

AUDITED STATUTORY-BASIS FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.
Years Ended December 31, 2021 and 2020
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, 2021 and 2020

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Report of Independent Auditors

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

Opinion

We have audited the 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, 2021 and 2020, 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 (collectively referred to as the “financial statements”).

Unmodified Opinion on Statutory-Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

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 section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company at December 31, 2021 and 2020, or the results of its operations or its cash flows for the years then ended.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 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 accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance. Management is also 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information. The other information comprises the information included in the 2021 Annual Report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Ernst + Young LLP

April 28, 2022

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

Statutory-Basis Balance Sheets
(Dollars in Thousands)

	December 31	
	2021	2020
Admitted assets		
Bonds	\$ 1,000,806	\$ 932,992
Preferred stock	1,666	1,187
Common stock	626,035	442,898
Properties occupied by the Company	82,835	85,097
Cash, cash equivalents, and short-term investments	200,502	282,256
Receivable for securities	47,253	3,894
Other invested assets	962,958	1,006,901
Total cash and invested assets	<u>2,922,055</u>	<u>2,755,225</u>
Accrued investment income	4,432	4,570
Premium's receivable	85,467	46,761
Data processing equipment	4,208	3,732
Current federal income tax recoverable	141	275
Health care receivables	69,933	54,956
Other receivables	11,886	2,515
Other assets	2,605	8,823
Total admitted assets	<u>\$ 3,100,727</u>	<u>\$ 2,876,857</u>
Liabilities and surplus		
Unpaid claims liabilities	\$ 453,751	\$ 400,230
Accrued medical incentive pool and bonus payments	55,516	42,974
Aggregate policy reserves	42,319	111,566
Premiums received in advance	135,420	135,985
Accounts payable and accrued liabilities	116,582	99,753
Borrowed money	180,159	150,121
Amounts due to parent, subsidiaries, and affiliates	6,863	21,265
Payable for securities	7,005	18,229
Total liabilities	<u>997,615</u>	<u>980,123</u>
Special surplus funds	—	—
Unassigned surplus	2,103,112	1,896,734
Total surplus	<u>2,103,112</u>	<u>1,896,734</u>
Total liabilities and surplus	<u>\$ 3,100,727</u>	<u>\$ 2,876,857</u>

See accompanying notes.

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

Statutory-Basis Statements of Operations
(Dollars in Thousands)

	Year Ended December 31	
	2021	2020
Premiums earned	\$ 5,257,247	\$ 5,176,150
Health care benefits	4,700,207	4,240,317
Claims adjustment expenses	224,311	215,903
General and administrative expenses	339,802	361,315
Change in premium deficiency reserve	(73,000)	73,000
Total expenses	5,191,320	4,890,535
Underwriting gain	65,927	285,615
Net investment income	78,595	46,902
Net realized investment gains	43,738	31,195
Net investment gains	122,333	78,097
Other expense	(3,939)	(24,127)
Net income before federal income taxes	184,321	339,585
Federal income tax benefit	—	—
Net income	\$ 184,321	\$ 339,585

See accompanying notes.

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

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

	Unassigned Surplus	Special Surplus Funds	Total Surplus
Balance at January 1, 2020	\$ 1,578,867	\$ 52,072	\$ 1,630,939
Net income	339,585	–	339,585
Change in net unrealized gains	12,820	–	12,820
Change in non-admitted assets	(86,610)	–	(86,610)
2020 ACA health insurer fee	52,072	(52,072)	–
Balance at December 31, 2020	1,896,734	–	1,896,734
Net income	184,321	–	184,321
Change in net unrealized gains	45,365	–	45,365
Change in non-admitted assets	(23,308)	–	(23,308)
2021 ACA health insurer fee	–	–	–
Balance at December 31, 2021	\$ 2,103,112	\$ –	\$ 2,103,112

See accompanying notes.

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

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

	Year Ended December 31	
	2021	2020
Operating activities		
Premiums received	\$ 5,222,483	\$ 5,191,167
Health care benefits paid	(4,649,511)	(4,298,535)
General and claim adjustment expenses paid	(509,811)	(548,586)
Net investment income received	85,514	52,330
Federal income taxes paid	134	(25)
Net cash provided by operating activities	<u>148,809</u>	396,351
Investing activities		
Sales, maturities, and redemptions of investments	615,875	785,884
Cost of investments acquired	(793,361)	(907,247)
Net cash used in investing activities	<u>(177,486)</u>	(121,363)
Financing and miscellaneous activities		
Borrowed funds	30,000	(20,000)
Other cash applications, net	(83,077)	(102,543)
Net cash (used in) financing or miscellaneous activities	<u>(53,077)</u>	(122,543)
Net (decrease) increase in cash, cash equivalents, and short-term investments	<u>(81,754)</u>	152,445
Cash, cash equivalents, and short-term investments:		
Beginning of year	282,256	129,811
End of year	<u>\$ 200,502</u>	<u>\$ 282,256</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, 2021

1. Nature of Business

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. (“HMO Blue” or the “Company”), is a Massachusetts chartered 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 Blue Cross and Blue Shield of Massachusetts, Inc. (“BCBSMA”) (collectively, the “Companies”) operate under common management of the Board of Directors. HMO Blue is regulated by the Public Charities Division of the Office of the Attorney General of Massachusetts (“AG”). 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:

	December 31	
	2021	2020
Land and buildings	\$ 116,360	\$ 116,360
Less accumulated depreciation	(33,525)	(31,263)
Net real estate occupied by the Company	<u>\$ 82,835</u>	<u>\$ 85,097</u>

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 \$6,625 and \$6,140 for December 2021 and 2020, 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:

	December 31	
	2021	2020
EDP equipment and operating software	\$ 23,642	\$ 30,042
Less accumulated depreciation	(19,434)	(26,310)
Net EDP equipment and operating software	<u>\$ 4,208</u>	<u>\$ 3,732</u>

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 2021 and 2020 was \$44,358 and \$31,065, 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 2021, the Company recorded impairment expenses of \$3,523 related to internally developed software assets. In 2020, the Company recorded impairment expenses of \$97 related to leasehold improvement assets.

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, 2021 and 2020, the Company established a premium deficiency reserve of \$0 and \$73,000 respectively.

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 2021 and 2020, the amount charged to income was \$891 and \$39, 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, 2021, 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 of \$3,276 for the 2015 benefit year. There were no significant outstanding balances related to these programs as of December 31, 2021 and 2020. 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 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.

In March 2021, the NAIC adopted revisions to SSAP No. 25 – *Affiliates and Other Related Parties* to clarify the identification of related parties and affiliates. The revisions specify that any direct or indirect ownership interest greater than 10% of the reporting entity results in a related-party classification under statutory accounting, regardless of any disclaimers of control or affiliation. The revisions also incorporate new disclosure requirements to identify an insurer’s ultimate controlling party, material related-party transactions, minority ownership interests and complicated business structures, which apply to all related-party classifications. This revision is effective as of December 31, 2021. The Company adopted this revision in 2021 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 November 2021, the NAIC adopted revisions to SSAP No. 55 – Unpaid Claims, Losses, and Loss Adjustment Expenses to clarify that salvage and subrogation estimates and recoveries should be reported as a reduction of loss or loss adjustment expense reserves, depending on the nature of the costs being recovered. The revisions also update the required disclosures to address the effect of reporting estimated salvage and subrogation recoveries on the related reserves. This revision is effective as of December 31, 2021. The Company adopted this revision in 2021 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, 2021.

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, 2021 and 2020, included in the Company's other invested assets is an investment in a surplus note, issued by BCBSMA with a carrying value of \$285,000 and \$302,977, 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, 2021 and 2020:

Description	December 31, 2021				
	Level 1	Level 2	Level 3	NAV	Total
Preferred stock:					
Foreign	\$ 1,666	\$ –	\$ –	\$ –	\$ 1,666
Common stock:					
Foreign	136,296	1,387	–	–	137,683
Industrial and miscellaneous	–	–	7,113	69,439	76,552
Mutual Funds	411,447	–	–	–	411,447
Parent, subs, and affiliates	–	–	353	–	353
Total assets at fair value	\$ 549,410	\$ 1,387	\$ 7,466	\$ 69,439	\$ 627,701

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

Fair Value Measurements in Level 3:

	Balance at January 1, 2021	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, 2021
Common stock									
Industrial and miscellaneous	\$ 5,546	\$ –	\$ –	\$ –	\$ –	\$ 1,567	\$ –	\$ –	\$ 7,113
Parent, subs, and affiliates	302	–	–	–	51	–	–	–	353
Total assets	\$ 5,848	\$ –	\$ –	\$ –	\$ 51	\$ 1,567	\$ –	\$ –	\$ 7,446

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, 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

As of December 31, 2021 and 2020, 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, 2021 and 2020, 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 2021 and 2020, the Company did not transfer assets into or out of Level 3.

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, 2021			
	Level 1	Level 2	Level 3	Total
Bonds:				
U.S. treasury securities	\$ —	\$ 302,608	\$ —	\$ 302,608
All other governments	—	3,383	—	3,383
States, territories, and possessions	—	2,907	—	2,907
Political subdivisions of states, territories, and possessions	—	1,408	—	1,408
Special revenue and assessment	—	277,946	—	277,946
Industrial and miscellaneous	—	429,058	—	429,058
Hybrid securities	—	802	—	802
Total	\$ —	\$ 1,018,112	\$ —	\$ 1,018,112

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

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 investments are as follows:

	December 31, 2021			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
U.S. government	\$ 300,663	\$ 6,477	\$ (4,532)	\$ 302,608
All other governments	3,360	55	(32)	3,383
States, territories, and possessions	2,787	120	–	2,907
Political subdivisions of states, territories, and possessions	1,363	45	–	1,408
Special revenue and special assessment	276,726	4,073	(2,853)	277,946
Industrial and miscellaneous	415,102	16,097	(2,141)	429,058
Hybrid securities	805	–	(3)	802
Total bonds	<u>1,000,806</u>	<u>26,867</u>	<u>(9,561)</u>	<u>1,018,112</u>
Common stock				
Domestic	399,386	89,916	(948)	488,352
Foreign	119,630	22,516	(4,464)	137,683
Preferred stock				
Domestic	–	–	–	–
Foreign	1,244	422	–	1,666
Total stocks	<u>520,260</u>	<u>112,854</u>	<u>(5,412)</u>	<u>627,701</u>
Total investments	<u>\$ 1,521,066</u>	<u>\$ 139,721</u>	<u>\$ (14,973)</u>	<u>\$ 1,645,814</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)

	December 31, 2020			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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	<u>932,992</u>	<u>56,331</u>	<u>(1,602)</u>	<u>987,721</u>
Common stock				
Domestic	–	–	–	–
Foreign	334,725	64,280	(36)	398,969
Preferred stock	27,919	16,259	(249)	43,929
Domestic	–	–	–	–
Foreign	1,083	104	–	1,187
Total stocks	<u>363,727</u>	<u>80,643</u>	<u>(285)</u>	<u>444,085</u>
Total investments	<u>\$ 1,296,719</u>	<u>\$ 136,974</u>	<u>\$ (1,887)</u>	<u>\$ 1,431,806</u>

As of December 31, 2021 and 2020, 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, 2021 and 2020, the Company’s investments in MMMF’s were \$138,038 and \$234,071, 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	
At December 31, 2021							
U.S. government	\$ 107,589	\$ (1,628)	\$ 65,305	\$ (2,904)	\$ 172,894	\$ (4,532)	109
All other governments	–	–	1,762	(32)	1,762	(32)	5
Political subdivisions of states, territories, and possessions	–	–	–	–	–	–	–
Special revenue and assessment	117,647	(1,556)	55,452	(1,297)	173,099	(2,853)	238
Industrial and miscellaneous	71,432	(1,009)	63,088	(1,132)	134,520	(2,141)	295
Hybrid Securities	–	–	802	(3)	802	(3)	1
Total bonds	296,668	(4,193)	186,409	(5,368)	483,077	(9,561)	648
Domestic Common stock	51,566	(948)	–	–	51,566	(948)	2
Foreign Common Stock	45,143	(4,173)	3,383	(291)	48,526	(4,464)	55
Preferred Stocks	–	–	–	–	–	–	–
Domestic	–	–	–	–	–	–	–
Foreign	–	–	–	–	–	–	–
Total Stock	96,709	(5,121)	3,383	(291)	100,092	(5,412)	57
Total	\$ 393,377	\$ (9,314)	\$ 189,792	\$ (5,659)	\$ 583,169	\$ (14,973)	705

	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	
At December 31, 2020							
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
Domestic Common stock	–	–	2,172	(36)	2,172	(36)	8
Foreign Common Stocks	3,077	(249)	–	–	3,077	(249)	7
Domestic Preferred Stocks	–	–	–	–	–	–	–
Foreign Preferred Stocks	–	–	–	–	–	–	–
Total Stocks	3,077	(249)	2,172	(36)	5,249	(285)	15
Total	\$ 80,553	\$ (1,350)	\$ 36,328	\$ (537)	\$ 116,881	\$ (1,887)	172

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

At December 31, 2021 and 2020, 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 2021, HMO Blue recorded other-than-temporary impairment losses for investments in limited partnerships in the amount of \$3,182. In 2020, HMO Blue did not record other-than-temporary impairment losses for investments in limited partnerships. The impairments were recognized based on the length of time the securities have been in an unrealized loss position and a determination that losses are other than temporary.

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 amortized cost and fair value of bonds at December 31, 2021, 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.

	Cost or Amortized Cost	Fair Value
Within 1 year	\$ 19,358	\$ 19,553
After 1 year through 5 years	244,883	250,435
After 5 years through 10 years	241,326	246,340
After 10 years	495,239	501,784
Total bonds	<u>\$ 1,000,806</u>	<u>\$ 1,018,112</u>

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

Description	Proceeds from Sales		Realized Gains		Realized Losses	
	2021	2020	2021	2020	2021	2020
Bonds	\$ 390,893	\$ 509,837	\$ 8,304	\$ 14,197	\$ (1,135)	\$ (2,313)
Domestic common stock	31,590	-	10,428	-	-	-
Foreign common stock	12,020	124,808	2,902	1,185	(1,345)	(108)
Domestic preferred stock	-	-	-	-	-	-
Foreign preferred stock	373	-	152	-	-	-
Other invested assets	181,472	137,083	27,614	18,344	(3,182)	(126)

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)

Gross investment realized gains and losses are as follows:

	<u>2021</u>	<u>2020</u>
Gross foreign stock realized gains	\$ 3,054	\$ 441
Gross foreign stock realized losses	(1,345)	(66)
Net foreign stock realized gain/loss	<u>\$ 1,709</u>	<u>\$ 375</u>
Total gross investment realized gains	\$ 49,400	\$ 33,742
Total gross investment realized losses	(5,662)	(2,547)
Total net realized investment gains	<u>\$ 43,738</u>	<u>\$ 31,195</u>

Major categories of net investment income are summarized as follows:

	<u>2021</u>	<u>2020</u>
Income:		
Bonds	\$ 20,207	\$ 22,040
Other invested assets	33,479	21,124
Common stock	32,441	10,555
Preferred stock	25	–
Real estate	6,625	6,140
Cash, cash equivalents and short-term investments	99	1,083
Other miscellaneous	344	443
Total investment income	<u>93,220</u>	61,385
Less:		
Investment expenses	12,365	12,279
Depreciation	2,260	2,204
Net investment income	<u>\$ 78,595</u>	<u>\$ 46,902</u>

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:

	<u>2021</u>		<u>2020</u>		<u>2021</u>
	Total		Total		Total
	Gross		Gross	Increase/	Admitted
	Restricted		Restricted	Decrease	Restricted
Restricted assets category					
Federal Home Loan Bank ("FHLB") capital stock	\$ 7,113	\$	5,546	\$	1,567
Pledged as collateral to FHLB	156,677		179,939	(23,262)	156,677
On deposit with states ^(a)	1,146		1,145	1	1,146
Other restricted assets ^(b)	18,027		13,596	4,431	2,254
Total	\$ 182,963	\$	200,226	\$	(17,263)
					\$ 167,190

^(a) At December 31, 2021 and 2020, 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.

^(b) At December 31, 2021 and 2020, 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:

	2021			
	Unpaid Claims Liability	Heath Care Receivable	Medical Incentive Pool and Bonus	Total Health Care Benefits
Net balance at January 1	\$ 400,230	\$ (69,604)	\$ 42,974	\$ 373,600
Incurred related to:				
Current year	4,791,013	(180,706)	129,011	4,739,318
Prior years	(27,906)	(6,120)	(5,085)	(39,111)
Total incurred	4,763,107	(186,826)	123,926	4,700,207
Paid related to:				
Current year	4,341,088	(106,880)	89,194	4,323,402
Prior years	368,498	(64,580)	22,191	326,109
Total paid	4,709,586	(171,460)	111,384	4,649,511
Net balance at December 31	<u>\$ 453,751</u>	<u>\$ (84,970)</u>	<u>\$ 55,515</u>	<u>\$ 424,296</u>
	2020			
	Unpaid Claims Liability	Heath Care Receivable	Medical Incentive Pool and Bonus	Total Health Care Benefits
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>

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, 2021 and 2020, 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, 2021 and 2020, health care receivables include \$15,037 and \$14,648, 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, 2021 and 2020. Estimated subrogation credits of \$6,820 and \$5,335 were considered in determining health care benefits reserves as of December 31, 2021 and 2020, 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 (“PPP”) and the BCBSMA sponsored defined Post-Retirement Benefit Plan (“PRBP”) which covers medical, life and dental benefits.

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.

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.

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)

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.

Effective January 1, 2022, eligible associates will no longer have the option to opt into the PRBP covering medical benefits if they do not elect to participate within 30 days of termination.

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.

The Company accrues post-employment benefits and compensated absences in accordance with SSAP No. 11, *Post-employment Benefits and Compensation Absences*. The Company has a no-carryover policy for vacation time policy.

BCBSMA allocates associated costs to the Company and wholly owned subsidiaries based on salary ratios. The Company's share of the net periodic benefit costs for the years ended December 31, 2021 and 2020, are as follows:

	Pension Benefits		Post-Retirement Benefits		Postemployment and Compensated Absences	
	2021	2020	2021	2020	2021	2020
Service cost	\$ 824	\$ 7,295	\$ 1,681	\$ 1,545	\$ 22,429	\$ 20,254
Interest cost	8,246	8,627	1,229	1,698	–	–
Expected return on plan assets	(26,313)	(24,111)	(2,387)	(2,449)	–	–
Amortization of unrecognized transitional obligation	–	158	–	–	–	–
Recognized actuarial loss	4,047	11,917	318	155	–	–
Amortization of prior service cost	–	(76)	125	808	–	–
Amount of loss recognized due to settlement	6,715	562	–	–	–	–
Total net periodic benefit cost	\$ (6,481)	\$ 4,372	\$ 966	\$ 1,757	\$ 22,429	\$ 20,254

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 2021. The Companies currently do not intend to make voluntary contributions to its defined benefit pension plan in 2022.

The Companies' intend to make a contribution of \$4,661 to its PRBP in 2022.

The Company's PRBP 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 \$4,847 and \$6,342 in 2021 and 2020, respectively. Total employer contributions to the post-retirement benefit plan were \$7,631 and \$9,166 in 2021 and 2020, respectively.

The Companies also have a savings 401(k) plan for eligible employees. Under the 2021 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 4% core contribution based on the employee's base salary, subject to pretax Internal Revenue Service limits.

The Company's allocated costs for the 401(k) plan were \$8,654 and \$6,833 in 2021 and 2020, respectively.

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 2021 and 2020 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, 2021 and 2020. 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.

The Company files income tax returns in the U.S. federal jurisdiction. The Company's open tax years are 2018 through 2021. The Company would recognize any interest and penalties resulting from ASC 740 in general and administrative expenses.

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

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

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 2020 were utilized against Massachusetts tax liabilities and are, therefore, admitted.

As of December 31, 2021 and 2020, the carrying value of the Massachusetts tax credits applied to related tax liabilities was \$1,714 and \$10,717, respectively. As of December 31, 2021 and 2020, 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, 2021 and 2020, 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 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, 2021 and 2020.

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

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

9. Surplus (continued)

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 2021 and 2020, 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 2021 and 2020. As of December 31, 2021 and 2020, 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, 2021 and 2020.

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

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

11. Related-Party Transactions

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.

As of December 31, 2021 and 2020, the Company had payables to BCBSMA of \$6,863 and \$21,265, respectively.

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.

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 shall bear fair market value interest, as determined by negotiation of the Companies, and subject to mutual agreement of the Companies, at the time of such loan. During 2021, there were no intercompany borrowing transactions between BCBSMA and HMO Blue.

In September 2021, the BCBSMA Board of Directors approved creation of FERM Captive as a 100% owned subsidiary. FERM Captive is a single-parent captive company used for financing the risks and liabilities of BCBSMA, not otherwise reasonably insurable under Directors and Officers, Errors and Omissions, and Cyber Liability policies. This Captive company is registered and operates under the permitted insurance companies laws in Vermont. BCBSMA made an initial cash contribution of \$100,000 in FERM Captive to capitalize the new entity. The new FERM Captive will provide coverage to HMO Blue in accordance with captive agreement.

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, 2021, HMO Blue has

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)

contributed \$9,555 to the Partnership and \$100 to the General Partner. As of December 31, 2021, the Company had an outstanding contingent commitment for additional funding of \$345 related to the future equity contributions in the Partnership. As of December 31, 2021 and 2020, the admitted book values of the company's investment in BCBS Venture were \$4,715 and \$4,561, respectively.

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, 2021, HMO Blue has contributed \$9,734 to the Partnership II and \$100 to the General Partner II. As of December 31, 2021, the Company had an outstanding contingent commitment for additional funding of \$166 related to the future equity contributions in the Partnership II. As of December 31, 2021 and 2020, the admitted book values of the company's investment in BCBS Venture II were \$8,147 and \$8,902, respectively.

There were no non-admitted assets related to the Company's investments in Subsidiary, Controlled, and Affiliated Entities as of December 31, 2021 and 2020.

BCBSMA and HMO Blue have an undivided interest in their investments in property and equipment. Ongoing depreciation expenses are charged to each respective entity based on an agreed upon reimbursement rate between the Companies.

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, its subsidiary, 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.

Employees of the Companies (the "Associates") are either concurrently employed by both Companies or solely employed by either BCBSMA or HMO Blue. Those individuals solely employed by BCBSMA include senior level management ("SLM") and those exclusively

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)

supporting BCBSMA products. In HMO Blue there are only employees exclusively supporting HMO Blue products and no SLM. Concurrent employees, meaning Non SLM individuals, are employed by both BCBSMA or HMO Blue and provide routine services that benefit products, programs, and subsidiaries of both entities.

The compensation, benefits and administrative expenses of the concurrently employed Associates are charged to BCBSMA and HMO Blue in accordance with their provision of services to each company. In accordance with the Senior Management agreement with respect to individuals solely employed by BCBSMA, the pro rata portion of compensation, benefits and administrative expenses attributable to services provided to HMO Blue is charged to HMO Blue and services provided to the Company are charged to BCBSMA.

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, 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.

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

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.

The total amount of net premiums written by the Company that are subject to retrospective rating features was \$677,690 and \$650,185 for the years ended December 31, 2021 and 2020, respectively, which represents approximately 13%, of Company’s written premiums for both 2021 and 2020. 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, 2021 and 2020, 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:

ACA RADV Reserves	BY2018	BY2019	BY2020	BY2021	Total
Balance as of December 31, 2020	\$ 6,604	\$ –	\$ –	\$ –	6,604
Accrued adjustments	(2,491)	–	–	–	(2,491)
(Paid) received	–	–	–	–	–
Balance as of December 31, 2021	\$ 4,113	\$ –	\$ –	\$ –	4,113

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, 2021		2021		Ref ⁽¹⁾
	Receivable	(Payable)	Income	(Expense)	
a. Permanent ACA risk adjustment program					
Premium adjustments	\$ 57,716	\$ —	\$ 50,277	\$ —	(a)
Risk adjustment user fees	—	(500)	—	(536)	(f)
Subtotal ACA permanent risk adjustment program	57,716	(500)	50,277	(536)	
b. Transitional ACA reinsurance program					
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	—	—	—	—	
c. Temporary ACA risk corridor program					
Accrued retrospective premium	—	—	—	—	(h)
Reserve for rate credits or policy experience rating refunds	—	—	—	—	(h)
Subtotal ACA risk corridors program	—	—	—	—	
d. Total for ACA risk sharing provisions	\$ 57,716	\$ (500)	\$ 50,277	\$ (536)	

Ref ⁽¹⁾:

- (a) The receivable has been admitted.
- (b) There were no reinsurance recoverable claims as of December 31, 2021.
- (c) There were no reinsurance contributions (not reported as ceded premium) as of December 31, 2021.
- (d) Expenses are recorded within administrative expenses.
- (e) There were no ceded reinsurance premiums paid in 2021.
- (f) At December 31, 2021, the risk adjustment user fee payable adjustment was \$(500) related to benefit year 2021 and was based on the most recent CMS settlement notice received in 2021.
- (g) No balances or premium was excluded from the ACA Reinsurance Program.
- (h) The adjustment for amounts received in December 2021 under the Risk Corridor Class Action Lawsuit Non-Dispute Sub-Class for the 2015 benefit year was \$0.

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, 2020		2020		Ref ⁽¹⁾
	Receivable	(Payable)	Income	(Expense)	
a. Permanent ACA risk adjustment program					
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. Transitional ACA reinsurance program					
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	–	–	–	–	
c. Temporary ACA risk corridor program					
Accrued retrospective premium	–	–	3,276	–	(h)
Reserve for rate credits or policy experience rating refunds	–	–	–	–	(h)
Subtotal ACA risk corridors program	–	–	–	–	
d. Total for ACA risk sharing provisions	\$ 25,138	\$ (460)	\$ 62,283	\$ (460)	

Ref ⁽¹⁾:

- (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)

	Roll-Forward of Prior Year ACA Risk Sharing Balances										
	Accrued		Received/Paid		Differences		Adjustments		Ref ⁽²⁾	Unsettled	
	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)		Rec	(Pay)
a. Permanent ACA risk adjustment											
Premium adjustments receivable	\$ 25,138	\$ —	\$ 17,698	\$ —	\$ 7,439	\$ —	\$ (7,373)	\$	(a)	\$ 66	\$ —
Premium adjustments (payable)									(b)		
Subtotal ACA permanent risk adjustment program	25,138	—	17,698	—	7,439	—	(7,373)			66	—
b. Transitional ACA reinsurance											
Claims paid	—	—	—	—	—	—	—		(c)	—	—
Claims unpaid	—	—	—	—	—	—	—		(d)	—	—
Related to uninsured plans	—	—	—	—	—	—	—			—	—
Contributions – not reported as ceded premium	—	—	—	—	—	—	—			—	—
Ceded reinsurance premiums	—	—	—	—	—	—	—			—	—
Subtotal ACA transitional reinsurance program	—	—	—	—	—	—	—			—	—
c. Temporary ACA risk corridor											
Accrued retrospective premium	—	—	—	—	—	—	—		(e)	—	—
Reserve for rate credits or policy experience rating refunds	—	—	—	—	—	—	—			—	—
Subtotal ACA risk corridors program	—	—	—	—	—	—	—			—	—
d. Total for ACA risk sharing provisions	\$ 25,138	\$ —	\$ 17,698	\$ —	\$ 7,439	\$ —	\$ (7,373)	\$		\$ 66	\$ —

Ref⁽²⁾:

- (a) Adjustments to the prior benefit years for the ACA Risk Adjustment received in 2021 were \$(7,373) for the 2020 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 2021.
- (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 2021 under the Risk Corridor Class Action Lawsuit Non-Dispute Sub-Class for the 2015 benefit year was \$0.

