Audited Statutory-Basis Financial Statements and Supplementary Information

Blue Cross and Blue Shield of Massachusetts, Inc.
Years Ended December 31, 2021 and 2020
With Report of Independent Auditors and
Independent Registered Public Accounting Firm

Ernst & Young LLP

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Blue Cross and Blue Shield of Massachusetts, Inc.

Audited Statutory-Basis Financial Statements
and Supplementary Information

Years Ended December 31, 2021 and 2020

Contents

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Report of Independent Auditors

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

Opinion

We have audited the statutory-basis financial statements of Blue Cross and Blue Shield of Massachusetts, 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.

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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, Inc.

Statutory-Basis Balance Sheets

(Dollars in Thousands)

	December 31	
	2021	**2020**
Admitted assets		
Bonds	**$ 852,217**	$ 808,647
Preferred stock	**1,055**	978
Common stock	**243,541**	203,928
Properties occupied by the Company	**93,788**	96,360
Cash, cash equivalents and short-term investments	**28,186**	154,336
Receivable for securities	**26,438**	2,527
Other invested assets	**589,191**	507,392
Total cash and invested assets	**1,834,416**	1,774,168
Accrued investment income	**3,724**	3,808
Premiums receivable	**262,395**	276,008
Receivables related to uninsured plans	**270,443**	178,076
Income tax recoverable	**112**	–
Data processing equipment	**6,313**	5,597
Receivable from affiliates	**8,763**	23,571
Health care receivables	**160,831**	113,982
Other receivables	**96,938**	71,967
Other assets	**83,551**	73,445
Total admitted assets	**$ 2,727,486**	$ 2,520,622
Liabilities and surplus		
Unpaid claims liabilities	**$ 387,781**	$ 400,312
Aggregate policy reserves	**148,433**	165,178
Premiums received in advance	**100,847**	90,315
Accounts payable and accrued liabilities	**429,397**	401,643
Pension benefit obligation	**18,234**	44,869
Borrowed funds	**322,610**	187,570
Ceded reinsurance payable	**427**	411
Payable for securities	**7,977**	16,455
Liability for amounts held under uninsured plans	**430,366**	376,391
Total liabilities	**1,846,072**	1,683,144
Surplus notes	**285,000**	285,000
Unassigned surplus	**596,414**	552,478
Total surplus	**881,414**	837,478
Total liabilities and surplus	**$ 2,727,486**	$ 2,520,622

See accompanying notes.

Blue Cross and Blue Shield of Massachusetts, Inc.

Statutory-Basis Statements of Operations
(Dollars in Thousands)

	Year Ended December 31	
	2021	**2020**
Premiums earned	**$ 3,168,261**	$ 3,109,398
Health care benefits	**2,845,924**	2,693,253
Claim adjustment expenses	**192,607**	194,755
General and administrative expenses	**187,816**	238,292
Total expenses	**3,226,347**	3,126,300
Underwriting loss	**(58,086)**	(16,902)
Net investment income	**35,858**	19,674
Net realized capital gains, less capital gains tax expense of $0 in both 2021 and 2020	**27,122**	17,936
Total investment gains	**62,980**	37,610
Other income (expense)	**2,125**	(53,979)
Net income (loss) – before federal income taxes	**7,019**	(33,271)
Federal income tax benefit	**(1,200)**	(80,396)
Net income	**$ 8,219**	$ 47,125

See accompanying notes.

Blue Cross and Blue Shield of Massachusetts, Inc.

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

	Unassigned Surplus	**Special Surplus Funds**	**Surplus Note**	**Total Surplus**
Balance at January 1, 2020	$ 486,534	$ 48,928	$ 285,000	$ 820,462
Net income	47,125	–	–	47,125
Change in net unrealized gains, net of tax expense of $2,649	18,165	–	–	18,165
Change in non-admitted assets	43,283	–	–	43,283
Change in net deferred income taxes	(72,772)	–	–	(72,772)
Pension liability adjustment	(18,785)	–	–	(18,785)
2020 ACA health insurer fee	48,928	(48,928)	–	–
Balance at December 31, 2020	552,478	–	285,000	837,478
Net income	**8,219**	–	–	**8,219**
Change in net unrealized gains, net of tax expense of $5,516	**97,362**	–	–	**97,362**
Change in non-admitted assets	**(151,495)**	–	–	**(151,495)**
Change in net deferred income taxes	**5,517**	–	–	**5,517**
Pension liability adjustment	**84,333**	–	–	**84,333**
Balance at December 31, 2021	**$ 596,414**	**$ –**	**$ 285,000**	**$ 881,414**

See accompanying notes.

Blue Cross and Blue Shield of Massachusetts, Inc.

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

	Year Ended December 31	
	2021	**2020**
Operating activities		
Premiums received	**$ 3,180,118**	$ 3,088,668
Health care benefits paid	**(2,896,564)**	(2,684,364)
General and claim adjustment expenses paid	**(418,562)**	(414,917)
Net investment income received	**42,781**	24,903
Federal income taxes (paid) received	**(120)**	156,973
Net cash (used in) operating activities	**(92,347)**	171,263
Investing activities		
Sales, maturities, and redemptions of investments	**638,444**	603,794
Cost of investments acquired	**(756,861)**	(722,294)
Other miscellaneous proceeds	**–**	13,916
Net cash (used in) investing activities	**(118,417)**	(104,584)
Financing and miscellaneous activities		
Borrowed funds	**135,000**	(30,000)
Other applications, net	**(50,386)**	(32,769)
Net cash provided by (used) in financing or miscellaneous activities	**84,614**	(62,769)
Net (decrease) increase in cash, cash equivalents, and short-term investments	**(126,150)**	3,910
Cash, cash equivalents, and short-term investments:		
Beginning of year	**154,336**	150,426
End of year	**$ 28,186**	$ 154,336

See accompanying notes.

1. Nature of Business

Blue Cross and Blue Shield of Massachusetts, Inc. ("BCBSMA" or the "Company") is a nonprofit hospital and medical service corporation in the Commonwealth of Massachusetts, subject to regulation by the Commonwealth of Massachusetts Division of Insurance ("DOI"). The Company is organized for the purpose of establishing, maintaining, and operating a nonprofit hospital and medical service company to provide hospital and medical care and reimbursement for other health services to its members. Hospitalization, medical and other health benefits are provided to members through contracts with hospitals, participating physicians, skilled nursing facilities, nursing homes, and other health care organizations. The Company participates in a national arrangement to process claims for other Blue Cross and Blue Shield companies throughout the country. The Company offers a variety of group indemnity plans, preferred provider networks, non-group plans, Medicare extension, dental and other supplementary programs for the benefit of its members. BCBSMA and Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. ("HMO Blue") (collectively, the "Companies") operate under common management of the Board of Directors.

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 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 are designated as available-for-sale or held-for-trading and reported at fair value with unrealized investment gains (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.

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/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.

2. Summary of Significant Accounting Policies (continued)

For GAAP, all securities purchased or retained that represent beneficial interests in securitized assets (i.e., all 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. 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 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 for income recognition.

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 deferred federal income taxes in excess of certain statutory limits, 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.

2. Summary of Significant Accounting Policies (continued)

Admissibility of Deferred Income Tax Assets: Adjusted gross deferred tax assets are admitted at an amount equal to the sum of: (a) federal income taxes paid in prior years that can be recovered through loss carry-backs for existing temporary differences that reverse in a timeframe not to exceed three years; (b) amount based on the *Realization Threshold Limitation Table* for risk-based capital ("RBC") reporting entities, when RBC is greater than 300% of Company Action Level, which is the lesser of: (i.) the amount of adjusted gross deferred tax assets expected to be realized within three years of the balance sheet date; or (ii.) 15% of surplus excluding any net deferred tax assets, electronic data processing ("EDP") equipment and operating software; and (c) the amount of adjusted gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are non-admitted.

The application of SSAP No. 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10* ("SSAP 101") requires a company to evaluate the recoverability of deferred tax assets and to establish a valuation allowance, if necessary, to reduce the deferred tax asset to an amount which is more likely than not to be realized.

Under GAAP, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets not realizable.

Surplus Notes: Surplus notes issued by the Company are reported as a separate component of statutory surplus. Under GAAP, surplus notes are reported as long-term debt in the liabilities section of the balance sheet.

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.

Consolidation: Wholly controlled subsidiaries are not consolidated for individual entity statutory reporting. Under GAAP, financial statements of wholly controlled subsidiaries are consolidated with the parent.

2. Summary of Significant Accounting Policies (continued)

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.

Other significant accounting practices are as follows:

Use of Estimates

The preparation of 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 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.

2. Summary of Significant Accounting Policies (continued)

Unrealized gains and losses on stocks and other invested assets are reflected directly in surplus unless there is deemed to be other-than-temporary decline in value, 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.

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.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Real Estate

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

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

	December 31	
	2021	**2020**
Land and buildings	**$ 131,614**	$ 131,614
Less accumulated depreciation	**(37,826)**	(35,254)
Net real estate occupied by the Company	**$ 93,788**	$ 96,360

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 by rentable square feet. These imputed amounts are reported as investment income and operating expense in the statements of operations reflecting that the Company had recorded annual rent of $9,938 and $9,210 for the periods ended December 31, 2021 and 2020, respectively.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Furniture, Equipment, and Capitalized Software

The admitted value of the Company's electronic data processing equipment 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	**$ 35,441**	$ 44,696
Less accumulated depreciation	**(29,128)**	(39,099)
Net EDP equipment and operating software	**$ 6,313**	$ 5,597

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 $9,835 and $18,411, 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 as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. In 2021, the Company did not record impairment expenses. In 2020, the Company recorded impairment expenses of $146 related to leasehold improvement assets.

2. Summary of Significant Accounting Policies (continued)

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.

Aggregate Policy Reserves

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

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 did not have a premium deficiency reserve.

Premiums

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

2. Summary of Significant Accounting Policies (continued)

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 sheets as premiums received in advance and subsequently credited to income as earned during the coverage period.

The definitions 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. 5R, *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 Company's uncollectible premium charged to income was $(110) and $501, respectively.

Premium Refunds

During 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 $20,100 for medical policies and $15,195 for dental polices. These adjustments are 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 a non-contractual premium refund liability.

2. Summary of Significant Accounting Policies (continued)

Surplus Notes

Surplus notes are instruments that have the characteristics of both debt and equity. These instruments are also referred to as surplus debentures or contribution certificates. Current statutory accounting for issuers of surplus notes is in Statement of Statutory Accounting Principles No. 41, *Surplus Notes* ("SSAP 41R").

Surplus notes issued by a reporting entity are subject to the control and oversight of the commissioner of the insurer's state of domicile and must be approved as to the form and content of the note in order to be reported as surplus and not as debt. The surplus note must contain contractual provisions indicating; the indebtedness is subordinated to all other obligations of the Insurer including, claimant and beneficiary claims and all other classes of creditors other than surplus note holders; and interest payments and principal repayments require mandatory prior approval by the commissioner of the state of domicile of the insurer.

