

**Report on Examination**  
**of**  
**Blue Cross and Blue Shield of Florida, Inc.**

**Jacksonville, Florida**

**as of**

**December 31, 2014**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**

David Altmaier, Commissioner  
Florida Office of Insurance Regulation  
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Blue Cross and Blue Shield of Florida, Inc. as of December 31, 2014. Our report on the examination follows.

Florida Office of Insurance Regulation  
March 8, 2016

## Contents

SCOPE OF EXAMINATION .....	1
COMPANY HISTORY .....	1
CORPORATE RECORDS.....	3
MANAGEMENT AND CONTROL.....	3
FIDELITY BONDS AND OTHER INSURANCE.....	8
PENSION AND INSURANCE PLANS.....	8
TERRITORY AND PLAN OF OPERATION.....	9
COMPANY GROWTH.....	9
REINSURANCE.....	10
STATUTORY DEPOSITS .....	11
FINANCIAL STATEMENTS .....	11
SUBSEQUENT EVENTS.....	17
CONCLUSION .....	18

## **SCOPE OF EXAMINATION**

We have completed a financial condition examination as of December 31, 2014 of Blue Cross and Blue Shield of Florida, Inc. (the "Company"), a single-state insurer domiciled in Florida. The examination covered the period of January 1, 2012 through December 31, 2014. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2011.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **COMPANY HISTORY**

The Company was incorporated in Florida and licensed by the Office as a not-for-profit insurer on July 1, 1980. It was authorized to operate as an accident and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

Effective January 1, 2014, the Company reorganized under a policyholder owned, not-for-profit mutual insurance holding company system. The new mutual insurance holding company, GuideWell Mutual Holding Corporation (GuideWell Mutual), replaced the Company as the controlling organization and is owned by the policyholders. Under the new structure, the Company became a stock company wholly owned by GuideWell Mutual and substantially all of the Company's investments in affiliates were transferred to GuideWell Group, Inc. (GuideWell Group), a new non-insurance stock company wholly owned by GuideWell Mutual.

#### Dividends and Capital Contributions

The Company neither distributed dividends nor received capital contributions during the period examined.

#### Mergers and Acquisitions

On January 1, 2012, the Company, through its subsidiary Diversified Service Options, Inc. (DSO), purchased all of the outstanding shares of Highmark Medical Services, Inc., a for-profit Medicare audit contractor subsequently named Novitas Solutions, Inc. Effective January 1, 2014, DSO was transferred from the Company to GuideWell Group.

On December 31, 2012, the Company, through its subsidiary Diversified Health Services, Inc. (DHS), purchased all of the outstanding shares of Diagnostic Clinic Medical Group, a for-profit multi-specialty physician practice based in Largo, Florida. Effective January 1, 2014, DHS was transferred from the Company to GuideWell Group.

## CORPORATE RECORDS

The recorded minutes of the Company's members, Board of Directors (Board) and its committees were reviewed for the period under examination. The Board's approval of Company transactions, including the authorization of investments as required by Section 625.304, F.S., was recorded in the minutes of its meetings.

## MANAGEMENT AND CONTROL

The Company is a wholly owned subsidiary of GuideWell Mutual. The Company's senior officers, directors and committee members were as follows:

<b>Senior Officers</b>	
<b>Name</b>	<b>Title</b>
Rene Lerer	President
Charles Divita III	Senior Vice President and Chief Financial Officer
Charles S. Joseph	Senior Vice President, General Counsel and Corporate Secretary
William A. Coats	Vice President, Chief Investment Officer and Treasurer
Corey B. Heller	Senior Vice President and Chief Human Resources Officer
Doug Lynch	Vice President and Chief Actuary

## Board of Directors

Name	Location
Robert M. Beall, II	Bradenton, Florida
Catherine P. Bessant	Charlotte, North Carolina
Patrick J. Geraghty	Ponte Vedra Beach, Florida
Steven T. Halverson	Jacksonville, Florida
Leerie T. Jenkins, Jr.	Jacksonville, Florida
Thomas G. Kuntz	Orlando, Florida
Tracy A. Leinbach	Pinehurst, North Carolina
Harold F. Mills	Orlando, Florida
John B. Ramil	Tampa, Florida
Frank P. Scruggs, Jr.	Fort Lauderdale, Florida

