

# **EXHIBIT A**



**STATE OF TENNESSEE**  
**DEPARTMENT OF COMMERCE AND INSURANCE**

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**REPORT ON EXAMINATION  
OF  
BLUECROSS BLUESHIELD OF TENNESSEE, INC**

**(NAIC # 54518)  
(NAIC Group # 3498)**

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**CHATTANOOGA, TENNESSEE**

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**AS OF  
DECEMBER 31, 2015**

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Chattanooga, Tennessee  
January 25, 2017

Honorable Julie Mix McPeak  
Commissioner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with the Tenn. Code Ann. § 56-1-408, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a full-scope financial examination as of December 31, 2015, have been made of the conditions and affairs of:

**BLUECROSS BLUESHIELD OF TENNESSEE, INC**  
NAIC # 54518  
NAIC Group # 3498  
1 Cameron Hill Circle  
Chattanooga, Tennessee 37402

hereinafter generally referred to as the "Company" or "BCBST" and a report thereon is submitted as follows:

## **INTRODUCTION**

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department") under rules promulgated by the NAIC. The examination commenced on August 15, 2016, and was conducted by duly authorized representatives of the TDCI and representatives of Noble Consulting Services, Inc. ("Noble"). This examination was called through the NAIC's Financial Examination Electronic Tracking System (FEETS).

## **SCOPE OF EXAMINATION**

The last examination of the Company was made as of December 31, 2010. This examination covers the period January 1, 2011, through December 31, 2015, and includes any material transactions and/or events occurring subsequent to the examination date that were noted during the course of this examination. The Company is part of the BCBST Holding Company Group.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with the NAIC *Financial Condition Examiners Handbook* ("Handbook"), as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2015. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and Annual Statement instructions.

During planning, all accounts and balances were considered to determine which key activities and accounts would be examined. The key activities included: Investments; Pricing/Underwriting; Reserving/Claims; Financial Reporting/Capital and Surplus; Reinsurance; Other Assets; General Expense and Other Liabilities; and Related Parties.

The Company's 2015 Annual Statement was compared or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology general controls (ITGC) was conducted. The examination included a review of management and organizational controls, logical and physical security controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

The Company maintains an Internal Audit (IA) Department, which is charged with performing the IA function for all companies within the holding company system. As part of its annual internal audit plan, IA performs Model Audit Rule (MAR) compliance testing. The scope of MAR testing includes the Company's internal controls over financial reporting. The examiners reviewed the processes tested and requested the workpapers for specific processes identified as significant to the key activities and sub-activities being examined. The workpapers were provided and were utilized where appropriate. The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company's loss reserves.

Independent reinsurance and investment specialists were not deemed necessary for this examination. The reinsurance and investment areas were reviewed by examination staff from Noble Consulting Services, Inc.

Ernst & Young LLP (E&Y) was the Company's Certified Public Accountant (CPA) and independent auditor for the Company for all years under examination. The CPA's workpapers were reviewed for the 2014 and 2015 audits and copies were incorporated into the examination, as deemed appropriate.

The Company provided a letter of representation certifying that management has disclosed all significant matters and records.

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

The previous examination report contained no comments or recommendations requiring action by the Company.

## **COMPANY HISTORY**

The Company is a mutual benefit nonprofit corporation engaged primarily in providing healthcare programs and financial service products to group health plans and individual customers. Healthcare products consist of preferred provider organizations, health maintenance organizations (HMO), and point-of-service products. The Company provides indemnity health insurance coverage on a fully-insured basis and provides administrative services for self-funded group health plans.

The Company was originally incorporated as the Tennessee Hospital Service Association under a charter dated September 10, 1945. The Company was organized under the authority, terms, and provisions of Chapter 98 of the Public Acts of Tennessee of 1945, which governed the organization and conduct of nonprofit hospital service corporations.

On June 9, 1949, the Company filed an amendment to its charter with the Tennessee Secretary of State (SOS), which added authority to provide medical expense indemnity benefits. This amendment had the effect of bringing the Company under Chapter 234 of the Public Acts of Tennessee of 1949. Provisions of the charter as amended were consistent with this latter statute and were approved by the TDCI.

On November 29, 1968, the Company filed an amendment to its charter with the SOS to have its name changed to BlueCross-BlueShield of Tennessee and later to BlueCross and BlueShield of Tennessee, on April 8, 1974.

On May 10, 1972, the Company filed an amendment with the SOS to expand its services as follows:

To establish and operate a dental service plan under the terms of Section 56-3051 through 56-3532 of the Tennessee Code Annotated, to provide a vision service plan under the terms of Section 56-3071 through 56-3731 of the Tennessee Code Annotated, and to furnish and to administer such other services and plans, either alone or in conjunction with one or more governmental agencies or other organizations, as may from time to time become available, all on a voluntary, nonprofit basis, and thereby to promote more fully the health and welfare of the people of the State of Tennessee.

On February 23, 1981, the Board of Directors ("Board") approved an amendment to the charter, which redefined the composition of the Board. The amendment became effective January 12, 1982. Effective September 1981, the Bylaws were revised to incorporate the charter amendment. A charter amendment filed with the SOS on May 29, 1985, changed the address of the principal office of the Company to BlueCross Building, 801 Pine Street, Chattanooga, Tennessee, 37402.

Effective January 1, 1996, the Company entered into an agreement to affiliate/combine with Memphis Hospital Service and Surgical Association (MHSSA), based in Memphis, Tennessee. Under the terms of the affiliation agreement, a holding company was formed for the purpose of serving as the sole member of the Company and of MHSSA. In connection with the affiliation, the Company changed its name to Chattanooga Hospital and Medical Service Association (CHMSA) and the holding company became BlueCross and BlueShield of Tennessee, Inc.

Effective January 1, 1999, the operations of MHSSA were merged into CHMSA and the separate existence of MHSSA was discontinued. Simultaneously, the upstream holding company named BlueCross and BlueShield of Tennessee, Inc. was dissolved. CHMSA, the surviving parent entity, was renamed BlueCross BlueShield of Tennessee, Inc.

