

AUDITED STATUTORY-BASIS FINANCIAL  
STATEMENTS AND SUPPLEMENTARY INFORMATION

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.  
Years Ended December 31, 2019 and 2018  
With Report of Independent Auditors and  
Independent Registered Public Accounting Firm

Ernst & Young LLP



Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Audited Statutory-Basis Financial Statements and  
Supplementary Information

Years Ended December 31, 2019 and 2018

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## Report of Independent Auditors

The Board of Directors  
Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

We have audited the accompanying statutory-basis financial statements of Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. (the Company), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in 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 Commonwealth of Massachusetts Division of Insurance. 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 2 to the statutory-basis financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance, 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 2.

*Ernst + Young LLP*

April 28, 2020

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Statutory-Basis Balance Sheets  
(Dollars in Thousands)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Admitted assets</b>		
Bonds	\$ 887,210	\$ 891,299
Common stock	280,675	211,118
Properties occupied by the Company	86,290	88,433
Cash, cash equivalents, and short-term investments	129,811	29,154
Receivable for securities	5,146	9,154
Other invested assets	1,040,685	921,886
Total cash and invested assets	<u>2,429,817</u>	<u>2,151,044</u>
Accrued investment income	4,535	4,542
Premiums receivable	40,383	34,683
Data processing equipment	4,672	6,007
Current federal income tax recoverable	250	—
Health care receivables	50,613	55,539
Other receivables	6,845	13,539
Other assets	14,376	1,108
Total admitted assets	<u>\$ 2,551,491</u>	<u>\$ 2,266,462</u>
<b>Liabilities and surplus</b>		
Unpaid claims liabilities	\$ 427,414	\$ 413,330
Accrued medical incentive pool and bonus payments	58,885	54,362
Aggregate policy reserves	32,092	39,246
Premiums received in advance	119,450	134,863
Accounts payable and accrued liabilities	89,232	50,135
Federal income tax payable	—	213
Borrowed money	170,196	145,161
Amounts due to parent, subsidiaries, and affiliates	18,102	11,543
Payable for securities	5,181	3,854
Total liabilities	<u>920,552</u>	<u>852,707</u>
Special surplus funds	52,072	—
Unassigned surplus	1,578,867	1,413,755
Total surplus	<u>1,630,939</u>	<u>1,413,755</u>
Total liabilities and surplus	<u>\$ 2,551,491</u>	<u>\$ 2,266,462</u>

See accompanying notes.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Statutory-Basis Statements of Operations  
*(Dollars in Thousands)*

	<b>Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Premiums earned	<b>\$ 5,195,260</b>	\$ 5,096,307
Health care benefits	<b>4,576,009</b>	4,466,600
Claims adjustment expenses	<b>234,719</b>	219,391
General and administrative expenses	<b>320,671</b>	365,144
Total expenses	<b>5,131,399</b>	5,051,135
Underwriting gain	<b>63,861</b>	45,172
Net investment income	<b>50,526</b>	48,372
Net realized investment gains	<b>5,891</b>	491
Net investment gains	<b>56,417</b>	48,863
Other (expense) income	<b>(8,922)</b>	179
Net income before federal income taxes	<b>111,356</b>	94,214
Federal income tax (benefit) expense	<b>(214)</b>	213
Net income	<b>\$ 111,570</b>	\$ 94,001

*See accompanying notes.*

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Statutory-Basis Statements of Changes in Surplus  
(Dollars in Thousands)

	<b>Unassigned Surplus</b>	<b>Special Surplus Funds</b>	<b>Total Surplus</b>
Balance at January 1, 2018	\$ 1,334,947	\$ 48,717	\$ 1,383,664
2018 ACA health insurer fee	48,717	(48,717)	–
Net income	94,001	–	94,001
Change in net unrealized gains	(60,910)	–	(60,910)
Change in non-admitted assets	(3,000)	–	(3,000)
Balance at December 31, 2018	1,413,755	–	1,413,755
Net income	<b>111,570</b>	–	<b>111,570</b>
Change in net unrealized gains	<b>106,255</b>	–	<b>106,255</b>
Change in non-admitted assets	<b>(641)</b>	–	<b>(641)</b>
2020 ACA health insurer fee	<b>(52,072)</b>	<b>52,072</b>	–
Balance at December 31, 2019	<b>\$ 1,578,867</b>	<b>\$ 52,072</b>	<b>\$ 1,630,939</b>

*See accompanying notes.*

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Statutory-Basis Statements of Cash Flow  
(Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Premiums received	\$ 5,184,017	\$ 5,140,931
Health care benefits paid	(4,545,713)	(4,480,525)
General and claim adjustment expenses paid	(532,572)	(554,743)
Net investment income received	56,440	52,129
Federal income taxes paid	(250)	—
Net cash provided by operating activities	<u>161,922</u>	<u>157,791</u>
<b>Investing activities</b>		
Sales, maturities, and redemptions of investments	555,760	508,561
Cost of investments acquired	(626,310)	(517,877)
Net cash used in investing activities	<u>(70,550)</u>	<u>(9,316)</u>
<b>Financing or miscellaneous activities</b>		
Borrowed funds	25,000	(175,000)
Other cash applications, net	(15,715)	(37,087)
Net cash provided by (used in) financing or miscellaneous activities	<u>9,285</u>	<u>(212,087)</u>
Net increase (decrease) in cash, cash equivalents, and short-term investments	<b>100,657</b>	<b>(63,612)</b>
Cash, cash equivalents, and short-term investments:		
Beginning of year	<b>29,154</b>	92,766
End of year	<u><b>\$ 129,811</b></u>	<u>\$ 29,154</u>

See accompanying notes.



# Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

## Notes to Statutory-Basis Financial Statements (Dollars in Thousands)

December 31, 2019

### 1. Nature of Business

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. (“HMO Blue” or the “Company”), a wholly-controlled subsidiary of Blue Cross and Blue Shield of Massachusetts, Inc. (“BCBSMA”), is a Massachusetts nonprofit corporation organized under Chapter 180 of the Massachusetts General Laws (“M.G.L.”) and holds a health maintenance organization license pursuant to Massachusetts General Laws Chapter 176G. HMO Blue and BCBSMA (collectively, the “Companies”) operate under common management and Board of Directors control. The Company provides hospitalization, medical, and other health benefits to members through contracts with hospitals, participating physicians, skilled nursing facilities, nursing homes, and other health care providers and organizations. The Company offers a variety of HMO and other supplementary programs for the benefit of its members.

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

The accompanying financial statements have been prepared in accordance with the National Association of Insurance Commissioners (“NAIC”) *Statements of Statutory Accounting Principles* (“SSAP”), and in conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance (“DOI”), which practices differ from US generally accepted accounting principles (“GAAP”).

The more significant variances from GAAP are as follows:

*Investments:* Investments in bonds not backed by other loans are principally stated at amortized cost using the constant yield (interest) method. Bonds can also be stated at the lesser of amortized cost or fair value based on their NAIC designated rating. Preferred stocks are reported at lower of cost or fair value. The related net unrealized gains (losses) are reported in unassigned surplus. For GAAP, such fixed maturity investments would be designated as available-for-sale or held-for-trading and reported at fair value with unrealized investment gains and losses reported as a separate component of stockholder’s equity for available-for-sale, unless the decline is believed to be other-than-temporary, or as earnings for held-for-trading.

# Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

## Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

Fair value for statutory purposes, as with GAAP, is based on quoted market prices while the fair value of private placements and credit tenant loans is obtained from independent third-party dealers.

The Company has a process in place to identify bonds, excluding loan-backed and structured securities that could potentially have an impairment that is other-than-temporary. For statutory reporting, the Company recognizes other-than-temporary impairment losses on bonds with unrealized losses when either of the following two conditions exist: the Company either (1) has the intent to sell the debt security or (2) is more likely than not to be required to sell the debt security before its anticipated recovery. Declines in value due to credit difficulties are also considered to be other-than-temporarily impaired when the Company does not have the intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in value. For statutory reporting, the entire difference between amortized cost and fair value on such bonds with credit difficulties is recognized as an impairment loss in earnings. For GAAP, an impairment loss is recognized in earnings determined as the difference between amortized cost and the net present value of the projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. The remaining difference between the net present value and the fair value is recognized as a non-credit unrealized loss in accumulated other comprehensive income for GAAP.

All single class and multi-class mortgage-backed or asset-backed securities (i.e., collateralized mortgage obligations) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discounts or amortization of premiums of such securities using either the retrospective or prospective methods. The retrospective adjustment method is used to value all such securities, except principal-only and interest-only securities and such securities with NAIC designations of 3 through 6, which are valued using the prospective method. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the present value of estimated future cash flows using the original effective interest rate inherent in the security.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**2. Summary of Significant Accounting Policies (continued)**

For GAAP, all securities purchased or retained that represent beneficial interests in securitized assets (i.e., asset-backed securities, including collateralized mortgage obligations, collateralized bond obligations, collateralized debt obligations, collateralized loan obligations, and mortgage-backed securities) and other than high credit quality securities with fixed rates of interest are carried at fair value, and their rate of income recognition is adjusted using the prospective method when there is a change in estimated future cash flows.

If it is determined that an other-than-temporary credit impairment has occurred, the security is written down through earnings to the present value of estimated future cash flows using the original effective interest rate inherent in the security, with any further non-credit impairment recorded in the accumulated other comprehensive income to adjust the investment to its current fair value. This non-credit portion of the impairment recorded for GAAP is not recognized under NAIC guidelines. High credit quality asset-backed securities with fixed rates of interest are also carried at fair value for GAAP, but if their estimated future cash flows change, the retrospective method is used.

Common stock is reported at fair value based on quoted market prices and the related net unrealized capital gains (losses) are reported in unassigned surplus, net of any adjustment for federal income taxes. For GAAP, unrealized capital gains and losses are recorded in income.

Investments in real estate are reported net of related obligations rather than on a gross basis. Real estate owned and occupied by the Company is included in investments rather than reported as an operating asset under GAAP, and investment income and operating expenses include rent for the Company's occupancy of those properties.

*Non-admitted Assets:* Certain assets designated as "non-admitted," including furniture, fixtures and equipment, leasehold improvements, non-operating system software, prepaid expenses, certain premium receivable balances, and other assets not specifically identified as an admitted asset within the SSAP, are excluded from the accompanying balance sheets and are charged directly to surplus. Under GAAP, such assets are included in the balance sheets, net of any impairment charge.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**2. Summary of Significant Accounting Policies (continued)**

*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 one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

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

Other significant accounting practices are as follows:

**Use of Estimates**

The preparation of the financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Investments**

Investments are stated at values prescribed by the NAIC, as follows:

Investments in bonds not backed by other loans are principally stated at amortized cost using the constant yield (interest) method. Bonds can also be stated at the lesser of amortized cost or fair value based on their NAIC designated rating.

Common stock is carried at fair value.

Preferred stock is reported at the lower of cost or fair value.

The Company has various ownership interests in limited liability partnerships and limited liability companies. The Company carries these investments based on its ownership interest in the underlying GAAP equity of the investee. These investments are included as other invested assets on the balance sheets.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

Unrealized gains and losses on common stock and other invested assets are reflected directly in surplus unless there is a decline in value deemed to be other-than-temporary, 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 income.

Amortization of bond premium and accretion of bond discount are recognized on a yield-basis method. Security transactions are accounted for on a trade-date basis, with any unsettled transactions recorded as due to or from investment broker and included as payable or receivable for securities in the balance sheets.

