



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

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

Boston, Massachusetts

As of December 31, 2018

NAIC GROUP CODE 3637

NAIC COMPANY CODE 53228

EMPLOYER ID NUMBER 04-1045815

BLUE CROSS AND BLUE SHIELD OF MASSACHUSETTS, INC.

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings of Fact	3
Company History	3
Management and Control	5
Board of Directors Minutes	5
Articles of Organization and Bylaws	6
Board of Directors	6
Officers	7
Committees of the Board of Directors	8
Affiliated Companies	8
Organizational Chart	9
Transactions and Agreements with Subsidiaries and Affiliates	9
Territory and Plan of Operation	10
Treatment of Policyholders – Market Conduct	10
Reinsurance	10
Financial Statements	11
Statement of Assets, Liabilities, Capital and Surplus	12
Statement of Income	13
Reconciliation of Capital and Surplus	14
Analysis of Changes in Financial Statements Resulting from the Examination	15
Comments on Financial Statement Items	15
Subsequent Events	15
Summary of Recommendations	15
Signature Page	16



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Toll-free (877) 563-4467
<http://www.mass.gov/doi>

CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

MIKE KENNEALY
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

EDWARD A. PALLESCHI
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

GARY D. ANDERSON
COMMISSIONER OF INSURANCE

May 29, 2020

The Honorable Gary D. Anderson
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 176A, Section 6, Chapter 176B, Section 9, 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, 2015 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2016 through December 31, 2018, 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 Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and 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 176A, Section 6, Chapter 176B, Section 9, 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 ("E&Y"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2016 through 2018. 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 engaged 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. 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, 2018.

Blue Cross and Blue Shield of Massachusetts, Inc.

KPMG's Information Technology Advisory Services personnel were engaged to review the Company's Information Technology environment to assist in determining 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 Blues 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.

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 was 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 acts 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.

Blue Cross and Blue Shield of Massachusetts, Inc.

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 were Indigo Insurance Services, LLC ("Indigo"), Massachusetts Benefit Administrators, LLC ("MBA") and Core Administrative Systems I, LLC ("CASI"). The Company's investments in affiliated companies were 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 were 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 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 September 2018, BCBSMA transferred 100% ownership in Zaffre Investments to Zaffre Affiliated Services. In the same month, Zaffre Affiliated Services completed its withdrawal of its membership from LSV. The Company now owns 100% of its dental business.

MANAGEMENT AND CONTROL

Board of Directors Minutes

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.

Blue Cross and Blue Shield of Massachusetts, Inc.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. The bylaws were amended in December 2017 to reflect changes to the Board's approval of new term limits and the mandatory retirement age.

Board of Directors

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 for 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. Directors elected into a class mid-term shall complete the term of the class into which he or she was elected. The president and chief executive officer, if also a director, shall not be a part of any class and shall serve a term coterminous with his or her employment as chief executive officer and president of the corporation. Except for the president and chief executive officer, no director may serve more than four (4) 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.

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.

Blue Cross and Blue Shield of Massachusetts, Inc.

At December 31, 2018, the Company's Board consisted of the following:

<u>Director</u>	<u>Title</u>
Andrew C. Dreyfus	President & Chief Executive Officer, BCBSMA, Inc.
Paula A. Price	Senior Lecturer, Harvard Business School
Robert F. Meenan M.D.	Former Dean, Boston University School of Public Health
Dorothy E. Puhly	Executive Vice President and Chief Operating Officer, Dana-Farber Cancer Institute
Francis X. Callahan	President, Massachusetts Building Trades Council
George R. Alcott III	Past Vice President, Massachusetts AFL-CIO
Timothy M. Sweeney	President, Global Retail Markets, Liberty Mutual Insurance
Benaree P. Wiley	Principal, The Wiley Group
Phyllis R. Yale	Advisory Partner, Bain & Company, Inc.
Donald K. Stern	Managing Director of Corporate Monitoring and Consulting Services at Affiliated Monitors, Inc. and Of Counsel at Yurko, Salvesen & Remz, P.C.
Marcy L. Reed	President MA and Executive Vice President, US Policy & Social Impact, National Grid
Martin T. Meehan	President, University of Massachusetts
Manuel A. Lopes	President & Chief Executive Officer, East Boston Neighborhood Health Center (EBNHC)
Corey E. Thomas	Director, President & Chief Executive Officer, Rapid7

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.