Effective December 17, 2007, GDRG, LLC merged with and into BCBST. GDRG, formed in 2004, was a limited liability company established by BCBST whose primary purpose was to acquire, own, hold, maintain, operate, and develop real property.

## **MANAGEMENT AND CONTROL**

### **MANAGEMENT**

#### **Directors**

The administration and governance of the Company is vested in a Board which has charge, control and management of the business affairs, property, and funds of the Company, and which has the power and authority to perform all acts and functions consistent with its Bylaws and applicable laws of the State of Tennessee and the United States.

The Company shall be managed by a Board composed of not less than eleven (11) but no more than seventeen (17) directors. The Board shall be at all times composed of the following groups: (1) administrators of hospitals which have contracted with the Company to render hospital service to the subscribers; (2) physicians, exclusive of group one (1); and (3) the general public, exclusive of groups one (1) and two (2). Directors shall be selected so that at all times more than fifty percent (50%) of the directors will be selected from group three (3), and the remaining positions of the Board shall be divided equally between groups one (1) and two (2).

At least four (4) regular meetings of the Board shall be held during each calendar year. The annual meeting shall be held prior to the last day of April of each year, and the other regular meetings shall be held each year on dates to be fixed by the Board. At all meetings of the Board, a majority of the directors shall be necessary to constitute a quorum for the transaction of business, and the act of the majority of directors present at any meeting at which a quorum is present shall be the act of the Board. Directors may take any action that they are required or permitted to take by law, without a meeting, by written consent, setting forth the action so taken, signed by all persons entitled to vote thereon.

The Governance and Nominating Committee of the Board has the responsibility for the presentation of its slate of nominees for directorship on the Board at the annual Board meeting. The slate of nominees shall include nominees to fill the position for all directors whose terms shall expire at that annual meeting. Directors will be elected to serve a three (3) year renewable term. Mandatory retirement age for Board members shall be seventy-two (72) years of age, with the retirement occurring at the annual meeting immediately following the member turning seventy-two (72) years of age. Any director may resign at any time by giving written notice to the Secretary of the Company. Directors may be removed from office at any time, with or without cause, by a two-thirds (2/3) majority vote of the Board. Vacancies on the Board caused by death, resignation, removal or any other cause creating an open and unexpired position will be

filled by a director nominated and elected in accordance with the procedure followed to replace a director whose term has expired.

A Chairman and Vice Chairman of the Board shall be nominated by the Governance and Nominating Committee and elected by the Board at the annual Board meeting. The Chairman and Vice Chairman shall hold their respective offices for one (1) year or until their earlier death, removal, resignation, or retirement. Vacancies may be filled at any time by the Board.

The Chairman shall preside at all meetings of the Board and of the Executive Committee. The Vice Chairman, in the absence of the Chairman, shall perform the duties of the Chairman, and shall perform such other duties as may be prescribed by the Board.

Directors may be compensated in an amount not to exceed that permitted by law. The Compensation Committee shall consider what constitutes appropriate compensation and make a recommendation to the Board as to the amount and dates upon which director shall be paid. In addition, the directors of the Company may receive payment for particular services actually rendered, such as legal counsel, medical service, accounting, or other required services, upon specific approval of the Board; provided, however, that no contract for equipment or supplies may be entered into between the Company and one (1) or more directors unless such contract is approved in accordance with the Company's Code of Conduct and Tenn. Code Ann. § 48-58-302.

As of December 31, 2015, the following persons were serving as directors of the Board:

<u>Name</u>	<u>Address</u>	<u>Occupation</u>
James B. Baker	Chattanooga, Tennessee	Managing Partner, River Associates Inv., LLC
Reginald W. Coopwood, M.D.	Memphis, Tennessee	President, Chief Executive Officer, Regional One Health
Betty W. DeVinney	Kingsport, Tennessee	Retired (former Senior Vice President, Eastman Chemical)
Marty G. Dickens	Nashville, Tennessee	Retired (former President, AT&T – TN)
Jason D. Hickey	Lookout Mountain, Tennessee	President and Chief Executive Officer, BCBST
Herbert H. Hilliard	Eads, Tennessee	Retired (former Executive Vice President & Government Relations, First Tennessee Bank)

Lamar J. Partridge	Chattanooga, Tennessee	Retired (former President, Valley Capital Corp.)
James M. Phillips	Rogers, Arkansas	Chairman and Chief Executive Officer, NanoMech
Emily J. Reynolds	Nashville, Tennessee	Former Secretary, United States Senate
Paul E. Stanton, Jr., M.D.	Jonesborough, Tennessee	President emeritus, East Tennessee State University
Martha S. Wallen	Knoxville, Tennessee	Chairman, Pinnacle Financial Partners

### Officers

The officers of the Company shall be elected by the Board at the annual Board meeting and shall hold office for one (1) year or until their death, removal, resignation, or retirement. Vacancies may be filled at any time by the Board. The officers shall consist of a Chief Executive Officer (CEO), a President, a Secretary, and a Treasurer. The President and CEO may be one (1) person, and the Secretary and Treasurer may be one (1) person. The Board may also at its discretion appoint administrative officers in addition to those set forth above, upon the recommendation of the CEO. Such officers shall not be directors on the Board but shall serve at the pleasure of the CEO.

The CEO shall be responsible for the day-to-day management of the business of the Company, shall make a good faith effort to implement all policies and resolutions of the Board, shall have the general powers and duties of supervision and management of the Company which usually pertain to his office, and shall perform such other duties as may from time to time be prescribed by the Board. The President shall have general supervision of the affairs of the Company, subject to the direction of the Board and the CEO. In the absence of the CEO, the President shall perform the duties of the CEO, and shall perform such other duties as may be prescribed by the CEO or the Board. The Secretary shall be the legal custodian of all the books and records of the Company, shall keep the minutes of the meetings of the Board, and shall prepare the annual reports of the Company. Any of such duties may be delegated by the Board to an Assistant Secretary or other officer or employee of the Company. The Treasurer shall be the legal custodian of all monies of the Company and shall present at each annual meeting of the Board, a statement of the receipts and disbursements during the previous year. He or she shall be permitted to delegate the responsibilities of custody and reports to the Chief Financial Officer or to such other adequately bonded employee as the Treasurer or the Board may designate. The Treasurer shall personally annually procure, and present the report of the auditors of the Company to the Board.

