



STATE OF MINNESOTA DEPARTMENT OF COMMERCE

SAINT PAUL, MINNESOTA

EXAMINATION REPORT OF

HMO MINNESOTA dba BLUE PLUS #95649

EAGAN, MINNESOTA

AS OF DECEMBER 31, 2016

Pursuant to the authority vested in the Commissioner of Commerce of the State of Minnesota, Jessica Looman, being first duly sworn, upon her oath, deposes and says that a comprehensive examination was made of the affairs and financial condition of

**HMO MINNESOTA dba BLUE PLUS
NAIC #95649
3535 Blue Cross Road, Eagan, MN 55122**

an insurance company authorized under the laws of the State of Minnesota. That, to the best of her information, knowledge, and belief, the attached Report of Examination describes the affairs and financial condition of the above-named company as of December 31, 2016, as determined by a comprehensive examination made in accordance with Minnesota Statutes Section 62D.14. The examination was completed by duly qualified examiners of the State of Minnesota representing the Midwestern Zone (III) of the National Association of Insurance Commissioners.

Due consideration has been given to the comments of the examiners regarding the operations of the above-named company and its financial condition, as reflected in this Report of Examination.

This Report of Examination is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

JESSICA LOOMAN
Commissioner



By: Frederick Andersen
Acting Deputy Commissioner and Life Actuary

Dated: 5/11/18



Protecting, Maintaining and Improving the Health of All Minnesotans

The attached report of an examination made of the condition and affairs as of December 31, 2016, of:

**HMO MINNESOTA dba BLUE PLUS
NAIC #95649
3535 Blue Cross Road, Eagan, MN 55122**

was recently completed by duly qualified examiners of the State of Minnesota.

Due consideration has been given to the comments of the examiners regarding the operations of HMO MINNESOTA dba BLUE PLUS, and their financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

JAN MALCOLM
Commissioner

A handwritten signature in blue ink, appearing to read 'Gilbert Acevedo', written over a horizontal line.

By: Gilbert Acevedo
Assistant Commissioner

Dated: 5/11/18

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February 13, 2018

Honorable Jan Malcolm
Commissioner of Health
Minnesota Department of Health
625 N. Robert St.
St. Paul, Minnesota 55155-2538

Honorable Jessica Looman
Commissioner of Commerce
Minnesota Department of Commerce
85 7th Place East, Suite 280
St. Paul, Minnesota 55101

Dear Honorable Commissioners:

Pursuant to your instructions and the statutory requirements of the State of Minnesota, a comprehensive examination was made of the books, records, business affairs and financial conditions of:

**HMO MINNESOTA dba BLUE PLUS
NAIC #95649
3535 Blue Cross Road, Eagan, MN 55122**

The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination of HMO Minnesota dba Blue Plus (referred to as "Blue Plus" or "the Company") was a comprehensive examination, conducted on behalf of the State of Minnesota Department of Health (hereinafter referred to as "Health") by the State of Minnesota Department of Commerce (hereinafter referred to as "Commerce"), observing the guidelines and procedures in the NAIC Financial Condition Examiners Handbook (hereinafter referred to as the "Handbook"). Pursuant to Minn. Stat. 62D.24 Health and Commerce have entered into an Interagency Agreement whereby Commerce conducts a financial examination of Health Maintenance Organizations on behalf of Health. Examination Order #17-004 directed that the examination include a determination of the Company's financial condition and a general review of its corporate affairs and insurance operations to determine compliance with statutes. The last exam was completed as of December 31, 2013. This full-scope examination covers the three-year period from January 1, 2014, through December 31, 2016. In accordance with the Handbook, the examination included significant transactions and/or events occurring subsequent to December 31, 2016, which were noted during the course of this examination. Key activities of the Company which were reviewed as part of the examination included Premium and Underwriting, Investments and Cash Management, Reserving, Claims Handling, Related Parties, and Other Liabilities.

We conducted our examination in accordance with the Handbook as adopted by the National Association of Insurance Commissioners (NAIC), along with specific procedures defined by Commerce. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating 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. The examination does not attest to the fair presentation of financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact 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.

