

REPORT ON EXAMINATION
OF
BLUECROSS BLUESHIELD KANSAS SOLUTIONS, INC.
1133 SOUTHWEST TOPEKA BOULEVARD
TOPEKA, KANSAS 66629
AS OF
DECEMBER 31, 2022

FILED

February 28, 2024

VICKI SCHMIDT
Commissioner of Insurance

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE NUMBER</u>
SALUTATION.....	1
SCOPE OF EXAMINATION	1
Independent Audit Reports	3
Actuarial Review	3
SUMMARY OF SIGNIFICANT FINDINGS	3
COMPANY HISTORY	4
General	4
Capital Stock.....	4
Dividends and Capital Contributions	4
CORPORATE RECORDS.....	5
MANAGEMENT AND CONTROL.....	5
Ownership.....	5
Board of Directors	5
Committees	6
Officers.....	7
INSURANCE HOLDING COMPANY SYSTEM	7
Intercompany/Cost Sharing Agreements	8
TERRITORY AND PLAN OF OPERATION.....	10
SELECT FINANCIAL INFORMATION.....	10
REINSURANCE	11
General	11
Assumed Reinsurance	11
Ceded Reinsurance	11
FINANCIAL STATEMENTS	13
STATEMENT OF ASSETS	14
STATEMENT OF LIABILITIES AND SURPLUS	15
STATEMENT OF REVENUE AND EXPENSES	16
CAPITAL AND SURPLUS ACCOUNT	17
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....	18
COMMENTS ON FINANCIAL STATEMENTS	18
SUMMARY OF RECOMMENDATIONS.....	18
CONCLUSION	19
SUPERVISION.....	20

Topeka, Kansas
February 6, 2024

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

BLUECROSS BLUESHIELD KANSAS SOLUTIONS, INC.

with its statutory home office and main administrative office at:

1133 SOUTHWEST TOPEKA BOULEVARD

TOPEKA, KANSAS 66629

hereinafter referred to as the “Company” or “Solutions.” The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a single-state financial examination of the Company, a Kansas-domiciled insurance company. The last examination covered the four-year period from January 1, 2015, through December 31, 2018. This examination covers the four-year period from January 1, 2019, through December 31, 2022. Concurrent financial examinations were performed as of December 31, 2022, on the Company’s parent and affiliates: Blue Cross and Blue Shield of Kansas, Inc. (“BCBSKS”), Advance Insurance Company of Kansas (“AICK”), and Cerulean Vega Captive, Inc. (“Vega”).

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department (“Department”) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles.

Those activities considered in the examination as key or critical to Solutions included Capital and Surplus, Claims and Reserving, Investments, Premiums and Underwriting, Reinsurance, and Related Party. The examination also included a review and evaluation of information technology general controls.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer and its financial condition. There may

be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Independent Audit Reports

Financial statements of the Company were audited by Eide Bailly LLP of Fargo, North Dakota for the years ending December 31, 2019, through December 31, 2022. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company as of December 31, 2022, and the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

Actuarial Review

Matthew L. Burns, FSA, CERA, MAAA, an employee of BCBSKS, was appointed to perform a review of the Company's actuarial practices and reserves as of December 31, 2022. The appointed actuary's review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in its reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings of fact that warranted inclusion in this Report of Examination.

COMPANY HISTORY

General

BlueCross BlueShield Kansas Solutions, Inc., a not-for-profit corporation, obtained a certificate of authority under K.S.A 40-3201 et seq., on December 27, 2013, and commenced business on January 1, 2015. Solutions is a wholly owned subsidiary of BCBSKS.

Subsequent to the period of examination, effective July 19, 2023, the Company received approval by the Department to convert from an health maintenance organization (“HMO”) to a stock life company.

Capital Stock

As of December 31, 2022, the Company did not have any preferred or common stock shares issued or outstanding. The Company does not have the authority to issue capital stock.

Subsequent to the period of examination, effective July 19, 2023, the Company received approval from the Department to convert from an HMO to a stock life company. As a result of the reorganization, the Articles of Incorporation were restated to amend Article IV – Stock Organization to make provision for authorized capital stock of 1,000 shares of common stock at \$600 par value each, which shall be issued at such times and manner as the Board of Directors may designate.

