

Best's Rating Report



An Independent Licensee of the Blue Cross and Blue Shield Association

WELLMARK, INC.	A
WELLMARK OF SOUTH DAKOTA, INC.	A
WELLMARK HEALTH PLAN OF IOWA, INC.	A

[Back to Top](#)



Best's Rating Report

Back to Top

Ultimate Parent: Wellmark, Inc.

WELLMARK, INC.
636 Grand Avenue
Des Moines, IA 50309-2565
Web: www.wellmark.com

Tel.: 515-245-4500
AMB#: 68347
Ultimate Parent#: 68347

Fax: 515-248-5617
NAIC#: 88848
FEIN#: 42-0318333

KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital & Surplus	Net Premiums Written	Total Revenues	Net Income
2004	1,286,772	647,520	1,743,657	1,760,362	107,615
2005	1,399,098	919,600	1,799,045	1,831,318	102,938
2006	1,612,922	1,073,457	1,961,904	1,984,841	136,583
2007	1,634,309	1,059,765	2,071,627	2,132,272	14,086
2008	1,338,628	809,257	2,022,522	2,055,928	-177,927

CORPORATE OVERVIEW

Wellmark, Inc. (Wellmark) is a mutual company that provides health benefit plans to over 2 million members. The company offers Blue Cross & Blue Shield branded (blue brand) PPO and managed indemnity plans in Iowa & South Dakota via Wellmark Blue Cross & Blue Shield of Iowa and Wellmark Blue Cross & Blue Shield of South Dakota. Health maintenance organization (HMO) and point of service (POS) plans are available in Iowa through Wellmark Health Plan of Iowa, Inc. (WHPPI), a blue branded HMO. The BlueCard Preferred Provider Organization (PPO) network provides value to the blue brand by providing access to the national Blue Cross & Blue Shield network.

CORPORATE STRUCTURE

AMB	COMPANY NAME	DOMICILE	% OWN
68347	Wellmark, Inc.	IA	
09504	Wellmark Community Ins Inc	IA	100.00
64385	Wellmark Health Plan of Iowa	IA	85.00
60207	Wellmark of South Dakota Inc	SD	100.00

BUSINESS REVIEW

Wellmark, Inc (Wellmark) has a dominant market presence in Iowa and South Dakota with an estimated market share at about one-half in Iowa and about one-third in South Dakota. No other competing health insurer has a substantial market share in either state. Wellmark continues to grow membership in both States, with 2008 enrollment growth of 3.2% in Iowa and 4.4% in South Dakota. The company's large membership base provides a competitive edge when contracting with providers, permitting it to create the largest networks in both states and is the only health insurer to offer PPO coverage throughout the state of Iowa. Another significant competitive advantage is a diverse product line designed to meet the needs of small and large employers as well as those of individuals. The company's health operations are defined by five segments: large group, small group, individual under age 65, individual over age 65 and Federal Employees Health Benefit Program (FEP). In addition, in 2006 the company introduced Medicare Advantage/Prescription Drug Plan (PDP) products.

THE LARGE GROUP segment consists of employer groups of 51 employees or more and around 50% of the enrollment in Iowa and 20% of the membership in South Dakota. Self-funding is available to groups with 100 employees or more. Fully insured products are available to all groups within this segment. Product offerings to groups of 51 - 100 employees are standardized while larger groups can have more customized benefits.

THE SMALL GROUP segment is comprised of employer groups under 51 employees and represents 9% of the membership in Iowa and 15% in South Dakota. Groups in this segment are more regulated by the Iowa Insurance Division (IID) than larger employer groups. Product offerings are standardized and are available on a fully insured basis only. From 2006 to 2008 enrollment in this segment has grown 17% in Iowa and 10% in South Dakota as a result of more favorable pricing. However, as the current severe economic downturn hit both states, small group membership declined in the first 3 months of 2009 and further membership losses are expected in the near term.

THE INDIVIDUAL UNDER AGE 65 segment is moderately regulated by the IID with a requirement to include a specific guaranteed issue product. The company offers a variety of plans to individuals and families including PPO and managed indemnity. This segment comprises approximately 10% of the members in Iowa and 15% in South Dakota. In 2008 the enrollment increased 5% in Iowa and 3% in South Dakota as a result of more groups dropping coverage as well as growing layoffs in both states. In order to retain those members, Wellmark introduced new individual products, such as Blue Basics, a low cost option designed for younger (19-29) demographics, and Blue Transitions, a guaranteed issue product for those previously covered under Wellmark's group plans.

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the life/health members of Wellmark Group, which operate under a group structure, this group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class XI which is the Financial Size Category of the parent.

RATING RATIONALE

Rating Rationale: The rating of Wellmark, Inc. (Wellmark) and its subsidiaries reflects dominant market position in both Iowa and South Dakota, continuous enrollment growth and good level of capitalization. The offsetting factors are deteriorated earnings resulted from strategy of margin moderation and sizeable investment losses leading to substantial decline in capital and surplus.

Wellmark, operating as Wellmark Blue Cross & Blue Shield of Iowa, and its subsidiaries, Wellmark of South Dakota, Inc. (doing business as Wellmark Blue Cross & Blue Shield of South Dakota) and Wellmark Health Plan of Iowa, Inc., a health maintenance organization (HMO) have a high penetration in its respective markets, with leading market shares in Iowa and South Dakota. Despite competition from larger national carriers and smaller provider owned plans, Wellmark has posted enrollment growth for 15 consecutive years. Although the economic environment in Iowa deteriorated, during 2008 the company achieved 3.4% membership gains followed by 1.3% growth in the first three months of 2009. During 2003-2006, Wellmark's growing revenue combined with an efficient operating structure and high investment income led to strong financial gains. As a result, capitalization improved and Wellmark's level of risk-based capital, which declined to 722% during 2008 from over 900% in 2006, remains more than sufficient for the company's risks.

Following a history of successful operating performance, Wellmark has turned to the long-term strategy of margins moderation. In 2007-2008, the company posted underwriting losses, with the 2008 loss having exceeded the budget although still within Wellmark's targeted range. The losses were due to a higher than anticipated trend, which along with the change in pricing strategy, resulted in the medical loss ratio increase to 87.1% in 2008 from 83.4% in 2006. Furthermore, during 2008, Wellmark's investment assets declined 25%, driven by the severe market downturn. The company posted \$167 million in realized and \$91 million in unrealized losses on its equity and fixed income holdings. Simultaneous deterioration of underwriting and investment results led to a 23.6% drop in capital and surplus in 2008. Wellmark's level of risk-based capitalization (RBC) at year-end 2008 is considered good; however, A.M. Best is concerned that further decline is possible, as capital may continue to be pressured by lower underwriting results and possible further investment losses. During 2008, Wellmark's exposure to investment in equities reduced from 65% to 55% of total capital and surplus, excluding investment in subsidiaries, however, the current level of equity exposure is still considered high for a health insurance company and leaves Wellmark susceptible to significant investment risks.

Best's Financial Strength Rating: A g

Outlook: Negative

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
05/19/09	A g	06/20/06	A g
06/16/08	A g	06/21/05	A g
06/01/07	A g	06/08/04	A g

Best's Rating Report

THE INDIVIDUAL OVER AGE 65 segment offers several of the Medicare Supplement plans standardized by the federal government. The availability of these plans varies by state. This segment represents approximately 10% of the enrollment in both Iowa and South Dakota.

THE FEDERAL EMPLOYEE PROGRAM (FEP) segment represents 3% of the membership in Iowa and 9% in South Dakota. Wellmark offers both the FEP standard PPO and the basic PPO benefit plan which are part of the national Blue Cross & Blue Shield Federal Employee Program.

MEDICARE ADVANTAGE/PDP products were started in January 2006. Enrollment in the Part D only product was about 23,000 in Iowa and 6,000 in South Dakota by the end of the calendar year 2008. This segment has been a significant source of membership growth in 2006-2007, however the enrollment declined slightly in 2008 following product pricing modifications.

Wellmark markets its products through multiple distribution channels, including brokers, direct sales representatives, telemarketers and the Internet. Brokers produce a majority of sales to groups with less than 250 employees and individuals under age 65. Direct sales representatives produce a majority of sales to groups with over 250 employees. In addition, telemarketers and the Internet produce a significant amount of sales to individuals, both under and over age 65. The company also maintains a strong affiliation with the Iowa and South Dakota Farm Bureaus, distribution systems which market Wellmark's products to individuals and small groups in rural areas.