## Committees of the Board of Directors

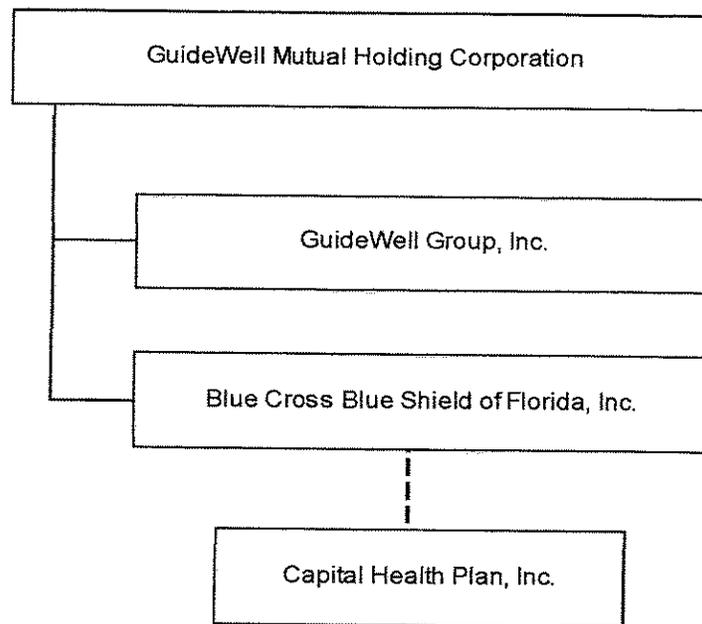
Audit and Compliance Committee	Board Governance and Nominating Committee	Executive Committee
Leerie T. Jenkins, Jr.	Robert M. Beall, II	Patrick J. Geraghty
Tracy A. Leinbach	Steven T. Halverson	Catherine P. Bessant
Harold F. Mills	Thomas G. Kuntz	Steven T. Halverson
John B. Ramil	Frank P. Scruggs, Jr.	John B. Ramil
		Frank P. Scruggs, Jr.
Personnel and Compensation Committee	Finance Committee	
Robert M. Beall, II	Leerie T. Jenkins, Jr.	
Steven T. Halverson	Tracy A. Leinbach	
Thomas G. Kuntz	Harold F. Mills	
Frank P. Scruggs, Jr.	John B. Ramil	

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by

Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.), on March 30, 2014.

An abbreviated organizational chart reflecting the holding company system is shown below.

**Blue Cross Blue Shield of Florida, Inc.  
Abbreviated Organizational Chart  
December 31, 2014**



The following agreements were in effect between the Company and its affiliates:

Tax Sharing Agreement

The Company was included in the consolidated federal income tax return of its ultimate parent company, GuideWell Mutual, pursuant to a tax allocation agreement effective

January 1, 2001 and later amended. The agreement provided for the allocation of consolidated income tax liability based upon the separate taxable incomes of included companies and provided for annual settlement of amounts due under the agreement. It also provided that an included company with a net operating loss would be reimbursed for the tax benefit associated with the loss in the year used in the group's consolidated return.

#### Administrative Services Agreement

The Company and various of its affiliates entered into an administrative services agreement effective December 31, 2007 and later amended. The agreement established the terms and conditions according to which the parties would provide and receive services to and from each other and for the sharing of certain property. The services included accounting, tax, auditing, underwriting, claims, investment, and functional support services. The agreement provided for reimbursement based on actual costs and expenses or an otherwise reasonable charge basis.

#### Guarantee Agreement

Effective March 16, 1989, the Company guaranteed that it would provide sufficient funds to assure payment of all liabilities including covered subscriber claims of Health Options, Inc. (HOI), a subsidiary health maintenance organization (HMO). In addition, it guaranteed the continuation of benefits to enrollees for the duration of any contract period for which payment has been made and to enrollees confined in an inpatient facility on the date of any HOI insolvency until its discharge, and payment to unaffiliated providers for services to covered enrollees.

#### Affiliation and Administration Agreement

The Company and Capital Health Plan, Inc. (CHP) entered into an agreement effective December 4, 1981, giving the Company majority control of CHP's corporate membership. The agreement provided that the Company may supply certain administrative services and products to CHP and committed it to lend operating funds to CHP.

#### Accounting Agreement

The Company and CHP entered into an accounting agreement, effective July 1, 1992, later amended, in order to manage any rating, finance, accounting, reporting, and regulatory issues arising from the administration of joint venture-type programs provided by them to group purchasers.

#### Anti-Fraud Investigative Services Agreement

The Company provided anti-fraud investigative services to CHP pursuant to a May 1, 2000, later amended, agreement in return for monthly fees.

#### Lease Agreement

The Company entered into a lease agreement, effective January 1, 2010, whereby the Company leased office space to USABLE Life in exchange for monthly rent. This agreement was amended October 1, 2013 to reduce the square footage leased.