Dividends and Capital Contributions

There were no capital contributions made nor dividends paid during the examination period.

CORPORATE RECORDS

The Company's articles of incorporation were reviewed and were not amended during the period of examination. However, subsequent to the examination, effective June 21, 2023, the Company executed Restated and Amended Articles of Incorporation to amend Article IV – Stock Organization as a result of reorganization from an HMO to a stock life company as described in the Capital Stock section of this report.

The bylaws were amended during the examination period on April 26, 2019, to update Article VI. Section 6.7 that all contracts made by the Company shall be signed by the Chairman of the Board, the President, or the Vice President, except that any other Officer of the Company may also do so upon express written authority from the Chairman of the Board, the President, or the Vice President.

The bylaws of the Company were also amended on June 20, 2023, as a result of the reorganization from an HMO to a stock life company to revise language referring to “members” as now shareholders.

MANAGEMENT AND CONTROL

Ownership

All voting powers normally vested in stockholders are vested in the member of the corporation. The sole member of the corporation is Blue Cross and Blue Shield of Kansas, Inc.

Board of Directors

The Company's bylaws consist of six (6) articles that provide the framework for the operation, management, and control of the Company. The Company is managed under

the direction of its board of directors (“Board”).

Pursuant to the Company’s bylaws, the Board should consist of no less than five (5) directors. Directors shall be elected by a plurality of the votes of the directors present in person at their annual meeting. Directors shall be elected for a term of two years and may succeed themselves. The Board of Directors shall at all times be composed exclusively of individuals who are also directors, officers, or employees of Blue Cross and Blue Shield of Kansas, Inc. The bylaws do not provide for term limits for board members.

The directors elected and serving as of December 31, 2022, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Matthew D. All	President and Chief Executive Officer Blue Cross Blue Shield of Kansas, Inc.
Jeffrey C. Bergman	Vice President, Treasurer and Chief Financial Officer Blue Cross Blue Shield of Kansas, Inc.
Michael J. Gerrish	Vice President, Marketing and Customer Service Blue Cross Blue Shield of Kansas, Inc.
John K. Fong, M.D., MBA	Senior Vice President, Provider & Government Affairs Blue Cross Blue Shield of Kansas, Inc.
Holly S. Graves	Vice President, Operations and CMS Programs Blue Cross Blue Shield of Kansas, Inc.
Rick C. Jackson	Executive Vice President, Chief Lending Officer Capital Federal Savings Bank
Treena S. Mason	Senior Vice President, Sales and Operations Blue Cross Blue Shield of Kansas, Inc.
Angela N. Wilson, D.D.S.	Founding Partner Southwind Periodontics & Dental Implants, P.A.

Committees

The Company has not established any committees of its own as of December 31, 2022. However, Solutions may delegate certain matters to the committees established by its parent, BCBSKS.

Officers

Pursuant to the bylaws, the Company will have a Chief Executive Officer, a President, a Vice-President, a Secretary, a Treasurer, and other officers as deemed necessary. All officers shall be elected by the Board at its annual meeting, and the Board is empowered to fill all vacancies in office. According to the bylaws, any number of officer positions may be held by the same person.

The following is a listing of officers and their position(s) held as of December 31, 2022:

<u>Name</u>	<u>Office</u>
Matthew D. All	Chairman, President, and Chief Executive Officer
Peter D. DiDio, Jr.	Treasurer
Sarah A. Peterson Herr	Secretary
Treena S. Mason	Vice President, Sales and Operations

