

Financial Statements and Supplementary Information - Statutory Basis

Blue Cross Blue Shield of Wisconsin

*Years Ended December 31, 2021 and 2020  
With Reports of Independent Auditors*

***Blue Cross Blue Shield of Wisconsin***

**Financial Statements and Supplementary Information - Statutory Basis**

**Years Ended December 31, 2021 and 2020**

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## Report of Independent Auditors

Board of Directors  
Blue Cross Blue Shield of Wisconsin

### Opinion

We have audited the statutory basis financial statements of Blue Cross Blue Shield of Wisconsin (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in capital and surplus and cash flow for the years then ended, and the related notes to the financial statements (collectively referred to as the “financial statements”).

#### *Unmodified Opinion on Statutory Basis of Accounting*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

#### *Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company at December 31, 2021 and 2020, or the results of its operations or its cash flows for the years then ended.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*

As described in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices described in

Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Ernst + Young LLP*

April 21, 2022

# *Blue Cross Blue Shield of Wisconsin*

## Balance Sheets - Statutory Basis

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
<b>Admitted assets</b>		
Cash and invested assets:		
Cash, cash equivalents and short-term investments	\$ (1,643)	\$ (2,241)
Bonds	160,160	156,374
Investment in common stock of subsidiary	246,849	226,707
Real estate	2,232	4,469
Securities lending collateral	6,180	5,304
Total cash and invested assets	<u>413,778</u>	<u>390,613</u>
Accrued investment income	1,096	1,126
Premiums receivable	68,808	52,873
Amounts recoverable from reinsurers	16,403	15,640
Amounts receivable relating to uninsured plans	65,489	44,603
Net deferred tax asset	8,207	8,641
Receivables from affiliates	56,201	2,002
Federal Employee Program receivable	48,616	71,423
Health care and other receivables	1,560	3,168
Other assets	90	21
Total admitted assets	<u><u>\$ 680,248</u></u>	<u><u>\$ 590,110</u></u>

# *Blue Cross Blue Shield of Wisconsin*

## Balance Sheets - Statutory Basis

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
<b>Liabilities and capital and surplus</b>		
Liabilities:		
Unpaid claims and claims adjustment expenses	\$ 97,905	\$ 80,874
Aggregate policy reserves	48,876	72,805
Premiums received in advance	12,722	12,592
Accounts payable and accrued expenses	22,539	22,994
Current federal income tax payable	297	1,111
Ceded reinsurance premiums payable	19,067	13,172
Remittances and items not allocated	9,987	3,590
Payable for securities	—	3,776
Payable for securities lending	6,180	5,304
Liability for amounts held under uninsured plans	87,643	61,545
Amounts withheld or retained for accounts of others	194	142
Other liabilities	5,117	4,719
Total liabilities	<u>310,527</u>	<u>282,624</u>
Capital and surplus:		
Common stock, \$1 par value: 10,000,000 shares authorized, 2,000,000 shares issued and outstanding	2,000	2,000
Additional paid-in surplus	37,689	37,689
Unassigned surplus (deficit)	330,032	267,797
Total capital and surplus	<u>369,721</u>	<u>307,486</u>
Total liabilities and capital and surplus	<u>\$ 680,248</u>	<u>\$ 590,110</u>

# *Blue Cross Blue Shield of Wisconsin*

## Statements of Operations - Statutory Basis

	Year Ended December 31	
	2021	2020
	<i>(In Thousands)</i>	
<b>Premium income</b>	<b>\$ 825,359</b>	<b>\$ 736,390</b>
<b>Benefits and expenses:</b>		
Claims and claims adjustment expenses	728,537	646,165
Operating expenses	6,502	38,014
Change in reserves for accident and health contracts	(1)	(4)
Total benefits and expenses	<u>735,038</u>	<u>684,175</u>
<b>Net underwriting gain (loss)</b>	<b>90,321</b>	<b>52,215</b>
<b>Investment gains (losses):</b>		
Net investment income (losses)	41,861	42,758
Net realized capital gains (losses), net of taxes (benefits)	(1,809)	33
Total net investment gains (losses)	<u>40,052</u>	<u>42,791</u>
<b>Other income (expense)</b>	<u>594</u>	<u>827</u>
<b>Income (loss) before federal income taxes</b>	<b>130,967</b>	<b>95,833</b>
Federal income taxes (benefits)	19,540	19,818
<b>Net income (loss)</b>	<u><u>\$ 111,427</u></u>	<u><u>\$ 76,015</u></u>



## *Blue Cross Blue Shield of Wisconsin*

### Statements of Changes in Capital and Surplus - Statutory Basis

	<u>Common Stock</u>	<u>Additional Paid-in Surplus</u>	<u>Unassigned Surplus (Deficit)</u>	<u>Special Surplus Funds</u>	<u>Total Capital and Surplus</u>
	<i>(In Thousands)</i>				
Balance as of January 1, 2020	\$ 2,000	\$ 37,689	\$ 234,038	\$ 15,542	\$ 289,269
Net income (loss)	—	—	76,015	—	76,015
Change in net unrealized capital gains and losses, net of taxes (benefits)	—	—	34,018	—	34,018
Change in net deferred income tax	—	—	3,743	—	3,743
Change in nonadmitted assets	—	—	(559)	—	(559)
Change in special surplus funds for ACA health insurer fee	—	—	15,542	(15,542)	—
Dividend to shareholder	—	—	(95,000)	—	(95,000)
Balance as of December 31, 2020	<u>2,000</u>	<u>37,689</u>	<u>267,797</u>	<u>—</u>	<u>307,486</u>
Net income (loss)	—	—	<b>111,427</b>	—	<b>111,427</b>
Change in net unrealized capital gains and losses, net of taxes (benefits)	—	—	<b>20,080</b>	—	<b>20,080</b>
Change in net deferred income tax	—	—	<b>(193)</b>	—	<b>(193)</b>
Change in nonadmitted assets	—	—	<b>921</b>	—	<b>921</b>
Dividend to shareholder	—	—	<b>(70,000)</b>	—	<b>(70,000)</b>
Balance as of December 31, 2021	<u><u>\$ 2,000</u></u>	<u><u>\$ 37,689</u></u>	<u><u>\$ 330,032</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 369,721</u></u>

See accompanying notes.

## *Blue Cross Blue Shield of Wisconsin*

### Statements of Cash Flow - Statutory Basis

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
<b>Operating activities:</b>		
Premiums collected	\$ 813,792	\$ 730,844
Investment income received	43,356	44,022
Miscellaneous revenue	118	(516)
Claims and claims adjustment expenses paid	(709,991)	(641,389)
General administrative and miscellaneous expenses paid	(124)	(12,562)
Federal income taxes (paid) recovered	(20,555)	(18,550)
Net cash provided by (used in) operating activities	<u>126,596</u>	<u>101,849</u>
<b>Investment activities:</b>		
Proceeds from investments sold, matured or repaid	90,512	44,003
Cost of investments acquired	(98,881)	(37,387)
Changes in securities lending collateral	(876)	(4,528)
Net cash provided by (used in) investment activities	<u>(9,245)</u>	<u>2,088</u>
<b>Financing or miscellaneous activities:</b>		
Dividend to shareholder	(70,000)	(95,000)
Changes in securities lending payable	876	4,528
Net transfers from (to) affiliates	(54,199)	(14,527)
Other	6,570	4,203
Net cash provided by (used in) financing or miscellaneous activities	<u>(116,753)</u>	<u>(100,796)</u>
Change in cash, cash equivalents and short-term investments	598	3,141
Cash, cash equivalents and short-term investments at beginning of year	<u>(2,241)</u>	<u>(5,382)</u>
Cash, cash equivalents and short-term investments at end of year	<u>\$ (1,643)</u>	<u>\$ (2,241)</u>

# ***Blue Cross Blue Shield of Wisconsin***

## Notes to Financial Statements - Statutory Basis

*(Dollars In Thousands)*

December 31, 2021

### **1. Nature of Operations and Significant Accounting Policies**

Blue Cross Blue Shield of Wisconsin (the “Company”) is a Wisconsin domiciled stock insurance company that markets and underwrites hospitalization, surgical and medical, major medical, prescription drugs, vision and dental insurance to individuals and group accounts in the State of Wisconsin. The Company also provides administrative services to other health plans and governmental agencies. The Company operates as a licensee of the Blue Cross and Blue Shield Association (“BCBSA”). The Company is a wholly owned subsidiary of Crossroads Acquisition Corp. (“Crossroads”), which is an indirect wholly owned subsidiary of Anthem, Inc. (“Anthem”), a publicly traded company.

The Company has two wholly owned subsidiaries; Compcare Health Services Insurance Corporation (“Compcare”) and Claim Management Services, Inc. (“CMSI”). Compcare operates as a health maintenance organization in Wisconsin. CMSI is a dormant entity with no current operations.

#### **Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”). The OCI has adopted the Statement of Statutory Accounting Principles (“SSAP”) found in the National Association of Insurance Commissioners’ (“NAIC”) *Accounting Practices and Procedures Manual* (“NAIC SAP”) as a component of prescribed accounting practices. For the years ended December 31, 2021 and 2020, there were no differences between the Company’s statutory net income or capital and surplus under NAIC SAP and practices prescribed or permitted by the OCI.

Various statutory accounting principles differ from U.S. generally accepted accounting principles (“GAAP”). The more significant differences from GAAP, applicable to the Company, are as follows:

*Investments:* Investments in bonds are reported at amortized cost or fair value based on their NAIC rating. Changes in value in investments carried at fair value are included in unassigned surplus. Other than temporary impairments (“OTTI”) of bonds result in a permanent write-down in the carrying value of the investment. For GAAP, investments in bonds designated at purchase as available-for-sale are reported at fair value with unrealized holding gains and losses, net of tax, reported as a separate component of capital and surplus. Impairments of

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

bonds are reflected in a valuation allowance, which is adjusted for improvements in the fair value of the investment.

Investments in affiliated entities are valued pursuant to SSAP No. 97, *Investment in Subsidiaries, Controlled, and Affiliated Entities* (“SSAP No. 97”). Equity in earnings of subsidiaries is accounted for as a change in unrealized capital gains or losses in unassigned surplus. Dividends received from subsidiaries are accounted for as a component of net investment income. Unaudited ownership interests are nonadmitted by the Company. For GAAP, investments in affiliated entities are consolidated with the accounts and operations of the Company and equity in earnings of subsidiaries and dividends received from subsidiaries are eliminated.

