

Financial Statements and Supplementary Information - Statutory Basis

Blue Cross Blue Shield of Wisconsin

*Years Ended December 31, 2019 and 2018*  
*With Reports of Independent Auditors*

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

Financial Statements and Supplementary Information - Statutory Basis  
Years Ended December 31, 2019 and 2018

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## **Report of Independent Auditors**

Board of Directors  
Blue Cross Blue Shield of Wisconsin

We have audited the accompanying statutory basis financial statements of Blue Cross Blue Shield of Wisconsin (the Company), which comprise the balance sheets as of December 31, 2019 and 2018, 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.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 statutory basis 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 U.S. generally accepted accounting principles. The effects on the financial statements of the variances between these statutory accounting practices and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

### **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 paragraph, the statutory basis financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the Company at December 31, 2019 and 2018, or the results of its operations or its cash flows for the years then ended.

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

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

*Ernst + Young LLP*

April 16, 2020

# *Blue Cross Blue Shield of Wisconsin*

## Balance Sheets - Statutory Basis

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
	<i>(In Thousands)</i>	
<b>Admitted assets</b>		
Cash and invested assets:		
Cash, cash equivalents and short-term investments	\$ (5,382)	\$ 7,038
Bonds	161,386	153,300
Investment in common stock of subsidiary	191,843	167,880
Real estate	4,815	5,036
Securities lending collateral	776	—
Total cash and invested assets	<u>353,438</u>	<u>333,254</u>
Accrued investment income	1,188	1,205
Premiums receivable	49,810	59,214
Amounts recoverable from reinsurers	16,090	9,260
Amounts receivable relating to uninsured plans	69,220	77,556
Current federal income tax recoverable	247	—
Net deferred tax asset	5,153	4,868
Guaranty fund assessment receivable	—	845
Receivables from affiliates	—	3,188
Federal Employee Program receivable	63,169	73,272
Health care and other receivables	1,964	2,651
Other assets	89	175
Total admitted assets	<u>\$ 560,368</u>	<u>\$ 565,488</u>

## *Blue Cross Blue Shield of Wisconsin*

### Balance Sheets - Statutory Basis

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
<b>Liabilities and capital and surplus</b>		
Liabilities:		
Unpaid claims and claims adjustment expenses	\$ 74,984	\$ 73,854
Aggregate policy reserves	64,226	73,617
Premiums received in advance	10,732	9,569
Accounts payable and accrued expenses	9,192	12,290
Current federal income tax payable	—	1,617
Ceded reinsurance premiums payable	17,206	3,961
Remittances and items not allocated	1,432	6,173
Payable to affiliates	12,525	—
Payable for securities	1,416	—
Payable for securities lending	776	—
Liability for amounts held under uninsured plans	73,001	75,244
Amounts withheld or retained for accounts of others	280	242
Other liabilities	5,329	6,073
Total liabilities	<u>271,099</u>	<u>262,640</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)	234,038	263,159
Special surplus funds	15,542	—
Total capital and surplus	<u>289,269</u>	<u>302,848</u>
Total liabilities and capital and surplus	<u>\$ 560,368</u>	<u>\$ 565,488</u>

## *Blue Cross Blue Shield of Wisconsin*

### Statements of Operations - Statutory Basis

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
<b>Premium income</b>	\$ 727,288	\$ 726,892
<b>Benefits and expenses:</b>		
Claims and claims adjustment expenses	653,779	623,130
Operating expenses	12,008	21,307
Change in reserves for accident and health contracts	(6)	(23)
Total benefits and expenses	<u>665,781</u>	<u>644,414</u>
<b>Net underwriting gain (loss)</b>	<b>61,507</b>	<b>82,478</b>
<b>Investment gains (losses):</b>		
Net investment income (losses)	61,855	61,022
Net realized capital gains (losses), net of taxes (benefits)	(26)	289
Total net investment gains (losses)	<u>61,829</u>	<u>61,311</u>
<b>Other income (expense)</b>	<u>2,499</u>	<u>716</u>
<b>Income (loss) before federal income taxes</b>	<b>125,835</b>	<b>144,505</b>
Federal income taxes (benefits)	13,612	21,463
<b>Net income (loss)</b>	<b>\$ 112,223</b>	<b>\$ 123,042</b>

See accompanying notes.

## *Blue Cross Blue Shield of Wisconsin*

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

	Common Stock	Additional Paid-in Surplus	Unassigned Surplus (Deficit)	Special Surplus Funds	Total Capital and Surplus
	<i>(In Thousands)</i>				
Balance as of January 1, 2018	\$ 2,000	\$ 37,689	\$ 222,191	\$ 14,823	\$ 276,703
Net income (loss)	—	—	123,042	—	123,042
Change in net unrealized capital gains and losses, net of taxes (benefits)	—	—	14,969	—	14,969
Change in net deferred income tax	—	—	101	—	101
Change in nonadmitted assets	—	—	(1,967)	—	(1,967)
Change in special surplus funds for ACA health insurer fee	—	—	14,823	(14,823)	—
Dividend to shareholder	—	—	(110,000)	—	(110,000)
Balance as of December 31, 2018	<u>2,000</u>	<u>37,689</u>	<u>263,159</u>	<u>—</u>	<u>302,848</u>
Net income (loss)	—	—	<b>112,223</b>	—	<b>112,223</b>
Change in net unrealized capital gains and losses, net of taxes (benefits)	—	—	<b>24,036</b>	—	<b>24,036</b>
Change in net deferred income tax	—	—	<b>502</b>	—	<b>502</b>
Change in nonadmitted assets	—	—	<b>(340)</b>	—	<b>(340)</b>
Change in special surplus funds for ACA health insurer fee	—	—	<b>(15,542)</b>	<b>15,542</b>	—
Dividend to shareholder	—	—	<b>(150,000)</b>	—	<b>(150,000)</b>
Balance as of December 31, 2019	<u><b>\$ 2,000</b></u>	<u><b>\$ 37,689</b></u>	<u><b>\$ 234,038</b></u>	<u><b>\$ 15,542</b></u>	<u><b>\$ 289,269</b></u>

See accompanying notes.