Investment income is recognized as income when earned. Accrued investment income is defined as investment income earned as of the reporting date, but not legally due to be paid to the Company until subsequent to the reporting date.

Cash equivalents are short-term highly liquid investments with original maturities of three months or less and are principally stated at amortized cost. Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at amortized cost.

**Real Estate**

Land is recorded at cost, and other real estate, which includes expenditures for significant improvements, is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life (typically 50 years).

The Companies jointly own land and buildings with 349,058 square feet of office space in Quincy, Massachusetts and 328,945 square feet of office space in Hingham, Massachusetts.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**2. Summary of Significant Accounting Policies (continued)**

The components of the Company's real estate are summarized as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Land and buildings	\$ 115,349	\$ 115,288
Less accumulated depreciation	<b>(29,059)</b>	(26,855)
Net real estate occupied by the Company	<b>\$ 86,290</b>	\$ 88,433

Under statutory reporting guidelines, the Companies are required to calculate imputed rental income for owner-occupied real estate. The method for calculating imputed rental income is based on estimated rental rates of like property in the same area multiplied rentable square feet. These imputed amounts are reported as net investment income and general and administrative expenses in the statements of operations reflecting that the Company had recorded annual rent of \$6,058 for December 2019 and 2018.

**Furniture, Equipment, and Capitalized Software**

The admitted value of the Company's electronic data processing equipment ("EDP") and operating software is limited to three percent of adjusted surplus. The Company's admitted portion is reported at cost, less accumulated depreciation.

The components of the Company's EDP and operating software are summarized as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
EDP equipment and operating software	\$ 27,446	\$ 49,170
Less accumulated depreciation	<b>(22,774)</b>	(43,163)
Net EDP equipment and operating software	<b>\$ 4,672</b>	\$ 6,007

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **2. Summary of Significant Accounting Policies (continued)**

The Company calculates depreciation on furniture, equipment, and leasehold improvements and amortization of capitalized software using the straight-line method. Furniture and equipment is depreciated over its estimated useful life or ten years; leasehold improvements over the lesser of its useful life or the term of the lease; operating software over the lesser of its useful life or three years; and internally developed software over the lesser of its useful life or five years.

Depreciation and amortization expense charged to income in 2019 and 2018 was \$16,874 and \$16,330, respectively.

The Company continually evaluates the recoverability of long-lived assets by assessing whether the carrying amount of asset balances can be recovered as measured against the future undiscounted net cash flows expected to be generated by the assets. The future undiscounted net cash flows are based on historical trends, revenue forecasts, and market trends projected over the remaining life of the long-lived assets.

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. In 2019, the Company recorded impairment expenses of \$1,791 on enrollment and billing system assets whose functionalities are not expected to be useful in the future. In 2018, the Company did not have any impairment expenses.

#### **Unpaid Claims Liabilities**

The Company uses estimates for determining its claims incurred but not yet reported which are based on historical claim payment patterns, healthcare trends and membership, and includes a provision for adverse changes in claim frequency and severity. 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 claims payments become known. This information is compared to the originally established year end liability.

Management believes its methodologies for reserving for unpaid claims are appropriate and represent its best estimate.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

**Accrued Medical Incentive Pool and Bonus Payments**

Medical incentive pools and bonus accruals represent the liability for risk sharing arrangements with health care providers where the Company agrees to share savings with contracted providers.

**Aggregate Policy Reserves**

Aggregate policy reserves represent a reserve for unearned premium income, rate credits, experience rating refunds, ACA risk adjustment payable and medical loss ratio rebates.

**Premium Deficiency**

The Company evaluates its health care contracts to determine if it is probable that a loss will be incurred. A premium deficiency loss is recognized when it is probable that expected future paid claims, administrative expenses, and reserves will exceed existing reserves plus anticipated future premiums on existing contracts. Anticipated investment income and overhead expenses are also considered in the calculation of premium deficiency losses. As of December 31, 2019 and 2018, the Company did not have a premium deficiency reserve.

**Premiums**

The Company receives premium revenue from insured business. Member premiums are billed in advance of their respective coverage periods. Premium receivables are recorded when due. Premium earned is recorded during the coverage period. Aggregate policy reserves are established to cover the unexpired portion of premiums written and are computed by pro-rata methods for direct business.

Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to administrative expenses as incurred. The premium paid by subscribers prior to the effective date is recorded in the balance sheet as premiums received in advance and subsequently credited to income as earned during the coverage period.



## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **2. Summary of Significant Accounting Policies (continued)**

The provisions of the Patient Protection and Affordable Care Act (“ACA”) and implementing regulations require commercial health plans with a medical loss ratio (“MLR”) on fully insured products that fall below certain targets to rebate ratable portions of their premiums annually. The Company’s management thereby regularly monitors MLR calculations by market type and records the applicable liability and expense if the MLR falls below the minimum requirements pursuant to the ACA.

For uncollected premium, after the calculation of non-admitted amounts, an evaluation is made of the remaining admitted assets in accordance with SSAP No. 5, *Liabilities, Contingencies and Impairment of Assets*, to determine if there is a collectability issue.

If it is probable that the balance is uncollectible, any uncollectible amount is written off and charged to income in the period the determination is made. In 2019 and 2018, the amount charged to income was \$235 and \$325, respectively.

#### **Patient Protection and Affordable Care Act**

The Company adopted Statement of Statutory Accounting Principles No. 106, *Affordable Care Act Assessments* (“SSAP 106”). SSAP 106 provides accounting treatment for the assessment under Section 9010 of the Patient Protection and Affordable Care Act of entities issuing health insurance. Refer to Note 20.

The Company also adopted SSAP No. 107, *Accounting for the Risk-Sharing Provisions of the Affordable Care Act* (“SSAP 107”). The ACA imposes fees and premium stabilization provisions on health insurance issuers offering commercial health insurance. The risk-sharing provisions include three programs known as risk adjustment, reinsurance, and risk corridor. The required payments to the programs are reported as assessments and amounts distributed back to the insurance companies are presented as recoverable or receivable on the balance sheet. Refer to Note 13.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

The risk adjustment program based on Section 1343 of the ACA is effective beginning in the 2014 benefit year and continues as a permanent program. The risk adjustment program includes health plans participating in the state individual or small group markets. The purpose of the risk adjustment program is to transfer funds from lower risk plans to higher risk plans in the same state in order to adjust premiums for adverse selection among carriers caused by membership shifts due to guarantee issue and community rating mandates.

The Company takes part in the federal risk adjustment program whereby premium adjustments are based on the risk scores of enrollers rather than the actual loss experience of the insured. The risk adjustment payables and receivables are accounted for as premium adjustments subject to redetermination. In addition to the risk adjustment amount, the federal government determines the user fee, which is treated as an assessment and recognized as an expense and liability when the premium subject to assessment is earned.

The transitional or temporary reinsurance program based on Section 1341 of the ACA was effective for plan years 2014 through 2016. In general, this now-ended transitional reinsurance program provided funding to issuers in the individual market that incur high claims costs for enrollees. The program required assessments from all issuers based on a per member annual fee established by the Department of Health and Human Services (“HHS”).

In December 2016, HHS adopted a new regulation to the ACA risk adjustment program, effective beginning in 2018, that includes high-cost risk pooling (“HCRP”). HCRP is a form of reinsurance. For the HCRP “reinsurance premiums” and “reinsurance claims” are administered within the ACA risk adjustment program, rather than being administered as a stand-alone reinsurance program. In addition, the ACA transitional reinsurance pertained only to the individual market, the HCRP pertains to both the individual and small group markets.

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **2. Summary of Significant Accounting Policies (continued)**

The risk corridor program based on Section 1342 of the ACA was effective for benefit years 2014 through 2016. The risk corridors program applied to Qualified Health Plans (“QHPs”) in the individual and small group markets.

The three-year reinsurance and risk corridor programs ended on December 31, 2016. These programs were intended to protect against the negative effects of adverse selection, risk selection and to stabilize premiums during the implementation years of the ACA. Any adjustments or outstanding balances related to these programs are included in the 2018 financial results. There were no adjustments in 2019 or outstanding balances related to these programs as of December 31, 2019.

#### **Health Care Receivables**

The Company enters into contractual agreements with various health care providers to provide certain medical services to its members. Compensation arrangements vary by provider. Certain providers have entered into risk-sharing arrangements with the Company, whereby a settlement is calculated by comparing actual medical claims experience to a pre-approved and predetermined budgeted amount. These settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Estimated settlements for these risk-sharing arrangements are reflected in health care receivables on the Company’s balance sheets.

Other amounts included in health care receivables represent pharmaceutical rebates, claims overpayments, advances to the providers and capitation arrangement receivables. Pharmaceutical rebates are arrangements with pharmaceutical companies negotiated by the Company’s pharmacy benefit manager (“PBM”), in which the Company receives rebates based upon certain drug utilization of its subscribers. Claim overpayments occur as a result of several events, including, but not limited to, claim payments made in error to a provider. The Company also makes advances to providers when those advances are supported by legally enforceable contracts and are generally entered into at the request of the providers.

# Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

## Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

### **2. Summary of Significant Accounting Policies (continued)**

Advances to the providers under a capitation arrangement are usually made in anticipation of future services, and used in connection with some managed care contracts, when a physician or other medical provider is paid a flat amount.

#### **Fair Value of Financial Instruments**

The fair value of investment securities is estimated based on quoted prices for those or similar investment securities. The carrying amounts of cash, cash equivalents and short-term investments approximate fair value because of the short maturity of these instruments.

#### **Recent Accounting Pronouncements**

In 2017, the NAIC revised SSAP No. 69 – *Statement of Cash Flow* to adopt ASU 2016-15 *Classification of Certain Cash Receipts and Cash Payments* and ASU 2016-18 *Restricted Cash* as issued by the FASB without modification. ASU 2016-15 clarifies the classification of eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-18 clarifies that restricted cash and cash equivalents shall not be reported as operating, investing or financing activities, but shall be reported with cash and cash equivalents when reconciling beginning and ending amounts on the statements of cash flow. A consequential change was incorporated in SSAP No. 1 – *Accounting Policies, Risks & Uncertainties and Other Disclosures* to ensure information on restricted cash, cash equivalents and short-term investments is reported in the restricted asset disclosure. These revisions have been adopted by the Company, effective December 31, 2019, without any material impact on its financial statements.

In 2018, the NAIC adopted revisions to SSAP No. 55 – *Unpaid Claims, Losses, and Loss Adjustment Expenses* to clarify that interest paid on accident and health claims to claimants should be reported as claims adjustment expenses and interest paid to regulatory authorities as regulatory fines and fees in general and administrative expenses. This revision is effective as of January 1, 2020, and early adoption is permitted. The Company will adopt this revision in 2020 and does not expect any material impact on its financial statements.

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **2. Summary of Significant Accounting Policies (continued)**

In April 2019, the NAIC adopted revisions to SSAP No. 16R – Electronic Data Processing Equipment and Software with modifications to ASU 2018-15 – Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that Is a Service Contract allowing capitalization of implementation costs from a cloud hosting service contract as nonoperating system software with amortization not to exceed five years. The revisions also provide guidance for cloud hosting arrangements that are not service contracts. The adoption shall occur either prospectively to all implementation costs incurred after the date of adoption, or as a change in accounting principle under SSAP No. 3–Accounting Changes and Corrections of Errors. The revision is effective as of January 1, 2020, with early adoption permitted. The Company will adopt this revision in 2020 and does not expect any material impact on its financial statements.

