

**STATE OF VERMONT  
DEPARTMENT OF FINANCIAL REGULATION**

IN RE: BLUECROSS BLUESHIELD OF )  
VERMONT )  
)

DOCKET NO. 18-012-I

**ORDER**

On February 15, 2018, BlueCross BlueShield of Vermont (BCBSVT or Company) requested that the Department of Financial Regulation (the Department or DFR) grant a permitted practice relating to the Statement of Statutory Accounting Principles (SSAP), Paragraph 3, No. 4 (“Assets and Nonadmitted Assets”) to non-admit its deferred tax asset (DTA) balance related to alternative minimum tax (AMT) credits. Based upon the information provided by BCBSVT, the recommendation of the Insurance Division of the Department, and pursuant to 8 V.S.A. § 3561, the Commissioner of DFR (the Commissioner) makes the following findings and issues the following Order:

1. BCBSVT has requested approval to implement a permitted practice to fully non-admit its DTA balance related to AMT credits, and to record no impact to its statutory capital and surplus as a result of the accounting for AMT credits, until such time as any amount of the AMT credit balance is used to offset subsidiary Federal income tax obligations or is refunded to BCBSVT in cash by the IRS. Any AMT credit balance not realized or refunded would continue to be fully non-admitted.
2. Recording a DTA as of December 31, 2017 would create an overstated and misleading view of BCBSVT’s capital and surplus and RBC position at that date given that, based on current projections, BCBSVT will not realize an actual benefit of that amount until approximately three years after the reporting date. To the extent that a severe financial need were to arise during 2018, for example, BCBSVT would be completely unable to convert any of the AMT credit into cash available to pay policyholder claims until late 2019 at best.
3. While income tax recoverables are generally considered admitted assets under SSAP No. 101, they typically relate to amounts expected to be recovered within the next calendar year. The AMT credit circumstance is very different, and in some respects unprecedented, in that it will take approximately five calendar years from year-end 2017 to fully convert the balance into cash that would be available to pay claims. Due to this extended timeline, the AMT credits do not meet the spirit of the definition of an admitted asset.
4. Although the “Tax Cuts and Jobs Act” is now law, BCBSVT's recovery of the full AMT credit balance necessarily requires that there can be no further tax law changes that would reverse or otherwise modify the treatment of AMT credits for the next five years. While it is generally

reasonable on a one-year timeline to assume that tax treatment of AMT credits will not change, a five-year timeline introduces a substantially different level of political uncertainty.

5. Under 8 V.S.A. § 3561, all licensed insurers must periodically prepare and report their financial condition using accounting practices and procedures described in the National Association of Insurance Commissioners (NAIC) Accounting Practices & Procedures Manual (AP&P), which includes the SSAP No. 4.
6. Paragraph 3 of the SSAP No. 4 states, in part: “The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet....”
7. Under 8 V.S.A. § 3561, the Commissioner may permit the Company to non-admit part or all of its DTA related to AMT credits. Specifically, section 3561(b)(1) permits the Commissioner to allow “any useful or necessary modifications or adaptations thereof required or approved or accepted by the commissioner” to the periodic statements of financial condition.

Based on the above findings, the Commissioner hereby grants a permitted accounting practice for BCBSVT to non-admit its DTA balance related to AMT credits, and to record no impact to its statutory capital and surplus as a result of the accounting for AMT credits, until such time as any amount of the AMT credit balance is (1) used to offset subsidiary Federal income tax obligations or (2) is refunded to BCBSVT in cash by the IRS. The permitted practice is to take effect as of December 31, 2017 and shall remain in effect until the full AMT credit balance has been utilized or refunded and no AMT balance remains on the statutory general ledger.

SO ORDERED.

Entered at Montpelier, Vermont, this 23rd day of February 2018.



Michael S. Pieciak  
Commissioner  
Vermont Department of Financial Regulation