The Company owned approximately 2.0% of its ultimate parent company’s stock at December 31, 2021 and 2020. The Company’s investment in stock of its ultimate parent company is carried at \$0 for statutory accounting purposes at December 31, 2021 and 2020. Under GAAP, the Company’s investment in the stock of its parent is recorded at its fair value with changes in fair value recognized in income.

*Real estate:* Company-owned property is included in invested assets, and investment income includes estimated investment income from real estate owned and occupied, with offsetting rental expense included in operating expenses in the statutory statements of operations. For GAAP, Company-owned property is not included in invested assets, and no investment income and offsetting expense is recorded on real estate owned and occupied by the Company.

*Premiums receivable:* Premiums receivable are recorded at the billed amount and reduced by any amounts not deemed collectible. Generally, amounts aged ninety days and older are nonadmitted assets, with the exception of government receivables. For GAAP, these amounts are recorded at the billed amount and are reported net of a valuation allowance based upon historical collection trends and management’s judgment on the expected collectability of these accounts.

*Nonadmitted assets:* Certain assets designated as nonadmitted, including deferred federal income taxes in excess of certain statutory limits, investments in unaudited subsidiaries, furniture and equipment, leasehold improvements, prepaid expenses, certain health care and other receivable balances, and certain premium receivable balances are excluded from the balance sheets by a direct charge to unassigned surplus. These nonadmitted assets totaled \$21,976 and \$22,897 at December 31, 2021 and 2020, respectively. For GAAP, these amounts are carried as assets, net of a valuation allowance, if necessary.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

*Income taxes:* Statutory deferred tax assets are subject to certain statutory limitations with amounts in excess of these limitations being nonadmitted. Changes in deferred taxes are recognized as a separate component of gains and losses in unassigned surplus (“Change in net deferred income tax”). State income taxes are included as a component of operating expenses but are not considered in the computation of deferred taxes. In addition, income taxes on investment realized gains and losses are reported as a component of net realized capital gains (losses). For GAAP, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years and a valuation allowance is established for deferred tax assets estimated to be unrealizable. Excluding the tax impact of unrealized investment gains and losses and certain other items, the change in deferred income taxes is recorded in the statements of operations. State income taxes are considered in the computation of deferred taxes and are included as a component of income tax expense. Income taxes on investment realized gains and losses are included as a component of income tax expense.

*Statements of cash flow:* Cash, cash equivalents and short-term investments in the statements of cash flow represent cash balances, and investments with initial maturities of less than one year and more than three months at the date of acquisition. If in the aggregate the Company has a negative cash balance, it is reported as a negative asset and not as a liability. For GAAP, the corresponding captions of cash and cash equivalents include cash balances and investments with initial maturities of three months or less. Short-term investments are reported separately, and negative cash balances are reported separately as liabilities.

*Uninsured accident and health plans:* The Company provides administrative services to various customers on an uninsured basis. Administrative fees earned under these arrangements are deducted from operating expenses. For GAAP, these administrative fees are reported as revenue in the statements of operations.

*Reinsurance:* Any reinsurance balance amounts deemed to be uncollectible are written off through a charge to operations. In addition, a liability for reinsurance balances is provided for unsecured policy reserves ceded to reinsurers not authorized to assume such business. Changes to the liability are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible is established through a charge to earnings. Claim and policy liabilities ceded to reinsurers are reported as reductions of the related reserves rather than as assets, as would be required under GAAP.

*Leases:* Obligations under noncancelable operating leases are not reflected on the balance sheet. Under GAAP, all lease obligations are reported as liabilities along with an asset

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

representing its right to use the underlying assets over the lease terms adjusted for initial direct costs, prepaid lease payments and lease incentives.

The effects of the foregoing variances from GAAP on the accompanying statutory financial statements have not been determined but are presumed to be material.

Other significant accounting policies are as follows:

#### **Use of Estimates**

Preparation of statutory financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### **Investments**

Bonds not backed by loans are stated at amortized cost, with amortization of premium or discount calculated based on the modified scientific method, using lower of yield to call or yield to maturity. Single class and multi-class mortgage-backed/asset-backed securities are valued at amortized cost using the interest method including anticipated prepayments. Prepayment assumptions for loan-backed securities and structured securities are obtained from broker-dealer survey values or internal estimates. These assumptions are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all loan-backed securities. Non-investment grade bonds are stated at the lower of cost or fair value.

Unrealized losses on non-investment grade bonds are reflected directly in unassigned surplus, net of federal income taxes, unless there is deemed to be an other-than-temporary decline in value, in which case the loss is charged to income. Realized gains and losses on investments sold are determined using the specific identification method and are included in net realized capital gains (losses), net of taxes (benefits). Investment income is not accrued on bonds with interest payments in default.

In accordance with SSAP No. 26R, *Bonds*, it is the Company's policy to assess for OTTI when fair value falls below amortized cost and record an OTTI when it becomes probable that the Company will be unable to collect all amounts due according to the contractual terms of the security in effect at the date of acquisition. In accordance with SSAP No. 43 Revised, *Loan-backed and Structured Securities* ("SSAP No. 43R"), OTTI on loan-backed or structured securities are recorded when fair value of the security is less than its amortized cost basis at the balance sheet date and (1) the Company intends to sell the investment or (2) the Company does

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis or (3) if the Company does not expect to recover the entire amortized cost basis of the security, even if it does not intend to sell the investment and the Company has the intent and ability to hold the investment.

In accordance with SSAP No. 97, the Company reports its insurance subsidiary at its underlying audited statutory capital and surplus and its noninsurance subsidiaries at their underlying audited GAAP equity. The Company reports the net change in the equity of its subsidiaries as a change in net unrealized capital gains or losses in unassigned surplus and any dividend received as net investment income. The Company nonadmits the investment in its noninsurance subsidiary, as it is unaudited.

The Company's 100% ownership of Compcare exceeds 10% of the Company's total admitted assets. At December 31, 2021 Compcare had admitted assets, total liabilities, and statutory capital and surplus of \$701,130, \$454,281, and \$246,849 respectively, and had \$35,386 of statutory net income during the year ended December 31, 2021.

There is no difference between the amount at which Compcare is carried and the amount of the underlying equity in the net assets of Compcare.

The Company participates in a securities lending program whereby marketable securities in its investment portfolio are transferred to independent brokers or dealers in exchange for collateral initially equal to at least 102% of the fair value of the securities on loan, and is thereafter maintained at a minimum of 100% of the fair value of the securities loaned. The fair value of the securities on loan to each borrower is monitored daily and the borrower is required to deliver additional collateral if the fair value of the collateral falls below 100% of the fair value of the securities on loan. The Company has no loaned portfolio securities with terms exceeding one year.

#### **Real Estate**

Real estate refers to property occupied or held for sale by the Company. Land is recorded at cost and other real estate occupied by the company is recorded at cost less accumulated depreciation, which is classified as an invested asset. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets. Depreciation expense in 2021 and 2020 was \$350 and \$384, respectively. Accumulated depreciation at December 31, 2021 and 2020 was \$0 and \$4,031, respectively. Land and real estate held for sale is recorded at fair market value and not depreciated.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

During the fourth quarter of 2021, the Company evaluated its future office space needs and determined that the property occupied by the Company located in Waukesha, Wisconsin would no longer meet the needs of the Company. The decision was made to put the property up for sale and relocate associates to a leased space. At December 31, 2021, the property is classified as property held for sale and recorded at its fair value of \$2,232. The fair value was determined by analyzing market comparables and future income analysis. The Company recognized an impairment loss of (\$1,887), which was recorded in net realized capital gains (losses), net of taxes (benefits) on the statutory statement of operations.

#### **Furniture, Fixtures and Leasehold Improvements**

Furniture, fixtures and leasehold improvements are capitalized and depreciated on a straight-line basis over its useful life. The net book value is charged in full to unassigned surplus as a nonadmitted asset. Depreciation expense in 2021 and 2020 was \$10 and \$277, respectively. Accumulated depreciation at December 31, 2021 and 2020 was \$2,155 and \$2,499, respectively.

#### **Health Care Receivables**

Health care receivables represent amounts related to pharmacy rebate receivables and other health care related receivables other than premiums. Pharmacy rebate receivables are recorded when earned, based upon actual rebate receivables and an estimate of receivables based upon current utilization of specific pharmaceuticals and provider contract terms. Health care receivables are subject to various admittance tests based on the nature of the receivable balance. Health care receivables relating to insured plans are reported in health care and other receivables. Health care receivables that are not for insured plans are included in amounts receivable relating to uninsured plans on the statutory balance sheets.

#### **Unpaid Claims and Claims Adjustment Expenses**

Unpaid claims and claims adjustment expenses include management's best estimate of amounts based on historical claim development patterns and certain individual case estimates. The established liability considers health benefit provisions, business practices, economic conditions and other factors that may materially affect the cost, frequency and severity of claims. Reserves for unpaid claims and claims adjustment expenses are based on assumptions and estimates, and while management believes such estimates are reasonable, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and changes in estimates are incorporated into current operating results.



## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

There were no significant changes in methodologies and assumptions used in calculating the liability for unpaid claims and claims adjustment expenses.

#### **Premium Deficiency Reserves**

Premium deficiency reserves are established for the amount of the anticipated claims and claims adjustment expenses that have not been previously expensed in excess of the recorded unearned premium reserve and future premiums on existing policies. The Company does not use anticipated investment income as a factor in the premium deficiency reserve calculation. The Company did not record premium deficiency reserves as of December 31, 2021 or 2020.

#### **Revenue Recognition**

Premiums are earned over the coverage term of the related insurance policies and reinsurance contracts. Unearned premium reserves, included in aggregate policy reserves, are established to cover the unexpired portion of premiums written and collected, and are computed by pro rata methods for direct business, and are based on reports received from ceding companies for reinsurance assumed. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. The premiums paid by policyholders prior to the effective date are recorded in the balance sheets as premiums received in advance and subsequently recorded to income as earned during the coverage period. Premium rates for certain lines of business are subject to approval by the OCI.

In response to the COVID-19 pandemic, the Company provided premium credits to members enrolled in select individual and fully insured employer health plans. In addition, individuals in stand-alone and group dental plans also received a credit. There were no premium credits in 2021. For December 31, 2020, premium credits of \$1,491, were received by these policyholders and are netted against premium income on the statement of operations.

