

ANNUAL STATEMENT

OF THE

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

of PROVIDENCE COUNTY

in the state of RHODE ISLAND

TO THE

Insurance Department

OF THE

RHODE ISLAND

FOR THE YEAR ENDED

December 31, 2011

HEALTH

2011



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HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2011
OF THE CONDITION AND AFFAIRS OF THE

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

NAIC Group Code 0000 (Current Period) 0000 (Prior Period) NAIC Company Code 53473 Employer's ID Number 05-0158952

Organized under the Laws of STATE OF RHODE ISLAND, State of Domicile or Port of Entry RHODE ISLAND

Country of Domicile UNITED STATES

Licensed as business type: Life, Accident & Health Property/Casualty Hospital, Medical & Dental Service or Indemnity
 Dental Service Corporation Vision Service Corporation Health Maintenance Organization
 Other Is HMO Federally Qualified? Yes No

Incorporated/Organized February 27, 1939 Commenced Business: September 1, 1939

Statutory Home Office 500 EXCHANGE STREET, PROVIDENCE, RI 02903
 (Street and Number) (City or Town, State and Zip Code)

Main Administrative Office 500 EXCHANGE STREET (Street and Number)
PROVIDENCE, RI 02903 (City or Town, State and Zip Code)
401-459-1000 (Area Code) (Telephone Number)

Mail Address 500 EXCHANGE STREET, PROVIDENCE, RI 02903
 (Street and Number or P.O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records 500 EXCHANGE STREET, PROVIDENCE, RI 02903 401-459-1000
 (Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Internet Website Address WWW.BCBSRI.COM

Statutory Statement Contact BRIAN M. O'MALLEY 401-459-1924
 (Name) (Area Code) (Telephone Number) (Extension)
BRIAN.O'MALLEY@BCBSRI.ORG 401-459-1198
 (E-Mail Address) (Fax Number)

OFFICERS

	Name	Title
1.	<u>PETER ANDRUSZKIEWICZ</u>	<u>PRESIDENT & CEO</u>
2.	<u>MICHELE B. LEDERBERG</u>	<u>GEN. COUNSEL & CHIEF ADMIN. OFF.</u>
3.	<u>BRIAN M. O'MALLEY</u>	<u>CORPORATE TREASURER</u>

VICE-PRESIDENTS

Name	Title	Name	Title
<u>CHRISTOPHER G. BUSH</u>	<u>V.P. - UNDERWRITING</u>	<u>THOMAS D. CAUTHORN</u>	<u>V.P. & CHIEF SALES OFFICER</u>
<u>ERIC E. GASBARRO</u>	<u>V.P.- HUMAN RESOURCES</u>	<u>PAUL HANLON</u>	<u>V.P.- INFORMATION TECHNOLOGY</u>
<u>AUGUSTINE A. MANOCCHIA M.D.</u>	<u>SR. V.P. & CHIEF MEDICAL OFFICER</u>	<u>SHANNA C. MARZILLI</u>	<u>CHIEF MARKETING OFFICER</u>
<u>MONICA A. NERONHA</u>	<u>V.P. - LEGAL SERVICES</u>	<u>MARK D. WAGGONER</u>	<u>SR. V.P. - NETWORK. & CONTRACTING</u>
<u>WILLIAM K. WRAY</u>	<u>CHIEF OPERATING OFFICER</u>		

DIRECTORS OR TRUSTEES

<u>DENISE A. BARGE</u>	<u>FRANCIS X. BASILE JR. M.D.</u>	<u>FREDRIC V. CHRISTIAN M.D.</u>	<u>JUDGE EDWARD C. CLIFTON</u>
<u>MEREDITH CURREN</u>	<u>MICHAEL V. D'AMBRA</u>	<u>SCOTT DUHAMEL</u>	<u>CHRISTINE C. FERGUSON</u>
<u>SAMUEL H. HAVENS</u>	<u>PETER C. HAYES</u>	<u>JUANA I. HORTON</u>	<u>DEBORAH R. JACOBSON</u>
<u>CHUCK LOCURTO</u>	<u>JOHN P. MAGUIRE</u>	<u>CAROL A. MUMFORD</u>	<u>ROBERT G. NORTON</u>
<u>ANNE E. POWERS</u>	<u>RANDY A. WYROFSKY</u>		

State of RHODE ISLAND
 County of PROVIDENCE ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

<u>PETER ANDRUSZKIEWICZ</u> (Signature) PETER ANDRUSZKIEWICZ (Printed Name) 1. PRESIDENT & CEO (Title)	<u>MICHELE B. LEDERBERG</u> (Signature) MICHELE B. LEDERBERG (Printed Name) 2. GEN. COUNSEL & CHIEF ADMIN. OFF. (Title)	<u>BRIAN M. O'MALLEY</u> (Signature) BRIAN M. O'MALLEY (Printed Name) 3. CORPORATE TREASURER (Title)
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Subscribed and sworn to before me this _____ day of _____, 2012

a. Is this an original filing? Yes No
 b. If no: 1. State the amendment number _____
 2. Date filed _____
 3. Number of pages attached _____

ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D)	340,433,807		340,433,807	406,607,947
2. Stocks (Schedule D):				
2.1 Preferred stocks	428,890		428,890	536,113
2.2 Common stocks	41,097,963		41,097,963	18,212,951
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ 85,101,852 encumbrances)	32,057,832		32,057,832	31,340,353
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 3,544,566, Schedule E - Part 1), cash equivalents (\$ 666,816, Schedule E - Part 2), and short-term investments (\$ 11,026,266, Schedule DA)	15,237,648		15,237,648	7,913,978
6. Contract loans (including \$ 0 premium notes)				
7. Derivatives (Schedule DB)				
8. Other invested assets (Schedule BA)	40,446,911		40,446,911	5,892,139
9. Receivables for securities	3,791,167		3,791,167	
10. Securities lending reinvested collateral assets (Schedule DL)				
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	473,494,218		473,494,218	470,503,481
13. Title plants less \$ 0 charged off (for Title insurers only)				
14. Investment income due and accrued	2,973,871		2,973,871	3,344,475
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	43,137,797	2,266,133	40,871,664	36,770,597
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 0 earned but unbilled premiums)				
15.3 Accrued retrospective premiums	910,895	327,725	583,170	3,811,787
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers	617,081		617,081	
16.2 Funds held by or deposited with reinsured companies				
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans	18,578,382		18,578,382	21,461,612
18.1 Current federal and foreign income tax recoverable and interest thereon	49,552		49,552	13,629,420
18.2 Net deferred tax asset	40,132,342	15,789,181	24,343,161	16,434,435
19. Guaranty funds receivable or on deposit				
20. Electronic data processing equipment and software	109,505,554	105,518,415	3,987,139	6,187,612
21. Furniture and equipment, including health care delivery assets (\$ 0)	8,110,092	8,110,092		
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates	237,374		237,374	741,337
24. Health care (\$ 19,505,941) and other amounts receivable	22,074,781	2,568,840	19,505,941	13,490,949
25. Aggregate write-ins for other than invested assets	113,538,360	93,320,294	20,218,066	20,436,201
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	833,360,299	227,900,680	605,459,619	606,811,906
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Total (Lines 26 and 27)	833,360,299	227,900,680	605,459,619	606,811,906

DETAILS OF WRITE-IN LINES				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page				
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)				
2501. PREPAID EXPENSES	93,311,784	93,311,784		
2502. OTHER RECEIVABLES	9,511,380		9,511,380	14,740,796
2503. FEP UNPAID CLAIMS	7,268,000		7,268,000	5,304,000
2598. Summary of remaining write-ins for Line 25 from overflow page	3,447,196	8,510	3,438,686	391,405
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	113,538,360	93,320,294	20,218,066	20,436,201

LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ 0 reinsurance ceded)	110,695,947		110,695,947	124,181,739
2. Accrued medical incentive pool and bonus amounts	1,154,604		1,154,604	1,028,000
3. Unpaid claims adjustment expenses	31,952,360		31,952,360	28,945,092
4. Aggregate health policy reserves, including the liability of \$ 0 for medical loss ratio rebate per the Public Health Services Act	3,017,661		3,017,661	92,700,000
5. Aggregate life policy reserves				
6. Property/casualty unearned premium reserves				
7. Aggregate health claim reserves	1,192,000		1,192,000	1,223,000
8. Premiums received in advance	23,849,592		23,849,592	22,905,146
9. General expenses due or accrued	40,349,243		40,349,243	39,974,808
10.1. Current federal and foreign income tax payable and interest thereon (including \$ 0 on realized gains (losses))				
10.2. Net deferred tax liability				
11. Ceded reinsurance premiums payable	454,562		454,562	
12. Amounts withheld or retained for the account of others	1,816,560		1,816,560	1,434,642
13. Remittances and items not allocated	2,039,580		2,039,580	560,363
14. Borrowed money (including \$ 20,000,000 current) and interest thereon \$ 18,276 (including \$ 18,276 current)	20,018,276		20,018,276	
15. Amounts due to parent, subsidiaries and affiliates	561,502		561,502	913,207
16. Derivatives				
17. Payable for securities				
18. Payable for securities lending				
19. Funds held under reinsurance treaties (with \$ 0 authorized reinsurers and \$ 0 unauthorized reinsurers)				
20. Reinsurance in unauthorized companies				
21. Net adjustments in assets and liabilities due to foreign exchange rates				
22. Liability for amounts held under uninsured plans	21,499,564		21,499,564	20,193,978
23. Aggregate write-ins for other liabilities (including \$ 18,069,229 current)	23,456,209		23,456,209	23,765,546
24. Total liabilities (Lines 1 to 23)	282,057,660		282,057,660	357,825,521
25. Aggregate write-ins for special surplus funds	X X X	X X X	(21,135,944)	14,670,878
26. Common capital stock	X X X	X X X		
27. Preferred capital stock	X X X	X X X		
28. Gross paid in and contributed surplus	X X X	X X X		
29. Surplus notes	X X X	X X X		
30. Aggregate write-ins for other than special surplus funds	X X X	X X X		
31. Unassigned funds (surplus)	X X X	X X X	344,537,903	234,315,507
32. Less treasury stock, at cost:				
32.1 0 shares common (value included in Line 26 \$ 0)	X X X	X X X		
32.2 0 shares preferred (value included in Line 27 \$ 0)	X X X	X X X		
33. Total capital and surplus (Lines 25 to 31 minus Line 32)	X X X	X X X	323,401,959	248,986,385
34. Total liabilities, capital and surplus (Lines 24 and 33)	X X X	X X X	605,459,619	606,811,906

DETAILS OF WRITE-IN LINES				
2301. OTHER ACCOUNTS PAYABLE	11,319,544		11,319,544	8,857,564
2302. LIABILITY FOR DIRECT PAY PREMIUM ASSISTANCE PROGRAM	5,367,964		5,367,964	3,392,649
2303. ACCRUED CAPITAL EXPENSES	3,935,759		3,935,759	5,034,470
2398. Summary of remaining write-ins for Line 23 from overflow page	2,832,942		2,832,942	6,480,863
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	23,456,209		23,456,209	23,765,546
2501. ADMITTED ADJUSTED GROSS DEFERRED TAX ASSET	X X X	X X X	(21,135,944)	14,670,878
2502.	X X X	X X X		
2503.	X X X	X X X		
2598. Summary of remaining write-ins for Line 25 from overflow page	X X X	X X X		
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	X X X	X X X	(21,135,944)	14,670,878
3001.	X X X	X X X		
3002.	X X X	X X X		
3003.	X X X	X X X		
3098. Summary of remaining write-ins for Line 30 from overflow page	X X X	X X X		
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)	X X X	X X X		

NONE

STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months	X X X	4,202,517	4,451,995
2. Net premium income (including \$ 0 non-health premium income)	X X X	1,565,901,741	1,631,066,913
3. Change in unearned premium reserves and reserve for rate credits	X X X	3,017,661	
4. Fee-for-service (net of \$ 0 medical expenses)	X X X		
5. Risk revenue	X X X		
6. Aggregate write-ins for other health care related revenues	X X X		
7. Aggregate write-ins for other non-health revenues	X X X		
8. Total revenues (Lines 2 to 7)	X X X	1,568,919,402	1,631,066,913
Hospital and Medical:			
9. Hospital/medical benefits		951,051,727	1,015,879,169
10. Other professional services		22,648,399	23,966,793
11. Outside referrals			
12. Emergency room and out-of-area		141,876,078	142,428,935
13. Prescription drugs		179,597,909	206,287,786
14. Aggregate write-ins for other hospital and medical		43,720,272	52,928,267
15. Incentive pool, withhold adjustments and bonus amounts		201,604	
16. Subtotal (Lines 9 to 15)		1,339,095,989	1,441,490,950
Less:			
17. Net reinsurance recoveries			161,861
18. Total hospital and medical (Lines 16 minus 17)		1,339,095,989	1,441,329,089
19. Non-health claims (net)			
20. Claims adjustment expenses, including \$ 25,838,312 cost containment expenses		92,075,577	88,526,853
21. General administrative expenses		155,180,064	170,703,009
22. Increase in reserves for life and accident and health contracts (including \$ 0 increase in reserves for life only)		(92,700,000)	(8,900,000)
23. Total underwriting deductions (Lines 18 through 22)		1,493,651,630	1,691,658,951
24. Net underwriting gain or (loss) (Lines 8 minus 23)	X X X	75,267,772	(60,592,038)
25. Net investment income earned (Exhibit of Net Investment Income, Line 17)		14,985,959	15,749,468
26. Net realized capital gains (losses) less capital gains tax of \$ 0		(4,252,910)	13,952,891
27. Net investment gains (losses) (Lines 25 plus 26)		10,733,049	29,702,359
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$ 0) (amount charged off \$ 0)]			
29. Aggregate write-ins for other income or expenses		(13,299,153)	9,666,943
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	X X X	72,701,668	(21,222,736)
31. Federal and foreign income taxes incurred	X X X	(7,239)	(7,143,050)
32. Net income (loss) (Lines 30 minus 31)	X X X	72,708,907	(14,079,686)

DETAILS OF WRITE-IN LINES			
0601.		X X X	
0602.		X X X	
0603.		X X X	
0698. Summary of remaining write-ins for Line 06 from overflow page		X X X	
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 06 above)		X X X	
0701.		X X X	
0702.		X X X	
0703.		X X X	
0798. Summary of remaining write-ins for Line 07 from overflow page		X X X	
0799. Totals (Lines 0701 through 0703 plus 0798) (Line 07 above)		X X X	
1401. MENTAL HEALTH			43,720,272
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page			
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)			43,720,272
2901. GOOD HEALTH BENEFIT REVENUE			4,560,901
2902. BLUECARD HOST REVENUE			4,380,781
2903. INCOME FROM HISTORIC TAX CREDITS			790,742
2998. Summary of remaining write-ins for Line 29 from overflow page			(23,031,577)
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)			(13,299,153)