The Company was audited annually, for the years 2014 through 2016, by the accounting firm of

Ernst and Young, LLP (EY). Among the procedures incorporated into this examination was a review of the annual audit work papers prepared by EY. Certain workpapers developed by EY were relied upon by the examiners and were incorporated into the examiners' work papers. Additionally, the Company has an Internal Audit Department (IAD) that the examiners' deemed to be independent. Therefore, certain workpapers developed by the IAD were relied upon by the examiners and were incorporated into the examiners' work papers.

STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAM

The prior examination report contained no findings or adjustments.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in no significant findings or exam report adjustments.

COMPANY HISTORY

General

Blue Plus was formed as a not-for-profit corporation on November 1, 1974, and received a certificate of authority from the State of Minnesota to operate as a health maintenance organization (HMO) on November 1, 1976. Blue Plus is a wholly owned subsidiary of BCBSM, which BCBSM is its sole regular member. The Company owns SupportSource, Inc., a Minnesota corporation that provides employee assistance programs.

MANAGEMENT AND CONTROL

Corporate Governance

The Company's Board of Directors, executive officers, and officers facilitate corporate governance.

Board of Directors and Officers

Blue Plus' bylaws require Regular Directors of not less than five (5) and not more than twenty-five (25) as determined by the bylaws of the organization. The Board will be comprised of two groups of Directors, Regular Directors elected by the Regular Member of the organization and Enrollee Directors elected by the enrollees from among the enrollees of the organization. At least forty percent (40%) of the directors should be composed of consumers elected by the enrollees from among the enrollees of the Company as required by the Minnesota Health Maintenance Act of 1973.

The Regular Directors shall be elected for one-year terms and shall serve until their successors are elected, provided that no Regular Director shall be elected for more than twelve (12) consecutive years, except officers of the corporation may continue as directors during the tenure of their office, and except that a Regular Director serving in the capacity as Chair of the Board or Chair of any Board Committee during his/her twelfth (12th) year of service may continue as a Regular Director and respective chair for one additional year not to exceed thirteen (13) consecutive years of service.

On December 31, 2016, the Regular Board of Directors of Blue Plus consisted of the following individuals:

Name	Year First Elected	Principal Occupation/Affiliation
Benjamin Field, Chair	2007	Retired, Sr. Financial Advisor
Mark Anderson, Vice Chair	2009	Partner, LHB, Inc.
Michael Robinson	2012	Retired – Executive Vice President and Chief Financial Officer – Life Time Fitness
Frank Fernandez	2010	President and Chief Executive Officer (CEO) of Blue Plus
Eric Hoag	2016	Vice President, Provider Relations, BCBSM
Judy Voight	2009	Safe Schools/Healthy Student Coordinator, Roseville Area Schools

Principal Officers

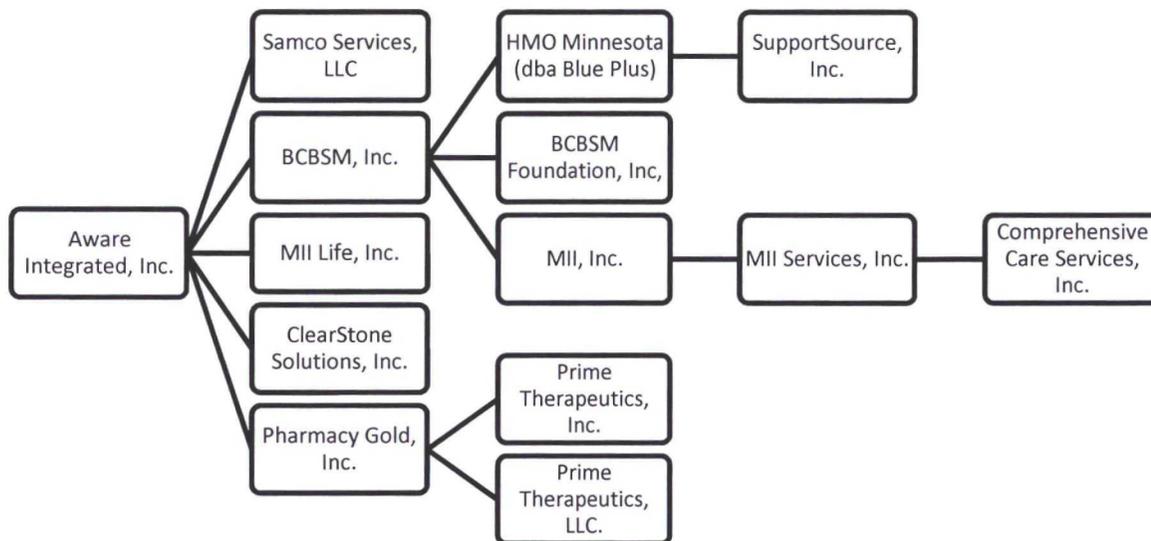
On December 31, 2016, the principal officers of the Company were:

