



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF
BLUE CROSS AND BLUE SHIELD OF MASSACHUSETTS, INC.

Boston, Massachusetts

As of December 31, 2015

NAIC GROUP CODE 3637

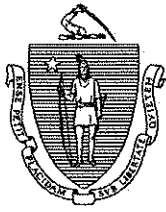
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BLUE CROSS AND BLUE SHIELD OF MASSACHUSETTS, INC.

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COMMONWEALTH OF MASSACHUSETTS
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DIVISION OF INSURANCE

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GARY D. ANDERSON
ACTING COMMISSIONER OF INSURANCE

May 24, 2017

The Honorable Gary D. Anderson
Acting Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4 and other applicable statutes, an examination has been made of the financial condition and affairs of

BLUE CROSS AND BLUE SHIELD OF MASSACHUSETTS, INC.

at its home office located at 101 Huntington Avenue, Suite 1300, Boston, MA 02199-7611. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Blue Cross and Blue Shield of Massachusetts, Inc. ("Company" or "BCBSMA") was last examined as of December 31, 2012 by the Massachusetts Division of Insurance ("Division"). The current examination was conducted by the Division and covers the three-year period from January 1, 2013 through December 31, 2015, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Law. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4 and Chapter 176G, Section 10 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by Ernst & Young ("EY"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2013 through 2015. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective. The Company has an internal audit department. Work papers prepared by the Company's internal audit department have been reviewed as a source of information and were tested and leveraged as deemed appropriate and effective.

Representatives from the firm of KPMG LLP ("KPMG") were retained by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division's examination staff. The assistance included a review of accounting records, information systems and investments. KPMG's Health Actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company's reserves for unpaid claims and loss adjustment expenses and provider risk sharing settlements as of December 31, 2015.

KPMG's Information Technology Advisory Services personnel were engaged to review the adequacy and effectiveness of the Information Technology systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination.

COMPANY HISTORY

Blue Cross and Blue Shield of Massachusetts began as the Associated Hospital Service Corporation of Massachusetts in 1937. The corporation aimed to spread the cost of hospital treatment among a large group of employed persons and, upon its opening, was the twenty-sixth plan of its kind in the United States, differing from others in its offering of statewide coverage. In 1939, the name Blue Cross was officially adopted by the American Hospital Association as the national symbol for the Hospital Service movement and in 1941, Blue Shield was established as a result of physician interest in the prepayment concept of financing health care.

Over the years, Blue Cross and Blue Shield of Massachusetts continued to grow and adapt to the needs of consumers, offering ever-increasing comprehensive coverage. The two separate organizations merged to become Blue Cross and Blue Shield of Massachusetts, Inc. and continued as part of a national network of affiliated plans, the Blue Cross and Blue Shield Association.

In 1992, BCBSMA launched an insured Health Maintenance Organization ("HMO") line of business branded as HMO Blue. The product reflected a change that was in line with the interests of the emerging market and represented a transition from traditional health insurance to managed care.

The Blue Cross Blue Shield of Massachusetts Foundation ("BCBSF") was founded in 2001. The Foundation is committed to expanding high quality care access to the underserved in Massachusetts consistent with its original charter.

In January 2005, BCBSMA transferred its insured HMO business to a separately incorporated, not-for-profit subsidiary, Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. ("HMO Blue"). HMO Blue provides hospitalization, medical and other health benefits as a licensed health maintenance organization. HMO Blue and BCBSMA operate under common management and Board of Directors ("Board") control. HMO Blue was licensed by the Division effective January 1, 2005. As a condition of granting an HMO license to HMO Blue, the Division required BCBSMA and HMO Blue to enter into an agreement to issue a surplus note to the other company if either entity's health risk based capital ("RBC") falls outside a specified range. BCBSMA also entered into a unilateral agreement with HMO Blue to guarantee all of HMO Blue's current and future financial obligations.

Blue Cross and Blue Shield of Massachusetts, Inc.

In August 2007, BCBSMA and Blue Cross and Blue Shield Plans from Arkansas, Florida and North Carolina formed B.P. Informatics, LLC ("BPI"), which makes strategic investments in companies developing informatics technology to promote transparency in health care costs and quality. Health Care Services Corporation became a member of BPI in December 2007 and Highmark, Inc. became a member in October 2008.