At December 31, 2021 and 2020, the Company reported admitted assets of \$134,297 and \$97,476, respectively, in premiums receivable and amounts receivable relating to uninsured plans. Based upon the Company's experience, any uncollectible receivables are not expected to exceed \$13,743 that was nonadmitted at December 31, 2021; therefore, no additional provision for uncollectible amounts has been recorded. The potential for any additional loss is not believed to be material to the Company's financial condition.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

#### **Reinsurance**

Reinsurance premiums and claims and claims adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Certain premiums and benefits are ceded to other insurance companies under various reinsurance contracts. These reinsurance contracts limit the Company's exposure to losses within its capital resources. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. Uncollected premiums receivable and unpaid claims are reported net of reinsurance amounts ceded to other insurers. A liability for reinsurance balances is provided for unsecured policy reserves ceded to reinsurers not authorized to assume such business. Changes to the liability are credited or charged directly to unassigned surplus.

#### **Retrospectively Rated Contracts**

The Company sells policies where premiums vary based on loss experience or premium stabilization programs. Premium income includes an adjustment for retrospectively rated refunds based on an estimate of incurred claims. A retrospectively rated contract is one that has the final policy premium calculated based on the loss experience of the insured during the term of the policy (including loss development after the term of the policy). Retrospectively rated refunds include Medical loss ratio ("MLR") rebates per the Affordable Care Act ("ACA"). Accrued retrospective premiums are reported in premiums receivable. Reserves for rate credits or policy rating refunds are reported in aggregate policy reserves.

Risk adjustment programs transfer premiums from insurers that enroll members with relatively lower health risks to insurers that enroll members with relatively higher health risks and are recorded as premium income in operations. The Company's risk adjustment payments are subject to review and audit by Centers for Medicare and Medicaid Services ("CMS"), which can potentially take several years to resolve completely. Any adjustment to premium income and the related medical expense for risk-sharing arrangements with providers as a result of such review and audit would be recorded when estimable.

The Company uses estimates to report in the statutory financial statements to determine the receivable and reserve amounts for these arrangements based on estimates and assumptions at the financial statement date and regulations and guidance available that is subject to change prior to settlement. Accordingly, the Company's use of estimates and assumptions in the preparation of the statutory financial statements and related footnote disclosures may differ from actual results.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

The amount of net premiums written by the Company for the years ended December 31, 2021 and 2020 that were subject to retrospective rating features, including MLR rebate regulations, was \$710,180 and \$660,462, which represented 88.7% and 89.1%, respectively, of the total net premiums written.

#### **Federal Employee Health Benefits Program**

The Company participates in the Federal Employee Health Benefits Program (“FEHBP”) with other Blue Cross Blue Shield (“BCBS”) plans. This program includes a fully insured experience-rated contract, commonly known as FEP, between the Office of Personnel Management (“OPM”) and BCBSA, which acts as an agent for the participating BCBS plans. In addition, each participating plan, including the Company, executes a contract with BCBSA that obligates each participating plan to underwrite FEP benefits in its service area. The FEP contract renews automatically each year, unless written notice of termination is given by either party.

Premium rates are developed by BCBSA and negotiated with OPM annually. These rates determine the funds that will be available to the participating BCBS plans to provide insurance to Federal employees that enroll with the BCBS FEP. The excess of gross premiums for the life of the program over the charges for the life of the program on an accrual basis is accounted for as a rate stabilization reserve (commonly referred to as the special reserve), as required by the contract between OPM and BCBSA. Each year, OPM also allocates a portion of the premiums to a contingency reserve, which may be utilized by the participating plans in the event that annual premiums paid to the insurance carrier are insufficient or the rate stabilization reserve falls below certain levels prescribed by OPM. Premiums paid to the carrier and available to each participating BCBS plan, including the special reserve and the contingency reserve, are held at the U.S. Treasury, including amounts unused from prior periods. Any premiums that remain in the rate stabilization reserve upon termination of the BCBSA contract after the claims run-out and reimbursement of allowable administrative expenses would be returned to OPM for the benefit of the FEHBP.

In accordance with the FEP contract, premium funds that exceed daily operating needs are held on behalf of the Company in letter of credit accounts at the U.S. Treasury to provide funding for claims, administrative expenses, and other charges to the contract. The Company, along with other BCBS plans who participate in the FEHBP contract, have an unrestricted right to draw funds being held in the U.S. Treasury, other than those allocated to the contingency reserve, for any valid claim or expense. If the balance of the special reserve is exhausted or falls below certain prescribed levels, OPM will transfer funds from the contingency reserve to the special reserve to the extent that funds are available in the contingency reserve. Amounts incurred in

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

excess of the total reserves held at the U.S. Treasury for the FEP would not be reimbursed to the Company.

The Company has recorded its allocable share of the special reserve funds held in the U.S. Treasury as an asset, with an equivalent amount recorded as a rate stabilization reserve. These amounts are \$69,452 and \$102,033 as of December 31, 2021 and 2020, respectively, and are included in Federal Employee Program receivable and in aggregate policy reserves in the accompanying balance sheets. The amounts net of reinsurance are \$48,616 and \$71,423 as of December 31, 2021 and 2020, respectively due to the reinsurance arrangement discussed in Note 6.

FEP represented approximately 85.4% and 87.2% of premiums receivable as of December 31, 2021 and 2020, respectively. FEP represented approximately 53.2% and 55.2% of net premiums written for the years ended December 31, 2021 and 2020, respectively.

#### **Uninsured Accident and Health Plans**

The Company provides administrative services to various customers on an uninsured basis. Under these arrangements, the customer retains the risk of funding payments for health benefits provided, and the Company may be subject to credit risk of the customer from the time of the Company's claim payment until the Company receives the claim reimbursement. In accordance with SSAP No. 47, *Uninsured Plans*, these claims payments and subsequent reimbursements are excluded from the Company's statutory statements of operations. Administrative fees for administering these arrangements are recognized as administrative services are performed and recorded as a reduction to operating expenses.

#### **Federal Income Taxes**

The Company participates in a tax sharing agreement with Anthem and its subsidiaries. Allocation of federal income taxes is based upon separate return calculations with credit for net losses that can be used on a consolidated basis. Intercompany income tax balances are settled based on the Internal Revenue Service ("IRS") due dates.

Deferred tax assets ("DTA") are limited to an amount equal to the sum of: (1) federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year; (2) depending on the Company's Authorized Control Level ("ACL") Risk Based Capital ("RBC") ratio exclusive of the DTA, the lesser of (a) the amount of gross DTAs expected to be realized within three years after the application of (1) or 15% of surplus, if the ratio is greater than 300%, (b) the amount of

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

gross DTAs expected to be realized within one year after the application of (1) or 10% of surplus, if the ratio is between 200% and 300%, or (c) if the ratio is below 200%, no DTA can be realized; and (3) the amount of gross DTAs, after the application of (1) and (2), that can be offset against gross deferred tax liabilities (“DTL”). DTAs in excess of these limitations are nonadmitted.

Deferred taxes do not include amounts for state taxes. Changes in DTAs and DTLs are recognized as a separate component of gains and losses in surplus (“Change in net deferred income tax”).

#### **Health Insurer Fee**

ACA Section 9010 imposed a mandatory annual fee on health insurers that write certain types of health insurance on U.S. risks for each calendar year beginning on or after January 1, 2014. The annual fee is allocated to health insurers based on the ratio of the amount of an insurer’s premium written during the preceding calendar year to the amount of health insurance for all U.S. health risk for those certain lines of business that were written during the preceding calendar year. This fee is non-deductible for income tax purposes. The health insurer fee is reported in operating expenses in the same year it is paid. The health insurer fee to be paid in the following year is segregated in special surplus funds until the beginning of the year in which it is to be paid. The health insurer fee was temporarily suspended for 2019 and resumed in 2020. The health insurer fee has been permanently eliminated, beginning in 2021.

## *Blue Cross Blue Shield of Wisconsin*

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

#### 2. Investments

A summary of the Company's investments in bonds is as follows:

	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Less Than 12 Months	12 Months or Greater	
<b>December 31, 2021</b>					
United States government securities	\$ 9,170	\$ 53	\$ (57)	\$ —	\$ 9,166
States, territories and political subdivisions	32,149	1,759	(31)	(19)	33,858
Industrial and miscellaneous	71,038	1,663	(370)	(27)	72,304
Loan-backed and structured securities	47,803	1,499	(254)	(40)	49,008
Total bonds	<u>\$ 160,160</u>	<u>\$ 4,974</u>	<u>\$ (712)</u>	<u>\$ (86)</u>	<u>\$ 164,336</u>
<b>December 31, 2020</b>					
United States government securities	\$ 5,420	\$ 1	\$ —	\$ —	\$ 5,421
States, territories and political subdivisions	28,917	2,227	(12)	(9)	31,123
Industrial and miscellaneous	68,389	3,687	(3)	—	72,073
Loan-backed and structured securities	53,648	3,123	(5)	(24)	56,742
Total bonds	<u>\$ 156,374</u>	<u>\$ 9,038</u>	<u>\$ (20)</u>	<u>\$ (33)</u>	<u>\$ 165,359</u>

The statement and fair values of bonds at December 31, 2021, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations.

	Statement Value	Fair Value
Due in one year or less	\$ 4,173	\$ 4,211
Due after one through five years	59,391	60,925
Due after five through ten years	31,279	31,700
Due after ten years	17,514	18,492
Loan-backed and structured securities	47,803	49,008
	<u>\$ 160,160</u>	<u>\$ 164,336</u>

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

The Company owns shares of Anthem, which is not recognized as an admitted asset. Anthem pays regular dividends to its shareholders. As a result of the investment, the Company earned \$21,976 and \$18,475 during 2021 and 2020, respectively, which is reported as net investment income.

Proceeds from sales of bonds during 2021 and 2020 were \$58,897 and \$11,349, respectively. The Company realized gross gains of \$708 and gross losses of \$429, during 2021, and gross gains of \$353 and gross losses of \$120, during 2020.

A significant judgment in the valuation of investments is the determination of when an other-than-temporary decline in value has occurred. The Company follows a consistent and systematic process for recognizing impairments on securities that sustain other-than-temporary declines in value. The Company has established a committee responsible for the impairment review process. The decision to impair a security incorporates both quantitative criteria and qualitative information.