Wellmark has developed considerable sophistication in medical management. The company utilizes systems to help identify high-risk cases early. An advanced early warning system provides an opportunity for case management intervention by identifying individuals that are driving cost and clinical utilization within a population. The Episode Risk Grouping (ERG) is a sophisticated methodology that identifies members that are at risk for high dollar claims by analyzing facility, doctor and pharmacy claims for an individual for single and combinations of medical conditions.

Wellmark's market dominance in health products has provided a solid foundation from which its product layering strategy is promoted. Other products offered in conjunction with health are: dental, group life, pension, accidental death & dismemberment (AD&D), long and short-term disability and long term care products. Many of the ancillary products sold are either underwritten by another insurance carrier or products developed through a joint venture.

Wellmark, Inc. also owns several subsidiaries that complement its core health care business. They are: First Administrators, Inc., a third-party administrator providing health care claims and administrative services to self-funded business and insured associations; Midwest Benefit Consultants, Inc., a general insurance agency; and Wellmark Community Insurance, Inc., a life and health company licensed in 30 states. Wellmark is also the sole member of The Wellmark Foundation, which provides grants to fund local projects or research in Iowa and South Dakota. These projects focus on improving the quality of health care in Iowa and South Dakota.

PREMIUM AND RESERVE ANALYSIS

Direct Premiums (000)	2008	2007	2006	2005	2004
Comp (med & hosp)	1,296,422	1,394,640	1,327,215	1,317,748	1,308,115
Dental	25,966	23,184	21,017	23,640	...
Vision	430	394	...	...	...
FEHBP	191,900	169,986	159,407	136,504	...
Medicare	30,199	26,025	2,377	...	...
Medicare supplement	299,022	281,836	285,144	271,178	...
Other health	178,582	172,663	164,554	47,764	433,773
Total	2,022,522	2,068,727	1,959,714	1,796,835	1,741,888
Reins Assumed Prens (000)	2008	2007	2006	2005	2004
Comp (med & hosp)	...	2,900	2,190	2,210	1,769
Total	...	2,900	2,190	2,210	1,769

Net Premiums & Deposits (000)	2008	2007	2006	2005	2004
Comp (med & hosp)	1,296,422	1,397,540	1,329,404	1,319,959	1,309,884
Dental	25,966	23,184	21,017	23,640	...
Vision	430	394	...	...	...
FEHBP	191,900	169,986	159,407	136,504	...
Medicare	30,199	26,025	2,377	...	...
Medicare supplement	299,022	281,836	285,144	271,178	...
Other health	178,582	172,663	164,554	47,764	433,773
Total	2,022,522	2,071,627	1,961,904	1,799,045	1,743,657

Geographical breakdown of direct premium writings (\$000): Iowa, \$2,013,832 (99.6%); other jurisdictions, \$8,690 (0.4%).

EARNINGS

Wellmark, Inc. (Wellmark) has reported strong net income in 2003-2006, however recently the company has turned to the strategy of margin moderation that resulted in significant earnings decline in 2007-2008. The company posted underwriting losses of \$34 and \$64 million in 2007 and 2008 respectively, driven by a 310 basis points increase in the medical cost ratio in 2007 and further 60 basis points rise in 2008. Underwriting results moderated in all commercial lines of business in 2008, including individual, small and large groups, caused by intentional pricing actions combined with higher than expected medical trend. Though Wellmark plans to improve commercial lines financial results through rate increases, more aggressive medical management and numerous cost saving initiatives, negative margin is expected to continue in the near term. The Medicare Part D/Medicare Advantage business segment incurred significant losses in 2007, however achieved underwriting gains in 2008, as Wellmark implemented product and pricing modifications. Medicare Supplement plan has positively contributed to company's earnings since 1999. Financial results in Medicare lines are expected to stay positive, but insufficient to offset losses in commercial products.

The growth in underwriting gains of Wellmark of South Dakota moderated as the company priced its products closer to observed medical trend. Similar to the parent company, Wellmark of South Dakota's medical cost ratio increased significantly during 2007-2008 leading to underwriting losses in all lines of business except large groups. The company expects results to improve in 2009 driven mainly by better performance of individual and small group lines of business.

Underwriting gains and net income at Wellmark Health Plan of Iowa (WHPI) remained strong, though declined 29% and 62% respectively compared to 2007. This is a result of 340 basis points increase in medical cost ratio partially offset by 100 basis points decline in administrative expense ratio combined with sizeable membership expansion. A.M. Best believes that continued membership growth in this segment, driven by lower cost alternatives available from the HMO product, combined with administrative efficiencies should allow WHPI to maintain positive operating results.

PROFITABILITY TESTS

	Ben Paid to NPW & FFS	Comm & Exp to NPW & FFS	NOG to Tot Assets	NOG to Tot Rev	Operating Return on Equity	Net Yield	Total Return
Year							
2004	82.8	12.1	7.1	4.9	14.6	1.85	11.06
2005	82.6	11.3	6.0	4.4	10.2	1.97	7.54
2006	83.3	13.7	6.1	4.6	9.2	2.34	8.42
2007	86.4	15.3	0.3	0.2	0.5	2.75	4.47
2008	87.1	16.0	-0.8	-0.5	-1.2	2.99	-16.56

Back to Top

Best's Rating Report

Back to Top

PROFITABILITY ANALYSIS

Net Underwriting Gain (000)	2008	2007	2006	2005	2004
Comp (med & hosp)	-62,426	-7,188	61,603	92,280	67,845
Dental	-324	475	1,613	1,399	...
Vision	100	10	...	...	...
FEHBP	963	1,535	1,334	1,243	...
Medicare	3,542	-1,409	-203	-3,268	...
Medicare supplement	7,454	4,080	13,293	20,746	...
Other health	-12,679	-31,304	-17,125	-627	15,087
Other non-health	-367	-521	-794	-355	...
Total	-63,737	-34,322	59,722	111,418	82,932

CAPITALIZATION

Wellmark, Inc. (Wellmark) and its subsidiaries (Wellmark of South Dakota and Wellmark Health Plan of Iowa) are adequately capitalized in support of their business risks. However, the level of capitalization, deteriorated substantially in 2008 due to sizeable realized and unrealized investment losses combined with negative underwriting results. As a result, Wellmark's capital and surplus posted 23.6% decline and risk based capital (RBC) decreased to 722% from 862% in 2007 and 950% in 2006. The company has significant exposure to equities with the ratio of common stock to total capital excluding investments in subsidiaries at 55%. While an improvement over prior years, when the ratio was more than 85%, the exposure is still considered high. Though the company covers all subscriber liabilities and other liabilities with cash and fixed income securities, A.M. Best remains concerned about the effect of the equity market volatility on the company's financial position, especially as Wellmark has become more dependent on investment income following planned operating earnings decline.

LEVERAGE TESTS

Year	Liabilities to Assets	NPW to Capital	Debt to Capital & Surplus	Equity PMPM	C&S Total Assets	Months Reserves
2004	49.7	2.7	...	...	50.3	4.7
2005	34.3	2.0	...	64.74	65.7	6.5
2006	33.4	1.8	...	73.36	66.6	6.8
2007	35.2	2.0	...	70.31	64.8	6.0
2008	39.5	2.5	...	50.00	60.5	4.7

2008 BCAR: 207

SOURCES OF CAPITAL GROWTH (\$000)

Year	Net Gain	Realized Capital Gains	Unrealized Capital Gains	Other Changes	Change in C&S
2004	85,700	21,915	76,151	-65,067	118,699
2005	80,067	22,871	44,488	124,655	272,081
2006	91,196	45,388	35,917	-18,643	153,856
2007	4,908	9,178	15,305	-43,083	-13,692
2008	-11,241	-166,686	-91,865	19,283	-250,508

INVESTMENTS AND LIQUIDITY

Wellmark, Inc. (Wellmark) incorporates an investment strategy that is considered aggressive for a health insurance company. Equity holdings, excluding investment in subsidiaries, are 40% of invested assets. A.M. Best remains concerned about the large percentage invested in equities and the potential impact this exposure could have to the company's balance sheet, should the stock market experience further decline.

Risk from the equity exposure is somewhat offset by allocation to low-risk securities within the rest of the portfolio. The bond portfolio is distributed between U.S. Government Securities; States Territories and Possessions; Political subdivision of States, Territories and Possessions; Special Revenue; Public Utilities; and Industrial and Miscellaneous with virtually all ranked NAIC class 1 or class 2. In addition, about 40% of total bond investments mature in five years or less.

LIQUIDITY TESTS

Year	Current Liquidity	Overall Liquidity	Premium Receivable Turnover (months)	Cash to Claims & Payables	Claims to NPE	Health Avg Clms Pay Period (days)	Total Health IBNR Pay Period (days)
2004	143.4	201.3	0.4	537.1	...	54.1	29.6
2005	187.8	291.8	0.4	607.1	11.5	50.6	35.0
2006	178.4	299.0	0.4	656.5	11.0	48.3	33.1
2007	162.5	284.5	0.4	585.5	11.5	48.8	33.0
2008	132.1	252.9	0.3	442.6	11.5	48.3	37.7

INVESTMENT YIELDS

Year	Net Yield	Bonds	Stocks	Mortgages	Cash & Short Term	Real Estate Gross	Real Estate Net	Invest. Exp. Ratio
2004	1.85	4.29	1.35	1.44	1.70	21.98	15.97	24.43
2005	1.97	4.24	1.17	...	14.96	22.87	16.84	22.22
2006	2.34	4.66	1.24	...	40.15	25.40	19.55	18.73
2007	2.75	5.12	1.47	...	39.77	27.66	21.96	14.48
2008	2.99	5.51	1.61	...	7.97	12.54	9.52	17.21

INVESTMENT DATA

Current Year Distribution of Bonds by Maturity

	Years					Yrs-Avg Maturity
	0-1	1-5	5-10	10-20	20-	
Government	0.0	1.0	1.2	2.0	1.0	13
Gov't Agencies & Muni	0.9	9.3	9.4	11.8	11.3	13
Public Utilities	...	1.1	0.8	0.2	0.8	11
Industrial & Misc	18.0	11.2	9.6	3.2	7.3	7
Total	18.9	22.6	21.0	17.2	20.4	10

	2008	2007	2006	2005	2004
Bonds (000)	334,008	463,788	450,323	434,482	382,251
US Government	6.1	7.6	17.8	17.5	12.9
Foreign Government	0.1	0.5	1.0	1.3	...
Foreign - All Other	6.0	4.8	2.4	2.7	0.2
State/Special Rev. - US	51.2	56.0	47.5	46.0	49.9
Public Utilities - US	2.9	2.3	4.2	1.8	1.0
Industrial & Misc - US	33.6	28.8	27.1	30.9	36.0
Private Issues	2.0	2.6	1.7	1.9	0.7
Public Issues	98.0	97.4	98.3	98.1	99.3

Bond Quality (%)	2008	2007	2006	2005	2004
Class 1	84.1	86.7	88.0	85.4	88.7
Class 2	14.5	11.7	10.5	13.4	11.3
Class 3	0.5	0.9	0.8	1.0	...
Class 4	0.2	0.5	0.5	0.1	...
Class 5	0.5	0.2	0.1	0.1	...
Class 6	0.2	...	...	...	...

	2008	2007	2006	2005	2004
Mortgages (000)	2,191

	2008	2007	2006	2005	2004
Real Estate (000)	40,840	12,135	12,694	13,267	11,825
Property Occupied by Co	100.0	100.0	100.0	100.0	100.0

	2008	2007	2006	2005	2004
Stocks (000)	654,824	930,199	937,177	815,697	731,445
Unaffiliated Common	67.7	73.7	76.3	77.2	81.2
Affiliated Common	34.8	27.1	24.6	23.0	19.1
Unaffiliated Preferred	0.5	0.6	0.4	0.4	0.1

Best's Rating Report

	2008	2007	2006	2005	2004
Other Inv Assets (000)	39,227	20,615	23,507	15,939	37,640
Cash	-73.1	-99.9	-99.9	-99.9	-99.9
Short-Term	169.0	209.6	208.1	396.4	287.1
Schedule BA Assets	0.2	14.6	19.2	15.0	5.6
All Other	4.0	12.3	11.1	8.3	2.6

HISTORY

Date Incorporated: 09/19/1939 **Date Commenced:** 10/01/1939

Domicile: IA

Wellmark is the result of three Iowa-based Blue plans merging in 1989 and incorporating as IASD Health Service Corporation. The present title was adopted during 1997.

During 1996, South Dakota Blue Shield was merged with Wellmark's Blue Cross operations in South Dakota and a stock subsidiary entitled Wellmark of South Dakota, Inc. was formed. The South Dakota subsidiary conducts business as Wellmark Blue Cross and Blue Shield of South Dakota.

OFFICERS

Chairman of the Board, President and Chief Executive Officer, John D. Forsyth; Group Vice Presidents, Ellen J. Gaucher, Keith W. Heckel, Peter W. Roberts, Denis J. Roy; Senior Vice Presidents, George B. Hanna, Laura J. Jackson; Secretary, Janet Griffin; Treasurer, David N. Southwell; Actuary, Patricia L. Huffman.

DIRECTORS

Melanie C. Dreher, John D. Forsyth, Daryl K. Henze, William C. Hunter, Kay S. Jorgensen, Paul E. Larson, Ernest G. Ludy, Kenton K. Moss, M.D., Terrence J. Mulligan, Mary Lynn Myers.

REGULATORY

An examination of the financial condition was made as of December 31, 2006 by the Insurance Department of Iowa. The 2008 annual independent audit of the company was conducted by Ernst & Young, LLP. The annual statement of actuarial opinion is provided by Patricia Lou Huffman, Actuary.

Territory: The company is licensed in Iowa and South Dakota.

FINANCIAL INFORMATION BALANCE SHEET (\$000) - December 31, 2008

Assets		Liabilities	
*Total bonds	334,008	Claims payable	231,934
*Total preferred stocks	3,255	Unpaid claims adj expense	7,635
*Total common stocks	651,570	Accrued med incen pool	5,475
Real estate	40,840	Advance premiums	96,187
Cash & short-term inv	37,594	Comm taxes expenses	68,091
Health care recvble	30,137	Uninsured A&H plans	16,000
FIT recoverable	50,455	Health policy reserves	26,742
Net deferred tax asset	94,730	Other liabilities	77,307
Prem and consid due	50,254	Total Liabilities	529,371
Accrued invest income	4,366	Unassigned surplus	809,257
Uninsured A&H plans	29,166		
Other assets	12,254		
Assets	1,338,628	Total	1,338,628

*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.

SUMMARY OF OPERATIONS (\$000)

Premiums	2,018,881	Hospital/medical services	1,231,759
Net investment income	36,897	Other prof services	115,880
Other revenues	150	Outside referrals	47,069
		Emerg rm & out of area	69,264
		Prescription drugs	289,630
		Incent pool & whld adj.	4,238
		Less reinsur exp net recover	-886
		Administrative	208,743
		Other expenses	115,148

Total	2,055,928	Total	2,082,618
Income (loss)			-26,690
Provision for FIT			-15,449
Net gain from operations after federal income taxes			-11,241

SUMMARY OF MANAGED CARE OPERATIONS

Year	Enrollment (000's)		Utilization (Per 1,000 members)		Participating Physicians
	Total Members	Member Months	Physician Visits	Hospital Days	
2004	...	...	...	...	...
2005	1,182	14,204	3,715	225	5,372
2006	1,241	14,632	3,202	204	5,493
2007	1,271	15,072	3,176	196	5,695
2008	1,357	16,186	2,871	173	5,929

Back to Top

Best's Rating Report

Back to Top

Ultimate Parent: Wellmark, Inc.

WELLMARK OF SOUTH DAKOTA, INC.

1601 West Madison Street
Sioux Falls, SD 57104
Web: www.wellmark.com

Tel.: 605-373-7200
AMB#: 60207
Ultimate Parent#: 68347

Fax: 605-361-5898
NAIC#: 60128
FEIN#: 42-1459204

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the life/health members of Wellmark Group, which operate under a group structure, this group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class XI which is the Financial Size Category of the parent.

RATING RATIONALE

The following text is derived from the report of Wellmark, Inc.

Rating Rationale: The rating of Wellmark, Inc. (Wellmark) and its subsidiaries reflects dominant market position in both Iowa and South Dakota, continuous enrollment growth and good level of capitalization. The offsetting factors are deteriorated earnings resulted from strategy of margin moderation and sizeable investment losses leading to substantial decline in capital and surplus.