BCBSMA created Indigo Insurance Services, LLC ("Indigo"), a wholly-owned, for-profit subsidiary, on December 13, 2007. Indigo acts as an insurance agency and allows BCBSMA to offer ancillary products including disability insurance, death and dismemberment insurance and life insurance.

In February 2008, BCBSMA purchased a 27% interest in Life and Specialty Ventures, LLC ("LSV"). LSV is an insurance holding company that is a joint venture between the Blue Cross and Blue Shield Plans of Massachusetts, Arkansas, Florida, Hawaii and Tennessee, and was created to expand the ability of Blue's Plans to offer broader ranges of insurance products and services.

In July 2008, BCBSMA and HMO Blue became investors in BlueCross BlueShield Ventures, Inc. (the "General Partnership") and BlueCross Blue Shield Venture Partners, L.P. (the "Limited Partnership"), collectively, "BCBS Venture." BCBS Venture is a strategic corporate venture fund formed by eleven Blue Cross and Blue Shield Plans to invest in emerging companies developing services and technologies focusing on health care innovation, efficiency, transparency and consumer focus.

On June 1, 2009, BCBSMA and HMO Blue each formed a wholly-owned limited liability company subsidiary, Core Administrative System I, LLC ("CASI") and Core Administrative System II, LLC ("CASII"), respectively. The purpose of these entities is to serve as an acquisition and holding company for the BlueCore IT system assets involved in a sale-leaseback transaction the Companies executed with Bank of America.

On December 31, 2009, BCBSMA entered into a Joint Ownership Agreement with Blue Cross Blue Shield of Vermont ("BCBSVT"), under which BCBSMA and BCBSVT jointly own a new entity, Cobalt Benefits Group, LLC ("Cobalt"), which provides third-party administration services. BCBSVT had established Cobalt as a limited-liability company owned by Comprehensive Benefits Administrator, Inc. ("CBA"), which is a wholly-owned indirect subsidiary of BCBSVT. Under the agreement, CBA transferred some of its assets and liabilities to Cobalt, including an ownership interest in Employee Benefit Plan Administration, LLC (a wholly-owned subsidiary of CBA). Following the transaction, BCBSMA and BCBSVT each own a 50% share of Cobalt. In conjunction with the transaction, BCBSMA created a new wholly-owned subsidiary, Massachusetts Benefit Administrators, LLC ("MBA") to market and sell third-party employee benefit administration services.

In 2011, Blue Core IT system assets were transferred back to BCBSMA and HMO Blue. BCBSMA and HMO Blue performed an extensive review of the software architecture, processes, and plan for future use. As of December 31, 2011, CASI and CASII discontinued operations and became inactive.

Blue Cross and Blue Shield of Massachusetts, Inc.

BCBSMA has 16.7% ownership of National Account Service Company, LLC ("NASCO"). NASCO provides a single-system claims processing solution for the Blue Cross and Blue Shield plans. BCBSMA processes the majority of its claims through the NASCO platform. In 2011, BCBSMA started to migrate the Company's core administrative processes of claims and enrollment from their current technology platforms to NASCO. The migration is based on NASCO's ability to improve efficiencies and take full advantage of IT investments through a shared investor model.

In 2011, BCBSMA and HMO Blue each committed to invest \$10,000,000 in BlueCross BlueShield Ventures II, Inc. (the "General Partnership II") and BlueCross BlueShield Venture Partners II, L.P. (the "Limited Partnership II").

In August 2012, BCBSMA contributed to a newly created limited liability company named Healthbox Boston I, LLC ("Healthbox Boston"). Healthbox Boston was a 12-week healthcare business accelerator program which provided funding to ten healthcare technology start-ups and entrepreneurs in 2012.

In October 2012, BCBSMA filed a limited liability company certificate of organization with the Commonwealth of Massachusetts to establish a new wholly-owned subsidiary named Zaffre Affiliated Services, LLC ("Zaffre"). Zaffre will act as a holding company for certain strategic investments of BCBSMA as its sole member, engage in providing services to businesses in the healthcare industry, and perform any acts in connection with healthcare.