## *Blue Cross Blue Shield of Wisconsin*

### Statements of Cash Flow - Statutory Basis

	<b>Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
	<i>(In Thousands)</i>	
<b>Operating activities:</b>		
Premiums collected	\$ 751,105	\$ 729,186
Investment income received	62,709	61,969
Miscellaneous revenue	(67)	(242)
Claims and claims adjustment expenses paid	(659,290)	(636,746)
General administrative and miscellaneous expenses paid	(4,299)	(4,063)
Federal income taxes (paid) recovered	(15,537)	(23,399)
Net cash provided by (used in) operating activities	<u>134,621</u>	<u>126,705</u>
<b>Investment activities:</b>		
Proceeds from investments sold, matured or repaid	36,874	32,530
Cost of investments acquired	(43,969)	(40,078)
Securities lending collateral	(776)	3,315
Net cash provided by (used in) investment activities	<u>(7,871)</u>	<u>(4,233)</u>
<b>Financing or miscellaneous activities:</b>		
Dividend to shareholder	(150,000)	(110,000)
Changes in securities lending payable	776	(3,315)
Net transfers from (to) affiliates	15,713	35,395
Other	(5,659)	3,340
Net cash provided by (used in) financing or miscellaneous activities	<u>(139,170)</u>	<u>(74,580)</u>
Change in cash, cash equivalents and short-term investments	(12,420)	47,892
Cash, cash equivalents and short-term investments at beginning of year	7,038	(40,854)
Cash, cash equivalents and short-term investments at end of year	<u>\$ (5,382)</u>	<u>\$ 7,038</u>

*See accompanying notes.*

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

## Notes to Financial Statements - Statutory Basis

*(Dollars In Thousands)*

December 31, 2019

### **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 for certain 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, 2019 and 2018, 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. 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.

Investments in affiliated entities are valued pursuant to SSAP No. 97, *Investment in Subsidiaries, Controlled, and Affiliated Entities* (“SSAP No. 97”). Investments in affiliated entities are not consolidated with the accounts and operations of the Company as would be required for GAAP. Equity in earnings of subsidiaries is accounted for as a change in unrealized capital gains or

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

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

*(Dollars In Thousands)*

losses. Dividends received from subsidiaries are accounted for as a component of net investment income. Unaudited ownership interests are nonadmitted by the Company. For GAAP, equity in earnings of subsidiaries are accounted for as a component of net income and dividends received from subsidiaries are accounted for as a reduction of the investment in the subsidiary.

The Company owned approximately 1.9% and 1.9% of its ultimate parent company's stock at December 31, 2019 and 2018, respectively. The Company's investment in stock of its ultimate parent company is carried at zero for statutory accounting purposes at December 31, 2019 and 2018. Under GAAP, the Company's investment in the stock of its parent is recorded at its market value with changes reported as unrealized gains or losses directly to stockholder's equity, net of tax.

*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 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 capital and surplus. These nonadmitted assets totaled \$22,338 and \$21,998 at December 31, 2019 and 2018, respectively. For GAAP, these amounts are carried as assets, net of a valuation allowance, if necessary.

*Deferred acquisition costs:* Costs incurred in the acquisition of new and renewal insurance contracts, such as broker commissions and certain other policy acquisition costs, are expensed as incurred. For GAAP, such amounts are recorded as deferred acquisition costs on the balance sheet and are amortized in proportion to the amount of premium 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.

*Deferred income taxes:* Statutory 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

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

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

*(Dollars In Thousands)*

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 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"). For GAAP, state income taxes are considered in the computation of deferred taxes, 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.

*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 also 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 have been written off through a charge to operations. Policy and contract liabilities ceded to reinsurers have been reported as reductions of the related reserves rather than as assets, as would be required under GAAP.

*Guaranty fund assessments:* Guaranty fund assessments may be partially recovered over a period of time through premium surcharges, which are generally recognized when the assessment is paid. For GAAP, the recovery of guaranty fund assessments is recognized in the year recovered.

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

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

*(Dollars In Thousands)*

*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 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 other-than-temporary impairments ("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

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

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

*(Dollars In Thousands)*

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 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.

Short-term investments include investments with maturities of less than one year and more than three months at the date of acquisition and are reported at amortized cost, which approximates fair value. Cash equivalent investments include money market mutual funds and investments with maturities of less than or equal to three months at the date of acquisition. Money market mutual funds are reported at fair value. Investments with maturities of less than or equal to three months at the date of acquisition are reported at amortized cost, which approximates fair value. Non-investment grade short-term and cash equivalent investments are stated at the lower of amortized cost or fair value.

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 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, 2019 Compcare had admitted assets, total liabilities, and statutory capital and surplus of \$426,137, \$234,294, and \$191,843 respectively, and had \$68,984 of statutory net income during the year ended December 31, 2019.

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.

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

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

*(Dollars In Thousands)*

#### **Real Estate**

Real estate refers to property occupied by the Company. Land is recorded at cost and other real estate 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 2019 and 2018 was \$377 and \$372, respectively. Accumulated depreciation at December 31, 2019 and 2018 was \$3,856 and \$3,479, respectively.

#### **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 2019 and 2018 was \$282 and \$568, respectively. Accumulated depreciation at December 31, 2019 and 2018 was \$3,985 and \$3,703, 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. These 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 and 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.

The Company records a liability for future policy benefits relating to certain insurance policies for which some of the premiums received in earlier years are intended to pay anticipated benefits to be incurred in future years. The liability represents the present value of future benefits to be paid to or on behalf of policy holders and related expenses, less the present value of future net premiums. Changes in the liability for future benefits are recognized in the accompanying statutory statements in the period in which the change occurs.

#### **Provider Risk Share and Other Reserves**

The Company contracts with physicians or provider groups to provide medical services to the Company's members. The Company pays capitation or negotiated fees for defined services provided by the physicians. Under the terms of these agreements, certain providers are eligible to receive provider incentives based on qualitative and quantitative factors. Estimated risk-sharing settlements are continually reviewed, and necessary adjustments are included in current operations. Claims and claims adjustment expenses include all amounts incurred by the Company under these arrangements.

#### **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, 2019 or 2018.

#### **Revenue Recognition**

Premiums are earned over the 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.



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

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

*(Dollars In Thousands)*

At December 31, 2019 and 2018, the Company reported admitted assets of \$119,030 and \$136,770, respectively, in premiums receivable and amounts receivable relating to uninsured plans. Based upon Company experience, any uncollectible receivables are not expected to exceed \$11,265 that was nonadmitted at December 31, 2019; 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.

#### **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.

#### **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, risk adjustment programs, and risk corridors programs. Accrued retrospective premiums are reported in premiums receivable. Reserves for rate credits or policy rating refunds are reported in aggregate policy reserves. Risk corridors receipts (payments) and changes in risk corridors receivable (payable) are reported in premium income. 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 also recorded as premium income in operations.

Medical loss ratio ("MLR") rebates per the Affordable Care Act ("ACA") are reported in accordance with SSAP No. 66, *Retrospectively Rated Contracts*. 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) and the stipulated formula set forth in the policy, or in the case of MLR rebates, pursuant to the *Public Health Services Act*, a formula required by law. The Company uses estimates to report in the statutory financial statements the aggregate policy reserve amounts for retrospectively rated contracts based on its underwriting experience, actuarial, tax, and accounting 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, 2019 and 2018 that were subject to retrospective rating features, including MLR rebate regulations, was \$639,874 and \$607,923, which represented 89.2% and 89.5%, respectively, of the total net premiums written.