<u>Name</u>	<u>Title</u>
Frank Fernandez	President and CEO
Elizabeth Moran	Secretary
Jay Matushak	Treasurer
Laura Tongue	Assistant Secretary
Marc Baer	Vice President, Health Services Operations
Denise Bergevin	Vice President, Finance and Corporate Controller
Jane McMahon	Vice President, Ethics, Compliance & Privacy Officer
John Orner	Vice President, Treasurer & Investments
Patsy Riley	Sr. Vice President and Chief Government Officer

Corporate Organization

The Company is a member of a holding company system and is subject to the registration requirements of Minnesota Statutes Section 60D. The abbreviated organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the Company follows the organizational chart.

**Organizational Chart
As of December 31, 2016**



Aware Integrated, Inc. ("Aware") is the "ultimate controlling member" in this holding company system. BCBSM provides healthcare services and coverage to approximately 729,853 members throughout Minnesota.

Blue Plus, a wholly owned non-profit subsidiary of BCBSM, which provides managed healthcare services and coverage to approximately 332,691 members throughout Minnesota.

MII Life, Inc. ("MII Life"), a wholly owned subsidiary of Aware, is a taxable corporation in the State of Minnesota. MII Life is an administrator for MSA, HSA, FSA and VEBA accounts. In 2017, MII Life began offering a Medicare prescription drug product in states other than Minnesota.

Pharmacy Gold, Inc. ("Pharmacy Gold") is a wholly owned subsidiary of Aware. Pharmacy Gold owns 10.37% shares in Prime Therapeutics ("Prime"), which serves as BCBSM's pharmacy benefit manager. BCBSM provides reimbursement to Prime for pharmacy claims it has processed on BCBSM's behalf. Prime shares pharmacy rebates with BCBSM.

ClearStone Solutions, Inc., is a wholly owned subsidiary of Aware and has partnered with MII Life to provide administrative services for the Medicare Basic Blue Rx product.

SamCo Services, LLC ("SamCo") is a wholly owned subsidiary of Aware. SamCo was formed to house the software for the HSA, MSA, FSA, and VEBA (otherwise known as SelectAccount) administration. MII Life contracts with SamCo to provide administrative services for SelectAccount.

Inter-company Agreements

BCBSM has an Administrative Services Agreement, with Aware, Blue Plus, MII, Inc., MII Life, MII Services, Inc., SupportSource, Inc., Pharmacy Gold, Inc. and SamCo. in which it provides a variety of administrative and other services to each Company. Each Company agrees to pay BCBSM for the services provided. The agreements have various effective dates.

There is an Intercompany Receivables Agreement between Aware and all subsidiaries within the holding Company group. The agreement states that any payments due by one party to another affiliate of the companies in the holding company group must settle the payment within 90 days of the date of the transaction.

TERRITORY AND PLAN OF OPERATION

On December 31, 2016, Blue Plus was licensed to write health coverage only in the State of Minnesota. The Company is part of a healthcare delivery system that provides comprehensive group hospital, medical, and dental coverage and services to its members. These coverages and services are provided through a network of contracted medical and dental centers, physician groups, hospitals, and related healthcare providers. The Company serves enrollees in Minnesota and the bordering counties in the state of Wisconsin, North Dakota, South Dakota and Iowa. Products are distributed through a network of independent agents supplemented by a limited number of BCBSM sales personnel.