As of December 31, 2015, the following persons had been duly elected to and were serving in the positions indicated:

<u>Name</u>	<u>Title</u>
Jason David Hickey	President and Chief Executive Officer
Toliver Ralph Woodard, Jr.	Treasurer
James Kertz Rochat	Assistant Treasurer
Shelia Dian Clemons	Secretary
Jill Anne Oaks	Assistant Secretary

### Committees

From time to time, the Board may create standing or special committees of the Board, as it shall deem necessary or appropriate. Members of committees may be directors or other natural persons appointed in accordance with Tenn. Code Ann. § 48-58-206. No committee shall have the authority to amend, alter, or repeal the Bylaws; elect, appoint, or remove any member of any such committee, or any director, or any officer of the Company; amend the Charter, adopt a plan of merger, or adopt a plan of consolidation with another company; or amend, alter, or repeal any resolution of the Board. At December 31, 2015, the standing committees of the Board and respective committee members were as follows:

#### Executive Committee

The Executive Committee has the Board authority to address emergency issues between scheduled meetings of the Board.

Betty DeVinney, Chair	Marty Dickens, Vice Chair
Martha Wallen	Lamar Partridge
Jim Phillips	Emily Reynolds
Jim Baker	

#### Audit Committee

The Audit Committee assists the Board in fulfilling its duties by overseeing the Company's financial reporting and control activities, and the Compliance and Code of Conduct Programs.

Martha Wallen, Chair
Emily Reynolds
Reginald Coopwood
Jim Phillips

### **Compensation Committee**

The Compensation Committee establishes and oversees the officers' compensation philosophy, which includes the basic statement of strategy, policy, and components of compensation and benefits, including applicable incentive programs and implementation of such programs and policies.

Lamar Partridge, Chair  
Jim Baker  
Marty Dickens  
Martha Wallen

### **Public Policy Committee**

The Public Policy Committee oversees and establishes policies related to the Company's government relations activities and oversight of the BCBST Health Foundation and BCBST Community Trust.

Jim Phillips, Chair  
Paul Stanton  
Herb Hilliard

### **Finance Committee**

The Finance Committee assists the Board in fulfilling its duties by exercising effective oversight of finance and investment activities.

Jim Baker, Chair  
Paul Stanton  
Marty Dickens  
Herb Hilliard

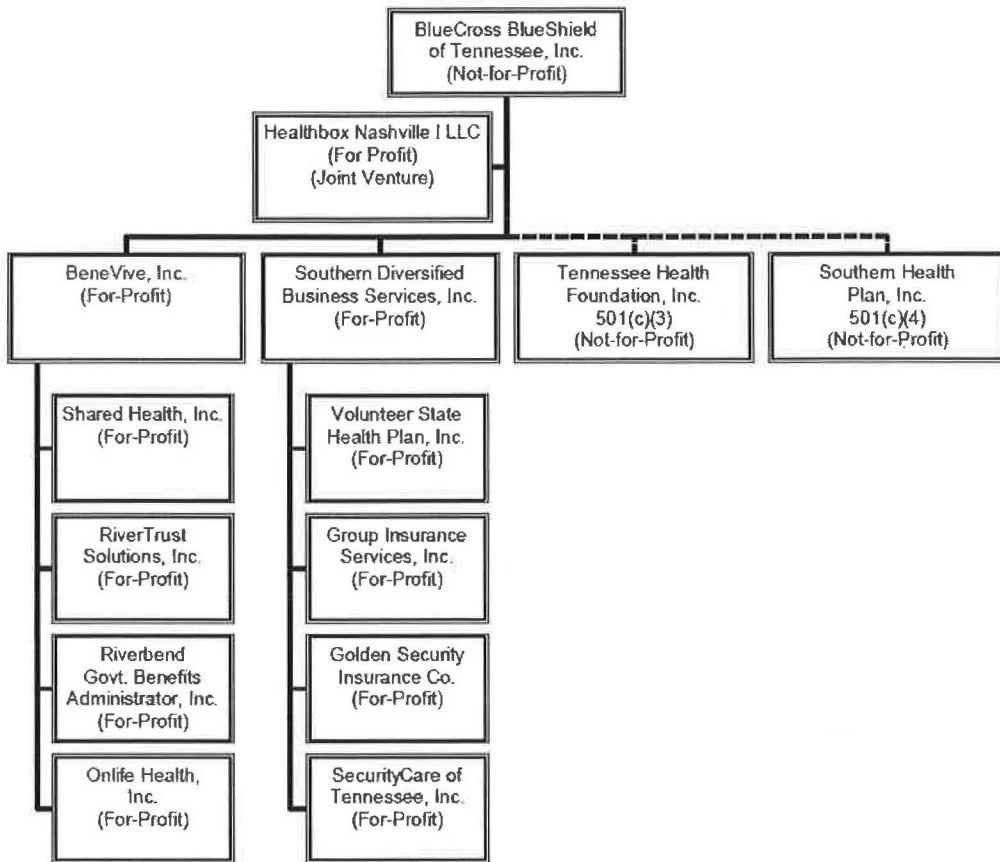
### **Governance and Nominating Committee**

The Governance and Nominating Committee has the duties of overseeing corporate governance, recruitment, and the nomination of new Board directors.

Emily Reynolds, Chair  
Reginald Coopwood  
Lamar Partridge

## CONTROL

### Abbreviated Organizational Chart



The Company has established or acquired subsidiaries as detailed below:

#### Southern Health Plan, Inc. (SHP)

SHP was incorporated on January 30, 1980. SHP is a not-for-profit, social welfare organization. SHP does business as BlueCross BlueShield of Tennessee Community Trust ("Trust") and is an affiliate of the Company. The Trust is a tax-exempt entity operating as a 501(c)(4) for the purpose of supporting programs that improve the quality of life in Tennessee, particularly those programs that promote good health and improve the availability, accessibility, and quality of healthcare for the people of Tennessee. The Company appoints the SHP Board.

