insured segment of our business, Wellmark lost \$0.3 million in 2007, \$14.6 million in 2008, and \$38.9 million in 2009.

The first two graphics below represent the three-year and one-year breakdown of Wellmark's fully insured business (all insured business in the Wellmark corporate group in Iowa and South Dakota) by premium dollar. The first graphic shows all insured business results for 2007 through 2009 and the second graphic shows all insured business results for 2009. The third graphic shows Wellmark Blue Cross and Blue Shield of Iowa's individual market segment business only for 2009, which as you can see shows that Wellmark paid 94.5¢ of every premium dollar for health care expenses.





Premiums in the Iowa Individual Market

The Insurance Commissioner for the State of Iowa testified before the Iowa House and Senate Commerce Committees on February 25, 2010, in regard to Wellmark's recently announced premium increases for its Iowa under 65 individual products. Commissioner Susan Voss noted in her testimony that Iowa has the second lowest health insurance premiums in the country although premiums are rising everywhere. She also reported that Wellmark's premium increases in the individual market are subject to Iowa Insurance Division review and approval prior to use and must be actuarially justified and in compliance with Iowa insurance laws and regulations. She reported further that in this case, the Division had approved three of the five product rate increases proposed by Wellmark as meeting these requirements and that the remaining two were required by the Division to be decreased before they were approved for 2010.

Your letter also referenced the CMS Office of the Actuary report that health care spending increased by 5.7 percent in 2009. Our understanding is that this is a regular report that provides an economic summary of health care spending in the aggregate (both public and private, including consumer payments) and its relative portion of the domestic economy. It does not necessarily equate to actual claims experience and projected trends seen by private insurers, especially in the individual market.

We think a February 23, 2010, letter from Therese M. Vaughan (former Iowa Insurance Commissioner and Insurance Professor at Drake University), CEO of the National Association of Insurance Commissioners (NAIC), to Representative John Dingell regarding health insurance premiums is on point. Dr. Vaughan states in part "...the single most significant contributor to rising health insurance premiums has clearly been the continued growth of health care spending in the United States. This growth affects all types of coverage: group, individual, and government-sponsored plans....While rate review [by state insurance commissioners] can help

keep insurers focused on constraining the growth of these costs, it cannot fundamentally address the growth of health care costs, which must be addressed through payment reform, delivery system changes, an emphasis on prevention and consumer engagement.” Specific drivers Dr. Vaughan cited include medical technological advances, multiple treatment options for once incurable diseases, increased rates of obesity, and continued use of tobacco. In addition to these underlying drivers of growth in health care spending, she notes that the individual market is subject to much higher risks of adverse selection than the group market – that is, in weak economic times, young and healthy individuals tend to drop or reduce coverage at greater rates than older and sicker individuals, leaving insurers’ risk pools with higher average costs. This adverse selection compounds the effects of medical trend costs.

Additional Drivers of Wellmark Costs

While many insurance companies are publicly-traded corporations that focus on metropolitan areas across several states, Wellmark has chosen to remain a mutual insurance company – owned by its policyholders – with a sole focus on Iowa and South Dakota. Wellmark markets its products in every county of Iowa and South Dakota, serving even the most sparsely populated areas. This focus presents unique challenges. Iowa and South Dakota have a combined population of approximately 3.75 million people. Neither state is growing and the populations in both states are aging. While Iowa and South Dakota have lower rates of uninsured citizens compared to the rest of the country and health outcomes among the best, Medicare reimbursement has historically been low in both states. Because Medicare reimbursements to Iowa and South Dakota providers are so low, Wellmark’s payment rates to providers must offset this underfunding. For example, Wellmark currently pays Iowa physicians 171% of Medicare, on average. The Company believes it could decrease its premium rates by 10 to 15 percent if Medicare paid providers at least their reasonable costs.

It is within this context that Wellmark has embarked on an initiative to create a sustainable health care system in our two states. The initiative, launched in 2008, seeks to match health care costs increases and administrative costs to the Consumer Price Index by 2014. Matching cost increases to inflation has the potential to create real savings for the system – not just for insurers, but for providers, members and government programs as well. Wellmark is working closely with its provider groups to develop initiatives and projects to achieve this goal.

At the same time, Wellmark continues its efforts to reduce its administrative costs. Wellmark participates in an independent study of various Blue Cross and Blue Shield Plans and this study consistently ranks Wellmark in the lowest quartile for administrative expenses. According to a communication from the Chief Examiner and Deputy Commissioner of the Iowa Insurance Division to an Iowa state senator, Wellmark’s general administrative expenses as reported in statutory filings have declined over the last three years from \$206.6 million in 2007 to \$199.8 million in 2009.

We hope that this background information is helpful to your inquiry.

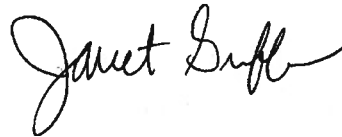
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If you have any questions about the information we have provided in this letter or the attached information, please let us know.

Very truly yours,

A handwritten signature in black ink, appearing to read "Janet Griffin". The signature is fluid and cursive, with the first name "Janet" being more prominent than the last name "Griffin".

Janet Griffin
Vice President, Public Policy

/djp

Enclosures

cc: Andrew McKechnie (via email)