BLUE CROSS AND BLUE SHIELD OF VERMONT

Statutory Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

KPMG LLP
One Park Place
463 Mountain View Drive, Suite 400
Colchester, VT 05446-9909

Independent Auditors' Report

The Board of Directors
Blue Cross and Blue Shield of Vermont:

Report on the Financial Statements

We have audited the accompanying financial statements of Blue Cross and Blue Shield of Vermont (the Plan), which comprise the statutory statements of admitted assets, liabilities, and surplus as of December 31, 2020 and 2019, and the related statutory statements of operations and changes in surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed or permitted by the Vermont Department of Financial Regulation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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

As described in note 2 to the financial statements, the financial statements are prepared by the Plan using statutory accounting practices prescribed or permitted by the Vermont Department of Financial Regulation, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices and U.S. generally accepted accounting principles also are described in note 3.

KPMG

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Plan as of December 31, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Plan as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Vermont Department of Financial Regulation described in note 2.

Emphasis of Matter

As discussed in note 2(a) to the financial statements, the Plan received permission from the Vermont Department of Financial Regulation to non-admit its deferred tax asset balance related to alternative minimum tax credits. Under prescribed statutory accounting practices, deferred income taxes would be recorded as an admitted asset and impact statutory capital and surplus. As of December 31, 2020 and 2019, the permitted accounting practice decreased statutory surplus by $15.4 million and $17.8 million, respectively.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the Supplemental Investment Risks Interrogatories Schedule, the Supplemental Summary of Investment Schedule and the Supplemental Reinsurance Risk Interrogatories is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Vermont Department of Financial Regulation. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

April 30, 2021

Vt. Reg. No. 92-0000241

BLUE CROSS AND BLUE SHIELD OF VERMONT

Statutory Statements of Admitted Assets, Liabilities, and Surplus

December 31, 2020 and 2019

Admitted Assets		2020	2019
Cash and invested assets:			
Bonds	$	67,220,462	60,396,228
Equity securities		6,394,590	4,993,815
Investment in affiliates		90,137,156	77,709,966
Property occupied by the company		6,845,548	7,281,106
Cash, cash equivalents and short-term investments		66,591,566	30,803,916
Total cash and invested assets		237,189,322	181,185,031
Investment income due and accrued		429,815	472,954
Premiums and considerations:			
Uncollected premiums		4,937,487	7,915,337
Contracts subject to redetermination		40,750,102	33,738,621
Recoverable from reinsurers		1,687,261	1,784,642
Receivables relating to uninsured plans		20,763,935	37,904,430
Current federal income taxes recoverable		1,082,415	1,174,777
Electronic data processing equipment		931,916	1,140,542
Due from parent, subsidiaries and affiliates		4,031,774	4,046,809
Health care and other receivables		28,162,103	25,217,523
Total admitted assets	$	339,966,130	294,580,666
Liabilities and Surplus			
Liabilities:			
Liability for unpaid claims	$	40,172,832	38,446,756
Unpaid claim adjustment expenses		1,725,000	1,675,000
Aggregate health policy reserves:			
Premium deficiency reserve		28,926,000	4,407,000
Reserve for experience rating refunds and contracts subject to redetermination		22,908,810	16,256,347
Premiums received in advance		13,035,331	17,751,708
General expenses due or accrued		52,355,473	40,303,812
Ceded reinsurance premiums payable		711,271	465,713
Amounts withheld or retained for the account of others		50,374	207,643
Remittances and items not allocated		2,138,215	1,862,504
Borrowed money and interest thereon		—	5,000,000
Liability for amounts held under uninsured plans		32,821,909	28,376,777
Pension and other postretirement benefit obligations		37,567,704	4,184,731
Other liabilities		3,912,529	2,115,924
Total liabilities		236,325,448	161,053,915
Surplus:			
Accumulated surplus		103,640,682	133,526,751
Total surplus		103,640,682	133,526,751
Total liabilities and surplus	$	339,966,130	294,580,666

See accompanying notes to statutory financial statements.

BLUE CROSS AND BLUE SHIELD OF VERMONT

Statutory Statements of Operations and Changes in Surplus

Years ended December 31, 2020 and 2019

		2020	2019
Subscription income	$	479,087,836	537,658,660
Losses and expenses:			
Claims incurred		385,215,287	496,932,490
Operating expenses incurred		56,350,659	50,147,538
Increase in premium deficiency reserve		24,519,000	4,407,000
Total losses and expenses		466,084,946	551,487,028
Operating income (loss)		13,002,890	(13,828,368)
Investment income, net		3,066,220	3,595,804
Realized capital gains, net		94,257	2,296,656
Other (expense) income		(2,117,097)	2,623,044
Net gain (loss) before federal income tax		14,046,270	(5,312,864)
Federal income tax expense (benefit)		844,754	(18,715,955)
Net income		13,201,516	13,403,091
Surplus, beginning of year		133,526,751	110,154,828
Change in deferred tax asset (net of liabilities)		(2,424,936)	(17,802,263)
Net unrealized gain (loss) on equity investments, net of tax		947,941	(547,239)
Net unrealized gain on investments in subsidiaries		6,070,909	5,309,168
Change in pension and postretirement benefit obligations		(43,469,713)	3,251,428
Net (increase) decrease in nonadmitted assets		(4,211,786)	19,757,738
Surplus, end of year	$	103,640,682	133,526,751

See accompanying notes to statutory financial statements.

BLUE CROSS AND BLUE SHIELD OF VERMONT

Statutory Statements of Cash Flows

Years ended December 31, 2020 and 2019

		2020	2019
Cash provided by (used in) operations:			
Premiums collected net of reinsurance	$	500,753,342	525,140,081
Net investment income		3,918,919	4,528,675
Benefit and loss related payments		(407,910,830)	(495,572,469)
Commissions and expenses paid		(24,780,468)	(46,116,379)
Federal income taxes (paid) recovered		(752,392)	17,945,406
Net cash provided by operations		71,228,571	5,925,314
Cash provided by (used in) investing activities:			
Proceeds from investments sold, matured or repaid		20,632,968	44,165,030
Cost of investments acquired		(35,542,254)	(17,418,884)
Net cash (used in) provided by investing activities		(14,909,286)	26,746,146
Cash provided by (used in) financing and miscellaneous sources:			
Borrowed funds		(5,000,000)	(5,000,000)
Pension and postretirement benefit obligations		(14,439,735)	63,382
Healthcare and other receivables		(4,589,560)	(13,456,921)
Other cash applied		3,497,660	(1,478,914)
Net cash used in financing and miscellaneous sources		(20,531,635)	(19,872,453)
Net change in cash, cash equivalents and short-term investments		35,787,650	12,799,007
Cash, cash equivalents and short-term investments, beginning of year		30,803,916	18,004,909
Cash, cash equivalents and short-term investments, end of year	$	66,591,566	30,803,916

See accompanying notes to statutory financial statements.

(1) Nature of Business

Blue Cross and Blue Shield of Vermont (BCBSVT or the Plan) was founded in 1944 as part of Blue Cross and Blue Shield of Vermont and New Hampshire. In 1981, the Vermont Plan formally separated its financial records and certain administrative functions from New Hampshire under orders from Vermont's Commissioner of Banking and Insurance. In 1988-1989, BCBSVT established full and independent administrative operations in Berlin, Vermont. BCBSVT is incorporated as a not-for-profit hospital/medical service corporation in the state of Vermont and is a member of the Blue Cross and Blue Shield Association (BCBSA). The Plan is subject to regulation by Vermont's Department of Financial Regulation (DFR), as well as by the Green Mountain Care Board (GMCB), which regulates Vermont health insurance premium rates and hospital budgets.

BCBSVT is organized for the purpose of establishing, maintaining and operating a nonprofit hospital and medical service company to provide hospitalization, medical, and other health benefits to members through contracts with hospitals, participating physicians, skilled nursing homes and other health care organizations including physician/hospital organizations. The Plan offers a variety of group indemnity plans, health maintenance organizations, preferred provider networks, Medicare supplemental, and other benefit coverage to its members on both an insured and self-funded basis. The Plan also offers Qualified Health Plan (QHP) products to individual and small group customers. Individual customers have the option to purchase these products through Vermont Health Connect (VHC), Vermont's state-based health care exchange, or directly through BCBSVT. All small group customers must purchase QHP products directly through BCBSVT.

The Plan delivers its health maintenance organization (HMO) products through The Vermont Health Plan, LLC (TVHP). TVHP was licensed and approved to operate as an HMO in Vermont in December of 1996. BCBSVT also delivers administrative-service-only products and flexible benefit services through its third-party administrator, Comprehensive Benefits Administrator, Inc. (CBA).

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared in conformity with statutory accounting practices (SAP) prescribed or permitted by the DFR. SAP is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP).

The following is a summary of the material differences from GAAP:

- Majority owned subsidiaries are not consolidated under SAP.
- Adjustments reflecting the equity in earnings of affiliated companies are carried to the surplus account as net unrealized capital gains or losses under SAP but are recorded to income for GAAP.
- Assets must be included in the statutory statements of admitted assets, liabilities and surplus at "admitted asset value" and "non-admitted assets" are excluded through a charge against surplus under SAP. Non-admitted assets include prepaid amounts, travel advances, furniture, fixtures, vehicles, computer software, receivables greater than ninety days past due, and certain deferred tax assets.
- Under SAP, amounts billed in advance are not recorded as receivable until earned. Amounts collected in advance of the coverage period are recorded as premiums received in advance.

