

REPORT OF
FINANCIAL EXAMINATION
BLUE CROSS BLUE SHIELD OF WYOMING
AS OF
DECEMBER 31, 2008



STATE OF WYOMING
DEPARTMENT OF INSURANCE
CHEYENNE, WYOMING

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SALUTATION
Cheyenne, Wyoming
January 8, 2010

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
106 East 6th Avenue
Cheyenne, WY 82002

Honorable Christina Urias
Western Zone Secretary
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, AZ 85018

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, 2008, 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, 2005. This examination covers the period of January 1, 2006 through December 31, 2008.

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 two recommendations. The first recommendation was that the Company follow its current bylaws or amend the bylaws. The second was for the Company to execute a written management agreement with the Caring Foundation of Wyoming and file it with the Wyoming Insurance Department. Both recommendations were completed.

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.

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, 2008. 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, 2008, the following directors were holding office:

Name & address	Principal occupation	Date of first term
Rex Arney Sheridan, 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

Name & address	Principal occupation	Date of first term
Becky Costantino Douglas, 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
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
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, 2008, these officers were as follows:

Chairman of the Board– Clifford Kirk
Vice-Chairman of the Board – Tom Lockhart
President, Chief Executive Officer and Secretary - Tim Crilly
Vice President of Marketing - Richard Schum, Jr.
Vice President and Chief Operating Officer - Karen Dobson
Vice President of Underwriting and Actuary - Joey Van Schaik

Senior Director of Finance and Treasurer – Diane Gore
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 accumulated a deficit of \$86,007 and total capital of \$96,428 as of December 31, 2008.

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 \$3,560,000 in 2007 and \$75,000 in 2008.

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 with the Travelers Casualty and Surety Company of America. The Company has errors and omissions coverage with OneBeacon Insurance Company in the amount of \$10,000,000. 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 for fidelity insurance.

The Company has insurance with Great Northern Insurance Company that includes coverage for real and personal property, business income, EDP equipment, and general liability coverage. The Company also has a commercial umbrella policy with Federal Insurance Company in the amount of \$10,000,000.

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, 2008, the plan was about 75 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 121.7 percent funded. The plan is available to employees who meet certain age and service requirements. The Company made \$2,500,000 in contributions to the plan in 2008.

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 2008 was \$411,132.

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 \$12,206,116 on the lives of those employees. The policies had an aggregate cash surrender value of \$3,258,830 as of December 31, 2008. Premiums paid for the life insurance policies for the supplemental executive retirement plan were \$557,052 in 2008.

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 65 percent funded when comparing the current fair value of assets to future projected benefit obligations as of December 31, 2008. The Company contributed \$900,000 to the plan during 2008.

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 \$17,248,244 during the three-year examination period. The increase consists of \$34,604,582 net gain, \$(15,626,482) unrealized capital losses, \$2,063,661 change in deferred income taxes, \$(3,675,127) change in nonadmitted assets, and an aggregate write-in for losses in surplus of \$(118,390). The Company had unrestricted surplus of \$112,149,547 as of December 31, 2008.

The reported direct premiums written have increased from \$175,937,166 in 2005, to \$241,350,967 in 2008, an increase of \$65,413,801.

The Company's net admitted assets have increased by \$30,503,541 during the three-year examination period. The Company had net admitted assets of \$191,127,184 as of December 31, 2008.

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)	\$159,014,430
Medicare Supplement	12,989,761
Dental Only	2,782,047
Vision Only	132,537
Federal Employee Health Benefits Plan	59,894,669
Title XVIII – Medicare	788,217
Other Health	5,749,306
Total	\$241,350,967

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 \$28,010,020 as reported.

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

Reinsurance:

As of December 31, 2008, 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 \$2,589,161 in premiums to BCS Insurance Company in 2008.

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 \$400,000 per year on individuals, subject to an aggregate limit of \$4,600,000. 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 \$1,096,253 in premiums to the program in 2008.

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

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.

Statutory Deposit:

The Company has a US Treasury Bond with a fair value of \$341,328, on deposit in favor of the State of Wyoming for the protection of all policyholders and creditors.

BLUE CROSS BLUE SHIELD OF WYOMING
BALANCE SHEET
as of December 31, 2008

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$76,809,857		\$76,809,857
Stocks			
Preferred stocks	191,051		191,051
Common stocks	60,244,336		60,244,336
Real estate			
Properties occupied by the company	1,102,079		1,102,079
Properties held for the production of income	260,980		260,980
Cash and short-term investments	5,441,726		5,441,726
Other invested assets	3,740	3,740	0
Aggregate write-ins for invested assets	110,000	110,000	0
Subtotal - cash and invested assets	144,163,769	113,740	144,050,029
Investment income due and accrued	778,741		778,741
Uncollected premiums	21,184,513	19,421	21,165,092
Accrued retrospective premiums	776,300		776,300
Amounts recoverable from reinsurers	3,512,282		3,512,282
Amounts receivable relating to uninsured plans	13,066,961	369,803	12,697,158
Net deferred tax asset	5,140,281	2,760,141	2,380,140
Electronic data processing equipment and software	78,372	17,117	61,255
Furniture and equipment	459,280	459,280	0
Health care receivables	8,623,789	7,108,492	1,515,297
Aggregate write-ins for other than invested assets	4,201,393	10,503	4,190,890
Total assets	\$201,985,681	\$10,858,497	\$191,127,184
LIABILITIES & UNASSIGNED FUNDS			
Claims unpaid			\$28,010,020
Unpaid claims adjustment expenses			380,000
Aggregate health policy reserves			20,541,793
Premiums received in advance			6,922,803
General expenses due or accrued			5,880,732
Current federal and foreign income taxes payable			4,526,406
Ceded reinsurance premiums payable			114,860
Amounts withheld or retained for account of others			2,002,194
Remittance and items not allocated			242,541
Amounts due to parent, subsidiaries and affiliates			51,740
Liability for amounts held under uninsured plans			8,400,531
Aggregate write-ins for other liabilities			1,904,017
Total liabilities			78,977,637
UNASSIGNED FUNDS			
Unassigned funds (surplus)			112,149,547
Total unassigned funds			112,149,547
Total liabilities and unassigned funds			\$191,127,184

BLUE CROSS BLUE SHIELD OF WYOMING
STATEMENT OF REVENUE AND EXPENSES
for the Year Ending December 31, 2008

Net premium income	\$237,665,553
Change in unearned premium reserves and reserve for rate credits	<u>(8,729,186)</u>
Total revenues	228,936,367
Hospital/medical benefits	156,705,110
Emergency room and out-of-area	25,962,754
Prescription drugs	16,667,264
Net reinsurance recoveries	<u>(12,126,816)</u>
Total hospital and medical	187,208,312
Claims adjustment expenses	2,530,065
General administrative expenses	16,792,764
Increase in reserves for life and accident and health contracts	<u>4,128,000</u>
Total underwriting deductions	210,659,141
Net underwriting gain	18,277,226
Net investment income earned	6,367,550
Net realized capital gains or (losses)	<u>(1,997,371)</u>
Net investment gain or (loss)	4,370,179
Aggregate write-ins for other income or expenses	<u>244,246</u>
Net income (loss) before federal income taxes	22,891,651
Federal income taxes incurred	<u>6,471,659</u>
Net income or (loss)	<u>\$16,419,992</u>
<u>Unassigned Funds</u>	
Unassigned funds, December 31, 2007	\$118,538,714
<u>Gains and (Losses)</u>	
Net income or (loss)	16,419,992
Change in net unrealized capital gains or (losses)	(18,684,853)
Change in net deferred income tax	756,542
Change in nonadmitted assets	(4,762,458)
Aggregate write-ins for gains or (losses) in surplus	<u>(118,390)</u>
Net change in unassigned funds	<u>(6,389,167)</u>
Unassigned funds, December 31, 2008	<u>\$112,149,547</u>

**BLUE CROSS BLUE SHIELD OF WYOMING
RECONCILIATION OF UNASSIGNED FUNDS**

December 31, 2006 through December 31, 2008

	*****Per Annual Statements*****			Per Exam
	2006	2007	2008	2008
Unassigned funds, December 31, of prior year	\$94,901,303	\$109,614,514	\$118,538,714	\$118,538,714
Net income or (loss)	10,918,260	7,266,330	16,419,992	16,419,992
Change in net unrealized capital gains or (losses)	3,082,164	(23,793)	(18,684,853)	(18,684,853)
Change in net deferred income tax	771,032	536,087	756,542	756,542
Change in nonadmitted assets	(58,245)	1,145,576	(4,762,458)	(4,762,458)
Aggregate write-ins for gains or (losses)	0	0	(118,390)	(118,390)
Net change in unassigned funds	14,713,211	8,924,200	(6,389,167)	(6,389,167)
Unassigned funds, December 31, of current year	\$109,614,514	\$118,538,714	\$112,149,547	\$112,149,547

SUMMARY OF RECOMMENDATIONS

There are no report recommendations for the current exam period.

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,

Jeff Braunschweig, 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 February 2010.

Witness my hand and official seal.

Notary Public

My Commission Expires: _____