#### Tennessee Health Foundation, Inc. (THF)

THF was incorporated on September 25, 2003. THF is a not-for-profit, public benefit corporation that promotes charitable activities, doing business as BlueCross BlueShield of Tennessee Health Foundation. THF is an independent licensee of the Blue Cross Blue Shield Association (BCBSA), licensed as a charitable foundation. The Internal

Revenue Service has granted THF a 501(c)(3) tax exemption, and THF operates as a private foundation. The Company appoints the THF Board.

#### **BeneVive, Inc.**

BeneVive, Inc. was incorporated on November 13, 2006. BeneVive, Inc. is a for-profit, wholly-owned downstream holding company of the Company. The principal activity of BeneVive, Inc. is holding stock of Onlife Health, Inc., Shared Health, Inc., RiverTrust Solutions, Inc., and Riverbend Government Benefits Administrator, Inc. BeneVive, Inc. also appoints the Board of each company. The Company is the sole stockholder of BeneVive, Inc. and appoints the BeneVive, Inc. Board.

#### **Onlife Health, Inc. (OLH)**

OLH was incorporated on August 23, 1995. OLH is a for-profit, wholly-owned subsidiary of BeneVive, Inc. OLH offers comprehensive wellness solutions and has operations based in Brentwood, Tennessee. OLH works with health plans and employer groups to mitigate the rising health care costs by encouraging the formation of healthy lifestyle behaviors and providing case management for existing illnesses. BeneVive, Inc. is the sole stockholder of OLH and appoints the OLH Board.

#### **Shared Health, Inc. (SH)**

SH was incorporated on April 28, 2005. SH is a for-profit, wholly-owned subsidiary of BeneVive, Inc. SH specializes in providing technology and expertise to help health plans design and operate their Medicaid managed care programs. SH has developed accurate and efficient software tools and mobile applications to ensure that the care coordinators can focus on their members, rather than dealing with inefficient, time-consuming paperwork. BeneVive, Inc. is the sole stockholder of SH and appoints the SH Board.

#### **RiverTrust Solutions, Inc. (RTS)**

RTS was incorporated on December 12, 2003. RTS is a for-profit, wholly-owned subsidiary of BeneVive, Inc. RTS was established for the purpose of performing business activities under the Centers for Medicare & Medicaid Services (CMS) Qualified Independent Contractor contract and any task orders issued under that contract. BeneVive, Inc. is the sole stockholder of RTS and appoints the RTS Board. RTS is not currently conducting any business.

#### **Riverbend Government Benefits Administrator, Inc. (RGB)**

RGB was incorporated on October 25, 2002. RGB is a for-profit, wholly-owned subsidiary of BeneVive, Inc. RGB has performed Medicare administrative services. BeneVive, Inc. is the sole stockholder of RGB and appoints the RGB Board. RGB is not currently conducting any business.

### **Southern Diversified Business Services, Inc. (SDBS)**

SDBS was incorporated on July 9, 1982. SDBS is a for-profit, wholly-owned, downstream holding company of the Company. The principal activity of SDBS is holding stock of Group Insurance Services, Inc. (GIS), Golden Security Insurance Company (GSIC), SecurityCare of Tennessee, Inc. (SCTN), and Volunteer State Health Plan, Inc. (VSHP). SDBS also appoints the Board for GIS, GSIC, SCTN, and VSHP. The Company is the sole stockholder of SDBS and appoints the SDBS Board.

### **Volunteer State Health Plan, Inc. (VSHP)**

VSHP was incorporated on July 1, 1996. VSHP is a wholly-owned subsidiary of SDBS. It is a Tennessee for-profit corporation, and it is licensed as an HMO in the State of Tennessee and does business as BlueCare. VSHP is an independent licensee of BCBSA, licensed as a large affiliate. The Company has a guaranty agreement with VSHP, whereby the Company agrees to fund VSHP's Risk Based Capital (RBC) and liquidity ratio requirements. SDBS is the sole stockholder of VSHP and appoints the VSHP Board.

### **Group Insurance Services, Inc. (GIS)**

GIS was incorporated on January 9, 1964. GIS is a for-profit, wholly-owned subsidiary of SDBS. GIS acts as a broker for the Company and other life insurance companies in the State of Tennessee. GIS provides a full range of ancillary coverage to complement employer-sponsored health plans, stand-alone insurance products, combined group medical-hospitalization insurance, group processing services, and group life insurance. SDBS is the sole stockholder of GIS and appoints the GIS Board.

### **Golden Security Insurance Company, Inc. (GSIC)**

GSIC was incorporated on December 14, 1982. GSIC is a for-profit, wholly-owned subsidiary of SDBS. GSIC offers policies for specific and aggregate medical stop-loss coverage, doing business as BlueRe of Tennessee. BlueRe of Tennessee is an independent licensee of BCBSA, licensed as a small affiliate. SDBS is the sole stockholder of GSIC and appoints the GSIC Board.

### **SecurityCare of Tennessee (SCTN)**

SCTN, doing business as BlueChoice of Tennessee, was incorporated on December 12, 2012. SCTN is a wholly-owned subsidiary of SDBS. SCTN is a Tennessee for-profit corporation and a licensed HMO in the State of Tennessee. SCTN provides services to the Medicare eligible population within the Medicare Advantage program. SDBS is the sole stockholder of SCTN and appoints the SCTN Board.

## **CONFLICTS OF INTEREST AND PECUNIARY INTERESTS**

The Company is required to comply with Tenn. Code Ann. § 56-3-103 prohibiting officers and directors of insurance companies from having a pecuniary interest in the investment or disposition of funds of a domestic insurance company. BCBST and all its subsidiaries have adopted an Enterprise Compliance Program which requires compliance with all laws and regulations applicable to its business at all governmental levels. The policy requires all directors and employees to conduct business of the Company on the highest ethical level and be free from conflicting interests and relationships. The policy further requires that all directors and management employees annually report all information required to be reported herein and such other information as may be relevant to determine the existence or likely development of a significant conflict of interest.