In January 2013, BCBSMA contributed cash to Zaffre and consequently transferred its ownership interest in three subsidiaries, five affiliated companies and two non-affiliated companies to Zaffre. The three subsidiaries are Indigo Insurance Services, LLC ("Indigo"), Massachusetts Benefit Administrators, LLC ("MBA") and Core Administrative Systems I, LLC ("CASI"). The Company's investments in affiliated companies are National Account Service Company, LLC ("NASCO"), B.P. Informatics, LLC ("BPI"), Life and Specialty Ventures, LLC (LSV), Cobalt Benefits Group, LLC ("Cobalt") and Healthbox Boston I, LLC ("Healthbox Boston"). The Company's investments in non-affiliated companies are International Plan Solutions, LLC ("IPS") and Health Intelligence Company, LLC ("HIC").

In May 2013, BCBSMA and HMO Blue established an inter-company loan agreement, which allows borrowings between the companies not to exceed the lesser of 3% of BCBSMA's admitted assets on a statutory basis or 25% of BCBSMA's net worth on a statutory basis calculated as of the previous year-end. These loans bear interest based on the overnight LIBOR rate plus a spread.

Effective January 1, 2014, the Company adopted Statement of Statutory Accounting Principles No. 106, Affordable Care Act Assessments ("SSAP 106"). SSAP 106 provides accounting treatment for the assessment under Section 9010 of the Patient Protection and Affordable Care Act (ACA) of entities issuing health insurance.

Effective January 1, 2014, the Company also adopted SSAP No. 107, Accounting for the Risk-Sharing Provisions of the Affordable Care Act ("SSAP 107"). The Affordable Care Act ("ACA") imposes fees and premium stabilization provisions on health insurance issuers offering commercial

Blue Cross and Blue Shield of Massachusetts, Inc.

health insurance. The risk-sharing provisions include three programs known as risk adjustment, reinsurance and risk corridor. The required payments to the programs are reported as assessments and amounts distributed back to the insurance companies are presented as recoverables or receivables on the balance sheet.

On July 1, 2014, Healthbox I, LLC and Healthbox II, LLC, two subsidiaries of Zaffre Affiliated were transferred to Zaffre Investments at their book values.

In 2015, the Company entered into a Medicare Part D Inter-Plan Services Agreement to offer a Blue Cross and Blue Shield branded prescription drug plan ("PDP") with Anthem Blue Cross Blue Shield, Blue Cross and Blue Shield of Rhode Island, and Blue Cross and Blue Shield of Vermont ("The Plans"). The Plans have collectively entered into a contract with the Centers for Medicare Services to offer a branded PDP in Region 2, based on the regulations contained with the Medicare Modernization Act of 2003. CVS Caremark is acting as a third party administrator to process premiums and claims under the PDP.

MANAGEMENT AND CONTROL

Board of Directors

The minutes of meetings of the Board of Directors ("Board") and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board.

In accordance with the bylaws, the members may determine the size of the Board and shall annually elect or reelect directors to succeed the directors whose terms then expire after a term of 3 years. The Board shall be divided into three classes such that the term of one class of directors expires each year. If the members increase the number of directors, the additional directors shall be placed into the existing classes such that the terms of the directors expire (as nearly may be) one third each year. Except for the president and chief executive officer, no director may serve more than three (3) consecutive three (3) year terms (the "Term Limit").

The Board shall have a chair of the Board. The chair of the Board shall preside at all meetings of the members, the directors and the executive committee, if any. He or she shall also have such other powers and duties as may be given to or imposed upon him or her by these bylaws or by the directors.

The Board shall have one or more vice chairs. The vice chairs of the Board, or one of the vice chairs of the Board if there are more than one, shall act as chair of the Board in the chair of the Board's absence. The vice chair or vice chairs of the Board shall have such other powers and duties as the directors may from time to time determine.

Blue Cross and Blue Shield of Massachusetts, Inc.

Except as otherwise provided by law vacancies in the Board occurring during the year may be filled for the unexpired term by a majority vote of the remaining directors, though less than a quorum, at any meeting of the Board, provided that after such vacancies are filled the composition of the Board complies with the law and Company bylaws. Notwithstanding any vacancy on the Board, the Board shall continue to act on behalf of the Company with its full authority and effect thereof.

Any director may resign by written notice given to the chair of the Board, the president, the secretary or the Board. Directors may be removed from office at any time for cause by vote of a majority, and without cause by vote of two thirds, of the directors then in office, provided that a director may be removed for cause only after a reasonable notice and opportunity to be heard before the Board.