#### **Affordable Care Act Risk Sharing Provisions**

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. In addition, risk adjustment high cost risk pooling began in 2018. This program adds a reinsurance-like element to the risk adjustment program, in that it functions with a specified attachment point and ceiling at a specified coinsurance rate for reimbursement, and is recorded to premium income. This is also a permanent program. The ACA transitional reinsurance and risk corridor programs ended in 2016.

As a result of the variability of factors, the settled amount of ACA risk adjustment could be materially more or less than the Company's estimates. The Company risk adjustment data submissions are subject to review and audit by CMS, which can potentially take several years to resolve completely. Any adjustment to premium income as a result for such review and audit would be recorded when estimable.

#### **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. 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.

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

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

*(Dollars In Thousands)*

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. The FEP contract renews automatically each year, unless written notice of termination is given by either party.

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 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 \$90,241 and \$91,589 as of December 31, 2019 and 2018, 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 \$63,169 and \$73,272 as of December 31, 2019 and 2018, respectively due to the reinsurance arrangement discussed in Note 6.

FEP represented approximately 94.0% and 86.5% of premiums receivable as of December 31, 2019 and 2018, respectively. FEP represented approximately 54.2% and 54.2% of net premiums written for the years ended December 31, 2019 and 2018, 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, 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.

The Company offers partially insured plans which include coverage for the risks related to the claims and administrative services for some, or all, of the claims paid by the plan. Such plans are

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

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

*(Dollars In Thousands)*

treated as two plans: an uninsured plan and an insured plan. The component related to uninsured plan is accounted as outlined in the previous paragraph and the component related to the coverage of claims risk is accounted for as insurance.

#### **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.

#### **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 suspended for 2019 and has resumed for 2020. The health insurer fee has been permanently eliminated beginning in 2021.

#### **Guaranty Fund and Other Assessments**

The Company is subject to guaranty fund and other state assessments where it writes business. Guaranty fund assessments are accrued at the time of insolvencies. Other assessments are accrued either at the time of the assessment or at the time losses are incurred. Guaranty fund assessments may be partially recovered through a reduction in future recoveries of premium surcharges, based on state regulatory provisions, and are generally recognized when the assessment is paid.

## *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, excluding cash equivalent and short term 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, 2019</b>					
United States government securities	\$ 3,124	\$ —	\$ —	\$ —	\$ 3,124
States, territories and political subdivisions	29,036	1,532	(11)	(46)	30,511
Industrial and miscellaneous	68,310	1,917	(18)	—	70,209
Loan-backed and structured securities	60,916	1,655	(11)	(34)	62,526
Total bonds	<u>\$ 161,386</u>	<u>\$ 5,104</u>	<u>\$ (40)</u>	<u>\$ (80)</u>	<u>\$ 166,370</u>
<b>December 31, 2018</b>					
States, territories and political subdivisions	\$ 35,421	\$ 452	\$ (62)	\$ (293)	\$ 35,518
Industrial and miscellaneous	57,189	227	(277)	(772)	56,367
Loan-backed and structured securities	60,690	414	(27)	(1,028)	60,049
Total bonds	<u>\$ 153,300</u>	<u>\$ 1,093</u>	<u>\$ (366)</u>	<u>\$ (2,093)</u>	<u>\$ 151,934</u>

The statement and fair values of bonds, including cash equivalents and short-term bonds, at December 31, 2019, 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	\$ 10,749	\$ 10,781
Due after one through five years	52,174	53,706
Due after five through ten years	22,218	23,252
Due after ten years	15,329	16,105
Loan-backed and structured securities	60,916	62,526
	<u>\$ 161,386</u>	<u>\$ 166,370</u>

Proceeds from sales of bonds, excluding cash equivalents and short-term bonds, during 2019 and 2018 were \$16,513 and \$16,021, respectively. The Company realized gross gains of \$394 and gross losses of \$364, during 2019, and gross gains of \$472 and gross losses of \$156, during 2018.

## *Blue Cross Blue Shield of Wisconsin*

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

*(Dollars In Thousands)*

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 did not recognize OTTI on securities for the years ended December 31, 2019 and 2018.

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, 2019			December 31, 2018		
	Number of Securities	Fair Value	Gross Unrealized Loss	Number of Securities	Fair Value	Gross Unrealized Loss
Bonds:						
Less than 12 months	17	\$ 11,047	\$ (40)	43	\$ 27,689	\$ (366)
12 months or greater	16	6,684	(80)	94	62,821	(2,093)
Total bonds	<u>33</u>	<u>\$ 17,731</u>	<u>\$ (120)</u>	<u>137</u>	<u>\$ 90,510</u>	<u>\$ (2,459)</u>

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, 2019 or 2018.

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

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

*(Dollars In Thousands)*

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, 2019 and 2018. The Company did not recognize an OTTI on loan-backed and structured securities in 2019 and 2018.

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

The Company's investment portfolio includes loaned securities with a carrying value of \$685 at December 31, 2019. The fair value of the loaned securities is \$750 at December 31, 2019. The Company did not have loaned securities at December 31, 2018.

The Company reinvests the collateral received under the securities lending program. The aggregate amount of cash collateral reinvested at December 31, 2019, categorized by the contractual maturity of the investment, is as follows:

	<b>Amortized Cost</b>	<b>Fair Value</b>
Securities received	\$ 776	\$ 776
Total collateral reinvested	<u>\$ 776</u>	<u>\$ 776</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><u>Level Input</u></b>	<b><u>Input Definition:</u></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, 2019 and 2018, respectively:

	Level I	Level II	Level III	Total	Net Asset Value ("NAV") Included in Level II
<b>December 31, 2019</b>					
Industrial and miscellaneous bonds	\$ —	\$ 10	\$ —	\$ 10	\$ —
Total bonds	—	10	—	10	—
<hr/>					
Total assets at fair value	\$ —	\$ 10	\$ —	\$ 10	\$ —
<hr/>					
<b>December 31, 2018</b>					
Industrial and miscellaneous bonds	\$ —	\$ 2,456	\$ —	\$ 2,456	\$ —
Total bonds	—	2,456	—	2,456	—
<hr/>					
Industrial and miscellaneous money market funds	72,994	—	—	72,994	—
Total cash equivalents	72,994	—	—	72,994	—
<hr/>					
Total assets at fair value	\$ 72,994	\$ 2,456	\$ —	\$ 75,450	\$ —

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

There were no securities reported at fair value on the statutory balance sheets using Level III inputs during the years ended December 31, 2019 and 2018. There were no transfers between levels during



**Blue Cross Blue Shield of Wisconsin**

Notes to Financial Statements - Statutory Basis (continued)

*(Dollars In Thousands)*

the years ended December 31, 2019 and 2018. The Company's policy is to recognize transfers between levels, if any, as of the beginning of the reporting period.