The annual conflict of interest disclosure statements filed by the Company's directors, officers, and responsible employees in each year of the examination period were reviewed. No conflicts were noted.

## **DIVIDENDS**

The Company paid no dividends during the period covered by this examination.

## **CORPORATE RECORDS**

The minutes of meetings of the Company's shareholders, Board, and committees were reviewed for the period under examination. They were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board.

### **Charter**

The Company's charter was amended and restated as of December 17, 2009. The main provisions of the charter are as follows:

- The name of the Company is BCBST.
- The duration of the Company is perpetual.
- The street address of the principal office of the Company in the State of Tennessee is 1 Cameron Hill Circle, Chattanooga, Tennessee, 37402, County of Hamilton.
- The Company is not for profit.
- The Company is a mutual benefit company.
- The Company is formed for the purpose of establishing, maintaining, and operating a nonprofit hospital and medical service company in accordance with the terms and provisions of Tenn. Code Ann. § 56-29-101 *et seq.*, as

the same may be amended from time to time. In addition, the Company shall have and exercise all powers and authority necessary or convenient to carry on activities incidental to or associated with the purposes for which it is organized, and shall further possess all other powers and authority conferred upon companies generally under the Tennessee Nonprofit Company Act.

- A director of the Company shall not be personally liable to the Company for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company, (ii) for acts or omissions not in good faith, or which involve intentional misconduct or knowing violation of law, or (iii) for unlawful distributions under Tenn. Code Ann. § 48-58-304. If the Tennessee Nonprofit Company Act is amended after approval of this article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of directors of the Company shall be eliminated or limited to the extent permitted by the Tennessee Nonprofit Company Act, as so amended. Nothing in this paragraph shall relieve any director of any obligation imposed under Title 56 of the Tennessee Code Annotated.

### **Bylaws**

The amended Bylaws of the Company, dated April 3, 2015, are such as are generally found in corporations of this type. They are consistent with the charter and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the directors, committees, and the officers. The Bylaws may be altered, amended, or repealed via a majority vote of the directors.

## **AGREEMENTS WITH PARENT, SUBSIDIARIES, AND AFFILIATES**

### **Management and Service Agreements**

The Company maintains administrative services agreements with GIS, GSIC, OLH, RGBA, RTS, SCTN, SH, SHP, VSHP, and BCBST Credit Union. For GIS, OLH, RGBA, RTS, SH, VSHP, and BCBST Credit Union, certain administrative services are provided by the Company. Each entity reimburses the Company for the direct costs incurred. Indirect and allocated costs are distributed via a calculated fee.

Under the agreements with SHP, GSIC, and SCTN, the Company supervises and manages the day-to-day operations which include the administrative services of each entity. GSIC and SCTN reimburse the Company as described above. The Company is reimbursed by SHP for the fully-allocated service costs calculated by the Company.

### **Tax Allocation Agreement**

A tax allocation agreement exists for the Company and its subsidiaries. Under the agreement, the Company will make payments on the consolidated tax liability for each taxable period, including the payment of estimated tax installments, and each subsidiary will pay its share of each payment within ninety (90) days of receiving notice. Each entity's portion of the tax liability is an amount equal to the tax liability of the group multiplied by a fraction, the numerator being the Company's separate tax return liability and the denominator being the sum of the separate return tax liabilities of all members within the BCBST Group.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company carries a financial institution bond. Other insurance policies were reviewed and the Company carries insurance coverages as of December 31, 2015, that include, but are not limited to the following:

Fidelity Bond  
Commercial Property  
Cyber Liability  
Automobile

Fiduciary  
Directors and Officers Liability  
Employment Practices Liability  
Umbrella Liability

The Company's fidelity coverage exceeds the minimum amount suggested in the NAIC Handbook. The bonds and policy coverages were inspected and appear to be in-force as of the date of this examination. All of the above policies were issued by companies licensed to transact business in the State of Tennessee or by authorized surplus lines insurers.

### **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company sponsors five (5) defined benefit plans: a qualified pension plan, a qualified post-retirement health benefits plan, a qualified post-employment health benefits plan, a non-qualified supplemental executive retirement plan (SERP), and a qualified post-retirement life insurance benefit plan.

The Company's non-contributory pension plan covers employees hired before July 1, 2006. The Company's funding policy is consistent with the requirements of the Employee Retirement Income Security Act of 1974. Pension plan assets as of December 31, 2015, and December 31, 2014 are part of the Blue Cross Blue Shield Association National Retirement Trust which invests primarily in U.S. treasury bonds and notes, U.S. government agency securities, domestic corporate bonds, domestic and international listed equity securities, and short-term investments.

The Company's post-retirement health plan covers retirees hired before January 1, 2005, who meet certain age and minimum years of service requirements, and is funded through a Voluntary Employees' Beneficiary Association Trust (VEBA). Post-retirement health plan assets as of December 31, 2015, and December 31, 2014 are part of the Blue Cross Blue Shield Plan's National Retiree Health Benefits Trust, which invests primarily in listed equity securities and municipal bonds. The Company may amend, change, or terminate the post-retirement health plan. If the plan is terminated, the funds remaining in the VEBA, after satisfaction of all post-retirement health benefits provided by the plan, may be used for other employee welfare benefits.

The Company's post-employment health benefit plan is for former employees who begin receiving long-term disability benefits upon separating from the Company. The health benefits are similar to the health benefits provided to employees.

## TERRITORY AND PLAN OF OPERATION

The Company is an independent mutual benefit nonprofit corporation headquartered in Tennessee and is a licensee of the BCBSA, an association of independent BlueCross and BlueShield plans.

### TERRITORY

The Company is licensed in the State of Tennessee only and operates in all counties. The Company is headquartered in Chattanooga, with regional offices in Jackson, Johnson City, Knoxville, Memphis, and Nashville. The Certificate of Authority issued by the State of Tennessee was inspected and found to be in force both at the time of examination and inspection.

Premium tax records were reviewed for the Company, and no exceptions were noted.