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1	2
	Current Year	Prior Year
CAPITAL & SURPLUS ACCOUNT		
33. Capital and surplus prior reporting year	248,986,385	298,721,361
34. Net income or (loss) from Line 32	72,708,907	(14,079,686)
35. Change in valuation basis of aggregate policy and claim reserves		
36. Change in net unrealized capital gains (losses) less capital gains tax of \$ 0	(934,362)	(6,382,019)
37. Change in net unrealized foreign exchange capital gain or (loss)		
38. Change in net deferred income tax	(50,505,520)	35,226,325
39. Change in nonadmitted assets	4,372,328	(80,176,193)
40. Change in unauthorized reinsurance		
41. Change in treasury stock		
42. Change in surplus notes		
43. Cumulative effect of changes in accounting principles		
44. Capital Changes:		
44.1 Paid in		
44.2 Transferred from surplus (Stock Dividend)		
44.3 Transferred to surplus		
45. Surplus adjustments:		
45.1 Paid in		
45.2 Transferred to capital (Stock Dividend)		
45.3 Transferred from capital		
46. Dividends to stockholders		
47. Aggregate write-ins for gains or (losses) in surplus	48,774,221	15,676,597
48. Net change in capital and surplus (Lines 34 to 47)	74,415,574	(49,734,976)
49. Capital and surplus end of reporting year (Line 33 plus 48)	323,401,959	248,986,385

DETAILS OF WRITE-IN LINES		
4701. ADDITIONAL PENSION MINIMUM LIABILITY	26,367,913	
4702. ADMITTED ADJUSTED GROSS DEFERRED TAX ASSET	21,135,944	14,670,878
4703. CHANGE IN UNRECOGNIZED PRIOR SERVICE COST	1,911,575	1,005,719
4798. Summary of remaining write-ins for Line 47 from overflow page	(641,211)	
4799. Totals (Lines 4701 through 4703 plus 4798) (Line 47 above)	48,774,221	15,676,597

CASH FLOW

	1	2
Cash from Operations	Current Year	Prior Year
1. Premiums collected net of reinsurance	1,568,345,636	1,634,079,541
2. Net investment income	16,641,060	17,790,998
3. Miscellaneous income	(11,323,838)	7,224,387
4. Total (Lines 1 through 3)	1,573,662,858	1,659,094,926
5. Benefit and loss related payments	1,417,232,089	1,528,014,668
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	154,805,628	168,163,389
8. Dividends paid to policyholders		
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)	(13,851,385)	(90,941)
10. Total (Lines 5 through 9)	1,558,186,332	1,696,087,116
11. Net cash from operations (Line 4 minus Line 10)	15,476,526	(36,992,190)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	143,932,746	145,700,188
12.2 Stocks	4,969,354	72,725,253
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets	3,791,167	
12.6 Net gains (or losses) on cash, cash equivalents and short-term investments		
12.7 Miscellaneous proceeds	(2,619,327)	(1,729,316)
12.8 Total investment proceeds (Lines 12.1 to 12.7)	150,073,940	216,696,125
13. Cost of investments acquired (long-term only):		
13.1 Bonds	77,281,618	141,716,925
13.2 Stocks	32,666,846	9,799,683
13.3 Mortgage loans		
13.4 Real estate	550,343	1,219,870
13.5 Other invested assets	40,374,992	
13.6 Miscellaneous applications	22,690,880	37,428,689
13.7 Total investments acquired (Lines 13.1 to 13.6)	173,564,679	190,165,167
14. Net increase (decrease) in contract loans and premium notes		
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	(23,490,739)	26,530,958
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes		
16.2 Capital and paid in surplus, less treasury stock		
16.3 Borrowed funds	20,018,276	
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders		
16.6 Other cash provided (applied)	(4,680,303)	3,986,338
17. Net cash from financing and miscellaneous sources (Lines 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	15,337,973	3,986,338
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	7,323,760	(6,474,894)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	7,913,978	14,388,872
19.2 End of year (Line 18 plus Line 19.1)	15,237,738	7,913,978

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001		
20.0002		
20.0003		

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Net premium income	1,565,901,741	984,903,252	52,710,056	27,946,531		98,931,536	382,919,074	(228,145)	18,719,437	
2. Change in unearned premium reserves and reserve for rate credit	3,017,661					3,017,661				
3. Fee-for-service (net of \$ 0 medical expenses)										X X X
4. Risk revenue										X X X
5. Aggregate write-ins for other health care related revenues										X X X
6. Aggregate write-ins for other non-health care related revenues		X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	
7. Total revenues (Lines 1 to 6)	1,568,919,402	984,903,252	52,710,056	27,946,531		101,949,197	382,919,074	(228,145)	18,719,437	
8. Hospital/medical benefits	951,051,727	568,263,737	42,067,495			71,542,568	268,239,279	(419,266)	1,357,914	X X X
9. Other professional services	22,648,399			22,648,399						X X X
10. Outside referrals										X X X
11. Emergency room and out-of-area	141,876,078	105,486,577					36,220,349	(32,357)	201,509	X X X
12. Prescription drugs	179,597,909	112,427,186				24,203,238	30,881,510	(316)	12,086,291	X X X
13. Aggregate write-ins for other hospital and medical	43,720,272	37,239,524					6,334,061	146,687		X X X
14. Incentive pool, withhold adjustments and bonus amounts	201,604	175,395					26,209			X X X
15. Subtotal (Lines 8 to 14)	1,339,095,989	823,592,419	42,067,495	22,648,399		95,745,806	341,701,408	(305,252)	13,645,714	X X X
16. Net reinsurance recoveries										X X X
17. Total hospital and medical (Lines 15 minus 16)	1,339,095,989	823,592,419	42,067,495	22,648,399		95,745,806	341,701,408	(305,252)	13,645,714	X X X
18. Non-health claims (net)		X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	
19. Claims adjustment expenses including \$ 25,838,312 cost containment expenses	92,075,577	68,778,017	2,963,038	842,525		3,218,390	15,628,372	60,038	585,197	
20. General administrative expenses	155,180,064	121,420,201	4,481,781	1,274,371		3,388,856	23,638,895	90,812	885,148	
21. Increase in reserves for accident and health contracts	(92,700,000)	(92,700,000)								X X X
22. Increase in reserves for life contracts		X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	
23. Total underwriting deductions (Lines 17 to 22)	1,493,651,630	921,090,637	49,512,314	24,765,295		102,353,052	380,968,675	(154,402)	15,116,059	
24. Net underwriting gain or (loss) (Line 7 minus Line 23)	75,267,772	63,812,615	3,197,742	3,181,236		(403,855)	1,950,399	(73,743)	3,603,378	

DETAILS OF WRITE-IN LINES										
0501.										X X X
0502.										X X X
0503.										X X X
0598. Summary of remaining write-ins for Line 05 from overflow page										X X X
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 05 above)										X X X
0601.		X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	
0602.		X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	
0603.		X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	
0698. Summary of remaining write-ins for Line 06 from overflow page		X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 06 above)		X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	
1301. MENTAL HEALTH	43,720,272	37,239,524					6,334,061	146,687		X X X
1302.										X X X
1303.										X X X
1398. Summary of remaining write-ins for Line 13 from overflow page										X X X
1399. Totals (Lines 1301 through 1303 plus 1398) (Line 13 above)	43,720,272	37,239,524					6,334,061	146,687		X X X

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 – PREMIUMS

Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Ceded	4 Net Premium Income (Cols. 1 + 2 - 3)
1. Comprehensive (hospital and medical)	985,006,583		103,331	984,903,252
2. Medicare Supplement	52,710,056			52,710,056
3. Dental only	27,946,531			27,946,531
4. Vision only				
5. Federal Employees Health Benefits Plan	101,949,197			101,949,197
6. Title XVIII – Medicare	382,919,074			382,919,074
7. Title XIX – Medicaid	(228,145)			(228,145)
8. Other health	25,207,260		6,487,823	18,719,437
9. Health subtotal (Lines 1 through 8)	1,575,510,556		6,591,154	1,568,919,402
10. Life				
11. Property/casualty				
12. Totals (Lines 9 to 11)	1,575,510,556		6,591,154	1,568,919,402

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 – CLAIMS INCURRED DURING THE YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Payments during the year:										
1.1 Direct	1,398,649,995	864,614,448	41,104,681	22,635,399		94,075,186	358,993,021	3,747,940	13,479,320	
1.2 Reinsurance assumed										
1.3 Reinsurance ceded										
1.4 Net	1,398,649,995	864,614,448	41,104,681	22,635,399		94,075,186	358,993,021	3,747,940	13,479,320	
2. Paid medical incentive pools and bonuses	75,000						75,000			
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct	110,695,947	69,046,009	6,153,000	1,338,000		7,306,918	25,687,343	1,893	1,162,784	
3.2 Reinsurance assumed										
3.3 Reinsurance ceded										
3.4 Net	110,695,947	69,046,009	6,153,000	1,338,000		7,306,918	25,687,343	1,893	1,162,784	
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct	1,192,000	1,192,000								
4.2 Reinsurance assumed										
4.3 Reinsurance ceded										
4.4 Net	1,192,000	1,192,000								
5. Accrued medical incentive pools and bonuses, current year	1,154,604	935,705					218,899			
6. Net healthcare receivables (a)	46,037,214	29,938,123	262,186				13,476,845	2,360,060		
7. Amounts recoverable from reinsurers December 31, current year										
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct	124,181,739	80,098,916	4,928,000	1,325,000		5,636,298	29,502,110	1,695,025	996,390	
8.2 Reinsurance assumed										
8.3 Reinsurance ceded										
8.4 Net	124,181,739	80,098,916	4,928,000	1,325,000		5,636,298	29,502,110	1,695,025	996,390	
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct	1,223,000	1,223,000								
9.2 Reinsurance assumed										
9.3 Reinsurance ceded										
9.4 Net	1,223,000	1,223,000								
10. Accrued medical incentive pools and bonuses, prior year	1,028,000	649,600					350,600	27,800		
11. Amounts recoverable from reinsurers December 31, prior year										
12. Incurred benefits:										
12.1 Direct	1,339,095,989	823,592,418	42,067,495	22,648,399		95,745,806	341,701,409	(305,252)	13,645,714	
12.2 Reinsurance assumed										
12.3 Reinsurance ceded										
12.4 Net	1,339,095,989	823,592,418	42,067,495	22,648,399		95,745,806	341,701,409	(305,252)	13,645,714	
13. Incurred medical incentive pools and bonuses	201,604	286,105					(56,701)	(27,800)		

(a) Excludes \$ 0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A – CLAIMS LIABILITY END OF CURRENT YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Reported in Process of Adjustment:										
1.1 Direct	33,035,949	23,010,927	307,650	335,838		1,380,308	6,836,549	1,893	1,162,784	
1.2 Reinsurance assumed										
1.3 Reinsurance ceded										
1.4 Net	33,035,949	23,010,927	307,650	335,838		1,380,308	6,836,549	1,893	1,162,784	
2. Incurred but Unreported:										
2.1 Direct	77,659,998	46,035,082	5,845,350	1,002,162		5,926,610	18,850,794			
2.2 Reinsurance assumed										
2.3 Reinsurance ceded										
2.4 Net	77,659,998	46,035,082	5,845,350	1,002,162		5,926,610	18,850,794			
3. Amounts Withheld from Paid Claims and Capitations:										
3.1 Direct										
3.2 Reinsurance assumed										
3.3 Reinsurance ceded										
3.4 Net										
4. TOTALS:										
4.1 Direct	110,695,947	69,046,009	6,153,000	1,338,000		7,306,918	25,687,343	1,893	1,162,784	
4.2 Reinsurance assumed										
4.3 Reinsurance ceded										
4.4 Net	110,695,947	69,046,009	6,153,000	1,338,000		7,306,918	25,687,343	1,893	1,162,784	

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2B – ANALYSIS OF CLAIMS UNPAID – PRIOR YEAR-NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5 Claims Incurred in Prior Years (Columns 1 + 3)	6 Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year		
1. Comprehensive (hospital and medical)	80,082,303	770,840,772	3,239,156	80,690,226	83,321,459	81,321,916
2. Medicare Supplement	4,642,378	36,293,914	100,576	6,220,813	4,742,954	4,928,000
3. Dental only	1,248,733	21,386,666	1,654	1,336,346	1,250,387	1,325,000
4. Vision only						
5. Federal Employees Health Benefits Plan	7,261,218	86,813,968	152,883	7,154,035	7,414,101	5,636,298
6. Title XVIII – Medicare	29,724,352	323,949,275	1,135,664	29,871,073	30,860,016	29,502,110
7. Title XIX – Medicaid	3,580,489		169,344		3,749,833	1,695,025
8. Other health	1,020,125	12,459,195	208,533	954,251	1,228,658	996,390
9. Health subtotal (Lines 1 through 8)	127,559,598	1,251,743,790	5,007,810	126,226,744	132,567,408	125,404,739
10. Health care receivables (a)	15,040,133	11,650,474	3,292,628	16,053,979	18,332,761	
11. Other non-health						
12. Medical incentive pools and bonus amounts	75,000		193,884	960,720	268,884	1,028,000
13. Totals (Lines 9 - 10 + 11 + 12)	112,594,465	1,240,093,316	1,909,066	111,133,485	114,503,531	126,432,739

(a) Excludes \$ 0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)
Hospital & Medical

Section A – Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	911,836	911,500	911,506	912,205	911,989
2. 2007	854,995	937,610	936,983	938,582	938,427
3. 2008	X X X	831,316	884,862	884,892	884,672
4. 2009	X X X	X X X	802,429	848,965	848,453
5. 2010	X X X	X X X	X X X	791,064	837,053
6. 2011	X X X	X X X	X X X	X X X	770,841

Section B – Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	911,836	911,500	911,506	912,205	911,989
2. 2007	854,995	937,610	936,983	938,582	938,427
3. 2008	X X X	831,316	884,862	884,892	884,672
4. 2009	X X X	X X X	802,429	848,695	848,453
5. 2010	X X X	X X X	X X X	791,064	840,292
6. 2011	X X X	X X X	X X X	X X X	851,531

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2007	1,108,196	938,427			938,427	84.681			938,427	84.681
2. 2008	1,079,152	884,672			884,672	81.978			884,672	81.978
3. 2009	1,025,508	848,453			848,453	82.735			848,453	82.735
4. 2010	994,471	837,053	27,474	3.282	864,527	86.933	140	42	864,709	86.952
5. 2011	984,903	770,841	27,474	3.564	798,315	81.055	65,597	19,670	883,582	89.713

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UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)
Medicare Supplement

Section A – Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	40,140	40,595	39,568	39,564	39,554
2. 2007	35,435	39,552	39,997	39,986	39,978
3. 2008	X X X	34,758	40,210	40,118	40,109
4. 2009	X X X	X X X	38,660	34,284	34,439
5. 2010	X X X	X X X	X X X	39,131	43,553
6. 2011	X X X	X X X	X X X	X X X	36,294

Section B – Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	40,140	40,595	39,568	39,564	39,554
2. 2007	35,435	39,552	39,997	39,986	39,978
3. 2008	X X X	34,758	40,210	40,118	40,109
4. 2009	X X X	X X X	38,660	34,284	34,439
5. 2010	X X X	X X X	X X X	39,131	43,654
6. 2011	X X X	X X X	X X X	X X X	42,515

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Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2007	45,091	39,978			39,978	88.661			39,978	88.661
2. 2008	46,978	40,109			40,109	85.378			40,109	85.378
3. 2009	47,615	34,439			34,439	72.328			34,439	72.328
4. 2010	49,155	43,553	1,322	3.035	44,875	91.293	101	15	44,991	91.529
5. 2011	52,710	36,294	1,322	3.642	37,616	71.364	6,221	933	44,770	84.936

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)
Dental Only

Section A – Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	25,544	25,560	25,560	25,560	25,560
2. 2007	23,086	24,252	24,265	24,265	24,265
3. 2008	X X X	24,838	26,711	26,724	26,723
4. 2009	X X X	X X X	25,341	27,214	27,221
5. 2010	X X X	X X X	X X X	25,341	26,583
6. 2011	X X X	X X X	X X X	X X X	21,387

