

REPORT OF
FINANCIAL EXAMINATION
BLUE CROSS BLUE SHIELD OF WYOMING
AS OF
DECEMBER 31, 2005



STATE OF WYOMING
DEPARTMENT OF INSURANCE
CHEYENNE, WYOMING

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SALUTATION
Cheyenne, Wyoming
October 13, 2006

Honorable Alfred W. Gross
Chairman, NAIC Financial Condition
(E) Committee
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

Honorable Kenneth G. Vines
Insurance Commissioner
State of Wyoming
122 West 25th Street
Cheyenne, WY 82002-0440

Honorable D. Kent Michie
Western Zone Secretary
Department of Insurance
State of Utah
State Office Building, Room 3110
Salt Lake City, UT 84114-6901

Chairman, Secretary, and Commissioner:

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, 2005, 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 Company was most recently examined as of December 31, 2002. The current examination covers the intervening three-year period ending December 31, 2005.

The examination included a review and analysis of operations and a determination of the financial condition of the Company as of the date of examination. Valuation and verification of assets, determination of liabilities and reserves, and testing and analysis of such accounts and records deemed necessary to the examination were performed. The examination utilized, where appropriate, work performed by the Company's independent Certified Public Accountants. Limited market conduct procedures were also performed during the examination. In addition, the exam included a limited review of material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with procedures suggested by the Financial Condition (E) Committee of the NAIC and other generally accepted insurance standards.

During the examination, there were some immaterial items noted that are not included in this report. These issues are discussed in a management letter that was given to the Company and its Board of Directors under a separate cover.

DESCRIPTION OF THE COMPANY

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.

Management and Control:

The entire control and direction of the Company rests with its Board of Directors. The number of directors is fixed from time to time at no less than 12 and no more than 24 by the bylaws of the Company. As of December 31, 2005, the bylaws provided for not more than 18 and not less than 12 directors. Thirteen were actually in office at that time. Approximately one-fourth of the directors' terms shall 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, 2005, the following directors were holding office:

Name & address	Principal occupation	Date of first term
Rex Arney Casper, Wyoming	Attorney; Brown, Drew & Massey, LLP	4/87
Darryl Bindschadler, MD Cheyenne, Wyoming	Retired; Physician	4/87
John Bonner Powell, Wyoming	Publisher; Powell Tribune	4/97
Becky Costantino Rock Springs, Wyoming	Business Woman	4/95
Tim Crilly Cheyenne, Wyoming	President, Blue Cross Blue Shield of Wyoming	10/98
Irene Devin Laramie, Wyoming	Business Woman	4/97

Name & address	Principal occupation	Date of first term
Ralph Gill Jackson, Wyoming	Rancher	4/98
Michael Healy Worland, Wyoming	President; L.U. Ranch Company	4/96
Clifford Kirk Gillette, Wyoming	Banker	4/03
Thomas Lockhart Casper, Wyoming	Part-time State Legislator	4/03
Thomas Nord Centennial, Wyoming	Retired; Hospital Administrator	4/88
Robert Thompson Big Piney, Wyoming	Rancher; Cross Lazy Two Land & Livestock	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, 2005, these officers were as follows:

Chairman of the Board– John Bonner
Vice-Chairman of the Board – Clifford Kirk
President - Tim J. Crilly
Vice President of Marketing - Richard F. Schum, Jr.
Vice President and Chief Operating Officer - Karen Dobson
Vice President of Underwriting and Actuary - Joey Van Schaik
Treasurer – Diane G. Gore
Secretary - Tim J. Crilly
Assistant Secretary – Carla Lofton

According to Article II, Section 5 of the Company’s bylaws, the Executive Committee is required to have either five or seven members. Those members must include the board chairman and vice chairman.

The 2003 – 2004 Executive Committee only had four members. According to the Company, this occurred because Dave Bonner was both Vice-Chairman of the Board and Chairman of the Governance/Nominating Committee.

Recommendation 1:

It is recommended that the Company follow its current bylaws or amend the bylaws so that the Company will be in compliance.

Holding Company Structure:

Employer Plan Services (a Wyoming Corporation) is a wholly-owned subsidiary. Business activity consisted of serving as a third party administrator (TPA) for self-funded plans in the states of Wyoming and Montana. As of December 31, 2002, the TPA business has been transferred to the Company. The Company utilizes Employer Plan Services as an insurance agency to sell allied products. Employer Plan Services has accumulated a deficit of \$40,121 and total capital of \$142,314 as of December 31, 2005.

The Company formed a benefit program for needy children called the Caring Foundation of Wyoming, Inc., a nonprofit organization, in 1990, and began accepting members at that time. Children are given free primary and preventive care. In 2001, the Foundation was expanded by a grant received from the Wyoming affiliate of the Susan G. Komen Breast Cancer Foundation in order to provide mammography screening for eligible women. In 2002, the Foundation was expanded to raise awareness about and reduce domestic violence in Wyoming. Claims are paid through private donations.

The Company provides management and administrative services free of charge to the Foundation. In 2005, the Company incurred \$42,771 in administrative costs to support the program. However, the Company never enacted a written management agreement with the Foundation. Therefore, the Wyoming Department of Insurance was not able to review the agreement prior to its going into effect.

Wyoming Statute § 26-44-105(b) states in part “The following transactions involving a domestic insurer and any person in its holding company system shall not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into the transaction at least thirty (30) days prior to the transaction or a shorter period as the commissioner may permit and the commissioner has not disapproved it within that period. In assessing transactions under this subsection, the commissioner shall consider whether the transactions comply with subsection (a) of this section and whether they may adversely affect the interests of policyholders. The transactions to be considered are:

...

(iv) All management agreements, service contracts and all cost-sharing arrangements; . . .”

Recommendation 2:

It is recommended that the Company execute a written management agreement with the Caring Foundation of Wyoming, Inc. and file it with the Wyoming Insurance Department in accordance with Wyo. Stat. § 26-44-105(b)(iv).

Corporate Records:

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

Fidelity Bonds and Other Insurance:

The Company maintains \$10,000,000 in directors and officers liability insurance, \$10,000,000 in errors and omissions insurance and \$5,000,000 in managed care organization liability insurance with BCS Insurance Company. The Company also has fidelity bond and electronic crimes 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 - \$1,250,000 for fidelity insurance.

The Company obtains its other insurance through Ed Murray and Sons, a licensed Wyoming Agency. The Company has replacement cost property coverage with Hartford Casualty Insurance Company in the amount of \$7,411,540 for buildings, \$4,239,042 for business personal property, and \$1,025,000 for business income losses. This policy covers all properties of the Company which have a combined market value of \$4,520,496. There is also \$6,318,598 of coverage for equipment breakdown, including building, contents, improvements and time element.

The Company has commercial auto liability coverage in the amount of \$1,000,000 and commercial general liability coverage in the amount of \$2,000,000 with Hartford Fire Insurance Company. The Company also has a commercial excess/umbrella liability policy in the amount of \$10,000,000 with Hartford Casualty Insurance Company.

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. The plan is fully funded by the Company and is available to employees who meet certain age and service requirements. The Company made \$1,900,000 in contributions to the plan in 2005.

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 expense for this program in 2005 was \$354,110.

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 plan was amended in 2005 to provide payments to certain employees whose benefits under the National Retirement Program are impacted by the limitations of the Internal Revenue Code. The Company is the owner and beneficiary of life insurance policies aggregating approximately \$10,683,000 on the lives of those employees. The policies had an aggregate cash surrender value of \$930,450 as of December 31, 2005. Expenses related to the supplemental executive retirement plan were \$636,265 for 2005.

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 \$27,770,344 during the three-year examination period. The increase consists of \$18,985,699 net gain, \$11,183,192 unrealized capital gains, \$ 1,876,507 change in deferred income taxes, and \$(4,275,053) change in nonadmitted assets. The Company had unrestricted surplus of \$94,901,302 as of December 31, 2005.

The reported direct premiums written have increased from \$142,478,193 in 2003, to \$175,937,166 in 2005, an increase of \$33,458,973.

The Company's net admitted assets have increased by \$57,320,627 during the three-year examination period. The Company had net admitted assets of \$160,623,643 as of December 31, 2005.

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)	\$116,069,947
Medicare Supplement	11,640,154
Dental	2,172,612
Federal Employee Health Benefit Plans	45,291,097
Stop loss	763,356
Total	\$175,937,166

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 have been hospitalized in a member hospital of another participating plan. ITS allows subscribers to 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 to 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 also 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 noted that the unpaid claims liability was overstated by approximately \$3,036,626, but accepted the \$26,004,000 reported as conservative. The consulting actuary also noted that the Company has increased the explicit margin for conservatism used to determine the unpaid claims liability in recent years.

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

Reinsurance:

As of December 31, 2005, the Company had a reinsurance agreement in place in which it ceded business to BCS Insurance Company, a licensed insurer in the State of Wyoming. The Company ceded \$1,352,973 in premiums to BCS Insurance Company in 2005.

The reinsurance agreement covered medical care expense benefits underwritten and issued by the Company for group, non-group, alternate-funded group, and Child Care policies. The contract reinsures that portion of the risk in excess of \$350,000 per year on individuals, subject to an aggregate limit of \$4,650,000.

The reinsurance contract includes 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 \$337,465 in premiums to the program in 2005.

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 examination programs in the NAIC Examiner's Handbook and the Wyoming Insurance Code.

Market Conduct:

In conjunction with the financial examination, limited market conduct procedures were performed on the Company's claims settlement, marketing and advertising, and underwriting practices. No significant items were noted.

BLUE CROSS BLUE SHIELD OF WYOMING
BALANCE SHEET
as of December 31, 2005

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$61,001,667		\$61,001,667
Stocks			
Preferred stocks	89,000		89,000
Common stocks	61,397,780		61,397,780
Real estate			
Properties occupied by the company	1,119,909		1,119,909
Properties held for the production of income	335,937		335,937
Cash and short-term investments	6,478,005		6,478,005
Other invested assets	3,740	3,740	0
Receivable for securities	2,593,253		2,593,253
Aggregate write-ins for invested assets	85,000	85,000	0
Subtotal - cash and invested assets	133,104,291	88,740	133,015,551
Investment income due and accrued	569,543		569,543
Uncollected premiums	16,713,873	21,578	16,692,295
Amounts recoverable from reinsurers	166,822		166,822
Amounts receivable relating to uninsured plans	8,220,250	279,117	7,941,133
Electronic data processing equipment and software	181,347	18,450	162,897
Furniture and equipment	600,712	600,712	0
Health care receivables	6,761,127	6,173,285	587,842
Aggregate write-ins for other than invested assets	1,489,046	1,486	1,487,560
Total assets	\$167,807,011	\$7,183,368	\$160,623,643
LIABILITIES, RESERVES & OTHER FUNDS			
Claims unpaid			\$26,004,000
Unpaid claims adjustment expenses			520,800
Aggregate health policy reserves			8,733,488
Premiums received in advance			5,821,874
General expenses due or accrued			3,876,979
Current federal and foreign income taxes payable			2,510,334
Net deferred tax liability			5,010,739
Ceded reinsurance premiums payable			275
Amounts withheld or retained for account of others			2,143,996
Remittance and items not allocated			97,131
Amounts due to parent, subsidiaries and affiliates			72,713
Payable for securities			2,619,676
Liability for amounts held under uninsured A&H plans			5,429,191
Aggregate write-ins for other liabilities			2,881,145
Total liabilities			65,722,341
RESERVES AND UNASSIGNED FUNDS			
Unassigned funds (surplus)			94,901,302
Total reserves and unassigned funds			94,901,302
Total liabilities, reserves and unassigned funds			\$160,623,643

BLUE CROSS BLUE SHIELD OF WYOMING
STATEMENT OF REVENUE AND EXPENSES
for the Year Ending December 31, 2005

Net premium income	\$174,246,728
Change in unearned premium reserves and reserve for rate credits	(2,408,601)
Total revenues	171,838,127
Hospital/medical benefits	123,388,831
Emergency room and out-of-area	17,195,987
Prescription drugs	8,030,404
Net reinsurance recoveries	(1,686,373)
Total hospital and medical	146,928,849
Claims adjustment expenses	3,278,571
General administrative expenses	15,607,679
Total underwriting deductions	165,815,099
Net underwriting gain	6,023,028
Net investment income earned	4,281,138
Net realized capital gains or (losses)	(245,731)
Net investment gain or (loss)	4,035,407
Aggregate write-ins for other income	119,349
Net income/(loss) before federal income taxes	10,177,784
Federal income taxes incurred	3,709,856
Net income or (loss)	\$6,467,928
<u>Reserves and Unassigned Funds</u>	
Reserves and unassigned funds, December 31, 2004	\$87,012,293
<u>Gains and (Losses)</u>	
Net income or (loss)	6,467,928
Change in net unrealized capital gains or (losses)	1,443,668
Change in net deferred income tax	1,309,137
Change in nonadmitted assets	(1,414,333)
Aggregate write-ins for gains or (losses) in surplus	82,609
Net change in reserves and unassigned funds	7,889,009
Reserves and unassigned funds, December 31, 2005	\$94,901,302

BLUE CROSS BLUE SHIELD OF WYOMING
RECONCILIATION OF RESERVES AND UNASSIGNED FUNDS

December 31, 2003 through December 31, 2005

	*****Per Annual Statements*****			Per Exam
	2003	2004	2005	2005
Reserves and unassigned funds, December 31, of prior year	\$67,130,958	\$81,122,698	\$87,012,293	\$87,012,293
Net income or (loss)	6,172,671	6,345,100	6,467,928	6,467,928
Change in net unrealized capital gains or (losses)	9,003,422	736,102	1,443,668	1,443,668
Change in net deferred income tax	(247,078)	814,448	1,309,137	1,309,137
Change in nonadmitted assets	(848,632)	(2,012,088)	(1,414,333)	(1,414,333)
Aggregate write-ins for gains or (losses)	(88,643)	6,033	82,609	82,609
Net change in reserves and unassigned funds	13,991,740	5,889,595	7,889,009	7,889,009
Reserves and unassigned funds, December 31, of current year	\$81,122,698	\$87,012,293	\$94,901,302	\$94,901,302

SUMMARY OF RECOMMENDATIONS

Recommendation No. 1: It is recommended that the Company follow its current bylaws or amend the bylaws so that the Company will be in compliance.

Recommendation No. 2: It is recommended that the Company execute a written management agreement with the Caring Foundation of Wyoming, Inc. and file it with the Wyoming Insurance Department in accordance with Wyo. Stat. § 26-44-105(b)(iv).

CONCLUSION

Jeff Braunschweig, Katy 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,

G. Douglas Melvin, 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 November 2006.

Witness my hand and official seal.

Notary Public

My Commission Expires: _____