At December 31, 2015, the Company's Board of Directors consisted of the following:

<u>Director</u>	<u>Title</u>
Andrew C. Dreyfus	President and Chief Executive Officer, BCBSMA
Helen G. Drinan	President, Simmons College
Paula A. Price	Senior Lecturer, Harvard Business School
Timothy M. Sweeney	President, Liberty Mutual Personal Insurance
Brian M. Barefoot	President Emeritus, Babson College
George R. Alcott III	Vice President, Massachusetts AFL-CIO
Richard C. Garrison	President, Bink Inc.
Philip W. Johnston	President & Chief Executive Officer, Philip W. Johnston Associates
Ralph C. Martin II	Senior Vice President & General Counsel, Northeastern University
Robert F. Meenan M.D.	Dean, Boston University School of Public Health

Officers

The corporation shall have as its officers a president, one or more executive vice presidents, one or more senior vice presidents, a chief financial officer, a chief actuary, a chief legal officer, a secretary, a treasurer, one or more assistant secretaries, and one or more assistant treasurers. Beginning at the 1989 annual meeting, the secretary, treasurer, assistant secretaries and assistant treasurers shall be elected by the members annually at their annual meeting, and the other officers designated above shall be elected by the directors annually at the first meeting of the directors following the annual meeting of the members, provided that each officer shall continue to hold office after the expiration of his or her elected term until a successor is elected and qualified. The officers shall not be chosen from the Board.

Blue Cross and Blue Shield of Massachusetts, Inc.

Officers of the Company at December 31, 2015 were as follows:

<u>Officer</u>	<u>Title</u>
Andrew C. Dreyfus	President & Chief Executive Officer
Bruce M. Bullen*	Executive Vice President & Chief Operating Officer
Allen P. Maltz**	Executive Vice President & Chief Financial Officer
Stephanie S. Lovell	EVP, Medicare and Chief Legal Officer & Secretary
Andreana Santangelo***	Senior Vice President & Chief Actuary
William T. Cushing Jr.	Senior Vice President & Chief Audit Executive
Keith F. Renaldi	Senior Vice President & Treasurer
Alona G. Abalos	Vice President & Assistant Secretary
Enrico A. Giammarco	Assistant Treasurer
Mark R. Collura	Assistant Treasurer

*Effective June 2016, Bruce M. Bullen resigned as an Officer of BCBSMA. Mr. Bullen was replaced by Deborah Devaux

**Effective December 2016, Allen P. Maltz resigned as an Officer of BCBSMA

***Effective December 2016 Andreana Santangelo replaced Allen Maltz as CFO

Committees of the Board of Directors

According to the bylaws, except as otherwise provided by law, by the articles of organization or these bylaws, all corporate powers shall be exercised by or under the authority of the directors. The affairs, property and business of the corporation shall be managed under the direction of the directors, and the directors may adopt such rules and regulations for that purpose and for the conduct of its meetings as they may deem proper. The directors shall have the power from time to time to appoint such committees with such membership and duties as they may determine; to appoint, prescribe the duties of and determine the salaries or compensation of officers, agents and employees; to authorize employment contracts which may extend beyond the terms of the directors and may create contract rights which do not prevent but are not otherwise prejudiced by the removal of or failure to reelect any officer; and to delegate to the extent permitted by law any of their powers to committees, officers, agents and employees of the corporation subject to such limitations as the directors may impose.