Wellmark, operating as Wellmark Blue Cross & Blue Shield of Iowa, and its subsidiaries, Wellmark of South Dakota, Inc. (doing business as Wellmark Blue Cross & Blue Shield of South Dakota) and Wellmark Health Plan of Iowa, Inc., a health maintenance organization (HMO) have a high penetration in its respective markets, with leading market shares in Iowa and South Dakota. Despite competition from larger national carriers and smaller provider owned plans, Wellmark has posted enrollment growth for 15 consecutive years. Although the economic environment in Iowa deteriorated, during 2008 the company achieved 3.4% membership gains followed by 1.3% growth in the first three months of 2009. During 2003-2006, Wellmark's growing revenue combined with an efficient operating structure and high investment income led to strong financial gains. As a result, capitalization improved and Wellmark's level of risk-based capital, which declined to 722% during 2008 from over 900% in 2006, remains more than sufficient for the company's risks.

Following a history of successful operating performance, Wellmark has turned to the long-term strategy of margins moderation. In 2007-2008, the company posted underwriting losses, with the 2008 loss having exceeded the budget although still within Wellmark's targeted range. The losses were due to a higher than anticipated trend, which along with the change in pricing strategy, resulted in the medical loss ratio increase to 87.1% in 2008 from 83.4% in 2006. Furthermore, during 2008, Wellmark's investment assets declined 25%, driven by the severe market downturn. The company posted \$167 million in realized and \$91 million in unrealized losses on its equity and fixed income holdings. Simultaneous deterioration of underwriting and investment results led to a 23.6% drop in capital and surplus in 2008. Wellmark's level of risk-based capitalization (RBC) at year-end 2008 is considered good; however, A.M. Best is concerned that further decline is possible, as capital may continue to be pressured by lower underwriting results and possible further investment losses. During 2008, Wellmark's exposure to investment in equities reduced from 65% to 55% of total capital and surplus, excluding investment in subsidiaries, however, the current level of equity exposure is still considered high for a health insurance company and leaves Wellmark susceptible to significant investment risks.

Best's Financial Strength Rating: A g

Outlook: Negative

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
05/19/09	A g	06/20/06	A g
06/16/08	A g	06/21/05	A g
06/01/07	A g	06/08/04	A g

KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital & Surplus	Net Premiums Written	Total Revenues	Net Income
2004	202,862	86,819	368,476	374,057	25,106
2005	230,804	121,791	416,493	430,650	21,619
2006	265,919	149,975	471,848	480,744	23,668
2007	278,046	157,247	503,077	518,322	6,771
2008	243,339	124,663	544,816	549,255	-26,918

BUSINESS REVIEW

The following text is derived from the report of Wellmark, Inc.

Wellmark, Inc (Wellmark) has a dominant market presence in Iowa and South Dakota with an estimated market share at about one-half in Iowa and about one-third in South Dakota. No other competing health insurer has a substantial market share in either state. Wellmark continues to grow membership in both States, with 2008 enrollment growth of 3.2% in Iowa and 4.4% in South Dakota. The company's large membership base provides a competitive edge when contracting with providers, permitting it to create the largest networks in both states and is the only health insurer to offer PPO coverage throughout the state of Iowa. Another significant competitive advantage is a diverse product line designed to meet the needs of small and large employers as well as those of individuals. The company's health operations are defined by five segments: large group, small group, individual under age 65, individual over age 65 and Federal Employees Health Benefit Program (FEP). In addition, in 2006 the company introduced Medicare Advantage/Prescription Drug Plan (PDP) products.

THE LARGE GROUP segment consists of employer groups of 51 employees or more and around 50% of the enrollment in Iowa and 20% of the membership in South Dakota. Self-funding is available to groups with 100 employees or more. Fully insured products are available to all groups within this segment. Product offerings to groups of 51 - 100 employees are standardized while larger groups can have more customized benefits.

THE SMALL GROUP segment is comprised of employer groups under 51 employees and represents 9% of the membership in Iowa and 15% in South Dakota. Groups in this segment are more regulated by the Iowa Insurance Division (IID) than larger employer groups. Product offerings are standardized and are available on a fully insured basis only. From 2006 to 2008 enrollment in this segment has grown 17% in Iowa and 10% in South Dakota as a result of more favorable pricing. However, as the current severe economic downturn hit both states, small group membership declined in the first 3 months of 2009 and further membership losses are expected in the near term.

THE INDIVIDUAL UNDER AGE 65 segment is moderately regulated by the IID with a requirement to include a specific guaranteed issue product. The company offers a variety of plans to individuals and families including PPO and managed indemnity. This segment comprises approximately 10% of the members in Iowa and 15% in South Dakota. In 2008 the enrollment increased 5% in Iowa and 3% in South Dakota as a result of more groups dropping coverage as well as growing layoffs in both states. In order to retain those members, Wellmark introduced new individual products, such as Blue Basics, a low cost option designed for younger (19-29) demographics, and Blue Transitions, a guaranteed issue product for those previously covered under Wellmark's group plans.

THE INDIVIDUAL OVER AGE 65 segment offers several of the Medicare Supplement plans standardized by the federal government. The availability of these plans varies by state. This segment represents approximately 10% of the enrollment in both Iowa and South Dakota.

THE FEDERAL EMPLOYEE PROGRAM (FEP) segment represents 3% of the membership in Iowa and 9% in South Dakota. Wellmark offers both the FEP standard PPO and the basic PPO benefit plan which are part of the national Blue Cross & Blue Shield Federal Employee Program.

MEDICARE ADVANTAGE/PDP products were started in January 2006. Enrollment in the Part D only product was about 23,000 in Iowa and 6,000 in South Dakota by the end of the calendar year 2008. This segment has been a significant source of membership growth in 2006-2007, however the enrollment declined slightly in 2008 following product pricing modifications.

Best's Rating Report

Wellmark markets its products through multiple distribution channels, including brokers, direct sales representatives, telemarketers and the Internet. Brokers produce a majority of sales to groups with less than 250 employees and individuals under age 65. Direct sales representatives produce a majority of sales to groups with over 250 employees. In addition, telemarketers and the Internet produce a significant amount of sales to individuals, both under and over age 65. The company also maintains a strong affiliation with the Iowa and South Dakota Farm Bureaus, distribution systems which market Wellmark's products to individuals and small groups in rural areas.

Wellmark has developed considerable sophistication in medical management. The company utilizes systems to help identify high-risk cases early. An advanced early warning system provides an opportunity for case management intervention by identifying individuals that are driving cost and clinical utilization within a population. The Episode Risk Grouping (ERG) is a sophisticated methodology that identifies members that are at risk for high dollar claims by analyzing facility, doctor and pharmacy claims for an individual for single and combinations of medical conditions.

Wellmark's market dominance in health products has provided a solid foundation from which its product layering strategy is promoted. Other products offered in conjunction with health care are: dental, group life, pension, accidental death & dismemberment (AD&D), long and short-term disability and long term care products. Many of the ancillary products sold are either underwritten by another insurance carrier or products developed through a joint venture.

Wellmark, Inc. also owns several subsidiaries that complement its core health care business. They are: First Administrators, Inc., a third-party administrator providing health care claims and administrative services to self-funded business and insured associations; Midwest Benefit Consultants, Inc., a general insurance agency; and Wellmark Community Insurance, Inc., a life and health company licensed in 30 states. Wellmark is also the sole member of The Wellmark Foundation, which provides grants to fund local projects or research in Iowa and South Dakota. These projects focus on improving the quality of health care in Iowa and South Dakota.

PREMIUM AND RESERVE ANALYSIS

	2008	2007	2006	2005	2004
Direct Premiums (000)					
Comp (med & hosp)	353,007	325,187	310,070	288,651	260,546
Vision	283	259	...	...	...
FEHBP	115,440	100,075	91,763	80,862	...
Medicare	7,530	7,503	494	...	...
Medicare supplement	50,427	48,835	48,416	46,980	...
Other health	18,129	21,217	21,104	...	107,930
Total	544,816	503,077	471,848	416,493	368,476
Net Premiums & Deposits (000)					
Comp (med & hosp)	353,007	325,187	310,070	288,651	260,546
Vision	283	259	...	...	...
FEHBP	115,440	100,075	91,763	80,862	...
Medicare	7,530	7,503	494	...	...
Medicare supplement	50,427	48,835	48,416	46,980	...
Other health	18,129	21,217	21,104	...	107,930
Total	544,816	503,077	471,848	416,493	368,476

Geographical breakdown of direct premium writings (\$000): South Dakota, \$544,816 (100.0%).