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

<b>December 31, 2019</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	\$ 166,370	\$ 161,386		\$ 166,370	\$ —
Securities lending collateral	776	776	—	776	—
<b>December 31, 2018</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	\$ 151,934	\$ 153,300	\$ —	\$ 151,918	\$ 16
Cash equivalents	72,994	72,994	72,994	—	—

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>2019</b>	<b>2018</b>
Investments	\$ 358,361	\$ 285,512
Other assets	67,776	43,743
Total admitted assets	<u>\$ 426,137</u>	<u>\$ 329,255</u>
Insurance reserves	\$ 110,817	\$ 78,835
Other liabilities	123,477	82,540
Capital and surplus	191,843	167,880
Total liabilities and capital and surplus	<u>\$ 426,137</u>	<u>\$ 329,255</u>

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

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Revenues and investment gains	\$ 1,275,559	\$ 941,448
Expenses	1,206,575	882,349
Net income	<u>\$ 68,984</u>	<u>\$ 59,099</u>

Compcare nonadmits amounts due from affiliates pursuant to Ins. 9.10 of the Wisconsin Administrative Code effective March 1, 2000. The difference between this practice prescribed by the OCI and NAIC SAP for capital and surplus is (\$0) and (\$791) at December 31, 2019 and 2018, respectively. There was no difference in net income for the years ended December 31, 2019 or 2018.

Included in the Company's change in net unrealized gains (losses) for the years ended December 31, 2019 and 2018 is \$23,917 and \$15,071, 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 2019 or 2018.

## ***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>2019</u>	<u>2018</u>
Balances at January 1, net of reinsurance	\$ 73,854	\$ 77,277
Incurred (redundancies) related to:		
Current year	657,419	627,404
Prior years	(3,640)	(4,274)
Total incurred	<u>653,779</u>	<u>623,130</u>
Paid related to:		
Current year	583,039	553,805
Prior years	69,610	72,748
Total paid	<u>652,649</u>	<u>626,553</u>
Balances at December 31, net of reinsurance	<u>74,984</u>	<u>73,854</u>
Ceded unpaid claims and claims adjustment expenses	<u>18,170</u>	<u>11,252</u>
Balances at December 31, gross of reinsurance	<u>\$ 93,154</u>	<u>\$ 85,106</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. The negative amounts reported for incurred claims related to prior years are due to claims being settled for amounts less 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 Company took into account estimated anticipated subrogation and other recoveries in its determination of the liability for unpaid claims based on historical recovery patterns.

#### **6. Reinsurance**

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. These reinsurance agreements 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.

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

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

*(Dollars In Thousands)*

Effective January 1, 2019, the Company amended its quota share reinsurance agreement to cede direct Federal Employee Program (“FEP”) business to Anthem Insurance Companies, Inc., an affiliated company and an authorized reinsurer, increasing the quota share from 20% to 30%. The amendment was approved by the OCI on December 21, 2018. Under this affiliate reinsurance agreement, ceded premiums of \$178,961 and \$116,036 and ceded claims of \$171,692 and \$108,902 were included in operating results for the years ended December 31, 2019 and 2018, respectively. Ceded unpaid claims and claims adjustment expenses of \$18,001 and \$11,439 were included in the statutory balance sheets as of December 31, 2019 and 2018, respectively.

The effects of reinsurance on net premiums are as follows:

	<b>Year ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Direct premiums	\$ 906,340	\$ 842,948
Ceded premiums - affiliated reinsurers	(178,961)	(116,036)
Ceded premiums - unaffiliated reinsurers	(91)	(20)
Net premiums	<u>\$ 727,288</u>	<u>\$ 726,892</u>

The Company’s reinsurance arrangements reduced claims and claims adjustment expenses in the accompanying financial statements as follows:

	<b>Year ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Direct claims and claims adjustment expenses	\$ 825,583	\$ 732,070
Ceded claims and claims adjustment expenses - affiliated reinsurers	(171,692)	(108,902)
Ceded claims and claims adjustment expenses - unaffiliated reinsurers	(112)	(38)
Net claims and claims adjustment expenses	<u>\$ 653,779</u>	<u>\$ 623,130</u>

The Company’s ceded reinsurance arrangements reduced aggregate policy reserves in the accompanying statutory balance sheets by \$27,930 and \$19,137 as of December 31, 2019 and 2018, respectively. This includes \$27,072 and \$18,318 from affiliate reinsurance as of December 31, 2019 and 2018, respectively.

## *Blue Cross Blue Shield of Wisconsin*

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

*(Dollars In Thousands)*

#### 7. ACA Medical Loss Ratio Rebates

The Company had no ACA Medical loss ratio rebates accrued pursuant to the *Public Health Services Act* as of December 31, 2019 or 2018.

#### 8. ACA Risk Adjustment Program

Premium risk adjustment receivables are reported in premiums receivable. Premium risk adjustment payables are reported in aggregate policy reserves. User fee payable is reported in accounts payable and accrued expenses. Risk adjustment premiums are reported in premium income. User fees incurred are reported in operating expenses.

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

	Year ended December 31	
	2019	2018
Premium risk adjustment payables	\$ 869	\$ 154
User fee payable	1	1
Risk adjustment premiums	(1,238)	(426)
User fees incurred	1	1

The following table provides a reconciliation of the ACA risk adjustment program balances (gross of any nonadmission) at December 31, 2018 to any remaining unsettled balance as of December 31, 2019 along with reasons for adjustments to these balances during 2019:

	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
					Receivable	(Payable)	Receivable	(Payable)		Receivable	(Payable)
Permanent ACA Risk Adjustment Program											
Premium adjustments receivable	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	A	\$ —	\$ —
Premium adjustments (payable)	\$ —	\$ 154	\$ —	\$ 511	\$ —	\$ (357)	\$ —	\$ 357	A	\$ —	\$ —
Total ACA Permanent Risk Adjustment Program	\$ —	\$ 154	\$ —	\$ 511	\$ —	\$ (357)	\$ —	\$ 357		\$ —	\$ —

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 2018 Benefit Year."

## *Blue Cross Blue Shield of Wisconsin*

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

*(Dollars In Thousands)*

#### 9. Federal Income Taxes

The Company has a current federal income tax recoverable (payable) of \$247 and (\$1,617) as of December 31, 2019 and 2018, respectively.

