

REPORT OF
FINANCIAL EXAMINATION
BLUE CROSS BLUE SHIELD OF WYOMING
AS OF
DECEMBER 31, 2011



STATE OF WYOMING
DEPARTMENT OF INSURANCE
CHEYENNE, WYOMING

TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION.....	2
DESCRIPTION OF THE COMPANY.....	2
Prior Examination Findings.....	2
History of the Company.....	2
Corporate Records.....	3
Management and Control.....	3
Holding Company Structure.....	5
Fidelity Bonds and Other Insurance.....	5
Officers', Employees', and Agents' Welfare and Pension Plans.....	6
Territory and Plan of Operation.....	6
Growth of the Company.....	6
Business In Force by State.....	7
Loss Experience.....	8
Reinsurance.....	8
Accounts and Records.....	9
Statutory Deposit.....	9
STATEMENT OF ASSETS, LIABILITIES, AND SURPLUS.....	10
STATEMENT OF REVENUE AND EXPENSES.....	11
RECONCILIATION OF SURPLUS.....	12
SUMMARY OF RECOMMENDATIONS.....	13
CONCLUSION.....	14

SALUTATION
Cheyenne, Wyoming
February 22, 2013

Honorable Tom C. Hirsig
Insurance Commissioner
State of Wyoming
106 East 6th Avenue
Cheyenne, WY 82002

Commissioner Hirsig:

Pursuant to your instructions and in compliance with the provisions of the Wyoming Insurance Code and the rules and regulations promulgated by the National Association of Insurance Commissioners, hereinafter called "NAIC," an examination was made as of December 31, 2011, of the financial condition, management, and affairs of:

BLUE CROSS BLUE SHIELD OF WYOMING

hereinafter referred to as the "Company," at its home office located at 4000 House Avenue, Cheyenne, Wyoming. The following report of the examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

The examination reported upon herein was undertaken as a routine examination as called for by Wyo. Stat. § 26-2-116. The last exam of Blue Cross Blue Shield of Wyoming was completed as of December 31, 2008. This examination covers the period of January 1, 2009 through December 31, 2011.

The following key activities were reviewed during the exam: investments, premiums, claims handling, claims reserving, reinsurance, other income and expenses, taxes, underwriting, and information technology.

We conducted our single-state examination in accordance with the *NAIC Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles and annual statement instructions, when applicable to domestic state laws and regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

DESCRIPTION OF THE COMPANY

Prior Examination Findings:

During the last examination there were no recommendations.

Subsequent Events:

There are no material subsequent events that occurred after the exam as of date.

History of the Company:

The Company has been located in Cheyenne, Wyoming for its entire existence. The Company was formed from the consolidation of Wyoming Hospital Service and Wyoming Medical Service, Inc., both nonprofit companies, in 1976. The current company name was adopted at that time.

The Company's Articles of Consolidation state that the corporation was "organized for purposes other than the conduct of a business for profit primarily to establish, maintain and administer programs to help its subscribers and members obtain hospital and health care, services, drugs and supplies, and medical, surgical and health services and related benefits according to contracts with the corporation."

The Articles further state that if the corporation shall be dissolved voluntarily all proceeds of the sale of assets in excess of any debts shall be distributed to the State of Wyoming to be used for medical, surgical or health services for the people of the State of Wyoming.

Blue Cross Blue Shield Association: The Company is a member of the Blue Cross Blue Shield Association, a national organization, incorporated in the state of Illinois. The Association serves the member plans directly by assisting in such activities which will extend the application and principles of prepaid hospital care and medical/surgical care and improve the operation of member plans. Each plan affiliated with the Association is an independent entity, incorporated in the state in which it operates.

Corporate Records:

The Articles of Incorporation, bylaws, and minutes of the meetings of the Board of Directors, Personnel Committee, Audit Committee, Governance/Nominating Committee, Investment Committee, and Executive Committee were reviewed in detail. It was determined that the actions taken at the various meetings were adequately documented.

The Company's CEO is listed on the Board of Directors' committee lists as an ex-officio member of the Audit Committee. The Audit Committee Charter requires the members of the Committee to be independent of the management of the Company. The bylaws state that the Company's CEO shall be an ex-officio member of all committees. The language of these two corporate governance documents should be consistent as to who qualifies as members of the Audit Committee.

Recommendation 1: It is recommended that the Company amend the bylaws to agree with the Audit Committee Charter regarding the qualifications of its members.

Management and Control:

The entire control and direction of the Company rests with its Board of Directors. The bylaws provide for not more than 18 and not less than 12 directors. Twelve directors were actually in office as of December 31, 2011. Approximately one-fourth of the directors' terms expire each year. Board members must be residents of the State of Wyoming.

The Nominating Committee nominates candidates for the Board based upon the composition of the current Board (a majority is to be other than providers of health care services), geographical representation from around the state, quality and character of the nominee, and willingness and ability to serve. Acquaintance and referral are the primary methods used for identifying candidates.

The annual meeting date of the Company is specified by the Chairman of the Board and special meetings may be held, at the request of the Chairman or any five directors, upon proper notice being given. The Board and Executive Committee may act by telephone or without a meeting if a consent in writing is signed by a majority of the Board or Committee so acting.

As of December 31, 2011, the following directors were holding office:

Name & address	Principal occupation	Date of first term
Rex Arney Sheridan, Wyoming	Attorney; The Law Office of Rex O. Arney	4/87
Darryl Bindschadler, MD Cheyenne, Wyoming	Retired; Physician	4/87
John Bonner Powell, Wyoming	Publisher; Powell Tribune	4/97
Becky Costantino Douglas, Wyoming	Business Woman	4/95
Tim Crilly Cheyenne, Wyoming	Retired President, Blue Cross Blue Shield of Wyoming	10/98
Irene Devin Laramie, Wyoming	Business Woman	4/97
Richard Schum Cheyenne, Wyoming	President, Blue Cross Blue Shield of Wyoming	10/11
Michael Healy Worland, Wyoming	President; L.U. Ranch Company	4/96
Clifford Kirk Gillette, Wyoming	Banker	4/03
Thomas Lockhart Casper, Wyoming	State Legislator	4/03
Thomas Nord Centennial, Wyoming	Retired; Hospital Administrator	4/88
Todd Witzeling, MD Casper, Wyoming	Physician	8/05

Article VI of the bylaws provides for officers of the Corporation who shall consist of a Chairman of the Board, one or more Vice-Chairmen, President, one or more Vice-Presidents, Secretary, Treasurer, Assistant Treasurers and Assistant Secretaries.

As of December 31, 2011, these officers were as follows:

Chairman of the Board – Todd Witzeling, M.D.
Vice-Chairman of the Board – Michael Healy
President, Chief Executive Officer and Secretary – Richard Schum
Treasurer, Vice President of Finance and Chief Financial Officer – Diane Gore
Senior Vice President of Actuary and Provider Affairs – Joey Van Schaik
Vice President of Internal Operations – David Keiter
Assistant Secretary – Carla Lofton

Holding Company Structure:

Employer Plan Services (a Wyoming Corporation) is a wholly-owned subsidiary. The Company utilizes Employer Plan Services as an insurance agency to sell allied products. Employer Plan Services has retained earnings of \$42,203 and total capital of \$224,638 as of December 31, 2011.

The Company formed a benefit program called the Caring Foundation of Wyoming, Inc., a nonprofit organization, in 1990, and began accepting members at that time. The Foundation provides mammography screenings and wellness exams for Wyoming women who do not have the means to pay for the exams. The Foundation also provides college tuition assistance, in the form of scholarships, to various individuals who plan to enter the medical field after graduation. Additionally, the Foundation provides financial and other support to the Wyoming Race for the Cure and Relay for Life. The Company made capital contributions to the Foundation of \$1,590,000 in 2009, \$123,000 in 2010 and \$160,000 in 2011.

Fidelity Bonds and Other Insurance:

The Company maintains \$15,000,000 in directors and officers liability insurance with a \$5,000,000 sub-limit of employment practices liability insurance, fiduciary insurance in the amount of \$3,000,000, and errors and omissions coverage in the amount of \$10,000,000 with the Travelers Casualty and Surety Company of America. The Company also has fidelity bond insurance on its employees in the amount of \$3,000,000 with BCS Insurance Company. This amount exceeds the NAIC suggested minimum amount of \$1,000,000 to \$1,250,000. Additionally, the Company maintains \$3,000,000 in cyber coverage with Allied World Assurance Company.

The Company has insurance with Great Northern Insurance Company, a member of the Chubb group of insurance companies, providing coverage for real and personal property, business income, EDP equipment, and general liability coverage.

Officers', Employees', and Agents' Welfare and Pension Plans:

The Company participates in a defined benefit pension plan administered by the Blue Cross Blue Shield Association. As of December 31, 2011, the plan was about 83 percent funded when comparing the current fair value of assets to projected benefit obligations. Using the Adjusted Funding Target Attainment Percentage under the Pension Protection Act of 2006, the plan was 117 percent funded. The plan is available to employees who meet certain age and service requirements. The Company made \$2,000,000 in contributions to the plan in 2011.

The Company also participates in a tax-favored savings program sponsored by the Blue Cross Blue Shield Association. This program is available to employees who meet certain age and service requirements. The Company's contribution for this program in 2011 was \$429,423.

The Company adopted a supplemental executive retirement plan for certain employees effective January 1, 2001. Employees selected by the Chief Executive Officer and approved by the Board of Directors are eligible to participate in the plan. The Company made \$50,116 in contributions to the plan in 2011.

The Company also provides certain health care insurance benefits (post retirement benefits) for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while working for the Company. The plan is about 63 percent funded when comparing the current fair value of assets to future projected benefit obligations as of December 31, 2011. The Company contributed \$900,000 to the plan during 2011.

The Company offers long-term disability, life, health and dental insurance to full-time employees while they are employed with the Company.

Territory and Plan of Operation:

The Company operates in the state of Wyoming, employs approximately 200 persons, and is authorized to conduct disability (including health) insurance business. Sales operations are conducted through both a captive sales force and independent brokers and agents. The Company has a compensation incentive plan for its captive sales force. The Company's focus is on direct sales utilizing its own sales force for local presence, visibility and service.

The Company's marketing department actively pursues annual goals. Marketing projections are based on prior experience and future economic factors.

Growth of the Company:

The Company's surplus has increased by \$66,894,815 during the three-year examination period. The increase consists of \$56,484,755 net gain, \$12,595,488 unrealized capital gain, \$687,046 change in deferred income taxes, \$(2,990,864) change in nonadmitted assets, and \$118,390 change in aggregate

write-ins for gains. The Company had unrestricted surplus of \$179,044,362 as of December 31, 2011.

The reported direct premiums written have increased from \$235,932,904 in 2009, to \$269,660,268 in 2011, an increase of \$33,727,364.

The Company's net admitted assets have increased by \$83,092,958 during the three-year examination period. The Company had net admitted assets of \$274,220,142 as of December 31, 2011.

Business In Force by State:

The Company operates only in the state of Wyoming and is authorized to conduct disability (including health) insurance business.

Direct Premiums Written:

<u>Line of Business</u>	<u>Direct Business</u>
Comprehensive (Hospital & Medical)	\$166,213,017
Medicare Supplement	13,105,931
Dental Only	2,754,395
Vision Only	154,128
Federal Employees Health Benefit Plan	82,236,767
Title XVIII – Medicare	1,140,687
Other Health	4,055,343
Total	\$269,660,268

The Company participates in the Blue Cross Blue Shield Association's Interplan Teleprocessing System (ITS or Blue Card), which provides service benefits to members who receive care from a provider outside of the plan's area. The claim is submitted to and paid by the Blue Cross Blue Shield plan in the area where the provider resides. This system allows for faster processing and for ease of filing a claim for the providers, and in turn, is a benefit to the subscriber. There are two claim types in the ITS system. The first is called ITS-Home. This is a claim from a Company subscriber with the provider outside of Wyoming. The second claim type is ITS-Host. This is a claim from a non-Company subscriber with the provider in the Company's plan area.

The Company functions as an administrator for various private self-insured plans. The Company is reimbursed for certain administrative costs and for payments made on behalf of the beneficiaries of the plans.

In addition, the Company participates with other Blue Cross Blue Shield plans in a line of business known as the Federal Employees Program (FEP). FEP is the program administered by the Blue

Cross Blue Shield Association whereby the Association acts as agent for the participating Blue Cross Blue Shield plans in a contract with the federal Office of Personnel Management (OPM). Under the contract, the Association serves as a participating carrier for the Federal Employees Health Benefits Program (FEHBP).

Loss Experience:

Taylor-Walker & Associates, actuarial consultants, were retained to review the Company's loss experience and reserving methods. The consulting actuary accepted the unpaid claims liability of \$25,494,511 as reported.

A copy of the consulting actuary's report has been given to the Company.

Reinsurance:

As of December 31, 2011, the Company had a reinsurance agreement in place in which it ceded business to RGA Reinsurance Company, a licensed insurer in the State of Wyoming. The Company ceded \$2,526,634 in premiums to RGA Reinsurance Company in 2011.

The reinsurance agreement covered medical care expense benefits underwritten and issued by the Company for group, non-group, alternate-funded group, and Kid Care policies. The contract reinsured that portion of the risk in excess of \$500,000 per year on individuals. After the stop loss deductible, there is no dollar threshold to the reinsurer's liability, although it would be subject to annual maximums and other limitations as stated in the various policies. The reinsurance contract included an insolvency clause, an errors and omissions clause and an arbitration clause.

The Company also cedes business to the Wyoming Small Employer Health Reinsurance Program. The Company ceded \$2,073,492 in premiums to the program in 2011.

The Company has also entered into a reinsurance agreement with the other owners of Regional Advantage Services, LLC, (RAS). This agreement allows for the pooling of claims in excess of \$100,000 per Medicare Advantage PPO member.

The Company would be liable for any obligations that the reinsuring companies are unable to meet under these reinsurance agreements.

Taylor-Walker & Associates reviewed the reinsurance agreements for proper risk transfer. No exceptions were noted.

In July 2009, the Company hired Guy Carpenter as a reinsurance intermediary broker. The Company did not obtain a copy of the reinsurance intermediary broker's financial statements before the contract date or at any time during the period under examination. Wyoming Statute § 26-47-106(c) provides that "The insurer shall annually obtain a copy of statements of the financial condition of each reinsurance intermediary broker with which it transacts business."

Recommendation 2: It is recommended that the Company obtain and review a copy of the statement of financial condition of its reinsurance intermediary broker annually in compliance with Wyoming Statute § 26-47-106(c).

Accounts and Records:

The Company's administrative, accounting, underwriting, policy administration, investment, and claims handling functions are performed at its home office in Cheyenne, Wyoming.

The Company's accounts and records were reviewed in accordance with the *NAIC Financial Condition Examiners Handbook* and the Wyoming Insurance Code.

As of December 31, 2011, the Company held \$29,335,851 in mutual funds. The mutual funds were not held in a custodial account within Wyoming. Wyoming Statute §26-24-129(a) states in part, "Any domestic insurer shall: (iii) Have and maintain its assets in this state...."

Recommendation 3: It is recommended that the Company add its mutual funds to the custodial account in order to comply with Wyoming Statute § 26-24-129(a)(iii).

Statutory Deposit:

The Company has a US Treasury Bond with a fair value of \$329,668, on deposit in favor of the State of Wyoming for the protection of all policyholders and creditors.

BLUE CROSS BLUE SHIELD OF WYOMING
STATEMENT OF ASSETS, LIABILITIES, AND SURPLUS

as of December 31, 2011

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$105,468,782		\$105,468,782
Common stocks	105,984,502		105,984,502
Real estate			
Properties occupied by the company	1,788,117		1,788,117
Properties held for the production of income	245,939		245,939
Cash and short-term investments	(776,649)		(776,649)
Other invested assets	916,177	3,740	912,437
Aggregate write-ins for invested assets	95,000	95,000	0
Subtotal - cash and invested assets	213,721,868	98,740	213,623,128
Investment income due and accrued	1,063,326		1,063,326
Uncollected premiums	37,369,441	1,155	37,368,286
Accrued retrospective premiums	216,000		216,000
Amounts recoverable from reinsurers	1,291,633		1,291,633
Amounts receivable relating to uninsured plans	12,794,045	567,168	12,226,877
Current federal and foreign income tax recoverable	648,381		648,381
Electronic data processing equipment and software	45,566	9,992	35,574
Furniture and equipment	610,253	610,253	0
Receivables from parent, subsidiaries and affiliates	71,507		71,507
Health care receivables	14,565,516	12,488,000	2,077,516
Aggregate write-ins for other than invested assets	5,671,967	74,053	5,597,914
Total assets	\$288,069,503	\$13,849,361	\$274,220,142
LIABILITIES & SURPLUS			
Claims unpaid			\$25,494,511
Unpaid claims adjustment expenses			734,000
Aggregate health policy reserves			42,952,427
Premiums received in advance			7,108,844
General expenses due or accrued			4,049,293
Net deferred tax liability			680,084
Amounts withheld or retained for account of others			1,823,217
Remittances and items not allocated			386,496
Amounts due to parent, subsidiaries and affiliates			12,939
Liability for amounts held under uninsured plans			11,308,195
Aggregate write-ins for other liabilities			625,774
Total liabilities			95,175,780
SURPLUS			
Unassigned funds (surplus)			179,044,362
Total surplus			179,044,362
Total liabilities and surplus			\$274,220,142

**BLUE CROSS BLUE SHIELD OF WYOMING
STATEMENT OF REVENUE AND EXPENSES**

for the Year Ending December 31, 2011

Net premium income	\$265,060,143
Change in unearned premium reserves and reserve for rate credits	<u>(11,086,788)</u>
Total revenues	253,973,355
Hospital/medical benefits	160,611,878
Emergency room and out-of-area	27,294,798
Prescription drugs	30,326,241
Net reinsurance recoveries	<u>(9,934,116)</u>
Total hospital and medical	208,298,801
Claims adjustment expenses	10,189,573
General administrative expenses	<u>15,116,731</u>
Total underwriting deductions	233,605,105
Net underwriting gain	20,368,250
Net investment income earned	7,130,816
Net realized capital gains or (losses)	<u>22,260</u>
Net investment gain or (loss)	7,153,076
Aggregate write-ins for other income or expenses	<u>379,223</u>
Net income (loss) before federal income taxes	27,900,549
Federal income taxes incurred	<u>8,848,476</u>
Net income or (loss)	<u>\$19,052,073</u>
<u>Surplus</u>	
Surplus, December 31, 2010	\$168,132,301
<u>Gains and (Losses)</u>	
Net income or (loss)	19,052,073
Change in net unrealized capital gains or (losses)	(5,591,949)
Change in net deferred income tax	1,113,599
Change in nonadmitted assets	<u>(3,661,662)</u>
Net change in surplus	<u>10,912,061</u>
Surplus, December 31, 2011	<u>\$179,044,362</u>

BLUE CROSS BLUE SHIELD OF WYOMING
RECONCILIATION OF SURPLUS

January 1, 2009 through December 31, 2011

	*****Per Annual Statements*****			Per Exam
	2009	2010	2011	2011
Surplus, December 31, of prior year	\$112,149,547	\$144,039,763	\$168,132,301	\$168,132,301
Net income or (loss)	21,331,484	16,101,198	19,052,073	19,052,073
Change in net unrealized capital gains or (losses)	10,959,819	7,227,618	(5,591,949)	(5,591,949)
Change in net deferred income tax	(667,265)	240,712	1,113,599	1,113,599
Change in nonadmitted assets	147,788	523,010	(3,661,662)	(3,661,662)
Aggregate write-ins for gains or (losses)	118,390	0	0	0
Net change in surplus	31,890,216	24,092,538	10,912,061	10,912,061
Surplus, December 31, of current year	\$144,039,763	\$168,132,301	\$179,044,362	\$179,044,362

SUMMARY OF RECOMMENDATIONS

Recommendation 1: It is recommended that the Company amend the bylaws to agree with the Audit Committee Charter regarding the qualifications of its members.

Recommendation 2: It is recommended that the Company obtain and review a copy of the statement of financial condition of its reinsurance intermediary broker annually in compliance with Wyoming Statute § 26-47-106(c).

Recommendation 3: It is recommended that the Company add its mutual funds to the custodial account in order to comply with Wyoming Statute § 26-24-129(a)(iii).

CONCLUSION

Jeff Braunschweig, Kathryn Cotton, and G. Douglas Melvin, examiners for the Wyoming Insurance Department, participated in the examination. Review of the Company's reserves was conducted by Thomas L. Burger, F.S.A., M.A.A.A., of the firm Taylor-Walker & Associates, Inc.

Appreciation is expressed for the cooperation and assistance extended by the officers and employees of the Company during the course of the examination.

I, the undersigned, hereby certify that an examination has been made of **BLUE CROSS BLUE SHIELD OF WYOMING**, and the preceding report is true and correct to the best of my knowledge and information.

Respectfully submitted,

Kathryn E. Cotton, CPA, CFE
Examiner In-Charge
Senior Examiner
Department of Insurance
State of Wyoming

This report has been reviewed and is true and correct to the best of my knowledge and information.

Linda Johnson, CPA, CFE
Chief Financial Examiner
Department of Insurance
State of Wyoming

The foregoing instrument was acknowledged under oath before me this _____ day of March 2013.

Witness my hand and official seal.

Notary Public

My Commission Expires: _____