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 ⁽³⁾	Unsettled					
	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)		Rec	(Pay)				
a. 2014															
Accrued retrospective premium receivable	\$	-	\$	-	\$	-	\$	-	\$	-	(a)	\$	-	\$	-
Reserve for rate credits for policy experience refunds											(b)				
b. 2015															
Accrued retrospective premium receivable											(c)				
Reserve for rate credits for policy experience refunds											(d)				
c. 2016															
Accrued retrospective premium receivable											(e)				
Reserve for rate credits for policy experience refunds															
d. Total for ACA Risk Corridor	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>		<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>

Ref⁽³⁾:

- (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 2021 under the Risk Corridor Class Action Lawsuit Non-Dispute Sub-Class for the 2015 benefit year was \$0.
- (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, 2021					
	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						
c. 2016						
d. Total (a + b + c)	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>

As of December 31, 2021, 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:

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 Days	Actual Rebates Received Within 91 to 180 days	Actual Rebates Received Within More Than 180 Days
12/31/2021	\$ 10,810	\$ 11,531	\$ --	\$ --	\$ --
9/30/2021	10,236	11,026	--	--	--
6/30/2021	9,581	10,135	--	7,676	--
3/31/2021	8,465	9,718	--	7,222	939
12/31/2020	8,133	8,835	--	6,336	1,623
9/30/2020	7,104	6,627	--	5,916	1,439
6/30/2020	6,528	6,836	--	5,562	1,199
3/31/2020	6,466	6,218	--	5,023	1,282
12/31/2019	6,218	5,903	--	5,967	1,757
9/30/2019	5,943	5,822	--	5,842	27
6/30/2019	5,821	5,330	--	5,751	(12)
3/31/2019	5,640	4,658	--	5,103	6

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
2021	2021 2022	\$ 8,144 N/A	\$ 9,133 19,830	\$ 2,102 9,360	\$ 7,031 10,470	\$ 2,101 9,360	\$ – N/A	\$ – N/A	\$ – N/A
2020	2020 2021	\$ 8,615 N/A	\$ 18,518 8,144	\$ 15,486 –	\$ 2,883 8,144	\$ 8,770 –	\$ 6,716 N/A	\$ – N/A	\$ – N/A
2019	2019 2020	6,831 N/A	20,058 8,615	20,058 18	– 8,597	7,772 18	8,770 N/A	3,516 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, 2021, the agreements call for future payments to be received through 2030 totaling \$22,053.

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 2021 and 2020, the Company recorded rental expenses of \$7,777 and \$7,711, respectively, of which \$7,721 and \$7,644 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, 2021, allocated minimum rental commitments on significant non-cancelable operating leases for the Company are as follows:

2022	\$	7,795
2023		7,787
2024		7,764
2025		7,926
2026		8,037
Thereafter		26,201

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 2024 with commitments ranging from \$23,529 in 2022 and decreasing to \$9,613 in 2024. HMO Blue's portion of these commitments range from \$9,412 in 2022, decreasing to \$3,845 in 2024.

16. Debt

The Company does not have any outstanding capital note obligations in its financial statements as of December 31, 2021.

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 2021 and was renewed until June 2022. The second facility for \$50,000 matured in October 2021 and was renewed until October 2022. As of December 31, 2021, 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 2021 and 2020, the Company paid no interest and \$52 and fees of \$323 and \$362, 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 facility, the borrowers are required to maintain at all times a combined liquidity of not less than \$1,250,000. As of December 31, 2021, 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 are required to certify compliance on a quarterly basis that the 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 2021, HMO Blue paid principal of \$10,000 and interest of \$223. At December 31, 2021, HMO Blue had a carrying value of \$2,500 outstanding and no accrued interest. At December 31, 2020, HMO Blue had a carrying value of \$12,500 outstanding and accrued interest of \$1.

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 of a minimum Risk-Based Capital level of 350% 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 1.00. HMO Blue received proceeds from the term loan of \$50,000. In 2021, HMO Blue paid principal of \$10,000 and interest of \$753. At December 31, 2021, HMO Blue had a carrying value of \$27,500 outstanding and accrued interest of \$2. At December 31, 2020, HMO Blue had a carrying value of \$37,500 outstanding and accrued interest of \$2.

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, 2021, 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 2022	12,500
Maturing in 2023	10,000
Maturing in 2024	7,500
Maturing in 2025	100,000
Maturing in 2026 ^(a)	50,000
Total Maturities	<u>180,000</u>

^(a) Includes \$50,000 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 \$998 and \$1,113 of FHLB Class B Membership Stock at December 31, 2021 and 2020, 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, 2021 and 2020, the Company recorded \$6,000, and \$4,000 of FHLB Activity Stock, respectively. At December 31, 2021 and 2020, the Company recorded \$115 and \$433 of FHLB Excess Stock, respectively.

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

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

17. FHLB Agreements (continued)

At December 31, 2021, the Company had three 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 \$50,000 at a fixed rate of 0.85% for a 5-year term with principal paid at maturity. The third borrowing was executed in January 2021 for \$50,000 at a fixed rate of 0.85% for a 5-year term with principal paid at maturity. The Company paid annual interest expense of \$1,785 and \$2,013 during 2021 and 2020, respectively. At December 31, 2021 and 2020, the Company had outstanding principal of \$150,000, and \$100,000 and accrued interest of \$156 and \$116, 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 96%, 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, 2021 and 2020, of \$160,922 and \$187,478, respectively, and a carrying value of \$156,677 and \$179,939, respectively.

The maximum amounts pledged during the 2021 and 2020 reporting periods had a fair value of \$160,922 and \$187,478 and a carrying value of \$156,677 and \$179,939, respectively. The Company has prepayment obligations with the FHLB as of December 31, 2021 and 2020.

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

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

18. Commitments and Contingencies

As of December 31, 2021, the Company's remaining commitments, pursuant to the terms of the investment agreements, are as follows:

Blue Cross Blue Shield Venture Partners, L.P.	\$	345
Blue Cross Blue Shield Venture Partners II, L.P.		166
Blue Cross Blue Shield Venture Partners III, LLC.		479
Blue Cross Blue Shield Venture Partners IV, LLC.		4,212
Hancock Capital Partners V, L.P.		1,264
Comvest Capital III, L.P.		2,050
Park Square Capital Credit Opp II Feeder, L.P.		9,717
Comvest Capital IV, L.P.		8,289
Park Square Capital Credit Opp III Feeder, L.P.		5,176
New Mountain Net Lease Partners, L.P.		2,990
Comvest Capital V International (Cayman), L.P.		10,908
Oak Street Net Lease, L.P.		12,500
Brookfield Infrastructure Fund IV, L.P.		8,950
MC Credit Fund N (Cayman), L.P.		20,829
Bridge Debt IV Funds		11,416
Park Square Capital Credit Opp IV Feeder, L.P.		23,225
Total Commitments	\$	<u>122,516</u>

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, 2021 and 2020, 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.

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)

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.

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 2021, 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

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)

expense covering the outcome presently determined and/or predicted by the Company. As of December 31, 2021, the Company has determined an outcome that no longer requires a loss to be recorded in other liabilities and has released its liabilities related to this case.

In December 2021, the Company reached agreement in principle to resolve two putative class actions pending in Federal Court in Massachusetts brought by members challenging the Company's denial of coverage for certain behavioral health residential programs. The estimated damages portion of the class action settlement was recorded in claims expense and the legal fees and other expenses recorded in administrative expense. The final damages amount will be based on class members filing claims with proper documentation and within the given timeline. The filing timeline has not yet been finalized.

19. State Assessments

In 2021, 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 fiscal year (FY) 2021 operations was \$2,080 and was paid in January 2021. CHIA's FY2022 assessment was \$1,845 and was paid in December 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 2021, HMO Blue paid the HPC \$636 for its FY2021 assessment, \$290 for its FY2022 assessment, and the remainder of the FY2022 assessment was paid in February 2022 for \$296.

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 2021, HMO Blue paid \$467 to the HCAB for the FY2021 assessment which was based on FY2019 reported premium data.

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

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

19. State Assessments (continued)

Additionally, in 2021, the Company paid the following claim-based assessments as a surcharge assessment percentage applicable to payments to hospitals, ambulatory and surgical centers.

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

	Program	Amount
Medicaid	Health Safety Net Assessment	\$ 18,727
Public Health	Pediatric Vaccine Assessment	11,420
Mental Health	Child Psychiatry Access	265

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.

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

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

20. ACA Insurer Fee (Continued)

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.

	<u>2021</u>	<u>2020</u>
ACA fee assessment payable for the upcoming year	\$ —	\$ —
ACA fee assessment paid	—	49,146
Premium written subject to ACA 9010 assessment	—	5,160,610
Total adjusted capital before surplus adjustment	N/A	1,896,734
Total adjusted capital after surplus adjustment	N/A	1,896,734
Authorized control level after surplus adjustment	N/A	234,056

21. Subsequent Events

The Company's management evaluated subsequent events through April 28, 2022, the date the financial statements were available to be issued.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

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

We have audited the statutory-basis financial statements of Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. (the Company) as of and for the years ended December 31, 2021 and 2020, and have issued our report thereon dated April 28, 2022, which contained 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 on those financial statements. Our audit was performed 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 statutory-basis 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 financial statements as a whole.

Restriction on Use

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, 2022

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

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

December 31, 2021

- Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.’s total admitted assets as reported on page two of its Annual Statement are \$3,100,727.
- 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:

Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
PIMCO All Asset Fund	Money Market Fund	\$ 271,690	8.762%
Federal National Mortgage Association	Long Term Bonds	190,969	6.159
Lazard Asset Emerging Mkt Tot Ret	Other Invested Asset	117,605	3.793
Westwood Trust LC Value Equity Fund	Other Invested Asset	85,942	2.772
Federal Home Loan Mortgage Corporation	Long Term Bonds	83,699	2.699
Primus HY Bond Fund	Other Invested Asset	81,517	2.629
Dreyfus Institutional Preferred Government MMF	Money Market Fund	72,767	2.347
RREEF America	Common Stock	69,439	2.239
Boston Trust Walden Small Cap Fund	Common Stock	66,227	2.136
Vanguard Total World Stock Index Fund ETF	Common Stock	61,509	1.984

- 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:

Bonds and Short-Term Investments			Preferred Stock		
NAIC Rating	Amount	Percentage of Total Admitted Assets	NAIC Rating	Amount	Percentage of Total Admitted Assets
NAIC-1	\$ 888,117	28.642%	P/RP-1	\$ 1,666	0.054%
NAIC-2	118,415	3.819	P/RP-2	–	–
NAIC-3	608	0.020	P/RP-3	–	–
NAIC-4	–	–	P/RP-4	–	–
NAIC-5	–	–	P/RP-5	–	–
NAIC-6	–	–	P/RP-6	–	–
	<u>\$ 1,007,140</u>	32.481%		<u>\$ 1,666</u>	0.054%

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	\$ 193,205	6.231%

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	\$ 169,098	5.453%
Countries rated NAIC-2	200	0.006
Countries rated NAIC 3 or below	23,907	0.771

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	\$ 40,121	1.294%
Japan	22,432	0.723
Countries rated NAIC-2:		
Italy	200	0.006
Countries rated NAIC-3:		
Guernsey	19,657	0.634
Supranational	4,250	0.137

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

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

7. Aggregate unhedged foreign currency exposure:

	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
Total aggregate unhedged foreign currency exposure	\$ 98,353	3.172%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

Countries rated NAIC-1:	\$ 98,353	3.172%
Countries rated NAIC-2:	–	–
Countries rated NAIC-3:	–	–

9. Largest Unhedged foreign currency exposure by country

<u>NAIC Sovereign Rating</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
Countries rated NAIC-1:		
Japan	\$ 18,126	0.585%
United Kingdom	11,166	0.360
Countries rated NAIC-2:	–	–
Countries rated NAIC-3:	–	–