The impairment review process considers a number of factors, including but not limited to (a) the length of time and the extent to which a security's fair value has been less than statement value; (b) the financial condition and near term prospects of the issuer; (c) the intent to sell, and the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in value; (d) whether the debtor is current on interest and principal payments; (e) the reasons for the decline in value (i.e., credit event compared to liquidity, general credit spread widening, currency exchange rate or interest rate factors) and (f) general market conditions and industry or sector specific factors. For securities that are deemed to be other-than-temporarily impaired, the security is adjusted to its fair value or present value of its discounted cash flows, and the resulting losses are recognized in net realized gains or losses in the statutory statements of operations. The new cost basis of the impaired securities is not increased for future recoveries in fair value. The Company recognized \$0 and \$111 for OTTI on securities for the years ended December 31, 2021 and 2020, respectively.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

A summary of unaffiliated investments with unrealized losses along with the related fair value, aggregated by the length of time that investments have been in a continuous unrealized loss position, is as follows:

	December 31, 2021			December 31, 2020		
	Number of Securities	Fair Value	Gross Unrealized Loss	Number of Securities	Fair Value	Gross Unrealized Loss
Bonds:						
Less than 12 months	78	\$ 53,573	\$ (712)	10	\$ 6,334	\$ (20)
12 months or greater	8	2,641	(86)	5	1,152	(33)
Total bonds	86	\$ 56,214	\$ (798)	15	\$ 7,486	\$ (53)

The Company's bond portfolio is sensitive to interest rate fluctuations, which impact the fair value of individual securities. Unrealized losses on bonds reported above were primarily caused by the effects of the interest rate environment and the widening of credit spreads on certain securities. The Company currently has the ability and intent to hold these securities until their full cost can be recovered. Therefore, the Company does not believe the unrealized losses represent an OTTI as of December 31, 2021 or 2020.

The Company is required to categorize its loan-backed and structured securities by the reason for which the Company recognized an OTTI during the years ended December 31, 2021 and 2020. The Company did not recognize an OTTI on loan-backed and structured securities in 2021 and 2020.

In accordance with its impairment policy, the Company recognized OTTI on investments other than loan-backed and structured securities during the years ended December 31, 2021 and 2020 of \$0 and \$111, respectively.

The Company had 14 and 4 securities sold, redeemed and otherwise disposed as a result of a call feature or tender offer (including make-whole call provisions) during the years ended December 31, 2021 and 2020, respectively. The aggregate investment income generated as a result of prepayment penalties and/or acceleration fees during the years ended December 31, 2021 and 2020 was \$637 and \$118, respectively.

#### ***Securities Lending Programs***

The Company's investment portfolio includes loaned securities with a carrying value of \$5,933 and \$4,831 at December 31, 2021 and 2020, respectively. The fair value of the loaned securities are \$6,047 and \$5,189 at December 31, 2021 and 2020, respectively.



## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

The Company reinvests the collateral received under the securities lending program. The aggregate amount of cash collateral reinvested at December 31, 2021, categorized by the contractual maturity of the investment, is as follows:

	<b>Amortized Cost</b>	<b>Fair Value</b>
30 days or less	\$ 1,603	\$ 1,603
31 to 60 days	1,942	1,942
61 to 90 days	541	541
91 to 120 days	450	450
121 to 180 days	95	95
181 to 365 days	193	193
Subtotal	<u>4,824</u>	<u>4,824</u>
Securities received	<u>1,356</u>	<u>1,356</u>
Total collateral reinvested	<u>\$ 6,180</u>	<u>\$ 6,180</u>

### **3. Fair Value**

Assets and liabilities recorded at fair value in the statutory balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are as follows:

<b>Level Input</b>	<b>Input Definition:</b>
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

## *Blue Cross Blue Shield of Wisconsin*

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

The following table summarizes the assets and/or liabilities measured and reported at fair value in the balance sheets as of December 31, 2021 and 2020, respectively:

	Level I	Level II	Level III	Total
<b>December 31, 2021</b>				
Industrial and miscellaneous bonds	\$ —	\$ 3	\$ —	\$ 3
Total bonds	—	3	—	3
Real estate held for sale	—	—	2,232	2,232
Total real estate	—	—	2,232	2,232
Total assets at fair value	\$ —	\$ 3	\$ 2,232	\$ 2,235
<b>December 31, 2020</b>				
Industrial and miscellaneous bonds	\$ —	\$ 789	\$ —	\$ 789
Total bonds	—	789	—	789
Total assets at fair value	\$ —	\$ 789	\$ —	\$ 789

Fair values of bonds are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs, for the determination of fair value and to facilitate fair value measurements and disclosures. Level II securities primarily include United States government securities, corporate securities, securities from states, municipalities and political subdivisions, residential mortgage-backed securities and certain other asset-backed securities. For securities not actively traded, the pricing services may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. For certain investments in bonds, primarily corporate debt securities, the valuation methodologies may incorporate broker quotes or discounted cash flow analyses using assumptions for inputs such as expected cash flows, benchmark yields, credit spreads, default rates and prepayment speeds that are not observable in the markets. These securities are designated Level III.

The fair value of real estate held for sale is based on analysis of market comparables and future income analysis.

The Company has controls in place to review the pricing services' qualifications and procedures used to determine fair values. In addition, the Company periodically reviews the pricing services'

## *Blue Cross Blue Shield of Wisconsin*

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

pricing methodologies, data sources and pricing inputs to ensure the fair values obtained are reasonable.

The following table summarizes the investments reported at fair value on the statutory balance sheets using Level III inputs:

	Balance at January 1	Transfers into Level III	Transfers out of Level III	Total gains (losses) included in Net Income	Total gains (losses) included in Surplus	Purchases	Sales	Balance at December 31
<b>2021</b>								
Real estate held for sale	\$ —	\$ 2,232	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,232
Total real estate	<u>\$ —</u>	<u>\$ 2,232</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,232</u>

Transfers into Level III include securities not previously carried at fair value that have either experienced a decline in fair value over amortized cost or are now required to be carried at fair value due to their rating. Transfers out of Level III include securities no longer carried at fair value that have either experienced improvement in fair value above amortized cost or are no longer required to be carried at lower of cost or market due to their rating. The Company's policy is to recognize transfers between levels, if any, as of the beginning of the reporting period.

The Company recognized \$0 and \$111 of OTTI for the year ended December 31, 2021 and 2020, respectively, on securities that were not reported at fair value on the statutory balance sheets at December 31, 2021 and 2020, or were not held as of December 31, 2021 and 2020.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

The following table summarizes the fair value of financial instruments by types:

<b>December 31, 2021</b>					
<b>Type of Financial Instrument</b>	<b>Aggregate Fair Value</b>	<b>Admitted Assets</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
Bonds	\$ 164,336	\$ 160,160	\$ —	\$ 164,336	\$ —
Securities lending collateral	6,180	6,180	—	6,180	—
Real estate held for sale	2,232	2,232	—	—	2,232

  

<b>December 31, 2020</b>					
<b>Type of Financial Instrument</b>	<b>Aggregate Fair Value</b>	<b>Admitted Assets</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
Bonds	\$ 165,359	\$ 156,374	\$ —	\$ 165,359	\$ —
Securities lending collateral	5,304	5,304	—	5,304	—

The Company has no investments measured at net asset value.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

#### **4. Subsidiaries and Affiliates**

Statutory financial information of the Company's subsidiary, Compcare, which exceeded 10% of admitted assets, is summarized, as filed in the annual statement, as follows:

##### **Summary balance sheets**

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Investments	\$ 562,441	\$ 489,364
Other assets	138,689	100,488
Total admitted assets	<u>\$ 701,130</u>	<u>\$ 589,852</u>
Insurance reserves	\$ 288,521	\$ 204,012
Other liabilities	165,760	159,133
Capital and surplus	246,849	226,707
Total liabilities and capital and surplus	<u>\$ 701,130</u>	<u>\$ 589,852</u>

##### **Summary statements of operations**

	<b>Years Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Revenues and investment gains	\$ 2,097,615	\$ 1,712,439
Expenses	2,062,229	1,664,962
Net income	<u>\$ 35,386</u>	<u>\$ 47,477</u>

Included in the Company's change in net unrealized gains (losses) in unassigned surplus for the years ended December 31, 2021 and 2020 is \$20,067 and \$34,031, respectively, related to the change in carrying values of the Company's investments in subsidiaries and affiliates.

The Company did not recognize an impairment write down for its investment in subsidiary during 2021 or 2020.

On September 23, 2021, the Company received an ordinary dividend of \$15,000 from its subsidiary Compcare, which is recorded as net investment income.

On September 17, 2020, the Company received an ordinary dividend of \$19,100 from its subsidiary Compcare, which is recorded as net investment income.

## *Blue Cross Blue Shield of Wisconsin*

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

#### **5. Unpaid Claims and Claims Adjustment Expenses**

The following table provides a reconciliation of the beginning and ending balances for unpaid claims and claims adjustment expenses:

	<u>2021</u>	<u>2020</u>
Balances at January 1, net of reinsurance	\$ 80,874	\$ 74,984
Incurred (redundancies) related to:		
Current year	728,504	640,866
Prior years	33	5,299
Total incurred	<u>728,537</u>	646,165
Paid related to:		
Current year	631,281	560,152
Prior years	80,225	80,123
Total paid	<u>711,506</u>	640,275
Balances at December 31, net of reinsurance	97,905	80,874
Ceded unpaid claims and claims adjustment expenses	23,405	18,295
Balances at December 31, gross of reinsurance	<u>\$ 121,310</u>	<u>\$ 99,169</u>

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled. Liabilities at any year end are continually reviewed and re-estimated as information regarding actual claim payments becomes known. This information is compared to the originally established year end liability. Positive amounts reported for incurred claims related to prior years are due to claims being settled for amounts greater than originally estimated. This experience is primarily attributable to actual medical cost experience that differs from that assumed at the time the liability was established. The impact from COVID-19 on healthcare utilization and medical claims submission patterns has increased estimation uncertainty on our incurred but not reported liability at December 31, 2021. Slowdowns in claims submission patterns and increases in utilization levels for COVID-19 testing and treatment during the fourth quarter of 2021 are the primary factors that lead to the increased estimation uncertainty.