* Fixed maturity securities are generally carried at amortized cost under SAP.
* The effects of changes in deferred tax assets and liabilities are recorded through surplus under SAP. Deferred tax assets are subject to a test of admissibility under SAP.
* As part of the admissibility test required under SSAP 101, Income Taxes, BCBSVT non-admitted $4,971,271 and $0 of its deferred tax asset balance of $20,377,586 and $17,792,521 in 2020 and 2019, respectively. Additionally, in accordance with a permitted practice approved by the DFR in 2018, BCBSVT non-admitted its remaining deferred tax asset balance of $15,406,315 and $17,792,521 in 2020 and 2019, respectively. BCBSVT's deferred tax asset balance relates to alternative minimum tax credits (AMT). As part of the permitted practice, BCBSVT is allowed to record no impact to its statutory capital and surplus as a result of the accounting for AMT credits, until such time as any amount of the AMT credit balance is used to offset subsidiary federal income tax obligations or is refunded to BCBSVT in cash by the IRS. Under this approved accounting treatment, only the amount utilized for offset or received in cash during the calendar year will be recorded to capital and surplus in that year's statutory financials statements.
* Under SAP, claim payments made on behalf of self-funded (ASC and ASO) groups are not included in subscription revenue or claims expense; administrative fees received from ASC and ASO groups are recorded as an offset to administrative expense.
* The statutory statement of cash flows does not classify cash flows consistent with GAAP and a reconciliation of net earnings to net cash provided by operating activities is not provided.
* Changes to allowances for doubtful accounts are reported as an increase or decrease to net income for GAAP, but do not impact SAP results.

The differences between SAP and GAAP are further described in note 3.

(b) Use of Estimates

The preparation of statutory financial statements in conformity with SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. The significant items subject to such estimates and assumptions include the assessment of other than temporary impairment of investments; the estimate of the liability for unpaid claim and claim adjustment expenses; premium deficiency reserves (PDR); assets and liabilities related to the Patient Protection and Affordable Care Act (ACA) Risk Adjustment program; and assets and liabilities related to employee benefit plans. Actual results could differ from those estimates.

(c) Cash, Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit, money market accounts, and other income producing securities with a maturity of three months or less when purchased. The Plan maintains a sweep account at People's United Bank. The bank is authorized to transfer funds from the Plan's short-term investments to cover checks as presented.

Short-term investments include investments with maturities of less than one year at the date of acquisition and are carried at cost that approximates fair value.

(d) Investments

Investments are recorded in the statutory financial statements at admitted asset values, as prescribed by the National Association of Insurance Commissioners' (NAIC) valuation procedures. Bonds are generally carried at amortized cost. Bond premiums and discounts are amortized or accreted on the scientific method over the life of the bond and are included in investment income. The Plan uses the prospective method to calculate amortization for mortgage backed securities and collateralized mortgage obligation investments. Common stocks, other than common stock of affiliates, are carried at fair value.

Dividends and interest are recorded in net investment income when earned. Realized gains and losses on investments are determined by the specific identification method and are included in income. Unrealized gains or losses on common stocks, net of applicable income taxes, are recorded directly in surplus.

A decline in the market value of any security except for mortgage backed securities and collateralized mortgage obligation investments below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

In accordance with Statements of Statutory Accounting Principles (SSAP) No. 43R, *Loan-Backed and Structured Securities*, which requires that for loan-backed and structured securities that have a fair value less than amortized cost and the Plan has either (1) the intent to sell or (2) does not have the intent and ability to hold the security until recovery of its carrying value, the Plan must impair the security to fair value and record an other-than-temporary impairment as a net realized capital loss. For securities where the Plan does not expect to recover the amortized cost, but has the intent and ability to hold the security to recovery, the Plan recognizes an other-than-temporary impairment for the credit related decline in value.

(e) Investment in Affiliates

Catamount Insurance Services, Inc. (CIS), a wholly owned subsidiary of the Plan, serves as the holding company for the Plan's investments in non-insurance affiliates. CBA, a wholly owned subsidiary of CIS, is a Vermont based third party administrator, which administers employer benefit plans on a fee basis.

In 2009, CBA established a limited liability company, Cobalt Benefits Group, LLC (Cobalt), and transferred substantially all of its assets and liabilities to Cobalt per the terms of a Contribution Agreement between the two parties. On December 15, 2009, BCBSVT entered into a Joint Ownership Agreement with Blue Cross and Blue Shield of Massachusetts (BCBSMA) whereby BCBSMA purchased 50% of the membership interest in Cobalt from CBA.

At December 31, 2020 and 2019, the Plan reported $1,076,847 and $546,708, respectively, as amounts due from CBA. The Plan settles the balances due from CBA on a monthly basis. CBA paid the Plan management and administrative fees totaling $4,090,909 and $3,597,880 during 2020 and 2019, respectively.

In 2012, the Plan entered into an agreement with the Brattleboro Retreat (the Retreat) to form a limited liability company, Vermont Collaborative Care, LLC (VCC), of which each party owns 50%. VCC commenced operations on July 1, 2013. VCC delivers benefit management, care management and care improvement services, combining expertise in behavioral and physical health. VCC provides these services to health plans who offer managed behavioral and physical health benefits to their subscribers. VCC contracts with the Retreat for behavioral health care management clinical services and with the Plan for physical health care management services. The Retreat and the Plan perform various other operating and administrative functions on behalf of VCC and are reimbursed by VCC for the cost of their respective services.

The Plan reported $116,846 and $69,797 as amounts due from VCC at December 31, 2020 and 2019, respectively. The Plan settles the balances due from VCC on a monthly basis. VCC paid the Plan management and administrative fees totaling $873,838 and $761,462 during 2020 and 2019, respectively.

In September 2016, the Plan established Health and Wellness Partners, Incorporated Cell (HWP) as an incorporated protected cell company within BCS Re Inc., a Vermont licensed sponsored captive insurance company. HWP was formed by the Plan to reinsure certain medical stop loss risks of the Plan, which provides this coverage for its customers as a group rather than the current partially self-funded or fully insured arrangements. HWP commenced operations on December 1, 2016. The Plan and Strategic Risk Solutions (Vermont) LTD perform various operating and administrative functions on behalf of HWP and are reimbursed by HWP for the cost of these services.

The Plan provides certain management and administrative services to HWP in exchange for a monthly administrative fee. Management and administrative fees paid to the Plan by HWP totaled $76,381 and $69,703 in 2020 and 2019, respectively. At December 31, 2020 and 2019, the amount due to the Plan from HWP for administrative fees was $7,157 and $7,328, respectively, and is recorded as due from parent, subsidiaries, and affiliates.

During 2020, BCBSVT entered into an agreement with Blue Cross Blue Shield of Michigan (BCBSM) to form a joint venture known as Vermont Blue Advantage, LLC (VBA), of which BCBSVT owns 49%. Vermont Blue Advantage, Inc. (VBA Inc.) was established as a wholly owned subsidiary of VBA. VBA Inc. will begin writing Medicare Advantage business in 2021.

TVHP is also a wholly owned subsidiary of the Plan. The Plan provides certain management and administrative services to TVHP in exchange for a monthly administrative fee. Management and administrative fees paid to the Plan by TVHP totaled $5,730,870 and $5,363,493 in 2020 and 2019, respectively. In addition, the Plan pays claims on behalf of TVHP. At December 31, 2020 and 2019, the amount due to the Plan from TVHP for administrative fees and claims reimbursement was $2,316,781 and $3,008,346, respectively, and is recorded as due from parent, subsidiaries, and affiliates.

The carrying amount of the investment in CIS was $46,732,462 and $42,459,068 at December 31, 2020 and 2019, respectively; the carrying amount of the investment in TVHP was $32,767,278 and $31,265,521 at December 31, 2020 and 2019, respectively; and the carrying amount of the investment in HWP was $7,700,670 and $3,985,377 at December 31, 2020 and 2019, respectively. The carrying amount of the investment in VBA was $2,936,746 as of December 31, 2020.

(Continued)

The combined financial information for CIS, TVHP, HWP and VBA as of and for the years ended December 31, 2020 and 2019 is as follows:

		2020	2019
Financial position:			
Current assets	$	94,578,774	80,666,837
Other assets		11,329,387	12,709,773
Total assets	$	105,908,161	93,376,610
Current liabilities	$	15,771,005	13,437,665
Other liabilities		—	2,228,979
Total liabilities		15,771,005	15,666,644
Accumulated surplus		90,137,156	77,709,966
Total surplus		90,137,156	77,709,966
Total liabilities and surplus	$	105,908,161	93,376,610
Results from operations:			
Premium and admin/access fee revenue	$	47,415,586	49,037,947
Operating gain (loss)		4,595,821	(176,093)
Net income		7,858,689	5,814,959

(f) Formulary Rebates

BCBSVT's pharmacy benefit manager (PBM) contracts with pharmaceutical manufacturers, some of whom provide rebates based on the use of the manufacturer's products by the PBM for BCBSVT's insured and self-funded customers. BCBSVT accrues the rebates receivable monthly based on the terms of the applicable contracts. The PBM bills these rebates to the manufacturer and BCBSVT is reimbursed on a quarterly basis.