Interest is not recorded as a liability or an expense until approval for payment of such interest has been granted by the commissioner of the state of domicile. All interest, including interest in arrears, is expensed in the statement of operations when approved. Unapproved interest is not reported through operations and not added to the principal of the note. Costs of issuing surplus notes (e.g., loan fees and legal fees) shall be charged to operations when incurred.

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 24.

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 amounts recoverable or receivable on the balance sheet. Refer to Note 16.

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").

2. Summary of Significant Accounting Policies (continued)

In December 2016, HHS adopted a new regulation to the ACA risk adjustment program, effective 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.

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 program created a mechanism for sharing or spreading the risk for allowable costs between the federal government and the QHP issuers.

The three-year reinsurance and risk corridor programs ended on December 31, 2016. These programs were intended to protect against negative effects of adverse selection and risk selection, and also work to stabilize premiums during the initial implementation years of the ACA. Any adjustments or outstanding balances related to these programs are included in the Company's financial results. Refer to Note 16.

Administrative Services Contract ("ASC")

ASC is referred to as uninsured business under SSAP No. 47, *Uninsured Plans*. ASC is a business where the Company pays benefits on the behalf of employers using the Company's check stock. The Company receives an administrative fee for providing these services. Premiums and claim expenses are not included in the Company's financial statements. The administrative fees earned are reported as a reduction to general and administrative expenses in the Company's statements of operations.

ASC accounts are generally billed monthly, in arrears, for actual medical claims plus administrative fees. The remaining balance of receivables from uninsured plans, after assessment for collectability, are included in the Company's admitted assets and liabilities, respectively. The uninsured admitted receivables are recorded net of any available deposits. The balance of deposits reported in the liability section represents the net balance for those customers whose deposits exceed accounts receivable balance.

2. Summary of Significant Accounting Policies (continued)

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.

Income Taxes

The Company follows SSAP No. 101 – *Income Taxes* to account for current and deferred federal income taxes and current state income taxes. SSAP 101 requires: 1) the use of the three-year reversal period and 15% of surplus admission threshold; 2) changes to the recognition threshold for recording tax contingency reserves from a probable standard to a more likely than not standard and 3) requires the disclosure of tax planning strategies.

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.

2. Summary of Significant Accounting Policies (continued)

Medicare Part D Premium and Expenses

The Company has a Medicare Part D Inter-Plan Services Agreement to offer a Blue Cross and Blue Shield branded prescription drug plan ("PDP") under contract with the Centers for Medicare & Medicaid Services ("CMS"). The CMS premium, the member premium, and the low-income premium subsidy represent payments for the Company's insurance risk coverage under the Medicare Part D program and therefore are recorded as premium earned in the statement of operations. Premium revenue is earned ratably over the period in which eligible individuals are entitled to receive prescription drug benefits.

Subsidies and reinsurance payments from CMS represent cost reimbursements under the Medicare Part D program. Amounts received for these subsidies are not reflected in premiums earned, but rather are accounted for as deposits, with the related liability included in accounts payable and accrued liabilities in the balance sheets. Pharmacy benefit costs and administrative costs under the contract are expensed as incurred.

Reinsurance

The Company ceded certain premiums and benefits to other insurance companies under reinsurance agreements to reduce overall risk, including exposure to large losses. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

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 is effective as of January 1, 2020, with early adoption permitted. The Company has adopted this revision in 2020 prospectively without any material impact on its financial statements.

2. Summary of Significant Accounting Policies (continued)

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.

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.

3. Cash and Investments (continued)

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.

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 (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market).
- Inputs other than quoted prices that are observable for the asset or liability (for example, 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.

3. Cash and Investments (continued)

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 standard to measure investment assets at fair value on a recurring basis and issue financial statements consistent with the measurement principles of an investment company.

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 and 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.

(Dollars in Thousands)

3. Cash and Investments (continued)

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.

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:

	December 31, 2021				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Description					
Preferred stock:					
Foreign	**$ 1,055**	**$ –**	**$ –**	**$ –**	**$ 1,055**
Common stock:					
Industrial and miscellaneous	**120,126**	**–**	**–**	**–**	**120,126**
Foreign	**61,970**	**–**	**–**	**–**	**61,970**
Mutual Funds	**–**	**–**	**13,594**	**47,498**	**61,092**
Parent, subs, and affiliates	**–**	**–**	**353**	**–**	**353**
Total assets at fair value	**$ 183,151**	**$ –**	**$ 13,947**	**$ 47,498**	**$ 244,596**

	December 31, 2020				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Description					
Preferred stock:					
Foreign	$ 978	$ –	$ –	$ –	$ 978
Common stock:					
Foreign	35,813	–	–	–	35,813
Mutual Funds	–	–	12,034	43,502	55,536
Industrial and miscellaneous	112,277	–	–	–	112,277
Parent, subs, and affiliates	–	–	302	–	302
Total assets at fair value	$ 149,068	$ –	$ 12,336	$ 43,502	$ 204,906

(Dollars in Thousands)

3. Cash and Investments (continued)

Fair Value Measurements in Level 3:

	Balance at January 1, 2021	Transfers in Level 3	Transfers out Level 3	Total Gain Included in Net Realized Capital Gains and (Losses)	Total Gain and (Losses) Included in Surplus	Purchases	Sales	Issuances and Settlements	Balance at December 31, 2021
Common stock									
Industrial and miscellaneous	**$ 12,034**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 1,560**	**$ –**	**$ –**	**$ 13,594**
Parent, subs, and affiliates	**302**	**–**	**–**	**–**	**51**	**–**	**–**	**–**	**353**
Total assets	**$ 12,336**	**$ –**	**$ –**	**$ –**	**$ 51**	**$ 1,560**	**$ –**	**$ –**	**$ 13,947**

	Balance at January 1, 2020	Transfers in Level 3	Transfers out Level 3	Total Gain Included in Net Realized Capital Gains and (Losses)	Total Gain and (Losses) Included in Surplus	Purchases	Sales	Issuances and Settlements	Balance at December 31, 2020
Common stock									
Industrial and miscellaneous	$ 11,687	$ –	$ –	$ –	$ 347	$ –	$ –	$ –	$ 12,034
Parent, subs, and affiliates	322	–	–	–	(20)	–	–	–	302
Total assets	$ 12,009	$ –	$ –	$ –	$ 327	$ –	$ –	$ –	$ 12,336

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, there were no asset transfers between levels.

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.

(Dollars in Thousands)

3. Cash and Investments (continued)

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.

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

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Description				
Bonds:				
U.S. governments	**$ –**	**$ 250,380**	**$ –**	**$ 250,380**
All other governments	**–**	**3,150**	**–**	**3,150**
U.S. states, territories, and possessions	**–**	**2,588**	**–**	**2,588**
U.S. political subdivisions of states, territories, and possessions	**–**	**1,374**	**–**	**1,374**
U.S. special revenue and assessment	**–**	**244,822**	**–**	**244,822**
Industrial and miscellaneous	**–**	**363,299**	**–**	**363,299**
Hybrid Securities	**–**	**553**	**–**	**553**
Total	**$ –**	**$ 866,166**	**$ –**	**$ 866,166**

	December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Description				
Bonds:				
U.S. governments	$ –	$ 229,768	$ –	$ 229,768
All other governments	–	5,749	–	5,749
U.S. states, territories, and possessions	–	2,752	–	2,752
U.S. political subdivisions of states, territories, and possessions	–	534	–	534
U.S. special revenue and assessment	–	236,046	–	236,046
Industrial and miscellaneous	–	378,016	–	378,016
Hybrid Securities	–	646	–	646
Total	$ –	$ 853,511	$ –	$ 853,511

(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. governments	$ 248,664	$ 5,062	$ (3,346)	$ 250,380
All other governments	3,116	61	(27)	3,150
U.S. states, territories, and possessions	2,476	112	–	2,588
U.S. political subdivisions of states, territories, and possessions	1,329	45	–	1,374
U.S. special revenue and special assessment	243,975	3,730	(2,883)	244,822
Industrial and miscellaneous	352,102	13,437	(2,240)	363,299
Hybrid Securities	555	–	(2)	553
Total bonds	852,217	22,447	(8,498)	866,166
Common stock				
Domestic	137,013	45,703	(1,146)	181,570
Foreign	46,801	17,229	(2,059)	61,971
Preferred stock				
Foreign	669	386	–	1,055
Total stocks	184,483	63,318	(3,205)	244,596
Total investments	$ 1,036,700	$ 85,765	$ (11,703)	$ 1,110,762

(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. governments	$ 219,719	$ 10,864	$ (815)	$ 229,768
All other governments	5,557	192	–	5,749
U.S. states, territories, and possessions	2,511	241	–	2,752
U.S. political subdivisions of states, territories, and possessions	500	34	–	534
U.S. special revenue and special assessment	228,246	8,274	(474)	236,046
Industrial and miscellaneous	351,509	26,669	(162)	378,016
Hybrid Securities	605	41	–	646
Total bonds	808,647	46,315	(1,451)	853,511
Common stock				
Domestic	133,159	35,602	(646)	168,115
Foreign	22,142	13,838	(167)	35,813
Preferred stock				
Foreign	825	153	–	978
Total stocks	156,126	49,593	(813)	204,906
Total investments	$ 964,773	$ 95,908	$ (2,264)	$ 1,058,417

As of December 31, 2021 and 2020, there are no bonds that are non-admitted due to a 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 $22,393 and $107,196, respectively, and are included in cash, cash equivalents and short-term investments.

(Dollars in Thousands)

3. Cash and Investments (continued)

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

	Less Than 12 Months		12 Months or More		Total		
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**
At December 31, 2021							
U.S. governments	**$ 82,303**	**$ (1,027)**	**$ 65,037**	**$ (2,319)**	**$ 147,340**	**$ (3,346)**	**110**
All other governments	**–**	**–**	**1,486**	**(27)**	**1,486**	**(27)**	**5**
U.S. special revenue and special assessment	**90,446**	**(1,216)**	**64,500**	**(1,667)**	**154,946**	**(2,883)**	**242**
Industrial and miscellaneous	**67,223**	**(930)**	**65,162**	**(1,310)**	**132,385**	**(2,240)**	**318**
Hybrid Securities	**553**	**(2)**	**–**	**–**	**553**	**(2)**	**1**
Total bonds	**240,525**	**(3,175)**	**196,185**	**(5,323)**	**436,710**	**(8,498)**	**676**
Domestic	**9,068**	**(128)**	**13,466**	**(1,018)**	**22,534**	**(1,146)**	**2**
Foreign	**12,180**	**(1,879)**	**1,880**	**(180)**	**14,060**	**(2,059)**	**38**
Total Common stock	**21,248**	**(2,007)**	**15,346**	**(1,198)**	**36,594**	**(3,205)**	**40**
Total	**$ 261,773**	**$ (5,182)**	**$ 211,531**	**$ (6,521)**	**$ 473,304**	**$ (11,703)**	**716**

	Less Than 12 Months		12 Months or More		Total		
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**
At December 31, 2020							
U.S. governments	$ 19,879	$ (635)	$ 5,827	$ (180)	$ 25,706	$ (815)	37
U.S. special revenue and special assessment	22,539	(151)	15,377	(323)	37,916	(474)	72
Industrial and miscellaneous	7,719	(80)	14,309	(82)	22,028	(162)	47
Total bonds	50,137	(866)	35,513	(585)	85,650	(1,451)	156
Domestic	303	(1)	13,035	(645)	13,338	(646)	2
Foreign	2,094	(167)	-	-	2,094	(167)	13
Total Common stock	2,397	(168)	13,035	(645)	15,432	(813)	15
Total	$ 52,534	$ (1,034)	$ 48,548	$ (1,230)	$ 101,082	$ (2,264)	171

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 it is categorized as 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.