Section B – Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	25,544	25,560	25,560	25,560	25,560
2. 2007	23,086	24,252	24,265	24,265	24,265
3. 2008	X X X	24,838	26,711	26,724	26,723
4. 2009	X X X	X X X	25,341	27,214	27,221
5. 2010	X X X	X X X	X X X	25,341	26,585
6. 2011	X X X	X X X	X X X	X X X	22,723

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2007	29,142	24,265			24,265	83.265			24,265	83.265
2. 2008	31,058	26,723			26,723	86.042			26,723	86.042
3. 2009	30,611	27,221			27,221	88.926			27,221	88.926
4. 2010	28,647	26,583	731	2.750	27,314	95.347	2	1	27,317	95.357
5. 2011	27,947	21,387	731	3.418	22,118	79.143	1,336	524	23,978	85.798

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UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
 (000 Omitted)
 Vision Only

Section A – Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior					
2. 2007					
3. 2008	XXX	NONE			
4. 2009	XXX		XXX		
5. 2010	XXX		XXX	XXX	
6. 2011	XXX		XXX	XXX	XXX

Section B – Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior					
2. 2007					
3. 2008	XXX	NONE			
4. 2009	XXX		XXX		
5. 2010	XXX		XXX	XXX	
6. 2011	XXX		XXX	XXX	XXX

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2007										
2. 2008										
3. 2009				NONE						
4. 2010										
5. 2011										

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UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)

Fed Emp Health Benefits Plan

Section A – Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	82,706	82,797	82,779	82,847	82,841
2. 2007	83,633	91,798	91,710	91,714	91,715
3. 2008	X X X	84,294	90,734	90,766	90,759
4. 2009	X X X	X X X	87,548	92,533	92,567
5. 2010	X X X	X X X	X X X	87,691	94,835
6. 2011	X X X	X X X	X X X	X X X	86,814

Section B – Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	82,706	82,797	82,779	82,847	82,841
2. 2007	83,633	91,798	91,710	91,714	91,715
3. 2008	X X X	84,294	90,734	90,766	90,759
4. 2009	X X X	X X X	87,548	92,533	92,567
5. 2010	X X X	X X X	X X X	87,691	94,988
6. 2011	X X X	X X X	X X X	X X X	93,968

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2007	98,531	91,715			91,715	93.082			91,715	93.082
2. 2008	97,943	90,759			90,759	92.665			90,759	92.665
3. 2009	98,433	92,567			92,567	94.041			92,567	94.041
4. 2010	100,990	94,835	3,037	3.202	97,872	96.913	153	46	98,071	97.110
5. 2011	101,949	86,814	3,037	3.498	89,851	88.133	7,154	2,134	99,139	97.244

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UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)
Title XVIII - Medicare

Section A – Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	351,033	352,706	352,674	352,630	352,613
2. 2007	332,349	359,635	359,729	359,704	359,667
3. 2008	X X X	342,566	365,858	366,222	366,151
4. 2009	X X X	X X X	354,675	375,778	375,414
5. 2010	X X X	X X X	X X X	317,255	339,653
6. 2011	X X X	X X X	X X X	X X X	323,949

Section B – Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	351,033	352,706	352,674	352,630	352,613
2. 2007	332,349	359,635	359,729	359,704	359,667
3. 2008	X X X	342,566	365,858	366,222	366,151
4. 2009	X X X	X X X	354,675	375,778	375,414
5. 2010	X X X	X X X	X X X	317,255	340,789
6. 2011	X X X	X X X	X X X	X X X	353,820

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2007	411,897	359,667			359,667	87.320			359,667	87.320
2. 2008	445,822	366,151			366,151	82.129			366,151	82.129
3. 2009	440,831	375,414			375,414	85.161			375,414	85.161
4. 2010	396,335	339,653	11,419	3.362	351,072	88.580	1,136	300	352,508	88.942
5. 2011	382,919	323,949	11,419	3.525	335,368	87.582	29,871	7,893	373,132	97.444

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UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)
Title XIX - Medicaid

Section A – Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	34,869	34,838	34,832	34,824	34,814
2. 2007	27,609	30,528	30,435	30,414	30,397
3. 2008	X X X	34,322	36,632	36,630	36,613
4. 2009	X X X	X X X	37,979	41,662	41,689
5. 2010	X X X	X X X	X X X	36,632	37,571
6. 2011	X X X	X X X	X X X	X X X	

Section B – Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	34,869	34,838	34,832	34,824	34,814
2. 2007	27,609	30,528	30,435	30,414	30,397
3. 2008	X X X	34,322	36,632	36,630	36,643
4. 2009	X X X	X X X	37,979	41,662	41,689
5. 2010	X X X	X X X	X X X	36,632	37,740
6. 2011	X X X	X X X	X X X	X X X	

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2007	36,850	30,397			30,397	82.488			30,397	82.488
2. 2008	41,221	36,613			36,613	88.821			36,613	88.821
3. 2009	43,879	41,689			41,689	95.009			41,689	95.009
4. 2010	42,312	37,571	231	0.615	37,802	89.341	169	83	38,054	89.937
5. 2011	(228)									

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UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)
Other

Section A – Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	8,808	8,808	8,808	8,808	8,808
2. 2007	10,459	11,269	11,269	11,269	11,269
3. 2008	X X X	9,577	10,501	10,501	10,501
4. 2009	X X X	X X X	11,349	11,928	11,928
5. 2010	X X X	X X X	X X X	14,331	15,351
6. 2011	X X X	X X X	X X X	X X X	12,495

Section B – Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	8,808	8,808	8,808	8,808	8,808
2. 2007	10,459	11,274	11,269	11,269	11,269
3. 2008	X X X	10,445	10,515	10,501	10,501
4. 2009	X X X	X X X	12,092	11,928	11,928
5. 2010	X X X	X X X	X X X	14,331	15,560
6. 2011	X X X	X X X	X X X	X X X	13,413

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2007	13,929	8,808			8,808	63.235			8,808	63.235
2. 2008	12,991	10,501			10,501	80.833			10,501	80.833
3. 2009	15,014	11,928			11,928	79.446			11,928	79.446
4. 2010	17,979	15,351	435	2.834	15,786	87.802	209	56	16,051	89.276
5. 2011	18,719	12,459	435	3.491	12,894	68.882	954	256	14,104	75.346

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UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)
Grand Total

Section A – Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	1,454,936	1,456,804	1,455,727	1,456,438	1,456,179
2. 2007	1,367,566	1,494,644	1,494,388	1,495,934	1,495,718
3. 2008	X X X	1,361,671	1,455,508	1,455,853	1,455,528
4. 2009	X X X	X X X	1,357,981	1,432,364	1,431,711
5. 2010	X X X	X X X	X X X	1,311,445	1,394,599
6. 2011	X X X	X X X	X X X	X X X	1,251,780

Section B – Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior	1,454,936	1,456,804	1,455,727	1,456,438	1,456,179
2. 2007	1,367,566	1,494,649	1,494,388	1,495,934	1,495,718
3. 2008	X X X	1,362,539	1,455,522	1,455,853	1,455,558
4. 2009	X X X	X X X	1,358,724	1,432,094	1,431,711
5. 2010	X X X	X X X	X X X	1,311,445	1,399,608
6. 2011	X X X	X X X	X X X	X X X	1,377,970

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2007	1,743,636	1,493,257			1,493,257	85.640			1,493,257	85.640
2. 2008	1,755,165	1,455,528			1,455,528	82.928			1,455,528	82.928
3. 2009	1,701,891	1,431,711			1,431,711	84.125			1,431,711	84.125
4. 2010	1,629,889	1,394,599	44,649	3.202	1,439,248	88.303	1,910	543	1,441,701	88.454
5. 2011	1,568,919	1,251,744	44,418	3.548	1,296,162	82.615	111,133	31,410	1,438,705	91.700

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UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D – AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other
1. Unearned premium reserves									
2. Additional policy reserves (a)									
3. Reserve for future contingent benefits									
4. Reserve for rate credits or experience rating refunds (including \$ 0 for investment income)									
5. Aggregate write-ins for other policy reserves	3,017,661					3,017,661			
6. Totals (gross)	3,017,661					3,017,661			
7. Reinsurance ceded									
8. Totals (Net) (Page 3, Line 4)	3,017,661					3,017,661			
9. Present value of amounts not yet due on claims									
10. Reserve for future contingent benefits	550,000	550,000							
11. Aggregate write-ins for other claim reserves	642,000	642,000							
12. Totals (gross)	1,192,000	1,192,000							
13. Reinsurance ceded									
14. Totals (Net) (Page 3, Line 7)	1,192,000	1,192,000							

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DETAILS OF WRITE-IN LINES									
0501. FEP UNEARNED PREMIUM RESERVE	3,017,661					3,017,661			
0502.									
0503.									
0598. Summary of remaining write-ins for Line 05 from overflow page									
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 05 above)	3,017,661					3,017,661			
1101. MATERNITY	642,000	642,000							
1102.									
1103.									
1198. Summary of remaining write-ins for Line 11 from overflow page									
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)	642,000	642,000							

(a) Includes \$ 0 premium deficiency reserve.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 – ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$ 10,974,635 for occupancy of own building)		4,490,096	6,791,390		11,281,486
2. Salaries, wages and other benefits	23,815,609	16,006,607	65,050,578		104,872,794
3. Commissions (less \$ 0 ceded plus \$ 0 assumed)			14,931,306		14,931,306
4. Legal fees and expenses			1,023,862		1,023,862
5. Certifications and accreditation fees					
6. Auditing, actuarial and other consulting services	922,817	15,511,553	12,745,225		29,179,595
7. Traveling expenses	96,980	133,243	787,802		1,018,025
8. Marketing and advertising		500	2,137,795		2,138,295
9. Postage, express and telephone	350,630	1,139,230	3,428,054		4,917,914
10. Printing and office supplies	114,876	77,832	817,726		1,010,434
11. Occupancy, depreciation and amortization	263,502	374,574	1,361,559		1,999,635
12. Equipment					
13. Cost or depreciation of EDP equipment and software	914,604	9,073,611	9,441,376		19,429,591
14. Outsourced services including EDP, claims, and other services	5,899,663	29,651,843	33,587,757		69,139,263
15. Boards, bureaus and association fees	56,392	38,183	2,025,584		2,120,159
16. Insurance, except on real estate		748	915,891		916,639
17. Collection and bank service charges			31,026		31,026
18. Group service and administration fees			3,375,146		3,375,146
19. Reimbursements by uninsured plans	(5,351,429)	(13,569,918)	(28,612,662)		(47,534,009)
20. Reimbursements from fiscal intermediaries					
21. Real estate expenses				7,897,459	7,897,459
22. Real estate taxes				624,984	624,984
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes					
23.2 State premium taxes			21,786,453		21,786,453
23.3 Regulatory authority licenses and fees	3,080	1,368	192,975		197,423
23.4 Payroll taxes	1,550,318	977,422	3,716,204		6,243,944
23.5 Other (excluding federal income and real estate taxes)					
24. Investment expenses not included elsewhere					
25. Aggregate write-ins for expenses	(2,798,730)	2,330,373	(354,983)	841,797	18,457
26. Total expenses incurred (Lines 1 to 25)	25,838,312	66,237,265	155,180,064	9,364,240	(a) 256,619,881
27. Less expenses unpaid December 31, current year	9,036,924	22,915,435	40,349,244		72,301,603
28. Add expenses unpaid December 31, prior year	8,520,001	20,425,091	39,974,808		68,919,900
29. Amounts receivable relating to uninsured plans, prior year					
30. Amounts receivable relating to uninsured plans, current year					
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	25,321,389	63,746,921	154,805,628	9,364,240	253,238,178

DETAILS OF WRITE-IN LINES					
2501. ADMINISTRATIVE ALLOWANCES	340,557	875,244	(133,453)		1,082,348
2502. MISCELLANEOUS	43,287	289,973	182,434		515,694
2503. CLAIMS HANDLING EXPENSE		583,200			583,200
2598. Summary of remaining write-ins for Line 25 from overflow page	(3,182,574)	581,956	(403,964)	841,797	(2,162,785)
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	(2,798,730)	2,330,373	(354,983)	841,797	18,457

(a) Includes management fees of \$ 0 to affiliates and \$ 841,797 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 6,649,508	6,387,204
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 7,485,906	7,377,620
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)		1,675,770
2.21 Common stocks of affiliates		1,675,770
3. Mortgage loans	(c)	
4. Real estate	(d) 10,974,634	10,974,634
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 199,039	199,039
7. Derivative instruments	(f) 374,992	374,992
8. Other invested assets		
9. Aggregate write-ins for investment income		(186,868)
10. Total gross investment income	27,359,849	26,802,391
11. Investment expenses		(g) 9,364,240
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i) 2,452,191
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		11,816,431
17. Net investment income (Line 10 minus Line 16)		14,985,960

DETAILS OF WRITE-IN LINES		
0901. PROMPT PAY INTEREST		(186,868)
0902.		
0903.		
0998. Summary of remaining write-ins for Line 09 from overflow page		
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 09 above)		(186,868)
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		
1599. Totals (Lines 1501 through 1503) plus 1598 (Line 15 above)		

- (a) Includes \$ 164,888 accrual of discount less \$ 1,449,383 amortization of premium and less \$ 246,224 paid for accrued interest on purchases.
- (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued dividends on purchases.
- (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (d) Includes \$ 10,974,634 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.
- (g) Includes \$ 9,364,240 investment expenses and \$ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$ 0 interest on surplus notes and \$ 0 interest on capital notes.
- (i) Includes \$ 1,284,496 depreciation on real estate and \$ 0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. Government bonds	937,031		937,031	414,705	
1.1 Bonds exempt from U.S. tax					
1.2 Other bonds (unaffiliated)	409,747		409,747		
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)					
2.11 Preferred stocks of affiliates					
2.2 Common stocks (unaffiliated)	712,153	(5,274,764)	(4,562,611)	(349,715)	
2.21 Common stocks of affiliates					
3. Mortgage loans					
4. Real estate					
5. Contract loans					
6. Cash, cash equivalents and short-term investments					
7. Derivative instruments					
8. Other invested assets	(38,833)	(998,244)	(1,037,077)	(999,353)	
9. Aggregate write-ins for capital gains (losses)					
10. Total capital gains (losses)	2,020,098	(6,273,008)	(4,252,910)	(934,363)	

DETAILS OF WRITE-IN LINES					
0901.					
0902.					
0903.					
0998. Summary of remaining write-ins for Line 09 from overflow page					
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 09 above)					

EXHIBIT OF NONADMITTED ASSETS

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E - Part 1), cash equivalents (Schedule E - Part 2), and short-term investments (Schedule DA)			
6. Contract loans			
7. Derivatives (Schedule DB)			
8. Other invested assets (Schedule BA)			
9. Receivables for securities			
10. Securities lending reinvested collateral assets (Schedule DL)			
11. Aggregate write-ins for invested assets			
12. Subtotals, cash and invested assets (Lines 1 to 11)			
13. Title plants (for Title insurers only)			
14. Investment income due and accrued			
15. Premiums and considerations:			
15.1 Uncollected premiums and agents' balances in the course of collection	2,266,133	246,579	(2,019,554)
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due			
15.3 Accrued retrospective premiums	327,725	327,725	
16. Reinsurance:			
16.1 Amounts recoverable from reinsurers			
16.2 Funds held by or deposited with reinsured companies			
16.3 Other amounts receivable under reinsurance contracts			
17. Amounts receivable relating to uninsured plans			
18.1 Current federal and foreign income tax recoverable and interest thereon			
18.2 Net deferred tax asset	15,789,181	53,067,483	37,278,302
19. Guaranty funds receivable or on deposit			
20. Electronic data processing equipment and software	105,518,415	93,524,000	(11,994,415)
21. Furniture and equipment, including health care delivery assets	8,110,092	9,073,181	963,089
22. Net adjustment in assets and liabilities due to foreign exchange rates			
23. Receivables from parent, subsidiaries and affiliates			
24. Health care and other amounts receivable	2,568,840	3,141,678	572,838
25. Aggregate write-ins for other than invested assets	93,320,294	72,892,362	(20,427,932)
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	227,900,680	232,273,008	4,372,328
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
28. Total (Lines 26 and 27)	227,900,680	232,273,008	4,372,328