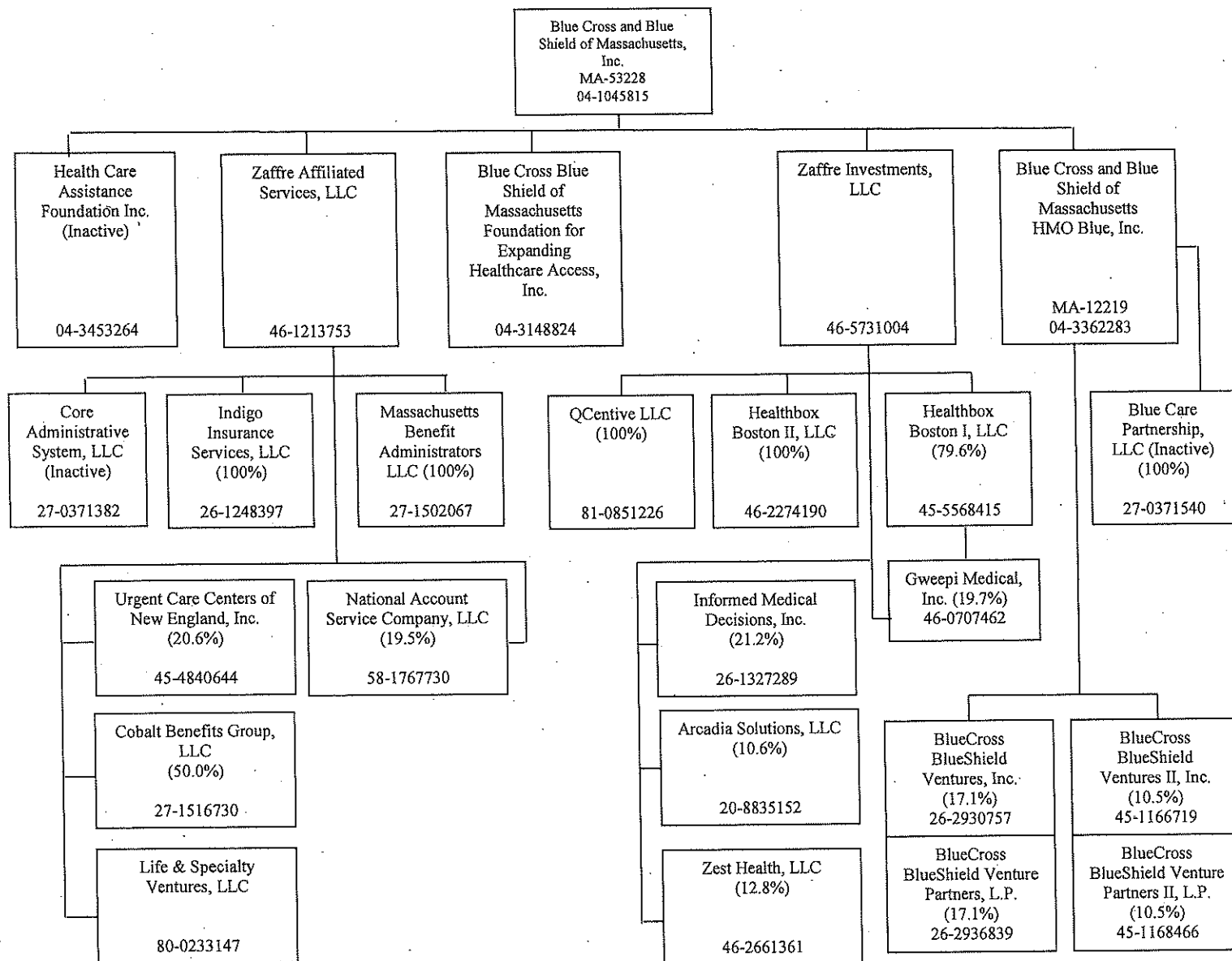
Holding Company

As stated in the Insurance Holding Company System Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 176G, Section 28 and Regulation 211 CMR 7.00. BCBSMA is the "ultimate controlling person" of the Holding Company System.

Blue Cross and Blue Shield of Massachusetts, Inc.

Organization Chart

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2015 is illustrated below:



Blue Cross and Blue Shield of Massachusetts, Inc.

Transactions and Agreements with Subsidiaries and Affiliates

BCBSMA has three subsidiaries and two major affiliated companies. HMO Blue is a wholly controlled subsidiary. Zaffre Affiliated and Zaffre Investments are wholly-owned subsidiaries. BlueCross BlueShield Venture Partners ("BCBS Venture"), L.P. and BlueCross BlueShield Venture Partners II L.P. (BCBS Venture II) are controlled affiliated entities.

HMO Blue provides hospitalization, medical and other health benefits as a licensed health maintenance organization. The general character of the business of Zaffre Affiliated and Zaffre Investments is to act as holding companies for certain strategic investments of BCBSMA as its sole member, and to engage in providing services to businesses in the healthcare industry.