The Company took into account estimated anticipated subrogation and other recoveries in its determination of the liability for unpaid claims based on historical recovery patterns.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

#### **6. Reinsurance**

The Company has a quota share reinsurance contract to cede direct FEP business to Anthem Insurance Companies, Inc., an affiliated company and an authorized reinsurer. Under this affiliate reinsurance contract, ceded premiums of \$192,496 and \$171,272 and ceded claims of \$183,928 and \$159,920 were included in operating results for the years ended December 31, 2021 and 2020, respectively. Ceded unpaid claims and claims adjustment expenses of \$23,405 and \$18,153 were included in the statutory balance sheets as of December 31, 2021 and 2020, respectively.

The effects of reinsurance on net premiums are as follows:

	<b>Year ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Direct premiums	\$ 1,018,018	\$ 907,783
Ceded premiums - affiliated reinsurers	(192,496)	(171,272)
Ceded premiums - unaffiliated reinsurers	(163)	(121)
Net premiums	<u>\$ 825,359</u>	<u>\$ 736,390</u>

The effects of reinsurance on claims and claims adjustment expenses in the accompanying financial statements as follows:

	<b>Year ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Direct claims and claims adjustment expenses	\$ 912,526	\$ 806,111
Ceded claims and claims adjustment expenses - affiliated reinsurers	(183,928)	(159,920)
Ceded claims and claims adjustment expenses - unaffiliated reinsurers	(61)	(26)
Net claims and claims adjustment expenses	<u>\$ 728,537</u>	<u>\$ 646,165</u>

The Company's ceded reinsurance arrangements reduced aggregate policy reserves in the accompanying statutory balance sheets by \$21,655 and \$31,398 as of December 31, 2021 and 2020, respectively. This includes \$20,836 and \$30,610 from affiliate reinsurance as of December 31, 2021 and 2020, respectively.

## Blue Cross Blue Shield of Wisconsin

### Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

#### 7. ACA Risk Adjustment Program

The ACA risk adjustment is a permanent program that transfers premiums from insurers that enroll members with relatively lower health risks to insurers that enroll members with relatively higher health risks and, therefore, is recorded as premium income. ACA premium risk adjustment receivables are reported in premiums receivable. ACA premium risk adjustment payables are reported in aggregate policy reserves. ACA risk adjustment user fee payable is reported in accounts payable and accrued expenses. User fees incurred are reported in operating expenses.

The amounts related to the ACA risk adjustment program are as follows:

	Year ended December 31	
	2021	2020
Premium risk adjustment receivables	\$ 381	\$ —
Premium risk adjustment payables	103	1,189
User fee payable	4	2
Risk adjustment premiums	597	(1,290)
User fees incurred	4	2

The following table provides a reconciliation of the ACA risk adjustment program balances (gross of any nonadmission) at December 31, 2020 to any remaining unsettled balance as of December 31, 2021 along with reasons for adjustments to these balances during 2021:

	Accrued During the Prior Year on Business Written Before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before December 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
	Receivable	(Payable)	Receivable	(Payable)	Prior Year Accrued Less Payments	Prior Year Accrued Less Payments	To Prior Year Balances	To Prior Year Balances	Ref	Cumulative Balance from Prior Years	Cumulative Balance from Prior Years
Permanent ACA Risk Adjustment Program											
Premium adjustments (payable)	\$ —	\$ 1,189	\$ —	\$ 839	\$ —	\$ 350	\$ —	\$ (296)	A	\$ —	\$ 54
Total ACA Permanent Risk Adjustment Program	\$ —	\$ 1,189	\$ —	\$ 839	\$ —	\$ 350	\$ —	\$ (296)		\$ —	\$ 54

A. Adjustments were made to reflect the ending balance in the Centers for Medicare & Medicaid Services "Summary Report on Permanent Risk Adjustment Transfers for the 2020 Benefit Year."



## *Blue Cross Blue Shield of Wisconsin*

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

#### 8. Federal Income Taxes

The Company has a current federal income tax recoverable (payable) of (\$297) and (\$1,111) as of December 31, 2021 and 2020, respectively.

The components of net deferred tax assets (liabilities) at December 31 are as follows:

	2021		
	Ordinary	Capital	Total
Gross deferred tax assets	\$ 8,620	\$ 4,936	\$ 13,556
Gross deferred tax liabilities	105	106	211
Net deferred tax asset before admissibility test	\$ 8,515	\$ 4,830	\$ 13,345

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101, *Income Taxes* ("SSAP No. 101") as of December 31, 2021 is:

Admitted pursuant to paragraph 11.a.	\$ 8,153	\$ —	\$ 8,153
Admitted pursuant to paragraph 11.b.	54	—	54
Admitted pursuant to paragraph 11.c.	105	106	211
Admitted deferred tax asset	8,312	106	8,418
Deferred tax liability	105	106	211
Net admitted deferred tax asset	8,207	—	8,207
Nonadmitted deferred tax asset	\$ 308	\$ 4,830	\$ 5,138

	2020		
	Ordinary	Capital	Total
Gross deferred tax assets	\$ 9,149	\$ 4,938	\$ 14,087
Gross deferred tax liabilities	446	100	546
Net deferred tax asset before admissibility test	\$ 8,703	\$ 4,838	\$ 13,541

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 as of December 31, 2020 is:

Admitted pursuant to paragraph 11.a.	\$ 8,562	\$ 2	\$ 8,564
Admitted pursuant to paragraph 11.b.	77	—	77
Admitted pursuant to paragraph 11.c.	446	100	546
Admitted deferred tax asset	9,085	102	9,187
Deferred tax liability	446	100	546
Net admitted deferred tax asset	8,639	2	8,641
Nonadmitted deferred tax asset	\$ 64	\$ 4,836	\$ 4,900

## *Blue Cross Blue Shield of Wisconsin*

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

The change in the amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 during 2021 is:

	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>
Admitted pursuant to paragraph 11.a.	\$ (409)	\$ (2)	\$ (411)
Admitted pursuant to paragraph 11.b.	(23)	—	(23)
Admitted pursuant to paragraph 11.c.	(341)	6	(335)
Admitted deferred tax asset	(773)	4	(769)
Deferred tax liability	(341)	6	(335)
Net admitted deferred tax asset	(432)	(2)	(434)
Nonadmitted deferred tax asset	\$ 244	\$ (6)	\$ 238

	<b>2021</b>	<b>2020</b>
Ratio percentage used to determine recovery period and threshold limitation amount	<b>375 %</b>	381 %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitations	<b>\$ 361,514</b>	\$ 298,845

The impact of tax planning strategies is as follows:

	<b>2021</b>		<b>2020</b>		<b>Change</b>	
	<b>Ordinary</b>	<b>Capital</b>	<b>Ordinary</b>	<b>Capital</b>	<b>Ordinary</b>	<b>Capital</b>
Adjusted gross deferred tax assets amount	<b>\$ 8,620</b>	<b>\$ 4,936</b>	\$ 9,149	\$ 4,938	\$ (529)	\$ (2)
Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	<b>0 %</b>	<b>0 %</b>	0 %	0 %	0 %	0 %
Net admitted adjusted gross deferred tax assets amount	<b>\$ 8,312</b>	<b>\$ 106</b>	\$ 9,085	\$ 102	\$ (773)	\$ 4
Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	<b>0 %</b>	<b>0 %</b>	0 %	0 %	0 %	0 %

The Company's tax planning strategies do not include the use of reinsurance.

## *Blue Cross Blue Shield of Wisconsin*

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

Current federal income taxes (benefits) consist of the following major components:

	2021	2020	Change
Federal income taxes (benefits) on operations	\$ 19,540	\$ 19,818	\$ (278)
Federal income tax expense (benefit) on net capital gains (losses)	201	89	112
Federal income taxes	\$ 19,741	\$ 19,907	\$ (166)

The components of deferred income taxes are as follows:

	December 31		Change
	2021	2020	
Deferred tax assets:			
Ordinary:			
Accrued future expenses	\$ 3,579	\$ 3,758	\$ (179)
Accounts receivable	3,391	3,643	(252)
Claims discount reserve	237	259	(22)
Other insurance reserves	357	327	30
Prepaid expenses	10	12	(2)
Unearned premium reserve	541	529	12
Other adjustments	505	621	(116)
Subtotal	8,620	9,149	(529)
Nonadmitted deferred tax assets	308	64	244
Admitted ordinary deferred tax assets	8,312	9,085	(773)
Capital:			
Investments in securities	—	2	(2)
Affiliated investment write-down	4,936	4,936	—
Subtotal	4,936	4,938	(2)
Nonadmitted deferred tax assets	4,830	4,836	(6)
Admitted capital deferred tax assets	106	102	4
Admitted deferred tax assets	8,418	9,187	(769)
Deferred tax liabilities:			
Ordinary:			
Fixed assets	100	442	(342)
Other adjustments	5	4	1
Subtotal	105	446	(341)
Capital:			
Investments in securities	8	—	8
Investment partnerships	98	100	(2)
Subtotal	106	100	6
Deferred tax liabilities	211	546	(335)
Net admitted deferred tax asset (liability)	\$ 8,207	\$ 8,641	\$ (434)

## *Blue Cross Blue Shield of Wisconsin*

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

The changes in deferred tax assets and deferred tax liabilities are as follows:

	<b>2021</b>	<b>2020</b>	<b>Change</b>
Total deferred tax assets	\$ 13,556	\$ 14,087	\$ (531)
Total deferred tax liabilities	211	546	(335)
Net deferred tax asset	\$ 13,345	\$ 13,541	(196)
Tax effect of unrealized gains (losses)			3
Change in net deferred income tax			\$ (193)

The Company has no repatriation transition tax or alternative minimum tax credit.

The Company's income tax expense and change in deferred income taxes differs from the amount obtained by applying the federal statutory income tax rate of 21% for the years ended December 31, 2021 and 2020 as follows:

	<b>2021</b>	<b>2020</b>
Tax expense (benefit) computed using the federal statutory rate	\$ 27,545	\$ 20,144
ACA health insurer fee	—	3,004
Change in nonadmitted assets	228	(238)
Tax exempt income and dividend received deduction net of proration	(4,731)	(4,006)
Prior year true-ups and adjustments	41	—
Subsidiary dividends	(3,150)	(4,011)
Other, net	1	1,271
Total	\$ 19,934	\$ 16,164
Federal income taxes expense (benefit)	\$ 19,741	\$ 19,907
Change in net deferred income taxes	193	(3,743)
Total statutory income taxes	\$ 19,934	\$ 16,164

At December 31, 2021, the Company has no operating loss carryforwards or tax credit carryforwards.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

	<u>Ordinary</u>		<u>Capital</u>		<u>Total</u>
<b>2021</b>	\$ 19,597	\$	201	\$	19,798
<b>2020</b>	18,614		89		18,703
<b>2019</b>	N/A		61		61

The Company is included in the consolidated federal income tax return of its parent Anthem, along with other affiliates, as of December 31, 2021. Allocation of federal income taxes with affiliates subject to the tax sharing agreement is based upon separate income tax return calculations with credit for net losses that can be used on a consolidated basis. Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. Intercompany income tax balances are settled based on the IRS due dates.