### Management Agreement

The Company, HOI and LSV Dental Management, LLC, (LSV) entered into a management agreement effective October 1, 2013, later amended, whereby LSV agreed to provide management and administrative services as well as access to a network of providers that would furnish certain dental services.

### Pharmacy Benefit Service Agreement

The Company and Blue Cross entered into a pharmacy benefit service agreement with Prime Therapeutics, LLC, effective January 1, 2013, to provide certain pharmacy benefit management and other prescription drug benefit programs.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained fidelity bond coverage of \$40,000,000 with a deductible of \$500,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$4,500,000.

## **PENSION AND INSURANCE PLANS**

The Company provided fringe benefits to eligible employees. Benefits included compensated time off and group medical and life, long-term and short-term disability, dental, and vision insurance. It also maintained a noncontributory defined benefit pension plan which provided retirement benefits to substantially all of its employees hired prior to January 1, 2007. As of January 1, 2007, the plan was closed to new entrants. Employees hired after January 1, 2007 were offered an enhanced defined contribution plan. In addition, the Company maintained for certain employees a non-

qualified, unfunded supplemental pension plan, the benefits of which were frozen as of December 31, 2010. The Company sponsors a defined contribution savings plan under Section 401(k) of the Internal Revenue Code for substantially all of its employees.

### TERRITORY AND PLAN OF OPERATION

The Company was authorized as an accident and health insurer solely in the state of Florida and was an independent licensee of the Blue Cross and Blue Shield Association. The Company was also a qualified or accredited reinsurer in the State of Pennsylvania. The Company offered a wide range of healthcare products to multi-state employer groups, large and small businesses in Florida, individuals and Medicare beneficiaries.

### COMPANY GROWTH

The Company reported the following for years 2012 through 2014:

(Dollars are in millions)

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Member months	19,843,761	20,240,915	21,250,042
Year-end enrollment	1,659,938	1,664,443	1,771,510
Premiums	\$ 6,475.7	\$ 6,950.0	\$ 8,036.4
Revenues	\$ 6,564.7	\$ 6,842.0	\$ 8,102.4
Underwriting deductions	\$ 6,496.2	\$ 6,863.6	\$ 8,095.4
Net income	\$ 159.1	\$ 204.5	\$ 64.9
Shareholder dividends	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -
Admitted assets	\$ 5,583.0	\$ 6,225.0	\$ 4,969.1
Liabilities	\$ 2,793.1	\$ 3,138.3	\$ 3,530.1
Capital and surplus	\$ 2,789.9	\$ 3,086.8	\$ 1,439.0

## REINSURANCE

The Company ceded a portion of the risks under its long-term care insurance policies to Florida Combined Life Insurance Company, Inc. (FCLIC) under a proportional share reinsurance agreement effective November 1, 1992. The agreement was reassigned to Life Secure Insurance Company, a wholly owned subsidiary of Blue Cross Blue Shield of Michigan, effective October 1, 2008.

The Company entered into a Reinsurance Agreement with FCLIC, effective July 1, 2008, whereby the Company ceded to FCLIC 100% of liabilities and obligations incurred with respect to certain dental insurance products.

The Company ceded specific and aggregate medical excess loss risk to HM Life Insurance Company on a quota share basis under a reinsurance agreement which was effective August 1, 2008. The agreement was amended March 11, 2014 to adjust the quota share participation percentages.

The Company entered into an Assuming Reinsurance Agreement with Florida Healthcare Plan, Inc. (FHCP), effective March 1, 2013 and later amended. The agreement, which is a furtherance of the Administration Services Agreement effective December 31, 2007, provides risk retention services, including underwriting, accounting and claims services to FHCP in the event of shock claims allowing FHCP to normalize and smooth financials.

The Company entered into a Self-Funded Specific and Aggregate Medical Excess Loss Quota Share Reinsurance Agreement with Companion Life Insurance Company

(Companion), effective January 1, 2010, later amended, whereby the Company agreed to reinsure specific and aggregate medical excess loss insurance coverage under Companion policies underwritten and administered by the Administrator on behalf of Companion and marketed and sold by the Company and/or its affiliates on or after January 1, 2010.

The Company participated in the public health insurance exchanges established pursuant to the Patient Protection and Affordable Care Act and The Health Care Education Reconciliation Act of 2010 (ACA). The ACA temporary Reinsurance Program provided for partial reimbursement of high cost claims for certain eligible ACA individual plans. As part of this program, the Company recorded reinsurance recoverable of \$250,000,000 on paid claims as of December 31, 2014. Reinsurance contributions associated with other lines of business are considered a government assessment and are included in general administrative expenses.