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

	2019		
	Ordinary	Capital	Total
Gross deferred tax assets	\$ 5,385	\$ 4,936	\$ 10,321
Gross deferred tax liabilities	(403)	(124)	(527)
Net deferred tax asset before admissibility test	\$ 4,982	\$ 4,812	\$ 9,794

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, 2019 is:

Admitted pursuant to paragraph 11.a.	\$ 4,978	\$ 171	\$ 5,149
Admitted pursuant to paragraph 11.b.	4	—	4
Admitted pursuant to paragraph 11.c.	403	124	527
Admitted deferred tax asset	5,385	295	5,680
Deferred tax liability	(403)	(124)	(527)
Net admitted deferred tax asset	4,982	171	5,153
Nonadmitted deferred tax asset	\$ —	\$ 4,641	\$ 4,641

	2018		
	Ordinary	Capital	Total
Gross deferred tax assets	\$ 5,105	\$ 4,936	\$ 10,041
Adjusted gross deferred tax assets	(605)	(112)	(717)
Net deferred tax asset before admissibility test	\$ 4,500	\$ 4,824	\$ 9,324

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 as of December 31, 2018 is:

Admitted pursuant to paragraph 11.a.	\$ 4,500	\$ 368	\$ 4,868
Admitted pursuant to paragraph 11.b.	—	—	—
Admitted pursuant to paragraph 11.c.	605	112	717
Admitted deferred tax asset	5,105	480	5,585
Deferred tax liability	(605)	(112)	(717)
Net admitted deferred tax asset	4,500	368	4,868
Nonadmitted deferred tax asset	\$ —	\$ 4,456	\$ 4,456

## *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 2019 is:

	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>
Admitted pursuant to paragraph 11.a.	\$ 478	\$ (197)	\$ 281
Admitted pursuant to paragraph 11.b.	4	—	4
Admitted pursuant to paragraph 11.c.	(202)	12	(190)
Admitted deferred tax asset	280	(185)	95
Deferred tax liability	202	(12)	190
Net admitted deferred tax asset	482	(197)	285
Nonadmitted deferred tax asset	\$ —	\$ 185	\$ 185

	<b>2019</b>	<b>2018</b>
Ratio percentage used to determine recovery period and threshold limitation amount	<b>445%</b>	582%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitations	\$ <b>284,116</b>	\$ 297,980

The impact of tax planning strategies is as follows:

	<b>2019</b>		<b>2018</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>5,385</b>	\$ <b>4,936</b>	\$ 5,105	\$ 4,936	\$ 280	\$ —
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>5,385</b>	\$ <b>295</b>	\$ 5,105	\$ 480	\$ 280	\$ (185)
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:

	2019	2018	Change
Federal income taxes (benefits) on operations	\$ 13,612	\$ 21,463	\$ (7,851)
Federal income tax expense (benefit) on net capital gains (losses)	<b>61</b>	20	41
Federal income taxes	<b>\$ 13,673</b>	\$ 21,483	\$ (7,810)

The components of deferred income taxes are as follows:

	December 31		Change
	2019	2018	
Deferred tax assets:			
Ordinary:			
Accrued future expenses	\$ 1,264	\$ 1,138	\$ 126
Accounts receivable	2,828	2,781	47
Claims discount reserve	155	127	28
Other insurance reserves	223	161	62
Prepaid expenses	393	395	(2)
Unearned premium reserve	458	409	49
Other adjustments	64	94	(30)
Subtotal	5,385	5,105	280
Nonadmitted deferred tax assets	—	—	—
Admitted ordinary deferred tax assets	5,385	5,105	280
Capital:			
Investments in securities	—	—	—
Affiliated investment write-down	4,936	4,936	—
Subtotal	4,936	4,936	—
Nonadmitted deferred tax assets	(4,641)	(4,456)	(185)
Admitted capital deferred tax assets	295	480	(185)
Admitted deferred tax assets	5,680	5,585	95
Deferred tax liabilities:			
Ordinary:			
Fixed assets	(398)	(408)	10
Other adjustments	(5)	(197)	192
Subtotal	(403)	(605)	202
Capital:			
Investments in securities	(23)	(10)	(13)
Sec. 166 partial worthlessness	(101)	(102)	1
Subtotal	(124)	(112)	(12)
Deferred tax liabilities	(527)	(717)	190
Net admitted deferred tax asset (liability)	\$ 5,153	\$ 4,868	\$ 285



***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>2019</b>	<b>2018</b>	<b>Change</b>
Total deferred tax assets	<b>\$ 10,321</b>	\$ 10,041	\$ 280
Total deferred tax liabilities	<b>(527)</b>	(717)	190
Net deferred tax asset	<b>\$ 9,794</b>	\$ 9,324	470
Tax effect of unrealized gains (losses)			32
Change in net deferred income tax			\$ 502

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, 2019 and 2018 as follows:

	<b>2019</b>	<b>2018</b>
Tax expense (benefit) computed using the federal statutory rate	<b>\$ 26,438</b>	\$ 30,350
ACA health insurer fee	—	3,041
Change in nonadmitted assets	<b>(42)</b>	(343)
Tax exempt income and dividend received deduction net of proration	<b>(3,409)</b>	(3,228)
Prior year true-ups and adjustments	<b>(1,235)</b>	(263)
Tax settlements and contingencies	<b>(207)</b>	207
Subsidiary dividends	<b>(8,400)</b>	(8,400)
Other, net	<b>26</b>	18
Total	<b>\$ 13,171</b>	\$ 21,382
Federal income taxes expense (benefit)	<b>\$ 13,673</b>	\$ 21,483
Change in net deferred income taxes	<b>(502)</b>	(101)
Total statutory income taxes	<b>\$ 13,171</b>	\$ 21,382

At December 31, 2019, 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>2019</b>	\$ 15,032	\$	61	\$	15,093
<b>2018</b>	21,945		20		21,965
<b>2017</b>	N/A		211		211

The Company is included in the consolidated federal income tax return of its parent Anthem, along with other affiliates, as of December 31, 2019. 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, 2019, the examination of the 2017 and 2019 tax years continue to be in process.

#### **10. Health Insurer Fee**

The Company had \$788,638 of premium written subject to assessment under ACA Section 9010 as of December 31, 2019 and no premiums written subject to assessment under ACA Section 9010 as of December 31, 2018, due to the 2019 suspension of this assessment. The Company paid no annual health insurance industry fee during 2019. The Company's portion of the annual health insurance industry fee paid during 2018 was \$14,480 and is included in operating expenses. The Company's estimated portion of the annual Health Insurance Industry Fee to be paid in 2020 is \$15,542 and is segregated in special surplus funds on the balance sheet at December 31, 2019.

#### **11. 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, 2019 and 2018, the Company's capital and surplus exceeded all regulatory requirements.

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

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

*(Dollars In Thousands)*

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 \$28,927 in dividends during 2020 without prior approval.