#### **3. Cash and Investments**

Included in various investment related line items in the financial statements are certain financial instruments carried at fair value. Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated by incorporating current market inputs for similar financial instruments. In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models, and assumptions that management believes market participants would use to determine a current transaction price.

The Company’s statutory-basis financial assets have been classified, for disclosure purposes, based on a hierarchy defined by SSAP No. 100R, *Fair Value Measurement* (“SSAP 100R”). The three levels of the fair value hierarchy are as follows:

*Level 1* – Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**3. Cash and Investments (continued)**

*Level 2* – Inputs include the following:

- Quoted prices for identical or similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (e.g., some brokered markets), or in which little information is released publicly (e.g., a principal-to-principal market).
- Inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates)
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

*Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset at the reporting date.

For certain investments, the Company utilizes Net Asset Value ("NAV") per share as a practical expedient to determine fair value, as defined by SSAP 100R, when the following conditions exist:

- The investment does not have a readily determinable fair value.
- The investment is in an investment company or is an investment in a real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial statements consistent with the measurement principles of an investment company.

Level 1 assets are carried at estimated fair value based on quoted market prices and are recorded in the statutory-basis balance sheets as common stock. These assets primarily include actively traded exchange-listed mutual funds identified as common stock. Unadjusted quoted prices for these securities are provided to the Company by independent pricing services.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**3. Cash and Investments (continued)**

Level 2 assets consist primarily of bonds, including U.S. government, industrial, and miscellaneous, mortgage backed securities, and preferred stocks which are valued using pricing models with observable market inputs.

Level 3 investments include privately issued stock holdings that experience low transaction volume. The Company obtains prices for these investments quarterly and considers these prices to approximate fair value.

Investments carried at NAV as a practical expedient include holdings in real estate investment funds. The NAV per share is the amount of net assets attributable to each outstanding share (or equivalent member or ownership units) at the close of the reporting period. The Company obtains the NAV per share directly from the investment manager on a quarterly basis and it is probable that the Company will sell the investment for an amount different from the NAV per share (or its equivalent).

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the ending fair value for the reporting period in which the changes occur. There were no significant transfers between levels for the year ended December 31, 2019.

Investments in partnerships and similar investments are recorded in the statutory-basis balance sheets as other invested assets. Other invested asset investments in subsidiary, controlled, and affiliated entities are recorded using the statutory equity method. These investments are not included within the scope of SSAP 100R.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**3. Cash and Investments (continued)**

As of December 31, 2019 and 2018, included in the Company's other invested assets is an investment in a surplus note, issued by BCBSMA with a carrying value of \$291,355 and \$280,749, respectively.

The following table presents the Company's financial assets that are measured and reported at fair value in the balance sheets by fair value hierarchy level at December 31, 2019 and 2018:

Description	December 31, 2019				
	Level 1	Level 2	Level 3	NAV	Total
Common stock:					
Industrial and miscellaneous	\$ 210,407	\$ —	\$ 5,546	\$ 64,400	\$ 280,353
Parent, subs, and affiliates	—	—	322	—	322
Total assets at fair value	\$ 210,407	\$ —	\$ 5,868	\$ 64,400	\$ 280,675

Description	December 31, 2018				
	Level 1	Level 2	Level 3	NAV	Total
Bonds:					
Industrial and miscellaneous	\$ —	\$ 2,405	\$ —	\$ —	\$ 2,405
Common stock:					
Industrial and miscellaneous	143,572	—	67,276	—	210,848
Parent, subs, and affiliates	—	—	270	—	270
Total assets at fair value	\$ 143,572	\$ 2,405	\$ 67,546	\$ —	\$ 213,523



Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

3. Cash and Investments (continued)

Fair Value Measurements in Level 3:

	Balance at January 1, 2019	Transfers into Level 3	Transfers out of Level 3	Total Gain Included in Net Realized Capital Gains and (Losses)	Total Gains and (Losses) Included in Surplus	Purchases	Sales	Issuances and Settlements	Balance at December 31, 2019
<b>Common stock</b>									
Industrial and miscellaneous	\$ 67,276	\$ –	\$ (64,400)	\$ –	\$ 1,507	\$ 1,992	\$ (829)	\$ –	\$ 5,546
Parent, subs, and affiliates	270	–	–	–	52	–	–	–	322
Total assets	\$ 67,546	\$ –	\$ (64,400)	\$ –	\$ 1,559	\$ 1,992	\$ (829)	\$ –	\$ 5,868

	Balance at January 1, 2018	Transfers into Level 3	Transfers out of Level 3	Total Gain Included in Net Realized Capital Gains and (Losses)	Total Gains and (Losses) Included in Surplus	Purchases	Sales	Issuances and Settlements	Balance at December 31, 2018
<b>Common stock</b>									
Industrial and miscellaneous	\$ 62,461	\$ –	\$ –	\$ –	\$ 2,927	\$ 1,888	\$ –	\$ –	\$ 67,276
Parent, subs, and affiliates	251	–	–	–	19	–	–	–	270
Total assets	\$ 62,712	\$ –	\$ –	\$ –	\$ 2,946	\$ 1,888	\$ –	\$ –	\$ 67,546

As of December 31, 2019 and 2018, the Company had investments in RREEF America II Core Real Estate Investment Trust (“RREEF II” or the “Fund”). The operations of the Fund include; acquisitions, sales, leasing and real estate property management. The Fund’s average investment holding period is five to ten years. As of December 31, 2019 and 2018, the Fund did not have any unfunded commitments. Redemptions must be requested in writing and delivered to the Fund specifying the number of shares the investor wishes to redeem. The Fund has no lock-up period. Shares are transferable subject to federal and state securities law requirements and the Fund’s charter. All redemptions paid are subject to approval by the Fund’s board of directors and paid within 45 days after the end of each quarter. In 2019, in accordance with the revised guidance in SSAP No. 100R, the Company transferred RREEF II assets of \$64,400 out of Level 3 to NAV. In 2018, there were no significant assets transfers between levels.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**3. Cash and Investments (continued)**

The Company's holdings in private market investments, which are not publicly traded, are subject to lock-up periods of up to 7 years. There are no other restrictions on the ability to sell these investments at the measurement date.

Income distributions and return of capital transactions occur monthly or quarterly during the lock-up period when capital is inaccessible. The Company's holdings also include commingled equity funds, which are publicly traded. The Company can redeem its investments in these funds on a monthly or quarterly basis upon written notification within a maximum of 45 days prior to the predetermined portfolio monthly redemption date. It is probable that the Company will sell these investments for an amount different from the reported fair market value.

The table below presents the fair value by hierarchy level for certain financial assets that are not reported at fair value in the balance sheets:

Description	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Bonds:				
U.S. treasury securities	\$ –	\$ 339,213	\$ –	\$ 339,213
All other governments	–	4,211	–	4,211
States, territories and possessions	–	799	–	799
Political subdivisions of states, territories, and possessions	–	729	–	729
Special revenue and assessment	–	230,397	–	230,397
Industrial and miscellaneous	–	330,480	–	330,480
Total	\$ –	\$ 905,829	\$ –	\$ 905,829

Description	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Bonds:				
U.S. treasury securities	\$ –	\$ 296,617	\$ –	\$ 296,617
All other governments	–	3,213	–	3,213
States, territories and possessions	–	813	–	813
Political subdivisions of states, territories, and possessions	–	836	–	836
Special revenue and assessment	–	232,555	–	232,555
Industrial and miscellaneous	\$ –	\$ 340,521	–	\$ 340,521
Total	\$ –	\$ 874,555	\$ –	\$ 874,555

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**3. Cash and Investments (continued)**

The cost or amortized cost, gross unrealized gains, gross unrealized losses, and fair value of cash and investments are as follows:

	December 31, 2019			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash, cash equivalents, and short-term investments	\$ 129,811	\$ –	\$ –	\$ 129,811
Bonds:				
U.S. government	334,899	5,361	(1,047)	339,213
All other governments	4,134	92	(15)	4,211
States, territories and possessions	745	54	–	799
Political subdivisions of states, territories, and possessions	674	55	–	729
Special revenue and special assessment	227,401	3,796	(800)	230,397
Industrial and miscellaneous	319,357	11,450	(327)	330,480
Total bonds	887,210	20,808	(2,189)	905,829
Common stock	240,204	40,823	(352)	280,675
Total cash and investments	<u>\$ 1,257,225</u>	<u>\$ 61,631</u>	<u>\$ (2,541)</u>	<u>\$ 1,316,315</u>

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**3. Cash and Investments (continued)**

	<b>December 31, 2018</b>			<b>Fair Value</b>
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
Cash, cash equivalents, and short-term investments	\$ 29,154	\$ -	\$ -	\$ 29,154
Bonds:				
U.S. government	301,492	1,024	(5,899)	296,617
All other governments	3,275	10	(72)	3,213
States, territories and possessions	788	25	-	813
Political subdivisions of states, territories, and possessions	812	25	(1)	836
Special revenue and special assessment	238,144	841	(6,430)	232,555
Industrial and miscellaneous	346,788	1,571	(7,838)	340,521
Total bonds	891,299	3,496	(20,240)	874,555
Common stock	187,455	27,209	(3,546)	211,118
Total cash and investments	<u>\$ 1,107,908</u>	<u>\$ 30,705</u>	<u>\$ (23,786)</u>	<u>\$ 1,114,827</u>

As of December 31, 2019 and 2018, no bonds were non-admitted due to being in default or near default status.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**3. Cash and Investments (continued)**

The following tables show gross unrealized losses and fair values of bonds and equities and length of time that individual securities have been in a continuous unrealized position.

	Less than 12 Months		12 Months or More		Total		Number of Securities
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
<b>At December 31, 2019</b>							
U.S. government	\$ 95,202	\$ (584)	\$ 54,604	\$ (463)	\$ 149,806	\$ (1,047)	93
All other governments	-	-	1,740	(15)	1,740	(15)	2
Political subdivisions of states, territories, and possessions	28,476	(103)	52,821	(697)	81,297	(800)	122
Industrial and miscellaneous	19,284	(102)	30,456	(225)	49,740	(327)	98
Total Bonds	142,962	(789)	139,621	(1,400)	282,583	(2,189)	315
Common stock	3,185	(2)	-	-	3,185	(2)	2
Total	\$ 146,147	\$ (791)	\$ 139,621	\$ (1,400)	\$ 285,768	\$ (2,191)	317

	Less than 12 Months		12 Months or More		Total		Number of Securities
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
<b>At December 31, 2018</b>							
U.S. government	\$ 37,028	\$ (342)	\$ 186,355	\$ (5,557)	\$ 223,383	\$ (5,899)	139
All other governments	557	(3)	2,237	(69)	2,794	(72)	4
States, territories, and possessions	364	-	-	-	364	-	-
Political subdivisions of states, territories, and possessions	-	-	101	(1)	101	(1)	1
Special revenue and assessment	15,626	(261)	166,501	(6,169)	182,127	(6,430)	283
Industrial and miscellaneous	112,500	(2,231)	174,579	(5,607)	287,079	(7,838)	572
Total Bonds	166,075	(2,837)	529,773	(17,403)	695,848	(20,240)	999
Common stock	29,126	(2,314)	15,045	(1,232)	44,171	(3,546)	3
Total	\$ 195,201	\$ (5,151)	\$ 544,818	\$ (18,635)	\$ 740,019	\$ (23,786)	1,002

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### 3. Cash and Investments (continued)

In accordance with SSAP No. 2R—*Cash, Cash Equivalents, Drafts, and Short-Term Investments*, all money market mutual funds (“ MMMF’s”) are classified as cash equivalents. As of December 31, 2019 and 2018, the Company’s investments in MMMF’s were \$85,652 and \$18,124, respectively, and are included in cash, cash equivalents and short-term investments.