### **STATUTORY DEPOSITS**

The Company maintained a cash deposit of \$100,000 with the State of Florida as required by Section 624.411, F.S.

### **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected in the following:

**Blue Cross and Blue Shield of Florida, Inc.**  
**Admitted Assets**  
**December 31, 2014**

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 1,816,803,230	\$ -	\$ 1,816,803,230
Preferred stocks	3,455,780	-	3,455,780
Common stocks	273,476,725	-	273,476,725
Properties occupied by the company	168,917,895	-	168,917,895
Cash, cash equivalents and short-term investments	74,658,155	-	74,658,155
Other invested assets	43,921,008	-	43,921,008
Receivables for securities	15,515,246	-	15,515,246
Securities lending reinvested collateral assets	232,371,066	-	232,371,066
	2,629,119,105	-	2,629,119,105
Investment income due and accrued	13,270,638	-	13,270,638
Uncollected premiums and agents' balances	906,023,567	-	906,023,567
Deferred premiums and agents' balances	20,883,767	-	20,883,767
Accrued retrospective premiums	1,065,980	-	1,065,980
Amounts recoverable from reinsurers	250,038,137	-	250,038,137
Funds held by or deposited with reinsured companies	7,381,612	-	7,381,612
Amounts receivable relating to uninsured plans	287,394,410	-	287,394,410
Current income tax recoverable	13,112,272	-	13,112,272
Net deferred tax asset	198,403,158	-	198,403,158
Receivables from parent, subsidiaries and affiliates	79,911,454	-	79,911,454
Healthcare and other amounts receivable	190,052,068	-	190,052,068
Aggregate write-ins for other than invested assets	372,480,164	-	372,480,164
<b>Total assets</b>	<b>\$ 4,969,136,332</b>	<b>\$ -</b>	<b>\$ 4,969,136,332</b>

**Blue Cross and Blue Shield of Florida, Inc.**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2014**

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 633,605,148	\$ -	\$ 633,605,148
Accrued medical incentive pool and bonus amounts	6,819,379	-	6,819,379
Unpaid claims adjustment expense	13,143,469	-	13,143,469
Aggregate health policy reserves	1,262,450,207	-	1,262,450,207
Premiums received in advance	146,903,562	-	146,903,562
General expenses due or accrued	572,653,730	-	572,653,730
Current income tax payable	2,933,831	-	2,933,831
Ceded reinsurance premiums payable	27,058,812	-	27,058,812
Amounts withheld or retained for the account of others	22,107,083	-	22,107,083
Remittances and items not allocated	136,722,982	-	136,722,982
Borrowed money	163,204,197	-	163,204,197
Payable for securities	18,278,332	-	18,278,332
Payable for securities lending	232,371,066	-	232,371,066
Reinsurance in unauthorized and certified companies	29,213,732	-	29,213,732
Liability for amounts held under uninsured plans	207,709,157	-	207,709,157
Aggregate write-ins for liabilities	54,920,250	-	54,920,250
<b>Total liabilities</b>	<b>3,530,094,937</b>	<b>-</b>	<b>3,530,094,937</b>
<b>Surplus and Other Funds</b>			
Aggregate write-ins for special surplus funds	147,541,905	-	147,541,905
Unassigned funds (surplus)	1,291,499,490	-	1,291,499,490
<b>Total surplus and other funds</b>	<b>1,439,041,395</b>	<b>-</b>	<b>1,439,041,395</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 4,969,136,332</b>	<b>\$ -</b>	<b>\$ 4,969,136,332</b>

**Blue Cross and Blue Shield of Florida, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**For The Year Ended December 31, 2014**

Net premium income	\$ 8,036,393,675
Change in unearned premium reserves and reserve for rate credits	60,045,395
Aggregate write-ins for other health care related revenues	5,995,907
<b>Total revenues</b>	<b>8,102,434,977</b>
<hr/>	
Hospital/medical benefits	4,765,094,076
Outside referrals	52,043,044
Emergency room and out-of-area	362,679,110
Prescription drugs	1,371,002,313
Aggregate write-ins for other hospital and medical	494,328,548
Incentive pool, withhold adjustments and bonus amounts	5,160,414
	7,050,307,505
Net reinsurance recoveries	290,142,566
<b>Total hospital and medical</b>	<b>6,760,164,939</b>
Non-health claims	12,408,928
Claims adjustment expense	279,381,098
General administrative expenses	1,059,163,046
Increase in reserves	(15,742,843)
<b>Total underwriting deductions</b>	<b>8,095,375,168</b>
Net underwriting gain	7,059,809
Net investment gains	107,716,386
Aggregate write-ins for other income or expenses	(5,956,942)
<b>Income before federal income tax</b>	<b>108,819,253</b>
Federal income tax	43,897,828
<b>Net income</b>	<b>\$ 64,921,425</b>