(Dollars in Thousands)

3. Cash and Investments (continued)

- 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 were unrealized losses deemed to be temporary. These investments reflected a range of industries, and the Company determined the current market volatility was temporary.

In 2021, BCBSMA recorded other-than-temporary impairment losses for vestments in joint ventures and partnerships of $3,182 for Hancock Capital. In 2020, BCBSMA did not record any other-than-temporary impairment losses for investments in joint ventures and partnerships. The impairments were recognized based on the length of time the securities have been unrealized loss position and a determination that losses are other than temporary.

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	$ 21,946	$ 22,092
After 1 year through 5 years	193,187	196,796
After 5 years through 10 years	198,681	203,190
After 10 years	438,403	444,088
Total bonds	$ 852,217	$ 866,166

(Dollars in Thousands)

3. Cash and Investments (continued)

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

	Proceeds from Sales		Realized Gains		Realized (Losses)	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Description						
Bonds	**$ 352,468**	$ 416,038	**$ 7,161**	$ 12,120	**$ (1,617)**	$ (1,837)
Preferred stock – Foreign	**311**	–	**155**	–	**–**	–
Common stock – Domestic	**20,488**	125,731	**5,822**	4,947	**–**	(152)
Common stock – Foreign	**9,008**	563	**2,510**	489	**(734)**	(75)
Other invested assets	**256,527**	61,596	**17,007**	2,418	**(3,182)**	–

Gross realized investment gains and losses are as follows:

	2021	2020
Gross Foreign stock realized gains	**$ 2,665**	**$ 489**
Gross Foreign stock realized losses	**(734)**	**(75)**
Net Foreign stock realized gain(loss)	**$ 1,931**	**$ 414**
Total Gross investment realized gains	**$ 29,992**	$ 19,511
Total Gross investment realized losses	**(4,800)**	(1,989)
Total Net investment realized gains	**$ 27,122**	$ 17,936

(Dollars in Thousands)

3. Cash and Investments (continued)

Major categories of net investment income are summarized as follows:

	2021	2020
Income:		
Bonds	**$ 17,359**	$ 18,159
Other invested assets	**24,108**	11,443
Preferred stock	**21**	-
Common stock	**8,260**	4,066
Real estate	**9,938**	9,210
Cash, cash equivalents and short-term investments	**32**	728
Other miscellaneous	**391**	1,139
Total investment income	**60,109**	44,745
Less: Investment expenses	**21,680**	22,586
Depreciation	**2,571**	2,485
Net investment income	**$ 35,858**	$ 19,674

4. Restricted Assets

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

	2021 Total Gross Restricted	2020 Total Gross Restricted	2021 Increase/ Decrease	Total Admitted Restricted
Restricted assets category				
Federal Home Loan Bank ("FHLB") capital stock	**$ 6,926**	$ 5,421	**$ 1,505**	**$ 6,926**
Pledged as collateral to FHLB	**160,382**	170,008	**(9,626)**	**160,382**
Pledged as collateral to BCBSA[a]	**234,744**	193,442	**41,302**	**234,744**
Other restricted assets[b]	**1,008**	713	**295**	**-**
Total	**$ 403,060**	$ 369,584	**$ 33,476**	**$ 402,052**

[a] At December 31, 2021 and 2020, BCBSMA had restricted securities included in cash and investments on deposit with Blue Cross Blue Shield Association ("BCBSA") to meet certain licensure standards.

[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.

(Dollars in Thousands)

5. Health Care Benefits, Net of Reinsurance

The Company's health care benefits are summarized in the following reconciliation of the beginning and ending balances of unpaid claims liability (net of recoveries and health care receivables) and accrued medical incentive pools and bonuses:

2021	Unpaid Claims Liability	Reinsurance Recoverable	Heath Care Receivable	Medical Incentive Pool and Bonus	Total Health Care Benefits
Net balance at January 1	**$ 400,312**	**$ –**	**$ (128,780)**	**$ –**	**$ 271,532**
Incurred related to:					
Current year	**3,189,797**	**(858)**	**(389,376)**	**1,627**	**2,801,190**
Prior years	**(17,231)**	–	**61,965**	–	**44,734**
Total incurred	**3,172,566**	(858)	**(327,411)**	**1,627**	**2,845,924**
Paid related to:					
Current year	**2,805,665**	**(858)**	**(224,731)**	**1,627**	**2,581,703**
Prior years	**379,432**	–	**(64,571)**	–	**314,861**
Total paid	**3,185,097**	(858)	**(289,302)**	**1,627**	**2,896,564**
Net balance at December 31	**$ 387,781**	**$ –**	**$ (166,889)**	**$ –**	**$ 220,892**

2020	Unpaid Claims Liability	Reinsurance Recoverable	Heath Care Receivable	Medical Incentive Pool and Bonus	Total Health Care Benefits
Net balance at January 1	$ 372,387	$ –	$ (109,744)	$ –	$ 262,643
Incurred related to:					
Current year	2,969,146	(2,935)	(251,079)	1,063	2,716,195
Prior years	(23,174)	–	232	–	(22,942)
Total incurred	2,945,972	(2,935)	(250,847)	1,063	2,693,253
Paid related to:					
Current year	2,572,151	(2,935)	(125,366)	1,063	2,444,913
Prior years	345,896	–	(106,445)	–	239,451
Total paid	2,918,047	(2,935)	(231,811)	1,063	2,684,364
Net balance at December 31	$ 400,312	$ –	$ (128,780)	$ –	$ 271,532

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.

At December 31, 2021 and 2020, health care receivables include $6,058 and $14,798, respectively, which are non-admitted in accordance with SSAP No. 84, *Certain Health Care Receivables and Receivables Under Government Insured Plans*.

Estimated subrogation credits of $4,857 and $3,767 were considered in determining health care benefits reserves as of December 31, 2021 and 2020, respectively.

Management believes its methodologies for reserving for unpaid claims are appropriate and represent its best estimate at December 31, 2021 and 2020.

6. Pension and Other Post-Retirement Benefit Plans

BCBSMA sponsors noncontributory defined benefit pension plans (the “Plan”) that covers all eligible employees. Prior to January 1, 2020, regular full and part-time employees are eligible to participate in the Plan after completing 12 months of employment and are at least age 21.

The Plan consists of the Retirement Income Trust Plan (“RIT”) which grants benefits to retired employees at various levels based on age and years of service, the Pension Protection Plan (“PPP”) which is a noncontributory nonqualified retirement plan and the Post-Retirement Benefit Plan, (“PRBP”) is a BCBSMA sponsored defined benefit plan that 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 or rehire, years of the continuous service and age.

Beginning January 1, 2015, all eligible employees accrue benefits under the Plan’s 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.

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

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

Effective December 31, 2020, the Plan's RIT benefits under the Cash Balance formula were frozen. Effective January 1, 2021 employees no longer accrue RIT benefits within the Plan. The last pay credits were 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 from the Company. The participant's balance under the Cash Balance formula continues to grow with interest until the commencement of their benefits.

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

As of December 31, 2021, the Company used the following Expected Mortality Assumptions:

- For annuity payments, the Pri-2012 no collar and white-collar generational mortality tables projected using the MP-2021 improvement scale.

- For lump sum payments, the 2021 and 2022 PPA Unisex mortality table with anticipated annual improvements based on the MP-2021 improvement scale for years beyond 2022.

BCBSMA 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.

(Dollars in Thousands)

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

A summary of the change in benefit obligation are as follows:

	Pension Benefits		Post-Retirement Benefits		Postemployment and Compensated Absences	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Benefit obligation at beginning of year	**$ 1,112,839**	$ 1,016,921	**$ 186,111**	$ 167,081	**$ 3,680**	$ 2,673
Service cost	**2,304**	22,104	**5,449**	4,562	**64,073**	58,877
Interest cost	**22,373**	26,359	**3,985**	5,016	**–**	–
Plan curtailments (gain) loss	**–**	(17,769)	**–**	–	**–**	–
Plan settlements	**(44,791)**	(3,585)	**–**	–	**–**	–
Actuarial (gain) loss	**(12,631)**	128,742	**(23,829)**	16,602	**–**	–
Benefits paid	**(27,707)**	(58,532)	**(7,563)**	(7,827)	**(65,968)**	(57,870)
Medicare Part D reimbursement	**–**	–	**211**	677	**–**	–
Administrative expenses paid	**(1,320)**	(1,401)	**–**	–	**–**	–
Benefit obligation at end of year	**$ 1,051,067**	$ 1,112,839	**$ 164,364**	$ 186,111	**$ 1,785**	$ 3,680

The $13,496 actuarial gain for the RIT during FYE 2021 is comprised of a $33,601 gain due to the change in the discount rate and lump sum interest rates, a $2,344 loss due to the update to the mortality assumption, a $33 loss due to the update to the withdrawal assumption, a $7,206 loss due to the change in the retirement assumption, a $7,844 gain due to the change in the form of payment assumption, a $6,551 loss due to the change in cost of living adjustment (COLA) assumption, and a $11,815 loss due to updated census data.

The $865 actuarial loss for the PPP during FYE 2021 is comprised of a $390 gain due to the change in the discount rate and lump sum interest rates, a $3 loss due to the update to the mortality assumption, a $32 loss due to the update to the withdrawal assumption, a $37 gain due to the change in the retirement assumption, a $17 loss due to the change in COLA assumption, and a $1,239 loss due to updated census data.

The $23,829 actuarial gain for the PRBP during FYE 2021 is comprised of a $23,111 gain due to the change in the future participation assumption, a $7,237 gain due to the change in the discount rate, a $3,503 loss due to the change in method of determining future premium increases for pre-65 retirees, a $2,254 loss due to the change in the retirement assumption, an $814 gain due to updates to the change in the withdrawal assumption, a $26 loss due to updates to the per capita claims cost assumptions, a $253 loss due to the change in the trend rates assumption, a $107 gain due to the update to the mortality assumption, and a $1,405 loss due to updated census data.