During the period covered by the exam, BCBSMA made contributions to its subsidiaries, controlled, and affiliated entities ("SCA") as follows:

SCA Entity	Year		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Zaffre Investments, LLC	\$ -	\$15,000,000	\$18,000,000
Zaffre Affiliated Services, LLC	1,414,000	4,642,000	748,000
BCBS Venture Partners, L.P.	1,365,000	236,000	162,000
BCBS Venture Partners II, L.P.	797,000	1,009,000	1,847,000

TERRITORY AND PLAN OF OPERATION

Blue Cross and Blue Shield of Massachusetts, Inc. is headquartered in Boston, Massachusetts. The Company is licensed to transact business in the Commonwealth of Massachusetts. As of December 31, 2015, BCBSMA's service area included all of Massachusetts with a focus on the greater metropolitan Boston area.

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

REINSURANCE

BCBSMA has a dental agreement with USABLE Life, Inc. ("USABLE Life"), a 100% owned insurance subsidiary of LSV. The proportional dental reinsurance contract between BCBSMA ("reinsured") and USABLE Life ("reinsurer") transfers 51% of dental insurance risk to USABLE Life. The difference between the amount arrived at by subtracting the aggregate value of claims incurred plus the ceded commission from the reinsurance premiums is invoiced monthly and settled between the parties within 45 days.

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The Company has a specific excess of loss reinsurance agreement with AXIS Insurance Company. This ceding reinsurance agreement provides the Company with increased capacity to write larger risks and maintain its exposure to loss within its capital resources. BCBSMA has a Specific and Aggregate Excess of Loss Reinsurance agreement with Gerber Life Insurance Company and American Fidelity Assurance Company. This assumed reinsurance agreement provides the Company with the ability to expand into the National Stop Loss market.

Since January 1, 2014, BCBSMA has had health insurance premiums subject to the ACA temporary reinsurance program under the risk sharing provisions of the ACA.

None of the Company's policies have been reinsured outside of the United States and none of the reinsurance agreements can be unilaterally cancelled except for the nonpayment of premiums.

FINANCIAL STATEMENTS

The following financial statements have been prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ended December 31, 2015. These financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2015

Statement of Income for the Year Ended December 31, 2015

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2015

Blue Cross and Blue Shield of Massachusetts, Inc.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2015

	Per Annual Statement
ASSETS	
Bonds	\$ 746,120,711
Preferred stock	530,000
Common stock	183,008,697
Real estate properties occupied by the Company	107,174,538
Cash, cash equivalents and short-term investments	42,204,816
Other invested assets	380,290,506
Receivables for securities	39,784,449
Subtotal, cash and invested assets	<u>1,499,113,717</u>
Investment income due and accrued	3,888,269
Premiums and considerations: Uncollected premiums and agents' balances	144,584,753
Premiums and considerations: Accrued Retrospective premiums	2,500,000
Reinsurance: Amounts recoverable from reinsurers	10,593,522
Amounts receivable relating to uninsured plans	142,420,652
Current federal and foreign income tax recoverable and interest	4,307,193
Net deferred tax asset	26,819,310
Electronic data processing equipment and software	9,241,149
Receivables from parent, subsidiaries and affiliates	2,549,578
Healthcare and other amounts receivable	97,657,240
Aggregate write-ins for other than invested assets	61,767,770
Total Assets	<u>\$ 2,005,443,153</u>
LIABILITIES	
Claims unpaid	\$ 280,474,793
Unpaid claims adjustment expense	5,132,274
Aggregate health policy reserves	63,704,176
Premiums received in advance	75,079,658
General expense due or accrued	240,460,953
Ceded reinsurance premiums payable	12,346,560
Amounts withheld or retained for the account of others	310,477
Borrowed money and interest thereon	212,671,632
Amounts due parent, subsidiaries and affiliates	19,696,076
Payable for securities	15,124,922
Liability for amounts held under uninsured plans	308,692,935
Aggregate write-ins for other liabilities	153,082,145
Total Liabilities	<u>1,386,776,601</u>
Aggregate write-ins for special purpose funds	39,338,370
Unassigned funds (surplus)	579,328,182
Total capital and surplus	<u>618,666,552</u>
Total liabilities, surplus and other funds	<u>\$ 2,005,443,153</u>

Blue Cross and Blue Shield of Massachusetts, Inc.