EARNINGS

The following text is derived from the report of Wellmark, Inc.

Wellmark, Inc. (Wellmark) has reported strong net income in 2003-2006, however recently the company has turned to the strategy of margin moderation that resulted in significant earnings decline in 2007-2008. The company posted underwriting losses of \$34 and \$64 million in 2007 and 2008 respectively, driven by a 310 basis points increase in the medical cost ratio in 2007 and further 60 basis points rise in 2008. Underwriting results moderated in all commercial lines of business in 2008, including individual, small and large groups, caused by intentional pricing actions combined with higher than expected medical trend. Though Wellmark plans to improve commercial lines financial results through rate increases, more aggressive medical management and numerous cost saving initiatives, negative margin is

expected to continue in the near term. The Medicare Part D/Medicare Advantage business segment incurred significant losses in 2007, however achieved underwriting gains in 2008, as Wellmark implemented product and pricing modifications. Medicare Supplement plan has positively contributed to company's earnings since 1999. Financial results in Medicare lines are expected to stay positive, but insufficient to offset losses in commercial products.

The growth in underwriting gains of Wellmark of South Dakota moderated as the company priced its products closer to observed medical trend. Similar to the parent company, Wellmark of South Dakota's medical cost ratio increased significantly during 2007-2008 leading to underwriting losses in all lines of business except large groups. The company expects results to improve in 2009 driven mainly by better performance of individual and small group lines of business.

Underwriting gains and net income at Wellmark Health Plan of Iowa (WHPI) remained strong, though declined 29% and 62% respectively compared to 2007. This is a result of 340 basis points increase in medical cost ratio partially offset by 100 basis points decline in administrative expense ratio combined with sizeable membership expansion. A.M. Best believes that continued membership growth in this segment, driven by lower cost alternatives available from the HMO product, combined with administrative efficiencies should allow WHPI to maintain positive operating results.

PROFITABILITY TESTS

Year	Ben Paid to NPW & FFS	Comm & Exp to NPW & FFS	NOG to Tot Assets	NOG to Tot Rev	Operating Return on Equity	Net Yield	Total Return
2004	83.6	11.2	12.7	6.2	31.1	3.36	7.89
2005	84.6	11.0	8.2	4.1	17.1	3.35	5.50
2006	84.6	12.0	7.9	4.1	14.4	3.93	7.64
2007	89.1	12.8	1.5	0.8	2.7	4.15	4.97
2008	89.8	12.9	-1.2	-0.6	-2.3	4.59	-10.72

PROFITABILITY ANALYSIS

Net Underwriting Gain (000)	2008	2007	2006	2005	2004
Comp (med & hosp)	-13,678	-4,571	17,227	15,424	14,358
Vision	50	-6	...	...	...
FEHBP	-20	24	1	477	...
Medicare	-463	-462	-110	-310	...
Medicare supplement	-1,055	-1,536	578	3,971	...
Other health	529	-2,986	-1,867	-1,100	1,924
Other non-health	292	233	51	45	...
Total	-14,345	-9,305	15,880	18,506	16,282

CAPITALIZATION

The following text is derived from the report of Wellmark, Inc.

Wellmark, Inc. (Wellmark) and its subsidiaries (Wellmark of South Dakota and Wellmark Health Plan of Iowa) are adequately capitalized in support of their business risks. However, the level of capitalization, deteriorated substantially in 2008 due to sizeable realized and unrealized investment losses combined with negative underwriting results. As a result, Wellmark's capital and surplus posted 23.6% decline and risk based capital (RBC) decreased to 722% from 862% in 2007 and 950% in 2006. The company has significant exposure to equities with the ratio of common stock to total capital excluding investments in subsidiaries at 55%. While an improvement over prior years, when the ratio was more than 85%, the exposure is still considered high. Though the company covers all subscriber liabilities and other liabilities with cash and fixed income securities, A.M. Best remains concerned about the effect of the equity market volatility on the company's financial position, especially as Wellmark has become more dependent on investment income following planned operating earnings decline.

[Back to Top](#)

Best's Rating Report

Back to Top

LEVERAGE TESTS

Year	Liabilities to Assets	NPW to Capital	Debt to Capital & Surplus	Equity PMPM	C&S to Total Assets	Months to Reserves	Bonds (000)	2008	2007	2006	2005	2004
								110,641	132,991	131,794	115,677	99,171
2004	57.2	4.2	...	...	42.8	3.0	US Government	13.8	17.0	25.0	22.9	21.0
2005	47.2	3.4	...	60.88	52.8	3.6	Foreign Government	0.4	2.7	4.3	4.3	...
2006	43.6	3.1	...	66.85	56.4	3.9	Foreign - All Other	6.3	4.8	3.0	1.6	0.4
2007	43.4	3.2	...	67.52	56.6	3.6	State/Special Rev. - US	41.2	44.9	38.3	39.9	9.0
2008	48.8	4.4	...	52.41	51.2	2.7	Public Utilities - US	2.1	1.8	2.9	2.1	4.3
2008 BCAR: 207							Industrial & Misc - US	36.3	28.8	26.5	29.3	65.3
							Private Issues	4.4	4.5	3.0	0.2	0.0
							Public Issues	95.6	95.5	97.0	99.8	100.0

SOURCES OF CAPITAL GROWTH (\$000)

Year	Net Gain	Realized Capital Gains	Unrealized Capital Gains	Other Changes	Change in C&S	Bond Quality (%)	2008	2007	2006	2005	2004
							80.5	83.0	86.2	87.5	86.7
2004	23,036	2,069	5,174	-5,008	25,272	Class 1	13.0	11.2	8.0	9.0	13.3
2005	17,791	3,828	361	12,992	34,972	Class 2	2.2	2.7	3.0	2.8	...
2006	19,507	4,161	4,096	420	28,184	Class 3	0.9	2.2	2.5	0.5	...
2007	4,176	2,594	-610	1,112	7,273	Class 4	2.5	1.0	0.4	0.2	...
2008	-3,233	-23,685	-11,060	5,394	-32,584	Class 5	0.8	...	...	...	...
						Class 6					

INVESTMENTS AND LIQUIDITY

The following text is derived from the report of Wellmark, Inc.

Wellmark, Inc. (Wellmark) incorporates an investment strategy that is considered aggressive for a health insurance company. Equity holdings, excluding investment in subsidiaries, are 40% of invested assets. A.M. Best remains concerned about the large percentage invested in equities and the potential impact this exposure could have to the company's balance sheet, should the stock market experience further decline.

Risk from the equity exposure is somewhat offset by allocation to low-risk securities within the rest of the portfolio. The bond portfolio is distributed between U.S. Government Securities; States Territories and Possessions; Political subdivision of States, Territories and Possessions; Special Revenue; Public Utilities; and Industrial and Miscellaneous with virtually all ranked NAIC class 1 or class 2. In addition, about 40% of total bond investments mature in five years or less.