The Company is a member of the IRS Compliance Assurance Process (“CAP”) program. The objective of CAP is to reduce taxpayer burden and uncertainty while assuring the IRS of the accuracy of tax returns prior to filing, thereby reducing or eliminating the need for post filing examinations. As of December 31, 2021, the examination of the 2021 tax year continues to be in process.

#### **9. Health Insurer Fee**

The Company's portion of the annual health insurance industry fee paid during 2020 was \$14,304 and is included in operating expenses. This payment was based on \$788,638 of premium written subject to assessment under ACA Section 9010 as of December 31, 2019. The Company had no premiums written subject to assessment under ACA Section 9010 and did not record special surplus funds on the balance sheet as of December 31, 2020 due to the permanent elimination of this assessment, beginning in 2021.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

#### **10. Capital and Surplus**

The OCI requires the Company to maintain a minimum surplus as set forth in the state statutes. In addition, the State of Wisconsin has adopted RBC requirements as specified by the NAIC. Under those requirements, the amount of surplus to be maintained is determined based on various risk factors. The Company also is required to maintain certain capital and liquidity levels in conjunction with its BCBSA licensing. At December 31, 2021 and 2020, the Company's capital and surplus exceeded all regulatory requirements.

Under Wisconsin statutes, the Company is limited in the amount of dividends that can be declared without regulatory approval. The OCI must approve any dividend that, together with all dividends declared during the preceding three years, exceeds the lesser of 10% of statutory surplus existing at the end of the prior calendar year and a limitation based on net income less realized capital gains. Also, any dividend paid from other than earned surplus shall be considered an extraordinary dividend and will need approval of the Wisconsin Insurance Commissioner. The Company may pay \$36,972 in dividends during 2022 without prior approval

The portion of unassigned surplus (deficit) representing cumulative unrealized gains (losses), net of taxes, was \$219,633 and \$199,553 at December 31, 2021 and 2020, respectively.

#### **11. Leases**

The Company leases office space and EDP equipment and other miscellaneous items under various non-cancelable operating leases. Certain leases have the right to renew. There are no escalation clauses for any lease. Related lease expense for 2021 and 2020 was \$295 and \$1,022, respectively.

Obligations under noncancelable operating leases are not reflected on the balance sheet. At December 31, 2021, future lease payments for operating leases with initial or remaining noncancelable terms of one year or more consisted of the following: 2022, \$872; 2023, \$1,087; 2024, \$344; 2025, \$234 and thereafter, \$0.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

#### **12. Contingencies**

##### ***Litigation and regulatory proceedings***

###### **Blue Cross Blue Shield Antitrust Litigation**

Anthem Inc. (“Anthem”) is a defendant in multiple lawsuits that were initially filed in 2012 against the BCBSA and Blue Cross and/or Blue Shield licensees (“Blue Plans”) across the country. Cases filed in twenty-eight states were consolidated into a single, multi-district proceeding captioned *In re Blue Cross Blue Shield Antitrust Litigation* that is pending in the United States District Court for the Northern District of Alabama (the “Court”). Generally, the suits allege that the BCBSA and the Blue plans have conspired to horizontally allocate geographic markets through license agreements, best efforts rules that limit the percentage of non-Blue revenue of each plan, restrictions on acquisitions, rules governing the BlueCard<sup>®</sup> and National Accounts program and other arrangements in violation of the Sherman Antitrust Act (“Sherman Act”), and related state laws. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers.

In April 2018, the Court issued an order on the parties’ cross motions for partial judgement, determining that the defendants’ aggregation of geographic market allocations and output restrictions are to be analyzed under a per se standard of review, and the BlueCard<sup>®</sup> program and other alleged Section 1 Sherman Act violations are to be analyzed under the rule of reason standard of review. The Court also found that there remain genuine issues of material fact as to whether defendants operate as a single entity with regard to the enforcement of the Blue Cross Blue Shield trademarks. In April 2019, plaintiffs filed motions for class certification, which defendants opposed.

The BCBSA and Blue plans have approved a settlement agreement and release (the “Subscriber Settlement Agreement”), with the subscriber plaintiffs. If approved by the Court, the Subscriber Settlement Agreement will require defendants to make a monetary settlement payment, Anthem’s portion of which is estimated to be \$594,000 and will contain certain non-monetary terms including (i) eliminating the “national best efforts” rule in the BSBSA license agreements (which rule limits the percentage of non-Blue revenue permitted for each Blue plan) and (ii) allowing for some large national employers with self-funded benefit plans to request a bid for insurance coverage from a second Blue plan in addition to the local Blue plan. As of December 31, 2021, the liability balance accrued for Anthem’s estimated payment obligation was \$507,000, net of payments made. The Company recorded its estimated portion of the Subscriber Settlement Agreement, net of third party insurance coverage, in 2020.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

In November 2020, the Court issued an order preliminarily approving the Subscriber Settlement Agreement, following which members of the subscriber class were provided notice of the Subscriber Settlement Agreement and an opportunity to opt out of the class. All terms of the Subscriber Settlement Agreement are subject to final approval by the Court. The deadlines for objections to the settlement as well as the deadline for those who wish to opt-out from the settlement was in July 2021 and a small number of subscribers submitted valid opt outs by the deadline. The claims deadline was in November 2021 and in excess of eight thousand claims were submitted. A final hearing was held in October 2021. The Court took the request for final approval under advisement and requested supplemental briefing that has been submitted. If the Court grants approval of the Subscriber Settlement Agreement, and after all appellate rights have expired or have been exhausted in a manner that affirms the Court's final order and judgment, the defendants' payment and non-monetary obligations under the Subscriber Settlement Agreement will become effective.

In October 2020, after the Court lifted the stay as to the provider litigation, provider plaintiffs filed a renewed motion for class certification, which defendants opposed. In March 2021, the Court issued an order terminating the pending motion for class certification until the Court determines the standard of review applicable to the providers' claims. In May 2021, the defendants and provider plaintiffs filed renewed standard of review motions which are now fully briefed. In June 2021, the parties filed summary judgment motions not critically dependent on class certification which are now fully briefed. No decision has been rendered. Anthem intends to continue to vigorously defend the provider suit, which they believe is without merit; however, its ultimate outcome cannot be presently determined.

#### Express Scripts, Inc. Pharmacy Benefit Management Litigation

In March 2016, Anthem filed a lawsuit against Express Scripts, Inc. ("Express Scripts"), their vendor at the time for PBM services, captioned *Anthem, Inc. v. Express Scripts, Inc.*, in the U.S. District Court for the Southern District of New York. The lawsuit seeks to recover over \$14,800,000 in damages for pharmacy pricing that is higher than competitive benchmark pricing under the agreement between the parties (the "ESI PBM Agreement"), over \$158,000 in damages related to operational breaches, as well as various declarations under the ESI PBM Agreement, including that Express Scripts: (i) breached its obligation to negotiate in good faith and to agree in writing to new pricing terms; (ii) was required to provide competitive benchmark pricing to Anthem through the term of the ESI PBM Agreement; (iii) has breached the ESI PBM Agreement; and (iv) is required under the ESI PBM Agreement to provide post-termination services, at competitive benchmark pricing, for one year following any termination.



## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

Express Scripts has disputed Anthem's contractual claims and is seeking declaratory judgments: (i) regarding the timing of the periodic pricing review under the ESI PBM Agreement, and (ii) that it has no obligation to ensure that Anthem receives any specific level of pricing, that Anthem has no contractual right to any change in pricing under the ESI PBM Agreement and that its sole obligation is to negotiate proposed pricing terms in good faith. In the alternative, Express Scripts claims that Anthem has been unjustly enriched by its payment of \$4,675,000 at the time they entered into the ESI PBM Agreement. In March 2017, the court granted Anthem's motion to dismiss Express Scripts' counterclaims for (i) breach of the implied covenant of good faith and fair dealing, and (ii) unjust enrichment with prejudice. The only remaining claims are for breach of contract and declaratory relief. In August 2021, ESI filed a motion for summary judgment, which Anthem opposed. Express Scripts' motion for summary judgment is now fully briefed and no decision has been rendered. Anthem intends to vigorously pursue their claims and defend against any counterclaims, which they believe are without merit; however, the ultimate outcome cannot be presently determined.

#### In re Express Scripts/Anthem ERISA Litigation

Anthem is a defendant in a class action lawsuit that was initially filed in June 2016 against Anthem, Inc. and Express Scripts, which has been consolidated into a single multi-district lawsuit captioned *In Re Express Scripts/Anthem ERISA Litigation*, in the U.S. District Court for the Southern District of New York. The consolidated complaint was filed by plaintiffs against Express Scripts and Anthem on behalf of all persons who are participants in or beneficiaries of any ERISA or non-ERISA healthcare plan from December 1, 2009 to December 31, 2019 in which Anthem provided prescription drug benefits through the ESI PBM Agreement and paid a percentage based co-insurance payment in the course of using that prescription drug benefit. The plaintiffs allege that Anthem breached their duties, either under ERISA or with respect to the implied covenant of good faith and fair dealing implied in the health plans, (i) by failing to adequately monitor Express Scripts' pricing under the ESI PBM Agreement, (ii) by placing their own pecuniary interest above the best interests of their insureds by allegedly agreeing to higher pricing in the ESI PBM Agreement in exchange for the purchase price for their NextRx PBM business, and (iii) with respect to the non-ERISA members, by negotiating and entering into the ESI PBM Agreement that was allegedly detrimental to the interests of such non-ERISA members. Plaintiffs seek to hold Anthem and Express Scripts jointly and severally liable and to recover all losses suffered by the proposed class, equitable relief, disgorgement of alleged ill-gotten gains, injunctive relief, attorney's fees and costs and interest.