Management regularly reviews the fair value of the Company’s investments. If the fair value of any investment falls below its cost basis, the decline is analyzed to determine whether the decline in value is other-than-temporary. To make this determination for each security, the following is considered:

- The length of time and the extent to which the fair value has been below cost;
- The financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings potential;
- Volatility inherent in the asset class to which the investment belongs;
- Management’s intent and ability to hold the respective securities long enough for it to recover its value.

At December 31, 2019 and 2018, included in the Company’s investments are unrealized losses deemed to be temporary. These investments reflect a range of industries, and the Company determined the current market volatility is temporary.

In 2019, the HMO Blue recorded other-than-temporary impairment losses for investments in limited partnerships of \$232 for Hancock Capital Partners and \$1,766 for Comvest Capital III. The impairments were recognized based on the length of time the securities have been in an unrealized loss position and an outlook lacking improvement. In 2018, the Company did not record any other-than-temporary impairment losses.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**3. Cash and Investments (continued)**

The amortized cost and fair value of bonds at December 31, 2019, by stated maturity, are shown below. Fixed maturities subject to early or unscheduled prepayments have been included based upon their stated maturity dates. Actual maturities may differ from stated maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Cost or Amortized Cost</b>	<b>Fair Value</b>
Within 1 year	\$ 31,288	\$ 31,338
After 1 year through 5 years	287,740	291,685
After 5 years through 10 years	197,363	203,781
After 10 years	370,819	379,025
Total bonds	<u>\$ 887,210</u>	<u>\$ 905,829</u>

Proceeds, realized gains and losses from investment securities sales are as follows:

<b>Description</b>	<b>Proceeds from Sales</b>		<b>Realized Gains</b>		<b>Realized Losses</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Bonds	\$ 534,039	\$447,588	\$ 7,902	\$ 1,511	\$ (1,480)	\$ (4,042)
Common stock	829	-	-	-	-	-
Other invested assets	15,545	60,808	1,433	3,916	(1,999)	(836)

Gross realized investment gains and losses are as follows:

	<b>2019</b>	<b>2018</b>
Gross gains	\$ 9,400	\$ 5,455
Gross losses	(3,509)	(4,964)
Net realized investment gains	<u>\$ 5,891</u>	<u>\$ 491</u>

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**3. Cash and Investments (continued)**

Major categories of net investment income are summarized as follows:

	<u>2019</u>	<u>2018</u>
Income:		
Bonds	\$ 21,645	\$ 24,308
Other invested assets	23,934	20,045
Common stock	8,929	10,984
Real estate	6,058	6,058
Cash, cash equivalents and short-term investments	3,473	1,465
Other miscellaneous	568	606
Total investment income	<u>64,607</u>	63,466
Less:		
Investment expenses	11,877	12,907
Depreciation	2,204	2,187
Net investment income	<u>\$ 50,526</u>	<u>\$ 48,372</u>

**4. Restricted Assets**

The Company's restricted assets and pledged collateral are summarized in the table as follows:

	<u>2019</u>	<u>2018</u>		<u>2019</u>
	<u>Total</u>	<u>Total</u>		<u>Total</u>
	<u>Gross</u>	<u>Gross</u>	<u>Increase/</u>	<u>Admitted</u>
	<u>Restricted</u>	<u>Restricted</u>	<u>Decrease</u>	<u>Restricted</u>
<b>Restricted assets category</b>				
Federal Home Loan Bank ("FHLB")				
capital stock	\$ 5,546	\$ 6,375	\$ (829)	\$ 5,546
Pledged as collateral to FHLB	111,057	114,190	(3,133)	111,057
On deposit with states <sup>(a)</sup>	1,144	1,143	1	1,144
Other restricted assets <sup>(b)</sup>	21,558	8,967	12,591	14,025
Total	<u>\$ 139,305</u>	<u>\$ 130,675</u>	<u>\$ 8,630</u>	<u>\$ 131,772</u>



Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**4. Restricted Assets (continued)**

- (a) At December 31, 2019 and 2018, HMO Blue had restricted securities, included in bonds, and on deposit with the Commonwealth of Massachusetts as required by M.G.L. c.176G, section 26.
- (b) At December 31, 2019 and 2018, BCBSMA had Commonwealth of Massachusetts Tax Credits as restricted assets included in other assets on the statutory-basis balance sheets.

**5. Health Care Benefits, Net of Reinsurance**

The Company's health care benefits are summarized in the reconciliation of the beginning and ending balances of the unpaid claim liability, net of recoveries, health care receivables and accrued medical incentive pool and bonus payments are as follows:

	2019				
	Unpaid Claims Liability	Reinsurance Recoverable	Health Care Receivable	Medical Incentive Pool and Bonus	Total Health Care Benefits
Net balance at January 1	\$ 413,330	\$ –	\$ (66,170)	\$ 54,362	\$ 401,522
Incurred related to:		–			
Current year	4,619,386	–	(133,982)	140,949	4,626,353
Prior years	(32,635)	(149)	(5,150)	(12,410)	(50,344)
Total incurred	4,586,751	(149)	(139,132)	128,539	4,576,009
Paid related to:					
Current year	4,195,130	–	(82,344)	94,905	4,207,691
Prior years	377,537	(149)	(68,477)	29,111	338,022
Total paid	4,572,667	(149)	(150,821)	124,016	4,545,713
Net balance at December 31	\$ 427,414	\$ –	\$ (54,481)	\$ 58,885	\$ 431,818

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**5. Health Care Benefits, Net of Reinsurance (continued)**

	2018				
	Unpaid Claims Liability	Reinsurance Recoverable	Health Care Receivable	Medical Incentive Pool and Bonus	Total Health Care Benefits
Net balance at January 1	\$ 402,230	\$ (1,715)	\$ (82,526)	\$ 97,458	\$ 415,447
Incurred related to:					
Current year	4,516,375	–	(136,252)	152,598	4,532,721
Prior years	(36,216)	(1,101)	(26,051)	(2,753)	(66,121)
Total incurred	4,480,159	(1,101)	(162,303)	149,845	4,466,600
Paid related to:					
Current year	4,110,014	–	(78,199)	106,166	4,137,981
Prior years	359,045	(2,816)	(100,460)	86,775	342,544
Total paid	4,469,059	(2,816)	(178,659)	192,941	4,480,525
Net balance at December 31	\$ 413,330	\$ –	\$ (66,170)	\$ 54,362	\$ 401,522

Negative amounts reported for incurred related to prior years result from claims being settled for amounts less than originally estimated. The favorable development in medical claims payables for the years ended December 31, 2019 and 2018, is primarily attributable to actual claim payment patterns and cost trends differing from those assumed at the time the liability was established.

At December 31, 2019 and 2018, health care receivables include \$3,868 and \$10,631, respectively, of amounts that are non-admitted in accordance with SSAP No. 84, *Certain Health Care Receivables and Receivables Under Government Insured Plans*.

Management believes its methodologies for reserving for unpaid claims are appropriate and represent its best estimate at December 31, 2019 and 2018. Estimated subrogation credits of \$5,769 and \$7,022 were considered in determining health care benefits reserves as of December 31, 2019 and 2018, respectively.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**6. Pension and Other Post-Retirement Benefit Plans**

The pension and other post-retirement benefit plans (“Plans”) are sponsored by BCBSMA and the associated costs are shared by the Companies. BCBSMA allocates amounts to the Company and wholly owned subsidiaries based on salary ratios.

In 2019 and 2018, all employees who have completed twelve months of employment were eligible to participate in the Retirement Income Trust Plan (“RIT”), which grants pension benefits to retired employees at various levels based on age and years of service. In December 2019, the Company amended the RIT plan. Employees that have an employment start date after to January 1, 2020, are not eligible to participate in the RIT. BCBSMA also participates in two noncontributory retirement plans for eligible employees. BCBSMA uses a December 31 measurement date for all of its plans. The Company is an active participating employer of the Plans.

BCBSMA uses a December 31 measurement date for all of its plans. The Company is an active participating employer of the Plans.

Since 2016, HMO Blue uses a spot rate approach to determine service cost and interest cost. BCBSMA’s actuarial basis for discount rate determination is the Mercer Select 100 Yield Curve.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**6. Pension and Other Post-Retirement Benefit Plans (continued)**

The Company's share of the net expenses for the years ended December 31, 2019 and 2018, are as follows:

	Pension Benefits		Post-Retirement Benefits		Postemployment and Compensated Absences	
	2019	2018	2019	2018	2019	2018
Service cost	\$ 5,565	\$ 4,700	\$ 1,229	\$ 1,094	\$ 18,549	\$ 20,313
Interest cost	11,214	6,650	1,941	1,423	–	–
Expected return on plan assets	(19,481)	(14,320)	(2,064)	(1,819)	–	–
Amortization of unrecognized transitional obligation	158	159	–	–	–	–
Recognized actuarial loss	9,211	5,184	–	–	–	–
Amortization of prior service cost	(24)	(16)	808	672	–	–
Amount of loss recognized due to settlement	559	–	–	–	–	–
Total net periodic benefit cost	\$ 7,202	\$ 2,357	\$ 1,914	\$ 1,370	\$ 18,549	\$ 20,313

The Companies do not have any regulatory contribution requirements for 2019. However, the Companies currently intend to make voluntary contributions of \$100,000 to its defined benefit pension plan and \$6,342 to its post-retirement benefit plan in 2020.

The Companies other post-retirement benefit plan includes medical, dental, and life benefits for retired employees. The plan is funded by a 401(h) account. The Companies made contributions into this account of \$4,909 and \$5,308 in 2019 and 2018, respectively. Total employer contributions to the post-retirement benefit plan were \$7,156 and \$8,175 in 2019 and 2018, respectively.

BCBSMA also has a 401(k) savings plan for eligible employees. Under the employee savings plan, BCBSMA contributes an amount equal to 100% of employee contributions, up to a maximum of 4% of each employee's compensation, subject to Internal Revenue Service limits of \$56 and \$55 for 2019 and 2018, respectively. The Company's allocated costs for the 401(k) plan were \$6,939 and \$6,833 in 2019 and 2018, respectively. In 2019, the Company continued to make an additional core contribution of 2% of base pay for all associates subject to the Internal Revenue Code ("IRC") limit.

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **7. Income Taxes**

The Company is reporting as an organization exempt from federal income taxes under IRC Section 501(c)(4) and is exempt from Massachusetts state income taxes. The Company is subject to tax on certain income unrelated to its operations as a tax-exempt health maintenance organization. The amount of unrelated business income tax for HMO Blue for 2019 and 2018 was immaterial.

The Company would be required to adopt Accounting Standards Codification No. 740-10, Income Taxes (“ASC 740”), *Accounting for Uncertainty in Income Taxes*, if GAAP-basis financial statements were prepared for the years ended December 31, 2019 and 2018. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Similar guidance has not been adopted by the NAIC. If the Company were to adopt ASC 740 for statutory reporting purposes, it would have no impact on the financial statements.