LIQUIDITY TESTS

Year	Current Liquidity	Overall Liquidity	Premium Receivable Turnover (months)	Cash to Claims & Payables	Claims to NPE	Health Avg Clms to Pay Period (days)	Tot Health IBNR Pay Period (days)
2005	168.9	211.7	0.5	400.6	12.2	52.6	35.4
2006	169.8	229.4	0.5	439.5	11.3	48.8	32.8
2007	170.5	230.2	0.5	384.1	12.4	51	32.7
2008	126.2	205.0	0.6	266.6	12.9	52.7	30.8

INVESTMENT YIELDS

Year	Net Yield	Bonds	Stocks	Mortgages	Cash & Short Term	Real Estate		Invest. Exp. Ratio
						Gross	Net	
2004	3.36	4.82	1.91	...	0.63	32.86	28.58	9.70
2005	3.35	4.17	2.03	...	3.87	30.90	26.76	9.93
2006	3.93	5.15	2.11	...	3.64	32.10	27.77	7.95
2007	4.15	5.44	2.27	...	3.87	33.42	29.93	8.84
2008	4.59	6.38	2.52	...	1.82	35.22	30.91	10.31

INVESTMENT DATA

Current Year Distribution of Bonds by Maturity

	Years						Yrs-Avg Maturity
	0-1	1-5	5-10	10-20	20-		
Government	6.4	0.8	4.1	4.4	3.5	10	
Gov't Agencies & Muni	0.7	3.5	5.4	13.1	14.5	16	
Public Utilities	...	0.3	0.3	0.3	0.9	17	
Industrial & Misc	5.9	8.4	13.0	3.8	10.6	11	
Total	13.0	13.0	22.8	21.6	29.5	13	

	2008	2007	2006	2005	2004
Real Estate (000)	1,437	1,529	1,597	1,658	1,723
Property Occupied by Co	100.0	100.0	100.0	100.0	100.0
Stocks (000)	59,467	79,106	79,705	68,686	61,085
Unaffiliated Common	99.4	98.4	99.5	97.8	99.8
Unaffiliated Preferred	0.6	1.6	0.5	2.2	0.2
Other Inv Assets (000)	15,839	30,766	23,829	23,415	19,075
Cash	28.1	18.0	20.7	13.2	2.1
Short-Term	71.7	78.1	73.8	86.5	97.9
All Other	0.2	3.9	5.5	0.3	0.0

HISTORY

Date Incorporated: 07/19/1996 Date Commenced: 08/01/1996

Domicile: SD

Originally incorporated as South Dakota Health Services Company, the present title was adopted during 1997.

During 1996, South Dakota Blue Shield was merged with Wellmark's Blue Cross operations in South Dakota and a stock subsidiary currently entitled Wellmark of South Dakota, Inc. was formed. The South Dakota subsidiary conducts business as Wellmark Blue Cross and Blue Shield of South Dakota.

OFFICERS

President, Philip M. Davis; Vice President, David N. Southwell; Secretary, Janet Griffin; Treasurer, Richard C. Anderson; Actuary, Patricia L. Huffman.

DIRECTORS

Thomas M. Cink, M.D., Steven M. Crim, John D. Forsyth, Kay S. Jorgensen, Katherine A. Kinsman.

REGULATORY

An examination of the financial condition was made as of December 31, 2004 by the Insurance Department of South Dakota. The 2008 annual independent audit of the company was conducted by Ernst & Young, LLP. The annual statement of actuarial opinion is provided by Patricia Lou Huffman, Actuary.

Territory: The company is licensed in South Dakota.

Best's Rating Report

FINANCIAL INFORMATION BALANCE SHEET (\$000) - December 31, 2008

Assets		Liabilities	
*Total bonds	110,641	Claims payable	69,727
*Total preferred stocks	367	Unpaid claims adj expense	1,634
*Total common stocks	59,100	Accrued med incnt pool	2,874
Real estate	1,437	Advance premiums	24,542
Cash & short-term inv	15,807	Comm taxes expenses	2,776
Net deferred tax asset	10,642	Health policy reserves	12,536
Prens and consids due	27,014	Other liabilities	4,588
Recvble from affiliates	7,010	Total Liabilities	118,676
Accrued invest income	1,258	Common stock	400
Other assets	10,063	Paid in & contrib surpl	30,793
		Unassigned surplus	93,471
Assets	243,339	Total	243,339

*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.

SUMMARY OF OPERATIONS (\$000)

Premiums	539,820	Hospital/medical services	359,885
Net investment income	9,743	Other prof services	24,343
Other revenues	-308	Outside referrals	13,339
		Emerg rm & out of area	19,678
		Prescription drugs	65,476
		Incent pool & whld adj.	1,723
		Less reinsur exp net recover	-260
		Administrative	47,791
		Other expenses	21,920
Total	549,255	Total	554,414
Income (loss)			-5,159
Provision for FIT			-1,926
Net gain from operations after federal income taxes			-3,233

SUMMARY OF MANAGED CARE OPERATIONS

Year	Enrollment (000's)		Utilization (Per 1,000 members)		Participating Physicians
	Total Members	Member Months	Physician Visits	Hospital Days	
2004	...	...	...	...	...
2005	170	2,000	5,080	331	1,464
2006	188	2,244	5,036	289	1,470
2007	198	2,329	5,003	288	1,497
2008	199	2,378	5,118	284	1,524



Back to Top

Best's Rating Report

Back to Top

Ultimate Parent: Wellmark, Inc.

WELLMARK HEALTH PLAN OF IOWA, INC.

636 Grand Avenue
Des Moines, IA 50309-2565
Web: www.wellmark.com

Tel.: 515-245-4500
AMB#: 64385
Ultimate Parent#: 68347

Fax: 515-248-5617
NAIC#: 95531
FEIN#: 42-1455449

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the life/health members of Wellmark Group, which operate under a group structure, this group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class XI which is the Financial Size Category of the parent.

RATING RATIONALE

The following text is derived from the report of Wellmark, Inc.

Rating Rationale: The rating of Wellmark, Inc. (Wellmark) and its subsidiaries reflects dominant market position in both Iowa and South Dakota, continuous enrollment growth and good level of capitalization. The offsetting factors are deteriorated earnings resulted from strategy of margin moderation and sizeable investment losses leading to substantial decline in capital and surplus.

Wellmark, operating as Wellmark Blue Cross & Blue Shield of Iowa, and its subsidiaries, Wellmark of South Dakota, Inc. (doing business as Wellmark Blue Cross & Blue Shield of South Dakota) and Wellmark Health Plan of Iowa, Inc., a health maintenance organization (HMO) have a high penetration in its respective markets, with leading market shares in Iowa and South Dakota. Despite competition from larger national carriers and smaller provider owned plans, Wellmark has posted enrollment growth for 15 consecutive years. Although the economic environment in Iowa deteriorated, during 2008 the company achieved 3.4% membership gains followed by 1.3% growth in the first three months of 2009. During 2003-2006, Wellmark's growing revenue combined with an efficient operating structure and high investment income led to strong financial gains. As a result, capitalization improved and Wellmark's level of risk-based capital, which declined to 722% during 2008 from over 900% in 2006, remains more than sufficient for the company's risks.

Following a history of successful operating performance, Wellmark has turned to the long-term strategy of margins moderation. In 2007-2008, the company posted underwriting losses, with the 2008 loss having exceeded the budget although still within Wellmark's targeted range. The losses were due to a higher than anticipated trend, which along with the change in pricing strategy, resulted in the medical loss ratio increase to 87.1% in 2008 from 83.4% in 2006. Furthermore, during 2008, Wellmark's investment assets declined 25%, driven by the severe market downturn. The company posted \$167 million in realized and \$91 million in unrealized losses on its equity and fixed income holdings. Simultaneous deterioration of underwriting and investment results led to a 23.6% drop in capital and surplus in 2008. Wellmark's level of risk-based capitalization (RBC) at year-end 2008 is considered good; however, A.M. Best is concerned that further decline is possible, as capital may continue to be pressured by lower underwriting results and possible further investment losses. During 2008, Wellmark's exposure to investment in equities reduced from 65% to 55% of total capital and surplus, excluding investment in subsidiaries, however, the current level of equity exposure is still considered high for a health insurance company and leaves Wellmark susceptible to significant investment risks.

Best's Financial Strength Rating: A g

Outlook: Negative

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
05/19/09	A g	06/20/06	A g
06/16/08	A g	06/21/05	A g
06/01/07	A g	06/08/04	A-

KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital & Surplus	Net Premiums Written	Total Revenues	Net Income
2004	72,714	39,417	219,389	221,458	9,001
2005	81,745	45,292	273,741	276,050	6,924
2006	106,175	55,294	267,847	270,833	10,001
2007	160,255	75,152	359,558	364,207	18,882
2008	150,440	79,536	403,673	409,630	7,199

BUSINESS REVIEW

The following text is derived from the report of Wellmark, Inc.

Wellmark, Inc (Wellmark) has a dominant market presence in Iowa and South Dakota with an estimated market share at about one-half in Iowa and about one-third in South Dakota. No other competing health insurer has a substantial market share in either state. Wellmark continues to grow membership in both States, with 2008 enrollment growth of 3.2% in Iowa and 4.4% in South Dakota. The company's large membership base provides a competitive edge when contracting with providers, permitting it to create the largest networks in both states and is the only health insurer to offer PPO coverage throughout the state of Iowa. Another significant competitive advantage is a diverse product line designed to meet the needs of small and large employers as well as those of individuals. The company's health operations are defined by five segments: large group, small group, individual under age 65, individual over age 65 and Federal Employees Health Benefit Program (FEP). In addition, in 2006 the company introduced Medicare Advantage/Prescription Drug Plan (PDP) products.