BCBSVT records rebates attributable to insured customers as an accrual to health care and other receivables, with an offsetting reduction to claims expense. The rebates attributable to self-funded customers are accrued as receivables relating to uninsured plans, with a corresponding payable to liability for amounts held under uninsured plans, in accordance with their contracts. The formulary rebate receivable was $18,537,834 and $17,554,210 as of December 31, 2020 and 2019, respectively. The rebate portion of the liability due to uninsured plans was $6,948,861 and $8,256,174 as of December 31, 2020 and 2019, respectively.

(g) Property Occupied by the Plan, Net of Encumbrances

Land and building are recorded at cost. Building is depreciated to its estimated salvage value using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the Plan's land and building assets are as follows:

Home office	40 years
Building improvements	20 years
Land improvements	15 years

(h) Electronic Data Processing Equipment

Data processing equipment is stated at cost, less accumulated depreciation of $12,141,244 and $11,713,249 at December 31, 2020 and 2019, respectively. Depreciation on data processing equipment is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful life of data processing equipment is three to seven (3-7) years.

(i) Medical Costs Recognition

The Plan enters into contractual agreements with various healthcare providers to provide certain medical services to its members. Compensation arrangements vary by provider. The cost of healthcare services is accrued in the period in which services are provided to members.

The liabilities for unpaid claims and unpaid claim adjustment expenses are actuarially computed estimates of the ultimate cost of reported but unpaid and unreported claims incurred through December 31 based on historical claims experience modified for changes in enrollment, cost and utilization trends. These liabilities are necessarily subject to the impact of changes in claim severity and frequency, as well as numerous other factors. Management believes that the liabilities are adequate, but the ultimate net cost of settling these liabilities may vary from the estimated amounts. Accordingly, these estimates are continually reviewed and, as adjustments become necessary, they are reflected in current operations.

When necessary, the Plan provides for the estimated PDR liability for net future contract benefits based on the excess of estimated contract benefits over income to be earned during the remainder of the contract period. The Plan considers investment income in estimating this liability. The Plan recorded a PDR liability of $28,926,000 and $4,407,000 as of December 31, 2020 and 2019, respectively. Included as part of this liability in 2020 and 2019 are reserves of $20,849,000 and $2,417,000, respectively, related to insufficient self-insured administrative fees.

(j) Subscription and Administrative Fee Income

The Plan receives subscription income from insured business and administrative fees from self-funded accounts. Subscription income is generally billed monthly in advance of the coverage period and is recognized as revenue in the month that coverage is effective. Subscription income billed in advance of the coverage period, and not collected, is not recorded as subscription receivable until the policy period begins. Subscription income billed and collected in advance of the coverage period is recorded as a liability for premiums received in advance. Unearned income is only recorded if subscription income billing is done more than 30 days in advance of the coverage period. Administrative fee income is billed and collected in the month the services are rendered and is recorded as a reduction to administrative expenses.

(k) Claim Costs for Self-Funded Accounts

Self-funded accounts are billed weekly or monthly for actual medical claims plus a monthly administrative fee. Deposits received from self-funded accounts are reported as a liability for amounts held under uninsured plans on the statements of admitted assets, liabilities, and surplus.

(l) Reinsurance

The Plan has reinsurance coverage to limit its losses on individual claims. Ceded reinsurance premiums are recognized over the policy period. Losses recoverable under these policies are deducted from claims incurred. The Plan is liable for amounts recoverable from reinsurers in the event that the reinsurers do not meet their contractual obligations.

(m) ACA Programs and Fees

The ACA imposes fees and premium stabilization provisions on health insurance issuers offering commercial health insurance. The ACA includes three programs which took effect on January 1, 2014 and are intended to protect consumers and stabilize premiums during the first few years of the law's implementation. Two of these programs were temporary (Reinsurance and Risk Corridors) and helped provide for a smooth transition to the new marketplace over three years. The Risk Adjustment program is intended to protect against "adverse selection" in the reformed marketplace. Collectively, these programs are known as the 3Rs.

The Reinsurance program provided for partial reimbursement of certain high cost claims for non-grandfathered individual members, beginning in 2014 and ending in 2016. As described in note 2(i) above, certain amounts were recorded in 2016 as expected claims reimbursements under this program. Regulations provided that claims for 2016 were submitted beginning in 2016 and continued through April 2017.

The Risk Adjustment program is permanent and provides for retrospective adjustment of revenue for non-grandfathered individual and small group market plans, whether inside or outside ACA exchanges. All participating insurers are required to submit data on risk indicators for these populations by April following the data year and are subsequently notified of any revenue adjustments related to business written in the data year. The Risk Adjustment program is designed such that payments to plans with higher relative risk are funded by transfers from plans with lower relative risk. The Plan recorded \$17,841,292 and \$17,482,273 for estimated recoveries in 2020 and 2019, respectively, related to the Risk Adjustment program. Included as part of the estimated recoveries in 2020 and 2019 is an assessment for the Plan's share of the million-dollar high claims risk pool established by the U.S. Department of Health and Human Services (HHS) related to individual, catastrophic and merged markets.

The Plan recorded \$81,674 and \$78,128 for estimated user fees payable related to the Risk Adjustment program as of December 31, 2020 and 2019, respectively. The Plan also recorded premium revenue of \$20,267,363 and \$26,372,029 and user fee expense of \$76,364 and \$68,965 for the years ended December 31, 2020 and 2019, respectively, related to this program.

The Risk Corridors program was temporary and involved the years 2014 through 2016. This program provided for gains on the individual and small group market plans to be shared with HHS. The Risk Corridors program calculation was submitted to HHS in conjunction with the Medical Loss Ratio filing as required by the ACA. Revenues and claims expense adjustments relating to the Risk Adjustment program and the Reinsurance program are necessary to perform this calculation. The Plan recorded revenue adjustments of $10,085,976 and $0 in December 31, 2020 and 2019, respectively, related to the Risk Corridors program. Included as part of the revenue adjustment in 2020 was a cash settlement from HHS of $11,095,529 related to the 2015 and 2016 plan years, offset by a contingent legal fee of $1,009,553 incurred as part of the litigation with HHS.

BCBSVT is subject to an annual fee under Section 9010 of the ACA. This annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. As of December 31, 2019, BCBSVT had written health insurance subject to the ACA assessment, conducted health insurance business in 2020, and paid its portion of the annual health insurance industry fee of $9,633,791 on September 30, 2020. The Further Consolidated Appropriations Act of 2020, Division N, Subtitle E § 502, signed into law on December 20, 2019, repealed the annual fee on health insurance providers for calendar years beginning after December 31, 2020 (fee years after the 2020 fee year). As a result of the appeal, 2020 was the last year in which this fee will be assessed.

BCBSVT's portion of the annual health insurance industry fee and impact to RBC is as follows:

Description		Current year	Prior year
A. ACA fee assessment payable for the upcoming year	$	—	10,062,184
B. ACA fee assessment paid		9,633,791	—
C. Premium written subject to ACA 9010 assessment		—	545,773,045
D. Total adjusted capital before surplus adjustment		103,640,682	133,526,751
E. Total adjusted capital after surplus adjustment		103,640,682	123,464,567
F. Authorized control level		21,591,167	23,561,223
G. Would reporting the ACA assessment as of December 31, 2020 have triggered an RBC action level (YES/NO)?		NO	

(n) Pension Plans and Other Postretirement Benefits

BCBSVT participates in a nationally sponsored, noncontributory, defined benefit plan covering employees meeting certain age and service requirements. Benefits are based upon years of service and the employee's compensation during the last five years of employment. Pension fund assets are part of the Blue Cross Blue Shield National Retirement Trust, which invests in a variety of equity and fixed income securities. The pension plan administrator utilizes the "Projected Unit Credit" actuarial cost method to determine pension costs and the present value of accumulated plan benefits.

A 401(k) voluntary defined contribution plan is available to full-time employees meeting certain requirements. Under the terms of the 401(k) plan, the Plan will match 60% of an employee's contribution up to the first 6% of the individual employee's salary, as limited by federal law.

Expenses incurred for the retirement programs described above amounted to $1,760,861 and $3,422,992 in 2020 and 2019, respectively. The cost of these benefits is reflected in current operations on an incurred basis.

In addition to pension benefits, the Plan provides certain postretirement healthcare and life insurance benefits for retired employees. Employees may become eligible for these benefits if they attained age 55 and 15 years of service with the Plan. For medical coverage, these requirements must have been met by December 31, 1998.

(o) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under this method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in surplus in the period that includes the enactment date.

In addition, the Plan must determine the admissibility of deferred tax assets in accordance with statutory accounting practices.