Effective January 1, 2014, Blue Plus began participating in Minnesota's health exchange, MNsure. In addition to offering a range of commercial products, Blue Plus currently contracts with the Centers for Medicare & Medicaid Services (CMS) and the Minnesota Department of Human Services (DHS) to deliver and administer Minnesota Senior Care Plus and the Minnesota Senior Health Options (MSHO) program and also contracts with DHS to deliver and administer MinnesotaCare and the Prepaid Medical Assistance Program (PMAP).

REINSURANCE

The Company has not entered into any reinsurance arrangements as of December 31, 2016, other than the mandatory reinsurance under the Affordable Care Act (ACA). The Company participates

as required in the Federal Transitional Reinsurance, Risk Adjustment Reinsurance and Risk Corridor Reinsurance, also known as the 3Rs. Under the Federal Transitional Reinsurance, the Company was required to make contributions in 2016 to CMS in the amount of \$27 per covered life. On December 31, 2016, the Company reported a net recoverable under the Federal Transitional Reinsurance program in the amount of \$1.4 million.

Under the Risk Adjustment program, the relative health status risk of each issuer's pool of insured enrollees in a given market is measured, and issuers whose pools of insured enrollees have lower-than-average risk scores transfer funds to CMS. These funds are then distributed to issuers whose pools have greater-than-average risk scores. On December 31, 2016, the Company had reported a payable to CMS in the amount of \$7 million for the individual market and \$0.6 million for the small group market.

The Risk Corridor program covered only the individual and small group market qualified health plans (QHPs) in calendar years 2014 through 2016. Risk Corridor calculations are performed separately for each QHP in a calendar year according to a prescribed formula. If an issuer's QHPs were, less than 97% of a defined target amount the issuer would owe CMS according to the calculation if over 103% of the target CMS would owe the issuer. As amounts collected under the Risk Corridor fell significantly short of the amounts owed, CMS paid only \$0.12 on the dollar for the 2014 Risk Corridor payments. It announced in 2016 that all payments received for the 2015 Risk Corridor would be used to pay the 2014 amounts and any amounts collected for 2016 would be applied to pay for the 2014 year and 2015, if available. As the amounts due to the Company under the Risk Corridor program are uncertain for payment the Company recorded zero receivables for 2014, 2015 and 2016. The Company has deemed the Risk Corridor receivables to be in substantial doubt of payment and therefore, in compliance with SSAP 107, does not report any asset for the receivable.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with Commerce and present the financial condition of the Company for the period ending December 31, 2016. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

Blue Plus
Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2016
(in 000s)

ASSETS	
Bonds	\$ 407,658
Common Stocks	141,265
Cash and short-term investments	108,161
Receivable for securities	717
Subtotals, cash, and invested assets	\$ 657,801
Investment income due and accrued	\$ 2,564
Uncollected premiums and agents' balances in the course of collection	2,419
Amounts recoverable from reinsurers	1,035
Amounts receivable relating to uninsured plans	1,454
Receivables from parent, subsidiaries, and affiliates	72,335
Health care and other amounts receivable	2,228
Aggregate write-ins for other than invested assets	118,459
Total Assets	\$ 858,295
LIABILITIES, CAPITAL, AND SURPLUS	
Claims unpaid	\$ 238,561
Accrued medical incentive pool and bonus amounts	9,865
Unpaid claims adjustment expenses	8,618
Aggregate health policy reserves	7,691
Premiums received in advance	141,610
General expenses due or accrued	18,833
Ceded reinsurance premiums payable	52
Remittances and items not allocated	2,249
Payable for securities	3,600
Aggregate write-ins for other liabilities	414
Total Liabilities	\$ 431,494
Unassigned funds	\$ 426,800
Total Capital and Surplus	426,800
Total Liabilities, Capital and Surplus	\$ 858,295

Blue Plus
Statement of Income and Reconciliation of Surplus
December 31, 2016
(in 000s)

