

## Wellmark Response to Question 1

*Question 1: What factors were taken into consideration when coming up with the health insurance rates for 2010?*

Wellmark considers several factors in the development of premium rates, including the state regulatory requirements, the financial adequacy and expected future costs of health care, the operating costs, and the overall corporate operating margin. In determining the individual market rates, the Company's actuaries consider the following factors:

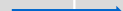
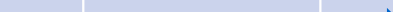
First, the current adequacy of the premium rates is considered. The rates for Iowa individual policyholders for the period effective April 1, 2009 through March 31, 2010 were not adequate to cover claims and operating expenses as shown by the 11.5% loss on individual business premiums. Claims costs were much higher in 2009 than anticipated or budgeted. This was also true for the previous year.

Second, future medical claims are estimated. We take into account current health cost trends and project future trends. Consideration is given to the projected changes to provider payments, any changes we might expect in utilization, and new technology and drugs. As an example, two of the many considerations in projecting drug trend are the Company's knowledge of new drugs that we will cover as well as drugs that are moving to generic. The price for a brand name drug typically increases several months before a generic becomes available.

The Company also prices for expected administrative expenses, commissions, premium taxes (collectively "operating costs"), and margin. For administrative expenses, a study is completed each year to determine expenses by market segment, which expenses are then used in pricing. Wellmark also compares its administrative expenses to other insurance carriers each year, and Wellmark consistently fares well as one of the lowest cost insurers. Commission assumptions are based on anticipated commission payments to non-employed brokers and agents selling the Company's products. Premium taxes in Iowa are 1.00% of premium. Margins will vary by market segment to reach the overall corporate targets for operating margin.

Wellmark does not price to make up losses that have been incurred in the past, but must bring rates up to an adequate level before pricing for the future. The example below shows a premium with a targeted medical expense ratio of 85% when the premium was set at \$100. The "Today" column indicates that claims for medical expenses were actually \$90 instead of \$85. When the policy is priced for the next year, a 10% claims trend is assumed, which projects claims at \$99. Claims are projected based on the actual observed financial results, and are not based on the prior year pricing. The Company then adds the operating expenses for a total premium of \$114, which is a 14% increase over the prior rate, although a 10% claims trend is expected. If the Company were making up past losses of \$5 in this example, then the new premium would be \$119, not \$114.

### Example of Rating Process

	Approximately 1 Year Ago	Today Actual	Future
Medical Expenses	\$85	\$90  10% Increase	\$99
Operating Expenses	\$15	\$15	\$15
Recommended Premium	\$100  14% Increase		\$114

## **Wellmark Response to Question 2**

*Question 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.*

Wellmark did not use an independent actuarial firm to review the 2010 rates and to our knowledge, most health insurers do not use outside actuaries for annual rating reviews.

The Actuarial staff at Wellmark includes three Fellows of the Society of Actuaries (FSA) and two Associates of the Society of Actuaries (ASA). The initial rate information is compiled by analysts. A senior actuary, an FSA, then takes the information and determines the factors to use in projecting claims, administrative expenses, commissions, premium taxes, and margin. The senior actuary also develops various rate scenarios to comply with Iowa law that limits the increases between blocks of business and also limits the ratio of the highest rated block of business to the lowest rated block of business. Relativities between benefit plans are reviewed. Any changes to benefit relativities must be revenue neutral. The senior actuary has analysts and ASAs available to assist when developing the rates.

The analysis is then reviewed with the Vice President, Actuarial, who is also an FSA. Before finalizing the rates, the information is shared with the Chief Financial Officer. Wellmark's in-house staff has the background and education to complete the rate analysis without hiring an outside actuarial firm. An outside actuary may be used, and has been used in the past, for specific questions, such as national and regional medical expense trend information. Wellmark uses two independent actuarial firms to review unpaid claims and trend assumptions at least twice a year for the entire book of business.

The rates are then presented to the Iowa Insurance Division for approval. At the Division, the rates are reviewed by the life and health actuary, an ASA. The Division typically asks for clarification or additional information before approving or disapproving the rates.

### Question 3

#### Wellmark Iowa Insurance Company Results

##### Financial Results

Year Ended December 31,

#### Wellmark, Inc.

(Dollars in Thousands)

	2009		2008		2007		2006		2005	
	Individual	Small Group	Individual	Small Group	Individual	Small Group	Individual	Small Group	Individual	Small Group
Total Revenue	\$ 356,314	\$ 376,108	\$ 333,592	\$ 372,227	\$ 339,496	\$ 331,311	\$ 356,037	\$ 295,934	\$ 353,673	\$ 300,876
Total Medical Expense	336,798	329,924	291,193	325,965	278,490	283,427	273,433	247,635	276,339	245,450
Medical Expense Ratio	94.5%	87.7%	87.3%	87.6%	82.0%	85.5%	76.8%	83.7%	78.1%	81.6%