### SCHEDULE T – PREMIUMS

<u>State</u>	<u>Licensed (Yes or No)</u>	<u>Accident &amp; Health</u>	<u>Medicare Title XVIII</u>	<u>Federal Employees Health Benefits Plan Premiums</u>	<u>Total Premiums</u>
TN	Yes	\$3,057,625,712	\$821,762,931	\$649,631,338	\$4,529,019,981

## **PLAN OF OPERATIONS**

Funds received and disbursed by the Company are primarily divided between Insured Products and Self-Funded Products. The major segments of these products are discussed as follows under those appropriate headings.

### **Insured Products**

The Company issues health coverage on an individual and group basis. Members covered under individual and group policies are enrolled by Company employee account sales and account executives and by independent brokers. Each individual policyholder is issued a policy, which may cover the individual and his/her dependents, as applicable. In Group coverage, the policy is issued to the group health plan and underwriting and collection of premiums is on a group basis for all employee participants in the group health plan and their dependents, as applicable. When a group member loses eligibility, he or she may be eligible for conversion to individual coverage.

The Company contracts with hospitals, physicians, and other medical providers (called network providers) to provide services to the Company's members. Each member is issued an identification card, recognized by doctors, hospitals, and other providers nationwide. Services are covered as specified by the member's individual policy or group policy.

Beginning in 2014, a number of federal premium stabilization programs were implemented in accordance with the Affordable Care Act (ACA), including the transitional risk corridor program, risk adjustment program, and transitional reinsurance program.

Health insurance issuers, as defined under the ACA, are also assessed an annual, non-deductible fee to fund some of the provisions of the ACA. The annual fee is allocated among certain health insurance issuers based upon the ratio of the amount of each issuer's net premiums written compared to the amount of health insurance written by all applicable health insurance issuers in the U.S. during the preceding calendar year. As of December 31, 2015, the Company's share of the insurer fee for 2016 was estimated to be \$82.0 million. The 2016 fee became payable once the entity provided health insurance for any U.S. health risk in 2016 and was due on September 30, 2016.

### **Self-Funded Products**

Self-funded clients are group health plans that contract with the Company for administration of health, dental, or other benefits offered by the group health plan. The

client retains the financial risk for claims paid on behalf of the group's members, and pays the Company a fee for administrative services provided.

Listed below is a tabulation of the Company's 2015 direct premiums written in Tennessee.

<b>Product</b>	<b>Direct Premiums Written</b>
Comprehensive	\$2,755,125,157
Title XVIII Medicare	821,762,931
Federal Employees Health Benefits	649,631,338
Medicare Supplement	146,580,460
Dental Only	137,244,101
Vision Only	18,993,807
Other Health	(317,813)
Total	<u>\$4,529,019,981</u>

## GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to its Annual Statements as filed with the TDCI:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Premium Income</u>
2015	\$2,465,528,315	\$786,935,769	\$1,678,592,546	\$4,522,664,847
2014	\$2,442,420,846	\$708,890,334	\$1,733,530,512	\$4,217,857,632
2013	\$2,226,920,410	\$575,497,307	\$1,651,423,103	\$3,656,590,060
2012	\$2,090,417,168	\$575,487,728	\$1,514,929,440	\$3,353,641,715
2011	\$1,927,012,316	\$613,535,194	\$1,313,477,122	\$3,440,078,427

## LOSS EXPERIENCE

The loss experience of the Company, since the previous examination, as reported in its Annual Statements, is as follows:

<u>Year</u>	<u>Medical Losses Incurred</u>	<u>Earned Premium</u>	<u>Loss Ratio</u>
2015	\$4,003,050,591	\$4,525,167,531	88.5%
2014	\$3,598,318,503	\$4,222,295,791	85.2%
2013	\$3,008,811,234	\$3,658,652,381	82.2%
2012	\$2,710,330,978	\$3,368,437,998	80.5%
2011	\$2,807,764,142	\$3,432,069,746	81.8%

## REINSURANCE AGREEMENTS

### Reinsurance Assumed

No reinsurance was assumed by the Company during the examination period.

### Reinsurance Ceded

No reinsurance was ceded by the Company during the examination period.

## LITIGATION AND CONTINGENT LIABILITIES

During the period of examination, and as of December 31, 2015, the Company is party to various pending legal proceedings arising in the ordinary course of business. Based upon the opinion of its counsel as to the ultimate disposition of such lawsuits and claims, Company management believes that the liability, if any, resulting from the disposition of such proceedings either will not be material to the Company's financial condition or results of operations or the potential liability is not yet able to be determined.

During the period of examination, and as of December 31, 2015, the Company entered into a number of contingent commitments and guarantees. The Company's 2015 Annual Statement, Notes 10.E and 14 to Financial Statements, state that as of December 31, 2015, the Company had no guarantees or undertakings, written or otherwise, for the benefit of an affiliate or related party that resulted in a material contingent exposure of the Company's or any related party's assets or liabilities with the exception of a guarantee for VSHP, whereby the Company agrees to fund VSHP's RBC and liquidity ratio requirements. A review of these notes did not disclose anything that would have an adverse effect upon the Company.

## **STATUTORY DEPOSITS**

In compliance with statutory and other requirements, the Company maintained deposits with the jurisdictions or custodians named below, as of December 31, 2015.

The following is a deposit with the state where special deposits are for the benefit of all policyholders, claimants, and creditors of the Company:

<u>Jurisdiction</u>	<u>Description</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Par Value</u>
Tennessee Department of Commerce and Insurance	U.S. Treasury Note Maturity Date 02/15/2016 CUSIP#: 912828UM0 Rate: 0.375%	\$349,973	\$350,000	\$350,000

## **ACCOUNTS AND RECORDS**

Tenn. Comp. R. & Regs. 0780-01-65-.08(4), states that no partner or other person responsible for rendering a report by a certified public accounting firm may act in that capacity for more than five (5) consecutive years. The Company is audited annually by E&Y, and is in compliance with this regulation.

During the course of the examination, certain balances were tested and amounts were traced from the Company's trial balance to the Annual Statement. Minor differences were noted in the Company's financial statements attributable to rounding. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All Annual Statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. These test checks and reviews revealed no material discrepancies.