The Company files income tax returns in the U.S. federal jurisdiction. The Company’s open tax years are 2016 through 2019. The Company would recognize any interest and penalties resulting from ASC 740 in general and administrative expenses.

The 2017 Tax Cut and Jobs Act (“TCJA”) Section 512(a)(7) required tax-exempt organizations to increase their unrelated business taxable income (“UBTI”) by the amount of expenses paid or incurred by providing qualified transportation fringe benefits to employees and any parking facility used in connection with the qualified parking benefits. As this provision was applicable to amounts paid or incurred after December 31, 2017, the Company has filed form 990-T and made quarterly estimated payments that reflect the increase in UBTI (“Parking Tax”).

On December 20, 2019, the Taxpayer Certainty and Disaster Tax Relief Act of 2019 was signed into law. A provision of this law retroactively repeals this Parking Tax as of the date of its original enactment. The Company intends to claim a refund for the UBTI reported on the 2018 and 2017 form 990-T under Section 512(a)(7).

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **8. State Transferable Tax Credits**

The General Laws of the Commonwealth of Massachusetts (the “Commonwealth”) provide film tax credits that apply to Massachusetts income and excise taxes relating to expenditures incurred while making motion pictures in the Commonwealth. These film tax credits are transferable and are, therefore, available through purchase to any taxpayer in the Commonwealth.

The Company estimates the utilization of any remaining unused state tax credits by projecting the annual premium tax liability taking into account policy growth and rate changes, projecting future premium tax liability based on projected premium, tax rates and tax credits, and comparing projected future tax liability to the availability of remaining tax credits.

All of the Company’s state tax credits are classified under Massachusetts law as transferable tax credits. All of the tax credits during 2019 were utilized against Massachusetts tax liabilities and are, therefore, admitted.

As of December 31, 2019 and 2018, the carrying value of the Massachusetts tax credits applied to related tax liabilities was \$1,850 and \$2,231, respectively. As of December 31, 2019 and 2018, the Company did not have any unapplied Massachusetts tax credits.

#### **9. Surplus**

The NAIC has imposed regulatory risk-based capital (“RBC”) requirements on health insurance companies, including the Company. The RBC calculation serves as a benchmark for the regulation of health insurance companies’ solvency by state insurance regulators. At December 31, 2019 and 2018, the Company’s total adjusted capital is in excess of the regulatory RBC requirements.

M.G.L. Chapter 141, which applies requirements of unfair insurance competition under Chapter 176D to HMOs and HMOs operated as a line of business, requires an HMO to have adjusted net worth of \$1,500 when initially licensed. Thereafter, an HMO must maintain a minimum adjusted net worth in an amount determined by the DOI based initially on a sliding scale over a seven-year phase-in period effective December 31, 2004. HMOs must maintain a minimum deposit of at least \$1,000 with a trustee acceptable to the DOI. The Company exceeded all regulatory Chapter 141 requirements at December 31, 2019 and 2018.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**9. Surplus (continued)**

As a condition of granting an HMO license to HMO Blue, the DOI required the Companies to enter into an agreement with the DOI granting the DOI discretionary authority to require either company to issue a surplus note to the other company if either of the company's health RBC is significantly higher than the other company's RBC.

In December 2017, the Company invested in a surplus note in the amount of \$285,000 that was issued by BCBSMA in exchange for cash. The term of the note is 10 years at an interest rate of 2.95% and pays interest annually, commencing on September 30, 2018.

Each payment of interest and principal of the surplus notes may be made after obtaining prior written approval of the Massachusetts Commissioner of Insurance. Subject to payment restrictions, the note may be prepaid in whole at any time, or in part from time to time, without penalty and with interest due on the date of payment.

In September 2019 and 2018, and after receiving approvals from the Commissioner of the Massachusetts Division of Insurance, BCBSMA paid HMO Blue \$8,408 and \$6,609 in accrued interest on the surplus note, respectively. No principal payments were processed during 2019 and 2018. As of December 31, 2019 and 2018, there were no unapproved interest or principal payments.

The indebtedness is subordinated to all other obligations of the Company, including but not limited to, claims of members, members' beneficiaries, providers and all other claims, including claims for indebtedness issued, incurred or guaranteed by the Company. This surplus note is not registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **10. Permitted Statutory Accounting Practices**

State insurance laws and regulations prescribe accounting practices for determining statutory net income and surplus for insurance companies. In addition, state regulators may permit statutory accounting practices that differ from prescribed practices. The Company had no permitted practices that would have an effect on statutory surplus at December 31, 2019 and 2018.

#### **11. Related-Party Transactions**

BCBSMA and HMO Blue (the “Companies”) have an intercompany loan agreement which allows borrowings between the companies not to exceed the lesser of 3% of HMO Blue’s admitted assets on a statutory basis or 25% of HMO Blue’s net worth on a statutory basis calculated as of the previous year end or if loans exceed the maximum amount per the calculation, by obtaining permission from the Massachusetts Insurance Commissioner of the Company’s intent to exceed the limits. These loans bear interest based on the overnight LIBOR rate plus a spread or a fixed rate as agreed to by the Companies. During 2019, there were no intercompany borrowings between HMO Blue and BCBSMA.

As of December 31, 2019 and 2018, the Company had payables with BCBSMA of \$18,102 and \$11,543, respectively.

BCBSMA and HMO Blue each committed to invest \$10,000 in BlueCross BlueShield Ventures, Inc. (the “General Partner”) and BlueCross BlueShield Venture Partners, L.P. (the “Partnership”), in the form of 20 Class A shares of the General Partner and 17.1% limited interest in the Partnership. BCBS Venture is a strategic corporate venture fund formed by eleven Blue Cross and Blue Shield plans to invest in emerging companies that will bring greater innovation, efficiency, consumer-focus and transparency to healthcare.

As of December 31, 2019, HMO Blue contributed \$9,495 to the Partnership and \$100 to the General Partner. As of December 31, 2019, the Company had an outstanding contingent commitment for additional funding of \$405 related to future equity contributions to the Partnership. As of December 31, 2019 and 2018, the admitted book values of the Company’s investment in BCBS Venture were \$8,297 and \$7,484, respectively.



## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **11. Related-Party Transactions (continued)**

The Companies each committed to invest \$10,000 in BlueCross BlueShield Ventures II, Inc. (the “General Partner II”) and BlueCross BlueShield Venture Partners II, L.P. (the “Partnership II”), in the form of 200 Class A shares of the General Partner II and 10.5% limited interest in the Partnership II. BCBS Venture II is a strategic corporate venture fund formed by twenty Blue Cross and Blue Shield plans to primarily make equity investments in emerging companies of strategic interest to the Blue Plans while pursuing positive financial returns.

As of December 31, 2019, HMO Blue has contributed \$8,816 to the Partnership II and \$100 to the General Partner II. As of December 31, 2019, the Company had an outstanding contingent commitment for additional funding of \$1,084 related to the future equity contributions in the Partnership II. As of December 31, 2019 and 2018, the admitted book values of the company’s investment in BCBS Venture II were \$8,628 and \$7,136, respectively.

There were no non-admitted assets related to the Company’s investments in Subsidiary, Controlled, and Affiliated Entities as of December 31, 2019 and 2018.

HMO Blue and BCBSMA operate under common Board of Directors management and control. The Company participates in a bilateral intercompany agreement with BCBSMA to settle any claims, fees, administrative cost expense allocation, and pass-through cash and expenses paid by one company on behalf of the other company.

Under the terms of its license with Blue Cross and Blue Shield Association, BCBSMA has also entered into a unilateral agreement with HMO Blue to guarantee all current and future financial obligations of HMO Blue.

HMO Blue and BCBSMA have an undivided interest in property and equipment. The apportionment of fixed assets is allocated to each company based on a rolling five-year average of pro-rata administrative expenses. Depreciation expenses are charged to each company based on utilization.

Employees of the Companies (the “Associates”) are either: concurrently employed by the Companies or solely employed by BCBSMA or HMO Blue or employed under a Tri-Party Agreement between BCBSMA, HMO Blue and Indigo Insurance Services, LLC. (“Indigo”) a subsidiary of Zaffre Investments, LLC.

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **11. Related-Party Transactions (continued)**

Individuals solely employed by BCBSMA include senior level management (“SLM”) and non SLM individuals who provide routine services that benefit specific products, programs, and subsidiaries of BCBSMA. The compensation, benefits and administrative expenses of the concurrently employed Associates are charged to the Companies in accordance with their provision of services to each company.

For the individuals solely employed by BCBSMA, the pro-rata portion of compensation, benefits and administrative expenses attributable to the services provided to HMO Blue is charged to HMO Blue on an arm’s length basis, including a mark-up. A common paymaster arrangement has been established for payroll and payroll related benefits. An agency arrangement has been established for payment of claims and operating expenses and receipt of funds. The Companies’ pension and post-retirement benefits plans (“Benefit Plans”) are sponsored by BCBSMA and BCBSMA is liable for the Benefit Plans. BCBSMA charges HMO Blue, as a participating employer of the Benefit Plans, a fee based on HMO Blue’s allocated share of the Benefit Plans’ expenses.

#### **12. Retrospectively Rated Contracts and Contracts Subject to Redetermination**

The Company receives premium payments from the Centers for Medicare & Medicaid Services (“CMS”) on a monthly basis to provide comprehensive healthcare benefits for the Company’s insured Medicare members. Premiums are fixed during the contract period, however, are subject to retroactive risk adjustments based on submitted diagnosis data accepted by CMS throughout the year. The Company estimates retroactive risk adjustment revenue based on accepted data and its adjusted risk scores. This revenue is recognized when the amounts become determinable and collectability is reasonably assured.

The total amount of net premiums written by the Company that are subject to retrospective rating features was \$590,794 and \$505,537 for the years ended December 31, 2019 and 2018, respectively, which represents approximately 11% and 10%, respectively, of Company’s written premiums for both 2019 and 2018. No other premiums written by the Company are subject to retrospective rating features.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**13. Risk-Sharing Provisions of the ACA**

The Company participates in the permanent ACA Risk Adjustment Reporting Program (“RA Program”) where risk adjustment transfer payments are subjected to review under the CMS Risk Adjustment Data Validation (“RADV”) program starting with the 2018 benefit year. The RADV establishes nationwide benchmarks and then retroactively adjusts transfer payments for all carriers in each state market. After management review, the outcome for the incurrence of a loss related to RADV was probable, therefore, as of December 31, 2019, the Company accrued a contingent liability of \$8,000 for the 2019 and 2018 benefit years, respectively. The related RADV offset of \$16,000 was recorded as an adjustment to premium.