Statement of Income
For the Year Ended December 31, 2015

	Per Annual Statement
Member Months	<u>14,783,479</u>
Net premium income	\$ 2,438,221,037
Change in unearned premium reserves and reserve for rate credits	<u>1,074,062</u>
Total revenue	<u>2,439,295,099</u>
Deductions:	
Hospital/medical benefits	1,552,987,639
Other professional services	286,135,533
Emergency room and out-of-area	41,698,875
Prescription drugs	<u>444,408,860</u>
Subtotal	<u>2,325,230,907</u>
Net reinsurance recoveries	<u>(113,598,948)</u>
Total hospital and medical	<u>2,211,631,959</u>
Claims adjustment expense	107,489,490
General administrative expense	<u>127,630,413</u>
Total underwriting deductions	<u>2,446,751,862</u>
Net underwriting gain (or loss)	(7,456,763)
Net investment income earned	29,721,948
Net realized gains	<u>(3,075,486)</u>
Net investment gains	26,646,462
Aggregate write-ins for other income or expenses	<u>576,798</u>
Net income after capital gains tax and before other federal income taxes	19,766,497
Federal and foreign income taxes incurred	<u>7,132,309</u>
Net income	<u>\$ 12,634,188</u>

Blue Cross and Blue Shield of Massachusetts, Inc.

Reconciliation of Capital and Surplus
For Each of the Three -Year Period Ended December 31, 2015

	2015	2014	2013
Capital and surplus, December 31, prior year	\$ 671,173,241	\$ 820,072,226	\$ 740,808,949
Net income	12,634,188	4,748,112	28,512,921
Change in net unrealized gains (losses)	(10,571,122)	(26,995,431)	18,411,270
Change in net deferred income tax	1,655,579	(38,342,465)	23,936,552
Change in non-admitted assets	(27,538,460)	(12,533,005)	135,974,238
Cumulative effect of changes in accounting principle	-	-	(297,431,310)
Aggregate write-ins for gains (losses)	(28,686,874)	(75,776,196)	169,859,606
Net change in capital and surplus	(52,506,689)	(148,898,985)	79,263,277
Capital and surplus, December 31, current year	<u>\$ 618,666,552</u>	<u>\$ 671,173,241</u>	<u>\$ 820,072,226</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes made to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Company uses estimates for determining its claims incurred but not yet reported which are based on historical claim payment patterns, healthcare trends and membership and includes a provision for adverse changes in claim frequency and severity. Amounts incurred related to prior years may vary from previously estimated liabilities as the claims are ultimately settled.

KPMG Health Actuaries prepared independent estimates of the unpaid claim liabilities ("UCL") as of December 31, 2015 and prior periods. For December 31, 2015, completion factors for the projection of ultimate claims were developed using historical payment patterns and actuarial judgment. "Low" and "High" estimates were developed by subtracting the claims paid-to-date from the actuarial range of incurred estimates. The actuarial estimates, as determined by KPMG Health Actuaries, indicate that BCBSMA's UCL are reasonable as of December 31, 2015. The Company's premium deficiency reserve calculation was reviewed and found to be reasonable as of December 31, 2015.

On January 1, 2014, BCBSMA became subject to an annual fee under section 9010 of the federal ACA. This annual fee was allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due.

As of December 31, 2015, the Company has written health insurance subject to ACA assessment, expects to conduct health insurance business in 2016, and estimates its portion of the annual health insurance industry fee payable on September 30, 2016, to be \$39,338,000. This amount is reflected in special surplus funds at December 31, 2015. Reporting the ACA assessment as of December 31, 2015, would impact RBC by (34.0%) and would not have triggered an RBC action level.

SUBSEQUENT EVENTS

In December 2016, the Company issued a Surplus Note between BCBSMA HMO Blue and BCBSMA for \$100 million. The Surplus Note was issued to improve the RBC position of BCBSMA which resulted in an intercompany loan between the two entities. The Exam team notes that the Division of Insurance approved both the Surplus Note and the intercompany loan on December 8, 2016.

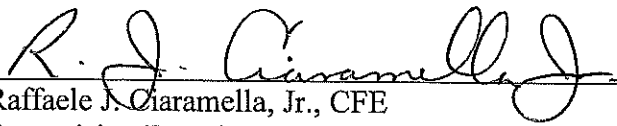
SUMMARY OF RECOMMENDATIONS

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by KPMG LLP who participated in this examination hereby is acknowledged.


Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance