

**Report on the Examination**

**As of December 31, 2020**

**Of**

**Blue Cross and Blue Shield of Vermont**

**by the**





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**State of Vermont**  
**Department of Financial Regulation**  
89 Main Street  
Montpelier, VT 05620-3101

For consumer assistance:  
[Banking] 888-568-4547  
[Insurance] 800-964-1784  
[Securities] 877-550-3907  
**www.dfr.vermont.gov**

Don George  
President and Chief Executive Officer  
Blue Cross and Blue Shield of Vermont  
445 Industrial Lane  
Berlin, VT 05602

#### ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of Blue Cross Blue Shield of Vermont for the year ending December 31, 2020 is adopted.

The Company may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.

A handwritten signature in blue ink, appearing to read "Michael S. Pieciak", written over a horizontal line.

Michael S. Pieciak, Commissioner

3/30/2022

Date



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February 10, 2022

Michael S. Pieciak, Commissioner  
Department of Financial Regulation  
89 Main Street  
Montpelier, VT 05620-3101

Dear Commissioner Pieciak:

Pursuant to the December 18, 2020 examination order, the Insurance Division's financial examination team has conducted an examination of:

**Blue Cross and Blue Shield of Vermont**  
with their statutory home offices located at  
445 Industrial Lane  
Berlin, VT 05602

The examination was performed pursuant to 8 V.S.A. §3563 in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.



## **SCOPE OF EXAMINATION**

As of December 31, 2020, the financial examination of Blue Cross and Blue Shield of Vermont (the Company or BCBS) was performed. The Company's last financial condition examination was as of December 31, 2015 for the previous five-year period.

The examination was conducted pursuant to 8 V.S.A. §3563 and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from January 1, 2016 through December 31, 2020. The Department conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of BCBS and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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

This examination report includes significant findings of fact, as mentioned in 8 V.S.A. §3574 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or BCBS.

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**SUMMARY OF SIGNIFICANT FINDINGS**

There were no findings in the prior exam report or the current exam report. There were no adjustments made to the annual statement based on this examination.

**HISTORY**

The Company was founded in 1944 as part of Blue Cross and Blue Shield of Vermont and New Hampshire. In 1981, the Vermont Plan formally separated its financial records and certain administrative functions from New Hampshire under orders from Vermont's Commissioner of Banking and Insurance. In 1988-89, the Company established full and independent administrative operations in Berlin, Vermont. BCBS offers a variety of group indemnity plans, health maintenance organizations, preferred provider networks, Medicare supplemental and other benefit coverages to its subscribers on both an insured and self-funded basis.

**MANAGEMENT AND CONTROL**

Corporate Records

The Company's headquarters and administrative offices are located in Berlin, Vermont, and the Company maintains its corporate records at this location. The Articles of Association, By-Laws and minutes of the Board of Directors meetings held during the period under examination were reviewed. Based upon our review, the Company appears to be conducting its affairs in accordance with its By-Laws. The recorded minutes of these meetings adequately documented approval and oversight of the Company's investment transactions, other material transactions, events and changes in directors.

Board of Directors

The Company is managed by the Board of Directors, whose duties include the authority, by majority vote, to appoint and remove the President, Treasurer and Secretary with or without cause. The Board will not have less than eleven members nor more than fifteen members, as may

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be determined by the Board. At least three quarters of the BOD shall be composed of subscribers and members of the public, the remainder may be providers. The subscriber Board members shall comprise at least a majority of the Board. With the exception of the President of the Company, all Directors will be elected from those individuals nominated by the Nominating Committee. A majority of the Directors will be independent Directors and annually the Board will determine if the majority of its Directors are independent. Directors will be elected by the then-serving Directors present and will serve three-year terms for a maximum amount of four terms. A majority of the Directors will constitute a quorum for the transaction of any business.

The following were elected to the Board of Directors of the Company in accordance with the By-Laws and serving as of December 31, 2020:

<u>Name</u>	<u>Residence</u>
Charles P. Smith IV, Chair Charles P. Smith Management and Strategic Consulting LLC	Vermont
Rosalea W. Bradley Retired Executive	Vermont
James R. Chandler Retired Physician	Vermont
Nancy R. Eldridge National Well Home Network	Vermont
Don C. George (Ex-Officio) Blue Cross and Blue Shield of Vermont	Vermont
Scott A. Giles Vermont Student Assistance Corporation	Vermont
Thomas W. Huebner Retired Health Care Executive	Vermont

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<u>Name</u>	<u>Residence</u>
John B. Kassel Retired Attorney	Vermont
Robert D. Miller Vermont State Employees Credit Union	Vermont
Eileen M. Peltier Downstreet Housing and Community Development	Vermont
Amy M. Putnam University of Vermont Health Network, Champlain Valley Physician's Hospital	Vermont
Rebecca C. Towne Vermont Electric Cooperative	Vermont
Katherine S. Gunness Williams 1% For the Planet	Vermont

Officers

The Officers of the Company are a President, one or more Vice Presidents, a Treasurer and a Secretary.

The Officers of BCBS as of December 31, 2020 were as follows:

<u>Name</u>	<u>Title</u>
Don C. George	President
Andrew A. Garland	Vice President
Ruthellen K. Greene	Vice President and Treasurer
Catherine H. Hamilton	Vice President
Victoria N. Hildebrand	Vice President

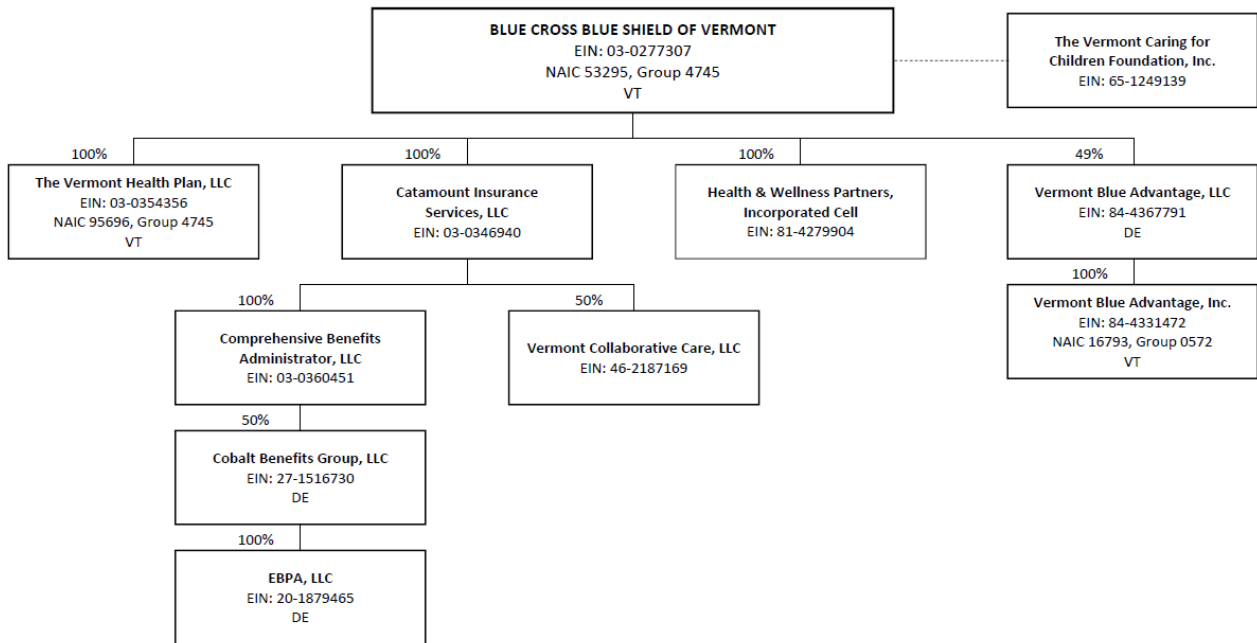


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<u>Name</u>	<u>Title</u>
Joshua A. Plavin, MD	Vice President
Dawn A. Schneiderman	Vice President
Rebecca C. Heintz	Secretary
Alexa McGrath	Assistant Secretary

Organizational Chart

The corporate structure as of December 31, 2020 is as follows:



Affiliated Companies

- The Vermont Health Plan LLC (TVHP) – TVHP is a health maintenance organization (HMO), of which BCBS has a 100% membership interest. BCBS provides certain management and administrative services to TVHP in exchange for a monthly administrative fee.

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- Catamount Insurance Services, LLC (CIS) – CIS is a wholly-owned subsidiary of BCBS and serves as the holding company for the Company’s investment in non-insurance affiliates. CIS formed Comprehensive Benefits Administrator, LLC (CBA) which administers employer benefits on a fee basis. CBA then established, Cobalt Benefits Group (Cobalt), which is jointly owned with Blue Cross Blue Shield of MA. CIS also has a 50% interest in Vermont Collaborative Care, LLC (VCC). VCC provides a variety of services to health plans offering managed behavioral and physical health benefits to subscribers. BCBS also provides certain administrative services to CBA and VCC for a monthly fee.
  
- Health & Wellness Partners (HWP) – an incorporated cell of BCS Re, Inc. (a Vermont captive insurance company) of which the Company has a 100% interest. HWP reinsures certain medical stop loss risks of BCBS as BCBS provides this coverage for its customers as a group rather than the current partially self-funded or fully insured arrangements. BCBS also provides certain management and administrative services to HWP for a monthly fee.
  
- Vermont Blue Advantage, LLC (VBA) – BCBS owns a 49% interest in VBA with Blue Cross Blue Shield of MI retaining the other 51%. VBA established Vermont Blue Advantage, Inc. (VBA Inc.) which will write Medicare Advantage business in 2021.

**TERRITORY AND PLAN OF OPERATIONS**

The Company is incorporated as a not-for-profit hospital/medical service corporation in the state of Vermont and is a member of the Blue Cross and Blue Shield Association. The Company offers a variety of group indemnity plans, health maintenance organizations, preferred provider networks, Medicare supplemental, and other benefit coverage to its members on both an insured and self-funded basis. The Company also offers Qualified Health Plan (QHP) products to individual and small group customers. Individual customers have the option to purchase these products through Vermont Health Connect (VHC), Vermont’s state-based health care exchange, or directly through the Company. All small group customers must purchase QHP products directly through the Company. The Company delivers health maintenance organization products through its wholly-

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owned subsidiary, TVHP, and third-party administrator and flexible benefit services through CBA.

**REINSURANCE**

The Company has excess of loss reinsurance in place to provide protection against large losses from any one member.

Additionally, the Company has a specific excess of loss reinsurance agreement in place to cover the Stop Loss contract/policy issued to the State of Vermont.

Lastly, the Company issues stop-loss insurance coverage to groups and cedes a portion of the risk under these stop loss contracts to HWP through a Specific Reinsurance Agreement. BCBS retains the first \$0, HWP assumes 100% of Ultimate Net Losses up to \$250,000 per person, and BCBS retains 100% of Ultimate Net Losses in excess of \$250,000 per person. The contract is for a one-year term and automatically renews annually unless terminated.

**FINANCIAL STATEMENTS**

The following statements are based on the statutory financial statements filed by BCBS with the Vermont Department of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2020.

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Statement of Admitted Assets

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 67,220,462	\$ -	\$ 67,220,462
Stocks			
Common stocks	97,013,210	481,464	96,531,746
Real estate			
Properties occupied by the company	6,845,548	-	6,845,548
Cash, cash equivalents, and short-term investments	66,591,566	-	66,591,566
Other invested assets	294,666	294,666	-
Investment income due and accrued	429,815	-	429,815
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	6,379,738	1,442,251	4,937,487
Accrued retrospective premiums (\$0) and contracts subject to redetermination (\$40,750,102)	40,750,102	-	40,750,102
Reinsurance:			
Amounts recoverable from reinsurers	1,687,261	-	1,687,261
Amounts receivable relating to uninsured plans	20,763,935	-	20,763,935
Current federal and foreign income tax recoverable and interest thereon	1,082,415	-	1,082,415
Net deferred tax asset	20,377,586	20,377,586	-
Electronic data processing equipment and software	26,608,486	25,676,570	931,916
Furniture and equipment, including health care delivery assets (\$0)	1,001,791	1,001,791	-
Receivables from parent, subsidiaries and affiliates	4,031,774	-	4,031,774
Health care (\$15,710,797) and other amounts receivable	37,277,872	9,115,769	28,162,103
Aggregate write-ins for other than invested assets	3,220,230	3,220,230	-
Totals	<u>401,576,457</u>	<u>61,610,327</u>	<u>339,966,130</u>

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Statement of Liabilities and Surplus

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$ 39,514,832	\$ 658,000	\$ 40,172,832
Unpaid claims adjustment expenses	1,684,200	40,800	1,725,000
Aggregate health policy reserves	51,834,810	-	51,834,810
Premiums received in advance	13,035,331	-	13,035,331
General expenses due or accrued	52,355,473	-	52,355,473
Ceded reinsurance premiums payable	711,271	-	711,271
Amounts withheld or retained for the account of others	50,374	-	50,374
Remittances and items not allocated	2,138,215	-	2,138,215
Liability for amounts held under uninsured plans	32,821,909	-	32,821,909
Aggregate write-ins for other liabilities	41,480,233	-	41,480,233
Total liabilities	<u>\$ 235,626,648</u>	<u>\$ 698,800</u>	<u>236,325,448</u>
Unassigned funds (surplus)	XXX	XXX	<u>103,640,682</u>
Total capital and surplus	XXX	XXX	<u>103,640,682</u>
Total liabilities, capital and surplus	XXX	XXX	<u>\$ 339,966,130</u>

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Statement of Revenues and Expenses

	Uncovered	Total
Member months	XXX	\$ 2,206,192
Net premium income	XXX	485,740,299
Change in unearned premium reserves and reserve for rate cred	XXX	(6,652,463)
Total revenues	XXX	479,087,836
<b>Hospital and Medical:</b>		
Hospital/medical benefits	\$ 131,266	244,004,922
Outside referrals	2,041,945	2,041,945
Emergency room and out-of-area	5,033,880	59,000,516
Prescription drugs	-	78,353,886
Subtotal	7,207,091	383,401,269
<b>Less:</b>		
Net reinsurance recoveries	-	(1,814,018)
Total hospital and medical	7,207,091	385,215,287
Claims adjustment expenses	-	25,293,493
General administrative expenses	-	31,057,166
Increase in reserves for life and accident and health contracts	-	24,519,000
Total underwriting deductions	\$ 7,207,091	466,084,946
Net underwriting gain	XXX	13,002,890
Net investment income earned	-	3,066,220
Net realized capital gains less capital gains tax of \$0	-	94,257
Net investment gains	-	3,160,477
Aggregate write-ins for other income or expenses	-	(2,117,097)
Net income, after capital gains tax and before all other federal income taxes	XXX	14,046,270
Federal and foreign income taxes incurred	XXX	844,754
Net income	XXX	\$ 13,201,516

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Surplus Account

Capital and surplus prior reporting year	\$ 133,526,751
Net income	13,201,516
Change in net unrealized capital gains less capital gains tax of \$0	6,361,844
Change in net deferred income tax	2,585,065
Change in nonadmitted assets	(4,211,786)
Capital changes:	
Aggregate write-ins for losses in surplus	(47,822,708)
Net change in capital and surplus	(29,886,069)
Capital and surplus end of reporting year	\$ 103,640,682

**SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared a worldwide pandemic due to a novel coronavirus outbreak, known as COVID 19. The direct and indirect effects of the pandemic on the financial health and operations of the Company may be material, however, the ultimate impact is not determinable at this time.

**COMMENTS AND RECOMMENDATIONS**

There are no significant findings or financial adjustments as a result of this examination. A Management Letter will be issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report. In such cases, these matters were thoroughly discussed with responsible personnel during the examination.

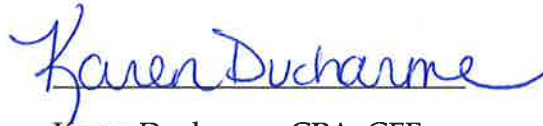
**CONCLUSION**

In addition to the undersigned Miranda Cloutier, AFE, Robert Crawford, CFE, Adrienne Sulaiman, CFE, Justin Parr, CFE-A, Derek Peterson, CFE, Joanna Latham, AES and Jenny Jeffers,

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AES also participated in this examination. We wish to express our appreciation to the Officers, Directors, and employees of the Company for the courteous cooperation extended during the course of the examination.

Respectfully submitted,



Karen Ducharme, CPA, CFE  
Director of Company Licensing and Examinations  
Division of Insurance  
Vermont Department of Financial Regulation

STATE OF VERMONT  
COUNTY OF WASHINGTON

Karen Ducharme, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me

This 29<sup>th</sup> day of March, 2022



Notary Public