As discussed in Note 2, the Company wrote accident and health insurance premium that is subject to the ACA risk-sharing provisions. The ACA risk-sharing provisions had an impact on admitted assets, liabilities, and revenue for the current and prior year, and were as follows:

	December 31, 2019		2019		Ref <sup>(1)</sup>
	Receivable	(Payable)	Income	(Expense)	
<b>a. Permanent ACA risk adjustment program</b>					
Premium adjustments	\$ 11,350	\$ –	\$ 33,443	\$ –	(a)
Risk adjustment user fees	–	(460)	–	(549)	(f)
Subtotal ACA permanent risk adjustment program	11,350	(460)	33,443	(549)	
<b>b. Transitional ACA reinsurance program</b>					
Claims paid	–	–	–	–	(b)
Claims unpaid	–	–	–	–	(g)
Related to uninsured plans	–	–	–	–	(g)
Contributions – not reported as ceded premium	–	–	–	–	(c) (d)
Ceded reinsurance premiums	–	–	–	–	(e)
Subtotal ACA transitional reinsurance program	–	–	–	–	
<b>c. Temporary ACA risk corridor program</b>					
Accrued retrospective premium	–	–	–	–	(h)
Reserve for rate credits or policy experience rating refunds	–	–	–	–	(h)
Subtotal ACA risk corridors program	–	–	–	–	
<b>d. Total for ACA risk sharing provisions</b>	<b>\$ 11,350</b>	<b>\$ (460)</b>	<b>\$ 33,443</b>	<b>\$ (549)</b>	

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**13. Risk-Sharing Provisions of the ACA (continued)**

**Ref<sup>(1)</sup>:**

- (a) The receivable has been admitted.
- (b) Reinsurance recoverable claims for the 2016 plan year was accrued for \$149 and cash was received per final settlement in 2019.
- (c) There were no reinsurance contributions (not reported as ceded premium) as of December 31, 2019.
- (d) Expenses are recorded within administrative expenses.
- (e) There were no ceded reinsurance premiums paid in 2019.
- (f) At December 31, 2019, risk adjustment user fee payable adjustments were \$(460), \$(58) and \$(31) related to benefit years 2019, 2018 and 2017, respectively, and were based on the most recent CMS settlement notice received in 2019.
- (g) No balances or premium was excluded from the ACA Reinsurance Program.
- (h) No balances or premium was excluded from the ACA Risk Corridor Program.

	December 31, 2018		2018		Ref <sup>(1)</sup>
	Receivable	(Payable)	Income	(Expense)	
<b>a. Permanent ACA risk adjustment program</b>					
Premium adjustments	\$ 200	\$ (9,500)	\$ —	\$ (20,284)	(a)
Risk adjustment user fees	—	(400)	—	(726)	(f)
Subtotal ACA permanent risk adjustment program	200	(9,900)		(21,010)	
<b>b. Transitional ACA reinsurance program</b>					
Claims paid	—	—	1,101	—	(b)
Claims unpaid	—	—	—	—	(g)
Related to uninsured plans	—	—	—	—	(g)
Contributions – not reported as ceded premium	—	—	—	—	(c) (d)
Ceded reinsurance premiums	—	—	—	—	(e)
Subtotal ACA transitional reinsurance program	—	—	1,101	—	
<b>c. Temporary ACA risk corridor program</b>					
Accrued retrospective premium	—	—	—	—	(h)
Reserve for rate credits or policy experience rating refunds	—	—	—	—	(h)
Subtotal ACA risk corridors program	—	—	—	—	
<b>d. Total for ACA risk sharing provisions</b>	<b>\$ 200</b>	<b>\$ (9,900)</b>	<b>\$ 1,101</b>	<b>\$ (21,010)</b>	

**Ref<sup>(1)</sup>:**

- (a) This receivable has been admitted.
- (b) This recoverable has been admitted.
- (c) There were no reinsurance contributions (not reported as ceded premium) as of December 31, 2018.
- (d) Expenses are recorded within administrative expenses.
- (e) There were no ceded reinsurance premiums paid in 2018.
- (f) At December 31, 2018, risk adjustment user fee payable adjustments were \$(400) and \$(326) related to benefit years 2016 and 2017, respectively, and were based on most recent CMS notice received in 2018.
- (g) No balances or premium was excluded from the ACA Reinsurance Program.
- (h) No balances or premium was excluded from the ACA Risk Corridor Program.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**13. Risk-Sharing Provisions of the ACA (continued)**

	Roll-Forward of Prior Year ACA Risk Sharing Balances										
	Accrued		Received/Paid		Differences		Adjustments		Unsettled		
	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)	Ref <sup>(3)</sup>	(Pay)	
<b>a. Permanent ACA risk adjustment</b>											
Premium adjustments receivable	\$ 200	\$ -	\$ 12,793	\$ -	\$ (12,593)	\$ -	\$ 12,593	\$ -	(a)	\$ -	\$ -
Premium adjustments (payable)	-	(9,500)	-	-	-	(9,500)	-	9,500	(b)	-	-
Subtotal ACA permanent risk adjustment program	200	(9,500)	12,793	-	(12,593)	(9,500)	12,593	9,500		-	-
<b>b. Transitional ACA reinsurance</b>											
Claims paid	-	-	-	-	-	-	-	-	(c)	-	-
Claims unpaid	-	-	-	-	-	-	-	-	(d)	-	-
Related to uninsured plans	-	-	-	-	-	-	-	-		-	-
Contributions – not reported as ceded premium	-	-	-	-	-	-	-	-		-	-
Ceded reinsurance premiums	-	-	-	-	-	-	-	-		-	-
Subtotal ACA transitional reinsurance program	-	-	-	-	-	-	-	-		-	-
<b>c. Temporary ACA risk corridor</b>											
Accrued retrospective premium	-	-	-	-	-	-	-	-		-	-
Reserve for rate credits or policy experience	-	-	-	-	-	-	-	-		-	-
rating refunds	-	-	-	-	-	-	-	-		-	-
Subtotal ACA risk corridors program	-	-	-	-	-	-	-	-		-	-
<b>d. Total for ACA risk sharing provisions</b>	<b>\$ 200</b>	<b>\$ (9,500)</b>	<b>\$ 12,793</b>	<b>\$ -</b>	<b>\$ (12,593)</b>	<b>\$ (9,500)</b>	<b>\$ 12,593</b>	<b>\$ 9,500</b>		<b>\$ -</b>	<b>\$ -</b>

**Ref<sup>(3)</sup>:**

- (a) Adjustments to the prior benefit year ACA Risk Adjustment received in 2019 were \$12,593 (gross of non-admitted) and were based on the reconsideration settlement notice from the Commonwealth of Massachusetts Health Insurance Connector Authority.
- (b) Adjustments to the prior benefit year ACA Risk Adjustment payable in 2019 was \$9,500.
- (c) The adjustment for amounts recoverable for claims paid under the Transitional ACA Reinsurance Program was \$0 and reflects the differences between previously estimated amounts and the final settlement notice received.
- (d) The adjustment for amounts recoverable for claims unpaid under the Transitional ACA Reinsurance Program was \$0 and reflects the differences between previously estimated amounts and the final settlement notice received.

As of December 31, 2019 and 2018, the Company did not report any risk-sharing provisions related to the temporary ACA Risk Corridor Program. Therefore, no risk-corridor related asset or liability balances were either accrued, impaired or non-admitted.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**14. Health Care Receivables**

Amounts receivable for pharmaceutical rebates are estimated based on a per script calculation. Rebate amounts are typically paid on a quarterly basis 150 days after the end of each quarter. The Company's pharmacy rebate receivable balances are as follows:

<b>Quarter</b>	<b>Estimated Pharmacy Rebates as Reported on Financial Statements</b>	<b>Pharmacy Rebates as Billed or Otherwise Confirmed</b>	<b>Actual Rebates Received Within 90 Days</b>	<b>Actual Rebates Received Within 91 to 180 days</b>	<b>Actual Rebates Received Within More Than 180 Days</b>
<b>12/31/2019</b>	<b>\$ 6,218</b>	<b>\$ 5,903</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>
<b>9/30/2019</b>	<b>5,943</b>	<b>5,822</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>6/30/2019</b>	<b>5,821</b>	<b>5,330</b>	<b>–</b>	<b>5,751</b>	<b>–</b>
<b>3/31/2019</b>	<b>5,640</b>	<b>4,658</b>	<b>–</b>	<b>5,103</b>	<b>110</b>
12/31/2018	4,658	4,490	–	4,515	(11)
9/30/2018	4,656	4,388	–	4,338	122
6/30/2018	4,380	4,133	–	4,355	33
3/31/2018	4,568	3,568	–	4,062	63
12/31/2017	3,657	3,628	–	3,505	123
9/30/2017	3,715	3,579	–	3,435	263
6/30/2017	2,900	2,902	–	3,514	109
3/31/2017	2,408	2,384	–	3,325	62

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**14. Health Care Receivables (continued)**

The Company's risk sharing receivable balances are as follows:

Year	Evaluation Period Year Ending	Risk Sharing Receivable as Estimated in the Prior Year	Risk Sharing Receivable as Estimated in the Current Year	Risk Sharing Receivable Billed	Risk Sharing Receivable Not Yet Billed	Actual Risk Sharing Amounts Received in Year Billed	Actual Risk Sharing Amounts Received in First Year After	Actual Risk Sharing Amounts Received in Second Year After	Actual Risk Sharing Amounts Received – All Other
2019	2019 2020	\$ 6,831 N/A	\$ 9,612 8,615	\$ 7,772 18	\$ 1,840 8,597	\$ 7,772 18	\$ –	\$ –	\$ –
2018	2018 2019	33,695 N/A	19,158 6,831	18,858 35	300 6,796	15,610 35	3,248 N/A	– N/A	– N/A
2017	2017 2018	8,621 N/A	12,779 33,695	12,779 93	– 33,602	9,878 93	2,901 N/A	– N/A	– N/A

**15. Leases**

The Companies jointly have a long-term lease agreement for 347,618 square feet of space at its corporate headquarters at 101 Huntington Avenue, Boston, Massachusetts. Occupancy and rental expense commenced in April 2015 and continues for 15 years and 2 months with options to extend for up to 10 years thereafter. The Companies have two non-cancelable agreements to sublease 78,015 of this space through April 2030. As of December 31, 2019, the agreements call for future payments to be received through 2030 totaling \$31,110.

Additionally, the Companies jointly occupy space through three smaller, long-term, non-cancelable lease agreements for office and data center facilities that extend through 2029.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**15. Leases (continued)**

For 2019 and 2018, the Company recorded rental expenses of \$6,853 and \$5,925, respectively, of which \$6,768 and \$5,816 were office space rental expenses, respectively.

At December 31, 2019, allocated minimum rental commitments on significant non-cancelable operating leases for the Company are as follows:

2020	\$	6,965
2021		6,973
2022		6,966
2023		6,983
2024		6,983
Thereafter		37,944

In addition, the Companies have agreements with various outside vendors to provide certain information technology services which is a significant portion of the Companies business operations. Minimum commitments under these agreements continue into 2021 with commitments ranging from \$16,632 in 2020, decreasing to \$341 in 2022. HMO Blue's portion of these commitments range from \$6,653 in 2020, decreasing to \$136 in 2022.



## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **16. Debt**

The Company does not have any outstanding capital note obligations in its financial statements as of December 31, 2019.

The Companies jointly entered into three revolving credit agreements. Borrowings under these unsecured lines of credit bear interest on a fixed or floating interest rate basis.

The first facility for \$200,000 matured in June 2019 and was renewed until June 2020. The second facility for \$50,000 matured in June 2019 and was renewed until June 2020. The third facility for \$50,000 matured in October 2019 and was renewed until October 2020. As of December 31, 2019, the Company had no principal or accrued interest outstanding and accrued fees of \$34 under these facilities.