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was enacted into law, reducing the top Federal tax rate from 35% to 21% and repealing the corporate Alternative Minimum Tax (AMT), effective for taxable years after December 31, 2017. The Plan had $35,789,384 of accumulated AMT credits that became refundable beginning in 2019 in a phased refund approach outlined by the IRS. During 2019, the Plan received a payment of $17,894,693, which represented approximately one half of the original AMT credit.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020 and the Consolidated Appropriations Act (CAA), 2021 was signed into law on December 27, 2020. The CARES Act allows NOLs arising in tax years ending after December 31, 2017 and before January 1, 2021 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The CAA extends and expands certain tax provisions of the CARES Act. The Plan carried its NOL generated in the tax year ended December 31, 2018 back to 2014 and 2015 and generated an additional AMT credit in the amount of $2,741,120. The additional AMT credit along with the original AMT credit are non-admitted in accordance with the permitted practice approved by the DFR. For the year ended December 31, 2020 and 2019, the Plan recorded non-admitted assets of $20,377,586 and $17,792,721, respectively, related to these accumulated AMT credits that have not yet been refunded. All other provisions in the CARES Act and CAA do not have a material impact to the Plan's financial statements.

(Continued)

(p) Reclassifications

The Plan has reclassified certain amounts relating to its prior period results to conform to its current period presentation. These reclassifications have not changed the results of operations of prior periods.

(3) SAP to GAAP Reconciliation

The accompanying statutory basis financial statements have been prepared in conformity with statutory accounting practices of the NAIC Accounting Practices and Procedures Manual and those prescribed or permitted by the DFR.

The following is a reconciliation of the Plan's total surplus and net income (loss) as set forth in the accompanying statutory basis financial statements to the corresponding amounts on a consolidated basis prepared under GAAP, at December 31:

	2020		2019	
	Net income	**Surplus**	**Net income**	**Surplus**
Statutory basis	$ 13,201,516	103,640,682	13,403,091	133,526,751
Gain from subsidiaries	5,052,740	—	5,310,446	—
Other invested assets	44,520	—	33,038	—
Nonadmitted assets	—	61,610,327	—	57,398,541
TVHP nonadmitted assets	—	9,574	—	—
Income taxes	3,620,064	148,811	(17,575,391)	(583,426)
Net unrealized (loss) gain on investments	246,415	5,325,461	(725,745)	1,783,387
TVHP unrealized gain on investments	12,863	938,324	371	530,088
Postretirement benefits and pension	(1,054,987)	—	464,182	—
Allowance for doubtful accounts	(454,877)	(4,386,034)	1,609,656	(3,931,157)
TVHP allowance for doubtful accounts	—	(12,622)	—	(1,722)
Total GAAP basis	$ 20,668,254	167,274,523	2,519,648	188,722,462

Non-admitted assets as of December 31, 2020 and 2019 are comprised of the following:

	2020	2019
Computer software	$ 25,676,570	26,797,291
Net furniture and equipment	1,001,791	234,867
Prepaid expenses	3,141,530	4,044,326
Healthcare receivables	9,115,769	7,470,789
Accounts receivable over 90 days	1,442,251	440,744
Deferred tax	20,377,586	17,792,521
Other	854,830	618,003
Total	$ 61,610,327	57,398,541

(4) Investments

Book adjusted carrying value (BACV), gross unrealized gains and losses, and fair values at December 31, 2020 and 2019 for bonds are as follows:

		2020		
	BACV	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2020:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 3,495,408	140,512	(709)	3,635,211
Foreign debt securities	10,348,385	761,576	(10,974)	11,098,987
Corporate debt securities	27,515,819	2,424,862	(3,514)	29,937,167
Municipal bonds	2,845,701	122,127	—	2,967,828
Asset backed securities	1,645,086	1,286	(7,815)	1,638,557
Collateralized mortgage obligations	145,075	12,893	—	157,968
Mortgage backed securities	18,548,659	660,492	(274)	19,208,877
Exchange-traded funds	2,676,329	—	—	2,676,329
Total bonds	$ 67,220,462	4,123,748	(23,286)	71,320,924

		2019		
	BACV	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2019:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 3,171,755	9,024	(15,848)	3,164,931
Foreign debt securities	11,932,289	438,883	(18,372)	12,352,800
Corporate debt securities	19,887,458	1,155,737	(199,696)	20,843,499
Municipal bonds	3,685,833	61,359	(3,054)	3,744,138
Asset backed securities	2,574,140	2,099	(14,350)	2,561,889
Collateralized mortgage obligations	185,661	9,535	—	195,196
Mortgage backed securities	16,412,333	397,204	(39,134)	16,770,403
Exchange-traded funds	2,546,759	—	—	2,546,759
Total bonds	$ 60,396,228	2,073,841	(290,454)	62,179,615

The Plan classifies certain exchange-traded funds (ETFs) with underlying investments in debt securities as bonds, as these securities are specifically identified by the Securities Valuations Office (SVO) of the NAIC as ETFs eligible to be reported as bonds. Gross unrealized gains included in the BACV of ETFs in 2020 and 2019 were $220,031 and $90,783, respectively. Gross unrealized losses included in the BACV of ETFs in 2020 and 2019 were $0 and $322, respectively.

Original cost, gross unrealized gains and losses, and fair values at December 31, 2020 and 2019 for equity securities are as follows:

		Original cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2020:					
Equity securities	$	5,392,603	1,001,995	(8)	6,394,590
December 31, 2019:					
Equity securities	$	4,108,674	943,339	(58,198)	4,993,815

The book adjusted carrying value and fair value of bonds at December 31, 2020 are shown below by contractual maturity periods. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

		BACV	Fair value
Due in one year or less	$	500,167	503,045
Due after one year through five years		22,504,780	24,075,114
Due after five years through ten years		18,210,115	19,867,201
Due after ten years through twenty years		6,472,203	6,855,442
Due after twenty years or more		16,856,868	17,343,793
No maturity		2,676,329	2,676,329
Total	$	67,220,462	71,320,924

The components of net investment income including realized gains (losses) for the years ended December 31, 2020 and 2019 are as follows:

		2020	2019
Bonds	$	1,516,045	2,129,810
Equity securities		901,631	2,919,998
Real estate		(316)	—
Cash and equivalents		138,020	359,115
Rent income		1,386,000	1,386,000
Total investment income		3,941,380	6,794,923
Less:			
Investment expenses		226,579	256,042
Depreciation on home office		534,156	540,278
Interest expense		20,168	106,143
Net investment income	$	3,160,477	5,892,460

Proceeds from the sale of investment securities were $13,144,481 and $39,731,240 in 2020 and 2019, respectively; gross realized gains included in net investment income in 2020 and 2019 were $545,081 and $2,975,055, respectively; and gross realized losses included in net investment income in 2020 and 2019 were $450,824 and $678,399, respectively.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and the length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2020 and 2019, were as follows:

	Less than one year		One year or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
December 31, 2020:						
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 674,271	(709)	—	—	674,271	(709)
Foreign debt securities	1,210,491	(1,961)	2,390,988	(9,013)	3,601,479	(10,974)
Corporate debt securities	1,331,100	(3,514)	—	—	1,331,100	(3,514)
Asset backed securities	—	—	791,119	(7,815)	791,119	(7,815)
Mortgage backed securities	17,553	(274)	—	—	17,553	(274)
Equity securities	12,900	(8)	—	—	12,900	(8)
Total	$ 3,246,315	(6,466)	3,182,107	(16,828)	6,428,422	(23,294)

	Less than one year		One year or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
December 31, 2019:						
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 2,086,514	(15,848)	—	—	2,086,514	(15,848)
Foreign debt securities	2,780,726	(18,372)	—	—	2,780,726	(18,372)
Corporate debt securities	1,068,048	(1,696)	702,000	(198,000)	1,770,048	(199,696)
Municipal bonds	254,031	(1,502)	193,187	(1,552)	447,218	(3,054)
Asset backed securities	751,290	(358)	784,705	(13,992)	1,535,995	(14,350)
Mortgage backed securities	2,711,236	(16,253)	1,755,865	(22,881)	4,467,101	(39,134)
Equity securities	375,642	(34,303)	62,759	(23,895)	438,401	(58,198)
Total	$ 10,027,487	(88,332)	3,498,516	(260,320)	13,526,003	(348,652)

The Plan evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment by evaluating individual securities with a fair value less than 80% of amortized cost. Evidence considered during the evaluation includes industry analyst reports, sector credit ratings, and volatility of the security's market price. Based on this evaluation, no other-than-temporary impairment losses were recognized in 2020 or 2019. For the remainder of the portfolio of securities with fair values less than amortized cost, the Plan performs analysis and monitoring procedures to determine if further analysis is required to conclude that they are not considered other-than-temporarily impaired.

(5) Fair Value Measurements

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

* Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Plan has the ability to access at the measurement date.
* Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
* Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables present the total fair value for bonds and equity investments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. The securities are reported at their market values as determined by the NAIC Securities Valuation Office as of December 31, 2020 and 2019, respectively:

	2020			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 3,635,211	—	—	3,635,211
Foreign debt securities	—	11,098,987	—	11,098,987
Corporate debt securities	—	29,937,167	—	29,937,167
Municipal bonds	—	2,967,828	—	2,967,828
Asset backed securities	—	1,638,557	—	1,638,557
Collateralized mortgage obligations	—	157,968	—	157,968
Mortgage backed securities	—	19,208,877	—	19,208,877
Exchange-traded funds	2,676,329	—	—	2,676,329
Equity securities	6,394,590	—	—	6,394,590
Total	$ 12,706,130	65,009,384	—	77,715,514

	2019			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 3,164,931	—	—	3,164,931
Foreign debt securities	—	12,352,800	—	12,352,800
Corporate debt securities	—	20,843,499	—	20,843,499
Municipal bonds	—	3,744,138	—	3,744,138
Asset backed securities	—	2,561,889	—	2,561,889
Collateralized mortgage obligations	—	195,196	—	195,196
Mortgage backed securities	—	16,770,403	—	16,770,403
Exchange-traded funds	2,546,759	—	—	2,546,759
Equity securities	4,993,815	—	—	4,993,815
Total	$ 10,705,505	56,467,925	—	67,173,430

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Equity Securities – Fair value estimates for publicly traded equity securities are based on quoted market prices.

SVO Identified Funds – Fair value estimates for exchange traded funds are valued at the closing price reported on the active market on which the individual securities are traded.

Fixed Maturity Investments – The estimated fair values are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Fair values of fixed maturity investments that do not trade on a regular basis in active markets are classified as Level 2, and are valued using an income approach valuation technique (present value using the discount rate adjustment technique) that considers, among other things, interest rates, the issuers credit spread, projected defaults and credit enhancement.

(6) Property Occupied by the Plan

		2020	2019
Land and improvements	$	776,271	776,271
Building and improvements		15,611,875	15,513,922
Total property, at cost		16,388,146	16,290,193
Less accumulated depreciation		9,542,598	9,009,087
Net property occupied by the Plan	$	6,845,548	7,281,106

Depreciation expense was $534,156 and $540,278 for the years ended December 31, 2020 and 2019, respectively.

(7) Reinsurance

Subscription income earned and ceded for the years ended December 31, 2020 and 2019 are as follows:

		2020	2019
Gross subscription income	$	489,236,216	546,341,393
Subscription income ceded		(10,148,380)	(8,682,733)
Net subscription income earned	$	479,087,836	537,658,660

Claims expense incurred and ceded for the years ended December 31, 2020 and 2019 are as follows:

		2020	2019
Gross claims and claims expenses incurred	$	383,401,269	496,489,653
Claims expense ceded		1,814,018	442,837
Net claims expense incurred	$	385,215,287	496,932,490

Reinsurance recoverable from reinsurers on paid claims is $1,687,261 and $1,784,642 at December 31, 2020 and 2019, respectively. Reinsurance recoverable from reinsurers on unpaid claims is $1,187,000 and $1,915,000 at December 31, 2020 and 2019, respectively. The liability for unpaid claims and recoverable from reinsurers are reported net of these amounts in the statutory statements of admitted assets, liabilities, and surplus.

(8) Liability for Unpaid Claims

As discussed in note 2(i), the Plan establishes a liability for insured events, which includes an estimate of future payments of claims. The following schedule presents changes in this liability during the years ended December 31, 2020 and 2019:

		2020	2019
Balance at January 1	$	38,446,756	31,694,833
Incurred related to:			
Current year		396,026,067	501,922,489
Prior years		(10,810,780)	(4,989,999)
Total incurred		385,215,287	496,932,490
Paid related to:			
Current year		356,212,531	463,983,606
Prior years		27,276,680	26,196,961
Total paid		383,489,211	490,180,567
Balance at December 31	$	40,172,832	38,446,756

As a result of changes in estimates in prior years, the liability for unpaid claims decreased by $10,810,780 and $4,989,999 in 2020 and 2019, respectively. The decrease is primarily due to changes in assumptions related to membership, medical cost trends, and provider risk sharing agreements.

(9) Income Taxes

(a) Components of the Net Deferred Tax Asset or Net Deferred Tax Liability

	December 31, 2020			December 31, 2019			Change	Change	Change
	Ordinary	Capital	Total	Ordinary	Capital	Total	ordinary	capital	total
Total gross deferred tax assets	$ 50,172,943	721,246	50,894,189	32,057,300	91,758	32,149,058	18,115,643	629,488	18,745,131
Statutory valuation allowance adjustments	(16,225,706)	(392,770)	(16,618,476)	(6,537,798)	(41,912)	(6,579,710)	(9,687,908)	(350,858)	(10,038,766)
Adjusted gross deferred tax assets	33,947,237	328,476	34,275,713	25,519,502	49,846	25,569,348	8,427,735	278,630	8,706,365
Deferred tax assets nonadmitted	(20,377,586)	—	(20,377,586)	(17,792,521)	—	(17,792,521)	(2,585,065)	—	(2,585,065)
Subtotal net admitted deferred tax assets	13,569,651	328,476	13,898,127	7,726,981	49,846	7,776,827	5,842,670	278,630	6,121,300
Deferred tax liabilities	(10,898,958)	(2,999,169)	(13,898,127)	(7,552,766)	(224,061)	(7,776,827)	(3,346,192)	(2,775,108)	(6,121,300)
Net admitted deferred tax assets (net of deferred tax liabilities)	$ 2,670,693	(2,670,693)	—	174,215	(174,215)	—	2,496,478	(2,496,478)	—

Admission Calculation Components

	December 31, 2020			December 31, 2019			Change	Change	Change
	Ordinary	Capital	Total	Ordinary	Capital	Total	ordinary	capital	total
Federal income taxes paid in prior years recoverable through loss carrybacks (11a)	$ —	—	—	—	—	—	—	—	—
Adjusted gross DTAs expected to be realized after application of the threshold limitations (Lesser of 11bi or 11bii):									
Adjusted gross DTAs expected to be realized following the balance sheet date (11bi)	—	—	—	—	—	—	—	—	—
Adjusted gross DTAs allowed per limitation threshold (11bii)	15,406,315	—	15,406,315	19,924,043	—	19,924,043	(4,517,728)	—	(4,517,72
Lesser of 11bi or 11bii	—	—	—	—	—	—	—	—	—
Adjusted gross DTAs offset by gross DTLs (11c)	13,569,651	328,476	13,898,127	7,726,981	49,846	7,776,827	5,842,670	278,630	6,121,30
Deferred Tax Assets Admitted as the result of application of SSAP No. 10	$ 13,569,651	328,476	13,898,127	7,726,981	49,846	7,776,827	5,842,670	278,630	6,121,30

Disclosure of Ratio Used for Threshold Limitations (for 11b)

		December 31, 2020
Ratio percentage used to determine recovery period and threshold limitation amount		480 %
Amount of adjusted capital and surplus used to determine recovery period threshold limitation	$	103,640,682

(b) Unrecognized Deferred Tax Liabilities

The Plan does not have any unrecognized deferred tax liabilities.

(c) The Significant Components of Income Taxes Incurred (i.e., Current Income Taxes Expenses) and the Changes in DTAs and DTLs include

Current Tax Expense (Benefit) Incurred

		December 31		
		2020	**2019**	**Change**
Current year federal tax expense (benefit) (benefit) – ordinary income	$	824,525	(19,177,595)	20,002,120
Capital tax expense		20,229	461,640	(441,411)
Subtotal		844,754	(18,715,955)	19,560,709
Current year tax expense – net realized capital gains (losses)		—	—	—
Utilization of operating loss carryforwards		—	—	—
Other		—	—	—
Federal income taxes and capital tax benefit incurred	$	844,754	(18,715,955)	19,560,709

Deferred Tax Assets and Liabilities Consist of the Following Major Components

	December 31		
	2020	**2019**	**Change**
Ordinary:			
Loss reserve discounting	$ 133,439	128,195	5,244
Deferred compensation	563,786	561,931	1,855
Post retirement benefits	240,587	244,688	(4,101)
Accrued vacation	777,256	666,237	111,019
Nonadmitted assets	7,836,167	7,283,641	552,526
Prepaid expenses	659,721	849,308	(189,587)
Premium deficiency reserve	6,074,460	925,470	5,148,990
Prepaid pension	12,557,131	2,514,362	10,042,769
Net operating loss carryforward	—	968,050	(968,050)
Other	952,810	122,897	829,913
AMT credit	20,377,586	17,792,521	2,585,065
Subtotal	50,172,943	32,057,300	18,115,643
Statutory valuation allowance adjustment	(16,225,706)	(6,537,798)	(9,687,908)
Nonadmitted ordinary deferred tax assets	(20,377,586)	(17,792,521)	(2,585,065)
Admitted ordinary deferred tax assets	13,569,651	7,726,981	5,842,670
Capital:			
Nonadmitted assets	162,987	91,758	71,229
Partnership investments	125,314	—	125,314
Unrealized capital losses	432,945	—	432,945
Subtotal	721,246	91,758	629,488
Statutory valuation allowance adjustment	(392,770)	(41,912)	(350,858)
Admitted capital deferred tax assets	328,476	49,846	278,630
Admitted deferred tax assets	$ 13,898,127	7,776,827	6,121,300
Deferred tax liabilities:			
Ordinary:			
Pension	$ (5,727,452)	(2,368,339)	(3,359,113)
Accrual of market discount	(3,455)	(4,496)	1,041
Depreciation	(5,124,797)	(5,129,049)	4,252
Loss reserve discounting transition adjustment	(41,722)	(50,066)	8,344

		December 31		
		2020	2019	Change
Accrued dividends	$	(1,532)	(816)	(716)
Subtotal		(10,898,958)	(7,552,766)	(3,346,192)
Capital:				
Partnership investment		(828,332)	—	(828,332)
Unrealized capital gains		(2,170,837)	(224,061)	(1,946,776)
Subtotal		(2,999,169)	(224,061)	(2,775,108)
Deferred tax liabilities	$	(13,898,127)	(7,776,827)	(6,121,300)
Net deferred tax asset	$	—	—	—

The valuation allowance adjustment to gross deferred tax assets as of December 31, 2020 and 2019 was $16,618,476 and $6,579,710, respectively. The net increase in the total valuation allowance was $10,038,766.

Due to the repeal of the corporate AMT, all deferred tax assets, with the exception of the AMT credit, will not be realized due to the Section 833 deduction. Management anticipates that the AMT credit deferred tax asset will be realized because the credit is now refundable.

The change in the net deferred income taxes is comprised of the following:

		December 31		
		2020	2019	Change
Total deferred tax assets	$	50,894,189	32,149,058	18,745,131
Total deferred tax liabilities		(13,898,127)	(7,776,827)	(6,121,300)
Net deferred tax assets (liabilities)		36,996,062	24,372,231	12,623,831
Statutory valuation allowance adjustment		(16,618,476)	(6,579,710)	(10,038,766)
Net deferred tax assets after SVA		20,377,586	17,792,521	2,585,065
Tax effect of unrealized gains (losses)		(432,945)	224,061	(657,006)
Tax effect of pension in surplus		(12,557,131)	(2,514,362)	(10,042,769)
Statutory valuation allowance adjustment allocated to UR and pension		6,838,257	1,148,483	5,689,774
Change in net deferred income tax	$	14,225,767	16,650,703	(2,424,936)

(d) Reconciliation of Federal Income Tax Rate to Actual Effective Rate

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

		Amount	Tax effect	Effective tax rate
Income before taxes	$	14,046,270	2,949,717	21.00 %
Nondeductible expenses for meals, penalties, and lobbying		339,613	71,318	0.51
CIS/CBA pre-tax book income		2,063,022	433,235	3.08
Dividends received deduction		(868,579)	(182,402)	(1.30)
Section 833 deduction		(35,222,013)	(7,396,623)	(52.66)
Change in deferred taxes on nonadmitted assets		(2,067,464)	(434,167)	(3.09)
Insurer fee		9,455,487	1,985,652	14.14
Valuation allowance change		20,709,488	4,348,993	30.96
CARES Act carryback		(3,545,260)	(744,505)	(5.30)
CBA/CIS restructuring		10,614,189	2,228,980	15.87
Other		45,203	9,492	0.07
Total	$	15,569,956	3,269,690	23.28 %

		Amount	Effective tax rate
Federal and foreign income taxes incurred	$	844,754	6.01 %
Change in net deferred taxes		2,424,936	17.27
Total statutory taxes	$	3,269,690	23.28 %

(e) Carryforward, Recoverable Taxes and IRC Section 6603 Deposits

(1) As of December 31, 2020, the Plan does not have any net operating loss carryforwards.

(2) The Plan has no taxes available for recoupment for the years ended December 31, 2020 and December 31, 2019.

(3) The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Code is $0.

(4) AMT credit rollforward.

The change to the Plan's AMT credit consists of the following items:

			Amount
1	Gross AMT Credit Recognized as:		
	a. Current Year Recoverable	$	—
	b. Deferred Tax Asset (DTA)		20,377,586
2	Beginning Balance of AMT Credit Carryforward		17,792,521
3	Amounts Recovered		—
4	Adjustments		(2,585,065)
5	Ending Balance of AMT Credit Carryforward (5=2-3-4)		20,377,586
6	Reduction of Sequestration		—
7	Nonadmitted by Reporting Entity		20,377,586
8	Reporting Entity Ending Balance (8=5-6-7)	$	—

(f) Consolidated Federal Income Tax Return

The Plan's federal income tax return is consolidated with the following entities: TVHP and HWP.

The written agreement approved by the Plan's Board of Directors states that total consolidated federal income tax for all entities is allocated to each entity under the separate return method.

(g) Federal or Foreign Tax Loss Contingencies

The Plan has no federal or foreign tax loss contingencies

(10) Pension and Other Postretirement Benefits

(a) Pension Benefits

The following table sets forth the Plan's benefit obligations, fair value of plan assets and funded status at December 31, 2020 and 2019:

		2020	2019
Change in benefit obligation:			
Projected benefit obligation at beginning of year	$	71,944,933	60,616,472
Service cost		2,430,755	2,246,861
Interest cost		2,313,790	2,578,723
Actuarial (gains) losses		6,567,109	8,842,612
Benefit payments		(4,835,305)	(2,339,735)
Projected benefit obligation at end of year	$	78,421,282	71,944,933
Accumulated benefit obligation at end of year	$	67,425,595	61,642,859
Change in plan assets:			
Fair value of plan assets at beginning of year	$	69,439,545	54,794,725
Actual return on assets, net of expenses		(36,947,642)	15,066,955
Employer contributions		15,000,000	2,000,000
Expenses paid		(172,094)	(82,400)
Benefit payments		(4,835,305)	(2,339,735)
Fair value of plan assets at end of year	$	42,484,504	69,439,545
Items not yet recognized in earnings:			
Funded status (measured at PBO)	$	(35,936,778)	(2,505,388)
Unrecognized transition obligation		—	22,997
Unrecognized prior service cost		(121,573)	(244,379)
Unrecognized actuarial loss		59,731,931	12,004,574
Prepaid pension cost	$	23,673,580	9,277,804

		2020	2019
Funded status	$	(35,936,778)	(2,505,388)
Amounts recognized in the balance sheets consist of:			
Pension and postretirement benefit obligations – liability		(35,936,778)	(2,505,388)
Accumulated other comprehensive loss		59,610,358	11,783,192

		2020	2019
Assumptions used to determine benefit obligations at end of fiscal year:			
Measurement date		December 31, 2020	December 31, 2019
Discount rate		2.72 %	3.34 %
Rate of compensation increase		4.00%–8.00%	4.00%–8.00%
Rate of return		6.50 %	6.75 %
Interest crediting rate		4.00 %	4.00 %
Components of net periodic benefit cost:			
Service cost	$	2,512,755	2,359,861
Interest cost		2,313,790	2,578,723
Expected return on assets		(4,586,665)	(3,639,553)
Amortization of transition obligation		22,997	22,992
Prior service cost (credit)		(122,806)	(117,166)
Amortization of actuarial loss		464,153	905,604
Net periodic benefit cost	$	604,224	2,110,461

The basis used to determine the overall expected long-term rate of return on assets assumption is a forward-looking approach based on the current long-term capital market outlook assumptions of the asset categories the trust invests in and the trust's target asset allocation. At December 31, 2020, the assumed long-term asset allocation for the pension plan is: 40%–50% equity securities, 41%–49% debt securities, and 6%–14% other securities.

Plan Assets

The fair value measurements of the Plan's pension assets as of the December 31, 2020 and 2019 measurement dates, respectively, were as follows:

	Fair value measurements at December 31, 2020 — Pension benefits – plan assets				
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Net Asset Value (NAV)	Total
Asset category:					
Equity securities:					
Domestic equity	$ 67,981	2,008,819	—	—	2,076,800
Global	—	17,082,338	—	—	17,082,338
Fixed income securities:					
Core fixed income	14,045	16,327,994	—	—	16,342,039
High yield fixed income	99,704	2,651,964	—	—	2,751,668
Other types of investments:					
Real estate	563,994	703,676	—	2,963,802	4,231,472
Short-term investment fund	—	187	—	—	187
Total	$ 745,724	38,774,978	—	2,963,802	42,484,504

	Fair value measurements at December 31, 2019 — Pension benefits – plan assets				
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Net Asset Value (NAV)	Total
Asset category:					
Equity securities:					
Domestic equity	$ 64,766	3,200,563	—	19,409,519	22,674,848
International large cap	1,348,844	104	—	12,148,871	13,497,819
Emerging markets	—	149	—	3,414,517	3,414,666
Fixed income securities:					
Core fixed income	55,824	1,954,049	—	18,115,049	20,124,922
High yield fixed income	87,992	3,173,135	—	—	3,261,127
Other types of investments:					
Real estate	1,313,750	478,465	—	4,673,948	6,466,163
Total	$ 2,871,176	8,806,465	—	57,761,904	69,439,545

The pension weighted average asset allocations at December 31, 2020 and 2019 by asset category are as follows:

	2020	2019
Asset category:		
Equity securities	45 %	57 %
Debt securities	45	34
Other	10	9
Total	100 %	100 %

The Plan's pension program's assets are invested in the BCBSA National Retirement Trust.

The investment program for the National Retirement Trust is based on the precepts of capital market theory that are generally accepted and followed by institutional investors, who by definition are long-term oriented investors. This philosophy holds that:

* Increasing risk is rewarded with compensating returns over time and therefore, prudent risk taking is justifiable for long-term investors.
* Risk can be controlled through diversification of asset classes and investment approaches as well as diversification of individual securities.
* Risk is reduced by time, and over time the relative performance of different asset classes is reasonably consistent. Over the long term, equity investments have provided and should continue to provide superior returns over other security types. Fixed-income securities can dampen volatility and provide liquidity in periods of depressed economic activity. Lengthening duration of fixed income securities may reduce surplus volatility.
* The strategic or long-term allocation of assets among various asset classes is an important driver of long-term returns.
* Relative performance of various asset classes is unpredictable in the short-term and attempts to shift tactically between asset classes are unlikely to be rewarded.

Contributions and Estimated Pension Benefits

The Plan contributed $15,000,000 and $2,000,000 to its pension program in 2020 and 2019, respectively.

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

	Pension benefits
2021	$ 4,170,000
2022	5,226,000
2023	4,446,000
2024	5,211,000
2025	4,757,000
Years 2026–2030	27,100,000

(b) Supplemental Executive Retirement Plans

The Plan has Supplemental Executive Retirement Plans (SERP) covering certain of its executives. These nonqualified plans are designed to offset the impact of restrictions in the qualified pension plan, which limit benefits for highly compensated employees and to defer federal and state income taxes to future periods. Benefits under the SERP are determined based on a formula applied to compensation, reduced for the benefits under the qualified pension plan. The present value of the future benefit will be accrued over the estimated remaining service life of the employees. The total amount accrued under the SERP as of December 31, 2020 and 2019 is $485,275 and $514,162, respectively, which is included in other liabilities in the accompanying statutory statements of admitted assets, liabilities and surplus. The discount rate used to determine the liability is 2.72% and 3.34% at December 31, 2020 and 2019, respectively.

(c) Other Postretirement Benefits

As described in note 2(n), the Plan provides certain postretirement benefits in addition to pension benefits. The accumulated postretirement benefit obligation included in other liabilities in the accompanying statutory statements of admitted assets, liabilities and surplus as of December 31, 2020 and 2019 is $1,145,651 and $1,165,181, respectively. The discount rate used to determine the liability was 2.04% and 2.92% at December 31, 2020 and 2019, respectively.

(11) Gain or Loss from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

(a) ASO Plans

The loss from operations from Administrative Services Only (ASO) uninsured plans and the uninsured portion of partially insured plans was as follows during 2020 and 2019:

	December 31, 2020			
		ASO Uninsured plans	Uninsured portion of partially insured plans	Total ASO
Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	$	(12,603,194)	—	(12,603,194)
Total net other income or expenses (including administrative interest paid to or received from plans)		—	—	—
Net loss from operations	$	(12,603,194)	—	(12,603,194)
Total claim payment volume	$	596,760,942	—	596,760,942

	December 31, 2019			
		ASO Uninsured plans	Uninsured portion of partially insured plans	Total ASO
Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	$	(734,434)	—	(734,434)
Total net other income or expenses (including administrative interest paid to or received from plans)		—	—	—
Net loss from operations	$	(734,434)	—	(734,434)
Total claim payment volume	$	630,751,561	—	630,751,561

Included as part of ASO results is a reserve of $20,849,000 and $2,417,000 in 2020 and 2019, respectively, for insufficient administrative fees for self-insured contracts. This reserve was recorded in the Plan’s results as part of the increase in PDR in the Plan’s statutory statements of operations and changes in surplus.

(Continued)

(b) ASC Plans

The gain from operations from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans was as follows during 2020 and 2019:

	December 31, 2020			
		ASC Uninsured plans	Uninsured portion of partially insured plans	Total ASC
Gross reimbursement for medical cost incurred	$	—	1,268,223	1,268,223
Gross administrative fees accrued		—	168,303	168,303
Other income or expenses (including interest paid to or received from plans)		—	—	—
Gross expenses incurred (claims and administrative)		—	1,320,948	1,320,948
Total net gain from operations	$	—	115,578	115,578

	December 31, 2019			
		ASC Uninsured plans	Uninsured portion of partially insured plans	Total ASC
Gross reimbursement for medical cost incurred	$	—	2,474,542	2,474,542
Gross administrative fees accrued		—	263,030	263,030
Other income or expenses (including interest paid to or received from plans)		—	—	—
Gross expenses incurred (claims and administrative)		—	2,393,745	2,393,745
Total net gain from operations	$	—	343,827	343,827

(12) Health Risk-Based Capital

The Plan is subject to the NAIC Health RBC standard for purposes of DFR solvency monitoring and for administering the BCBSA's licensure requirements. The BCBSA standard establishes minimum, monitoring, and other threshold levels for Blue Cross and Blue Shield Plans based on the RBC results. As of December 31, 2020 and 2019, the licensure standard required the Plan to maintain a minimum statutory surplus balance of 200% of the RBC authorized control level. The Plan's statutory surplus of $103,640,682 and $133,526,751 at December 31, 2020 and 2019, respectively, exceeded this requirement. The Plan's future compliance with NAIC and BCBSA RBC standards is subject to changes in the Health RBC requirements, fluctuations in enrollment, and the Plan's future operating results.

On February 7, 2019, the DFR issued an order approving a target RBC range as proposed by the Plan. The order stipulates that in the event the Plan's RBC falls below or increases above the approved range, a plan for moving within the range in a reasonable time period must be developed and submitted to the Commissioner. The order further instructs that the Plan must review its RBC range at least once every five years.

(13) Commitments and Contingencies

The Plan is a defendant in multiple lawsuits that were initially filed in 2012 against the Blue Cross and Blue Shield Association (BCBSA) as well as Blue Cross and/or Blue Shield licensees (Blue plans) across the country. Cases filed in twenty-eight states were consolidated into a single multi-district lawsuit called *In re Blue Cross Blue Shield Antitrust Litigation* that is pending in the United States District Court for the Northern District of Alabama (the Court). Generally, the suits allege that the BCBSA and the Blue plans have conspired to horizontally allocate geographic markets through license agreements, best efforts rules that limit the percentage of non-Blue revenue of each Plan, restrictions on acquisitions, and other arrangements in violation of the Sherman Antitrust Act and related state laws. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers.

In response to cross motions for partial summary judgment by plaintiffs and defendants, the Court issued an order in April 2018 determining that the defendants' aggregation of geographic market allocations and output restrictions are to be analyzed under a *per se* standard of review, and other alleged Section 1 Sherman Antitrust Act violations are to be analyzed under the *rule of reason* standard of review. The Court also found that there remain genuine issues of material fact as to whether the defendants operate as a single entity with regard to the enforcement of the Blue Cross Blue Shield trademarks. In April 2019, plaintiffs filed their motions for class certification in conjunction with their supporting expert reports, and the defendants filed their motions to exclude plaintiffs' experts, as well as their opposition to plaintiffs' motions for class certification, in July 2019.

The BCBSA and Blue plans have approved a settlement agreement and release with the subscriber plaintiffs. If approved by the Court, the subscriber settlement agreement will require the defendants to make a monetary settlement payment, and it will contain certain non-monetary terms including (i) eliminating the "national best efforts" rule in the BCBSA license agreements and (ii) allowing for some large national employers with self-funded benefit plans to be able to request a bid for insurance coverage from a second Blue plan in addition to the local Blue plan.

BCBSVT's share of the subscriber settlement is $8.2 million, which is based on a formula agreed to by the BCBSA and Blue plans. The reported liability, which includes amounts related to both the settlement and defense costs, is recorded net of estimated recoveries from the Plan's Directors & Officers (D&O) and Managed Care Errors & Omissions (E&O) insurance policies, and the balance was $3.8 million as of December 31, 2020. The net liability is included in general expenses due or accrued in the accompanying statutory basis financial statements. The Plan is seeking full insurance coverage from its D&O and E&O carriers for all defense expenses and any indemnity for a settlement or judgment. The insurers have agreed to pay a portion of defense expenses, but they have asserted certain defenses which BCBSVT disputes.

On November 30, 2020, the Court issued an order preliminarily approving the subscriber settlement agreement, following which members of the subscriber class were provided notice of the settlement agreement and an opportunity to opt out of the class. All terms of the subscriber settlement agreement are subject to approval by the Court before they become effective. Objections to the settlement as well as the deadline for those that wish to opt out from the settlement must be submitted by July 28, 2021. Claims must be filed by November 5, 2021. A final approval hearing has been scheduled for October 20, 2021. If the Court grants approval of the subscriber settlement agreement, and after all appellate rights have expired or have been exhausted in a manner that affirms the Court's final order and judgment, the defendants' payment and non-monetary obligations under the subscriber settlement agreement will become effective.

In October 2020, after the Court lifted the stay as to the provider litigation, provider plaintiffs filed a renewed motion for class certification, and defendants filed an opposition to that motion. The Plan intends to continue to vigorously defend the provider suit; however, its ultimate outcome cannot presently be determined.

In the normal course of business, the Plan may be involved in various other claims and legal actions. Management, after reviewing developments to date with legal counsel, is of the opinion that the ultimate outcome of pending litigation will not have a material adverse effect on the financial position of the Plan.

BCBSA Standard 3 Licensure Certification requires all primary licensees to provide insurance or other financial arrangements to protect its subscribers against liability from nonparticipating provider claims. As of December 31, 2020, investments totaling $2,425,277 are on deposit with a financial institution to meet this requirement. This investment includes an iShares core U.S. bond exchange traded fund, which is a diversified bond fund that invests in investment grade U.S. bonds, including U.S. government, agency, corporate and mortgage-related bonds. Also included as part of the portfolio is a short-term government money market fund investment.

The Plan has a revolving line of credit with People's United Bank (PUB) that was renewed on June 17, 2019. The limit is $25,000,000, and interest is charged on any outstanding balance at LIBOR plus 2.25%. The line of credit is unsecured, and it is renewable every two years.

The revolving line of credit is set up to function as overdraft protection for the Plan's operating cash. It is linked to the Plan's sweep account at PUB, and the bank is authorized to automatically draw on the line of credit to cover the amount by which any outstanding drafts exceed the bank balance in the sweep account. Similarly, any outstanding balance on the line of credit is automatically paid down as soon as cash becomes available in the sweep account. The outstanding balance on the line of credit was $0 and $5,000,000 as of December 31, 2020 and 2019, respectively. The Plan recorded interest expense of $20,168 and $106,143 related to the line of credit in 2020 and 2019, respectively.

The Plan was approved for membership in the Federal Home Loan Bank (FHLB) of Boston on May 25, 2016. Through its membership, the Plan is eligible to conduct business activity in the form of borrowings with the FHLB. It is part of the Plan's strategy to utilize these funds as backup liquidity. As of December 31, 2020, no collateral had been pledged to the FHLB, and during the current reporting period there were no borrowings from the FHLB.

(14) Risks and Uncertainties

COVID-19 – The effects of the COVID-19 pandemic continue to emerge. The virus resulted in 2020 being a year marked by economic disruption and volatility as efforts to prevent the spread of the virus necessitated the closure of nonessential businesses resulting in an economic slowdown and high unemployment in Vermont and across the U.S.

It is anticipated that the effects of COVID-19 will subject the Plan's financial results to a higher degree of volatility and uncertainty for the foreseeable future as a number of significant variables and uncertainties will impact benefit trends. Significant uncertainty remains regarding the severity and duration of the pandemic, including the success of vaccination efforts and new therapeutic treatments.

(15) Subsequent Events

The Plan considers events and transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on April 30, 2021 and subsequent events have been evaluated through that date.

Schedule 1

BLUE CROSS AND BLUE SHIELD OF VERMONT

Supplemental Investment Risks Interrogatories Schedule

December 31, 2020

Number in annual statement	Investment category		Amount	Percentage of total admitted assets
1	State the reporting entity's total admitted assets as reported on page 2 of the annual statement			$ 339,966,130
2	State by investment category the 10 largest exposures to a single issue/borrower/investment, excluding U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the company and policy loans.			
	2.01 JPMorgan Chase & Co.	Bond	$ 1,726,707	0.508 %
	2.02 BNP Paribas SA	Bond	1,425,955	0.419
	2.03 CVS Health Corporation	Bond	1,242,240	0.365
	2.04 BPCE SA	Bond	953,126	0.280
	2.05 PNC Bank, National Association	Bond	924,447	0.272
	2.06 Nassau 2018-I Ltd.	Bond	798,934	0.235
	2.07 Wells Fargo & Company	Bond	797,874	0.235
	2.08 City Of Chicago	Bond	768,580	0.226
	2.09 Bank of America Corporation	Bond	752,289	0.221
	2.10 Citigroup Inc.	Bond	750,000	0.221

	NAIC designation	Amount	Percentage
3	State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.		
	Bonds:		
	3.01 NAIC-1	$ 100,590,053	29.588 %
	3.02 NAIC-2	20,344,055	5.984
	3.03 NAIC-3	298,522	0.088
4	Assets held in foreign investments:		
	4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [ ]	No [X]
		1 Amount	2 Percent
	4.02 Total admitted assets held in foreign investments	$ 10,348,385	3.044 %
	If response to 4.01 above is yes, responses are not required for interrogatories 5–10.		

	NAIC sovereign designation	1 Amount	2 Percent
5	Aggregate foreign investment exposure categorized by NAIC sovereign designation:		
	5.01 Countries designated NAIC-1	$ 10,124,787	2.978 %
	5.02 Countries designated NAIC-2	223,598	0.066

	NAIC sovereign designation	1 Amount	2 Percent
6	Two largest foreign investment exposures in a single country, categorized by the country's NAIC sovereign designation:		
	Countries designated NAIC-1:		
	6.01 Cayman Islands	$ 3,612,450	1.063 %
	6.02 France	2,379,081	0.700
	Countries designated NAIC-2:		
	6.03 Italy	223,598	0.066

10	Ten largest nonsovereign (i.e. nongovernmental) foreign issues:			
	10.01 BNP Paribas SA	NAIC-1	$ 1,425,955	0.419 %
	10.02 BPCE SA	NAIC-1	953,126	0.280
	10.03 Anchorage Capital CLO 4-R Ltd	NAIC-1	700,000	0.206
	10.04 Magnetite XII, Ltd.	NAIC-1	700,000	0.206
	10.05 Ocp Clo 2014-5 Ltd	NAIC-1	650,000	0.191
	10.06 Cedar Funding II CLO Ltd.	NAIC-1	550,000	0.162
	10.07 Trestles Clo 2017-1, Ltd.	NAIC-1	550,000	0.162
	10.08 AerCap Ireland Capital Designated Activity Company	NAIC-2	548,619	0.161
	10.09 Deutsche Telekom International Finance B.V.	NAIC-2	498,238	0.147
	10.10 ING Groep N.V.	NAIC-1	474,584	0.140

		At year-end		Amount at end of each quarter		
		Amount	Percent	1st Qtr	2nd Qtr	3rd Qtr
20	Assets subject to the following agreements					
	20.02 Repurchase agreements	$ 54,012,168	15.888 %	17,970,138	25,122,426	41,858,337

Note: All other interrogatories in the required supplemental schedule are not applicable to Blue Cross and Blue Shield of Vermont.

See accompanying independent auditors' report.

Schedule 2

BLUE CROSS AND BLUE SHIELD OF VERMONT

Supplemental Summary Investment Schedule

December 31, 2020

Investment categories	Gross investment holdings: 1 Amount	Gross investment holdings: 2 Percentage	Admitted assets as reported in the annual statement: 3 Amount	4 Securities lending reinvested collateral amount	5 Total (Col. 3 + 4) amount	6 Percentage
1 Long-Term Bonds:						
1.01 U.S. governments	$ 10,761,483	4.522 %	$ 10,761,483	—	10,761,483	4.537 %
1.04 U.S. political subdivisions of states, territories and possessions, guaranteed	1,268,747	0.533	1,268,747	—	1,268,747	0.535
1.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed:	12,833,108	5.393	12,833,108	—	12,833,108	5.410
1.06 Industrial and miscellaneous	39,680,795	16.675	39,680,795	—	39,680,795	16.730
1.09 SVO identified funds	2,676,329	1.125	2,676,329	—	2,676,329	1.128
1.11 Total long-term bonds	67,220,462	28.248	67,220,462	—	67,220,462	28.340
3 Common stocks:						
3.01 Industrial and miscellaneous publicly traded (unaffiliated)	104,100	0.044	104,100	—	104,100	0.044
3.02 Industrial and miscellaneous other (unaffiliated)	481,464	0.202	—	—	—	—
3.04 Parent, subsidiaries and affiliates other	90,137,156	37.878	90,137,156	—	90,137,156	38.002
3.05 Mutual funds	6,290,490	2.643	6,290,490	—	6,290,490	2.652
3.08 Total common stocks	97,013,210	40.768	96,531,746	—	96,531,746	40.698
5 Real estate						
5.01 Properties occupied by company	6,845,548	2.877	6,845,548	—	6,845,548	2.886
5.04 Total real estate	6,845,548	2.877	6,845,548	—	6,845,548	2.886
6 Cash, cash equivalents and short-term investments:						
6.01 Cash	302,458	0.127	302,458	—	302,458	0.128
6.02 Cash equivalents	12,276,940	5.159	12,276,940	—	12,276,940	5.176
6.03 Short-term investments	54,012,168	22.697	54,012,168	—	54,012,168	22.772
6.04 Total cash, cash equivalents and short-term investments	66,591,566	27.984	66,591,566	—	66,591,566	28.075
9 Other invested assets	294,666	0.124	—	—	—	—
13 Total invested assets	$ 237,965,452	100.000 %	$ 237,189,322	—	237,189,322	100.000 %

See accompanying independent auditors’ report.

BLUE CROSS AND BLUE SHIELD OF VERMONT

Reinsurance Risk Interrogatories

For the year ended December 31, 2020

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

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

   Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or other provisions that result in similar effects.

   Yes ☐ No ☒

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

   If yes, indicate if deposit accounting was applied for all contracts subject to Appendix A-791 that limit significant risks.

   Yes ☐ No ☐ N/A ☒

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

   Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or other provisions that result in similar effects.

   Yes ☐ No ☒

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

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

   Yes ☐ No ☐ N/A ☒

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

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

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

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

Schedule 3

BLUE CROSS AND BLUE SHIELD OF VERMONT

Reinsurance Risk Interrogatories

For the year ended December 31, 2020

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

Yes ☐ No ☒

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

Type of contract	**Response**	**Identify reinsurance contract(s)**	**Has the insured event(s) triggering contract coverage been recognized?**
Assumption reinsurance – new for the reporting period	Yes ☐ No ☒		N/A
Non-proportional reinsurance, which does not result in significant surplus relief	Yes ☐ No ☒		Yes ☐ No ☒ N/A ☒

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

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

Yes ☐ No ☒ N/A ☐

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

Yes ☐ No ☒ N/A ☐

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

N/A