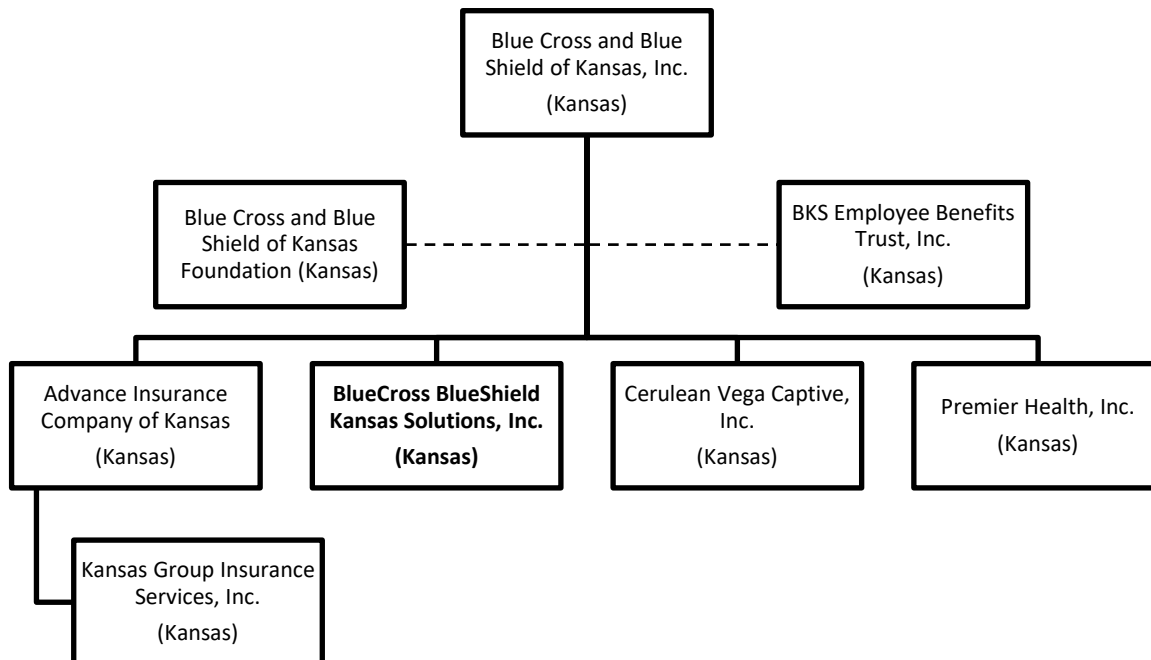
INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Company were properly reported as required by statute.

The Company is a wholly owned subsidiary of BCBSKS. BCBSKS, the ultimate controlling person of the insurer holding company system, has three direct wholly owned insurance subsidiaries: Solutions, AICK, and Vega. BCBSKS directly owns Premier Health, Inc., a Kansas non-profit entity that is currently inactive, and indirectly owns

Kansas Group Insurance Services, Inc., which is a wholly owned subsidiary of AICK. BCBSKS is indirectly associated with Blue Cross and Blue Shield of Kansas Foundation, Inc., a charitable organization with a mission to promote health and well-being in the state of Kansas. BCBSKS has no ownership interest in the Foundation. BCBSKS sponsors the BKS Employee Benefits Trust, Inc., a voluntary employee beneficiary association, which provides medical, prescription drug, and dental coverage to eligible members. Vega was established to insure the risks of BCBSKS.

The abbreviated organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2022. All entities are wholly owned by the parent, BCBSKS. The Kansas domiciled insurer is bolded below.



Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with its parent that were in effect as of December 31, 2022.

Administrative Services Agreement

Effective April 20, 2021, the Company entered into an Amended and Restated Medicare Advantage and Medicare Part D Administrative Services Agreement with BCBSKS to provide certain administrative services. BCBSKS agrees to provide Medicare Services with respect to Medicare Advantage and Medicare Part D Prescription Drug plans, including but not limited to, eligibility, enrollment, and disenrollment, marketing, care management, provider network and relations, claims processing, customer service, information services, financial and actuarial services, and corporate services. The agreement consolidates the Administrative Services Agreement entered into on April 8, 2014, the Provider Network Rental Agreement entered into on April 9, 2014, and a Medicare Advantage Addendum entered into on February 8, 2019, where BCBSKS agreed to provide the Company administrative and provider network services according to the terms of those service agreements. BCBSKS is reimbursed monthly for the cost of services provided to the Company. Reimbursement for services provided by BCBSKS to the Company during each year under examination, 2019 to 2022, amounted to \$218,345; \$4,885,892; \$7,459,298; and \$8,974,920, respectively.

Tax Sharing Agreement

Effective December 31, 2014, the Company entered into a Tax Sharing Agreement with BCBSKS. The Company files a consolidated tax return with BCBSKS. BCBSKS computes estimated taxes in an amount not to exceed the liability computed under Article II of the Internal Revenue Code, and requests the Company pay their estimated share, as applicable. Upon filing the consolidated tax return, the Company is required to pay its balance due of any tax liability to BCBSKS within thirty (30) days of the determination of

the tax liability. Any tax refunds or overpayments of estimated taxes are credited first to unpaid estimated taxes for the succeeding year, if any, and the remainder paid by BCBSKS to the Company within thirty (30) days of the receipt of such refund or determination of overpayment. Any additional tax due as a result of the IRS audit is payable to BCBSKS within thirty (30) days of notification of the amount due from the Company. Refunds due as a result of an audit are remitted the same as refunds for non-audited tax statements. Tax liabilities and refunds are computed for each as if such corporation had paid tax on a stand-alone basis. During the examination period, Solutions made payment to BCBSKS in the amounts of \$841,505; \$609,310; \$170,795; and \$266,667 in 2019 to 2022, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company was authorized to transact business in all counties in the state of Kansas, except for Johnson and Wyandotte. Johnson and Wyandotte counties are marketed and serviced by Blue Cross and Blue Shield of Kansas City, Inc. The Company entered the Medicare Advantage market effective January 1, 2020. The Company utilizes a combination of an internal sales team and independent agents to generate premium.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2019, through December 31, 2022. The financial amounts were obtained from annual statements filed by the Company.

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<i>(\$000 omitted)</i>				
Admitted Assets	\$62,222	\$67,186	\$70,143	\$60,212
Liabilities	7,668	9,996	12,197	14,870
Capital and Surplus	54,554	57,190	57,946	45,342
Net Income (Loss)	(3,620)	892	2,575	(10,905)
Net Premium Written	(\$75)	\$9,582	\$17,878	\$28,093

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

<i>(000s omitted)</i>		<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Premium Type					
Direct Premiums Written	\$	(75)	\$ 9,611	\$ 17,944	\$ 28,195
Reinsurance Assumed		0	0	0	0
Reinsurance Ceded:		0	(29)	(66)	(102)
Net Premiums Written	\$	(75)	\$ 9,582	\$ 17,878	\$ 28,093

Assumed Reinsurance

The Company did not assume any business during the period under examination.

Ceded Reinsurance

The Company entered a fully insured and self-funded medical excess of loss reinsurance agreement with BCBSKS and Odyssey Reinsurance Company effective October 1, 2022. This agreement applies on a risk attaching basis. The contract reinsures individual fully insured medical policies, group fully insured medical policies, medical excess of loss policies issued to self-funded group health plans, and Medicare Advantage business.

The reinsurance agreement in effect during the examination contained insolvency and cancellation clauses as required by K.S.A. 40-221a. All reinsurance agreements reviewed provided for the transfer of risk. However, the Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event an assuming reinsurer fails to perform its obligations under the reinsurance contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2022. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

BLUECROSS BLUESHIELD OF KANSAS SOLUTIONS, INC.
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2022

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$41,982,009	\$ -	\$41,982,009
Common stocks	12,281,627	-	12,281,627
Cash and cash equivalents	2,335,585	-	2,335,585
Receivables for securities	773	-	773
Investment income due and accrued	242,284	-	242,284
Uncollected premiums and agents' balances in the course of collection	35,970	1,024	34,946
Amounts receivable related to uninsured plans	59,105	-	59,105
Current federal and foreign income tax recoverable and interest thereon	480,402	-	480,402
Net deferred tax asset	2,774,087	1,234,604	1,539,483
Health care and other amounts Receivable	997,329	40,514	956,815
Aggregate write-ins for other-than invested assets	1,034,383	735,679	298,704
Total	\$62,223,554	\$ 2,011,821	\$60,211,733

BLUECROSS BLUESHIELD OF KANSAS SOLUTIONS, INC.
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2022

Claims unpaid	\$ 3,783,794
Unpaid claims adjustment expenses	91,336
Aggregate health policy reserves	7,039,656
Premiums received in advance	13,027
General expenses due or accrued	37,179
Amounts due to parent, subsidiaries, and affiliates	943,225
Payable for securities	411,378
Liability for amounts held under uninsured plans	1,267,835
Aggregate write-ins for other liabilities	1,282,586
Total liabilities	<u>14,870,016</u>
Gross paid in and contributed surplus	123,500,000
Unassigned funds (surplus)	<u>(78,158,283)</u>
Total capital and surplus	<u>45,341,717</u>
Total liabilities, capital and surplus	<u><u>\$ 60,211,733</u></u>

**BLUECROSS BLUESHIELD OF KANSAS SOLUTIONS, INC.
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

Member months	37,635
Net premium income	<u>\$ 28,093,454</u>
Total revenues	<u>\$ 28,093,454</u>
<u>Hospital and medical</u>	
Hospital/medical benefits	\$ 25,522,158
Aggregate write-ins for other hospital and medical	1,375
Subtotal	<u>\$ 25,523,533</u>
<u>Less:</u>	
Total hospital and medical	\$ 25,523,533
Claims adjustment expenses	812,831
General administrative expenses	7,942,720
Increase in reserves for life and accident and health contracts	4,000,000
Total underwriting deductions	<u>\$ 38,279,084</u>
Net underwriting gain (loss)	\$(10,185,630)
Net investment income earned	\$ 1,091,494
Net realized capital gains (losses)	<u>(2,164,155)</u>
Net investment gains (losses)	\$ (1,072,661)
Net income (loss) after capital gains tax and before all other federal income tax	\$ (11,258,921)
Federal and foreign income taxes incurred	<u>(353,769)</u>
Net income (loss)	<u><u>\$ (10,904,522)</u></u>

**BLUECROSS BLUESHIELD OF KANSAS SOLUTIONS, INC.
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Capital and surplus prior reporting year	\$53,461,844	\$54,554,150	\$57,190,278	\$57,945,815
Net income (loss)	(3,619,500)	892,004	2,575,030	(10,904,552)
Change in net unrealized capital gains or (losses)	1,510,665	1,628,982	(1,292,793)	(2,291,367)
Change in net deferred income tax	1,240,501	(222,438)	(385,056)	2,078,201
Change in nonadmitted assets	1,960,640	337,580	(141,644)	(1,486,410)
Net change in capital and surplus	1,092,306	2,636,128	755,537	(12,604,098)
Capital and surplus end of reporting period	<u>\$54,554,150</u>	<u>\$57,190,278</u>	<u>\$57,945,815</u>	<u>\$45,341,717</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2022, was \$45,341,717, which was the same amount reported by the Company in its 2022 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kyra Brown, MBA, ARC, Senior Examiner; Delia Geyer, Staff Examiner; Dennis Schaeffer, CISSP, CISA, IT Supervising Senior Manager; TJ Helm, CPA, CISA, Senior IT Examiner; Chandini Kannan, IT Examiner; Neal Freedman, FSA, MAAA, Actuarial Manager; Jake Powell, Senior Actuary Consultant; Nathan Bolles, Actuary Consultant all of whom are Baker Tilly, US, LLP associates, participated in this examination.

Respectfully submitted,



Kelsey Barlow, MBA, CFE, PIR
Examiner-in-Charge
Baker Tilly, US, LLP., representing the Kansas
Insurance Department

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, reading "Levi Nwasoria", written in a cursive style. The signature is positioned above a horizontal line.

Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

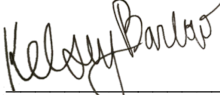
State of Pennsylvania ,

County of Philadelphia ,

Kelsey Barlow , being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of BlueCross BlueShield Kansas Solutions, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of BlueCross BlueShield Kansas Solutions, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

The affiant says nothing further.

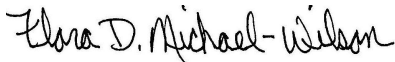


Examiner's Signature

Subscribed and sworn before me by Kelsey Barlow on this 22nd day of February, 20 24 .

(SEAL)

Commonwealth of Pennsylvania - Notary Seal
FLORA D MICHAEL-WILSON - Notary Public
Philadelphia County
My Commission Expires July 18, 2024
Commission Number 1221007



Flora D. Michael-Wilson, Notary Public

My commission expires July 18, 2024 [date].