The Company's books and records are located in Chattanooga, Tennessee.

## **SUBSEQUENT EVENTS**

On January 8, 2016, the Company submitted an application to become a member of the Federal Home Loan Bank of Cincinnati (FHLB of Cincinnati). The Company purchased its required membership stock with FHLB of Cincinnati on April 18, 2016, of thirty thousand, four hundred and eight (30,408) shares at \$100 per share for a total purchase of \$3,040,800.

On February 29, 2016, the Company was granted approval for membership in the FHLB of Cincinnati. The Company's bank membership is effective as of April 8, 2016. FHLB of Cincinnati will maintain custody of membership stock. The Company will utilize its line of credit as a liquidity tool to meet high, unexpected cash outflows. The Company's Board approved the maximum borrowing capacity of \$150,000,000.

On September 26, 2016, the Company issued a statement regarding the continued participation in the 2017 ACA marketplace in Tennessee, which, in summary, said that the Company had reduced its participation from eight (8) to five (5) regions of the state; that this change impacted an estimated 130,000 Tennesseans in the Memphis, Nashville, and Knoxville regions; that too many uncertainties exist to continue participating on a statewide level; that the Company has experienced losses approaching \$500 million over the course of three (3) years on ACA Marketplace Individual Products; and that evaluation of the ACA marketplace in Tennessee includes the possible return to offering plans statewide in 2018. Although the Company has not yet submitted its proposals for participating in the individual marketplace in 2018, on May 9, 2017, it indicated its willingness to potentially serve the Knoxville region, but does not plan to return to the Memphis or Nashville markets.

## **FINANCIAL STATEMENTS**

There follows a statement of assets, liabilities, capital and surplus, and a statement of revenue and expenses, as of December 31, 2015, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2015 Annual Statement.

## ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$1,242,883,768	\$ 2,143,963	\$1,240,739,805
Stocks			
Preferred stocks	17,709,174	2,000,000	15,709,174
Common stocks	635,450,916	390,737,168	244,713,748
Real estate:			
Properties occupied by the company	69,308,116	0	69,308,116
Properties held for sale	4,692,664	0	4,692,664
Cash, cash equivalents and short-term investments	104,066,481	0	104,066,481
Other invested assets	153,597,043	2,106,837	151,490,206
Receivables for securities	<u>8,336</u>	<u>0</u>	<u>8,336</u>
Subtotals, cash and invested assets	<u>2,227,716,498</u>	<u>396,987,968</u>	<u>1,830,728,530</u>
Investment income due and accrued	11,556,517	0	11,556,517
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	5,491,268	174,682	5,316,586
Deferred premiums, agents' balances and installments booked but deferred and net yet due	76,062,016	0	76,062,016
Accrued retrospective premiums and contracts subject to redetermination	39,839,125	0	39,839,125
Reinsurance:			
Amounts recoverable from reinsurers	102,367,004	0	102,367,004
Accounts receivable relating to uninsured plans	224,051,046	22,926,568	201,124,478
Current federal and foreign income tax recoverable and interest thereon	40,672,642	0	40,672,642
Net deferred tax asset	86,440,606	15,657,736	70,782,870
Guaranty funds receivable or on deposit	725,254	0	725,254
Electronic data processing equipment and software	42,098,862	40,111,566	1,987,296
Furniture and equipment, including healthcare delivery assets	31,696,960	31,696,960	0
Receivables from parent, subsidiaries and affiliates	37,388,377	3,040,716	34,347,661
Healthcare and other amounts receivable	97,070,860	50,302,524	46,768,336
Aggregate write-ins for other than invested assets	<u>63,224,367</u>	<u>59,974,367</u>	<u>3,250,000</u>
Total Assets excluding Separate Accounts and Protected Cell Accounts	<u>3,086,401,402</u>	<u>620,873,087</u>	<u>2,465,528,315</u>
<b>TOTAL</b>	<b><u>\$3,086,401,402</u></b>	<b><u>\$620,873,087</u></b>	<b><u>\$2,465,528,315</u></b>

## LIABILITIES, CAPITAL, AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$359,491,208		\$359,491,208
Accrued medical incentive pool and bonus amounts	1,108,596		1,108,596
Unpaid claims adjustment expenses	10,452,269		10,452,269
Aggregate health policy reserves, including the liability of \$0 for medical loss ratio rebate per the Public Health Service Act	5,448,286		5,448,286
Premiums received in advance	60,284,434		60,284,434
General expenses due or accrued	149,334,449		149,334,449
Amounts withheld or retained for account of others	548,137		548,137
Remittance and items not allocated	3,555,096		3,555,096
Borrowed money	893,376		893,376
Payable for securities	3,178,549		3,178,549
Liability for amounts held for under uninsured plans	127,325,718		127,325,718
Aggregate write-ins for liabilities:			
Liability for Pension and Post-retirement Benefits	54,425,420		54,425,420
Pending Escheatment to State of Tennessee	<u>10,890,231</u>		<u>10,890,231</u>
Total liabilities	<u>786,935,769</u>		<u>786,935,769</u>
Aggregate write-ins for special surplus funds:			81,957,825
Aggregate write-ins for other than special surplus funds	1,398,640,057		
Unassigned funds	<u>197,994,664</u>		
Total Capital and Surplus	<u>1,678,592,546</u>		
<b>Total Liabilities, Capital, and Surplus</b>			<b>\$2,465,528,315</b>

## STATEMENT OF REVENUE AND EXPENSES

Member months	<u>21,686,223</u>
Net premium income	\$4,522,664,874
Change in unearned premium reserves	<u>2,502,657</u>
<b>Total Revenues</b>	<b>\$4,525,167,531</b>
 <b>Hospital and Medical:</b>	
Hospital/medical benefits	3,071,803,358
Other professional services	<u>261,079,590</u>
Prescription drugs	<u>808,006,397</u>
Incentive pool, withhold adjustments and bonus amounts	<u>1,647,589</u>
Subtotal	4,142,536,934
 Less:	
Net reinsurance recoveries	<u>139,486,343</u>
TOTAL Hospital and Medical	4,003,050,591
Claims adjustment expenses, including \$115,244,620 cost containment expenses	223,213,490
General administrative expenses	464,021,565
Increase in reserves for life and accident and health contracts	(6,867,684)
<b>Total underwriting deductions</b>	<b><u>4,683,417,962</u></b>
 <b>Net underwriting gain or (loss)</b>	<b>(158,250,431)</b>
Net investment income earned	96,864,340
Net realized capital gains (losses) less capital gains tax	<u>1,598,236</u>
Net investment gains (losses)	<u>98,462,576</u>
 Aggregate write-ins for other income or expenses:	 <u>0</u>
<b>Net income or (loss) after capital gains tax and before all other federal income taxes</b>	<b>(59,787,855)</b>
Federal and foreign income taxes incurred	<u>(17,691,411)</u>
 <b>Net income (loss)</b>	<b><u>(\$42,096,444)</u></b>

### CAPITAL AND SURPLUS ACCOUNT

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital and surplus prior reporting year	<u>\$1,733,530,512</u>	<u>\$1,651,423,103</u>	<u>\$1,514,929,440</u>	<u>\$1,313,477,122</u>	<u>\$1,243,176,008</u>
Net income or (loss) from Line 32	(42,096,444)	63,400,238	188,887,095	142,330,326	138,033,860
Change in net unrealized capital gains (losses) less capital gains tax	18,399,560	107,282,721	16,015,846	52,769,987	(11,637,629)
Change in net deferred income tax	16,067,300	(2,527,240)	24,674,967	(23,669,588)	18,474,730
Change in non-admitted assets	(52,427,516)	(57,316,743)	(24,410,063)	27,894,609	(70,613,318)
Cumulative effect of changes in accounting principles	0	0	(14,603,877)	7,461,827	0
Aggregate write-ins for gains or (losses) in surplus	<u>5,119,134</u>	<u>(28,731,567)</u>	<u>(54,070,305)</u>	<u>(5,334,843)</u>	<u>(3,956,529)</u>
Net change in capital and surplus	(54,937,966)	82,107,409	136,493,663	201,452,318	70,301,114
Capital and surplus end of reporting year	<u>\$1,678,592,546</u>	<u>\$1,733,530,512</u>	<u>\$1,651,423,103</u>	<u>\$1,514,929,440</u>	<u>\$1,313,477,122</u>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

<u>Capital and Surplus</u>	<u>\$1,678,592,546</u>
----------------------------	------------------------

Total capital and surplus, as established by this examination, is the same as what was reported by the Company in its December 31, 2015 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2015.

## **COMMENTS AND RECOMMENDATIONS**

The following list presents a summary of comments and recommendations noted in this report:

### **Comments**

There were no comments noted during the completion of this examination.

### **Recommendations**

There were no recommendations noted during the completion of this examination.

## CONCLUSION

The customary insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of BCBST.

In such manner, it was found that as of December 31, 2015, the Company had admitted assets of \$2,465,528,315 and liabilities, exclusive of capital and surplus, of \$786,935,769. Thus, there existed for the additional protection of the policyholders, the amount of \$1,678,592,546 in the form of statutory reserves and unassigned funds.

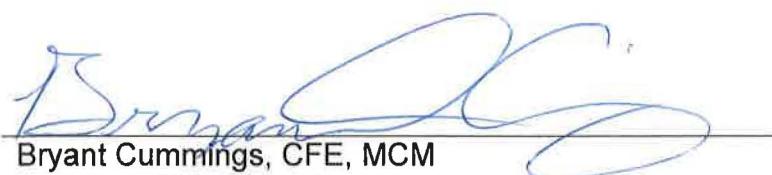
The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, Jim Hattaway CFE, CIA, CIE, AMCM, ARC; Vicky Hugo AES, CFE, CISA, CPA; Natalie Cunningham; Kris Sampson; Victoria Chi CISA, CISM, CRISC, CGEIT, CRMA of the contracting firm Noble Consulting Services, Inc., Indianapolis, Indiana; and Mike Mayberry FSA, MAAA of the actuarial firm Lewis & Ellis, Inc., Richardson, Texas participated in the work of this examination.

Respectfully submitted,



Daniel P. McBay, CFE, CPA  
Examiner-in-Charge  
Noble Consulting Services, Inc.  
Representing the State of Tennessee



Bryant Cummings, CFE, MCM  
Assistant Chief Examiner  
Tennessee Department of Commerce and Insurance

## AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of BlueCross BlueShield of Tennessee, Inc. located in Chattanooga, Tennessee dated January 25, 2017, and made as of December 31, 2015, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.



Daniel P. McBay, CFE, CPA  
Examiner-in-Charge  
Noble Consulting Services, Inc.  
Representing the State of Tennessee

State North Carolina

County Guilford

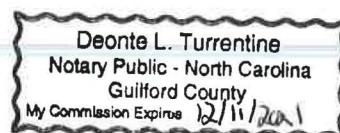
Subscribed to and sworn before me

this 1 day of June, 2017



(NOTARY)

My Commission Expires: 12/11/2021



## AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of BlueCross BlueShield of Tennessee, Inc. located in Chattanooga, Tennessee dated January 25, 2017, and made as of December 31, 2015, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.



Bryant Cummings, CFE, MCM  
Assistant Chief Examiner  
Tennessee Department of Commerce  
and Insurance

State Tennessee

County Davison

Subscribed to and sworn before me

this 2nd day of June, 2017

  
(NOTARY)

My Commission Expires: 6/19/18



# **EXHIBIT B**



1 Cameron Hill Circle  
Chattanooga, TN 37402  
bcbst.com

June 9, 2017

E. Joy Little  
Director of Financial Examinations/Chief Examiner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, TN 37243-1135

**RE: Report of Examination – BlueCross BlueShield of Tennessee, Inc.**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **BlueCross BlueShield of Tennessee, Inc.** By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

A handwritten signature in blue ink, appearing to read "John Giblin".

John Giblin  
Executive Vice President & Chief Financial Officer