(Dollars in Thousands)

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

A summary of changes in plan assets are as follows:

	Pension Benefits		Post-Retirement Benefits		Postemployment and Compensated Absences	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Fair value at beginning of year	**$1,092,335**	$ 916,761	**$108,605**	$ 92,841	**$ –**	$ –
Actual return on plan assets	**87,192**	135,219	**9,055**	13,748	**–**	–
Employer contribution	**24,507**	103,873	**7,631**	9,166	**–**	–
Plan Settlements	**(44,791)**	(3,585)	**–**	–	**–**	–
Benefits paid	**(27,707)**	(58,532)	**(7,563)**	(7,827)	**–**	–
Medicare Part D reimbursement	**–**	–	**211**	677	**–**	–
401(h) benefit payments	**–**	–	**–**	–	**–**	–
Administrative fees paid	**(1,320)**	(1,401)	**–**	–	**–**	–
Fair value at end of year	**$1,130,216**	$1,092,335	**$117,939**	$108,605	**$ –**	$ –

A summary of funded status are as follows:

	Pension Benefits		Post-Retirement Benefits	
	2021	**2020**	**2021**	**2020**
Accrued benefit costs	**$ 16,583**	$ 15,738	**$ 39,868**	$ 44,368
Liability for pension benefits	**11,678**	11,732	**6,557**	33,137
Total liabilities recognized	**28,261**	27,470	**46,425**	77,505
Unrecognized liabilities	**–**	–	**–**	–

(Dollars in Thousands)

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

A summary of components of the Companies net periodic benefit cost are as follows:

	Pension Benefits		**Post-Retirement Benefits**		**Postemployment and Compensated Absences**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Service cost	**$ 2,304**	$ 22,104	**$ 5,449**	$ 4,562	**$ 64,073**	$ 58,877
Interest cost	**22,373**	26,359	**3,985**	5,016	–	–
Expected return on plan assets	**(71,307)**	(73,913)	**(7,738)**	(7,234)	–	–
Amortization of unrecognized transitional obligation	–	430	**1,029**	457	–	–
Recognized actuarial loss	**11,041**	36,399	–	–	–	–
Amortization of prior service cost	–	(232)	**406**	2,387	–	–
(Gain) or loss recognized due to settlement curtailment	**18,196**	1,529	–	–	–	–
Total net periodic benefit cost	**$ (17,393)**	$ 12,676	**$ 3,131**	$ 5,188	**$ 64,073**	$ 58,877

The Plans are sponsored by BCBSMA and the associated costs are shared by the Companies. BCBSMA allocates amounts to HMO Blue and wholly owned subsidiaries based on salary ratios. The Company's share of net expense for the qualified pension plan was $(10,912) and $8,360 for 2021 and 2020, respectively and for the PRBP was $2,165 and $3,511 for 2021 and 2020, respectively.

Amounts in unassigned funds (surplus) recognized as components of net periodic benefit costs:

	Pension Benefits		**Post-Retirement Benefits**	
	2021	**2020**	**2021**	**2020**
Items not yet recognized as a component of net periodic benefit cost – prior year	**$ 471,645**	$ 460,104	**$ 33,137**	$ 25,893
Net transition asset or obligation recognized	–	(430)	–	–
Net prior service cost or credit arising during the period	–	–	–	–
Net prior service cost or credit recognized	–	232	**(406)**	(2,387)
Net (gain) and loss arising during the period	**(28,516)**	49,668	**(25,145)**	10,088
Net (gain) and loss recognized	**(29,237)**	(37,929)	**(1,029)**	(457)
Item not yet recognized as a component of net periodic cost – current year	**$ 413,892**	$ 471,645	**$ 6,557**	$ 33,137

(Dollars in Thousands)

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

Amount in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:

	Pension Benefits 2022	Post-Retirement Benefits 2022
Net transition asset or obligation	**$ –**	$ –
Net prior service cost or credit	**–**	–
Net recognized (gains) and losses	**9,593**	–
Total expected to be recognized	**$ 9,593**	$ –

Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:

	Pension Benefits		Post-Retirement Benefits	
	2021	**2020**	**2021**	**2020**
Net transition asset or obligation	**$ –**	$ –	**$ –**	$ –
Net prior service cost or credit	**–**	–	**–**	406
Net recognized (gains) and losses	**413,892**	471,645	**6,557**	32,731
Total have not yet been recognized	**$ 413,892**	$ 471,645	**$ 6,557**	$ 33,137

Weighted-average assumptions to determine net periodic benefits as of December 31, 2021 and 2020, are as follows:

	Pension Benefits		Post-Retirement Benefits	
	2021	**2020**	**2021**	**2020**
Discount rate				
Benefit obligation	**1.87%-2.56%**	2.88%-3.39%	**2.65%**	3.47%
Service cost	**1.97%**	3.03%-3.52%	**2.79%**	3.65%
Interest cost	**1.29%-2.05%**	2.52%-3.00%	**2.19%**	3.07%
Expected return on plan assets	**6.98%**	7.50%	**6.98%**	7.50%
Salary scale	**1%**	Varies	**N/A**	N/A
Interest crediting rate	**3.15%**	3.15%	**N/A**	N/A

(Dollars in Thousands)

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

Weighted-average assumptions to determine projected obligations as of December 31, 2021 and 2020, are as follows:

	Pension Benefits		Post-Retirement Benefits	
	2021	**2020**	**2021**	**2020**
Discount rate used for benefit cost	**2.32%-2.90%**	1.87%-2.56%	**2.95%**	2.65%
Rate of compensation increase	**1%**	1%	**N/A**	N/A
Interest Crediting Rate	**3.15%**	3.15%	**N/A**	N/A

The amount of accumulated benefit obligation for the RIT defined benefit plan was $1,022,806 and $1,085,368 as of December 31, 2021 and 2020, respectively. The amount of accumulated benefit obligation for the Non-Qualified Benefit Plans was $28,261 and $27,470 as of December 31, 2021 and 2020, respectively.

For benefit costs measurement purposes, the rate of increase in the per capita cost of covered health care benefits was assumed to be 5.5% (Pre-65) and 5.7% (Post-65) for 2021. The rate is assumed to decrease gradually to 4.0% over the next 18 years and remain at that level thereafter.

The Company's weighted-average asset allocations at December 31, 2021 and 2020, by asset category, are as follows:

	Pension Benefits		Post-Retirement Benefits		
	2021	**2020**	**2021**	**2020**	**Range**
Asset category:					
Equity securities	**74%**	48%	**74%**	48%	40-50%
Debt securities	**16**	34	**16**	34	31-41
Real estate	**6**	5	**6**	5	3-9
Absolute return	**2**	11	**2**	11	7-13
Private debt/equity	**2**	2	**2**	2	0-6
Total	**100%**	100%	**100%**	100%	

The Companies portfolio is managed within ERISA guidelines to ensure adequate funding of the pension obligation and to maximize returns. The asset allocation has been structured to provide a 6.98% return target on the assets. The targets and ranges were established based on the results of

(Dollars in Thousands)

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

an asset liability study. The Company considered the historical returns and future expectations of returns for each asset class, as well as the target allocation of the portfolio to develop the expected long-term rate of return on assets assumption. This resulted in the selection of the 6.98% long-term rate of return on assets assumption.

The fair value of BCBSMA's pension and post retirement plan assets at December 31, 2021 and 2020, by asset category are as follows:

	December 31, 2021				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Plan assets					
Money market funds	**$ –**	**$ 711**	**$ –**	**$ –**	**$ 711**
Common collective trusts	**–**	**–**	**–**	**586,832**	**586,832**
Partnership/joint venture interests	**–**	**–**	**–**	**96,561**	**96,561**
Registered investment companies	**24,029**	**–**	**–**	**–**	**24,029**
Corporate Debt Instruments	**–**	**501,738**	**–**	**–**	**501,738**
US Government Securities	**24,160**	**–**	**–**	**–**	**24,160**
Common stocks:	**–**	**–**	**–**	**–**	
Domestic	**12,514**	**–**	**–**	**–**	**12,514**
International	**1,610**	**–**	**–**	**–**	**1,610**
Total investments	**$ 62,313**	**$ 502,449**	**$ –**	**$ 683,393**	**1,248,155**
Less: investments related to 401(h) account					**(117,939)**
Total investments at fair value					**$ 1,130,216**

	December 31, 2020				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Plan assets					
Money market funds	$ –	$ 637	$ –	$ –	$ 637
Common collective trusts	–	–	–	724,855	724,855
Partnership/joint venture interests	–	–	–	127,727	127,727
Registered investment companies	74,380	–	–	–	74,380
Corporate Debt Instruments	–	234,122	–	–	234,122
US Government Securities	4,494	–	–	–	4,494
Common stocks:					
Domestic	29,304	–	–	–	29,304
International	5,421	–	–	–	5,421
Total investments	$ 113,599	$ 234,759	$ –	$ 852,582	1,200,940
Less: investments related to 401(h) account					(108,605)
Total investments at fair value					$ 1,092,335

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

To determine the expected long-term rate of return for the BCBSMA RIT, the investment consultant begins with the annual asset class assumptions. Asset class assumptions are developed based on a combination of historic data and forward-looking analysis.

Historical data is used to frame the range of returns over the long term. Hence, the historical data is critical in developing volatility assumptions, and secondly, correlation assumptions among the various asset classes.

Forward-looking analysis is used in developing assumptions for expected returns. Return assumptions are based on current market pricing and a "building blocks" approach utilizing a variety of factors. Our investment consultants incorporate existing inflation, yields, credit spreads, dividends, and various ratios to estimate the return that is expected by investors across asset classes over 10 years and 30 years.

BCBSMA's expected return is then calculated using the Plan's target allocations and the return, volatility, and correlation assumptions for each asset class in a mean-variance optimization software model.

The Company's fair value hierarchy levels under SSAP 100R are defined in Note 3.

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 a contribution into this account of $4,847 and $6,342 in 2021 and 2020, respectively. Total employer contributions to the PRBP were $7,631 and $9,166 in 2021 and 2020, respectively.

(Dollars in Thousands)

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

At December 31, 2021, the Company's projected benefit payments and Medicare subsidy receipts are as follows:

	Pension Benefits	Post-Retirement Benefits	Medicare Subsidy
2022	$ 59,579	$ 7,656	$ 683
2023	57,922	7,799	729
2024	64,090	7,933	783
2025	62,661	8,044	844
2026	64,790	8,143	903
Next five years	292,253	42,225	5,525

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 and its actuarial advisors determined that benefits provided by the PRBP as of the date of the enactment of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") were at least actuarially equivalent to Medicare Part D, and accordingly, the Company is entitled to the federal subsidy.

The Company determined that the aggregate effect of the federal subsidy on the service cost, interest cost, and amortization of the actuarial experience gains is a reduction in annual net periodic post-retirement benefit cost of $1,638 and $1,855 in 2021 and 2020, respectively.

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

The accumulated Post-Retirement Benefit obligation decreased by $14,685 and $17,818 at December 31, 2021 and 2020, respectively, due to the effect of the Act. The calculation excludes non-vested employee costs per Interpretation 04-17, *Impact of Medicare Modernization Act on Post-retirement Benefits* ("INT 04-17").

The Company also has 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 contributions charged to income were $16,799 and $12,691 in 2021 and 2020, respectively.

7. Income Taxes

In 2021 and 2020, the U.S. federal statutory income tax rate was 21%. The difference between the Company's income taxes expected at 21% and the reported income tax, is due to the utilization of the deduction for net operating losses from prior years and the special deduction available to the Blue Cross and Blue Shield Plans under Internal Revenue Code ("IRC") section 833.

Under the asset and liability method, the Company's temporary differences represent the estimated future tax effects attributable to future taxable or deductible temporary differences between amounts recognized in the financial statements and income tax returns.

(Dollars in Thousands)

7. Income Taxes (continued)

The components of net deferred tax assets (“DTA”) and deferred tax liabilities (“DTL”) recognized in the Company’s assets, liabilities, and surplus as of December 31, are as follows:

	2021			**2020**			**Change**		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
a. Gross deferred tax assets	**$ 119,123**	**$ 11,803**	**$ 130,926**	$ 152,764	$ 11,762	$ 164,526	$ (33,641)	$ 41	$ (33,600)
b. Statutory valuation allowance adjustments	**82,988**	**11,803**	**94,791**	122,614	11,762	134,376	(39,626)	41	(39,585)
c. Adjusted gross deferred tax assets (1a-1b)	**36,135**	**–**	**36,135**	30,150	–	30,150	5,985	–	5,985
d. Deferred tax assets non-admitted	**–**	**–**	**–**	–	–	–	–	–	–
e. Subtotal net admitted deferred tax asset (1c–1d)	**36,135**	**–**	**36,135**	30,150	–	30,150	5,985	–	5,985
f. Gross deferred tax liabilities	**580**	**35,555**	**36,135**	111	30,039	30,150	469	5,516	5,985
g. Net admitted DTA/DTL (1e-1f)	**$ 35,555**	**$ (35,555)**	**$ –**	$ 30,039	$ (30,039)	$ –	$ 5,516	$ (5,516)	$ –

(Dollars in Thousands)

7. Income Taxes (continued)

The components of the DTA/DTL and admission calculation are as follows:

	2021			2020			Change		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
a. Federal income taxes paid in prior years recoverable through loss carrybacks	**$ –**	**$ –**	**$ –**	$ –	$ –	$ –	**$ –**	**$ –**	**$ –**
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2a above) after application of the threshold limitation (The lesser of 2b1 and 2b2 below)	**–**	**–**	**–**	–	–	–	–	–	–
c. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	**–**	**–**	**–**	–	–	–	–	–	–
d. Adjusted gross deferred tax assets allowed per limitation threshold	**–**	**–**	**131,265**	N/A	N/A	124,703	–	–	**6,562**
e. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2a and 2b above) offset by gross deferred tax liabilities	**36,135**	**–**	**36,135**	30,150	–	30,150	**5,985**	–	**5,985**
f. Deferred tax assets admitted as the result of application of SSAP No. 101 total (2a + 2b + 2c)	**$ 36,135**	**$ –**	**$ 36,135**	$ 30,150	$ –	$ 30,150	**$ 5,985**	**$** –	**$ 5,985**

(Dollars in Thousands)

7. Income Taxes (continued)

	2021	2020
Applicable ratio for realization limitation threshold table	**521%**	548%
Adjusted capital and surplus used to determine recovery period	**$ 875,101**	$ 831,881

The Company does not employ tax planning strategies. There are no temporary differences for which a DTL has not been established.

The current provision for incurred federal income taxes on earnings for the years ended December 31, consist of the following major components:

	2021	2020
Current federal income tax (benefit) expense	**$ (1,200)**	$ (80,396)
Tax expense on realized capital gains	–	–
Other, including prior year under accrual (over accrual)	–	–
Federal income taxes incurred	**$ (1,200)**	$ (80,396)

The tax effect of temporary differences that give rise to significant portions of the DTAs and DTLs as of December 31, are as follows:

	2021	2020	Change
DTAs resulting from book/tax differences in			
Ordinary:			
Discounting of unpaid losses and LAE	**$ 1,373**	$ 1,442	$ (69)
Fixed assets	**559**	1,436	(877)
Compensation and benefit accruals	**10,758**	10,147	611
Pension accruals	**12,202**	18,740	(6,538)
Non-admitted assets	**378**	902	(524)
Intangible asset	**8,850**	14,729	(5,879)
Net operating loss carry-forward	**48,160**	69,035	(20,875)
Prepaid Expenses	**4,271**	1,980	2,291
Non-Admitted Assets	**7,792**	8,654	(862)
Legal Settlements	**19,100**	17,216	1,884
Other	**5,680**	8,483	(2,803)
Subtotal – gross ordinary DTAs	**119,123**	152,764	(33,641)
Statutory valuation adjustment – ordinary	**82,988**	122,614	(39,626)
Non-admitted ordinary DTAs	–	–	–
Admitted ordinary DTAs	**36,135**	30,150	5,985

(Dollars in Thousands)

7. Income Taxes (continued)

	2021	2020	Change
Capital:			
Investments	**$ 11,803**	$ 11,762	$ 41
Net capital loss carry/forward	–	–	–
Gross capital DTAs	**11,803**	11,762	41
Statutory valuation adjustment – capital	**11,803**	11,762	41
Non-admitted capital DTAs	–	–	–
Admitted capital DTAs	–	–	–
Admitted DTAs	**$ 36,135**	$ 30,150	$ 5,985
DTLs resulting from book/tax differences in			
Ordinary DTLs:			
Fixed Assets	**$ 186**	$ –	$ 186
Other	**394**	111	283
Capital DTLs:	–	–	–
Investments	**35,555**	30,039	5,516
Total DTLs	**36,135**	30,150	5,985
Net DTA	**$ –**	$ –	$ –

As of December 31, the change in net deferred income taxes is comprised of the following:

	2021	2020	Change
Total DTAs	**$ 130,926**	$ 164,526	$ (33,600)
Total DTLs	**(36,135)**	(30,150)	(5,985)
Net DTAs/DTLs	**94,791**	134,376	(39,585)
Statutory Valuation Allowance adjustment	**(94,791)**	(134,376)	39,585
Net DTAs/DTLs after SVAs	–	–	–
Tax effect of unrealized gains	–	–	5,516
Change in net deferred income tax benefit			$ 5,516

(Dollars in Thousands)

7. Income Taxes (continued)

The Company's provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 21% to net gain from operations before taxes. The significant items causing these differences are as follows:

	Statutory Rate Tax Effect
Income before taxes (including all realized capital gains)	$ 1,474
Section 162(m)(6) adjustment	5,180
Non-deductible expenses	294
Dividends received deduction	(280)
Software	3,885
Rabbi Trust CSV build-up over cost	(2,195)
Change in non-admitted assets	(4,321)
Statutory valuation allowance adjustment	(39,585)
IRC 833 (on prior year true-up)	16,574
Change in Minimum Pension Liability	5,593
Prior year deferred true-up	7,984
Other	(1,319)
Total	$ (6,716)
Federal income taxes incurred	$ (1,200)
Change in net deferred income tax	(5,516)
Total statutory income taxes	$ (6,716)

As of December 31, 2021, the Company had net operating loss carryforwards of $229,332.

As of December 31, 2021, the Company had no AMT credits available to offset future regular tax.

The Company is not subject to the Repatriation Transition Tax ("RTT").

7. Income Taxes (continued)

The Company does not expect the liability related to any federal tax loss contingencies to significantly increase in the next 12 months.

The Company has no protective deposits under Section 6603.

The Company files income tax returns in the US federal jurisdiction. The Company's open tax years are 2018 through 2021.

The Company did not have any amounts for federal income taxes incurred and available for recoupment in the event of future net losses for the periods ended December 31, 2021 and 2020.

BCBSMA files a consolidated tax return with Zaffre Health Plan Solutions, LLC. Taxes are allocated among members of the consolidated tax return under the terms of a written tax sharing agreement.

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 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 $6,591 and $18,813, respectively. Gains and losses on tax credits are recorded as other income in the statements of operations. As of December 31, 2021 and 2020, the Company did not have any unused Massachusetts tax credits.

9. Surplus

M.G.L. Chapter 160 of the Acts of 1988 requires that the Company maintain surplus of not less than 5% of all expenses and insured claims incurred in each year. At December 31, 2021 and 2020, the Company's surplus was in excess of the regulatory Chapter 160 requirements.

In addition, the NAIC has imposed regulatory 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.

In 2017, a surplus note for $285,000 was issued by BCBSMA to HMO Blue, a subsidiary of the Company, in exchange for cash.

The term of the note is 10 years at an interest rate of 2.95% and pays interest annually each September. In September 2021 and 2020, after receiving approval from the Commissioner of the Massachusetts' Division of Insurance, BCBSMA paid HMO Blue $8,408 for each year in 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.

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.

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.

11. Federal Employees Program

The Company participates in the Federal Employee Health Benefits Program ("FEHBP") with other BlueCross BlueShield plans ("Plans"). This program includes a fully insured experience-rated contract, commonly known as the Federal Employee Program ("FEP"), between the Office of Personnel Management ("OPM") and the BCBSA, which acts as an agent for the participating Plans. In addition, each participating Plan, including the Company, executes a contract with BCBSA which obligates each participating Plan to underwrite FEP benefits in its service area.

Premium rates are developed by BCBSA and negotiated with OPM annually. These rates determine the funds that will be available to the participating Plans to provide insurance to Federal employees that enroll in FEP. The excess of gross premiums for the life of the program over the charges for the life of the program on an accrual basis is accounted for as a rate stabilization reserve (commonly referred to as the special reserve), as required by the contract between OPM and BCBSA. Any premiums that remain in the rate stabilization reserve upon termination of the BCBSA contract after the claims run-out and reimbursement of allowable administrative expenses would be returned to OPM for the benefit of the FEHBP. The FEP contracts automatically renew each year unless written notice of termination is given by either party.

The Company has recorded its allocable share of the special reserve funds held in the U.S. Treasury as an admitted asset, with an equivalent amount recorded as a rate stabilization reserve. These amounts were $139,512 and $154,088 as of December 31, 2021 and 2020, respectively, and are included in premium receivables and aggregate policy reserves in the accompanying balance sheets.

12. Related-Party Transactions

BCBSMA has one wholly controlled subsidiary; Blue Cross and Blue Shield of Massachusetts HMO Blue, and two wholly owned subsidiaries; FERM Captive, LLC ("FERM Captive"), and Zaffre Health Solutions, LLC ("Zaffre Health Solutions"). Zaffre Health Solutions has one active wholly owned subsidiary: Zaffre Health Plan Solutions, LLC ("Zaffre Health Plan Solutions"). Zaffre Health Plan Solutions has one active wholly owned subsidiary: Zaffre Investments, LLC ("Zaffre Investments"). In addition, the Company has two other affiliated companies, BlueCross BlueShield Venture Partners, L.P. ("BCBS Venture") and BlueCross BlueShield Venture Partners II, L.P. ("BCBS Venture II").

HMO Blue provides hospitalization, medical and other health benefits as a licensed health maintenance organization.

(Dollars in Thousands)

12. Related-Party Transactions (continued)

In September 2021, the BCBSMA Board of Directors approved creation of FERM Captive as a 100% owned subsidiary of BCBSMA. FERM Captive is a single-parent captive company used for financing the risks and liabilities of the Company, 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 general business of Zaffre Health Solutions, Zaffre Health Plan Solutions, and Zaffre Investments are to engage in certain strategic investments that provide services to a wide array of businesses in the healthcare industry.

The Company is the sole corporate member of the Blue Cross Blue Shield of Massachusetts Foundation, Inc. for Expanding Healthcare Access ("BCBSF"), and as such, has a variety of powers, including appointment and approval of board members. The mission of BCBSF is to promote and support programs, research and policies that will help to expand access to high quality, affordable health care for Massachusetts residents. BCBSMA provided financial support to BCBSF in the amount of $768 and $809 in 2021 and 2020, respectively.

During 2021, BCBSMA recorded the following capital transactions with its Subsidiaries, Controlled, and Affiliated ("SCA") entities:

SCA Entity	**Contribution**	**Distribution**
Zaffre Health Solutions	$ 51,150	$ –
Zaffre Affiliated Services	–	–
BlueCross BlueShield Venture Partners, L.P.	30	–
BlueCross BlueShield Venture Partners II, L.P.	294	6,174
FERM Captive	100,000	–

12. Related-Party Transactions (continued)

In October 2021, Zaffre Investments made a cash distribution of $75,000 to Zaffre Affiliated Services, and thereafter Zaffre Affiliated Services was immediately merged into BCBSMA. This restructuring was treated as a Statutory merger with no recognition of gain or loss recorded in the Company books. Immediately after this, BCBSMA contributed $40,000 of cash and all Zaffre Affiliated Services investment assets to Zaffre Health Solutions, including its 100% owned Zaffre Investments subsidiary. The purpose of this merger was to simplify the reporting structure of BCBSMA and its related subsidiaries.

As of December 31, 2021, Zaffre Investments has four wholly controlled subsidiaries, and two affiliated companies. The four subsidiaries of Zaffre Investments are CASI, Indigo, MBA, and HealthBox II, LLC. The two affiliated companies of Zaffre Investments are Cobalt Benefits Group, LLC and HealthBox Boston I, LLC.

As of December 31, 2021, Zaffre Health Plan Solutions has one subsidiary, Zaffre Investments, and an ownership interest in one affiliated company, Evio Pharmacy Solutions, LLC (Evio).

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, BCBSMA has 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,

(Dollars in Thousands)

12. Related-Party Transactions (continued)

BCBSMA 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.

In 2021 and 2020, BCBSMA recorded no impairments in its Subsidiary, Controlled, and Affiliated (SCA) entities.

As of December 31, 2021 book values of FERM Captive and Zaffre Health Solutions totaled $100,585 and $182,815, respectively. BCBSMA's value in FERM Captive is admitted and Zaffre Health Solutions is non-admitted as it is unaudited and does not meet the criteria of SSAP No. 97 – *Investments in Subsidiary, Controlled, and Affiliated Entities* to utilize the look-through approach.

HMO Blue and BCBSMA operate under common Board of Directors management and control. The Company participates in a bilateral intercompany agreement with HMO Blue 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, BCBSMA's intercompany receivable balances were as follows:

	2021	2020
HMO Blue	**$ 6,863**	$ 21,265
Zaffre Investments	**224**	969
Indigo	**358**	631
BCBSF	**575**	585
MBA	**96**	94
Zaffre Health Plan Solutions	**647**	27
Totals	**$ 8,763**	$ 23,571

Under the terms of its license with the 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.

12. Related-Party Transactions (continued)

As required by the *"Blue Cross Blue Shield Controlled Affiliate License,"* BCBSMA guarantees, to full extent of its assets, all of the contractual and financial obligations of MBA.

As a condition of granting a health maintenance organization ("HMO") license to HMO Blue, the DOI required the Companies to enter into an agreement granting the DOI discretionary authority that requires a surplus note to be issued from one company to the other, if either company's health Risk-Based Capital ("RBC") is more than seventy-five percentage points higher than the other company's RBC.

BCBSMA and 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 year end 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.

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 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.

12. Related-Party Transactions (continued)

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 is 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.

BCBSMA provides core, non-core and routine administrative support services including personnel, office space, equipment, computer processing, office and professional services under the Management and Administrative Services Agreement with Zaffre Investments, Zaffre Health Solutions, Zaffre Health Plan Solutions, Indigo, and MBA. Each of the subsidiaries pay monthly administrative fees to BCBSMA for these services or any other special requests at cost or cost plus a mark-up depending on the nature of services and costs. Additionally, each subsidiary pays a senior management fee to BCBSMA as its non-exclusive controller to manage and supervise its business through BCBSMA's senior management personnel in accordance with applicable federal, state, and local laws and regulations.

In accordance with the General Service Agreement, Zaffre Health Plan Solutions provides BCBSMA, HMO Blue, MBA, and Indigo the services of those Companies employees. The Company compensates Zaffre Health Plan Solutions by paying a management fee.

12. Related-Party Transactions (continued)

All administrative support, management fees, and leased employee expenses associated with services provided to each subsidiary and paid by BCBSMA on their behalf are settled within 90 days.

Because of the significant related-party transactions with HMO Blue, the Company's financial condition and the results of operations may not necessarily be indicative of the financial condition or results of operations that would have occurred if the Company had been operated as an unaffiliated company.

13. Third-Party Administrators

The Company has a Medicare Part D Inter-Plan Services Agreement to offer a Blue Cross and Blue Shield branded prescription drug plan ("PDP") with Anthem Blue Cross Blue Shield, Blue Cross and Blue Shield of Rhode Island, and Blue Cross and Blue Shield of Vermont ("The Plans"). The Plans collectively have a contract with the Centers for Medicare Services to offer a branded PDP in Region 2, based on the regulations contained with the Medicare Modernization Act of 2003. CVS Caremark is acting as third-party administrator to process premiums and claims under the PDP.

Profits and losses associated with the direct pay Blue Cross Blue Shield branded PDP are pooled and allocated amongst the Plans based upon membership in the applicable branded area and reported as other (income) expense of $(149) and $546 in 2021 and 2020, respectively.

The Company has an agreement with Health Reinsurance Management Partnership ("HRMP") for stop loss third-party claims administrative services. HRMP acts, in effect, as the accident and health reinsurance department of London Reinsurance Group, managing excess medical reinsurance for the group. It is also a fully licensed third-party administrator.

(Dollars in Thousands)

13. Third-Party Administrators (continued)

Name and Address of Third-Party Administrator	FEIN Number	Exclusive Contract	Type of Business Written	Type of Authority Granted	Total Direct Premium Written
CVS Caremark, Inc. One CVS Drive, Woonsocket RI 02895	33-1113587	No	Medicare Part D	Admin Services	**$ 205,653**
Health Reinsurance Management Partnership 300 Rosewood Drive, Suite 250, Danvers, MA 01923	51-0397873	No	Stop loss	Admin Services	**$ 107,635**

14. Reinsurance

The Company has Specific Excess of Loss Reinsurance agreement with AXIS Specialty Insurance Company ("AXIS") to provide the Company with increased capacity to write larger risks and maintain its exposure to loss within its capital resources.

Neither BCBSMA nor any of its related-party control, directly or indirectly, any reinsurers with whom the Company conducts business. No policies issued by BCBSMA have been reinsured with a foreign company, which is controlled, either directly or indirectly, by a party not primarily engaged in the business of insurance.

BCBSMA does not have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel the agreement. At December 31, 2021, there was no reinsurance agreements in effect such that the amount of losses paid or accrued exceed the total direct premium collected.

BCBSMA also has a Specific and Aggregate Excess of Loss Reinsurance agreement with Gerber Life Insurance Company and Independence Life and Annuity Insurance Company. These assumed reinsurance agreements provide the Company with the ability to expand into the National Stop Loss market.

14. Reinsurance (continued)

Premiums earned have been increased for the amounts assumed of $2,695 and $4,193 in 2021 and 2020, respectively. Healthcare benefits incurred have been increased for the amount assumed of $2,803 and $2,047 in 2021 and 2020, respectively. The net amount of increase in surplus if all reinsurance agreements were cancelled would be $3,060 and $1,064 as of December 31, 2021 and 2020, respectively.

15. Retrospectively Rated Contracts and Contracts Subject to Redetermination

The Company estimates accrued retrospective premium adjustments for its retrospectively rated business through a mathematical approach consistent with the Company's underwriting rules and experience rating practices. BCBSMA records accrued retrospective premium as an adjustment to earned premium.

The amount of net premiums written by the Company that are subject to retrospective rating features was $205,653 and $210,951 for the years ended December 31, 2021 and 2020, respectively which represents approximately 9% for each year of the Company's written premiums. No other premiums written by the Company are subject to retrospective rating features.

The ACA of 2010 amended section 1857(e) of the Social Security Act requiring Medicare Part D plans to meet a minimum MLR of 85%. As of December 31, 2021 and 2020, the Company did not have a medical loss ratio rebate pursuant to the Public Health Service Act.

16. Risk-Sharing Provisions of the ACA

As of January 1, 2019, the Company exited the Massachusetts merged individual and small group healthcare markets and as a result did not write any accident and health insurance premiums that are subject to the ACA risk-sharing provisions in 2020 and 2021.

In 2021 and 2020, the Company did not have any ACA risk-sharing program adjustments. As of December 31, 2021 and 2020, the Company did not have any outstanding balances in risk adjustment payable or receivable.

As of December 31, 2021 and 2020, the Company did not report any risk-sharing provisions related to the temporary ACA Risk Corridor Program. Therefore, no risk-corridor related asset or liability balances were either accrued, impaired or non-admitted.

(Dollars in Thousands)

17. 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	Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Collected Within 90 Days	Actual Rebates Collected Within 91 to 180 Days	Actual Rebates Collected in More Than 180 Days
12/31/2021	**$ 47,019**	**$ 44,380**	**$ 8,621**	$ **–**	**$ –**
9/30/2021	**45,560**	**47,817**	**16,431**	**–**	**–**
6/30/2021	**43,892**	**46,810**	**14,365**	**33,879**	**–**
3/31/2021	**43,142**	**45,978**	**13,340**	**25,723**	**10,351**
12/31/2020	38,526	47,998	11,850	25,174	9,627
9/30/2020	37,619	54,089	12,868	25,011	8,456
6/30/2020	35,182	43,305	9,621	19,844	12,209
3/31/2020	36,945	39,752	9,117	11,353	20,613
12/31/2019	34,343	39,685	11,128	19,220	11,035
9/30/2019	33,602	36,818	8,724	18,998	10,484
6/30/2019	31,891	33,044	8,738	18,003	10,402
3/31/2019	29,199	28,736	8,978	18,374	8,575

(Dollars in Thousands)

18. ASC Business

The Company provides certain claim administration services for its uninsured customers through ASC arrangements. The net loss from operations related to these contracts is as follows at December 31, 2021 and 2020:

	ASC Uninsured Plans	
	2021	**2020**
Gross reimbursement for medical cost incurred	**$ 10,176,071**	$ 8,538,139
Gross administrative fees accrued	**395,630**	377,645
Gross expenses incurred (claims and administrative)	**(10,724,031)**	(9,057,489)
Net loss from operations	**$ (152,330)**	$ (141,705)

At December 31, 2021 and 2020, the Company had admitted assets of $270,443 and $178,076, respectively, in net accounts receivable for uninsured plans and amounts due from agents. The Company routinely assesses the collectability of its receivables.

At December 31, 2021 and 2020, the Company recorded gross ASC administrative fees accrued and not billed of $24,551 and $23,754, respectively.

19. Leases

The Companies jointly have a long-term operating lease agreement for 347,618 square feet for its corporate headquarters on Huntington Avenue in Boston, Massachusetts. Occupancy and rental expense commenced April 2015 and will continue for 15 years 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 operating lease agreements for office and data center facilities, which extend through various dates through 2032.

(Dollars in Thousands)

19. Leases (continued)

For 2021 and 2020, the Company recorded rental expenses of $11,666 and $11,566 respectively, of which, $11,582 and $11,466 were office space rental expenses, respectively.

At December 31, 2021, allocated minimum rental commitments on significant non-cancelable operating leases for the Company are as follows:

2022	$	11,693
2023		11,681
2024		11,645
2025		11,889
2026		12,056
Thereafter		39,302

In addition, the Company has agreements with outside vendors to provide certain information technology services for a significant portion of the Company's 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. The Company's portion of these commitments range from $14,118 to $5,768 per year from 2022 through 2024.

20. Debt

As of December 31, 2021, the Company does not have any outstanding capital note obligations.

The Companies jointly entered into two 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 was renewed until October 2022. As of December 31, 2021, the Company had outstanding principal of $115,000 and accrued interest and accrued fees of $3 under these facilities.

During 2021 and 2020, the Company paid interest of $107 and $245 and fees of $309 and $326, 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 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 1.00.

(Dollars in Thousands)

20. Debt (continued)

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 are 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, BCBSMA paid principal of $10,000 and interest of $223. As of December 31, 2021, BCBSMA has a carrying value of $2,500 outstanding and no accrued interest. As of December 31, 2021, there were no violations of the debt terms and covenants reported.

In September 2019, the Companies jointly entered into a $150,000 five-year unsecured term loan which amortizes monthly with a fixed interest rate of 2.26%. The Companies are required to certify compliance on an annual basis of a minimum Risk-Based Capital level of 350% and are required to certify compliance on a quarterly basis that the Cash Reserve Ratio is not less than 1.25 to 1.00. BCBSMA received proceeds from the term loan of $100,000. In 2021, BCBSMA paid principal of $20,000 and interest of $1,506. As of December 31, 2021, BCBSMA has a carrying value of $55,000 outstanding and accrued interest of $3. As of December 31, 2021, there were no violations of the debt terms and covenants reported.

As of December 31, 2021, the combined aggregate amount of long-term borrowing maturities for each of the next five years are as follows:

Debt – Long-Term Borrowings	**BCBSMA, Inc.**
Maturing in 2022	$ 137,500
Maturing in 2023	20,000
Maturing in 2024	15,000
Maturing in 2025	100,000
Maturing in 2026 [a]	50,000
Total maturities	$ 322,500

[a] Includes $50,000 in five-year term borrowings from FHLB.

21. 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 borrowings of $150,000. The Company based this amount on anticipated borrowing needs of the Company.

As a requirement of the FHLB membership, the Company has $879 and $927 of FHLB Class B Membership Stock as of 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. At December 31, 2021 and 2020, the Company recorded $48 and $495 in FHLB Excess Stock, respectively.

As of December 31, 2021, the Company had three outstanding borrowings. The first was executed in August 2020 for $50,000 at a fixed rate of 0.72% for a 5-year term with principal paid at maturity. The second was executed in December 2020 for $50,000 at a fixed rate of 0.84% for a 5-year term with principal paid at maturity. The third advance was executed in January 2021 for $50,000,000 at a fixed rate of 0.85% for a 5-year term with principal paid at maturity. During the 2021 and 2020 periods, the Company paid annual interest expense of $1,166 and $1,887, respectively. At December 31, 2021 and 2020, the Company has an outstanding principal balance of $150,000 and $100,000, and accrued interest of $104 and $64, 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.

At December 31, 2021 and 2020, the total collateral pledged against these borrowings had a fair value of $163,567 and $176,613, respectively, and a carrying value of $160,382 and $170,008, respectively.

(Dollars in Thousands)

21. FHLB Agreements (continued)

At December 31, 2021 and 2020, the maximum amount pledged during the reporting period had a fair value of $163,567 and $176,613, respectively, and a carrying value of $160,382 and $170,008, respectively. The Company has prepayment obligations with the FHLB as of December 31, 2021 and 2020.

22. Commitments and Contingencies

At 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
TQ Intelligence, Inc.	100
SoHookd, Inc,	100
Quality Interactions Inc.	100
Medhaul, Inc.	100
Excel Venture Fund II, L.P.	306
Health Enterprise Partners III, L.P.	1,648
Long River Ventures III, L.P.	200
LRV Health, L.P.	2,125
Hancock Capital Partners V, L.P.	1,264
Comvest Capital III, L.P.	1,583
Park Square Capital Credit Opp II Feeder, L.P.	9,773
Comvest Capital IV, L.P.	4,940
Park Square Capital Credit Opp III Feeder, L.P.	5,177
New Mountain Net Lease Partners, L.P.	2,990
Comvest Capital V, L.P.	8,809
Oak Street Net Lease, L.P.	12,500
Brookfield Infrastructure Fund, L.P.	8,950
MC Credit Fund N (Cayman), L.P.	5,306
Bridge Debt IV Funds L.P.	4,892
Park Square Capital Credit Opp IV, L.P.	23,225
Total Commitments	$ 99,290

22. Commitments and Contingencies (continued)

The Company, periodically, is involved in pending and threatened litigation of the character incidental to its business or arising out of its insurance operations and is from time to time involved as a party in various governmental and administrative proceedings. Management continues to monitor these matters and believes the Company has accrued adequate reserves against potential liabilities. As of December 31, 2021, the Company recorded a loss in other liabilities and the related expense in other expense covering litigation outcomes. The recorded loss is based on what can be presently determined and/or predicted by the Company.

Multidistrict Litigation (MDL)

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

MDL – Subscribers

In 2019, the Company recorded a subscribers MDL loss in other liabilities and the expense in other expense covering litigation outcomes presently determined and/or predicted by the Company. A motion for preliminary approval of an MDL settlement with the Blue Plan subscribers was filed in federal court in Alabama on October 30, 2020. The settlement was preliminarily approved per the Order entered by the Court on November 30, 2020 and an initial payment has been made in December 2020. The preliminarily approved settlement did not require any material change to the recorded loss in 2020. The Court held final approval hearings on October 20-21, 2021 but has not yet issued a final approval order. There have been no additional payments made in 2021.

22. Commitments and Contingencies (continued)

MDL – Providers

In 2020 and 2021, the Company's management concluded that a provider MDL settlement was probable and could be reasonably estimated. As a result, the Company recorded a providers MDL loss in other liabilities and the expense in other expense covering litigation outcomes.

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

23. State Assessments

In 2021, BCBSMA and HMO were obligated to pay three major administrative-type assessments.

The first is the Commonwealth of Massachusetts' *"Center for Health Information and Analysis"* ("CHIA"). This is an administrative-type surcharge that covers state operating expenses. BCBSMA's assessment for CHIA's fiscal year (FY) 2021 operations was $5,340 and was paid in January 2021. CHIA's FY2022 assessment was for $5,124 and was paid in December 2021.

(Dollars in Thousands)

23. State Assessments (continued)

The second is the Commonwealth of Massachusetts Health Policy Commission ("HPC") assessment 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 FY2022 HPC budget. In 2021, BCBSMA paid $1,630 for its FY2021 assessment and paid $828 for its FY2022 assessment. Additionally, the second of two invoices for FY22 of $821 was paid in February 2022.

The third is the Commonwealth of Massachusetts' DOI *"The Health Care Assess Bureau"* ("HCAB") assessed BCBSMA to pay for HCAB expenses. The assessment is based on the Company's share of health premiums as reported to the HCAB. During 2021, BCBSMA paid $130 to the HCAB for the FY2021 assessment which was based on FY2019 reported premium data.

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

Commonwealth of Massachusetts Office of Health and Human Services	MA HHS Program	Assessment
Medicaid	Health Safety Net Assessment	$ 56,379
Public Health	Pediatric Vaccine Assessment	32,133
Mental Health	Child Psychiatry Access	743

24. ACA Insurer Fee

Section 9010 of the Federal ACA program imposes a fee 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 mount 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.

(Dollars in Thousands)

24. 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 was not subject to an annual fee under section 9010 of the Federal Affordable Care Act.

	2021	2020
ACA fee assessment payable for the upcoming year	$ –	$ –
ACA fee assessment paid	–	46,898
Premium written subject to ACA 9010 assessment	–	2,371,679
Total adjusted capital before surplus adjustment	N/A	837,478
Total adjusted capital after surplus adjustment	N/A	837,478
Authorized control level after surplus adjustment	N/A	151,702

25. 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, Inc.

We have audited the statutory-basis financial statements of Blue Cross and Blue Shield of Massachusetts, 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 schedule of life and health reinsurance disclosures and 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, Inc.

Supplemental Schedule of Life and Health Reinsurance Disclosures
(Dollars in Thousands)

December 31, 2021

The following information regarding reinsurance contracts is presented to satisfy the disclosure requirements in SSAP No. 61R, *Life, Deposit-Type and Accident and Health Reinsurance*, which apply to reinsurance contracts entered into, renewed or amended on or after January 1, 1996.