THE LARGE GROUP segment consists of employer groups of 51 employees or more and around 50% of the enrollment in Iowa and 20% of the membership in South Dakota. Self-funding is available to groups with 100 employees or more. Fully insured products are available to all groups within this segment. Product offerings to groups of 51 - 100 employees are standardized while larger groups can have more customized benefits.

THE SMALL GROUP segment is comprised of employer groups under 51 employees and represents 9% of the membership in Iowa and 15% in South Dakota. Groups in this segment are more regulated by the Iowa Insurance Division (IID) than larger employer groups. Product offerings are standardized and are available on a fully insured basis only. From 2006 to 2008 enrollment in this segment has grown 17% in Iowa and 10% in South Dakota as a result of more favorable pricing. However, as the current severe economic downturn hit both states, small group membership declined in the first 3 months of 2009 and further membership losses are expected in the near term.

THE INDIVIDUAL UNDER AGE 65 segment is moderately regulated by the IID with a requirement to include a specific guaranteed issue product. The company offers a variety of plans to individuals and families including PPO and managed indemnity. This segment comprises approximately 10% of the members in Iowa and 15% in South Dakota. In 2008 the enrollment increased 5% in Iowa and 3% in South Dakota as a result of more groups dropping coverage as well as growing layoffs in both states. In order to retain those members, Wellmark introduced new individual products, such as Blue Basics, a low cost option designed for younger (19-29) demographics, and Blue Transitions, a guaranteed issue product for those previously covered under Wellmark's group plans.

THE INDIVIDUAL OVER AGE 65 segment offers several of the Medicare Supplement plans standardized by the federal government. The availability of these plans varies by state. This segment represents approximately 10% of the enrollment in both Iowa and South Dakota.

THE FEDERAL EMPLOYEE PROGRAM (FEP) segment represents 3% of the membership in Iowa and 9% in South Dakota. Wellmark offers both the FEP standard PPO and the basic PPO benefit plan which are part of the national Blue Cross & Blue Shield Federal Employee Program.

MEDICARE ADVANTAGE/PDP products were started in January 2006. Enrollment in the Part D only product was about 23,000 in Iowa and 6,000 in South Dakota by the end of the calendar year 2008. This segment has been a significant source of membership growth in 2006-2007, however the enrollment declined slightly in 2008 following product pricing modifications.

Best's Rating Report

Wellmark markets its products through multiple distribution channels, including brokers, direct sales representatives, telemarketers and the Internet. Brokers produce a majority of sales to groups with less than 250 employees and individuals under age 65. Direct sales representatives produce a majority of sales to groups with over 250 employees. In addition, telemarketers and the Internet produce a significant amount of sales to individuals, both under and over age 65. The company also maintains a strong affiliation with the Iowa and South Dakota Farm Bureaus, distribution systems which market Wellmark's products to individuals and small groups in rural areas.

Wellmark has developed considerable sophistication in medical management. The company utilizes systems to help identify high-risk cases early. An advanced early warning system provides an opportunity for case management intervention by identifying individuals that are driving cost and clinical utilization within a population. The Episode Risk Grouping (ERG) is a sophisticated methodology that identifies members that are at risk for high dollar claims by analyzing facility, doctor and pharmacy claims for an individual for single and combinations of medical conditions.

Wellmark's market dominance in health products has provided a solid foundation from which its product layering strategy is promoted. Other products offered in conjunction with health are: dental, group life, pension, accidental death & dismemberment (AD&D), long and short-term disability and long term care products. Many of the ancillary products sold are either underwritten by another insurance carrier or products developed through a joint venture.

Wellmark, Inc. also owns several subsidiaries that complement its core health care business. They are: First Administrators, Inc., a third-party administrator providing health care claims and administrative services to self-funded business and insured associations; Midwest Benefit Consultants, Inc., a general insurance agency; and Wellmark Community Insurance, Inc., a life and health company licensed in 30 states. Wellmark is also the sole member of The Wellmark Foundation, which provides grants to fund local projects or research in Iowa and South Dakota. These projects focus on improving the quality of health care in Iowa and South Dakota.

PREMIUM AND RESERVE ANALYSIS

	2008	2007	2006	2005	2004
<u>Direct Premiums (000)</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Comp (med & hosp)	403,673	362,458	270,037	275,951	221,158
Total	403,673	362,458	270,037	275,951	221,158
<u>Reins Ceded Pems (000)</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Comp (med & hosp)	...	2,900	2,190	2,210	1,769
Total	...	2,900	2,190	2,210	1,769
<u>Net Premiums & Deposits (000)</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Comp (med & hosp)	403,673	359,558	267,847	273,741	219,389
Total	403,673	359,558	267,847	273,741	219,389

Geographical breakdown of direct premium writings (\$000): Iowa, \$403,673 (100.0%).

EARNINGS

The following text is derived from the report of Wellmark, Inc.

Wellmark, Inc. (Wellmark) has reported strong net income in 2003-2006, however recently the company has turned to the strategy of margin moderation that resulted in significant earnings decline in 2007-2008. The company posted underwriting losses of \$34 and \$64 million in 2007 and 2008 respectively, driven by a 310 basis points increase in the medical cost ratio in 2007 and further 60 basis points rise in 2008. Underwriting results moderated in all commercial lines of business in 2008, including individual, small and large groups, caused by intentional pricing actions combined with higher than expected medical trend. Though Wellmark plans to improve commercial lines financial results through rate increases, more aggressive medical management and numerous cost saving initiatives, negative margin is expected to continue in the near term. The Medicare Part D/Medicare Advantage business segment incurred significant losses in 2007, however

achieved underwriting gains in 2008, as Wellmark implemented product and pricing modifications. Medicare Supplement plan has positively contributed to company's earnings since 1999. Financial results in Medicare lines are expected to stay positive, but insufficient to offset losses in commercial products.

The growth in underwriting gains of Wellmark of South Dakota moderated as the company priced its products closer to observed medical trend. Similar to the parent company, Wellmark of South Dakota's medical cost ratio increased significantly during 2007-2008 leading to underwriting losses in all lines of business except large groups. The company expects results to improve in 2009 driven mainly by better performance of individual and small group lines of business.

Underwriting gains and net income at Wellmark Health Plan of Iowa (WHPI) remained strong, though declined 29% and 62% respectively compared to 2007. This is a result of 340 basis points increase in medical cost ratio partially offset by 100 basis points decline in administrative expense ratio combined with sizeable membership expansion. A.M. Best believes that continued membership growth in this segment, driven by lower cost alternatives available from the HMO product, combined with administrative efficiencies should allow WHPI to maintain positive operating results.

PROFITABILITY TESTS

Year	Ben Paid to NPW & FFS	Comm & Exp to NPW & FFS	NOG to Tot Assets	NOG to Tot Rev	Operating Return on Equity	Net Yield	Total Return
2004	84.0	10.6	13.4	4.1	26.0	3.91	5.94
2005	87.6	9.5	8.8	2.4	16.0	3.93	4.55
2006	86.5	8.9	10.7	3.7	20.0	4.01	5.63
2007	84.9	8.5	12.8	4.7	26.2	4.01	4.86
2008	88.3	7.5	9.5	3.6	19.1	4.43	-3.27

PROFITABILITY ANALYSIS

Net Underwriting Gain (000)	2008	2007	2006	2005	2004
Comp (med & hosp)	13,364	20,677	10,177	6,405	11,268
Other health	3,496	3,048	2,317	1,563	510
Other non-health	12	11	12	13	...
Total	16,871	23,736	12,507	7,981	11,778

CAPITALIZATION

The following text is derived from the report of Wellmark, Inc.

Wellmark, Inc. (Wellmark) and its subsidiaries (Wellmark of South Dakota and Wellmark Health Plan of Iowa) are adequately capitalized in support of their business risks. However, the level of capitalization, deteriorated substantially in 2008 due to sizeable realized and unrealized investment losses combined with negative underwriting results. As a result, Wellmark's capital and surplus posted 23.6% decline and risk based capital (RBC) decreased to 722% from 862% in 2007 and 950% in 2006. The company has significant exposure to equities with the ratio of common stock to total capital excluding investments in subsidiaries at 55%. While an improvement over prior years, when the ratio was more than 85%, the exposure is still considered high. Though the company covers all subscriber liabilities and other liabilities with cash and fixed income securities, A.M. Best remains concerned about the effect of the equity market volatility on the company's financial position, especially as Wellmark has become more dependent on investment income following planned operating earnings decline.