#### Wellmark Health Plan of Iowa, Inc.

(Dollars in Thousands)

	2009		2008		2007		2006		2005	
	Individual	Small Group	Individual	Small Group	Individual	Small Group	Individual	Small Group	Individual	Small Group
Total Revenue	\$ 30,743	\$ 84,583	\$ 23,927	\$ 84,690	\$ 16,729	\$ 81,270	\$ 2,187	\$ 75,130	\$ 965	\$ 68,487
Total Medical Expense	27,184	67,006	20,858	72,139	13,770	67,075	2,151	63,568	895	58,384
Medical Expense Ratio	88.4%	79.2%	87.2%	85.2%	82.3%	82.5%	98.4%	84.6%	92.7%	85.2%

#### Wellmark Iowa Total

(Dollars in Thousands)

	2009		2008		2007		2006		2005	
	Individual	Small Group	Individual	Small Group	Individual	Small Group	Individual	Small Group	Individual	Small Group
Total Revenue	\$ 387,057	\$ 460,691	\$ 357,519	\$ 456,917	\$ 356,225	\$ 412,581	\$ 358,224	\$ 371,064	\$ 354,638	\$ 369,363
Total Medical Expense	363,982	396,930	312,051	398,104	292,260	350,502	275,584	311,203	277,234	303,834
Medical Expense Ratio	94.0%	86.2%	87.3%	87.1%	82.0%	85.0%	76.9%	83.9%	78.2%	82.3%

#### Notes:

(1) Individual results include policies issued and delivered in Iowa to Under age 65 individuals.

(2) Small group results include policies issued to employer groups with 2 -50 employees.

## Wellmark Revised Response to Question 4

*Question 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.*

Wellmark's strategy is to achieve a 0% - 3% operating margin on a three year rolling basis. In meeting this strategy, it is understood that not every market segment can reach this goal every year. Rate levels, competition, and health care costs are considered when determining premium rates for each market segment. Wellmark did utilize reserves in setting premium rates during the five year time period in the individual and small group market segments as these segment premiums did not cover the health care costs in many of these years. The tables below illustrate the difference between the established premium rates and the insurer's expected costs for covering the health care services for the individual and small group market segments. Individual includes policies issued and delivered in Iowa to under age 65 individuals. Small group means policies issued in Iowa to employer groups with 2-50 employees.

Individual	
Year	Difference between premium rates and costs
2006	3.0%
2007	-0.7%
2008	-0.7%
2009	1.0% - 1.2%
2010	1.0%

Small Group	
Time Period	Difference between premium rates and costs
1/2006 – 9/2006	2.5%
10/2006 – 12/2006	-2.0%
1/2007 – 12/2008	-2.5%
1/2009 – 6/2009	0.0%
7/2009 –	1.0%

Also attached is a table showing Wellmark's adjusted capital and surplus compared to the state statutory risk based capital (RBC) requirements for the years ended 2005 through 2009. Wellmark's RBC and the dollar amount of Wellmark's reserves have declined over the last five years to reflect the use of reserves to cover the costs of health care as described above. The increase shown in reserves at year end 2009 is due to improved investment returns as compared to year end 2008.

March 4, 2010

## Question 4

Wellmark, Inc.

**Adjusted Capital & Surplus/Minimum Requirements (Statutory Basis)**

**Year Ended December 31,**

**Wellmark, Inc.**

*(Dollars in Thousands)*

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Total Adjusted Capital &amp; Surplus (Statutory Basis)</b>	\$ 880,454	\$ 810,663	\$ 1,061,937	\$ 1,075,537	\$ 921,586
<b>NAIC* Company Action Level Surplus</b>	\$ 253,004	\$ 224,624	\$ 246,464	\$ 226,456	\$ 207,900
<b>Wellmark, Inc. Risk Based Capital Score</b>	696	722	862	950	887

\* - National Association of Insurance Commissioners

March 4, 2010

## **Wellmark Revised Response to Question 5**

*Question 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.*

The cover letter addresses Wellmark's corporate strategy regarding its target operating margin as adopted by the Board of Directors.

Your letter requested copies of Wellmark's Form 1120 tax returns. As a mutual health insurance company, Wellmark is required to file Form 1120PC. The actual returns are hundreds of pages in length; therefore, we will make available to your staff for review the consolidated tax returns for 2005 through 2008. The return for 2009 has not yet been prepared. As the tax returns are otherwise not public documents, we request that the information in these returns not be disclosed publicly.

Please note that Form 1120PC does not include a Schedule E listing officer compensation. However, we do note that the Iowa Insurance Division requires that a Supplemental Compensation Exhibit be filed annually with the statutory financial statements that are filed by each insurance company on March 1. As the 2009 information was just provided to the Iowa Insurance Division, we are providing a copy of the 2009 Wellmark, Inc. Supplemental Compensation Exhibit as part of our response to this question 5. If you would like to receive additional years' Supplemental Compensation Exhibits as filed with the Iowa Insurance Division, please advise us.