1. Has the Company reinsured any risk with any other entity under a reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) that is subject to Appendix A-791, *Life and Health Reinsurance Agreements*, and includes a provision that limits the reinsurer's assumption of significant risks identified in Appendix A-791?

Yes ☐ No ☒

2. Has the Company reinsured any risk with any other entity under a reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) that is not subject to Appendix A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk?

Yes ☐ No ☒

If yes, indicate the number of reinsurance contracts to which such provisions apply:- ___________.

If yes, indicate whether the reinsurance credit was reduced for the risk-limiting features.

Yes ☐ No ☐ N/A ☒

3. Does the Company have any reinsurance contracts (other than reinsurance contracts with a federal or state facility) that contain one or more of the following features which may result in delays in payment in form or in fact:

(a) Provisions that permit the reporting of losses to be made less frequently than quarterly,

(b) Provisions that permit settlements to be made less frequently than quarterly,

(c) Provisions that permit payments due from the reinsurer to not be made in cash within ninety (90) days of the settlement date (unless there is no activity during the period); or

(d) The existence of payment schedules, accumulating retentions from multiple years, or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes ☐ No ☒

4. Has the Company reflected reinsurance accounting credit for any contracts that are not subject to Appendix A-791 and not yearly renewable term reinsurance, which meet the risk transfer requirements of SSAP No. 61R?

Type of Contract	Response	Identify reinsurance contract(s):	Has the insured event(s) triggering contract coverage been recognized?
Assumption reinsurance – new for the reporting period	Yes ☐ No ☒	N/A	N/A
Non-proportional reinsurance, not resulting in significant surplus relief:	Yes ☒ No ☐	Specific & Agg. Quota Share and Specific Excess of Loss	Yes ☒ No ☐ N/A ☐

5. Has the Company ceded any risk, which is not subject to Appendix A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statements, and either:

   (a) Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or

   Yes ☐ No ☒ N/A ☐

   (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

   Yes ☐ No ☒ N/A ☐

If the answer to item (a) or item (b) is yes, include relevant information regarding GAAP to SAP differences from the accounting policy footnote to the audited statutory-basis financial statements to explain why the contract(s) is treated differently for GAAP and SAP.

Blue Cross and Blue Shield of Massachusetts, Inc.

Investment Risk Interrogatories – Statutory Basis
(Dollars in Thousands)

December 31, 2021

1. Blue Cross and Blue Shield of Massachusetts, Inc.'s total admitted assets as reported on page 2 of its annual statement are $2,727,486.

2. Following are the ten largest exposures to a single issuer/borrower/investment, excluding: (i) 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, (ii) property occupied by Blue Cross and Blue Shield of Massachusetts, Inc. and (iii) policy loans:

Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
Federal National Mortgage Association	Long Term Bonds	$ 157,016	5.757%
Federal Home Loan Mortgage Corporation	Long Term Bonds	84,519	3.099
Primus HY Bond Fund	Other Invested Asset	74,565	2.734
Lazard Asset Management	Other Invested Asset	71,755	2.631
RREEF AMERICA	Common Stock	47,497	1.741
PIMCO All Asset Fund	Common Stock	45,801	1.679
Westwood Trust LC Value Equity Fund	Other Invested Asset	43,170	1.583
Parametric Defensive Equity Fund	Other Invested Asset	40,556	1.487
Clarion Lion Prop Core RE Fund	Other Invested Asset	39,927	1.464
Sprucegrove Intl Value Equity Fund	Other Invested Asset	38,665	1.418

Investment Risk Interrogatories – Statutory Basis (continued)

(Dollars in Thousands)

3. Blue Cross and Blue Shield of Massachusetts, Inc.'s total admitted assets held in bonds 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	$ 754,833	27.675%	P/RP-1	$ 1,055	0.039%
NAIC-2	103,194	3.783	P/RP-2		
NAIC-3	366	0.013	P/RP-3		
NAIC-4			P/RP-4		
NAIC-5			P/RP-5		
NAIC-6			P/RP-6		
	$ 858,393			$ 1,055	

4. Assets held in foreign investments:

Assets	**Amount**	**Percentage of Total Admitted Assets**
Admitted assets held in foreign investments	$ 117,629	4.313%

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

NAIC Sovereign Rating	**Amount**	**Percentage of Total Admitted Assets**
Countries rated NAIC-1	$ 96,477	3.537%
Countries rated NAIC-2	200	0.007
Countries rated NAIC-3 or below	20,952	0.768

Blue Cross and Blue Shield of Massachusetts, Inc.

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

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

NAIC Sovereign Rating	Amount	Percentage of Total Admitted Assets
Countries rated NAIC-1:		
Cayman Islands	$ 18,724	0.686%
Japan	14,536	0.533
Countries rated NAIC-2:		
Italy	200	0.007
Countries rated NAIC-3 or below:		
Guernsey	19,671	0.721
Argentina	1,281	0.047

7. The Company has no unhedged foreign currency exposure that are greater than 2.5% of the company's total admitted assets.

8. The Company has no aggregate unhedged foreign currency exposure that are greater than 2.5% of the company's total admitted assets.

9. The Company has no unhedged foreign currency exposures to a single country that are greater than 2.5% of the company's total admitted assets.

Blue Cross and Blue Shield of Massachusetts, Inc.

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

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

Issuer	NAIC Rating	Amount	Percentage of Total Admitted Assets
Park Square Capital Opportunity III Fund		$ 19,653	0.721%
HSBC Holdings PLC	1FE	2,236	0.082
BNP Paribas SA	1FE, 2FE	2,044	0.075
AIA Group Limited	1FE	2,001	0.073
Mitsubishi UFJ Financial Group, Inc.	1FE	1,902	0.070
Macquarie Group Limited	1FE, 2FE	1,883	0.069
UBS Group AG	1FE	1,610	0.059
Airbus SE	1FE	1,543	0.057
AstraZeneca PLC	1FE	1,501	0.055
Sony Group Corporation	2FE	1,484	0.054

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 admitted assets held in investments with contractual sales restrictions.

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

Name of Issuer	Amount	Percentage of Total Admitted Assets
Primus HY Bond Fund	$ 74,565	2.734%
Lazard Asset Management	71,755	2.631
RREEF AMERICA	47,497	1.741
PIMCO All Asset Fund	45,801	1.679
Westwood Trust LC Value Equity Fund	43,170	1.583
Parametric Defensive Equity Fund	40,556	1.487
Clarion Lion Prop Core RE Fund	39,927	1.464
Sprucegrove Intl Value Equity Fund	38,665	1.418
Vanguard Total World Index Stock ETF	31,955	1.172
BeachPoint HY Bond Fund	25,723	0.943

Blue Cross and Blue Shield of Massachusetts, Inc.

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

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 $131,402.

Largest three investments held in non-affiliated, privately placed equities:	**Amount**	**Percentage of Total Admitted Assets**
Oak Street Triple Net Lease	$ 26,937	0.988%
Park Sq. Cap Cr Oppty III	19,653	0.721
Brookfield Infrastructure IV	16,866	0.618

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

Fund Manager	**Amount**	**Diversified**	**Non-Diversified**
Primus HY Bond Fund LP	$ 74,565	$ 74,565	$ 0.00
Lazard Asset Management LP	71,755	71,755	0.00
RREEF AMERICA REIT	47,497	47,497	0.00
PIMCO Funds – PIMCO All Asset Fund	45,801	45,801	0.00
Clarion Lion Prop Core RE Fund	39,927	39,927	0.00
Vanguard Total World Index Stock ETF	31,955	31,955	0.00
BeachPoint HY Bond Fund LP	25,723	25,723	0.00
Dreyfus Treasury Obligations Cash		22,198	0.00
Management	22,198		
Boston Trust Walden Small Cap Fund	22,194	22,194	0.00
Putnam Total Return Fund LLC	16,567	16,567	0.00

15. The Company has no assets held in general partnership interests that are 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 that are 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 had no securities lending or repurchase agreements during 2021.

21. The Company had no warrants not attached to other financial instruments, options, caps, and floors during 2021.

22. The Company had 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, 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	$ 248,664	12.327%	$ 248,664	13.555%
All other governments	3,116	0.154	3,116	0.170
U.S. states, territories, and possessions, etc. guaranteed	2,476	0.123	2,476	0.135
U.S. political subdivisions of states, territories, and possessions, guaranteed	1,330	0.066	1,330	0.073
U.S. special revenue and special assessment obligations, etc. non-guaranteed	243,975	12.095	243,975	13.300
Industrial and miscellaneous	352,101	17.455	352,101	19.194
Hybrid securities	555	0.028	555	0.030
SVO identified funds	–	–	–	–
Parent, subsidiaries, and affiliates	–	–	–	–
Bank loans	–	–	–	–
Total long-term bonds	852,217	42.247	852,217	46.457
Preferred Stocks				
Industrial and miscellaneous (Unaffiliated)	1,055	0.052	1,055	0.058
Parent, subsidiaries, and affiliates				
Total preferred stocks	1,055	0.052	1,055	0.058
Common stocks				
Industrial and miscellaneous Publicly traded (Unaffiliated)	68,897	3.415	68,897	3.756
Industrial and miscellaneous Other (Unaffiliated)	54,165	2.685	54,165	2.953
Parent, subsidiaries, and affiliates Publicly traded				
Parent, subsidiaries, and affiliates Other	353	0.017	353	0.019
Mutual Funds	120,126	5.955	120,126	6.548
Unit investment trusts	–	–	–	–
Closed-end funds	–	–	–	–
Total common stocks	$ 243,541	12.073%	$ 243,541	13.276%

Blue Cross and Blue Shield of Massachusetts, Inc.

Summary of Investment Schedule – Statutory Basis (continued)

(Dollars in Thousands)

December 31, 2021

	Gross Investment Holdings*		Admitted Assets as Reported in Annual Statement	
Investment Categories	**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	93,788	4.649	93,788	5.113
Properties held for production of income	–	–	–	–
Properties held for sale	–	–	–	–
Total real estate	93,788	4.649	93,788	5.113
Cash, cash equivalents, and short-term investments				
Cash	(383)	(0.019)	(383)	(0.021)
Cash equivalents	22,393	1.110	22,393	1.221
Short-term investments	6,176	0.306	6,176	0.337
Total cash, cash equivalents, and short-term investments	28,186	1.397	28,186	1.537
Contract loans	–	–	–	–
Derivatives	–	–	–	–
Other invested assets (Schedule BA)	772,006	38.271	589,191	32.119
Receivables for securities	26,438	1.311	26,438	1.441
Securities Lending	–	–	–	–
Other invested assets	–	–	–	–
Total invested assets	$ 2,017,231	100.00%	$ 1,834,416	100.00%

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

Blue Cross and Blue Shield of Massachusetts, Inc.

Note to Supplemental Investment Disclosure

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, Inc.'s 2021 Statutory Annual Statement as filed with the Commonwealth of Massachusetts Division of Insurance.

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