LEVERAGE TESTS

Year	Liabilities to Assets	NPW to Capital	Debt to Capital & Surplus	Equity to PMPM	C&S to Total Assets	Months Reserves
2004	45.8	5.6	...	36.64	54.2	2.3
2005	44.6	6.0	...	36.09	55.4	2.0
2006	47.9	4.8	...	50.83	52.1	2.6
2007	53.1	4.8	...	53.42	46.9	2.7
2008	47.1	5.1	...	53.75	52.9	2.5

2008 BCAR: 207

Back to Top

Best's Rating Report

Back to Top

SOURCES OF CAPITAL GROWTH (\$000)

Year	Net Gain	Realized Capital Gains	Unrealized Capital Gains	Other Changes	Change in C&S
2004	8,995	6	1,080	-499	9,582
2005	6,761	163	211	-1,261	5,875
2006	10,061	-60	1,284	-1,283	10,002
2007	17,117	1,765	-773	1,750	19,858
2008	14,771	-7,572	-3,243	427	4,383

INVESTMENTS AND LIQUIDITY

The following text is derived from the report of Wellmark, Inc.

Wellmark, Inc. (Wellmark) incorporates an investment strategy that is considered aggressive for a health insurance company. Equity holdings, excluding investment in subsidiaries, are 40% of invested assets. A.M. Best remains concerned about the large percentage invested in equities and the potential impact this exposure could have to the company's balance sheet, should the stock market experience further decline.

Risk from the equity exposure is somewhat offset by allocation to low-risk securities within the rest of the portfolio. The bond portfolio is distributed between U.S. Government Securities; States Territories and Possessions; Political subdivision of States, Territories and Possessions; Special Revenue; Public Utilities; and Industrial and Miscellaneous with virtually all ranked NAIC class 1 or class 2. In addition, about 40% of total bond investments mature in five years or less.

LIQUIDITY TESTS

Year	Current Liquidity	Overall Liquidity	Premium Receivable Turnover (months)	Cash to Claims & Payables	Claims to NPE	Health Avg Clms Pay Period (days)	Tot Health IBNR Pay Period (days)
2004	161.2	218.4	0.4	245.0	10.6	46.4	37.2
2005	159.2	224.2	0.3	228.4	9.9	41.6	28.7
2006	176.1	208.7	0.1	310.1	10.6	45.4	36.3
2007	183.3	188.3	0.0	405.6	9.9	43.2	34.5
2008	151.4	212.2	0.0	303.3	10.3	42.8	34.3

INVESTMENT YIELDS

Year	Net Yield	Bonds	Stocks	Mortgages	Cash & Short Term	Real Estate Gross	Real Estate Net	Invest. Exp. Ratio
2004	3.91	4.85	2.09	...	1.51	...	...	4.01
2005	3.93	4.78	1.85	...	2.63	...	...	2.61
2006	4.01	5.01	1.95	...	3.31	...	...	4.55
2007	4.01	4.86	1.95	...	3.13	...	...	3.26
2008	4.43	5.29	2.42	...	2.97	...	...	4.67

INVESTMENT DATA

Current Year Distribution of Bonds by Maturity

	Years					Yrs-Avg Maturity
	0-1	1-5	5-10	10-20	20-	
Government	0.3	3.3	14.7	1.5	0.3	7
Gov't Agencies & Muni	0.5	2.4	3.3	6.1	6.0	15
Public Utilities	...	2.0	1.2	...	0.8	9
Industrial & Misc	3.9	24.1	17.5	2.9	8.9	8
Total	4.7	31.9	36.9	10.5	16.1	9

	2008	2007	2006	2005	2004
Bonds (000)	100,704	85,762	55,077	42,929	41,259
US Government	20.6	29.8	32.9	27.1	23.7
Foreign - All Other	9.9	4.5	2.8	5.1	0.8
State/Special Rev. - US	18.8	26.7	17.9	14.4	8.7
Public Utilities - US	4.2	3.9	5.6	3.0	3.5
Industrial & Misc - US	46.5	35.1	40.9	50.4	63.3
Private Issues	0.3	0.1	0.7	1.0	1.1
Public Issues	99.7	99.9	99.3	99.0	98.9

Bond Quality (%)	2008	2007	2006	2005	2004
Class 1	85.6	93.4	93.5	89.5	84.9
Class 2	14.4	6.6	6.0	9.0	15.1
Class 3	...	...	0.5	1.5	...
Class 6	0.0	...	...	...	...
Stocks (000)	20,388	25,113	17,382	12,148	11,506
Unaffiliated Common	100.0	100.0	100.0	100.0	100.0
Other Inv Assets (000)	5,496	35,179	16,564	7,010	4,549
Cash	62.5	13.3	16.5	16.2	-4.3
Short-Term	37.5	86.5	83.5	83.8	104.3
All Other	...	0.2	...	...	...

HISTORY

Date Incorporated: 03/13/1996 Date Commenced: 01/01/1997

Domicile: IA

OFFICERS

President, Timothy R. Weber; Secretary, Michele Druker; Treasurer, David N. Southwell.

DIRECTORS

Timothy L. Charles, Douglas P. Cropper, David J. Fisher, Douglas D. Laird, James M. Levett, M.D., Thomas M. McMahon, Kenton K. Moss, M.D., Kendall Reed, Peter W. Roberts, David H. Vellinga.

REGULATORY

An examination of the financial condition was made as of December 31, 2006 by the Insurance Department of Iowa. The 2008 annual independent audit of the company was conducted by Ernst & Young, LLP. The annual statement of actuarial opinion is provided by Patricia L. Huffman.

Territory: The company is licensed in Illinois and Iowa.

FINANCIAL INFORMATION BALANCE SHEET (\$000) - December 31, 2008

Assets	Liabilities		
*Total bonds	100,704	Claims payable	41,738
*Total common stocks	20,388	Accrued med incent pool	1,052
Cash & short-term inv	5,496	Advance premiums	12,623
Net deferred tax asset	8,287	Comm taxes expenses	8,885
Prems and consids due	1,272	Health policy reserves	33
Reevble from affiliates	3,523	Other liabilities	6,573
Accrued invest income	1,212	Total Liabilities	70,904
Uninsured A&H plans	7,042	Common stock	24,000
Other assets	2,517	Unassigned surplus	55,536
Assets	150,440	Total	150,440

*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.

SUMMARY OF OPERATIONS (\$000)

Premiums	403,678	Hospital/medical services	255,592
Net investment income	5,952	Other prof services	20,294
		Outside referrals	10,008
		Emerg rm & out of area	14,260
		Prescription drugs	55,543
		Incent pool & whld adj.	784
		Administrative	18,803
		Other expenses	11,523
Total	409,630	Total	386,807
Income (loss)			22,823
Provision for FIT			8,052
Net gain from operations after federal income taxes			14,771

Best's Rating Report

SUMMARY OF MANAGED CARE OPERATIONS

Year	Enrollment (000's)		Utilization (Per 1,000 members)		Participating Physicians
	Total Members	Member Months	Physician Visits	Hospital Days	
2004	98	1,076	4,802	183	4,860
2005	107	1,255	5,159	185	5,159
2006	96	1,088	5,255	203	5,320
2007	120	1,407	5,317	186	5,307
2008	124	1,480	1,985	192	5,558

Back to Top

Why is this *Best's*[®] Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Rating is assigned after an extensive quantitative and qualitative valuation of a company's financial strength, operating performance and market profile.

Best's Ratings are assigned according to the following scale:

Secure Best's Ratings

A++ and A+ Superior
A and A- Excellent
B++ and B+ Good

Vulnerable Best's Ratings

B and B- Fair
C++ and C+ Marginal
C and C- Weak
D Poor
E Under Regulatory Supervision
F In Liquidation
S Rating Suspended

For the latest **Best's Financial Strength Ratings** and *AMB Credit Reports* visit the A.M. Best web site at www.ambest.com. You may also obtain *AMB Credit Reports* by calling our Customer Service department at +1-908-439-2200, ext. 5742. To expedite your request, please provide the company's identification number (AMB #).