**Blue Cross and Blue Shield of Florida, Inc.  
Statement of Changes in Capital and Surplus  
For The Three Years Ended December 31, 2014**

Capital and surplus - December 31, 2011	2,609,040,679
Net income	159,093,937
Change in valuation basis of aggregate policy and claim reserves	16,233,052
Change in net unrealized capital gains (losses)	29,069,961
Change in net deferred income tax	(7,093,261)
Change in nonadmitted assets	(15,356,100)
Change in unauthorized and certified reinsurance	(1,092,986)
<hr/>	
Capital and surplus - December 31, 2012	2,789,895,282
Net income	204,515,203
Change in net unrealized capital gains (losses)	87,390,077
Change in net unrealized foreign exchange capital gain or (loss)	4,312,750
Change in net deferred income tax	56,516,119
Change in nonadmitted assets	(61,565,093)
Change in unauthorized and certified reinsurance	(3,411,788)
Aggregate write-ins for gains or (losses) in surplus	9,128,601
<hr/>	
Capital and surplus - December 31, 2013	3,086,781,151
Net income	64,921,425
Change in net unrealized capital gains (losses)	(107,640,994)
Change in net unrealized foreign exchange capital gain or (loss)	(4,326,585)
Change in net deferred income tax	(9,817,833)
Change in nonadmitted assets	6,646,871
Change in unauthorized and certified reinsurance	(3,689,924)
Aggregate write-ins for gains or (losses) in surplus	(1,593,832,716)
<hr/>	
Capital and surplus - December 31, 2014	<b>\$ 1,439,041,395</b>

**Blue Cross and Blue Shield of Florida, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2014**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

<b>Capital and surplus, December 31, 2014 - per annual statement</b>			<b>\$ 1,439,041,395</b>
		<b>Increase (Decrease) In Capital &amp; Surplus</b>	
	<b>Per Company</b>	<b>Per Examination</b>	
Total assets	\$ 4,969,136,332	\$ 4,969,136,332	\$ -
Total liabilities	\$ 3,530,094,937	\$ 3,530,094,937	\$ -
<b>Capital and surplus, December 31, 2014 - per examination</b>			<b><u>\$ 1,439,041,395</u></b>

## SUBSEQUENT EVENTS

On January 29, 2016, a cash dividend of \$93.9 million was paid from the Company to GuideWell Mutual. The cash was then contributed to GuideWell Group. This cash dividend was part of the Office approved \$140 million transaction to dividend and then contribute cash and investments in joint ventures from the Company to GuideWell Mutual to GuideWell Group. GuideWell Group will ultimately contribute the joint venture interests to Navigy Holdings. This annual dividend payment was included in the reorganization plan filed with the Office as part of the reorganization. The transfer of ownership interests in joint ventures held directly by the Company was postponed in order to secure approval from the multiple joint venture partners. It is anticipated the transfer of all investments in joint ventures will occur during 2016.

In July 2015, the Company, as a co-borrower with HOI, GuideWell Mutual and GuideWell Group, entered into a \$500 million revolving credit agreement with a syndicate of commercial and investment banks led by Bank of America (BOA) as administrative agent. This agreement replaced the previous \$300 million line of credit agreement with BOA. The term of the \$500 million agreement expires in July 2020.

In March 2015, the Company, as a co-issuer with HOI, GuideWell Mutual and GuideWell Group, entered into a \$300 million credit facility with Prudential Capital Group, Inc. Draws on the facility can be made at any time over the three-year term of the facility and are structured as fixed rate, medium term notes. The Company had no borrowings under this agreement.

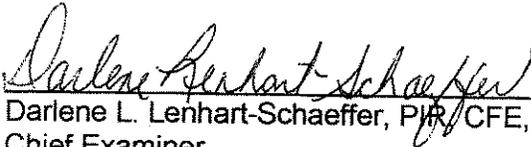
## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Blue Cross and Blue Shield of Florida, Inc. as of December 31, 2014, consistent with the insurance laws of the State of Florida.

At December 31, 2014, the Company's capital and surplus was \$1,439,041,395 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination, Luke Stavenau, Financial Specialist, Kerry Krantz, Actuary and Examination Resources, LLC.

Respectfully submitted,

  
\_\_\_\_\_  
Darlene L. Lenhart-Schaeffer, PIR, CFE, CISA  
Chief Examiner  
State of Florida  
Office of Insurance Regulation  
Life and Health Financial Oversight