During 2019 and 2018, the Company paid interest of \$2 and \$642 and fees of \$169 and \$274, respectively on these facilities. As a covenant of the first facility, the borrowers are required to certify compliance on an annual basis of a minimum Risk Based Capital (“RBC”) level of 300% of Company Action Level and are required to certify compliance on a quarterly basis that the Cash Reserve Ratio is not less than 1.25 to 1.0. As a covenant of the second and third facilities, the borrowers are required to maintain at all times a combined liquidity of not less than \$1,250,000. As of December 31, 2019, there were no violations of the debt terms and covenants reported.

In October 2014, the Companies jointly entered into a \$150,000 5-year unsecured term loan which amortizes monthly and has a fixed interest rate of 2.35%. The Companies are required to certify compliance on an annual basis of a minimum Risk-Based Capital level of 300% of Company Action Level and a Cash Reserve Ratio is not less than 1.25 to 1.00. The Companies each received proceeds from the term loan of \$75,000. In 2019, HMO Blue paid the remaining principal of \$12,500 and interest of \$134. As of December 31, 2019, there were no violations of the debt terms and covenants reported. At December 31, 2019, HMO Blue had no remaining principal or accrued interest outstanding.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**16. Debt (continued)**

In March 2017, the Companies jointly entered into a \$100,000 5-year unsecured term loan which amortizes monthly and has a fixed interest rate of 2.79%. The Companies are required to certify compliance on an annual basis of a minimum Risk-Based Capital level of 350% of Company Action Level and a Cash Reserve Ratio is not less than 1.25 to 1.00. The Companies each received proceeds from the term loan of \$50,000. In 2019, HMO Blue paid principal of \$10,000 and interest of \$789. At December 31, 2019, HMO Blue has a carrying value of \$22,500 outstanding and accrued interest of \$2. As of December 31, 2019, there were no violations of the debt terms and covenants reported.

In September 2019, the Companies jointly entered into a \$150,000 five-year unsecured term loan which amortizes monthly with a fixed interest rate of 2.26%. The Companies are required to certify compliance on an annual basis with a minimum Risk-Based Capital level of 350% and are required to certify compliance on a quarterly basis that the Cash Reserve Ratio is not less than 1.25 to 1.00. HMO Blue received proceeds from the term loan of \$50,000. In 2019, HMO Blue paid principal of \$2,500 and interest of \$284. At December 31, 2019, HMO Blue has a carrying value of \$47,500 outstanding and accrued interest of \$3. As of December 31, 2019, there were no violations of the debt terms and covenants reported.

As of December 31, 2019, the combined aggregate amount of long-term borrowing maturities for each of the next five years are as follows:

<b>Debt – Long-Term Borrowings</b>	<b>HMO Blue</b>
Maturing in 2020 <sup>(a)</sup>	120,000
Maturing in 2021	20,000
Maturing in 2022	12,500
Maturing in 2023	10,000
Maturing in 2024	7,500
Total Maturities	<u>170,000</u>

<sup>(a)</sup> Includes \$100,000 in five-year term borrowings from FHLB.

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **17. FHLB Agreements**

The Company is a member of the FHLB of Boston. Through its membership, the Company has conducted business activity (borrowings) with the FHLB. It is part of the Company's strategy to utilize these funds as back-up liquidity and to ensure sufficient capital and credit to meet operational needs and provide financial flexibility to respond to strategic opportunities in the marketplace.

The Company has determined the actual maximum borrowing capacity as \$100,000. The Company based this amount on anticipated borrowing needs of the Company.

As a requirement of the FHLB membership, the Company has \$1,042 and \$2,101 of FHLB Class B Membership Stock at December 31, 2019 and 2018, respectively. The Class B Membership Stock is not eligible for redemption. In addition, the Company is required to purchase FHLB Activity Stock up to 4.0% of the value of principal borrowed. At December 31, 2019 and 2018, the Company recorded \$4,000 of FHLB Activity Stock, respectively. At December 31, 2019 and 2018, the Company recorded \$504 and \$274 of FHLB Excess Stock, respectively.

At December 31, 2019, the Company had outstanding borrowings of \$50,000 for a 5-year term at a rate of 1.60% which matures in 2020 and a second outstanding borrowing of \$50,000 for a 5-year term at a rate of 2.05% which matures in 2020. During the 2019 and 2018 periods, the Company paid \$1,850 in interest expense. At December 31, 2019 and 2018, the Company had outstanding principal of \$100,000 and accrued interest of \$157.

The Company is required to pledge collateral for all outstanding borrowings with the FHLB which consists of U.S. Government backed securities, notes and bonds valued at 94% and FNMA & FHLMC mortgage backed securities valued at 92% of current market value.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**17. FHLB Agreements (continued)**

The total collateral pledged against these borrowings had a fair value as of December 31, 2019 and 2018, of \$112,563 and \$112,388, respectively, and a carrying value of \$111,057 and \$114,191, respectively. The maximum amounts pledged during the 2019 and 2018 reporting periods had a fair value of \$112,385 and \$113,622 and a carrying value of \$113,297 and \$115,490, respectively. The Company has prepayment obligations with the FHLB as of December 31, 2019, and had no prepayment obligations as of December 31, 2018.

**18. Commitments and Contingencies**

As of December 31, 2019, the Company's remaining commitments, pursuant to the terms of the investment agreements, are as follows:

Blue Cross Blue Shield Venture Partners, L.P.	\$	405
Blue Cross Blue Shield Venture Partners II, L.P.		1,084
Blue Cross Blue Shield Venture Partners III, LLC.		1,291
Hancock Capital Partners V, L.P.		1,373
Comvest Capital III, L.P.		2,497
Park Square Capital Credit Opp II Feeder, L.P.		6,752
Comvest Capital IV, L.P.		6,567
Park Square Capital Credit Opp III Feeder, L.P.		8,543
New Mountain Net Lease Partners, L.P.		8,657
Comvest Capital V International (Cayman), L.P.		15,000
Oak Street Net Lease, L.P.		22,194
Brookfield Infrastructure Fund IV, L.P.		25,000
<b>Total Commitments</b>	<b>\$</b>	<b>99,363</b>

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **18. Commitments and Contingencies (continued)**

The Company, periodically, is involved in pending and threatened litigation of the character incidental to its business or arising out of its insurance operations and is from time to time involved as a party in various governmental and administrative proceedings. Management continues to monitor these matters and believes the Company has accrued adequate reserves against potential liabilities. As of December 31, 2019, the Company recorded a loss in other liabilities and the related expense in other expense covering the litigation outcomes. The recorded loss is based on what can be presently determined and/or predicted by the Company.

The Company and all other Blue Plans have been named as defendants in antitrust class-action complaints that have been brought against the Blue Plans and the Blue Cross and Blue Shield Association (“BCBSA”); these cases have been consolidated in a multidistrict litigation (“MDL”) pending in Federal Court in Alabama (“the Court”). The plaintiffs, who include both Blue Plan providers and subscribers, assert that they have been damaged as a result of alleged anticompetitive conduct. Their claims focus on, among other things, BCBSA’s ‘*exclusive service area*’ requirement, ‘*best efforts*’ rules (limiting revenue from non-Blue business), alleged restrictions on a Plans ability to transfer ownership interests, and rules governing the BlueCard program. In a 2018 order, the Court ruled that certain BCBSA rules are subject to the ‘*per se*’ standard of review, while others are subject to the ‘*rule of reason*’ standard. The Court has not certified any classes. The court has not yet set dates for any trials.

#### **19. State Assessments**

In 2019, BCBSMA and HMO were obligated to pay three administrative-type state assessments:

The first is with the Commonwealth of Massachusetts’ ‘*Center for Health Information and Analysis*’ (“CHIA”). This is an administrative-type surcharge to cover state operating expenses. HMO Blue’s assessment for CHIA’s FY2020 operations was \$1,967 and was paid in two installments during 2019.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
(Dollars in Thousands)

**19. State Assessments (continued)**

The second is the Commonwealth of Massachusetts Health Policy Commission (“HPC”) assessment is pursuant to Section 958 Chapter 9.04, “*Assessment on Certain Health Care Provider and Surcharge Payors.*” The amount is calculated based on the assessment percentage of the Company and the annual legislatively approved FY2020 HPC budget. In the first quarter of 2019, the second of two HMO Blue payments of \$290 was made for the FY2019 assessment. HMO Blue’s FY2020 assessment is \$657 and will be paid in the first quarter of 2020.

The third is the Commonwealth of Massachusetts’ DOI ‘*Health Care Assess Bureau*’ (“HCAB”) assessment to pay for HCAB expenses. This assessment is based on the Company’s portion of health premiums as reported to the HCAB. During 2019, HMO Blue paid \$489 to the HCAB for the FY2019 assessment which was based on FY2017 reported premium data.

Additionally, in 2019, the Company paid the following claim-based assessments as a surcharge assessment percentage applicable to payments to hospitals, ambulatory and surgical centers.

<b>The Commonwealth of Massachusetts Executive Office of Health and Human Services</b>	<b>Program</b>	<b>Amount</b>
Medicaid	Health Safety Net Assessment	\$ 16,172
Public Health	Pediatric Vaccine Assessment	\$ 10,021
Mental Health	Child Psychiatry Access	\$ 225

**20. ACA Insurer Fee**

On January 1, 2020, the Company will be subject to an annual fee under section 9010 of the Federal ACA program. This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity’s net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity’s portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)  
*(Dollars in Thousands)*

**20. ACA Insurer Fee (continued)**

As of December 31, 2019, the Company has written health insurance subject to the ACA assessment expects to conduct health insurance business in 2020 and estimates their portion of the annual health insurance industry fee, payable on or before September 30, 2020, to be \$52,072. This amount is reflected in special surplus. The ACA assessment would impact the Company's RBC by 21.7%. Reporting the ACA assessment as of December 31, 2019, would not have triggered an RBC action level.

Enacted on January 22, 2018, along with continuing resolution legislation, H.R. 195, Division D – *Suspension of Certain Health-Related Taxes, § 4003*, suspends collection of the fee for the 2019 calendar year only. As of December 31, 2018, the Company did not have an annual health insurance industry fee reflected in special surplus and no payment will be due in the 2019 fee year based on the 2018 data year.

	<u>2019</u>	<u>2018</u>
ACA fee assessment payable for the upcoming year	\$ 52,072	\$ –
ACA fee assessment paid	–	47,969
Premium written subject to ACA 9010 assessment	<b>5,163,950</b>	5,085,434
Total adjusted capital before surplus adjustment	<b>1,630,939</b>	1,413,755
Total adjusted capital after surplus adjustment	<b>1,578,867</b>	1,413,755
Authorized control level after surplus adjustment	<b>240,368</b>	225,530

**21. Subsequent Events**

The Company's management evaluated subsequent events through April 28, 2020, the date the financial statements were available to be issued.

The Company faces the possibility of loss exposure related to the pending MDL in 2020. The Company's management will consider factors such as the nature of the remaining part of the litigation, progress of the case, opinions of legal counsel and management's intended response to the MDL as plaintiffs.

## Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

### Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

#### **21. Subsequent Events (continued)**

The Company's management continues to monitor and evaluate the 2019 Coronavirus ("COVID-19") pandemic's impact on its business operations and financial results. 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.

The CARES Act ("CARES"), the federal legislative response to COVID-19 was signed into law on March 27, 2020. This broad \$2,000,000,000 legislation includes beneficial tax provisions for BCBSMA. The CARES Act modifies the TCJA of 2017 and allows BCBSMA to recover approximately \$151,000 in AMT credits in 2020 instead of over a four-year period. The CARES Act also includes payroll tax relief provisions for employers including the delay of 6.2% in Social Security tax payments for 2020 (half paid by the end of 2021 and half by the end of 2022).