The portion of unassigned surplus (deficit) representing cumulative unrealized gains (losses), net of taxes, was \$165,535 and \$141,499 at December 31, 2019 and 2018, respectively.

#### **12. Leases**

The Company leases office space, 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 2019 and 2018 was \$1,008 and \$950, respectively.

Obligations under noncancelable operating leases are not reflected on the balance sheet. At December 31, 2019, future lease payments for operating leases with initial or remaining noncancelable terms of one year or more consisted of the following: 2020, \$806; 2021, \$529; 2022, \$533; 2023, \$544; 2024, \$0 and thereafter, \$0.

#### **13. Contingencies**

##### ***Guaranty fund assessments***

The National Organization of Life & Health Insurance Guaranty Associations, or NOLHGA, is a voluntary organization consisting of the state life and health insurance guaranty associations located throughout the U.S. Such associations, working together with NOLHGA, provide a safety net for their state's policyholders, ensuring that they continue to receive coverage, subject to state maximum limits, even if their insurer is declared insolvent. In March 2017, long term care insurance writers Penn Treaty Network America Insurance Company and its subsidiary American Network Insurance Company, (collectively "Penn Treaty"), were ordered to be liquidated by the Pennsylvania state court, which had jurisdiction over the Penn Treaty rehabilitation proceeding. The Company and other insurers will be obligated to pay a portion of their policyholder claims through state guaranty association assessments in future periods.

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

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

*(Dollars In Thousands)*

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

##### Blue Cross Blue Shield Antitrust Litigation

Anthem is a defendant in multiple lawsuits that were initially filed in 2012 against the BCBSA and Blue Cross and/or Blue Shield licensees, or Blue plans, across the country. The cases 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, or 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 and National Accounts programs and other arrangements in violation of the Sherman Antitrust Act, or Sherman Act, and related state laws. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers, and actions filed in twenty-eight states have been consolidated into the multi-district proceeding.

In response to cross motions for partial summary judgment by plaintiffs and defendants, the Court issued an order in April 2018 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 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. No dates have been set for either the final pretrial conferences or trials in these actions. In March 2019, the Court issued a Fourth Amended Scheduling Order requiring that briefing on motions for class certification and related expert reports, merits and damages expert reports, and certain dispositive motions occur in 2019. In April 2019, plaintiffs' filed their motions to exclude plaintiffs' experts, as well as their opposition to plaintiffs' motions for class certification, in July 2019. The case has been stayed until further notice from the Court. Anthem intends to vigorously defend these suits; however, their ultimate outcome cannot be presently determined.

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

In March 2016, Anthem filed a lawsuit against Express Scripts, Inc., or Express Scripts, its vendor for pharmacy benefit management, or 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, or the ESI PBM Agreement, over \$158,000 in damages related to operational breaches, as well as various declarations under the ESI PBM Agreement between the parties, 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

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

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

*(Dollars In Thousands)*

competitive benchmark pricing to us 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.

Express Scripts has disputed the 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 Anthem entered into the ESI PBM Agreement. In March 2017, the court granted the 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. Fact discovery has been completed. Anthem intends to vigorously pursue the claims and defend against any counterclaims, which Anthem believes 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 its 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 and (ii) by placing Anthem's own pecuniary interest above the best interests of Anthem's insureds by allegedly agreeing to higher pricing in the ESI PBM Agreement in exchange for the purchase price for its 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 Anthem, and it was granted, without prejudice, in January 2018. Plaintiffs filed a notice of appeal with the United States

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

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

*(Dollars In Thousands)*

Court of Appeals for the Second Circuit, which was heard in October 2018 but has not yet been decided. Anthem intends to vigorously defend this suit; however, its ultimate outcome cannot be presently determined.

#### Cyber Attack Regulatory Proceedings and Litigation

In February 2015, Anthem reported that it was the target of a sophisticated external cyber attack, during which the attackers gained unauthorized access to certain of its information technology systems and obtained personal information related to many individuals and employees. To date, there is no evidence that credit card or medical information was accessed or obtained.

Upon discovery of the cyber attack, Anthem took immediate action to remediate the security vulnerability and have continued to implement security enhancements since this incident.

Federal and state agencies are investigating, or have investigated, events related to the cyber attack, including how it occurred, its consequences and its responses. The investigations have all been resolved with the exception of an ongoing investigation by a multi-state group of attorneys general, which remains outstanding. Although Anthem is cooperating in this investigation, Anthem may be subject to additional fines or other obligations. Anthem intends to vigorously defend the remaining regulatory investigation; however, its ultimate outcome cannot be presently determined.

Anthem has contingency plans and insurance coverage for certain expenses and potential liabilities of this nature and will pursue coverage for all applicable losses; however, the ultimate outcome of our pursuit of insurance coverage cannot be presently determined.

#### Cigna Corporation Merger Litigation

In July 2015, Anthem and Cigna Corporation, or Cigna, announced that Anthem entered into the Agreement and Plan of Merger, or Cigna Merger Agreement, pursuant to which Anthem would acquire all outstanding shares of Cigna. In July 2016, the U.S. Department of Justice, or DOJ, along with certain state attorneys general, filed a civil antitrust lawsuit in the U.S. District Court for the District of Columbia, or District Court, seeking to block the merger. In February 2017, Cigna purported to terminate the Cigna Merger Agreement and commenced litigation against Anthem in the Delaware Court of Chancery, or Delaware Court, seeking damages, including the \$1,850,000 termination fee pursuant to the terms of the Cigna Merger Agreement, and a declaratory judgment that its purported termination of the Cigna Merger Agreement was lawful, among other claims, which is captioned *Cigna Corp. v. Anthem Inc.*

Also in February 2017, Anthem initiated their own litigation against Cigna in the Delaware Court seeking a temporary restraining order to enjoin Cigna from terminating the Cigna Merger

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

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

*(Dollars In Thousands)*

Agreement, specific performance compelling Cigna to comply with the Cigna Merger Agreement and damages, which is captioned Anthem Inc. v. Cigna Corp. In April 2017, the U.S. Circuit Court of Appeals for the District of Columbia affirmed the ruling of the District Court, which blocked the merger. In May 2017, after the Delaware Court denied Anthem's motion to enjoin Cigna from terminating the Cigna Merger Agreement, Anthem delivered to Cigna a notice terminating the Cigna Merger Agreement.

In the Delaware Court litigation, trial commenced in late February 2019 and concluded in March 2019. The Delaware Court held closing argument on November 25, 2019 and took the matter under consideration. In February 2020, the Court requested supplemental briefing. The parties have been instructed to negotiate a schedule for the supplemental submissions. Anthem believes Cigna's allegations are without merit and they intend to vigorously pursue their claims and defend against Cigna's allegations; however, the ultimate outcome of Anthem's litigation with Cigna cannot be presently determined.