In April 2017, Anthem filed a motion to dismiss the claims brought against them, and it was granted, without prejudice, in January 2018. Plaintiffs filed a notice of appeal with the United States Court of Appeals for the Second Circuit (the "Second Circuit"), which was heard in

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

October 2018. In December 2020, the Court affirmed the trial court's decision dismissing the ERISA complaint. Plaintiffs filed a Petition for Rehearing and Rehearing En Banc, which was denied. Plaintiffs filed a writ of certiorari with the United States Supreme Court, which Anthem opposed, and the plaintiffs have replied. In December 2021, the United States Supreme Court requested that the Solicitor General submit a brief "expressing the views of the United States" as to whether the Court should grant plaintiffs' writ. Anthem intends to vigorously defend this suit, which they believe is without merit; however, its ultimate outcome cannot be presently determined.

#### ***Other Contingencies***

From time to time, the Company is party to various legal proceedings, many of which involve claims for coverage encountered in the ordinary course of business. The Company, like HMOs and health insurers, generally exclude certain healthcare and other services from coverage under their HMO, PPO and other plans. The Company is, in the ordinary course of business, subject to the claims of their enrollees arising out of decisions to restrict or deny reimbursement for uncovered services. The loss of even one such claim, if it results in a significant punitive damage award, could have a material adverse effect on the Company. In addition, the risk of potential liability under punitive damage theories may increase significantly the difficulty of obtaining reasonable reimbursement of coverage claims.

In addition to the lawsuits described above, the Company is also involved in other pending and threatened litigation of the character incidental to their business, and is from time to time involved as a party in various governmental investigations, audits, reviews and administrative proceedings. These investigations, audits, reviews and administrative proceedings include routine and special inquiries by state insurance departments, state attorneys general, the U.S. Attorney General and subcommittees of the U.S. Congress. Such investigations, audits, reviews and administrative proceedings could result in the imposition of civil or criminal fines, penalties, other sanctions and additional rules, regulations or other restrictions on the Company's business operations. Any liability that may result from any one of these actions, or in the aggregate, could have a material adverse effect on the Company's financial position or results of operations.

The Company has no other known material contingencies.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

#### **13. Employee Benefits**

The Company participates in the Anthem Cash Balance Plan (the “Plan”), a frozen non-contributory defined benefit pension plan sponsored by ATH Holding Company, LLC (“ATH Holding”), covering most employees of Anthem and its subsidiaries. ATH Holding allocates a share of the total accumulated costs of the plan to the Company based on the number of allocated employees. The Company has no legal obligation for benefits under this plan.

The Company participates in a postretirement medical benefit plan, sponsored by ATH Holding, providing certain health, life, vision and dental benefits to eligible retirees. ATH Holding allocates a share of the total accumulated costs of this plan to the Company based on the number of allocated employees. The Company has no legal obligation for benefits under this plan.

The Company participates in a deferred compensation plan sponsored by Anthem, which covers certain employees once the participant reaches the maximum contribution amount for the Anthem 401(k) Plan (the “401(k) Plan”). The deferred amounts are payable according to the terms and subject to the conditions of the deferred compensation plan. Anthem allocates a share of the total accumulated costs of this plan to the Company based on the number of allocated employees subject to the deferred compensation plan. The Company has no legal obligation for benefits under this plan.

The Company participates in the 401(k) Plan, sponsored by ATH Holding and covering substantially all employees. Voluntary employee contributions are matched by ATH Holding, subject to certain limitations. ATH Holding allocates a share of the total costs of the plan to the Company based on the number of allocated employees. The Company has no legal obligation for benefits under this plan.

The Company participates in a stock incentive compensation plan, sponsored by Anthem, providing incentive awards to non-employee directors and employees, consisting of Anthem stock options, restricted stock, restricted stock units, stock appreciation rights, performance shares, and performance units. Anthem allocates a share of the total share-based compensation expense of this plan to the Company based on the number of allocated employees. The Company has no legal obligation for benefits under this plan.

## *Blue Cross Blue Shield of Wisconsin*

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

During 2021 and 2020, the Company was allocated the following costs or (credits) for these retirement benefits:

	<b>2021</b>	<b>2020</b>
Defined benefit pension plan	\$ (166)	\$ (305)
Postretirement medical benefit plan	(99)	(108)
Deferred compensation plan	19	20
Defined contribution plan	1,464	1,374
Stock incentive compensation plan	2,144	1,837

#### 14. Uninsured Accident and Health Plans

The net gain (loss) from operations and total claim payment volume from administrative services only (“ASO”) plans was:

	<b>ASO Uninsured Plans</b>	<b>Uninsured Portion of Partially Insured Plans</b>	<b>Total ASO</b>
<b>For the year ended December 31, 2021</b>			
Net reimbursement for administrative expenses (including administrative fees) in excess of (less than) actual expenses	\$ (1,080)	\$ —	\$ (1,080)
Total net other income or expenses (including interest paid to or received from plans)	—	—	—
Net gain (loss) from operations	\$ (1,080)	\$ —	\$ (1,080)
Total claim payment volume	\$ 425,684	\$ —	\$ 425,684
<b>For the year ended December 31, 2020</b>			
Net reimbursement for administrative expenses (including administrative fees) in excess of (less than) actual expenses	\$ 766	\$ —	\$ 766
Total net other income or expenses (including interest paid to or received from plans)	—	—	—
Net gain (loss) from operations	\$ 766	\$ —	\$ 766
Total claim payment volume	\$ 367,391	\$ 18	\$ 367,409

## *Blue Cross Blue Shield of Wisconsin*

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

The net gain (loss) from operations from administrative service contract (“ASC”) plans was:

	ASC Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASC
<b>For the year ended December 31, 2021</b>			
Gross reimbursement for medical costs incurred	\$ 1,158,774	\$ —	\$ 1,158,774
Gross administrative fees earned	94,104	—	94,104
Gross expenses incurred (claims and administrative)	(1,221,849)	—	(1,221,849)
Net gain (loss) from operations	\$ 31,029	\$ —	\$ 31,029
<b>For the year ended December 31, 2020</b>			
Gross reimbursement for medical costs incurred	\$ 912,246	\$ —	\$ 912,246
Gross administrative fees earned	73,065	—	73,065
Gross expenses incurred (claims and administrative)	(976,624)	—	(976,624)
Net gain (loss) from operations	\$ 8,687	\$ —	\$ 8,687

The receivables from uninsured plans at December 31 are as follows:

Receivable from	Related to	2021	2020
Uninsured plans	Uninsured business, not including pharmaceutical rebate receivables	\$ 41,427	\$ 35,586

### 15. Health Care Receivables

Pharmaceutical rebate receivables consist of reasonably estimated and billed amounts. Amounts not collected within 90 days of the invoice or confirmation date are nonadmitted. Total admitted and nonadmitted pharmaceutical rebates receivables at December 31 are as follows:

	2021		2020	
	Admitted	Nonadmitted	Admitted	Nonadmitted
Pharmaceutical rebate receivables, reported in health care and other receivables	\$ 1,560	\$ 483	\$ 3,168	\$ 10
Pharmaceutical rebate receivables, reported in amounts receivable relating to uninsured plans	1,909	591	112	91
Total pharmaceutical rebate receivables	\$ 3,469	\$ 1,074	\$ 3,280	\$ 101

Admitted pharmaceutical rebate receivables at December 31, 2021 and 2020, include \$3,469 and \$3,280, respectively, due from IngenioRx, Inc., an affiliated company.

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

During 2020, the Company sold \$300 of pharmaceutical rebate receivables without recourse to Blue Cross of California, an affiliated entity. The proceeds received by the Company represented the expected pharmaceutical rebates recoverable in 90 days or more at the end of each quarter, less a \$2 discount fee. During 2021, the Company did not sell any pharmaceutical rebate receivables.

Claim overpayment receivables consist of amounts that have been invoiced and meet the setoff conditions. Amounts that have not been invoiced and do not meet the setoff conditions are nonadmitted. Total admitted and nonadmitted claim overpayment receivables at December 31 are as follows:

	2021		2020	
	Admitted	Nonadmitted	Admitted	Nonadmitted
Claim overpayment receivables, reported in health care and other receivables	\$ —	\$ 1,238	\$ —	\$ 2,508
Claim overpayment receivables, reported in amounts receivable relating to uninsured plans	—	8,342	—	9,285
Total claim overpayment receivables	<u>\$ —</u>	<u>\$ 9,580</u>	<u>\$ —</u>	<u>\$ 11,793</u>

#### **16. Related Party Transactions**

The Company has entered into administrative services agreements with its affiliated companies. Pursuant to these agreements, various administrative, management and support services are provided to or provided by the Company. The expenses related to these administrative management and support services are allocated to or allocated by the Company in an amount equal to the direct and indirect costs and expenses incurred in providing these services. Costs include expenses such as salaries, benefits, information technology, pharmacy benefits management services, advertising, consulting services, rent, utilities, accounting, underwriting, and product development, which support the operations of the Company. These costs are allocated based on various utilization statistics.

In addition, the Company is party to administrative services agreements with certain affiliated companies for member quality improvement and other services provided at Fair Market Value (“FMV”). OCI on November 1, 2018. The expenses related to these services are allocated to the Company in an amount equal to the price (“Market Price”) that would be paid for materially similar, stand-alone services purchased by knowledgeable, willing parties in an arm’s length transaction. The Market Price may be determined, for example, through various benchmarking studies and analyses or may be based upon the price at which any providing affiliate provides such services to non-affiliated third parties in the normal course of its business. Under all

## ***Blue Cross Blue Shield of Wisconsin***

### Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

circumstances, the compensation paid by any receiving company for services under these agreements shall be fair and reasonable.

The Company is party to a cash concentration agreement with its affiliated companies. Under this agreement, any of the Company's affiliates may be designated as a cash manager to handle the collection and/or payment of funds on behalf of the Company. Conversely, the Company may be designated as a cash manager to handle the collection and/or payment of funds on behalf of its affiliates. Cash services covered under this agreement include the collection of premiums and other revenue, the collection of benefit and administrative expense reimbursements, the payment of policy benefits, payroll expense, operating expense, and accounts payable disbursements.

Net payments to affiliated companies pursuant to the above administrative service agreements were \$115,176 and \$119,224 in 2021 and 2020, respectively, and are included in operating expenses and claims and claims adjustment expenses in the statutory statements of operations.