REVENUES	
Member months	3,879
Net premium income	\$ 1,816,155
Total Revenues	\$ 1,816,155
HOSPITAL AND MEDICAL:	
Hospital/medical benefits	\$ 1,425,712
Other professional services	70,444
Outside referrals	1,804
Emergency room and out-of-area	58,726
Prescription drugs	240,720
Incentive pool, withhold adjustments and bonus amounts	6,555
Subtotal	\$ 1,803,961
Less Net reinsurance recoveries	1,163
Total Hospital and Medical	\$ 1,802,798
Claims adjustment expenses including \$41,396,914 cost containment expenses	\$ 113,711
General administrative expenses	74,937
Increase in reserves for life and accident and health contracts	(600)
Total Underwriting Deductions	\$ 1,990,846
Net Underwriting Gain/(Loss)	(\$ 174,691)
Net investment income earned	15,670
Net realized capital gains/(losses)	2,358
Net Investments gain/(losses)	\$ 18,027
Net Income loss after capital gains/(losses) and before federal and foreign taxes incurred	(\$ 156,664)
Net Income (losses)	(\$ 156,664)

Blue Plus
Statement of Cash Flow
December 31, 2016
(in 000s)

Cash from Operations	
Premiums collected net of reinsurance	\$ 1,852,540
Net investment income	17,650
Total	\$ 1,870,190
Benefit and loss related payments	\$ 1,676,677
Commissions, expenses paid and aggregate write-ins for deductions	169,729
Federal and foreign income taxes paid	726
Total	\$ 1,846,405
Net Cash From Operations	\$ 23,785
Cash From Investments:	
Proceeds from investments sold, matured or repaid:	
Bonds	\$ 272,134
Stocks	73,520
Miscellaneous proceeds	1,243
Total investment proceeds	\$ 346,897
Cost of investments acquired (long-term only):	
Bonds	\$ 248,045
Stocks	81,665
Miscellaneous applications	331
Total investment proceeds	\$ 346,897
Total investments acquired	\$ 330,042
Net Cash From Investments	\$ 16,855
Cash From Financing and Miscellaneous Sources:	
Other cash provided (applied)	(\$ 25,513)
Net Cash From Financing and Miscellaneous Sources	(\$ 25,513)
Reconciliation of Cash, Cash Equivalents and Short-term Investments	
Net Change in Cash, Cash Equivalents, and Short-term Investments	
Cash, Cash Equivalents, and Short-term Investments	\$ 15,128
Beginning of year	\$ 93,033
End of year	\$ 108,161

Blue Plus
 Comparative Analysis of Changes in Surplus
 December 31, 2016

The following is a reconciliation of surplus between the amount reported by the Company and as determined by examination (in 000s):

	Per Annual Statement	Per Examination	Change in Surplus
Total Assets	\$ 858,295	\$ 858,295	\$-0-
Total Liabilities	\$ 431,494	\$ 431,494	\$-0-
Surplus	\$ 426,800	\$ 426,800	\$-0-

SUBSEQUENT EVENTS

In 2017, the Minnesota Legislature enacted a new statute that allows for-profit HMOs to enter the State's health industry. Prior to the legislation, only not-for-profit HMOs were allowed to offer health insurance. This may increase the competition in the state for the BCBSM Group.

CONCLUSION

As a result of this examination, the financial condition of Blue Plus, as of December 31, 2016, is summarized as follows:

Admitted Assets (in 000s)	\$ 858,295
Liabilities (in 000s)	\$ 431,494
Surplus (in 000s)	\$ 426,800
Total Liabilities and surplus (in 000s)	\$ 858,295

The Company met the minimum surplus requirements pursuant to Minnesota Statutes, Section 62D.042 as of December 31, 2016.

In addition to the undersigned, Jaki Gardner, Examiner, John Dombrowski, Examiner, Tom Hayden, IT Specialist, Shumei Kuo, Actuarial Specialist, Nan Nguyen, Actuarial Specialist, Tricia Matson, Actuarial Specialist and Partner, and Jan Moenck, Partner, for Minnesota and represented by Risk & Regulatory Consulting, LLC, participated in this examination.

Respectfully submitted,



Barbara A. Bartlett, CPA, CFE

Examiner-in-Charge

Risk and Regulatory Consulting, LLC

Representing the State of Minnesota,

Department of Commerce



Grace Kelly, APIR

Assistant Chief Examiner

Minnesota Department of Commerce