In October 2018, a shareholder filed a derivative lawsuit in Marion County Superior Court, captioned *Henry Bittmann, Derivatively, et al. v. Joseph R Swedish, et al.*, on behalf of Anthem and its shareholders against certain current and former directors and executives alleging breaches of fiduciary duties, unjust enrichment and corporate waste associated with the Cigna Merger Agreement. Anthem intends to vigorously defend this lawsuit; however, its ultimate outcome cannot be presently determined.

#### U.S. Department of Justice (DOJ) Civil Investigative Demands and Litigation

Beginning in December 2016, the DOJ has issued civil investigative demands to our parent company, Anthem, Inc., to discover information about Anthem's chart review and risk adjustment programs under Parts C and D of the Medicare program. Anthem understands the DOJ is investigating the programs of other Medicare Advantage health plans, along with providers and vendors. On March 26, 2020, the DOJ filed a civil False Claims Act lawsuit against Anthem, Inc. in federal district court for the Southern District of New York. Anthem has until May 29, 2020 to respond. Anthem intends to vigorously defend this suit; 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, excludes certain healthcare and other services from coverage under our HMO, PPO, and other plans. The Company is, in the ordinary course of business, subject to the claims of our 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

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

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

*(Dollars In Thousands)*

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.

The Company is involved in other pending and threatened litigation of the character incidental to the business transacted, arising out of its operations and is from time to time involved as a party in various governmental investigations, audits, reviews and administrative proceedings. These investigations, audits and reviews and administrative proceedings include routine and special investigations 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. The Company believes that 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 contingencies.

#### **14. Retirement 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



## *Blue Cross Blue Shield of Wisconsin*

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

*(Dollars In Thousands)*

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.

During 2019 and 2018, the Company was allocated the following costs or (credits) for these retirement benefits:

	2019	2018
Defined benefit pension plan	\$ (393)	\$ (315)
Postretirement medical benefit plan	(50)	(51)
Deferred compensation plan	36	36
Defined contribution plan	1,451	1,261

#### 15. Uninsured Accident and Health Plans

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

	ASO Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASO
<b>For the year ended December 31, 2019</b>			
Net reimbursement for administrative expenses (including administrative fees) in excess of (less than) actual expenses	\$ 3,653	\$ —	\$ 3,653
Total net other income or expenses (including interest paid to or received from plans)	—	—	—
Net gain (loss) from operations	\$ 3,653	\$ —	\$ 3,653
Total claim payment volume	\$ 377,342	\$ —	\$ 377,342
<b>For the year ended December 31, 2018</b>			
Net reimbursement for administrative expenses (including administrative fees) in excess of (less than) actual expenses	\$ 6,762	\$ —	\$ 6,762
Total net other income or expenses (including interest paid to or received from plans)	—	—	—
Net gain (loss) from operations	\$ 6,762	\$ —	\$ 6,762
Total claim payment volume	\$ 352,890	\$ —	\$ 352,890

## *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, 2019</b>			
Gross reimbursement for medical costs incurred	\$ 974,259	\$ —	\$ 974,259
Gross administrative fees earned	77,875	—	77,875
Gross expenses incurred (claims and administrative fees)	(1,051,778)	—	(1,051,778)
Net gain (loss) from operations	<u>\$ 357</u>	<u>\$ —</u>	<u>\$ 357</u>
<b>For the year ended December 31, 2018</b>			
Gross reimbursement for medical costs incurred	\$ 1,008,595	\$ —	\$ 1,008,595
Gross administrative fees earned	83,816	—	83,816
Gross expenses incurred (claims and administrative fees)	(1,088,200)	—	(1,088,200)
Net gain (loss) from operations	<u>\$ 4,211</u>	<u>\$ —</u>	<u>\$ 4,211</u>

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

Receivable from	Related to	2019	2018
Uninsured plans	Uninsured business, not including pharmaceutical rebate receivables	\$ 35,758	\$ 40,599

### 16. 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:

	2019		2018	
	Admitted	Nonadmitted	Admitted	Nonadmitted
Pharmaceutical rebate receivables, reported in health care and other receivables	\$ 1,964	\$ —	\$ 2,651	\$ —
Pharmaceutical rebate receivables, reported in amounts receivable relating to uninsured plans	1,794	—	3,374	453
Total pharmaceutical rebate receivables	<u>\$ 3,758</u>	<u>\$ —</u>	<u>\$ 6,025</u>	<u>\$ 453</u>

Admitted pharmaceutical rebate receivables at December 31, 2019, include \$971 due from IngenioRx, Inc., an affiliated company.

## *Blue Cross Blue Shield of Wisconsin*

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

*(Dollars In Thousands)*

During 2019, the Company sold \$11,820 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 \$59 discount fee.

During 2018, the Company sold \$12,278 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 \$61 discount fee.

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:

	2019		2018	
	Admitted	Nonadmitted	Admitted	Nonadmitted
Claim overpayment receivables, reported in health care and other receivables	\$ —	\$ 762	\$ —	\$ 855
Claim overpayment receivables, reported in amounts receivable relating to uninsured plans	—	6,695	—	9,609
Total claim overpayment receivables	\$ —	\$ 7,457	\$ —	\$ 10,464

Provider advances at December 31 are as follows:

	2019		2018	
	Admitted	Nonadmitted	Admitted	Nonadmitted
Provider advances, reported in health care and other receivables	\$ —	\$ 1,800	\$ —	\$ 1,800
Total provider advances	\$ —	\$ 1,800	\$ —	\$ 1,800

### 17. 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

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

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

*(Dollars In Thousands)*

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 a Fair Market Value (“FMV”) Services Attachment to its administrative services agreement which was approved by the OCI on November 1, 2018. Pursuant to this attachment, certain member quality improvement and other services are provided to the Company by affiliated companies. 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 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 \$112,911 and \$123,092 in 2019 and 2018, respectively, and are included in operating expenses and claims and claims adjustment expenses in the statutory statements of operations.

At December 31, 2019, the Company reported no amounts due from affiliates. At December 31, 2019, the Company reported \$12,525 due to affiliates. At December 31, 2018, the Company reported \$3,188 due from affiliates. At December 31, 2018, the Company reported no amounts due to affiliates. The receivable and payable balances represent intercompany transactions that will be settled in accordance with the settlement terms of the intercompany agreement.

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 \$15,558 and \$14,586 during 2019 and 2018, respectively, which is reported as net investment income.

The Board of Directors of the Company declared an extraordinary dividend in the amount of \$150,000 on August 14, 2019. The OCI approved this dividend on September 13, 2019. The Company paid the dividend to its parent company, Crossroads, on September 16, 2019.