At December 31, 2021 and 2020, the Company reported \$56,201 and \$2,002 due from affiliates, respectively. At December 31, 2021 and 2020, the Company reported no amounts due to affiliates. The receivable balances represent intercompany transactions that are settled in accordance with the settlement terms of the intercompany agreement.

The Board of Directors of the Company declared an extraordinary dividend in the amount of \$70,000 on August 16, 2021. The OCI approved this dividend on September 22, 2021. The Company paid the dividend to its parent company, Crossroads, on September 23, 2021.

The Board of Directors of the Company declared an extraordinary dividend in the amount of \$95,000 on August 13, 2020. The OCI approved this dividend on September 14, 2020 and the Company paid the dividend to its parent company, Crossroads, on September 16, 2020.

#### **17. Subsequent Events**

Management of the Company has evaluated all events occurring after December 31, 2021 through April 21, 2022, the date the financial statements were available to be issued, to determine whether any event required either recognition or disclosure in the financial statements. It was determined there were no events that require recognition or disclosure in the financial statements through the report date.

## Supplementary Information - Statutory Basis





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## Report of Independent Auditors on Supplementary Information

Board of Directors  
Blue Cross Blue Shield of Wisconsin

We have audited the statutory basis financial statements of Blue Cross Blue Shield of Wisconsin as of and for the years ended December 31, 2021 and 2020, and have issued our report thereon dated April 21, 2022, which contained an adverse opinion with respect to conformity with U.S. generally accepted accounting principles and an unmodified opinion with respect to conformity with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### Restriction on Use

This report is intended solely for the information and use of the Company and state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

April 21, 2022

# *Blue Cross Blue Shield of Wisconsin*

## Summary Investment Schedule - Statutory Basis

(Dollars In Thousands)

December 31, 2021

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage of Gross Investment Holdings	Amount	Securities Lending Reinvested Collateral Amount	Total	Percentage of Total Admitted Invested Assets
Long-Term Bonds:						
U.S. governments	\$ 11,231	2.7 %	\$ 11,231	\$ 1,269	\$ 12,500	3.0 %
U.S. states, territories and possessions, etc. guaranteed	1,342	0.3	1,342	—	1,342	0.3
U.S. political subdivisions of states, territories, and possessions, guaranteed	3,429	0.8	3,429	—	3,429	0.8
U.S. special revenue and special assessment obligations, etc. non-guaranteed	57,765	14.0	57,765	—	57,765	14.0
Industrial and miscellaneous	86,393	20.9	86,393	—	86,393	20.9
Total long-term bonds	160,160	38.7	160,160	1,269	161,429	39.0
Common stocks:						
Parent, subsidiaries and affiliates						
Other	247,288	59.7	246,849	—	246,849	59.7
Total common stocks	247,288	59.7	246,849	—	246,849	59.7
Real estate:						
Properties held for sale	2,232	0.5	2,232	—	2,232	0.5
Total real estate	2,232	0.5	2,232	—	2,232	0.5
Cash, cash equivalents and short-term investments:						
Cash	(1,643)	(0.4)	(1,643)	1,504	(139)	—
Cash equivalents	—	—	—	2,858	2,858	0.7
Short-term investments	—	—	—	549	549	0.1
Total cash, cash equivalents and short-term investments	(1,643)	(0.4)	(1,643)	4,911	3,268	0.8
Securities lending	6,180	1.5	6,180	XXX	XXX	XXX
Total invested assets	\$ 414,217	100.0 %	\$ 413,778	\$ 6,180	\$ 413,778	100.0 %

## *Blue Cross Blue Shield of Wisconsin*

### Investment Risks Interrogatories - Statutory Basis

*(Dollars In Thousands)*

December 31, 2021

1. The Company's total admitted assets as reported on Page 2 of the Annual Statement are: \$ 680,248

2. Ten largest exposures to a single issuer/borrower/investment:

	Investment	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Compcare Health Services Insurance Corporation	Investment of common stock of subsidiary	\$ 246,849	36.3 %
2.02	Bank-2017	Bond	\$ 2,010	0.3 %
2.03	Goldman Sachs Group Inc/The	Bond	\$ 1,889	0.3 %
2.04	Township of Irvington NJ	Bond	\$ 1,425	0.2 %
2.05	City of Maple Grove MN	Bond	\$ 1,354	0.2 %
2.06	Public Finance Authority	Bond	\$ 1,164	0.2 %
2.07	Nelnet Student Loan Trust	Bond	\$ 1,144	0.2 %
2.08	Morgan Stanley Bank of America	Bond	\$ 1,112	0.2 %
2.09	Housing Authority of Clayton County	Bond	\$ 1,100	0.2 %
2.10	FHLMC Multifamily Structured P Series K069 Class A2	Bond	\$ 1,097	0.2 %

3. The Company's total admitted assets held in bonds by NAIC designation are:

	Bonds	Amount	Percentage of Total Admitted Assets
3.01	NAIC - 1	\$ 99,463	14.6 %
3.02	NAIC - 2	\$ 58,507	8.6 %
3.03	NAIC - 3	\$ 2,187	0.3 %
3.04	NAIC - 4	\$ 3	0.0 %
3.05	NAIC - 5	\$ —	

The Company has no investments in preferred stock at December 31, 2021.

## *Blue Cross Blue Shield of Wisconsin*

### Investment Risks Interrogatories - Statutory Basis (continued)

*(Dollars In Thousands)*

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [    ]    No [ X ]

	Amount	Percentage of Total Admitted Assets
4.02 Total admitted assets held in foreign investments	\$ 23,389	3.4 %
4.03 Foreign-currency-denominated investments	\$ —	0.0 %
4.04 Insurance liabilities denominated in that same foreign currency	\$ —	0.0 %

5. Aggregate foreign investment exposure categorized by NAIC Sovereign rating:

	Amount	Percentage of Total Admitted Assets
5.01 Countries rated NAIC - 1	\$ 22,018	3.2 %
5.02 Countries rated NAIC - 2	\$ 1,371	0.2 %
5.03 Countries rated NAIC - 3 or below	\$ —	0.0 %

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

	Amount	Percentage of Total Admitted Assets
Countries rated NAIC - 1		
6.01 Country: United Kingdom	\$ 5,922	0.9 %
6.02 Country: Netherlands	\$ 3,113	0.5 %
Countries rated NAIC - 2		
6.03 Country: Italy	\$ 838	0.1 %
6.04 Country: Mexico	\$ 532	0.1 %
Countries rated NAIC - 3 or below		
6.05 Country:	\$ —	0.0 %
6.06 Country:	\$ —	0.0 %

7. The Company has no unhedged foreign currency exposure.

8. The Company has no unhedged foreign currency exposure.

9. The Company has no unhedged foreign currency exposure.

## *Blue Cross Blue Shield of Wisconsin*

### Investment Risks Interrogatories - Statutory Basis (continued)

*(Dollars In Thousands)*

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	Issuer	NAIC Rating	Amount	Percentage of Total Admitted Assets
10.01	Invesco Ltd	2	\$ 898	0.1 %
10.02	HSBC Holdings PLC	2	\$ 898	0.1 %
10.03	Danske Bank A/S	2	\$ 855	0.1 %
10.04	NATWEST GROUP PLC	2	\$ 850	0.1 %
10.05	Triton International Ltd	2	\$ 850	0.1 %
10.06	Barclays PLC	2	\$ 846	0.1 %
10.07	Eni SpA	2	\$ 838	0.1 %
10.08	Allegion PLC	2	\$ 836	0.1 %
10.09	CNH Industrial NV	2	\$ 836	0.1 %
10.10	Standard Chartered PLC	1	\$ 833	0.1 %

11. Assets held in Canadian investments are less than 2.5% of the total admitted assets.

12. Assets held in investments with contractual sales restrictions are less than 2.5% of the total admitted assets.

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?

Yes [  ] No [  ]

	Name of Issuer	Amount	Percentage of Total Admitted Assets
13.02	Compcare Health Services Insurance Corporation	\$ 246,849	36.3 %

14. Assets held in nonaffiliated, privately placed equities are less than 2.5% of total admitted assets.

15. Investments in general partnership interests are less than 2.5% of the total admitted assets.

16. The Company has no investments in mortgage loans.

17. The Company has no investments in mortgage loans.

18. The Company's assets held in real estate are less than 2.5% of total admitted assets.

19. The Company has no potential exposure for mezzanine real estate loans.

## *Blue Cross Blue Shield of Wisconsin*

### Investment Risks Interrogatories - Statutory Basis (continued)

*(Dollars In Thousands)*

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-end		At End of Each Quarter (Unaudited)		
	Amount	Percentage of Admitted Assets	1st qtr	2nd qtr	3rd qtr
20.01 Securities lending	\$ 5,933	0.9 %	\$ 5,920	\$ 4,918	\$ 9,801
20.02 Repurchase agreements	\$ —	0.0 %	\$ —	\$ —	\$ —
20.03 Reverse repurchase agreements	\$ —	0.0 %	\$ —	\$ —	\$ —
20.04 Dollar repurchase agreements	\$ —	0.0 %	\$ —	\$ —	\$ —
20.05 Dollar reverse repurchase agreements	\$ —	0.0 %	\$ —	\$ —	\$ —

21. The Company held no admitted assets for warrants not attached to other financial instruments, options, caps and floors.
22. The Company held no admitted assets with potential exposure for collars, swaps and forwards.
23. The Company held no admitted assets with potential exposure for futures contracts.

## ***Blue Cross Blue Shield of Wisconsin***

### **Note to Supplementary Information - Statutory Basis**

*(Dollars In Thousands)*

December 31, 2021

#### **Note-Basis of Presentation**

The accompanying supplemental schedules present selected statutory financial information as of December 31, 2021 and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' *Annual Statement Instructions* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual*, and agrees to or is included in the amounts reported in the Blue Cross Blue Shield of Wisconsin's 2021 Annual Statement as filed with the Office of the Commissioner of Insurance of the State of Wisconsin.

The Company has not identified any reinsurance contracts entered into, renewed or amended on or after January 1, 1996 that would require disclosure in the supplemental schedule of life and health reinsurance disclosures as required under SSAP No. 61R, *Life, Deposit-Type and Accident and Health Reinsurance*.

Captions or amounts that are not applicable have been omitted.