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

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

10. Ten largest non-sovereign (i.e., non-government) foreign issues:

Issuer	NAIC Rating	Amount	Percentage of Total Admitted Assets
Park Square Cap Credit Oppty III Feeder	–	\$ 19,641	0.633%
Comvest Capital IV Intl, LP	–	6,642	0.214
MercadoLibre, Inc.	3FE	4,250	0.137
Comvest Capital V Intl, LP	–	4,243	0.137
Adyen N.V.	1FE	3,670	0.118
Novartis AG	1FE	3,357	0.108
Roche Holdings AG	1FE	3,020	0.097
HSBC Holdings plc	1FE	2,807	0.091
BNP Paribas SA	1FE, 2FE	2,659	0.086
Comvest Capital III Intl, LP	–	2,659	0.086

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 Fund	\$ 271,690	8.762%
LAZARD ASSET EMERGING MKT TOT RET	117,605	3.793
Westwood Trust LC Value Equity Fund	85,942	2.772
PRIMUS HY BOND FUND	81,517	2.629
Rreef America II Core REIT	69,439	2.239
Boston Trust Walden Small Cap Fund	66,227	2.136
Vanguard Total World Stock Index Fund ETF	61,509	1.984
Sprucegrove Intl Value Equity Fund	60,120	1.939
Parametric Portfolio Assoc LLC	59,306	1.913
Beachpoint HY Bond Offshore Fund	49,189	1.586

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 \$138,371.

Largest three investments held in non-affiliated, privately placed equities:	Amount	Percentage of Total Admitted Assets
Oak Street Triple Net Lease, LP	\$ 26,937	0.869%
Bridge Debt RE	23,516	0.758
Park Sq Cap Cr Oppty III Feeder, LP	19,641	0.633

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:

Fund Manager	Amount	Diversified	Non-Diversified
PIMCO All Asset Fund	\$ 271,690	\$ 271,690	\$ –
Lazard Asset Management LLC	117,605	117,605	–
Primus HY Bond Fund LP	81,517	81,517	–
Dreyfus Institutional Preferred Government MMF	72,767	72,767	–
Rreef America REIT	69,439	69,439	–
Boston Trust Walden Small Cap Fund	66,227	66,227	–
Vanguard Total World Stock Index Fund ETF	61,509	61,509	–
Beachpoint HY Bond Offshore Fund LTD LP	49,189	49,189	–
DWS Government Money Market Series	45,088	45,088	–
Clarion Lion Prop Core RE Fund	41,297	41,297	–

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 2021.
21. The Company has no warrants not attached to other financial instruments, options, caps, and floors during 2021.
22. The Company has no potential exposure for collars, swaps, and forwards during 2021.
23. The Company had no potential exposure for future contracts during 2021.

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

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

December 31, 2021

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in Annual Statement	
	Amount	Percentage	Amount	Percentage
Long-term bonds				
U.S. governments	\$ 300,663	10.289%	\$ 300,663	10.289%
All other governments	3,360	0.115	3,360	0.115
U.S. states, territories, and possessions, etc. guaranteed	2,787	0.095	2,787	0.095
U.S. political subdivisions of states, territories, and possessions, guaranteed	1,363	0.047	1,363	0.047
U.S. special revenue and special assessment obligations, etc. non-guaranteed	276,726	9.470	276,726	9.470
Industrial and miscellaneous	415,102	14.206	415,102	14.206
Hybrid securities	805	0.028	805	0.028
SVO identified funds	—	—	—	—
Parent, subsidiaries, and affiliates	—	—	—	—
Bank loans	—	—	—	—
Total long-term bonds	1,000,806	34.250	1,000,806	34.250
Preferred stocks	—	—	—	—
Industrial and miscellaneous (Unaffiliated)	1,666	0.057	1,666	0.057
Parent, subsidiaries, and affiliates	—	—	—	—
Total preferred stocks	1,666	0.057	1,666	0.057
Common stocks	—	—	—	—
Industrial and miscellaneous publicly traded (unaffiliated)	144,796	4.955	144,796	4.955
Industrial and miscellaneous other (unaffiliated)	69,439	2.376	69,439	2.376
Parent, subsidiaries, and affiliates				
Publicly traded	—	—	—	—
Parent, subsidiaries, and affiliates other	353	0.012	353	0.012
Mutual funds	411,447	14.081	411,447	14.081
Unit investment trusts	—	—	—	—
Closed-end funds	—	—	—	—
Total common stocks	\$ 626,035	21.424%	\$ 626,035	21.424%

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	—	—	—	—
Total mortgages loans	—	—	—	—
Real estate				
Properties occupied by company	82,835	2.835	82,835	2.835
Properties held for production of income	—	—	—	—
Properties held for sale	—	—	—	—
Total real estate	82,835	2.835	82,835	2.835
Cash, cash equivalents and short-term investments				
Cash	56,129	1.921	56,129	1.921
Cash equivalents	138,038	4.724	138,037	4.724
Short-term investments	6,335	0.217	6,335	0.217
Total Cash, cash equivalents and short-term investments	200,502	6.862	200,502	6.862
Contract loans	—	—	—	—
Derivatives	—	—	—	—
Other invested assets	962,958	32.955	962,958	32.955
Receivables for securities	47,253	1.617	47,253	1.617
Securities Lending	—	—	—	—
Total invested assets	\$ 2,922,055	100.000%	\$ 2,922,055	100.000%

* 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, 2021

Note – Basis of Presentation

The accompanying supplemental schedules present selected investment disclosures as of December 31, 2021, 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 2021 Statutory Annual Statement as filed with the Commonwealth of Massachusetts Division of Insurance.

The Company has not identified any reinsurance contracts entered into, renewed, or amended on or after January 1, 1996 that would require disclosure in the supplemental schedule of life and health reinsurance disclosures as required under SSAP No. 61R, Life, Deposit-Type and Accident and Health Reinsurance.

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