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

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

*(Dollars In Thousands)*

On September 16, 2019, the Company received a \$40,000 dividend from its subsidiary, Compcare.

The Board of Directors of the Company declared an extraordinary dividend in the amount of \$110,000 on August 20, 2018. The OCI approved this dividend on September 24, 2018 and the Company paid the dividend to its parent company, Crossroads, on September 25, 2018.

On September 25, 2018, the Company received a \$40,000 dividend from its subsidiary, Compcare.

#### **18. Assessments**

At December 31, 2019 and 2018, the Company accrued guaranty assessments of \$970 at the end of each of the years.

The Company has established an asset to reflect future recoveries of guaranty assessments, based on state regulatory provisions for future premium surcharges. At December 31, 2019 and 2018, this asset was \$0 and \$845, respectively.

#### **19. Subsequent Events**

Management of the Company has evaluated all other events occurring after December 31, 2019 through April 16, 2020, the date the financial statements were available to be issued, to determine whether any event required either recognition or disclosure in the financial statements. Subsequent to December 31, 2019, the spread of the COVID-19 virus caused significant financial market volatility, economic uncertainty, and interruptions to normal business activities. As of the date of issuance of these financial statements, the full impact to the Company is unknown, but management expects continued interruptions to day-to-day business activities, impacts to claim and premium activity, and decreases in the fair value of certain investments, as well as possible impacts to liquidity. As of the date of issuance, the outbreak is still evolving and thus there is significant uncertainty as to its ultimate impacts on the Company. No other material subsequent events were noted other than those already disclosed.

## 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, in accordance with auditing standards generally accepted in the United States, the statutory basis financial statements of Blue Cross Blue Shield of Wisconsin for the years ended December 31, 2019 and 2018, and have issued 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 thereon dated April 16, 2020. Our audits were conducted 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 audit of the 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. In our opinion, the information is fairly stated, in all material respects, in relation to the statutory basis financial statements as a whole.

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 16, 2020

## *Blue Cross Blue Shield of Wisconsin*

### Summary Investment Schedule - Statutory Basis

(Dollars In Thousands)

December 31, 2019

	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	\$ 5,502	1.5 %	\$ 5,502	\$ 694	\$ 6,196	1.7 %
U.S. states, territories and possessions, etc. guaranteed	1,833	0.5 %	1,833	—	1,833	0.5 %
U.S. political subdivisions of states, territories, and possessions, guaranteed	3,538	1.0 %	3,538	—	3,538	1.0 %
U.S. special revenue and special assessment obligations, etc. non-guaranteed	64,013	18.0 %	64,013	—	64,013	18.1 %
Industrial and miscellaneous	86,500	24.4 %	86,500	—	86,500	24.5 %
Total long-term bonds	161,386	45.4 %	161,386	694	162,080	45.8 %
Common stocks:						
Parent, subsidiaries and affiliates Publicly traded	193,190	54.5 %	191,843	—	191,843	54.3 %
Total common stocks	193,190	54.5 %	191,843	—	191,843	54.3 %
Real estate:						
Properties occupied by company	4,815	1.4 %	4,815	—	4,815	1.4 %
Total real estate	4,815	1.4 %	4,815	—	4,815	1.4 %
Cash, cash equivalents and short-term investments:						
Cash	(5,382)	(1.5)%	(5,382)	—	(5,382)	(1.5)%
Cash equivalents	—	— %	—	21	21	— %
Short-term investments	—	— %	—	61	61	— %
Total cash, cash equivalents and short-term investments	(5,382)	(1.5)%	(5,382)	82	(5,300)	(1.5)%
Securities lending	776	0.2 %	776	XXX	XXX	XXX
Total invested assets	\$ 354,785	100.0 %	\$ 353,438	\$ 776	\$ 353,438	100.0 %



## *Blue Cross Blue Shield of Wisconsin*

### Investment Risks Interrogatories - Statutory Basis

*(Dollars In Thousands)*

December 31, 2019

1. The Company's total admitted assets as reported on Page 2 of the Annual Statement are: \$ 560,368

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	\$ 191,843	34.2%
2.02	JP Morgan Chase & Co	Bond	\$ 2,707	0.5%
2.03	WF-RBS Commercial Mortgage Trust	Bond	\$ 2,704	0.5%
2.04	City of San Antonio TX	Bond	\$ 2,015	0.4%
2.05	FHLMC POOL C09004	Bond	\$ 1,970	0.4%
2.06	Towd Point Mortgage Trust	Bond	\$ 1,570	0.3%
2.07	FHLMC GOLD POOL G67700	Bond	\$ 1,543	0.3%
2.08	Bank of America Corp	Bond	\$ 1,539	0.3%
2.09	American Express Co	Bond	\$ 1,502	0.3%
2.10	Australia & New Zealand Bankin	Bond	\$ 1,500	0.3%

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	\$ 112,673	20.1%
3.02	NAIC - 2	\$ 46,260	8.3%
3.03	NAIC - 3	\$ 2,447	0.4%
3.04	NAIC - 4	\$ 6	0.0%

The Company has no investments in preferred stock at December 31, 2019.

## *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	\$ 20,020	3.6%
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	\$ 20,020	3.6%
5.02 Countries rated NAIC - 2	\$ —	0.0%
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	\$ 5,028	0.9%
6.02 Country: Australia	\$ 3,275	0.6%
Countries rated NAIC - 2		
6.03 Country:	\$ —	0.0%
6.04 Country:	—	0.0%
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	Australia & New Zealand Bankin	1FE	\$ 1,500	0.3%
10.02	nVent Electric PLC	2FE	\$ 1,019	0.2%
10.03	Skandinaviska Enskilda Banken	1FE	\$ 1,000	0.2%
10.04	UBS Group AG	1FE	\$ 975	0.2%
10.05	Macquarie Group Ltd	1FE	\$ 900	0.2%
10.06	HSBC Holdings PLC	1FE	\$ 897	0.2%
10.07	Invesco Ltd	1FE	\$ 897	0.2%
10.08	Westpac Banking Corp	1FE	\$ 875	0.2%
10.09	ArcelorMittal	2FE	\$ 844	0.2%
10.10	Enel SpA	2FE	\$ 834	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	\$ 191,843	34.2%

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 has no investments in real estate, other than property owned and occupied by the Company.

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	\$ 685	0.1%	\$ 2,931	\$ 1,094	\$ 6,774
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, 2019

**Note-Basis of Presentation**

The accompanying supplemental schedules present selected statutory financial information as of December 31, 2019 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 Blue Cross Blue Shield of Wisconsin's 2019 Annual Statement as filed with the Office of the Commissioner of Insurance of the State of Wisconsin.

Captions or amounts that are not applicable have been omitted.