Your letter also requested copies of studies and reports used to determine compensation for officers. We responded to a similar request received from the House Subcommittee on Oversight and Investigations last year. In September 2009 we provided documents received and reviewed by the Human Resource Committee or by the Wellmark Board of Directors that ultimately resulted in decisions regarding executive compensation. Names of individual employees and business proprietary or sensitive information were redacted from this production. If this information would be of value to you, we will produce these materials separately.

March 4, 2010



**SUPPLEMENTAL COMPENSATION EXHIBIT**

For the Year Ended December 31, 2009  
(To be filed by March 1)

**PART 1 - INTERROGATORIES**

1. The reporting insurer is a member of a group of insurers or other holding company system?  
If yes, do the amounts below represent  
1) total gross compensation paid to each individual by or on behalf of all companies which are part of the group; or  
2) allocation to each insurer?

Yes [ X ]      No [   ]  
Yes [ X ]      No [   ]  
Yes [   ]      No [ X ]
2. Did any person while an officer, director, or trustee of the reporting entity receive directly or indirectly, during the period covered by this statement any commission on the business transactions of the reporting entity?

Yes [   ]      No [ X ]
3. Except for retirement plans generally applicable to its staff employees, has the reporting entity any agreement with any person, other than contracts with its agents for the payment of commissions whereby it agrees that for any service rendered or to be rendered, that he/she shall receive directly or indirectly, any salary, compensation or emolument that will extend beyond a period of 12 months from the date of the agreement?

Yes [ X ]      No [   ]

**PART 2 - OFFICERS AND EMPLOYEES COMPENSATION**

1	2	Annual Compensation			
Name and Principal Position	Year	3 Salary	4 Bonus **	5 All Other Compensation	6 Totals
Chief Executive Officer John D. Forsyth.....*	2009.....	895,192	1,450,271	57,691	2,403,155
	2008.....	877,899	1,577,997	48,117	2,504,013
	2007.....	800,000	1,234,782	68,099	2,102,881
1. David N. Southwell.....	2009.....	484,905	410,510	12,112	907,528
Group Vice President.....	2008.....	463,854	445,159	7,550	916,563
	2007.....	407,000	323,396	36,127	766,523
2. Peter W. Roberts.....	2009.....	301,414	585,398	6,854	893,666
Group Vice President.....	2008.....	394,753	451,452	23,865	870,071
	2007.....	385,000	356,659	3,183	744,842
3. Ellen J. Gaucher.....	2009.....	358,043	362,925	15,124	736,091
Group Vice President.....	2008.....	344,554	454,900	12,518	811,972
	2007.....	332,947	294,582	11,671	639,200
4. Denis J. Roy.....	2009.....	342,931	371,499	6,454	720,884
Group Vice President.....	2008.....	335,229	401,404	5,273	741,906
	2007.....	299,999	264,108	5,110	569,217
5. George B. Hanna.....	2009.....	371,654	250,000	5,504	627,158
Senior Vice President.....	2008.....	359,560	116,800	11,115	487,475
	2007.....				0
6. Laura J. Jackson.....	2009.....	278,922	302,925	6,259	588,106
Group Vice President.....	2008.....	268,475	335,376	4,220	608,071
	2007.....	245,030	236,605	4,120	485,755
7. Richard C. Anderson.....	2009.....	254,057	129,174	2,480	385,711
Senior Vice President.....	2008.....				0
	2007.....				0
8. Paul Karazija MD.....	2009.....	278,773	85,398	951	365,121
Chief Medical Officer.....	2008.....				0
	2007.....				0
9. Richard Miller DO.....	2009.....	235,016	113,606	1,599	350,221
Medical Director.....	2008.....				0
	2007.....				0

\* Excludes deferred compensation amounts reported to the Division by correspondence in 2009.  
\*\* Data represents compensation earned and vested in the current year, some of which may be attributable to service in prior years.

**PART 3 - DIRECTOR COMPENSATION**

1 Name and Principal Position or Occupation	2 Compensation Paid or Deferred for Services as Director	3 All Other Compensation Paid or Deferred	4 Totals
<b>Directors</b>			
1. Daryl K. Henze..... Lead Director.....	132,499		132,499
2. John D. Forsyth..... Chairman & CEO.....	0		0
3. Melanie C. Dreher PhD, RN.....	89,605		89,605
4. W. Curt Hunter.....	60,399		60,399
5. Kay S. Jorgensen.....	30,605		30,605
6. Paul E. Larson.....	92,990		92,990
7. Ernest G. Ludy.....	92,944	220,000	312,944
8. Kenton K. Moss MD.....	91,421		91,421
9. Terrence J. Mulligan.....	93,204		93,204
10. Mary Lynn Myers.....	96,954		96,954