The officers of the Company as of December 31, 2018 were as follows:

<u>Officer</u>	<u>Title</u>
Andrew C. Dreyfus	President & Chief Executive Officer
Richard D. Lynch	Chief Operating Officer
Andreana Santangelo	Executive Vice President & Chief Financial Officer
Stephanie S. Lovell	Executive Vice President, Medicare and Chief Legal Officer & Secretary
Linda Williams	Senior Vice President & Chief Audit Executive
Alona G. Abalos	Vice President & Assistant Secretary
Laure Goldberg	Vice President & Chief Actuary
Anthony C. Criscuolo	Treasurer
Enrico A. Giammarco	Assistant Treasurer
Mark R. Collura	Assistant Treasurer

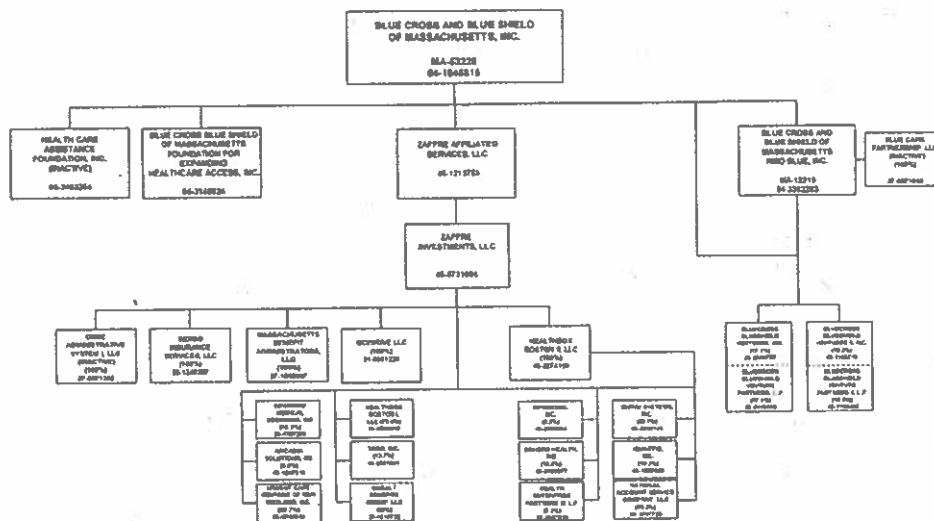
Committees of the Board of Directors

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.

Affiliated Companies

As stated in the Insurance Holding Company System Form B, Form C and Form F as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Law Chapter 175, Section 206C, Chapter 176G, Section 28 and Regulation 211 CMR 7.00. BCBSMA is the "ultimate controlling person" of the holding company system.

Organizational Chart



The following documents the Company's transactions and agreements with subsidiaries and affiliates executed and completed during the examination period.

The Company has various management and administrative agreements with its subsidiaries and affiliates covering services such as personnel, equipment, and investments. At December 31, 2018, the Company held receivables in the amount of \$13.5 million for these services.

During the examination period, the Company contributed and received distributions in the following amounts to and from its various affiliates:

	<u>2016</u>		<u>2017</u>		<u>2018</u>	
	<u>Contribution</u>	<u>Distribution</u>	<u>Contribution</u>	<u>Distribution</u>	<u>Contribution</u>	<u>Distribution</u>
Zaffre Affiliated Services	\$1,046,756		\$618,771	\$12,000,000	\$3,737,370	
Zaffre Investments	\$20,000,000		\$16,500,000		\$32,000,000	
BCBSF					\$550,000	
BCBS Venture	\$74,421	\$1,529,465	\$71,775	\$123,426	\$25,603	\$544,074
BCBS Venture II	\$1,085,675	\$242,086	\$1,014,979	\$671,632	\$1,030,782	\$1,366,915

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, 2018, BCBSMA's service area included all of Massachusetts with a focus on the greater metropolitan Boston area.

Treatment of Policyholders – Market Conduct

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 had a dental reinsurance agreement with USABLE Life, Inc. ("USABLE Life"), a 100% owned insurance subsidiary of LSV. In December, 2017, the agreement was terminated and a contingent loss reserve was established. In September, 2018, a promissory note was issued to USABLE Life to complete the settlement to terminate the agreement. As of December 31, 2018, the Company did not have a contingent loss reserve balance.

The Company has a specific excess of loss reinsurance agreement with Navigators 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 also has a Specific and Aggregate Excess of Loss Reinsurance agreement with Gerber Life Insurance Company. This assumed reinsurance agreement provides the Company with the ability to expand into the National Stop Loss market.

Commencing January 1, 2014, BCBSMA had written health insurance premiums that were subject to the temporary ACA reinsurance program. The reinsurance program, in accordance with the risk sharing provisions of the ACA, ended December 31, 2016.

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 exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2018. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2018

Statement of Income for the Year Ended December 31, 2018

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended
December 31, 2018

Blue Cross and Blue Shield of Massachusetts, Inc.

Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2018

	Per Annual Statement
Assets	
Bonds	\$773,529,288
Common stocks	170,931,539
Real estate properties occupied by the Company	99,723,433
Cash, cash equivalents and short-term investments	46,743,442
Other invested assets	460,181,193
Receivables for securities	7,739,781
Subtotals, cash and invested assets	<u>1,558,848,676</u>
Investment income due and accrued	3,826,777
Premiums and considerations:	
Uncollected premiums and agents' balances	203,651,344
Accrued retrospective premium and contracts subject to redetermination	5,374,029
Reinsurance:	
Amounts recoverable from reinsurers	0
Amounts receivable relating to uninsured plans	140,482,229
Current federal and foreign income tax recoverable and interest	158,362,566
Net deferred tax asset	100,473,495
Electronic data processing equipment and software	9,000,838
Receivables from parent, subsidiaries and affiliates	13,530,273
Health care and other amounts receivable	132,847,410
Aggregate write-ins for other than invested assets	59,731,876
Total assets	<u><u>\$2,386,129,513</u></u>
Liabilities	
Claims unpaid	\$330,770,983
Unpaid claims adjustment expenses	5,390,618
Aggregate health policy reserves	102,390,691
Premiums received in advance	92,386,331
General expenses due or accrued	252,422,924
Ceded reinsurance premiums payable	613,056
Amounts withheld or retained for the account of others	474,699
Borrowed money and interest thereon	345,199,210
Payable for securities	3,962,352
Liability for amounts held under uninsured plans	356,553,489
Aggregate write-ins for other liabilities	116,667,525
Total liabilities	<u><u>1,606,831,878</u></u>
Surplus notes	285,000,000
Unassigned funds (surplus)	494,297,635
Total capital and surplus	<u><u>779,297,635</u></u>
Total liabilities capital, and surplus	<u><u>\$2,386,129,513</u></u>

Blue Cross and Blue Shield of Massachusetts, Inc.

Statement of Income
For the Year Ended December 31, 2018

	Per Annual Statement
Member Months	<u>17,517,685</u>
Net premium income	\$2,876,620,553
Change in unearned premium reserves and reserve for rate credits	<u>23,113,309</u>
Total revenues	<u>2,899,733,862</u>
Deductions:	
Hospital/medical benefits	1,841,286,868
Other professional services	326,976,668
Emergency room and out-of-area	52,295,424
Prescription drugs	517,945,721
Incentive pool, withhold adjustments and bonus amounts	<u>1,018,293</u>
Subtotal	<u>2,739,522,974</u>
Net reinsurance recoveries	89,001,201
Total hospital and medical	<u>2,650,521,773</u>
Claims adjustment expenses	165,031,864
General administrative expenses	<u>199,456,798</u>
Total underwriting deductions	<u>3,015,010,435</u>
Net underwriting gain or loss	(115,276,573)
Net investment income earned	34,369,823
Net realized capital gains (losses) less capital gains tax	<u>(13,628,821)</u>
Net investment gains	<u>20,741,002</u>
Aggregate write-ins for other income or expenses	6,231,128
Net income, after capital gains tax and before all other federal income taxes	<u>(88,304,443)</u>
Federal and foreign income taxes incurred	<u>(153,862,791)</u>
Net income	<u>\$65,558,348</u>

Blue Cross and Blue Shield of Massachusetts, Inc.

Reconciliation of Capital and Surplus
For Each Year in the Three-Year Period Ended December 31, 2018

	2018	2017	2016
Capital and surplus, December 31 prior year	\$895,021,984	\$728,176,541	\$618,666,552
Net income or (loss)	65,558,348	(128,353,774)	3,915,255
Change in net unrealized capital gains	43,941,413	8,949,647	10,525,990
Change in net deferred income tax	(148,182,973)	241,701,670	(575,949)
Change in nonadmitted assets	(24,224,545)	(118,244,572)	24,822,291
Change in surplus notes	-	185,000,000	100,000,000
Aggregate write-ins for gains or (losses) in surplus	(52,816,592)	(22,207,528)	(29,177,598)
Net change in capital and surplus for the year	(115,724,349)	166,845,443	109,509,989
Capital and surplus, December 31 current year	<u>\$779,297,635</u>	<u>\$895,021,984</u>	<u>\$728,176,541</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, 2018. For December 31, 2018, 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, 2018.

SUBSEQUENT EVENTS

In March 2020 the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Division will continue to monitor how the pandemic might impact the Company.

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.

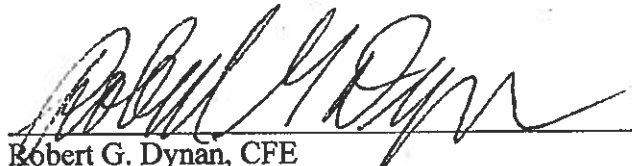
Blue Cross and Blue Shield of Massachusetts, Inc.

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 and the following Division examiner who participated in this examination hereby is acknowledged:

Guangping Wei, CFE, Examiner III

A handwritten signature in black ink, appearing to read 'Robert G. Dynan', is written over a horizontal line.

Robert G. Dynan, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance