

AUDITED STATUTORY-BASIS FINANCIAL  
STATEMENTS AND SUPPLEMENTARY INFORMATION

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.  
Years Ended December 31, 2020 and 2019  
With Report of Independent Auditors and  
Independent Registered Public Accounting Firm

Ernst & Young LLP



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

Audited Statutory-Basis Financial Statements and  
Supplementary Information

Years Ended December 31, 2020 and 2019

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## Report of Independent Auditors

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

We have audited the accompanying statutory-basis financial statements of Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. (the Company), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, changes in surplus and cash flow for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance. Management also is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

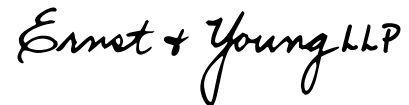
As described in Note 2 to the statutory-basis financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance, which is a basis of accounting other than U.S. generally accepted accounting principles. The effects on the financial statements of the variances between these statutory accounting practices and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the statutory-basis financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the Company at December 31, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

### **Opinion on Statutory-Basis of Accounting**

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.



April 28, 2021

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

Statutory-Basis Balance Sheets  
(Dollars in Thousands)

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Admitted assets</b>		
Bonds	\$ 932,992	\$ 887,210
Preferred stock	1,187	–
Common stock	442,898	280,675
Properties occupied by the Company	85,097	86,290
Cash, cash equivalents, and short-term investments	282,256	129,811
Receivable for securities	3,894	5,146
Other invested assets	1,006,901	1,040,685
Total cash and invested assets	<u>2,755,225</u>	<u>2,429,817</u>
Accrued investment income	4,570	4,535
Premium's receivable	46,761	40,383
Data processing equipment	3,732	4,672
Current federal income tax recoverable	275	250
Health care receivables	54,956	50,613
Other receivables	2,515	6,845
Other assets	8,823	14,376
Total admitted assets	<u>\$ 2,876,857</u>	<u>\$ 2,551,491</u>
<b>Liabilities and surplus</b>		
Unpaid claims liabilities	\$ 400,230	\$ 427,414
Accrued medical incentive pool and bonus payments	42,974	58,885
Aggregate policy reserves	111,566	32,092
Premiums received in advance	135,985	119,450
Accounts payable and accrued liabilities	99,753	89,232
Borrowed money	150,121	170,196
Amounts due to parent, subsidiaries, and affiliates	21,265	18,102
Payable for securities	18,229	5,181
Total liabilities	<u>980,123</u>	<u>920,552</u>
Special surplus funds	–	52,072
Unassigned surplus	1,896,734	1,578,867
Total surplus	<u>1,896,734</u>	<u>1,630,939</u>
Total liabilities and surplus	<u>\$ 2,876,857</u>	<u>\$ 2,551,491</u>

See accompanying notes.

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

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

	<b>Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Premiums earned	<b>\$ 5,176,150</b>	\$ 5,195,260
Health care benefits	<b>4,240,317</b>	4,576,009
Claims adjustment expenses	<b>215,903</b>	234,719
General and administrative expenses	<b>361,315</b>	320,671
Change in premium deficiency reserve	<b>73,000</b>	—
Total expenses	<b>4,890,535</b>	5,131,399
Underwriting gain	<b>285,615</b>	63,861
Net investment income	<b>46,902</b>	50,526
Net realized investment gains	<b>31,195</b>	5,891
Net investment gains	<b>78,097</b>	56,417
Other expense	<b>(24,127)</b>	(8,922)
Net income before federal income taxes	<b>339,585</b>	111,356
Federal income tax benefit	—	(214)
Net income	<b>\$ 339,585</b>	\$ 111,570

*See accompanying notes.*

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

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

	<b>Unassigned Surplus</b>	<b>Special Surplus Funds</b>	<b>Total Surplus</b>
Balance at January 1, 2019	\$ 1,413,755	\$ –	\$ 1,413,755
Net income	111,570	–	111,570
Change in net unrealized gains	106,255	–	106,255
Change in non-admitted assets	(641)	–	(641)
2020 ACA health insurer fee	(52,072)	52,072	–
Balance at December 31, 2019	<u>1,578,867</u>	<u>52,072</u>	<u>1,630,939</u>
Net income	<b>339,585</b>		<b>339,585</b>
Change in net unrealized gains	<b>12,820</b>		<b>12,820</b>
Change in non-admitted assets	<b>(86,610)</b>		<b>(86,610)</b>
2020 ACA health insurer fee	<b>52,072</b>	<b>(52,072)</b>	–
Balance at December 31, 2020	<u><b>\$ 1,896,734</b></u>	<u><b>\$ –</b></u>	<u><b>\$ 1,896,734</b></u>

*See accompanying notes.*

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

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

	<b>Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
Premiums received	\$ 5,191,167	\$ 5,184,017
Health care benefits paid	(4,298,535)	(4,545,713)
General and claim adjustment expenses paid	(548,586)	(532,572)
Net investment income received	52,330	56,440
Federal income taxes paid	(25)	(250)
Net cash provided by operating activities	<u>396,351</u>	161,922
<b>Investing activities</b>		
Sales, maturities, and redemptions of investments	785,884	555,760
Cost of investments acquired	(907,247)	(626,310)
Net cash used in investing activities	<u>(121,363)</u>	(70,550)
<b>Financing and miscellaneous activities</b>		
Borrowed funds	(20,000)	25,000
Other cash applications, net	(102,543)	(15,715)
Net cash (used in) provided by financing or miscellaneous activities	<u>(122,543)</u>	9,285
Net increase in cash, cash equivalents, and short-term investments	152,445	100,657
Cash, cash equivalents, and short-term investments:		
Beginning of year	129,811	29,154
End of year	<u>\$ 282,256</u>	<u>\$ 129,811</u>

See accompanying notes.



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

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

December 31, 2020

### 1. Nature of Business

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

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

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

The more significant variances from GAAP are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Statements of Cash Flow:* Cash, cash equivalents, and short-term investments in the statements of cash flow represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

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

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

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

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

Other significant accounting practices are as follows:

**Use of Estimates**

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

**Investments**

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

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

Common stock is carried at fair value.

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

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

Unrealized gains and losses on common stock and other invested assets are reflected directly in surplus unless there is a decline in value deemed to be other-than-temporary, in which case the loss is charged to income. Realized gains and losses on investments sold are determined using the specific identification method and are included in income.

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

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

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

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

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

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

#### **Concentration of Credit Risk**

Financial instruments which potentially subject the Company to concentrations of credit and or market risk consist of cash, cash equivalents and short-term investments. The Company places temporary cash and money market accounts with creditworthy, high quality financial institutions. A significant portion of these funds are not insured by the Federal Deposit Insurance Corporation.

The Company has significant investments in short-term investments, bonds, equity securities, and limited liability partnerships and companies. Investments are made primarily by investment managers engaged by the Company and the investments are monitored by the Company's management, finance and audit committees and board of directors. The Company's portfolio has been diversified in various investment categories in accordance with BCBSMA's investment policy.

#### **Real Estate**

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

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

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

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

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

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Land and buildings	\$ 116,360	\$ 115,349
Less accumulated depreciation	<b>(31,263)</b>	(29,059)
Net real estate occupied by the Company	<b>\$ 85,097</b>	<b>\$ 86,290</b>

Under statutory reporting guidelines, the Companies are required to calculate imputed rental income for owner-occupied real estate. The method for calculating imputed rental income is based on estimated rental rates of like property in the same area multiplied rentable square feet. These imputed amounts are reported as net investment income and general and administrative expenses in the statements of operations reflecting that the Company had recorded annual rent of \$6,140 and \$6,058 for December 2020 and 2019, respectively.

**Furniture, Equipment, and Capitalized Software**

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

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
EDP equipment and operating software	\$ 30,042	\$ 27,446
Less accumulated depreciation	<b>(26,310)</b>	(22,774)
Net EDP equipment and operating software	<b>\$ 3,732</b>	<b>\$ 4,672</b>

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

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

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

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

Depreciation and amortization expense charged to income in 2020 and 2019 was \$31,065 and \$16,874, respectively.

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

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. In 2020, the Company recorded impairment expenses of \$97 related to leasehold improvement assets. In 2019, the Company recorded impairment expenses of \$1,791 on enrollment and billing system assets whose functionalities are not expected to be useful in the future.

#### **Unpaid Claims Liabilities**

The Company uses estimates for determining its claims incurred but not yet reported which are based on historical claim payment patterns, healthcare trends and membership, and includes a provision for adverse changes in claim frequency and severity. Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled.

Liabilities at any year end are continually reviewed and re-estimated as information regarding actual claims payments become known. This information is compared to the originally established year end liability.

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

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

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

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

**Accrued Medical Incentive Pool and Bonus Payments**

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

**Aggregate Policy Reserves**

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

**Premium Deficiency**

The Company evaluates its health care contracts to determine if it is probable that a loss will be incurred. A premium deficiency loss is recognized when it is probable that expected future paid claims, administrative expenses, and reserves will exceed existing reserves plus anticipated future premiums on existing contracts. Anticipated investment income and overhead expenses are also considered in the calculation of premium deficiency losses. As of December 31, 2020, the Company established a premium deficiency reserve of \$73,000. As of December 31, 2019, the Company did not have a premium deficiency reserve.

**Premiums**

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

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



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

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

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

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

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

If it is probable that the balance is uncollectible, any uncollectible amount is written off and charged to income in the period the determination is made. In 2020 and 2019, the amount charged to income was \$39 and \$235, respectively.

#### **Premium Refunds**

In 2020, the utilization of medical benefits remained below expectations due to the ongoing COVID-19 pandemic. As a result, the Company voluntarily issued premium refunds in the form of credits of \$62,022 to certain policyholders. This adjustment is included in premiums earned on the statements of operations in accordance with NAIC interpretation INT 20-08T: *COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends*. As of December 31, 2020, the Company did not have any non-contractual premium refund liability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The three-year reinsurance and risk corridor programs ended on December 31, 2016. These programs were intended to protect against the negative effects of adverse selection, risk selection and to stabilize premiums during the implementation years of the ACA. In December 2020, HMO Blue as a member of the Risk Corridor Class Action Non-Dispute Sub-Class, received a risk corridor settlement for the 2015 benefit year. There were no significant outstanding balances related to these programs as of December 31, 2020 and 2019. Refer to Note 13 for details.

#### **Health Care Receivables**

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

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

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

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

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

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

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

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

#### **Recent Accounting Pronouncements**

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

In 2018, the NAIC adopted revisions to SSAP No. 55 – *Unpaid Claims, Losses, and Loss Adjustment Expenses* to clarify that interest paid on accident and health claims to claimants should be reported as claims adjustment expenses and interest paid to regulatory authorities as regulatory fines and fees in general and administrative expenses. This revision is effective as of January 1, 2020, and early adoption is permitted. The Company adopted this revision in 2020 without any material impact on its financial statements.

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

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

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

In April 2019, the NAIC adopted revisions to SSAP No. 16R – *Electronic Data Processing Equipment and Software* with modifications to ASU 2018-15 – *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that Is a Service Contract* allowing capitalization of implementation costs from a cloud hosting service contract as nonoperating system software with amortization not to exceed five years. The revisions also provide guidance for cloud hosting arrangements that are not service contracts. The adoption shall occur either prospectively to all implementation costs incurred after the date of adoption, or as a change in accounting principle under SSAP No. 3 – *Accounting Changes and Corrections of Errors*. The revision was effective as of January 1, 2020. The Company has adopted this revision in 2020 prospectively without any material impact on its financial statements.

### 3. Cash and Investments

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

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

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

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

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

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

*Level 2* – Inputs include the following:

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

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

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

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

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

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

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

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

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

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

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

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the ending fair value for the reporting period in which the changes occur. There were no transfers between levels for the year ended December 31, 2020.

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

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

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

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

As of December 31, 2020 and 2019, included in the Company's other invested assets is an investment in a surplus note, issued by BCBSMA with a carrying value of \$302,977 and \$291,355, respectively.

The following table presents the Company's financial assets that are measured and reported at fair value in the balance sheets by fair value hierarchy level at December 31, 2020 and 2019:

Description	December 31, 2020				
	Level 1	Level 2	Level 3	NAV	Total
Preferred stock:					
Industrial and miscellaneous	\$ 1,187	\$ –	\$ –	\$ –	\$ 1,187
Common stock:					
Industrial and miscellaneous	373,452	–	5,546	63,598	442,596
Parent, subs, and affiliates	–	–	302	–	302
Total assets at fair value	\$ 374,639	\$ –	\$ 5,848	\$ 63,598	\$ 444,085

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

Fair Value Measurements in Level 3:

	Balance at January 1, 2020	Transfers into Level 3	Transfers out of Level 3	Total Gain Included in Net Realized Capital Gains and (Losses)	Total Gains and (Losses) Included in Surplus	Purchases	Sales	Issuances and Settlements	Balance at December 31, 2020
Common stock									
Industrial and miscellaneous	\$ 5,546	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 5,546
Parent, subs, and affiliates	322	–	–	–	(20)	–	–	–	302
Total assets	\$ 5,868	\$ –	\$ –	\$ –	\$ (20)	\$ –	\$ –	\$ –	\$ 5,848



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

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

3. Cash and Investments (continued)

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

As of December 31, 2020 and 2019, the Company had investments in RREEF America II Core Real Estate Investment Trust (“RREEF II” or the “Fund”). The operations of the Fund include acquisitions, sales, leasing, and real estate property management. The Fund’s average investment holding period is five to ten years. As of December 31, 2020 and 2019, the Fund did not have any unfunded commitments. Redemptions must be requested in writing and delivered to the Fund specifying the number of shares the investor wishes to redeem. The Fund has no lock-up period. Shares are transferable subject to federal and state securities law requirements and the Fund’s charter. All redemptions paid are subject to approval by the Fund’s board of directors and paid within 45 days after the end of each quarter. In 2020, the Company did not transfer assets into or out of Level 3. In 2019, in accordance with the revised guidance in SSAP No. 100R, the Company transferred RREEF II assets of \$64,400 out of Level 3 to NAV.

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

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

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

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

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

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

Description	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Bonds:				
U.S. treasury securities	\$ –	\$ 271,406	\$ –	\$ 271,406
All other governments	–	6,572	–	6,572
States, territories, and possessions	–	3,094	–	3,094
Political subdivisions of states, territories, and possessions	–	534	–	534
Special revenue and assessment	–	253,623	–	253,623
Industrial and miscellaneous	–	451,586	–	451,586
Hybrid securities	–	906	–	906
Total	\$ –	\$ 987,721	\$ –	\$ 987,721

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

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

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

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

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

	December 31, 2020			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash, cash equivalents, and short-term investments	\$ 282,256	\$ —	\$ —	\$ 282,256
Bonds:				
U.S. government	258,229	14,167	(990)	271,406
All other governments	6,367	205	—	6,572
States, territories, and possessions	2,828	266	—	3,094
Political subdivisions of states, territories, and possessions	500	34	—	534
Special revenue and special assessment	244,877	9,164	(418)	253,623
Industrial and miscellaneous	419,336	32,444	(194)	451,586
Hybrid securities	855	51	—	906
Total bonds	932,992	56,331	(1,602)	987,721
Common stock	362,644	80,539	(285)	442,898
Preferred stock	1,083	104	—	1,187
Total stocks	363,727	80,643	(285)	444,085
Total cash and investments	\$ 1,578,975	\$ 136,974	\$ (1,887)	\$ 1,714,062

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

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

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

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

As of December 31, 2020 and 2019, no bonds were non-admitted due to being in default or near default status.

In accordance with SSAP No. 2R—*Cash, Cash Equivalents, Drafts, and Short-Term Investments*, all money market mutual funds (“MMMF’s”) are classified as cash equivalents. As of December 31, 2020 and 2019, the Company’s investments in MMMF’s were \$234,071 and \$85,652, respectively, and are included in cash, cash equivalents and short-term investments.

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

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

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

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

	Less than 12 Months		12 Months or More		Total		Number of Securities
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
<b>At December 31, 2020</b>							
U.S. government	\$ 39,111	\$ (811)	\$ 4,958	\$ (179)	\$ 44,069	\$ (990)	38
All other governments	–	–	–	–	–	–	–
Political subdivisions of states, territories, and possessions	–	–	–	–	–	–	–
Special revenue and assessment	28,172	(192)	12,069	(226)	40,241	(418)	68
Industrial and miscellaneous	10,193	(98)	17,129	(96)	27,322	(194)	51
Total bonds	77,476	(1,101)	34,156	(501)	111,632	(1,602)	157
Common stock	3,077	(249)	7,718	(36)	10,795	(285)	15
Total	\$ 80,553	\$ (1,350)	\$ 41,874	\$ (537)	\$ 122,427	\$ (1,887)	172

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

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

- The length of time and the extent to which the fair value has been below cost.
- The financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings potential.
- Volatility inherent in the asset class to which the investment belongs.

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

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

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

- Management's intent and ability to hold the respective securities long enough for it to recover its value.

At December 31, 2020 and 2019, included in the Company's investments are unrealized losses deemed to be temporary. These investments reflect a range of industries, and the Company determined the current market volatility is temporary.

In 2020, HMO Blue did not record other-than-temporary impairment losses for investments in limited partnerships. In 2019, HMO Blue recorded other-than-temporary impairment losses for investments in limited partnerships of \$232 for Hancock Capital Partners and \$1,766 for Comvest Capital III. The impairments were recognized based on the length of time the securities have been in an unrealized loss position and an outlook lacking improvement.

The amortized cost and fair value of bonds at December 31, 2020, by stated maturity, are shown below. Fixed maturities subject to early or unscheduled prepayments have been included based upon their stated maturity dates. Actual maturities may differ from stated maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Cost or Amortized Cost</b>	<b>Fair Value</b>
Within 1 year	\$ 32,072	\$ 32,396
After 1 year through 5 years	236,804	249,380
After 5 years through 10 years	210,711	227,166
After 10 years	453,405	478,779
Total bonds	<u>\$ 932,992</u>	<u>\$ 987,721</u>

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

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

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

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

Description	Proceeds from Sales		Realized Gains		Realized Losses	
	2020	2019	2020	2019	2020	2019
Bonds	\$ 509,837	\$ 534,039	\$ 14,197	\$ 7,902	\$ (2,313)	\$ (1,480)
Common stock	124,808	829	1,185	—	(108)	—
Other invested assets	137,083	15,545	18,344	1,433	(126)	(1,999)

Gross realized investment gains and losses are as follows:

	2020	2019
Gross gains	\$ 33,742	\$ 9,400
Gross losses	(2,547)	(3,509)
Net realized investment gains	\$ 31,195	\$ 5,891

Major categories of net investment income are summarized as follows:

	2020	2019
Income:		
Bonds	\$ 22,040	\$ 21,645
Other invested assets	21,124	23,934
Common stock	10,555	8,929
Real estate	6,140	6,058
Cash, cash equivalents and short-term investments	1,083	3,473
Other miscellaneous	443	568
Total investment income	61,385	64,607
Less:		
Investment expenses	12,279	11,877
Depreciation	2,204	2,204
Net investment income	\$ 46,902	\$ 50,526

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

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

**4. Restricted Assets**

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

	<b>2020</b>	<b>2019</b>		<b>2020</b>
	<b>Total</b>	<b>Total</b>		<b>Total</b>
	<b>Gross</b>	<b>Gross</b>	<b>Increase/</b>	<b>Admitted</b>
	<b>Restricted</b>	<b>Restricted</b>	<b>Decrease</b>	<b>Restricted</b>
<b>Restricted assets category</b>				
Federal Home Loan Bank ("FHLB")				
capital stock	\$ 5,546	\$ 5,546	\$ –	\$ 5,546
Pledged as collateral to FHLB	<b>179,939</b>	111,057	<b>68,882</b>	<b>179,939</b>
On deposit with states <sup>(a)</sup>	<b>1,145</b>	1,144	<b>1</b>	<b>1,145</b>
Other restricted assets <sup>(b)</sup>	<b>13,596</b>	21,558	<b>(7,962)</b>	<b>8,823</b>
Total	<b>\$ 200,226</b>	\$ 139,305	<b>\$ 60,921</b>	<b>\$ 195,453</b>

<sup>(a)</sup> At December 31, 2020 and 2019, HMO Blue had restricted securities, included in bonds, and on deposit with the Commonwealth of Massachusetts as required by M.G.L. c.176G, section 26.

<sup>(b)</sup> At December 31, 2020 and 2019, BCBSMA had Commonwealth of Massachusetts Tax Credits as restricted assets included in other assets on the statutory-basis balance sheets.



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

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

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

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

	<b>2020</b>			
	<b>Unpaid Claims Liability</b>	<b>Heath Care Receivable</b>	<b>Medical Incentive Pool and Bonus</b>	<b>Total Health Care Benefits</b>
Net balance at January 1	\$ 427,414	\$ (54,481)	\$ 58,885	\$ 431,818
Incurred related to:				
Current year	4,306,253	(133,949)	127,821	4,300,125
Prior years	(37,350)	(9,560)	(12,898)	(59,808)
Total incurred	4,268,903	(143,509)	114,923	4,240,317
Paid related to:				
Current year	3,909,645	(74,682)	90,729	3,925,692
Prior years	386,442	(53,704)	40,105	372,843
Total paid	4,296,087	(128,386)	130,834	4,298,535
Net balance at December 31	<u>\$ 400,230</u>	<u>\$ (69,604)</u>	<u>\$ 42,974</u>	<u>\$ 373,600</u>

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

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

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

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

Negative amounts reported for incurred related to prior years result from claims being settled for amounts less than originally estimated. The favorable development in medical claims payables for the years ended December 31, 2020 and 2019, is primarily attributable to actual claim payment patterns and cost trends differing from those assumed at the time the liability was established.

As of December 31, 2020 and 2019, health care receivables include \$14,648 and \$3,868, respectively, of amounts that are non-admitted in accordance with SSAP No. 84, *Certain Health Care Receivables and Receivables Under Government Insured Plans*.

Management believes its methodologies for reserving for unpaid claims are appropriate and represent its best estimate at December 31, 2020 and 2019. Estimated subrogation credits of \$5,335 and \$5,769 were considered in determining health care benefits reserves as of December 31, 2020 and 2019, respectively.

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

BCBSMA sponsors two noncontributory defined benefit pension plans that covers all eligible employees. The sponsored plans consist of the Retirement Income Trust Plan (“RIT”) which grants benefits to retired employees at various levels based on age and years of service, the noncontributory and nonqualified Pension Protection Plan and the BCBSMA sponsored defined Postretirement Benefit Plan which covers medical, life and dental benefits.

Regular full and part-time employees are eligible to participate in RIT plan after completing 12 months of employment and are at least age 21.

Eligible employees hired prior to July 1, 2010, accrued benefits under the Final Average Compensation formula until January 1, 2015. Pension benefits are provided to participants under several types of retirement options based on date of hire, rehire, age and years of the continuous service.

Beginning January 1, 2015, all eligible employees accrue benefits under the RIT Cash Balance formula. For the Cash Balance formula, the Company uses a notional cash balance account in each participant’s name and every year the plan account is credited with the amounts determined by the participant’s annual compensation and years of continuous service.

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

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

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

In December 2019, the RIT plan was amended to restate that only employees who were participants or eligible employees on December 31, 2019 are eligible to participate in the RIT plan. The effective date of the amendment was January 1, 2020.

Effective December 31, 2020, the RIT plan was amended to freeze retirement benefit accruals under the Cash Balance formula. Effective January 1, 2021 employees will no longer receive pay credits within the RIT plan. The last pay credits will be deposited to the RIT Trust accounts in January 2021. The interest credits will continue on an annual basis but no future contributions other than interest will be made by the Company. The participant's balance under the Cash Balance formula will continue to accrue interest until the commencement of their benefits.

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

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

BCBSMA allocates associated costs to the Company and wholly owned subsidiaries based on salary ratios.

The Company's share of the net expenses for the years ended December 31, 2020 and 2019, are as follows:

	<b>Pension Benefits</b>		<b>Post-Retirement Benefits</b>		<b>Postemployment and Compensated Absences</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Service cost	\$ 7,295	\$ 5,565	\$ 1,545	\$ 1,229	\$ 20,254	\$ 18,549
Interest cost	8,627	11,214	1,698	1,941	–	–
Expected return on plan assets	(24,111)	(19,481)	(2,449)	(2,064)	–	–
Amortization of unrecognized transitional obligation	158	158	155	–	–	–
Recognized actuarial loss	11,917	9,211	–	–	–	–
Amortization of prior service cost	(76)	(24)	808	808	–	–
Amount of loss recognized due to settlement	562	559	–	–	–	–
Total net periodic benefit cost	<u>\$ 4,372</u>	<u>\$ 7,202</u>	<u>\$ 1,757</u>	<u>\$ 1,914</u>	<u>\$ 20,254</u>	<u>\$ 18,549</u>

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

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

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

The Companies do not have any regulatory contribution requirements for 2020. However, the Companies currently intend to make voluntary contributions of \$23,200 to its defined benefit pension plan and \$4,847 to its post-retirement benefit plan in 2021.

The Companies other post-retirement benefit plan includes medical, dental, and life benefits for retired employees. The plan is funded by a 401(h) account. The Companies made contributions into this account of \$6,342 and \$4,909 in 2020 and 2019, respectively. Total employer contributions to the post-retirement benefit plan were \$9,166 and \$7,156 in 2020 and 2019, respectively.

The Company also has a savings 401(k) plan for eligible employees. Under the 2020 employee savings plan, BCBSMA contributed an amount equal to 100% of employee contributions, up to a maximum of 4% of each employee's compensation and an additional 2% core contribution based on the employee's base salary, subject to pretax Internal Revenue Service limits. Effective January 1, 2021 the core contribution will be increased to 4%.

The Company's allocated costs for the 401(k) plan were \$6,833 and \$6,939 in 2020 and 2019, respectively. In 2020, the Company continued to make an additional core contribution of 2% of base pay for all associates subject to the Internal Revenue Code ("IRC") limit.

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

The Company is reporting as an organization exempt from federal income taxes under IRC Section 501(c)(4) and is exempt from Massachusetts state income taxes. The Company is subject to tax on certain income unrelated to its operations as a tax-exempt health maintenance organization. The amount of unrelated business income tax for HMO Blue for 2020 and 2019 was immaterial.

The Company would be required to adopt Accounting Standards Codification No. 740-10, Income Taxes ("ASC 740"), *Accounting for Uncertainty in Income Taxes*, if GAAP-basis financial statements were prepared for the years ended December 31, 2020 and 2019. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Similar guidance has not been adopted by the NAIC. If the Company were to adopt ASC 740 for statutory reporting purposes, it would have no impact on the financial statements.

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

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

#### **7. Income Taxes (continued)**

The Company files income tax returns in the U.S. federal jurisdiction. The Company's open tax years are 2017 through 2020. The Company would recognize any interest and penalties resulting from ASC 740 in general and administrative expenses.

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

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

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

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

As of December 31, 2020 and 2019, the carrying value of the Massachusetts tax credits applied to related tax liabilities was \$10,717 and \$1,850, respectively. As of December 31, 2020 and 2019, the Company did not have any unapplied Massachusetts tax credits.

#### **9. Surplus**

The NAIC has imposed regulatory risk-based capital ("RBC") requirements on health insurance companies, including the Company. The RBC calculation serves as a benchmark for the regulation of health insurance companies' solvency by state insurance regulators. At December 31, 2020 and 2019, the Company's total adjusted capital is in excess of the regulatory RBC requirements.

M.G.L. Chapter 141, which applies requirements of unfair insurance competition under Chapter 176D to HMOs and HMOs operated as a line of business, requires an HMO to have adjusted net worth of \$1,500 when initially licensed. Thereafter, an HMO must maintain a minimum adjusted net worth in an amount determined by the DOI based initially on a sliding scale over a seven-year

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

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

#### **9. Surplus (continued)**

phase-in period effective December 31, 2004. HMOs must maintain a minimum deposit of at least \$1,000 with a trustee acceptable to the DOI. The Company exceeded all regulatory Chapter 141 requirements at December 31, 2020 and 2019.

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

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

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

In September 2020 and 2019, and after receiving approvals from the Commissioner of the Massachusetts Division of Insurance, BCBSMA paid HMO Blue \$8,408 each year for accrued interest on the surplus note. No principal payments were processed during 2020 and 2019. As of December 31, 2020 and 2019, there were no unapproved interest or principal payments.

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

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

State insurance laws and regulations prescribe accounting practices for determining statutory net income and surplus for insurance companies. In addition, state regulators may permit statutory accounting practices that differ from prescribed practices. The Company had no permitted practices that would have an effect on statutory surplus at December 31, 2020 and 2019.

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

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

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

The Companies have an intercompany loan agreement which allows borrowings between the companies not to exceed the lesser of 3% of HMO Blue's admitted assets on a statutory basis or 25% of HMO Blue's net worth on a statutory basis calculated as of the previous yearend or if loans exceed the maximum amount per the calculation, by obtaining permission from the Massachusetts Insurance Commissioner of the Company's intent to exceed the limits. These loans bear interest based on the overnight LIBOR rate plus a spread or a fixed rate as agreed to by the Companies. During 2020, there were no intercompany borrowings between HMO Blue and BCBSMA.

Effective May 31, 2020, BCBSMA, in accordance with the Asset Transfer and Usage Fee Agreement, transferred internally developed software assets ("SW Assets") with a book value of \$70,639 (gross of non-admitted) to HMO Blue, in exchange for cash. Beginning June 1, 2020, the Company pays HMO Blue a monthly software usage fee, based on a mutually agreed upon methodology, equal to the fair market value of such usage and calculated in accordance with the U.S. Treasury Transfer Pricing Regulations.

As of December 31, 2020 and 2019, the Company had payables to BCBSMA of \$21,265 and \$18,102, respectively.

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

As of December 31, 2020, HMO Blue has contributed \$9,525 to the Partnership and \$100 to the General Partner. As of December 31, 2020, the Company had an outstanding contingent commitment for additional funding of \$375 related to the future equity contributions in the Partnership. As of December 31, 2020 and 2019, the admitted book values of the company's investment in BCBS Venture were \$4,561 and \$8,297, respectively.

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

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

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

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

As of December 31, 2020, HMO Blue has contributed \$9,440 to the Partnership II and \$100 to the General Partner II. As of December 31, 2020, the Company had an outstanding contingent commitment for additional funding of \$460 related to the future equity contributions in the Partnership II. As of December 31, 2020 and 2019, the admitted book values of the company’s investment in BCBS Venture II were \$8,902 and \$8,628, respectively.

There were no non-admitted assets related to the Company’s investments in Subsidiary, Controlled, and Affiliated Entities as of December 31, 2020 and 2019.

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

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

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

Employees of the Companies (the “Associates”) are either concurrently employed by both Companies or solely employed by either BCBSMA or HMO Blue. The individuals employed solely by BCBSMA include senior level management (“SLM”). Non SLM individuals are employed by either BCBSMA or HMO Blue and provide routine services that benefit specific products, programs, and subsidiaries of either entity.



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

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

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

The compensation, benefits, and administrative expenses of the concurrently employed Associates are charged to the Companies in accordance with their provision of services to each company.

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

BCBSMA, HMO Blue and Indigo Insurance Services, LLC ("Indigo"), a subsidiary of Zaffre Investments, have a Tri-party Employment Agreement which covers the terms and conditions upon which BCBSMA, HMO Blue and Indigo will concurrently employ employees ("Tri-party Associates") who provide sales, account relations and sale related administrative services for all three entities. This agreement allows the Companies and Indigo to contract for employment services through the issuance of multiple employee work assignments. The compensation, benefits, and related administrative expenses of the Tri-party Associates attributable to the sales services are charged to each subsidiary in accordance with the provision of the services provided to each company.

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

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

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

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

**12. Retrospectively Rated Contracts and Contracts Subject to Redetermination (continued)**

The total amount of net premiums written by the Company that are subject to retrospective rating features was \$650,185 and \$590,794 for the years ended December 31, 2020 and 2019, respectively, which represents approximately 13% and 11%, respectively, of Company’s written premiums for both 2020 and 2019. No other premiums written by the Company are subject to retrospective rating features.

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

The Company participates in the permanent ACA Risk Adjustment Reporting Program (“RA Program”) where risk adjustment transfer payments are subjected to review under the CMS Risk Adjustment Data Validation (“RADV”) program starting with the 2018 benefit year. The RADV establishes nationwide benchmarks and then retroactively adjusts transfer payments for all carriers in each state market. As of December 31, 2020 and 2019, management concluded, that the outcome for the incurrence of a loss related to the ACA RADV was probable. The Company’s ACA RADV contingent loss liability balances by benefit year are as follows:

<b>ACA RADV Reserves</b>	<b>BY2018</b>	<b>BY2019</b>	<b>BY2020</b>	<b>Total</b>
Balance as of December 31, 2019	\$ 8,000	\$ 8,000	\$ –	\$ <b>16,000</b>
Accrued Adjustments (Paid)/Received	(1,396)	(8,000)	–	<b>(9,396)</b>
Balance as of December 31, 2020	<b>\$ 6,604</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 6,604</b>

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

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

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

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

	December 31, 2020		2020		Ref <sup>(1)</sup>
	Receivable	(Payable)	Income	(Expense)	
<b>a. Permanent ACA risk adjustment program</b>					
Premium adjustments	\$ 25,138	\$ —	\$ 59,007	\$ —	(a)
Risk adjustment user fees	—	(460)	—	(460)	(f)
Subtotal ACA permanent risk adjustment program	25,138	(460)	59,007	(460)	
<b>b. Transitional ACA reinsurance program</b>					
Claims paid	—	—	—	—	(b)
Claims unpaid	—	—	—	—	(g)
Related to uninsured plans	—	—	—	—	(g)
Contributions – not reported as ceded premium	—	—	—	—	(c) (d)
Ceded reinsurance premiums	—	—	—	—	(e)
Subtotal ACA transitional reinsurance program	—	—	—	—	
<b>c. Temporary ACA risk corridor program</b>					
Accrued retrospective premium	—	—	3,276	—	(h)
Reserve for rate credits or policy experience rating refunds	—	—	—	—	(h)
Subtotal ACA risk corridors program	—	—	—	—	
<b>d. Total for ACA risk sharing provisions</b>	<b>\$ 25,138</b>	<b>\$ (460)</b>	<b>\$ 62,283</b>	<b>\$ (460)</b>	

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

- (a) The receivable has been admitted.
- (b) There were no reinsurance recoverable claims as of December 31, 2020.
- (c) There were no reinsurance contributions (not reported as ceded premium) as of December 31, 2020.
- (d) Expenses are recorded within administrative expenses.
- (e) There were no ceded reinsurance premiums paid in 2020.
- (f) At December 31, 2020, the risk adjustment user fee payable adjustment was \$(460) related to benefit year 2020 and was based on the most recent CMS settlement notice received in 2020.
- (g) No balances or premium was excluded from the ACA Reinsurance Program.
- (h) The adjustment for amounts received in December 2020 under the Risk Corridor Class Action Lawsuit Non-Dispute Sub-Class for the 2015 benefit year was \$3,276.

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

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

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

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

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

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

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

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

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

	Roll-Forward of Prior Year ACA Risk Sharing Balances										
	Accrued		Received/Paid		Differences		Adjustments		Ref <sup>(2)</sup>	Unsettled	
	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)		Rec	(Pay)
<b>a. Permanent ACA risk adjustment</b>											
Premium adjustments receivable	\$ 11,350	\$ -	\$ 45,220	\$ -	\$(33,870)	\$ -	\$ 34,007	\$ -	(a)	\$ 137	\$ -
Premium adjustments (payable)	-	-	-	-	-	-	-	-	(b)	-	-
Subtotal ACA permanent risk adjustment program	11,350	-	45,220	-	(33,870)	-	34,007	-		137	-
<b>b. Transitional ACA reinsurance</b>											
Claims paid	-	-	-	-	-	-	-	-	(c)	-	-
Claims unpaid	-	-	-	-	-	-	-	-	(d)	-	-
Related to uninsured plans	-	-	-	-	-	-	-	-		-	-
Contributions – not reported as ceded premium	-	-	-	-	-	-	-	-		-	-
Ceded reinsurance premiums	-	-	-	-	-	-	-	-		-	-
Subtotal ACA transitional reinsurance program	-	-	-	-	-	-	-	-		-	-
<b>c. Temporary ACA risk corridor</b>											
Accrued retrospective premium	-	-	3,276	-	(3,276)	-	3,276	-	(e)	-	-
Reserve for rate credits or policy experience rating refunds	-	-	-	-	-	-	-	-		-	-
Subtotal ACA risk corridors program	-	-	3,276	-	(3,276)	-	3,276	-		-	-
<b>d. Total for ACA risk sharing provisions</b>	<b>\$ 11,350</b>	<b>\$ -</b>	<b>\$ 48,496</b>	<b>\$ -</b>	<b>\$(37,146)</b>	<b>\$ -</b>	<b>\$ 37,283</b>	<b>\$ -</b>		<b>\$ 137</b>	<b>\$ -</b>

Ref<sup>(2)</sup>:

- (a) Adjustments to the prior benefit years for the ACA Risk Adjustment received in 2020 were \$121 for the 2017 benefit year and \$33,886 for the 2019 benefit year (gross of non-admitted) and were based on the reconsideration settlement notice from the Commonwealth of Massachusetts Health Insurance Connector Authority.
- (b) There were no adjustments to the prior benefit year(s) for the ACA Risk Adjustment payable program in 2020.
- (c) The adjustment for amounts recoverable for claims paid under the Transitional ACA Reinsurance Program was \$0 and reflects the differences between previously estimated amounts and the final settlement notice received.
- (d) The adjustment for amounts recoverable for claims unpaid under the Transitional ACA Reinsurance Program was \$0 and reflects the differences between previously estimated amounts and the final settlement notice received.
- (e) The adjustment for amounts received in December 2020 under the Risk Corridor Class Action Lawsuit Non-Dispute Sub-Class for the 2015 benefit year was \$3,276.

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

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

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

	Roll Forward of Risk Corridors Asset and Liability Balances by Program Benefit Year											
	Accrued		Received/Paid		Differences		Adjustments		Ref <sup>(3)</sup>	Unsettled		
	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)		Rec	(Pay)	
<b>a. 2014</b>												
Accrued retrospective premium receivable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(a)	\$ -	\$ -	\$ -
Reserve for rate credits for policy experience refunds	-	-	-	-	-	-	-	-	(b)	-	-	-
<b>b. 2015</b>												
Accrued retrospective premium receivable	-	-	3,276	-	-	-	(3,276)	-	(c)	-	-	-
Reserve for rate credits for policy experience refunds	-	-	-	-	-	-	-	-	(d)	-	-	-
<b>c. 2016</b>												
Accrued retrospective premium receivable	-	-	-	-	-	-	-	-	(e)	-	-	-
Reserve for rate credits for policy experience refunds	-	-	-	-	-	-	-	-	(f)	-	-	-
<b>d. Total for ACA Risk Corridor</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,276</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (3,276)</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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

- (a) No balances or premium were excluded from the ACA Risk Corridor Program.
- (b) No balances or premium were excluded from the ACA Risk Corridor Program.
- (c) The adjustment for amounts received in December 2020 under the Risk Corridor Class Action Lawsuit Non-Dispute Sub-Class for the 2015 benefit year was \$3,276.
- (d) No balances or premium were excluded from the ACA Risk Corridor Program.
- (e) No balances or premium were excluded from the ACA Risk Corridor Program.
- (f) No balances or premium were excluded from the ACA Risk Corridor Program.

Risk Corridors Program Year	ACA Risk Corridors Receivable as of December 31, 2020					
	Estimate Filed with CMS	Non-Accrued Impairment/ Other	Received from CMS or Other	Assets (Gross of Non-Admission)	Non-Admitted Amount	Non-Admitted Asset
a. 2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
b. 2015	-	3,276	(3,276)	-	-	-
c. 2016	-	-	-	-	-	-
d. Total (a + b + c)	\$ -	\$ 3,276	\$ (3,276)	\$ -	\$ -	\$ -

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

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

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

**14. Health Care Receivables**

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

<b>Quarter</b>	<b>Estimated Pharmacy Rebates as Reported on Financial Statements</b>	<b>Pharmacy Rebates as Billed or Otherwise Confirmed</b>	<b>Actual Rebates Received Within 90 Days</b>	<b>Actual Rebates Received Within 91 to 180 days</b>	<b>Actual Rebates Received Within More Than 180 Days</b>
<b>12/31/2020</b>	<b>\$ 8,133</b>	<b>\$ 8,835</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>
<b>9/30/2020</b>	<b>7,104</b>	<b>6,627</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>6/30/2020</b>	<b>6,528</b>	<b>6,836</b>	<b>–</b>	<b>5,562</b>	<b>–</b>
<b>3/31/2020</b>	<b>6,466</b>	<b>6,218</b>	<b>–</b>	<b>5,023</b>	<b>1,438</b>
12/31/2019	6,218	5,903	–	5,967	17
9/30/2019	5,943	5,822	–	5,842	(10)
6/30/2019	5,821	5,330	–	5,751	(6)
3/31/2019	5,640	4,658	–	5,103	110
12/31/2018	4,658	4,490	–	4,515	(11)
9/30/2018	4,656	4,388	–	4,338	125
6/30/2018	4,380	4,133	–	4,355	33
3/31/2018	4,568	3,568	–	4,062	64

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

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

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

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

Year	Evaluation Period Year Ending	Risk Sharing Receivable as Estimated in the Prior Year	Risk Sharing Receivable as Estimated in the Current Year	Risk Sharing Receivable Billed	Risk Sharing Receivable Not Yet Billed	Actual Risk Sharing Amounts Received in Year Billed	Actual Risk Sharing Amounts Received in First Year After	Actual Risk Sharing Amounts Received in Second Year After	Actual Risk Sharing Amounts Received – All Other
2020	2020	\$ 8,615	\$ 18,518	\$ 8,770	\$ 9,747	\$ 8,770	\$ –	\$ –	\$ –
	2021	N/A	8,144	–	8,144	–	N/A	N/A	N/A
2019	2019	6,831	17,763	17,763	–	7,772	8,770	1,221	–
	2020	N/A	8,615	18	8,597	18	N/A	N/A	N/A
2018	2018	33,695	19,158	19,158	–	15,610	3,248	300	–
	2019	N/A	6,831	35	6,796	35	N/A	N/A	N/A

**15. Leases**

The Companies jointly have a long-term lease agreement for 347,618 square feet of space at its corporate headquarters at 101 Huntington Avenue, Boston, Massachusetts. Occupancy and rental expense commenced in April 2015 and continues for 15 years and 2 months with options to extend for up to 10 years thereafter. The Companies have two non-cancelable agreements to sublease 78,015 of this space through April 2030. As of December 31, 2020, the agreements call for future payments to be received through 2030 totaling \$26,652.

Additionally, the Companies jointly occupy space through three smaller, long-term, non-cancelable lease agreements for office and data center facilities that extend through 2032.

For 2020 and 2019, the Company recorded rental expenses of \$7,711 and \$6,853, respectively, of which \$7,644 and \$6,768 were office space rental expenses, respectively.



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

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

**15. Leases (continued)**

At December 31, 2020, allocated minimum rental commitments on significant non-cancelable operating leases for the Company are as follows:

2021	\$	7,769
2022		7,787
2023		7,785
2024		7,763
2025		7,925
Thereafter		34,239

In addition, the Companies have agreements with various outside vendors to provide certain information technology services which is a significant portion of the Companies business operations. Minimum commitments under these agreements continue into 2022 with commitments ranging from \$19,488 in 2021, decreasing to \$2,689 in 2022. HMO Blue's portion of these commitments range from \$7,795 in 2021, decreasing to \$1,076 in 2022.

**16. Debt**

The Company does not have any outstanding capital note obligations in its financial statements as of December 31, 2020.

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

The first facility for \$200,000 matured in June 2020 and was renewed until June 2021. The second facility for \$50,000 matured in June 2020 and was not renewed by the Companies. The third facility for \$50,000 matured in October 2020 and was renewed until October 2021. As of December 31, 2020, the Company had no principal or accrued interest outstanding and accrued fees of \$1 under these facilities.

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

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

#### **16. Debt (continued)**

During 2020 and 2019, the Company paid interest of \$52 and \$2 and fees of \$362 and \$169, respectively on these facilities. As a covenant of the first facility, the borrowers are required to certify compliance on an annual basis of a minimum Risk Based Capital (“RBC”) level of 300% of Company Action Level and are required to certify compliance on a quarterly basis that the Cash Reserve Ratio is not less than 1.25 to 1.0. As a covenant of the second and third facilities, the borrowers are required to maintain at all times a combined liquidity of not less than \$1,250,000. As of December 31, 2020, there were no violations of the debt terms and covenants reported.

In March 2017, the Companies jointly entered into a \$100,000 5-year unsecured term loan which amortizes monthly and has a fixed interest rate of 2.79%. The Companies are required to certify compliance on an annual basis of a minimum Risk-Based Capital level of 350% of Company Action Level and a Cash Reserve Ratio is not less than 1.25 to 1.00. The Companies each received proceeds from the term loan of \$50,000. In 2020, HMO Blue paid principal of \$10,000 and interest of \$508. At December 31, 2020, HMO Blue has a carrying value of \$12,500 outstanding and accrued interest of \$1. As of December 31, 2020, there were no violations of the debt terms and covenants reported.

In September 2019, the Companies jointly entered into a \$150,000 five-year unsecured term loan which amortizes monthly with a fixed interest rate of 2.26%. The Companies are required to certify compliance on an annual basis with a minimum Risk-Based Capital level of 350% and are required to certify compliance on a quarterly basis that the Cash Reserve Ratio is not less than 1.25 to 1.00. HMO Blue received proceeds from the term loan of \$50,000. In 2020, HMO Blue paid principal of \$10,000 and interest of \$986. At December 31, 2020, HMO Blue has a carrying value of \$37,500 outstanding and accrued interest of \$2. As of December 31, 2020, there were no violations of the debt terms and covenants reported.

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

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

**16. Debt (continued)**

As of December 31, 2020, the combined aggregate amount of long-term borrowing maturities for each of the next five years are as follows:

<u>Debt – Long-Term Borrowings</u>	<u>HMO Blue</u>
Maturing in 2021	20,000
Maturing in 2022	12,500
Maturing in 2023	10,000
Maturing in 2024	7,500
Maturing in 2025 <sup>(a)</sup>	100,000
Total Maturities	<u>150,000</u>

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

**17. FHLB Agreements**

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

The Company has determined the actual maximum borrowing capacity as \$150,000. The Company based this amount on anticipated borrowing needs of the Company.

As a requirement of the FHLB membership, the Company has \$1,113 and \$1,042 of FHLB Class B Membership Stock at December 31, 2020 and 2019, respectively. The Class B Membership Stock is not eligible for redemption. In addition, the Company is required to purchase FHLB Activity Stock up to 4.0% of the value of principal borrowed. At December 31, 2020 and 2019, the Company recorded \$4,000 of FHLB Activity Stock, respectively. At December 31, 2020 and 2019, the Company recorded \$433 and \$504 of FHLB Excess Stock, respectively.

At December 31, 2020, the Company had two outstanding borrowings with the FHLB. The first borrowing was executed in January 2020 for \$50,000 at a fixed rate of 1.94% for a 5-year term with principal paid at maturity. The second borrowing was executed in December 2020 for

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

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

#### 17. FHLB Agreements (continued)

\$50,000 at a fixed rate of 0.84% for a 5-year term with principal paid at maturity. During 2020 and 2019 periods, the Company paid annual interest expense of \$2,013 and \$1,850, respectively. At December 31, 2020 and 2019, the Company had outstanding principal of \$100,000 and accrued interest of \$116 and \$157, respectively.

The Company is required to pledge collateral for all outstanding borrowings with the FHLB which consists of U.S. Government notes and bonds valued at 95%, U.S. Government backed securities valued at 94%, and FNMA & FHLMC mortgage-backed securities valued at 92% of current market value.

The total collateral pledged against these borrowings had a fair value as of December 31, 2020 and 2019, of \$187,478 and \$112,563, respectively, and a carrying value of \$179,939 and \$111,057, respectively. The maximum amounts pledged during the 2020 and 2019 reporting periods had a fair value of \$187,478 and \$112,385 and a carrying value of \$179,939 and \$113,297, respectively. The Company has prepayment obligations with the FHLB as of December 31, 2020 and 2019.

#### 18. Commitments and Contingencies

As of December 31, 2020, the Company's remaining commitments, pursuant to the terms of the investment agreements, are as follows:

Blue Cross Blue Shield Venture Partners, L.P.	\$	375
Blue Cross Blue Shield Venture Partners II, L.P.		460
Blue Cross Blue Shield Venture Partners III, LLC.		789
Blue Cross Blue Shield Venture Partners IV, LLC.		6,429
Hancock Capital Partners V, L.P.		1,269
Comvest Capital III, L.P.		2,127
Park Square Capital Credit Opp II Feeder, L.P.		9,404
Comvest Capital IV, L.P.		5,056
Park Square Capital Credit Opp III Feeder, L.P.		5,029
New Mountain Net Lease Partners, L.P.		7,295
Comvest Capital V International (Cayman), L.P.		12,000
Oak Street Net Lease, L.P.		7,860
Brookfield Infrastructure Fund IV, L.P.		13,027
MC Credit Fund N (Cayman), L.P.		21,553
Bridge Debt IV Funds		25,979
Total Commitments	\$	<u>118,652</u>

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

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

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

The Company, periodically, is involved in pending and threatened litigation of the character incidental to its business or arising out of its insurance operations and is from time to time involved as a party in various governmental and administrative proceedings. Management continues to monitor these matters and believes the Company has accrued adequate reserves against potential liabilities. As of December 31, 2020 and 2019, the Company recorded a loss in other liabilities and the related expense in other expense covering the litigation outcomes. The recorded loss is based on what can be presently determined and/or predicted by the Company.

#### **Multidistrict Litigation (MDL)**

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

#### **MDL – Subscribers**

In 2019, the Company recorded a subscribers MDL loss in other liabilities and the expense in other expense covering litigation outcomes presently determined and/or predicted by the Company. A motion for preliminary approval of an MDL settlement with the Blue Plan subscribers was filed in federal court in Alabama on October 30, 2020. The settlement was preliminarily approved per the Order entered by the Court on November 30, 2020 and an initial payment has been made in December 2020. The preliminarily approved settlement did not require any material change to the recorded loss in 2019.

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

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

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

##### **MDL – Providers**

In 2020, the Company's management concluded that a provider MDL settlement was probable and could be reasonably estimated. As a result the Company recorded a providers MDL loss in other liabilities and the expense in other expense covering litigation outcomes.

BCBSMA is also aware of unasserted claims against BCBSMA by another Blue plan related to BlueCard claims paid to in-network or participating providers who contracted with the local Blue plan during the period between August 2016 through February 2020. In 2020, the Company's management concluded that a provider MDL settlement was probable and could be reasonably estimated therefore a contingent loss was recorded in other liabilities and the expense in other expense covering the outcome presently determined and/or predicted by the Company.

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

In 2020, BCBSMA and HMO were obligated to pay three administrative-type state assessments:

The first is with the Commonwealth of Massachusetts' *'Center for Health Information and Analysis'* ("CHIA"). This is an administrative-type surcharge to cover state operating expenses. HMO Blue's assessment for CHIA's FY2021 operations was \$2,080 and was paid in January 2021.

The second is the Commonwealth of Massachusetts Health Policy Commission ("HPC") assessment is pursuant to Section 958 Chapter 9.04, *"Assessment on Certain Health Care Provider and Surcharge Payors."* The amount is calculated based on the assessment percentage of the Company and the annual legislatively approved FY2020 HPC budget. In 2020, HMO Blue paid the HPC \$657 for its FY2020 assessment.

The third is the Commonwealth of Massachusetts' DOI *'Health Care Assess Bureau'* ("HCAB") assessment to pay for HCAB expenses. This assessment is based on the Company's portion of health premiums as reported to the HCAB. During 2020, HMO Blue paid \$447 to the HCAB for the FY2020 assessment which was based on FY2018 reported premium data.

Additionally, in 2020, the Company paid the following claim-based assessments as a surcharge assessment percentage applicable to payments to hospitals, ambulatory and surgical centers.

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

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

**19. State Assessments (continued)**

**The Commonwealth of Massachusetts  
 Executive Office  
 of Health and Human Services**

	<b>Program</b>	<b>Amount</b>
Medicaid	Health Safety Net Assessment	\$ 17,196
Public Health	Pediatric Vaccine Assessment	14,180
Mental Health	Child Psychiatry Access	219

**20. ACA Insurer Fee**

Section 9010 of the Patient Protection and Affordable Care Act (ACA) imposes a fee on each covered entity engaged in the business of providing health insurance for United States health risks. In prior years, the annual fee has been allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due.

Enacted on January 22, 2018, along with continuing resolution legislation, H.R. 195, Division D – *Suspension of Certain Health-Related Taxes, § 4003*, suspends collection of the fee for the 2019 calendar year.

The Further Consolidated Appropriations Act, 2020, Division N, Subtitle E § 502, signed into law on December 20, 2019, repealed the annual fee on health insurance providers for calendar years beginning after December 31, 2020 (fee years after the 2020 fee year). As a result, in 2021 the Company will not be subject to an annual fee under section 9010 of the Federal Affordable Care Act.

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

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

**20. ACA Insurer Fee**

	<u>2020</u>	<u>2019</u>
ACA fee assessment payable for the upcoming year	\$ —	\$ 52,072
ACA fee assessment paid	<b>49,146</b>	—
Premium written subject to ACA 9010 assessment	<b>5,160,610</b>	5,163,950
Total adjusted capital before surplus adjustment	<b>1,896,734</b>	1,630,939
Total adjusted capital after surplus adjustment	<b>1,896,734</b>	1,578,867
Authorized control level after surplus adjustment	<b>234,056</b>	240,368

**21. Subsequent Events**

The Company's management evaluated subsequent events through April 28, 2021, the date the financial statements were available to be issued.

The Company's management continues to monitor the COVID-19 pandemic's impact on its business operations and financial results. COVID-19 continues to cause significant financial market volatility, economic uncertainty, and interruptions to otherwise normal business activity. As of December 31, 2020, the full impact to the Company is not known, but management continues to monitor day-to-day business operations, claim and premium activity, changes in investments and cash and liquidity needs. No other material subsequent events were noted other than those already disclosed.



## Supplementary Information



## Report of Independent Auditors on Supplementary Information

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory-basis financial statements of Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. as of December 31, 2020 and 2019, and have issued an adverse opinion with respect to conformity with U.S. generally accepted accounting principles and an unmodified opinion with respect to conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance thereon dated April 28, 2021. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the statutory-basis financial statements as a whole.

This report is intended solely for the information and use of the Company and state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

April 28, 2021

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

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

December 31, 2020

- Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.’s total admitted assets as reported on page two of its Annual Statement are \$2,876,857.
- Following are the ten largest exposures to a single issuer/borrower/investment, excluding:
  - U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt,
  - property occupied by Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. and
  - policy loans:

<b>Issuer</b>	<b>Description of Exposure</b>	<b>Amount</b>	<b>Percentage of Total Admitted Assets</b>
Federal National Mortgage Association	Long Term Bonds	\$ 147,491	5.13%
Dreyfus Institutional Preferred Government MMF	Money Market Fund	105,049	3.65
Lazard Asset Emerging Mkt Tot Ret	Other Invested Asset	103,886	3.61
DWS Government Money Market Series – Institutional	Money Market Fund	95,053	3.30
Freddie Mac	Long Term Bonds	87,879	3.05
Putnam Total Return Fund LLC	Other Invested Asset	87,287	3.03
Primus HY Bond Fund LLC	Other invested asset	81,385	2.83
Vanguard Total World Stock Index Fund ETF	Common Stock	76,991	2.68
Westwood Trust LC Value Equity Fund	Other invested asset	69,006	2.40
RREEF America	Common Stock	63,598	2.21

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

<b>Bonds and Short-Term Investments</b>			<b>Preferred Stock</b>		
<b>NAIC Rating</b>	<b>Amount</b>	<b>Percentage of Total Admitted Assets</b>	<b>NAIC Rating</b>	<b>Amount</b>	<b>Percentage of Total Admitted Assets</b>
NAIC-1	\$ 824,800	28.670%	P/RP-1	\$ 1,187	0.041%
NAIC-2	112,447	3.909	P/RP-2		–
NAIC-3	1,573	0.055	P/RP-3		–
NAIC-4		–	P/RP-4		–
NAIC-5		–	P/RP-5		–
NAIC-6		–	P/RP-6		–
	<u>\$ 938,820</u>			<u>\$ 1,187</u>	

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

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

4. Assets held in foreign investments:

	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
Total admitted assets held in foreign investments	\$ 149,776	5.206%

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

<u>NAIC Sovereign Rating</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
Countries rated NAIC-1	\$ 116,959	4.066%
Countries rated NAIC-2	1,035	0.036
Countries rated NAIC 3 or below	31,783	1.105

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

<u>NAIC Sovereign Rating</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
Countries rated NAIC-1:		
Cayman Islands	\$ 38,854	1.351%
Japan	16,368	0.569
Countries rated NAIC-2:		
Italy	607	0.021
Mexico	427	0.015
Countries rated NAIC-3:		
Guernsey	29,378	1.021
Supranational	1,785	0.062

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

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

7. The Company has no unhedged foreign currency exposure that are greater than 2.5% of the company's total admitted assets.
8. The Company has no aggregate unhedged foreign currency exposure that are greater than 2.5% of the company's total admitted assets.
9. The Company has no unhedged foreign currency exposures to a single country that are greater than 2.5% of the company's total admitted assets.
10. Ten largest non-sovereign (i.e., non-government) foreign issues:

<b>Issuer</b>	<b>NAIC Rating</b>	<b>Amount</b>	<b>Percentage of Total Admitted Assets</b>
Park Square Cap Credit Oppty III Feeder	–	\$ 19,517	0.678%
Park Square Cap Credit Oppty II Feeder	–	9,860	0.343
Comvest Capital IV Intl, LP	–	9,448	0.328
Comvest Capital III Intl, LP	–	5,868	0.204
Comvest Capital	–	3,098	0.108
HSBC HLDGS PLC	1FE	2,676	0.093
LLOYDS BKG GROUP PLC	1FE	2,299	0.080
Mitsubishi UFJ Financial Group, INC	1FE	2,273	0.079
AIA Group Limited	1FE	2,068	0.072
CIFC FUNDING 2017-I 1A A 144A VAR	1FE	2,000	0.070

11. The Company has no assets held in Canadian investments that are greater than 2.5% of the Company's total admitted assets.
12. The Company has no assets held in investments with contractual sales restrictions.

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

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

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

Name of Issuer	Amount	Percentage of Total Admitted Assets
PIMCO All Asset Institutional Fund	\$ 214,038	7.440%
LAZARD ASSET EMERGING MKT TOT RET	103,886	3.611
PUTNAM TOTAL RETURN FUND LLC	87,287	3.034
PRIMUS HY BOND FUND LP	81,385	2.829
Vanguard Total World Stock Index Fund ETF	76,991	2.676
Westwood Trust LC Value Equity Fund	69,006	2.399
RREEF AMERICA II CORE REIT	63,598	2.211
PARAMETRIC PORTFOLIO ASSOC LLC	58,691	2.040
BeachPoint HY Bond Offshore Fund Ltd	57,951	2.014
Blue Rock Market Neutral Fund LP	54,666	1.900

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities.

Aggregate statement value of investments held in nonaffiliated, privately placed equities is \$128,230.

Largest three investments held in non-affiliated, privately placed equities:	Amount	Percentage of Total Admitted Assets
Park Square Cap Cr Oppty III Feeder, LP	\$ 19,517	0.678%
Oak Street Triple Net Lease, LP	16,923	0.588
MC Credit Associates III LP	13,447	0.467

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

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

Amounts of admitted assets, diversified and non-diversified held in the ten largest fund managers:

<b>Fund Manager</b>	<b>Amount</b>	<b>Diversified</b>	<b>Non-Diversified</b>
PIMCO Funds – PIMCO All Asset Fund	\$ 214,038	\$ 214,038	\$ –
Dreyfus Institutional Preferred Government MMF	105,049	105,049	–
Lazard Asset Management LLC	103,886	103,886	–
DWS Government Money Market Series	95,093	95,093	–
Putnam Total Return Fund LLC	87,287	87,287	–
Primus HY Bond Fund LP	81,385	81,385	–
Vanguard Total World Stock Index Fund ETF	76,991	76,991	–
Rreef America	63,598	63,598	–
BeachPoint HY Bond Fund LP	57,951	57,951	–
Blue Rock Market Neutral Fund LP	54,666	54,666	–

15. The Company has no assets held in general partnership interests greater than 2.5% of the Company's total admitted assets.
16. The Company has no mortgage loans greater than 2.5% of the Company's total admitted assets.
17. The Company has no aggregate mortgage loans that are greater than 2.5% of the Company's total admitted assets.
18. The Company has no assets held in real estate reported greater than 2.5% of the Company's total admitted assets, excluding home office properties.
19. The Company has no assets held in investments held in mezzanine real estate loans greater than 2.5% of the Company's total admitted assets.
20. The Company has no securities lending or repurchase agreements during 2020.
21. The Company has no warrants not attached to other financial instruments, options, caps, and floors during 2020.
22. The Company has no potential exposure for collars, swaps, and forwards during 2020.
23. The Company had no potential exposure for future contracts during 2020.

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

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

December 31, 2020

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in Annual Statement	
	Amount	Percentage	Amount	Percentage
Long-term bonds				
U.S. governments	\$ 258,229	9.372%	\$ 258,229	9.372%
All other governments	6,367	0.231	6,367	0.231
U.S. states, territories, and possessions, etc. guaranteed	2,828	0.103	2,828	0.103
U.S. political subdivisions of states, territories, and possessions, guaranteed	500	0.018	500	0.018
U.S. special revenue and special assessment obligations, etc. non- guaranteed	244,877	8.888	244,877	8.888
Industrial and miscellaneous	419,336	15.220	419,336	15.220
Hybrid securities	855	0.031	855	0.031
SVO identified funds	—	—	—	—
Parent, subsidiaries, and affiliates	—	—	—	—
Bank loans	—	—	—	—
<b>Total long-term bonds</b>	<b>932,992</b>	<b>33.863</b>	<b>932,992</b>	<b>33.863</b>
Preferred stocks				
Industrial and miscellaneous (Unaffiliated)	1,187	0.043	1,187	0.043
Parent, subsidiaries, and affiliates	—	—	—	—
<b>Total preferred stocks</b>	<b>1,187</b>	<b>0.043</b>	<b>1,187</b>	<b>0.043</b>
Common stocks	—	—	—	—
Industrial and miscellaneous publicly traded (unaffiliated)	49,475	1.796	49,475	1.796
Industrial and miscellaneous other (unaffiliated)	393,121	14.268	393,121	14.268
Parent, subsidiaries, and affiliates				
Publicly traded	—	—	—	—
Parent, subsidiaries, and affiliates other	302	0.011	302	0.011
Mutual funds	—	—	—	—
Unit investment trusts	—	—	—	—
Closed-end funds	—	—	—	—
<b>Total common stocks</b>	<b>\$ 442,898</b>	<b>16.075%</b>	<b>\$ 442,898</b>	<b>16.075%</b>



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

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

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in Annual Statement	
	Amount	Percentage	Amount	Percentage
Mortgage loans				
Farm mortgages	\$ —	—%	\$ —	—%
Total mortgages loans	—	—	—	—
Commercial mortgages	—	—	—	—
Mezzanine real estate loans	—	—	—	—
<b>Total mortgages loans</b>	—	—	—	—
Real estate				
Properties occupied by company	85,097	3.089	85,097	3.089
Properties held for production of income	—	—	—	—
Properties held for sale	—	—	—	—
<b>Total real estate</b>	<b>85,097</b>	<b>3.089</b>	<b>85,097</b>	<b>3.089</b>
Cash, cash equivalents and short-term investments				
Cash	42,357	1.537	42,357	1.537
Cash equivalents	234,641	8.516	234,641	8.516
Short-term investments	5,258	0.191	5,258	0.191
<b>Total Cash, cash equivalents and short-term investments</b>	<b>282,256</b>	<b>10.244</b>	<b>282,256</b>	<b>10.244</b>
Contract loans	—	—	—	—
Derivatives	—	—	—	—
Other invested assets	1,006,901	36.545	1,006,901	36.545
Receivables for securities	3,894	0.141	3,894	0.141
Securities Lending	—	—	—	—
<b>Total invested assets</b>	<b>\$ 2,755,225</b>	<b>100.000%</b>	<b>\$ 2,755,225</b>	<b>100.000%</b>

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

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

Note to Supplemental Investment Disclosures

December 31, 2020

**Note—Basis of Presentation**

The accompanying supplemental schedules present selected investment disclosures as of December 31, 2020, and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and agree to or are included in the amounts reported in the Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.'s 2020 Statutory Annual Statement as filed with the Commonwealth of Massachusetts Division of Insurance.

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