The CARES Act ("CARES"), the federal legislative response to COVID-19 was signed into law on March 27, 2020. Certain provisions in the CARES Act that will affect the Company's business operations and accounts include:

- Employee retention credits for employers subject to full or partial closure.
- All COVID-19 testing is covered by private health insurance plans with no cost sharing.
- Allows high-deductible plans to barrier free access Telehealth services.
- Mandates HSA's and FSA's to cover the purchase of over-the-counter medical products.
- Additional grants to expand access to Telehealth services for rural communities.



## Supplementary Information



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## Report of Independent Auditors on Supplementary Information

The Board of Directors  
Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States, the statutory-basis financial statements of Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. as of December 31, 2019 and 2018, and for the years then ended, 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 Commonwealth of Massachusetts Division of Insurance thereon dated April 28, 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 28, 2020

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Investment Risk Interrogatories – Statutory-Basis  
(Dollars in Thousands)

December 31, 2019

1. Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.’s total admitted assets as reported on page two of its Annual Statement are \$2,551,491.
2. Following are the ten largest exposures to a single issuer/borrower/investment, excluding:
  - (i) U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt,
  - (ii) property occupied by Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. and
  - (iii) policy loans:

<b>Issuer</b>	<b>Description of Exposure</b>	<b>Amount</b>	<b>Percentage of Total Admitted Assets</b>
BCBSMA Surplus Note	Other invested asset	\$ 291,355	11.419%
PIMCO All Asset Institutional Fund	Common stock	189,253	7.417
Lazard Asset Emerging Mkt Tot Ret	Other invested asset	95,665	3.749
Putnam Total Return Fund LLC	Other invested asset	81,403	3.190
Primus HY Bond Fund	Other invested asset	79,769	3.126
Newton Global Equity Income Fund	Common Stock	72,517	2.842
Blue Rock Market Neutral Fund LP	Other invested asset	66,411	2.603
Rreef America II Core REIT	Other invested asset	64,400	2.524
Beachpoint HY Bond Offshore Fund	Other invested asset	57,568	2.256
Parametric Portfolio Assoc LLC	Other Invested asset	56,120	2.200

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Investment Risk Interrogatories – Statutory-Basis (continued)  
(Dollars in Thousands)

3. Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.'s total admitted assets held in bonds, short-term investments and preferred stock, by NAIC rating, are:

<b>Bonds and Short-Term Investments</b>			<b>Preferred Stock</b>		
<b>NAIC Rating</b>	<b>Amount</b>	<b>Percentage of Total Admitted Assets</b>	<b>NAIC Rating</b>	<b>Amount</b>	<b>Percentage of Total Admitted Assets</b>
NAIC-1	\$ 830,926	32.566%	P/RP-1	\$ –	–%
NAIC-2	68,892	2.700	P/RP-2	–	–
NAIC-3	2,775	0.109	P/RP-3	–	–
NAIC-4	–	–	P/RP-4	–	–
NAIC-5	–	–	P/RP-5	–	–
NAIC-6	–	–	P/RP-6	–	–
	<u>\$ 902,593</u>			<u>\$ –</u>	

4. Assets held in foreign investments:

	<b>Amount</b>	<b>Percentage of Total Admitted Assets</b>
Total admitted assets held in foreign investments	\$ 97,708	3.829%

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

<b>NAIC Sovereign Rating</b>	<b>Amount</b>	<b>Percentage of Total Admitted Assets</b>
Countries rated NAIC-1	\$ 54,279	2.127%
Countries rated NAIC-2	11,297	0.443
Countries rated NAIC 3 or below	32,132	1.259

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Investment Risk Interrogatories – Statutory-Basis (continued)  
(Dollars in Thousands)

6. Largest foreign investment exposure by country, categorized by the country's NAIC sovereign rating:

NAIC Sovereign Rating	Amount	Percentage of Total Admitted Assets
<b>Countries rated NAIC-1:</b>		
United Kingdom	\$ 24,477	0.959%
Cayman Islands	8,527	0.334
<b>Countries rated NAIC-2:</b>		
United Kingdom	2,370	0.093
France	2,306	0.090
<b>Countries rated NAIC-3:</b>		
Guernsey	32,132	1.259

7. The Company has no unhedged foreign currency exposure.
8. The Company has no aggregate unhedged foreign currency exposure.
9. The Company has no unhedged foreign currency exposures to a single country.
10. Ten largest non-sovereign (i.e., non-government) foreign issues:

Issuer	NAIC Rating	Amount	Percentage of Total Admitted Assets
Park Square Cap Credit Oppty II Feeder	OIA	\$ 17,345	0.680%
Park Square Cap Credit Oppty III Feeder	OIA	14,787	0.580
HSBC HLDGS PLC	1FE	2,981	0.117
UBS GROUP FDG SWITZ AG SR GLBL144A	1FE	2,384	0.093
CARLYLE GLOBAL MA 4A A1RR 144A	1FE	2,360	0.092
LLOYDS BKG GROUP PLC	1FE	2,299	0.090
CEDAR FUNDING VIII 8A A1 144A	1FE	2,212	0.087
MADISON PARK FDG XXVI 2007-26R 144	1FE	2,186	0.086
PALMER SQUARE CLO 2 1A A1 144A	1FE	2,101	0.082
CIFC FUNDING 2017-I 1A A 144A VAR	1FE	2,001	0.078

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Investment Risk Interrogatories – Statutory-Basis (continued)  
*(Dollars in Thousands)*

11. The Company has no assets held in Canadian investments greater than 2.5% of the Company's total admitted assets.
12. The Company has no assets held in investments with contractual sales restrictions.
13. Amounts and percentages of admitted assets held in the ten largest equity interests:

<b>Name of Issuer</b>	<b>Amount</b>	<b>Percentage of Total Admitted Assets</b>
BCBSMA Surplus Note	\$ 291,355	11.419%
PIMCO All Asset Institutional Fund	189,253	7.417
LAZARD ASSET EMERGING MKT TOT RET	95,665	3.749
PUTNAM TOTAL RETURN FUND LLC	81,403	3.190
PRIMUS HY BOND FUND LP	79,769	3.126
NEWTON GLOBAL EQUITY INCOME FUND	72,517	2.842
BLUE ROCK MARKET NEUTRAL FUND LP	66,411	2.603
RREEF AMERICA II CORE REIT	64,400	2.524
Beachpoint High Yield Offshore Fund	57,568	2.256
PARAMETRIC PORTFOLIO ASSOC LLC	56,120	2.200

14. The Company has no assets held in nonaffiliated, privately placed equities greater than 2.5% of the Company's total admitted assets.
15. The Company has no assets held in general partnership interests greater than 2.5% of the Company's total admitted assets.
16. The Company has no mortgage loans greater than 2.5% of the Company's total admitted assets.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Investment Risk Interrogatories – Statutory-Basis (continued)  
*(Dollars in Thousands)*

17. The Company has no aggregate mortgage loans that are greater than 2.5% of the Company's total admitted assets.
18. The Company has no assets held in real estate reported greater than 2.5% of the Company's total admitted assets, excluding home office properties.
19. The Company has no assets held in investments held in mezzanine real estate loans greater than 2.5% of the Company's total admitted assets.
20. The Company has no securities lending or repurchase agreements during 2019.
21. The Company has no warrants not attached to other financial instruments, options, caps, and floors during 2019.
22. The Company has no potential exposure for collars, swaps, and forwards during 2019.
23. The Company had no potential exposure for future contracts during 2019.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Summary of Investment Schedule – Statutory-Basis  
(Dollars in Thousands)

December 31, 2019

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in Annual Statement	
	Amount	Percentage	Amount	Percentage
Long-Term Bonds				
U.S. governments	\$ 334,899	13.783%	\$ 334,899	13.783%
All other governments	4,134	0.170	4,134	0.170
U.S. states, territories and possessions, etc. guaranteed	745	0.031	745	0.031
U.S. political subdivisions of states, territories and possessions, guaranteed	674	0.028	674	0.028
U.S. special revenue and special assessment obligations, etc. non-guaranteed	227,401	9.359	227,401	9.359
Industrial and miscellaneous	319,357	13.143	319,357	13.143
Hybrid securities	–	–	–	–
SVO identified funds	–	–	–	–
Parent, subsidiaries and affiliates	–	–	–	–
Bank loans	–	–	–	–
<b>Total long-term bonds</b>	<b>887,210</b>	<b>36.513</b>	<b>887,210</b>	<b>36.513</b>
Preferred Stocks	–	–	–	–
Industrial and miscellaneous (Unaffiliated)	–	–	–	–
Parent, subsidiaries and affiliates	–	–	–	–
Total preferred stocks	–	–	–	–
Common stocks	–	–	–	–
Industrial and miscellaneous Publicly traded (Unaffiliated)	210,407	8.659	210,407	8.659
Industrial and miscellaneous Other (Unaffiliated)	69,946	2.879	69,946	2.879
Parent, subsidiaries and affiliates Publicly traded	–	–	–	–
Parent, subsidiaries and affiliates Other	322	0.013	322	0.013
Mutual Funds	–	–	–	–
Unit investment trusts	–	–	–	–
Closed-end funds	–	–	–	–
<b>Total common stocks</b>	<b>280,675</b>	<b>11.551</b>	<b>280,675</b>	<b>11.551</b>



Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Summary of Investment Schedule – Statutory-Basis (continued)  
*(Dollars in Thousands)*

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in Annual Statement	
	Amount	Percentage	Amount	Percentage
Mortgage loans				
Farm mortgages	\$ —	—%	\$ —	—%
Total mortgages loans	—	—	—	—
Commercial mortgages	—	—	—	—
Mezzanine real estate loans	—	—	—	—
<b>Total mortgages loans</b>	—	—	—	—
Real estate				
Properties occupied by company	86,290	3.551	86,290	3.551
Properties held for production of income				
Properties held for sale				
<b>Total real estate</b>	<b>86,290</b>	<b>3.551</b>	<b>86,290</b>	<b>3.551</b>
Cash, cash equivalents and short-term investments				
Cash	28,774	1.184	28,774	1.184
Cash equivalents	99,855	4.110	99,855	4.110
Short-term investments	1,182	0.049	1,182	0.049
<b>Total Cash, cash equivalents and short-term investments</b>	<b>129,811</b>	<b>5.342</b>	<b>129,811</b>	<b>5.342</b>
Contract loans	—	—	—	—
Derivatives	—	—	—	—
Other invested assets	1,040,685	42.830	1,040,685	42.830
Receivables for securities	5,146	0.212	5,146	0.212
Securities Lending	—	—	—	—
<b>Total invested assets</b>	<b>\$ 2,429,817</b>	<b>100.00%</b>	<b>\$ 2,429,817</b>	<b>100.00%</b>

\*Gross investment holdings as valued in compliance with NAIC Accounting Practices and Procedures Manual.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Note to Supplemental Investment Disclosures

December 31, 2019

**Note—Basis of Presentation**

The accompanying supplemental schedules present selected investment disclosures as of December 31, 2019, and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and agree to or are included in the amounts reported in the Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.'s 2019 Statutory Annual Statement as filed with the Commonwealth of Massachusetts Division of Insurance.

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