DETAILS OF WRITE-IN LINES			
1101.			
1102.			
1103.			
1198. Summary of remaining write-ins for Line 11 from overflow page			
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)			
2501. PREPAID EXPENSES	93,311,784	72,880,207	(20,431,577)
2502. MISCELLANEOUS INVENTORY ITEMS	8,510	8,736	226
2503. LEASEHOLD IMPROVEMENTS		3,419	3,419
2598. Summary of remaining write-ins for Line 25 from overflow page			
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	93,320,294	72,892,362	(20,427,932)

NONE

EXHIBIT 1 – ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health Maintenance Organizations						
2. Provider Service Organizations						
3. Preferred Provider Organizations	261,312	255,361	254,744	254,958	254,921	3,060,371
4. Point of Service						
5. Indemnity Only	5,600	5,517	5,484	5,317	5,197	65,021
6. Aggregate write-ins for other lines of business	87,019	87,773	87,012	91,246	91,686	1,077,125
7. Total	353,931	348,651	347,240	351,521	351,804	4,202,517

DETAILS OF WRITE-IN LINES						
0601. STOP LOSS	23,755	22,468	22,440	30,205	30,155	319,080
0602. DENTAL ONLY	29,195	31,502	31,574	27,690	28,035	356,034
0603. MEDICARE SUPPLEMENT	24,905	24,887	24,253	24,320	24,374	294,547
0698. Summary of remaining write-ins for Line 06 from overflow page	9,164	8,916	8,745	9,031	9,122	107,464
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 06 above)	87,019	87,773	87,012	91,246	91,686	1,077,125

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Accounting Practices

- (1) The annual statement has been completed in accordance with the NAIC Accounting Practices and Procedures manual.
- (2) The Plan's 2011 annual statement excludes Administrative Service Contract (ASC) business from revenue, and medical and hospital claims. The ASC reimbursement has been classified as a reduction to claims adjustment and general administrative expenses.
- (3) Effective for 2006, the Plan obtained a permitted practice to recognize a liability for premium assistance for direct pay subscribers in addressing healthcare affordability. The liability at December 31, 2011 and 2010 was \$5,367,964 and \$3,392,649, respectively. The Plan has committed \$4,500,000 to premium assistance for Direct Pay subscribers and has recorded a charge for this amount in other expenses in the statutory statement of operations for the period ended December 31, 2011.

Also, effective for 2009, the Plan obtained a permitted practice to depreciate blue-transit software over 15 years instead of the prescribed 5 years. If the software were depreciated over 5 years the net gain would be decreased by \$12,384,902 in 2011 and the net loss would be increased by \$8,314,578 for 2010. Additionally, the surplus reserves would be decreased by \$23,471,006 and \$11,086,104 for year ended December 31, 2011 and 2010, respectively.

<u>NET INCOME</u>	<u>Dec 31, 2011</u>
(1) The Plan's state basis (RI)	\$72,708,907
(2) State permitted practice that increase/(decrease) NAIC SAP income	
- Depreciation of software	(12,384,902)
- Premium Assistance Program	<u>4,500,000</u>
(3) NAIC SAP	\$64,824,005

<u>SURPLUS</u>	<u>Dec 31, 2011</u>
(1) The Plan's state basis (RI)	\$323,401,959
(2) State permitted practice that increase/(decrease) NAIC SAP reserves	
- Depreciation of software	(23,471,006)
- Premium Assistance Program	<u>4,500,000</u>
(3) NAIC SAP	\$304,430,953

- (4) Non-Applicable.

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of the financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the effective interest rate method.
- (3) Common stocks at fair market value except that investments in stocks of uncombined subsidiaries and affiliates in which the Plan has an interest of 20% or more are carried on the equity basis.
- (4) Preferred stock is stated at cost.
- (5) The Plan does not have mortgage loans on real estate.
- (6) Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair market value. The prospective adjustment method is used to value all securities except for interest only securities or securities where the yield had become negative. Also for US Treasury Inflationary Bonds (TIPS) a retrospective method is used.
- (7) The Plan has an investment in a non-insurance wholly owned subsidiary, Health and Wellness Institute, LLC. The carrying value is on a GAAP basis of \$3,630,678 in accordance

NOTES TO FINANCIAL STATEMENTS

with SSAP 88. The Plan also owns a portion of Blue International Solutions with a carrying value of \$1,262,108.

- (8) The Plan does not have ownership interests in joint ventures.
- (9) The Plan does not own derivative investments.
- (10) The Plan considers anticipated investment income as a factor in premium deficiency calculation.
- (11) Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.
- (12) The Plan has not modified its capitalization policy from the prior period.
- (13) The Plan's pharmacy benefit manager provides estimated pharmacy rebates on a quarterly basis.

2. Accounting Changes and Correction of Errors

There were no Accounting Changes and Correction of Errors in 2011.

3. Business Combinations and Goodwill

There were no Business Combinations and resulting Goodwill in 2011.

4. Discontinued Operations

The Plan did not incur discontinued operations for 2011.

5. Investments

- A. The Plan did not have any outstanding mortgage loans in 2011.
- B. The Plan did not have any debt restructuring in 2011.
- C. The Plan did not have any reverse mortgages in 2011.
- D. Loan-Backed Securities

- (1) The Plan utilizes the prospective method for loan backed securities. The Plan obtains the prepayment assumptions for mortgage-backed/asset-backed securities from the following hierarchy: Bloomberg median speed; if none, then 6 month historical CPR; if none, then YieldBook prepayment model that runs fixed rate MBS at 100% of the model and Hybrid Arms at 100% of MTB (Model to Balloon). CMBS are run at a 0% constant prepayment rate. If this information is not obtainable from one of these sources then analysts determine the cash flows to be used. The Plan utilizes the fair market value as published by the NAIC Valuation Securities Manual. If the rate is not published by the Securities Valuation Office (SVO), the security is carried at amortized value in accordance with NAIC guidelines.
- (2) The Plan did not recognize any other-than-temporary impairment (OTTI) for loan-backed securities.
- (3) The Plan did not recognize any OTTI for loan-backed securities.
- (4) Loan-backed securities with unrealized losses as of December 31, 2011:

	<u>Less than 12 months</u>		<u>12 months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Loan-Backed Securities	\$3,188,288	\$(11,905)	\$904,554	\$(204,112)	\$4,092,842	\$(216,017)

- (5) The evaluation of impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in the current period. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or near term recovery prospects, the effects of changes in interest rates or credit spreads and the recovery period. As of December 31, 2011, the Plan does not consider loan-backed securities in an unrealized loss position to be other-than-temporarily impaired as reported in the table above.

NOTES TO FINANCIAL STATEMENTS

E. Repurchase Agreements

- 1) For repurchase agreements, the Plan ensures that the fair market value of the collateralized security is equal to or exceeds the amount under agreement to repurchase.
- 2) The Plan has investments pledged as collateral. The securities are US Treasury Bonds and Corporate Bonds with a carrying value of \$65,081,795.

F. The Plan does not hold real estate for investment purposes.

G. The Plan does not have any low-income housing tax credits.

6. Joint Ventures, Partnerships and Limited Liability Companies

The Plan does not have an investment interest in joint ventures, partnerships and limited liability companies that exceeds 10% of its admitted assets.

7. Investment Income

The Plan has not excluded from assigned funds (surplus) any investment income due and accrued.

8. Derivative Instruments

The Plan does not own any derivative instruments.

9. Income Taxes

A. The components of the net deferred tax asset/(liability) at December 31 are as follows:

(1)	12/31/2011			12/31/2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
	(000)								
(a) Gross deferred tax assets	\$154,624	\$ 643	\$155,266	\$182,460	\$ 0	\$182,460	\$(27,836)	\$ 643	\$(27,193)
(b) Statutory valuation allow	114,859	275	115,134	111,596	0	111,596	3,263	275	3,539
(c) Adjusted gross deferred tax	\$ 39,765	\$ 367	\$ 40,132	\$ 70,864	\$ 0	\$ 70,864	\$(31,099)	\$ 367	\$(30,732)
(d) Deferred tax liabilities	0	0	0	18	1,344	1,362	(18)	(1,344)	(1,362)
(e) subtotal (net deferred tax asset)	\$ 39,765	\$ 367	\$ 40,132	\$ 70,846	\$(1,344)	\$ 69,502	\$(31,081)	\$ 1,711	\$(29,370)
(f) deferred tax assets nonadmitted	15,422	367	15,789	53,067	0	53,067	(37,646)	367	(37,278)
(g) net admitted deferred tax asset	\$ 24,343	\$ 0	\$ 24,343	\$ 17,779	\$(1,344)	\$ 16,434	\$ 6,565	\$ 1,344	\$ 7,909

(2) The company has elected to admit DTA's pursuant to paragraph 10.e. SSAP No. 10R, Income Taxes – A Temporary Replacement of SSAP No. 10. This current-period election differs from the prior period reporting.

(3) The increase amount by tax character of admitted adjusted gross DTA's as the result of the application of paragraph 10.e. SSAP No. 10R, Income Taxes – A Temporary Replacement of SSAP No. 10:

	12/31/2011			12/31/2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
	(000)								
(a) SSAP No. 10R, Parag 10.ei.	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
(b) SSAP No. 10R, Parag 10.eii.	\$ 21,136	\$ 0	\$ 21,136	14,670	0	14,670	\$ 6,465	\$ 0	\$ 6,465
(c) SSAP No. 10R, Parag 10.eii.a	\$ 21,136	\$ 0	\$ 21,136	14,670	\$ 0	\$ 14,670	\$ 6,465	\$ 0	\$ 6,465
(d) SSAP No. 10R, Parag 10.eii.b	0	0	13,790	0	0	10,934	0	0	13,790
(e) SSAP No. 10R, Parag 10.eiii.	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
(f) Total (4g + 4h + 4k).	\$ 21,136	\$ 0	\$ 21,136	\$ 14,670	\$ 0	\$ 14,670	\$ 6,465	\$ 0	\$ 6,465

(4)

Admission Calculation Components
SSAP No. 10R, Paragraph 10.a., 10.b, and 10.c

	12/31/2011			12/31/2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
	(000)								
(a) SSAP No. 10R, Parag 10 a.	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
(b) SSAP No. 10R, Parag 10 b.	\$ 3,207	\$ 0	\$ 3,207	\$ 1,764	\$ 0	\$ 1,764	\$ 1,444	\$ 0	\$ 1,444
(c) SSAP No. 10R, Parag 10 b.i.	3,207	0	3,207	1,764	0	1,764	1,444	0	1,444
(d) SSAP No. 10R, Parag 10 b.ii.	0	0	27,579	0	0	21,868	0	0	5,711
(e) SSAP No. 10R, Parag 10 c.	\$ 0	\$ 0	\$ 0	\$ 18	\$ 1,344	\$ 1,362	\$(18)	\$(1,344)	\$(1,362)
(f) Total (4a + 4b + 4e)	\$ 3,207	\$ 0	\$ 3,207	\$ 1,782	\$ 1,344	\$ 3,126	\$ 1,426	\$(1,344)	\$ 81

Admission Calculation Components
SSAP No. 10R, Paragraph 10.e.

	12/31/2011			12/31/2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
	(000)								
(g) SSAP No. 10R, Parag 10 e.i.	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
(h) SSAP No. 10R, Parag 10 e.ii.	\$ 24,343	\$ 0	\$ 24,343	16,434	0	16,434	\$ 7,909	\$ 0	\$ 7,909
(i) SSAP No. 10R, Parag 10 e.ii.a	\$ 24,343	\$ 0	\$ 24,343	\$16,434	0	\$16,434	\$ 7,909	\$ 0	\$ 7,909
(j) SSAP No. 10R, Parag 10 e.ii.b.	\$ 0	\$ 0	\$ 41,369	0	0	32,802	\$ 0	\$ 0	\$ 8,567
(k) SSAP No. 10R, Parag 10 e.iii.	\$ 0	\$ 0	\$ 0	18	1,344	1,363	\$(18)	\$(1,344)	\$(1,362)
(l) Total (4g + 4h + 4k)	\$ 24,343	\$ 0	\$ 24,343	\$16,453	\$1,344	\$17,797	\$ 7,891	\$(1,344)	\$ 6,547

NOTES TO FINANCIAL STATEMENTS

Used in SSAP No. 10R, Paragraph 10.d

(m) Total adjusted Capital	\$	0	\$	0	\$323,402	\$	0	\$	0	\$248,986	\$	0	\$	0	\$	74,416
(n) Authorized Control level	\$	0	\$	0	\$	52,986	\$	0	\$	0	\$	54,840	\$	0	\$	(1,853)

(5)

SSAP No. 10R, Paragraph 10.a., 10.b. and 10.c:

	12/31/2011			12/31/2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(a) Admitted Deferred Tax Assets	\$ 3,207	\$ 0	\$ 3,207	\$ 1,764	\$ 0	\$ 1,764	\$ 1,444	\$ 0	\$ 1,444
(b) Admitted Assets	0	\$ 0	\$584,324	0	0	\$592,141	0	0	\$(7,817)
(c) Adjusted Statutory Surplus	0	\$ 0	\$302,266	0	0	\$234,316	0	0	\$67,951
(d) Total Adj Capital from DTA's	0	\$ 0	\$ 3,207	\$ 0	\$ 0	\$ 1,764	\$ 0	\$ 0	\$ 1,444

Increase due to SSAP No. 10R, Paragraph 10.e.

(e) Admitted Deferred Tax Assets	\$ 21,136	\$ 0	\$ 21,136	\$ 14,670	\$ 0	\$ 14,670	\$ 6,465	\$ 0	\$ 6,465
(f) Admitted Assets	\$ 21,136	\$ 0	\$ 21,136	\$ 14,670	\$ 0	\$ 14,670	\$ 6,465	\$ 0	\$ 6,465
(g) Statutory Surplus	\$ 21,136	\$ 0	\$ 21,136	\$ 14,670	\$ 0	\$ 14,670	\$ 6,465	\$ 0	\$ 6,465

(6) There are no tax-planning strategies impacting adjusted gross and net admitted DTA's.

B. Temporary differences for which a DTL has not been established:

There are no temporary differences for which a DTL has been established.

C. Current income taxes incurred consist of the following major components:

	12/31/2011	12/31/2010	Change
(1) Current Income Tax			
(a) Federal	(7,239)	(6,474,820)	6,467,581
(b) Foreign	0	0	0
(c) Subtotal	(7,239)	(6,474,820)	6,467,581
(d) Federal Income Tax on net capital gains	0	(668,230)	668,230
(e) Utilization of capital loss carry-forwards	0	0	0
(f) Other	0	0	0
(g) Federal and foreign income taxes incurred	<u>\$(7,239)</u>	<u>\$(7,143,050)</u>	<u>\$7,135,811</u>

(2) Deferred Tax Assets

a. Ordinary	12/31/2011	12/31/2010	Change
(1) Discount of unpaid losses	\$955,885	\$1,118,787	\$(162,902)
(2) Unearned premium reserve	0	0	0
(3) Policyholder reserves	0	0	0
(4) Investments	0	0	0
(5) Deferred acquisition cost	0	0	0
(6) Policyholder dividends accrual	0	0	0
(7) Fixed assets	15,557,287	20,824,384	(5,267,097)
(8) Compensation and benefits accrual	12,706,241	12,485,563	220,678
(9) Pension accrual	1,381,231	1,845,489	(464,258)
(10) Receivables - nonadmitted	1,128,423	1,099,587	28,836
(11) Net operating loss carry-forward	31,640,163	24,248,325	7,391,838
(12) Tax credit carry-forward	70,897,220	70,900,930	(3,710)
(13) Other	20,357,236	49,936,659	(29,579,422)
(99) Subtotal	<u>\$154,623,686</u>	<u>\$182,459,724</u>	<u>\$(27,836,037)</u>
b. Statutory valuation allowance Adjustment	<u>\$114,858,654</u>	<u>\$111,595,637</u>	<u>\$ 3,263,017</u>
c. Nonadmitted	<u>\$ 15,421,871</u>	<u>\$ 53,067,483</u>	<u>\$(37,645,612)</u>
d. Admitted Ordinary Deferred Tax Assets	<u>\$ 24,343,161</u>	<u>\$ 17,796,604</u>	<u>\$ 6,546,558</u>
e. Capital			
(1) Investments	\$ 627,971	\$ 0	\$ 627,971
(2) Net capital loss carry-forward	14,823	0	14,823
(3) Real estate	0	0	0
(4) Other	0	0	0
(99) Subtotal	<u>\$ 642,794</u>	<u>\$ 0</u>	<u>\$ 642,794</u>
f. Statutory Valuation allowance Adjustment	275,483	0	275,483
g. Nonadmitted	367,311	0	367,311
h. Admitted Capital Deferred Tax Assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
i. Admitted Deferred Tax asset	<u>\$24,343,161</u>	<u>\$ 17,796,604</u>	<u>\$ 6,546,558</u>

(3) Deferred Taxes Liabilities

a. Ordinary	12/31/2011	12/31/2010	Change
(1) Investments	0	0	0
(2) Fixed Assets	0	0	0
(3) Deferred and Uncollected premiums	0	0	0
(4) Policyholder Reserves	0	0	0
(5) Other	0	18,088	(18,088)
(99) Subtotal	<u>\$ 0</u>	<u>\$18,088</u>	<u>\$(18,088)</u>

b. Capital

NOTES TO FINANCIAL STATEMENTS

(1) Investments	0	1,344,081	1,344,081
(2) Real estate	0	0	0
(3) Other	0	0	0
(99) Subtotal	<u>\$ 0</u>	<u>\$1,344,081</u>	<u>\$1,344,081</u>
c. Net Deferred tax liabilities	<u>\$ 0</u>	<u>\$1,362,169</u>	<u>\$1,362,169</u>
(4) Net deferred tax assets/liabilities	<u>\$24,343,161</u>	<u>\$16,434,434</u>	<u>\$7,908,727</u>

D. Nature of significant reconciling items for income taxes incurred and change in DTAs and DTLs

The change in net deferred income taxes as of December 31, is comprised of the following (this analysis is exclusive of nonadmitted assets as the change in nonadmitted is reported separately from the change in net deferred income taxes in the statutory statement of change in reserves):

The change in net deferred income taxes is as follows:

	<u>Dec. 31, 2011</u>	<u>Jan. 1, 2011</u>	<u>Change</u>
Total deferred tax assets	\$155,266,480	\$182,459,724	\$(27,193,244)
Total deferred tax liabilities	0	1,362,169	(1,362,169)
Net Deferred tax asset	<u>\$155,266,480</u>	<u>\$181,097,555</u>	\$(25,831,075)
Tax effect of unrealized gains			<u>(165,957)</u>
Change in net deferred income tax			<u>\$(25,997,032)</u>

	<u>Amount</u>	<u>Tax Effect</u>	<u>Effective Tax Rate</u>
Net Gain/(Loss) Before Taxes at statutory federal income tax rate	\$72,701,667	\$25,445,583	35.00%
<u>Tax Adjustments:</u>			
Nondeductible Expenses	759,498	265,824	0.37%
Special 3 Month Reserve Deduction	6,620,377	2,317,132	3.19%
Change in non-admitted assets	(5,610,631)	(1,963,721)	-2.70%
Other	<u>(214,367)</u>	<u>(75,025)</u>	<u>-0.11%</u>
Total	<u>\$ 74,256,544</u>	<u>\$25,989,793</u>	<u>35.75%</u>
Federal Income Taxes Incurred	\$ (20,685)	\$ (7,239)	-0.01%
Change in net deferred income taxes	<u>74,277,235</u>	<u>25,997,032</u>	<u>35.76%</u>
Total statutory income taxes	<u>\$ 74,256,550</u>	<u>\$25,989,793</u>	<u>35.75%</u>

E. (1) The Plan generated net operating loss carryforwards as follows:

Year	Regular Taxes	Alternative Minimum	Year Expired
2010	\$62,660,552	\$37,987,516	2030
2011	\$27,739,915	\$27,066,016	2031

The Plan has available approximately \$70,897,220 of alternative minimum tax credit carryforwards that do not expire.

(2) The Company has no income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses.

F. The Plan does not join in the filing of a consolidated federal income tax return.

10. Information Concerning Parent, Subsidiaries and Affiliates

A. The Plan did not make any cash contributions during 2011 and 2010 to the Health & Wellness Institute, LLC (HWI).

B. See "A" above

C. See "A" above

D. At December 31, 2011 the Plan reported \$237,374 as amounts due from HWI. The terms of the agreement require these amounts to be invoiced on a quarterly basis and shall be due and payable by HWI within 30 from receipt of invoice.

E. Non-Applicable

F. Non-Applicable

G. Non-Applicable

H. Non-Applicable

I. Non-Applicable

J. Non-Applicable

K. Non-Applicable

L. The HWI is valued at \$3,630,678 based on GAAP equity method.

NOTES TO FINANCIAL STATEMENTS

11. Debt

Mortgage on Building

- (1) Date issued is January 14, 2008.
- (2) Bank loan for corporate office building.
- (3) The maximum loan amount is \$90,000,000.
- (4) Carrying value of loan is \$85,101,852.
- (5) The rate at which interest accrues is 30-day LIBOR plus an agreed upon spread (basis points).
- (6) The effective interest rate is equivalent to the 30-day LIBOR plus an agreed upon spread (basis points).
- (7) Office building structure.
- (8) Interest paid year to date is \$4,916,529.
- (9) Loan converted to fixed rate mortgage instrument in February 2010.
- (10) Non-Applicable
- (11) Non-Applicable
- (12) Non-Applicable
- (13) Non-Applicable

Line of Credit

- (1) Date issued is January 2011.
- (2) Revolving line of credit.
- (3) The maximum available amount is \$25,000,000.
- (4) Carrying value of line of credit is \$20,000,000 plus accrued interest of \$18,276.
- (5) The rate at which interest accrues is 30-day LIBOR Advantage rate plus 150 basis points. In addition, interest accrues on the commitment amount less funds drawdown at twenty basis points.
- (6) The effective interest rate is equivalent to the 30-day LIBOR Advantage rate plus 150 basis points.
- (7) Marketable securities.
- (8) Interest paid year to date is \$151,047.
- (9) The repayment of accrued interest is payable monthly and the entire unpaid principal balance is due and payable along with unpaid interest upon maturity. The line of credit maturity date is less than one year.
- (10) Non-Applicable
- (11) Non-Applicable
- (12) Non-Applicable
- (13) Non-Applicable

12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

Defined Benefit Plan

The Plan has a qualified defined benefit pension plan covering substantially all employees. Pension plan benefits are based on years of service and the employee's compensation during the highest three consecutive years of service.

The Plan's funding policy is to contribute amounts at least necessary to satisfy the requirements of the Pension Protection Act of 2006 (PPA). Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. However, effective January 1, 2011 the Plan was closed to new hires from participation. Assets of the pension plan consist of insurance company group annuity contracts, which invest in a diversified portfolio of fixed income and equity securities.

Supplemental Executive Retirement Plans (SERP)

The Supplemental Executive Retirement Plans ("SERP") are non-qualified defined benefit pension plans for certain executives as designated by the Board of Directors. Certain beneficiaries received distributions from the SERP of \$1,519,000 and \$134,000 for the calendar years ended December 31, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS

The Plan uses a September 30 measurement date.

The following tables set forth the funding status and amounts recognized in the Plan's Statutory Statements of Admitted Assets, Liabilities and Reserves at December 31, 2011 and 2010 for the Defined Benefit Plan and for the SERP:

	(In Thousands)			
	Defined Benefit		SERP	
	Plan		SERP	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Change in Projected Benefit Obligation:				
Projected benefit obligation				
at beginning of year	\$253,462	\$220,393	\$9,568	\$7,539
Service cost	8,829	7,713	91	1,244
Interest cost	12,997	12,439	444	428
Amendments/Plan change	--	2,599	--	(21)
Actuarial loss/(gain) due to assumptions	8,188	18,456	(530)	789
Settlements	(31,393)	--	963	(277)
Benefit and administrative expenses paid	<u>(9,163)</u>	<u>(8,138)</u>	<u>(1,519)</u>	<u>(134)</u>
Projected benefit obligation at end of year	<u>\$242,920</u>	<u>\$253,462</u>	<u>\$9,017</u>	<u>\$9,568</u>
Accumulated benefit obligation	<u>\$219,250</u>	<u>\$227,352</u>	<u>\$8,669</u>	<u>\$8,251</u>

	(In Thousands)			
	Defined Benefit		SERP	
	Plan		SERP	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Funded Status:				
Projected benefit obligation	\$(242,920)	\$(253,462)	\$(9,017)	\$(9,568)
Plan assets at fair value	<u>216,346</u>	<u>242,553</u>	<u>--</u>	<u>--</u>
Plan assets in excess (shortfall)				
of projected benefit obligation	(26,574)	(10,909)	(9,017)	(9,568)
Unrecognized net actuarial loss/(gain)	87,793	78,826	1,556	2,219
Unrecognized prior service cost	2,377	2,599	51	78
Contributions after measurement date	--	--	972	9
Unrecognized net obligation at January 1, 2011 and 2010 being recognized over approximately 9 years	<u>345</u>	<u>382</u>	<u>1,689</u>	<u>1,877</u>
Prepaid (accrued) benefit cost	<u>\$ 63,941</u>	<u>\$ 70,898</u>	<u>\$(4,749)</u>	<u>\$(5,385)</u>

Change in Plan Assets:				
Fair value of assets at beginning of year	\$242,553	\$209,134	\$ --	\$ --
Actual return on plan assets	2,890	27,197	--	--
Settlements	(31,393)	--	--	--
Employer contributions	11,459	14,360	1,519	134
Benefit and administrative expenses paid	<u>(9,163)</u>	<u>(8,138)</u>	<u>(1,519)</u>	<u>(134)</u>
Fair value of assets at end of year	<u>\$216,346</u>	<u>\$242,553</u>	<u>\$ --</u>	<u>\$ --</u>

Net periodic pension cost for 2011 and 2010 included the following components:

	(In Thousands)			
	Defined Benefit		SERP	
	Plan		SERP	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Service cost	\$ 8,829	\$ 7,713	\$ 91	\$ 1,244
Interest cost	12,997	12,439	444	428
Expected return on plan assets	(18,934)	(18,462)	--	--
Net amortization and deferral	<u>4,179</u>	<u>2,423</u>	<u>349</u>	<u>439</u>
Net periodic pension cost	<u>\$ 7,071</u>	<u>\$ 4,113</u>	<u>\$ 884</u>	<u>\$ 2,111</u>

NOTES TO FINANCIAL STATEMENTS

Actuarial assumptions used in the accounting at the measurement date were:

Weighted-average assumptions	Defined Benefit Plan		SERP	
	2011	2010	2011	2010
Discount Rate	5.00%	5.25%	4.50%	4.75%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Expected return on plan assets	7.75%	8.00%	-	-

Plan assets are to be managed to provide the greatest probability that the following long-term objectives for the qualified pension plan are met in a prudent manner.

- Ensure that there is adequate level of assets to support benefit obligations to participants and retirees over the life of the Plan, taking into consideration the nature and duration of Plan liabilities.
- Maintain liquidity in Plan assets sufficient to cover ongoing benefit payments.
- Manage volatility of investments results in order to achieve long-term Plan objectives and to minimize level and volatility of pension expenses.

It is recognized that the attainment of these objectives is, for any given time period, largely dictated by the returns available from the capital markets in which Plan assets are invested.

The asset allocation of Plan assets reflects the Plan's long-term return expectations and risk tolerance in meeting the financial objectives of the Plan. Plan assets should be adequately diversified by asset class, sector and industry to reduce the downside risk to total Plan results over short-term time periods, while providing opportunities for long-term appreciation.

The following table provides information as of December 31, 2011 about the Plan's pension plan financial assets by asset category.

	Level 1	Level 2	Level 3	Total
Mutual Funds				
Equity Mutual Funds	\$ --	\$ 147,012,975	--	\$ 147,012,975
Fixed Income Mutual Funds	--	82,735,611	--	82,735,611
General Investment Account	--	--	3,115,768	3,115,768
Total Assets	<u>\$ --</u>	<u>\$ 229,748,586</u>	<u>\$ 3,115,768</u>	<u>\$ 232,864,354</u>

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Asset Category	Plan Assets	
	2011	2010
Equity Securities	61.10%	69.30%
Debt Securities	25.00%	17.80%
Other	13.90%	12.90%
Total	100.00%	100.00%

The investment policy includes a periodic review of the pension plan's investment in the various asset classes. The current asset allocation target is 60% equities and 40% fixed income.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Pension Benefits	Postretirement Benefits*
2012	\$11,139,000	\$1,557,000

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2013	12,064,000	1,664,000
2014	12,047,000	1,678,000
2015	11,271,000	1,664,000
2016	11,986,000	1,673,000
2017 - 2021	69,552,000	8,420,000

*excludes receivables for Medicare Part D subsidy

The Plan expects to contribute \$4,078,000 to its regular pension plan, \$1,695,000 to its SERP and \$1,557,000 to its postretirement benefits in 2012.

Employee Savings Plan

Participant contributions to the Plan are derived from voluntary salary reduction agreements with the employer. The participant may, subject to the Internal Revenue Service (IRS) compensation deferral limits, contribute from 1% to 60% of his or her plan compensation, as defined, as a pre-tax basic contribution. The participant may then contribute a supplemental pre-tax contribution which, when combined with the participant's basic contribution, shall not exceed 60% of the participant's plan compensation, as defined. In addition, after-tax contributions up to 8% of the participant's plan compensation, as defined, may be made as long as total contributions do not exceed IRS guidelines. The employer contributes an amount equal to 50% of the participant's basic salary deferral contribution subject to a maximum of 6% of compensation.

Upon enrollment in the Plan, a participant may direct participant and employer contributions in 1% increments with a minimum contribution of 1% in any of the investment options. Participants may change their contribution percentage and investment selections in accordance with stated Plan requirements. Effective January 1, 2011, new associate hires will have an enhanced matching contribution plan. Participants that contribute on a pre-tax basis up to 6% an equal amount will be matched by the Plan. Total employer contributions to the 401(k) savings plan in 2011 and 2010 were approximately \$1,782,000 and \$1,686,000, respectively.

Postretirement Benefit Plans

Eligible employees hired prior to January 1, 1992, who retire on or after attaining normal retirement age and who have rendered specific years of service under the provisions of the Blue Cross & Blue Shield of Rhode Island Retirement Plan are entitled to certain postretirement health care, medical coverage and life insurance benefits. The Plan may amend or change the postretirement benefits periodically. Effective January 1, 1993, except for those employees who have an exemption based on circumstances previously existing, these benefits are now subject to copayment provisions and other limitations. The Plan's postretirement benefits other than pensions are not funded. Approximately \$1,151,000 and \$1,513,000 of postretirement benefits were paid in 2011 and 2010, respectively.

Summary information on the postretirement benefit plan is as follows:

	(In Thousands)	
	<u>2011</u>	<u>2010</u>
Change in Accumulated Postretirement Benefit Obligation:		
Benefit obligation at beginning of year	\$22,334	\$39,992
Service cost	570	584
Interest cost	1,029	1,273
Amendments	--	(17,029)
Actuarial loss/(gain) due to assumption and other	(1,089)	(5,208)
Assumption change	(376)	4,235
Benefits paid	<u>(1,151)</u>	<u>(1,513)</u>
Benefit obligation at end of year	<u>\$21,317</u>	<u>\$22,334</u>
Change in Plan Assets:		
Fair value of assets at beginning of year	\$ --	\$ --
Actual return on plan assets	--	--
Employer contributions	1,151	1,513
Benefits paid	<u>(1,151)</u>	<u>(1,513)</u>
Fair value of assets at end of year	<u>\$ --</u>	<u>\$ --</u>

Accumulated postretirement benefit obligation

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in excess of plan assets	(21,317)	(22,334)
Unrecognized net gain from past experience different from that assumed and from changes in assumptions	6,536	8,510
Unrecognized prior service costs	--	(17,029)
Unrecognized transition obligation	(14,058)	1,959
Contributions after measurement date	329	218
Accrued postretirement benefit cost	<u>\$ (28,510)</u>	<u>\$ (28,676)</u>

Net periodic postretirement benefit cost for 2011 and 2010 included the following components:

	(In Thousands)	
	2011	2010
Service cost	\$ 570	\$ 584
Interest cost	1,029	1,273
Amortization of net (gain)/loss	(503)	(376)
Net periodic postretirement benefit cost	<u>\$ 1,096</u>	<u>\$ 1,481</u>

The weighted average assumptions include a discount rate of 4.50% and 4.75%, respectively for the years ended December 31, 2011 and 2010.

The assumed annual rate of increase in the per capita cost of medical benefits is 16% in 2012 and 14.0% in 2013, and is assumed to decrease through years 2017 and remain level at 5% thereafter.

A one percentage point increase in the healthcare cost trend rate, holding all other assumptions constant, would result in an increase of \$896,900 at December 31, 2011 in the postretirement benefit obligation and an increase of \$70,500 for the year ended December 31, 2011 in the aggregate of the service and interest cost components of the net periodic postretirement benefit cost. Similarly, a one percentage point decrease in the health care cost trend rate, holding all other assumptions constant, would result in a decrease of \$776,900 at December 31, 2011 in the accumulated postretirement benefit obligation as of the end of the fiscal year and a decrease of \$61,600 for the year ended December 31, 2011 in the aggregate of the service and interest cost components of the net periodic postretirement benefit cost.

In the defined benefit Plan's 2010 fiscal year, there was an amendment to the postretirement plan as ratified by the Board of Directors in October 2009 that resulted in a reduction of \$17.0 million in the accrued postretirement benefit cost.

Postemployment Benefits

The Plan provides for certain postemployment benefits including disability benefits for eligible employees. The Plan has recorded a liability for these benefits of approximately \$530,000 and \$553,000 at December 31, 2011 and 2010, respectively.

Impact of Medicare Modernization Act on Postretirement Benefits is no longer applicable as 2010.

13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

- 1) The Plan does not have any capital stock.
- 2) The Plan does not have any preferred stock.
- 3) The Plan does not have any dividend restrictions.
- 4) The Plan does not have any ordinary dividends.
- 5) The Plan does not have any dividends.
- 6) The Plan does not have any restrictions on unassigned funds.
- 7) The Plan does not have any advances to surplus unpaid.
- 8) The Plan does not have any conversion of preferred stock, employee stock options and stock purchase warrants.
- 9) The Plan did not have any changes to the balances of any special surplus funds from the prior period.
- 10) The portion of unassigned funds (surplus) represented was reduced by each of the following item:

NOTES TO FINANCIAL STATEMENTS

- a) Nonadmitted assets - \$227,900,680
- 11) The Plan does not have any surplus notes.
- 12) The Plan did not have any quasi-reorganization in 2011.
- 13) The Plan did not have any quasi-reorganization in 2011.

14. Contingencies

A) Contingent Commitments

The Plan is a defendant in a number of legal proceedings arising in the normal course of business. Additionally, the Plan is a co-defendant in a class action lawsuit in federal court relating to allegations that the Plan has acted in conspiracy with other Blue Cross & Blue Shield plans to recoup money from certain classes of non-physician providers without the authority to do so. The Plan is also a co-defendant with several other Blue Cross & Blue Shield plans in a lawsuit from an out of state provider seeking higher reimbursement for services. While the Plan's ultimate liability in the disposition of these matters is presently difficult to estimate, it is management's belief that the outcome is not likely to have a material adverse effect on the Plan's financial position or results of operations, statutory reserves and risk based capital. It is possible that a court decision or settlement in favor of the plaintiffs in the above suits where the Plan is a co-defendant could have an unanticipated material adverse effect on the Plan's financial position, results of operations, statutory reserves and risk based capital.

- B) The Plan does not have any assessments.
- C) The Plan does not have any gain contingencies.
- D) The Plan did not have any claims related extra contractual obligation and bad faith losses stemming from lawsuits.
- E) All other contingencies see "A" above.

15. Leases

- A) 1) The Plan leases office space and ground lease under operating leases. Rent expense for operating leases in 2011 and 2010 was approximately \$306,851 and \$1,532,127, respectively.

2) The Plan is committed, under long-term noncancelable operating leases and installment purchase agreements to minimum payments as follows:

	Leases
	Operating
2012	\$ 348,932
2013	348,932
2014	348,932
2015	348,932
2016	348,932
Less Interest	--
Total minimum future payments	\$ 1,744,660

Certain rental commitments e.g. ground lease is a 97 year agreement through the year 2108 with two successive 75 year renewal options. Some of these renewals are subject to adjustments in future periods.

In June of 2003, the Plan entered into a long-term agreement with PSHS whereby, PSHS agreed to provide claims processing, information technology and membership administrative services. As stipulated in the contract, the services shall be provided at Plan facilities, however, certain functions may be provided outside of Rhode Island as well as offshore under the direction of PSHS staff. Services include operational services for technology and claims operations and business project services.

The agreement which is in effect through May 31, 2016, unless terminated earlier or extended in accordance with contract terms. The agreement calls for decreasing annual minimum commitments of \$48.0 million for calendar year 2011, and is subject to adjustments for changes in service levels, cost management by the Plan and performance incentives for PSHS. The aggregate value of the contract is approximately \$667.0 million.

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The contract provides for termination of the agreement between the parties based on events that may occur during the course of the contract. There are critical service levels that PSHS must meet on an ongoing basis. The Plan is obligated to reimburse PSHS for services performed in accordance with the contract. If the Plan terminates the agreement for convenience, the financial penalties are based on a sliding scale relating to the applicable month in which such termination was effective, ranging from approximately \$14.0 million as of December 31, 2011 to \$0 as of May 31, 2016.

3) The Plan is not involved in material sales – leaseback transactions.

B)(1) Lessor Leases

a) The Plan entered into a lease agreement for the use of its Corporate Office building penthouse floor. The rental square footage leased is 10,356 square feet. The lease is 78 month duration commencing July 1, 2011 and terminating December 31, 2017. The arrangement is a triple net lease. A tenant allowance was provided to the lessee amounting to \$590,000. In addition, the lease calls for providing 15 parking spots at \$180.00 per month per space. Finally, the lessee is responsible for electricity usage for the specific rented space.

b) non-applicable

c) Future minimum lease payment receivables under noncancelable leasing arrangements as of December 31, 2011 are as follows:

Years Ended <u>December 31</u>	<u>Operating Leases</u>
2012	\$ 306,797
2013	311,974
2014	317,152
2015	322,331
2016	<u>327,509</u>
Total	<u>\$ 1,585,763</u>

d) The Plan does not have contingent rentals.

(2) The Plan does not have leveraged leases

16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk

Fourteen U.S. Treasury Notes with a combined par value of \$30,325,000 are pledged to satisfy Blue Cross Blue Shield Association membership standards for out-of-area provider claim settlements.

The Plan also has a \$500,000 par value U.S. Treasury Note that is on deposit with the Department of Labor as collateral for the Plan's run-out of the self-insured worker's compensation fund.

The Plan also has a \$546,000 par value U.S. Treasury Note that is on deposit with the Department of Human Services Office of Managed Care relating to the Plan's administration of the State of Rhode Island managed Medicaid program, RItE Care.

The Plan also has Twenty-one Corporate/U.S. Treasury Bonds with a combined value of \$33,300,000 that is pledged with Citizens Bank as collateral for the line of credit.

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

The Plan did not have a sale, transfer and servicing of financial assets and extinguishments of liabilities.

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

A) The Plan is not an ASO Administrator for uninsured A&H Plans and the uninsured portion of partially insured plans.

NOTES TO FINANCIAL STATEMENTS

B) The Plan is an ASC Administrator for uninsured A&H Plans and the uninsured portion of partially insured plans.

The gain from operations from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans was as follows during 2011:

	<u>ASC</u> <u>Uninsured</u> <u>Plans</u>	<u>Uninsured</u> <u>Portion of</u> <u>Partially</u> <u>Insured Plans</u>	<u>Total</u> <u>ASC</u>
a. Gross reimbursement for medical cost incurred	\$899,490,004	- -	\$899,490,004
b. Gross administrative fees accrued	<u>47,534,009</u>	- -	<u>47,534,009</u>
c. Total revenue	947,024,013	- -	947,024,013
d. Claims incurred	899,490,004	- -	899,490,004
e. Variable cost	<u>30,065,549</u>	- -	<u>30,065,549</u>
f. Contribution to fixed overhead	17,468,460	- -	17,468,460
g. Total fixed overhead	<u>51,192,691</u>	- -	<u>51,192,691</u>
h. Total net gain or (loss) from operations	<u>(33,724,231)</u>	- -	<u>(33,724,231)</u>

C) The Plan did not have a Medicare or similarly structured cost based reimbursement contract during 2011.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

The Plan does not have direct premium written/produced by managing general agents/third party administrators.

20. Fair Value Measurements

Included in various investment related line items in the financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds and preferred stock when carried at the lower of cost or market.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Plan estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

The Plan's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in

NOTES TO FINANCIAL STATEMENTS

active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Plan's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following table provides information as of December 31, 2011 about the Plan's financial assets and liabilities measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total
Assets				
Bonds	\$ --	\$286,960,970	\$ --	\$286,960,970
Equity securities	<u>\$ 38,664,594</u>	<u>\$ --</u>	<u>\$ 2,862,259</u>	<u>\$ 41,526,853</u>
Total Assets	<u>\$ 38,664,594</u>	<u>\$286,960,970</u>	<u>\$ 2,862,259</u>	<u>\$328,487,823</u>

The fair value of the Plan's equity securities categorized as Level 1 is based on quoted market prices for identical securities traded in active markets that are readily and regularly available to the Plan.

The fair value of the Plan's equity securities classified as Level 3 consist of private placement stocks for three companies for which there are limited or no observable valuation inputs. The fair value of these Level 3 equities is based upon analytics derived by the respective companies for which a fair value per share is published in the Securities Valuation Office manual.

The following table presents the changes in our equity securities classified as Level 3 for the year-ended December 31, 2011.

	Total
Balance at January 1, 2011	<u>\$ 2,845,032</u>
Impairments	(107,223)
Net change in unrealized gains and losses	<u>124,450</u>
Balance at December 31, 2011	<u>\$ 2,862,259</u>

There were unrealized gains of \$124,450 attributable to the change in net unrealized gains relating to assets still held.

21. Other Items

- A) The Plan does not have any extraordinary items.
- B) The Plan does not have any troubled debt restructuring.
- C) The Plan participates in the Federal Employee Health Benefits Program (FEHBP) with other Blue Cross Blue Shield 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 BCBSA, which acts as an agent for the participating Blue Cross Blue Shield plans. In addition each participating plan, including the Plan, 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 Blue Cross Blue Shield to provide insurance to Federal employees that enroll with the Blue Cross Blue Shield 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

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reserve), as required by the contract between OPM and BCBSA. Each year, OPM also allocates a portion of the premiums to a contingency reserve which may be utilized by the participating plans in the event that annual premiums paid to the insurance carrier are insufficient or the rate stabilization reserve falls below certain levels prescribed by OPM. Premiums paid to the carrier and available to each participating Blue Cross Blue Shield plan, including the special reserve and contingency reserve, are held at the U.S. Treasury, including amounts unused from prior periods. Any premiums that remain in the rate stabilization reserve upon termination of the BCBSA contract after the claims run-out and reimbursement of the allowable administrative expenses would be returned to OPM for the benefit of the FEHBP. The FEP contract renews automatically each year unless written notice of termination is given by either party.

In accordance with the FEP contract, premium funds that exceed daily operating needs are held on behalf of the Plan in letter of credit accounts at the U.S. Treasury to provide funding for claims, administrative expenses, and other charges to the contract. The Plan, along with other Blue Cross Blue Shield plans who participate in the FEHBP contract, has an unrestricted right to draw funds held in the U.S. Treasury.

The Plan has recorded its allocable share of a special reserve fund held in the U.S. Treasury as an asset, with an equivalent amount recorded as a rate stabilization reserve. This amount is \$3,017,661 as of December 31, 2011, and is included in other current assets and other current liabilities in the accompanying consolidated balance sheets.

FEP represented approximately 7% of accounts receivable as of December 31, 2011. FEP represented approximately 6% of net revenue for the year ended December 31, 2011.

- D) The Plan has estimated uncollectible amounts for premium and retro contract balances of \$2,609,070 and \$570,054 at December 31, 2011 and 2010, respectively. The Plan has an estimated uncollectible amount for uninsured plans of \$3,061,632 and \$327,725 at December 31, 2011 and 2010, respectively.
- E) The Plan did not have any business interruption insurance recoveries in 2011.
- F) 1) The Plan has a state transferable tax credit of \$3,069,576.
- | <u>Description</u> | <u>State</u> | <u>Carrying Value</u> | <u>Unused amount</u> |
|--|--------------|-----------------------|----------------------|
| State of RI tax credit certificate #07-13.01 | RI | \$3,069,576 | \$3,069,576 |
- 2) The Plan will use the remaining unused amount of \$3,069,576 as a credit to be applied to the premium tax return.
- 3) There was not impairment loss for the state transferable tax credit.
- G) Subprime Mortgage Related Risk Exposure
- (1) The following is the Plan's narrative description of a subprime investment. A mortgage loan which has one or more of the following attributes: weak credit score (Fair Isaac Corporation), high debt-to-income-ratio, high loan-to-value ratio or undocumented income.
- (2) Non-applicable
- (3) Non-applicable
- (4) Non-applicable
- H) Retained Assets is not applicable.

22. Events Subsequent

There are no subsequent events that occurred as of the March 1st 2012 filing date of the Plan's 2011 annual statement.

23. Reinsurance

A. Ceded Insurance Report

Section 1 – General Interrogatories

- (1) The Plan does not own or control any of the reinsurers listed on Schedule S.
- (2) There are no policies issued by the Plan that are reinsured with a company chartered in a country other than the United States that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business.

NOTES TO FINANCIAL STATEMENTS

Section 2 – Ceded Reinsurance Report – Part A

- (1) The Plan does not have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit.
- (2) The Plan does not have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies.

Section 3 – Ceded Reinsurance Report – Part B

- (1) The estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment or other similar credits that are reflected in Section 2 above) of termination of all reinsurance agreements, by either party, is not applicable to the Plan since it does not cede its reinsurance.
- (2) The Plan has not executed or amended any existing agreements, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement.

B) The Plan did not experience a write-off for uncollectible reinsurance.

C) The Plan did not experience a commutation of ceded reinsurance.

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

- A) The Plan estimates accrued retrospective premium adjustments for its group health insurance business based on the Plan's underwriting polices, experience rating practices and claims reserve calculation.
- B) The Plan records accrued retrospective premium as an adjustment to earned premium.
- C) The amount of net premiums written by the Plan at December 31, 2011 that are subject to retrospective rating features was \$86,107,000, that represented 5.49% of the total net premiums written. No other net premiums written by the Plan are subject to retrospective rating features.
- D) The Plan has not recognized a liability for medical loss ratio rebate per the Public Health Services Act (PHSA). The Plan's Individual, Small Group Employer, Large Group Employer and Other Categories with rebates market segments were above the PHSA regulatory thresholds for the current year-to-date reporting period. As a result, there is no amount reflected on Page 3 Line 4 Aggregate health policy reserves for the medical loss ratio rebate.

25. Change in Incurred Claims and Claim Adjustment Expenses

Reserves as of December 31, 2010 were \$154,350,000. As of December 31, 2011, \$119,929,000 has been paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$2,194,000 as a result of re-estimation of unpaid claims and claim adjustment expenses principally on Comprehensive and Medicare lines of insurance. Therefore, there has been a \$11,938,000 favorable prior-year development since December 31, 2010 to December 31, 2011. The decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims. The Plan did not experience prior year claim development on retrospectively rated policies.

26. Intercompany Pooling Arrangements

The Plan is not part of any intercompany pooling arrangement.

27. Structured Settlements

Not Applicable for Health Insurance entities.

28. Health Care Receivables

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A) Pharmaceutical Rebate Receivables

Quarter	<u>Estimated Pharmacy Rebates as Reported on Financial Statements</u>	<u>Pharmacy Rebates as Invoiced/Confirmed</u>	<u>Actual Rebates Collected Within 90 Days of Invoicing/Confirmation</u>	<u>Actual Rebates Collected Within 91 to 180 Days of Invoicing/Confirmation</u>	<u>Actual Rebates Collected More Than 180 Days After Invoicing/Confirmation</u>
12/31/11	\$6,000,000	\$ --	\$ --	\$ --	\$ --
09/30/11	5,889,000	6,000,000	--	--	--
06/30/11	5,322,000	5,971,000	--	5,407,000	--
03/31/11	5,262,000	5,642,000	--	5,378,000	--
12/31/10	\$4,814,000	\$5,985,000	\$ --	\$4,787,000	\$ 589,000
09/30/10	4,873,000	5,499,000	--	4,778,000	325,000
06/30/10	4,762,000	5,582,000	--	4,714,000	608,000
03/31/10	5,945,000	5,320,000	--	4,805,000	338,000
12/31/09	\$5,819,000	\$6,116,000	\$ 218,000	\$5,080,000	\$ 818,000
09/30/09	6,033,000	5,956,000	162,000	4,313,000	1,481,000
06/30/09	5,962,000	6,002,000	198,000	5,486,000	318,000
03/31/09	5,127,000	5,978,000	205,000	5,131,000	642,000

B) Risk Share Receivables

Calendar Year	Evaluation Per Year-End	Risk Sharing Receivable as Estimated in the Prior Year	Risk Sharing Receivable as Estimated in the Current Year	Risk Sharing Receivable Billed	Risk Sharing Receivable Not Yet Billed	Actual Risk Sharing Amounts Received in Year Billed	Actual Risk Sharing Amounts Received First Year	Actual Risk Sharing Amounts Received Second Year	Actual Risk Sharing Amounts Received All Others
2011	2011	N/A	\$ 2,758,213	\$ 2,758,213	\$ -	\$ 2,600,000	\$ -		
	2012	N/A	\$ -	N/A	N/A	N/A	N/A	N/A	N/A
2010	2010	N/A	\$ 5,023,857	\$ 5,023,857	\$ -	\$ 2,748,862	\$1,100,000		
	2011	N/A	\$ -	N/A	N/A	N/A	N/A	N/A	N/A
2009	2009	N/A	\$ 4,048,314	\$ 4,048,314	\$ -	\$1,506,387	\$ 254,934		
	2010	N/A	\$ -	N/A	N/A	N/A	N/A	N/A	N/A

29. Participating Policies

Participating policies do not apply to the Plan.

30. Premium Deficiency Reserves

The statutory premium deficiency reserve (PDR) established by the Plan of \$0 at December 31, 2011 decreased by \$92,700,000 as compared to \$92,700,000 at December 31, 2010. A PDR is established when the present value of expected future premiums and current reserves are insufficient to cover the present value of expected future claim payments and related expenses for contracts in effect for a determinable period. The Plan aggregated lines of business based on various criteria to assess if there were anticipated shortfalls in needing to establish a PDR. For statutory accounting purposes, there were no lines of business that experienced a shortfall in covering their full costs therefore not requiring the establishment of a PDR.

31. Anticipated Salvage and Subrogation

The amount of undiscounted estimated salvage and subrogation recoverable, taken into account in determining the undiscounted unpaid losses as reported in the Underwriting and Investment Exhibit and Page 3 – Liabilities, Reserves and Special Funds, Line I for December 31, 2011 and 2010, was \$11,714,000 and \$10,997,000, respectively.

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [] No [X]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [] No [] N/A [X]
- 1.3 State Regulating? RHODE ISLAND
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [] No [X]
- 2.2 If yes, date of change:
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2009
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2009
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 05/17/2011
- 3.4 By what department or departments?
 RHODE ISLAND DEPARTMENT OF BUSINESS REGULATION-INSURANCE DIVISION

- 3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments? Yes [X] No [] N/A []
- 3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [X] No [] N/A []
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [] No [X]

4.12 renewals? Yes [] No [X]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [] No [X]

4.22 renewals? Yes [] No [X]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [] No [X]
- 5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.
- | 1
Name of Entity | 2
NAIC Company Code | 3
State of Domicile |
|---------------------|------------------------|------------------------|
| | | |
| | | |
- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [] No [X]

GENERAL INTERROGATORIES

6.2 If yes, give full information:

.....

7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes [] No [X]

7.2 If yes,

7.21 State the percentage of foreign control.

_____ %

7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

1 Nationality	2 Type of Entity
.....

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes [] No [X]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

.....

8.3 Is the company affiliated with one or more banks, thrifts or securities firms?

Yes [] No [X]

8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e., the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
.....

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

PRICEWATERHOUSECOOPERS, LLP 185 ASYLUM STREET, SUITE 2400, HARTFORD, CT 06103

.....

10.1 Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation?

Yes [] No [X]

10.2 If response to 10.1 is yes, provide information related to this exemption:

.....

10.3 Has the insurer been granted any exemptions related to the other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation?

Yes [] No [X]

10.4 If response to 10.3 is yes, provide information related to this exemption:

.....

GENERAL INTERROGATORIES

10.5 Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws? Yes No N/A

10.6 If the response to 10.5 is no or n/a, please explain:

.....

11. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

JOHN LYNCH, 500 EXCHANGE STREET, PROVIDENCE, RI 02903. ACTUARY IS EMPLOYED BY BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

.....

12.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes No

12.11 Name of real estate holding company

12.12 Number of parcels involved

12.13 Total book/adjusted carrying value

\$ _____

12.2 If yes, provide explanation:

.....

13. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

13.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

.....

13.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes No

13.3 Have there been any changes made to any of the trust indentures during the year? Yes No

13.4 If answer to (13.3) is yes, has the domiciliary or entry state approved the changes? Yes No N/A

14.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

- a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- c. Compliance with applicable governmental laws, rules, and regulations;
- d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- e. Accountability for adherence to the code.

Yes No

14.11 If the response to 14.1 is no, please explain:

.....

14.2 Has the code of ethics for senior managers been amended? Yes No

14.21 If the response to 14.2 is yes, provide information related to amendment(s).

.....

GENERAL INTERROGATORIES

14.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [] No [X]

14.31 If the response to 14.3 is yes, provide the nature of any waiver(s).

.....

15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance with a NAIC rating of 3 or below? Yes [] No [X]

15.2 If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.

1 American Bankers Association (ABA) Routing Number	2 Issuing or Confirming Bank Name	3 Circumstances That Can Trigger the Letter of Credit	4 Amount
.....
.....

BOARD OF DIRECTORS

16. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate thereof? Yes [X] No []

17. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No []

18. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [X] No []

FINANCIAL

19. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? Yes [] No [X]

20.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

20.11 To directors or other officers	\$ _____
20.12 To stockholders not officers	\$ _____
20.13 Trustees, supreme or grand (Fraternal only)	\$ _____

20.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

20.21 To directors or other officers	\$ _____
20.22 To stockholders not officers	\$ _____
20.23 Trustees, supreme or grand (Fraternal only)	\$ _____

21.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [] No [X]

21.2 If yes, state the amount thereof at December 31 of the current year:

21.21 Rented from others	\$ _____
21.22 Borrowed from others	\$ _____
21.23 Leased from others	\$ _____
21.24 Other	\$ _____

22.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [] No [X]

22.2 If answer is yes:

22.21 Amount paid as losses or risk adjustment	\$ _____
22.22 Amount paid as expenses	\$ _____
22.23 Other amounts paid	\$ _____

GENERAL INTERROGATORIES

23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes No

23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ _____

INVESTMENT

24.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 24.3) Yes No

24.2 If no, give full and complete information, relating thereto:
 THE SECURITIES ARE HELD BY THE REPORTING ENTITY'S CUSTODIAN BANK, STATESTREET BANK.

24.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided):

24.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes No N/A

24.5 If answer to 24.4 is yes, report amount of collateral for conforming programs. \$ _____

24.6 If answer to 24.4 is no, report amount of collateral for other programs. \$ _____

24.7 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes No N/A

24.8 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes No N/A

24.9 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? Yes No N/A

25.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 24.3). Yes No

25.2 If yes, state the amount thereof at December 31 of the current year:

	25.21	Subject to repurchase agreements	\$ <u>666,816</u>
	25.22	Subject to reverse repurchase agreements	\$ _____
	25.23	Subject to dollar repurchase agreements	\$ _____
	25.24	Subject to reverse dollar repurchase agreements	\$ _____
	25.25	Pledged as collateral	\$ <u>66,731,994</u>
	25.26	Placed under option agreements	\$ _____
	25.27	Letter stock or securities restricted as to sale	\$ _____
	25.28	On deposit with state or other regulatory body	\$ _____
	25.29	Other	\$ _____

25.3 For category (25.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount
.....
.....

26.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes No

26.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes No N/A
 If no, attach a description with this statement.

GENERAL INTERROGATORIES

27.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [] No [X]

27.2 If yes, state the amount thereof at December 31 of the current year. \$ _____

28. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No []

28.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
STATESTREET BANK & TRUST	200 CLARENDON STREET, BOSTON, MA 02111

28.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

28.03 Have there been any changes, including name changes, in the custodian(s) identified in 28.01 during the current year? Yes [] No [X]

28.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

28.05 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
107423	CONNING ASSET MANAGEMENT	ONE FINANCIAL PLAZA HARTFORD, CT 06103
108254	ADVISORY RESEARCH	TWO PRUDENTIAL PLAZA 180 N. STETSON
108254	ADVISORY RESEARCH	SUITE 5780, CHICAGO, IL 60601
145923	GLOBAL CURRENTS INVESTMENT M	2 RIGHTER PARKWAY SUITE 100
145923	GLOBAL CURRENTS INVESTMENT M	DELAWARE CORPORATE CENTER
145923	GLOBAL CURRENTS INVESTMENT M	WILMINGTON, DE 19803

29.1 Does the reporting entity have any diversified mutual funds reported in Schedule D – Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes [] No [X]

29.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
29.2999	TOTAL	

GENERAL INTERROGATORIES

29.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation

30. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
30.1 Bonds	351,460,073	370,220,399	18,760,326
30.2 Preferred stocks	428,890	428,890	428,890
30.3 Totals	351,888,963	370,649,289	19,189,216

30.4 Describe the sources or methods utilized in determining the fair values:
 PROVIDED BY RATING SOURCES UTILIZED BY THE CUSTODIAN, STATESTREET BANK, PRICING SOURCES INCLUDE IDC,
 FUNDWEB AND BLOOMBERG.

31.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D? Yes [X] No []

31.2 If the answer to 31.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes [X] No []

31.3 If the answer to 31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:

.....

.....

.....

.....

32.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes [X] No []

32.2 If no, list exceptions:

.....

.....

.....

OTHER

33.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$ 2,465,705

33.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Blue Cross Blue Shield Association	\$ 1,373,018
	\$
	\$

34.1 Amount of payments for legal expenses, if any? \$ 958,658

GENERAL INTERROGATORIES

34.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
.....	\$
.....	\$
.....	\$

35.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?

\$ 392,600

35.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
General Treasurer - State of Rhode Island	\$ 123,353
.....	\$
.....	\$

GENERAL INTERROGATORIES PART 2 - HEALTH INTERROGATORIES

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes No
- 1.2 If yes, indicate premium earned on U.S. business only. \$ 52,710,056
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$ _____
- 1.31 Reason for excluding
.....
.....
.....
- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. \$ _____
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance. \$ 42,067,495
- 1.6 Individual policies:
- Most current three years:
- 1.61 Total premium earned \$ 5,231,743
- 1.62 Total incurred claims \$ 4,141,819
- 1.63 Number of covered lives 2,303
- All years prior to most current three years:
- 1.64 Total premium earned \$ 36,345,061
- 1.65 Total incurred claims \$ 28,773,332
- 1.66 Number of covered lives 15,999
- 1.7 Group policies:
- Most current three years:
- 1.71 Total premium earned \$ 474,887
- 1.72 Total incurred claims \$ 390,391
- 1.73 Number of covered lives 259
- All years prior to most current three years:
- 1.74 Total premium earned \$ 10,658,364
- 1.75 Total incurred claims \$ 8,761,952
- 1.76 Number of covered lives 5,813

2. Health Test:

	1 Current Year	2 Prior Year
2.1 Premium Numerator	\$ 1,565,901,741	\$ 1,631,420,127
2.2 Premium Denominator	\$ 1,565,901,741	\$ 1,631,420,127
2.3 Premium Ratio (2.1 / 2.2)	<u>1.000</u>	<u>1.000</u>
2.4 Reserve Numerator	\$ 113,042,551	\$ 126,432,739
2.5 Reserve Denominator	\$ 116,060,212	\$ 219,132,739
2.6 Reserve Ratio (2.4 / 2.5)	<u>0.974</u>	<u>0.577</u>

- 3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits? Yes No
- 3.2 If yes, give particulars:
.....
.....
.....
- 4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? Yes No
- 4.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? Yes No
- 5.1 Does the reporting entity have stop-loss reinsurance? Yes No
- 5.2 If no, explain:
THE COMPANY EVALUATES THE NEED FOR REINSURANCE BY REVIEWING THE LINES OF BUSINESS UNDERWRITTEN AND CONTRACTS IN FORCE. FOR CY2011, THERE WAS NOT A NEED TO ENTER INTO A STOP-LOSS REINSURANCE AGREEMENT.
.....
.....

- 5.3 Maximum retained risk (see instructions)
- 5.31 Comprehensive Medical \$ _____
- 5.32 Medical Only \$ _____
- 5.33 Medicare Supplement \$ _____
- 5.34 Dental and vision \$ _____
- 5.35 Other Limited Benefit Plan \$ _____
- 5.36 Other \$ _____

6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:
STATE INSURANCE LAW MANDATES THE PLAN HAVE TOTAL RESERVES SUFFICIENT TO PAY CLAIMS AND ADMINISTRATIVE EXPENSES FOR NOT LESS THAN ONE MONTH. ALSO, THE PLAN HAS HOLD HARMLESS PROVISIONS IN ITS CONTRACTS WITH PARTICIPATING HOSPITALS AND PROVIDERS. IN ADDITION, THE PLAN HAS A CONTINUATION OF COVERAGE POLICY IN FORCE TO PROTECT SUBSCRIBERS AND THEIR DEPENDENTS AGAINST THE RISK OF INSOLVENCY.
.....
.....

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

7.1 Does the reporting entity set up its claim liability for provider services on a service date basis? Yes No

7.2 If no, give details:

8. Provide the following information regarding participating providers:
 8.1 Number of providers at start of reporting year 3,669
 8.2 Number of providers at end of reporting year 3,800

9.1 Does the reporting entity have business subject to premium rate guarantees? Yes No

9.2 If yes, direct premium earned:
 9.21 Business with rate guarantees between 15-36 months _____
 9.22 Business with rate guarantees over 36 months _____

10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contracts? Yes No

10.2 If yes:
 10.21 Maximum amount payable bonuses \$ _____
 10.22 Amount actually paid for year bonuses \$ _____
 10.23 Maximum amount payable withholds \$ _____
 10.24 Amount actually paid for year withholds \$ _____

11.1 Is the reporting entity organized as:
 11.12 A Medical Group/Staff Model, Yes No
 11.13 An Individual Practice Association (IPA), or, Yes No
 11.14 A Mixed Model (combination of above)? Yes No

11.2 Is the reporting entity subject to Minimum Net Worth Requirements? Yes No

11.3 If yes, show the name of the state requiring such net worth:
 RHODE ISLAND

11.4 If yes, show the amount required. \$ 124,470,969

11.5 Is this amount included as part of a contingency reserve in stockholder's equity? Yes No

11.6 If the amount is calculated, show the calculation:
 TOTAL UNDERWRITING DEDUCTIONS PAGE 4 LINE 23 \$1,493,651,630 DIVIDED BY TWELVE (12) MONTHS TO DERIVE THE
 MINIMUM NET WORTH OF \$124,470,969.

12. List service areas in which reporting entity is licensed to operate:

1		
Name of Service Area		
RHODE ISLAND		
.....

13.1 Do you act as a custodian for health savings accounts? Yes No

13.2 If yes, please provide the amount of custodial funds held as of the reporting date. \$ _____

13.3 Do you act as an administrator for health savings accounts? Yes No

13.4 If yes, please provide the balance of the funds administered as of the reporting date. \$ _____

FIVE – YEAR HISTORICAL DATA

	1	2	3	4	5
	2011	2010	2009	2008	2007
Balance Sheet (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 28)	605,459,619	606,811,906	678,811,789	710,342,300	728,694,249
2. Total liabilities (Page 3, Line 24)	282,057,660	357,825,521	380,090,428	298,024,531	299,883,894
3. Statutory surplus	124,470,969	140,971,579	152,466,148	142,363,654	141,632,189
4. Total capital and surplus (Page 3, Line 33)	323,401,959	248,986,385	298,721,361	412,317,769	428,810,355
Income Statement (Page 4)					
5. Total revenues (Line 8)	1,568,919,402	1,631,066,913	1,703,431,639	1,755,800,556	1,768,935,383
6. Total medical and hospital expenses (Line 18)	1,339,095,989	1,441,329,089	1,468,119,146	1,474,745,336	1,498,983,234
7. Claims adjustment expenses (Line 20)	92,075,577	88,526,853	89,814,615	77,527,212	66,783,345
8. Total administrative expenses (Line 21)	155,180,064	170,703,009	170,246,019	156,091,304	133,819,685
9. Net underwriting gain (loss) (Line 24)	75,267,772	(60,592,038)	(126,162,141)	47,436,704	69,349,119
10. Net investment gain (loss) (Line 27)	10,733,049	29,702,359	16,688,392	5,078,466	25,806,020
11. Total other income (Lines 28 plus 29)	(13,299,153)	9,666,943	4,417,521	(2,300,079)	(19,602,956)
12. Net income or (loss) (Line 32)	72,708,907	(14,079,686)	(99,944,419)	43,538,592	61,314,298
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)	15,476,526	(36,992,190)	(12,426,528)	31,811,770	77,972,439
Risk-Based Capital Analysis					
14. Total adjusted capital	323,401,959	248,986,385	298,721,361	412,317,769	428,810,355
15. Authorized control level risk-based capital	52,986,166	54,839,634	56,298,644	55,857,112	56,252,134
Enrollment (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7)	351,804	353,931	383,164	499,151	512,798
17. Total members months (Column 6, Line 7)	4,202,517	4,451,995	4,649,054	5,979,122	6,137,377
Operating Percentage (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3, and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Lines 18 plus Line 19)	85.4	88.4	86.2	84.0	84.7
20. Cost containment expenses	1.6	1.6	1.3	1.1	1.1
21. Other claims adjustment expenses	4.2	3.8	4.0	3.3	2.7
22. Total underwriting deductions (Line 23)	95.2	103.7	107.4	97.3	96.1
23. Total underwriting gain (loss) (Line 24)	4.8	(3.7)	(7.4)	2.7	3.9
Unpaid Claims Analysis					
(U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 13, Col. 5)	113,600,091	134,920,896	116,502,593	129,572,186	124,113,125
25. Estimated liability of unpaid claims-[prior year (Line 13, Col. 6)]	126,432,739	124,696,132	133,567,388	147,316,108	135,959,416
Investments In Parent, Subsidiaries and Affiliates					
26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1)					
27. Affiliated preferred stocks (Sch. D Summary, Line 18, Col. 1)					
28. Affiliated common stocks (Sch. D Summary, Line 24, Col. 1)					
29. Affiliated short-term investments (subtotal included in Sch. DA Verification, Col. 5, Line 10)					
30. Affiliated mortgage loans on real estate					
31. All other affiliated	4,892,786	5,892,139	5,169,448	3,956,436	694,224
32. Total of above Lines 26 to 31	4,892,786	5,892,139	5,169,448	3,956,436	694,224

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors?

Yes [] No [X]

If no, please explain:

.....
.....
.....
.....

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

States, Etc.	1	Direct Business Only							
		2	3	4	5	6	7	8	9
	Active Status	Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life & Annuity Premiums & Other Considerations	Property/Casualty Premiums	Total Columns 2 Through 7	Deposit-Type Contracts
1. Alabama	AL	N							
2. Alaska	AK	N							
3. Arizona	AZ	N							
4. Arkansas	AR	N							
5. California	CA	N							
6. Colorado	CO	N							
7. Connecticut	CT	N							
8. Delaware	DE	N							
9. District of Columbia	DC	N							
10. Florida	FL	N							
11. Georgia	GA	N							
12. Hawaii	HI	N							
13. Idaho	ID	N							
14. Illinois	IL	N							
15. Indiana	IN	N							
16. Iowa	IA	N							
17. Kansas	KS	N							
18. Kentucky	KY	N							
19. Louisiana	LA	N							
20. Maine	ME	N							
21. Maryland	MD	N							
22. Massachusetts	MA	N							
23. Michigan	MI	N							
24. Minnesota	MN	N							
25. Mississippi	MS	N							
26. Missouri	MO	N							
27. Montana	MT	N							
28. Nebraska	NE	N							
29. Nevada	NV	N							
30. New Hampshire	NH	N							
31. New Jersey	NJ	N							
32. New Mexico	NM	N							
33. New York	NY	N							
34. North Carolina	NC	N							
35. North Dakota	ND	N							
36. Ohio	OH	N							
37. Oklahoma	OK	N							
38. Oregon	OR	N							
39. Pennsylvania	PA	N							
40. Rhode Island	RI	L	1,090,377,836	382,691,302	(228,145)	101,949,197		1,574,790,190	
41. South Carolina	SC	N							
42. South Dakota	SD	N							
43. Tennessee	TN	N							
44. Texas	TX	N							
45. Utah	UT	N							
46. Vermont	VT	N							
47. Virginia	VA	N							
48. Washington	WA	N							
49. West Virginia	WV	N							
50. Wisconsin	WI	N							
51. Wyoming	WY	N							
52. American Samoa	AS	N							
53. Guam	GU	N							
54. Puerto Rico	PR	N							
55. U.S. Virgin Islands	VI	N							
56. Northern Mariana Islands	MP	N							
57. Canada	CN	N							
58. Aggregate other alien	OT	X X X							
59. Subtotal		X X X	1,090,377,836	382,691,302	(228,145)	101,949,197		1,574,790,190	
60. Reporting entity contributions for Employee Benefit Plans		X X X	492,595	227,772				720,367	
61. Totals (Direct Business)		(a) 1	1,090,870,431	382,919,074	(228,145)	101,949,197		1,575,510,557	

DETAILS OF WRITE-INS									
5801.		X X X							
5802.		X X X							
5803.		X X X							
5898. Summary of remaining write-ins for Line 58 from overflow page		X X X							
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)		X X X							

(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) None of the above - Not allowed to write business in the state.

Explanation of basis of allocation by states, premiums by state, etc.

ALL PREMIUMS ARE ALLOCATED TO RHODE ISLAND

(a) Insert the number of L responses except for Canada and Other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART

Company Name

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND (Parent)

HEALTH & WELLNESS INSTITUTE (Subsidiary)

OVERFLOW PAGE FOR WRITE-INS

Page 2 - Continuation

	Current Year			Prior Year
	1	2	3	4
REMAINING WRITE-INS AGGREGATED AT LINE 25 FOR OTHER THAN INVESTED ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
2504. HISTORIC PRESERVATION TAX CREDITS	3,069,576		3,069,576	
2505. COLLATERAL FUND HOME & HOST	369,110		369,110	391,405
2506. PNS EQUIPMENT/BLUE CROSS MDSE INVENTORY	8,510	8,510		
2597. Totals (Lines 2504 through 2596) (Page 2, Line 2598)	3,447,196	8,510	3,438,686	391,405

OVERFLOW PAGE FOR WRITE-INS

Page 3 - Continuation

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
WRITE-INS AGGREGATED AT LINE 23 FOR OTHER LIABILITIES				
2304. FEP & MISCELLANEOUS CLAIMS PAYABLES	1,920,269		1,920,269	1,477,069
2305. PAYABLE FOR ANNUAL EXPERIENCE ACCOUNTING	912,673		912,673	1,811,068
2306. UNFUNDED BENEFIT OBLIG/OTHER CARRIER PAYABLES				2,201,060
2307. A/P HISTORICAL TAX CREDITS				991,666
2308. CAPITAL LEASES				
2397. Totals (Lines 2304 through 2396) (Page 3, Line 23)	2,832,942		2,832,942	6,480,863

OVERFLOW PAGE FOR WRITE-INS

Page 4 - Continuation

WRITE-INS AGGREGATED AT LINE 29 FOR STATEMENT OF REVENUE AND EXPENSES	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
2904. OTHER INCOME (NOTE RECEIVABLE)		6,167	44,393
2905. INTEREST INCOME (NET OF PENALTIES)		(25,671)	24,048
2906. INTEREST IRS		(106,828)	16,463
2907. INVESTMENT EXPENSE (PREMIUM ASSISTANCE PROGRAM)		(140,878)	(204,179)
2908. INTEREST EXPENSE LINE OF CREDIT		(151,047)	
2909. ELECTRONIC HEALTH RECORDS		(305,450)	(225,000)
2910. BANK SERVICE CHARGES		(327,022)	(369,834)
2911. EMR GRANT PROGRAM		(633,030)	(642,179)
2912. HEALTH INFORMATION EXCHANGE		(1,902,000)	(100,000)
2913. RI COMMUNITY FOUNDATION		(3,600,000)	
2914. DEPOSIT (PREMIUM ASSISTANCE PROGRAM)		(4,500,000)	
2915. QUALIFIED PENSION SETTLEMENT		(11,345,818)	
2997. Totals (Lines 2901 through 2996) (Page 4, Line 2998)		(23,031,577)	(1,456,288)

OVERFLOW PAGE FOR WRITE-INS

Page 5 - Continuation

WRITE-INS AGGREGATED AT LINE 47 FOR STATEMENT OF REVENUE AND EXPENSES	1	2
	Current Year	Prior Year
4704. PENSION COST SETTLEMENT	(641,211)	
4797. Totals (Lines 4701 through 4796) (Page 4, Line 4798)	(641,211)	

OVERFLOW PAGE FOR WRITE-INS

Page 13 - Continuation

	1	2	3	4	5	6	7	8	9
WRITE-INS AGGREGATED AT LINE 05 FOR UNDERWRITING AND INVESTMENT EXHIBIT	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title Title XVIII Medicare	Title XIX Medicaid	Other
0597. Totals (Lines 0501 through 0596) (Page 13, Line 0598)									

	1	2	3	4	5	6	7	8	9
WRITE-INS AGGREGATED AT LINE 11 FOR UNDERWRITING AND INVESTMENT EXHIBIT	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other
1197. Totals (Lines 1101 through 1196) (Page 13, Line 1198)									

OVERFLOW PAGE FOR WRITE-INS

Page 14 - Continuation

	Claim Adjustment Expenses		3	4	5
	1	2			
WRITE-INS AGGREGATED AT LINE 25 FOR UNDERWRITING AND INVESTMENT EXHIBIT	Cost Containment Expenses	Other Claim Adjustment Expenses	General Administrative Expenses	Investment Expenses	Total
2504. HEALTH & WELLNESS PURCHASED SERVICES			(403,964)		(403,964)
2505. HOME PLAN SERVICE CHARGE		8,659,853			8,659,853
2506. AGENCY & PORTFOLIO MANAGEMENT FEES				841,797	841,797
2507. WORKER'S COMPENSATION CLMS PROCESSING FEES		(7,665)			(7,665)
2508. BLUECARD ADMIN FEE INCOME	(3,182,574)	(8,070,232)			(11,252,806)
2597. Totals (Lines 2501 through 2596) (Page 14, Line 2598)	(3,182,574)	581,956	(403,964)	841,797	(2,162,785)

OVERFLOW PAGE FOR WRITE-INS

Page 17 - Continuation

	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
WRITE-INS AGGREGATED AT LINE 06 FOR EXHIBIT 1						
0604. MEDICARE PRESCRIPTION DRUG PLAN	9,075	8,814	8,619	8,895	8,985	105,972
0605. TEMPORARY HIGH RISK POOL	89	102	126	136	137	1,492
0697. Totals (Lines 0601 through 0697) (Page 17, Line 06)	9,164	8,916	8,745	9,031	9,122	107,464

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