

REPORT OF EXAMINATION
OF THE
ANTHEM BLUE CROSS LIFE AND HEALTH
INSURANCE COMPANY
AS OF
DECEMBER 31, 2022

Insurance Commissioner

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Filed on June 17, 2024

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Los Angeles, California
May 30, 2024

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ANTHEM BLUE CROSS LIFE AND HEALTH INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office and primary location of its books and records is located at 21215 Burbank Boulevard, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2022.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, 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. 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 will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination with Indiana as the lead state of the Elevance Health, Inc. Group (Group). It was conducted concurrently with the examinations of other insurance entities under the Group. The following states participated in the examination: Arkansas, Arizona, California, Colorado, Connecticut, Iowa, Kentucky, Louisiana, Maryland, Maine, Missouri, Mississippi, Nebraska, New Jersey, New York, Ohio, Pennsylvania, Texas, Virginia, Washington, Wisconsin, West Virginia, and the District of Columbia.

COMPANY HISTORY

The Company was organized under the laws of the state of California on May 29, 1991, and commenced business on August 2, 1991, to write life and disability insurance. The majority of its business is health insurance.

The Company is a wholly-owned subsidiary of WellPoint California Services, Inc. (WCS), an indirect wholly-owned subsidiary of Elevance Health, Inc. (formerly known as Anthem, Inc.), a publicly traded company.

Effective June 27, 2022, the Company's ultimate parent, Anthem, Inc., changed its name to Elevance Health, Inc.

Capitalization

The Company is authorized to issue 250,000 shares of Class A voting common stock with a par value of \$100 per share. As of December 31, 2022, there were 50,000 shares outstanding.

Dividends

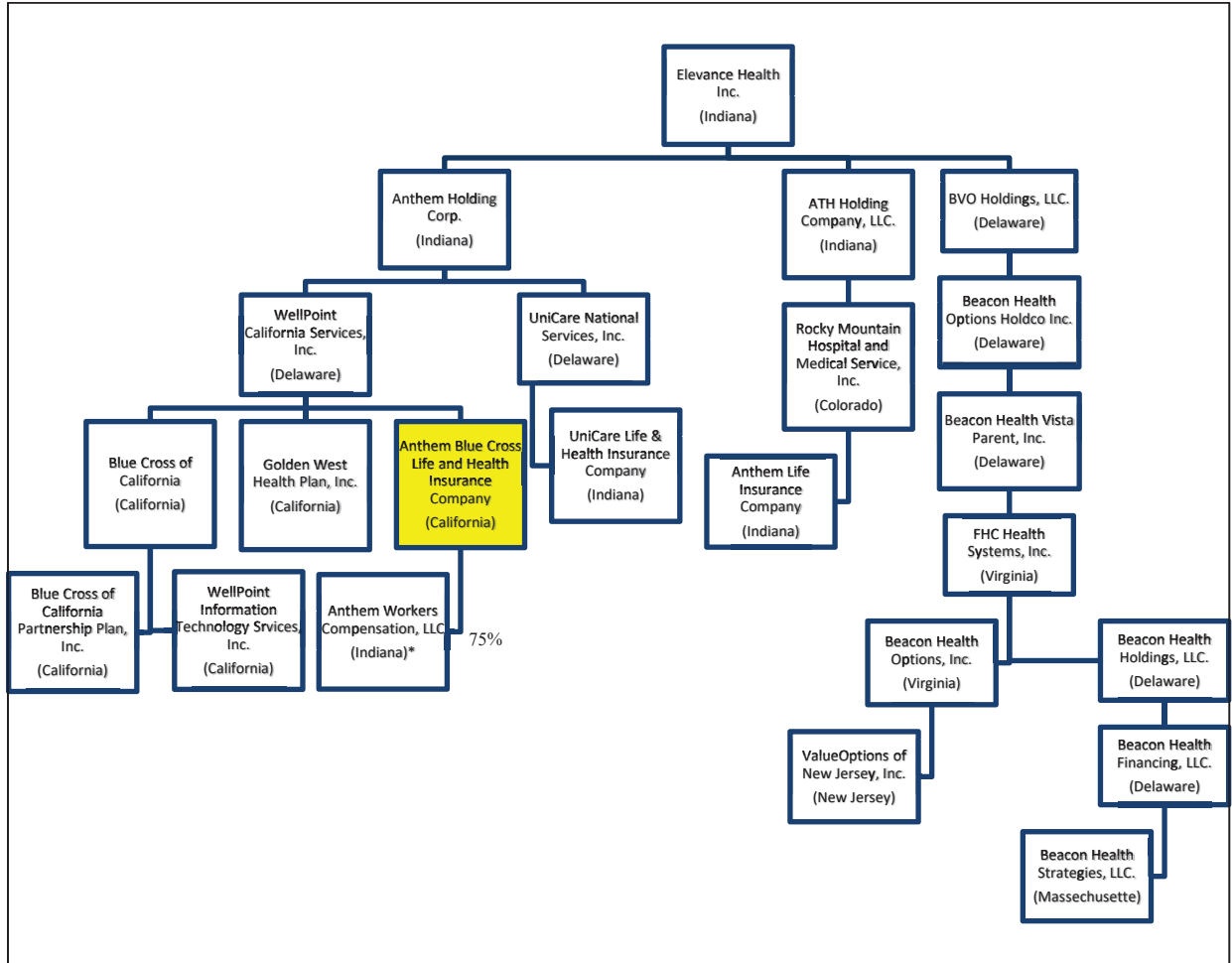
The Company paid the following ordinary cash dividends to its parent company, WellPoint California Services, Inc. (WCS) during the examination period:

<u>Year</u>	<u>Amount</u>
2018	\$151,900,000
2019	180,100,000
2020	259,800,000
2021	117,900,000
2022	183,800,000
2023*	<u>170,000,000</u>
Total	<u>\$1,063,500,000</u>

* Subsequent to the examination date

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company and its affiliated insurance companies, depicts the Company's relationship within the holding company system at December 31, 2022 (all ownership is 100% unless otherwise indicated):



*On July 1, 2023, the Company sold its ownership interest in Anthem Workers Compensation, LLC.

The three members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2022:

Directors

Name and Location

Beth Ellen Andersen
Walnut Creek, California

Principal Business Affiliation

President and Chief Executive Officer
Anthem Blue Cross Life and Health
Insurance Company

Name and Location

Terry Alan German
Newcastle, California

Les Ybarra
Filmore, California

Principal Business Affiliation

Assistant Secretary
Anthem Blue Cross Life and Health
Insurance Company
Vice President and Medicaid Plan
President
Anthem Blue Cross Life and Health
Insurance Company

Principal Officers

Name

Beth Ellen Andersen
Michelle Marie Brown*
Kathleen Susan Kiefer
Vincent Edward Scher
Terry Alan German
Eric Kenneth Noble

Title

President and Chief Executive Officer
Chief Financial Officer
Secretary
Treasurer
Assistant Secretary
Assistant Treasurer

*Replaced by Ari Paul Szafranski, effective October 5, 2023.

Management Agreements

Amended and Restated Master Administrative Services Agreement: Effective July 1, 2010, the Company became a party to the Amended and Restated Master Administrative Services Agreement with Elevance Health, Inc. (Elevance Health, formerly known as Anthem, Inc.) and its current and future direct and indirect subsidiaries. Under the terms of the agreement, Elevance Health provides space and various administrative, such as accounting, investment and finance, actuarial, underwriting, claims, billing and collection of funds, legal, marketing, managerial, system, and other necessary support services to the subsidiaries. Any subsidiary that receives services will reimburse the service provider for the direct and indirect costs and expenses incurred in furnishing such services in accordance with Statements of Statutory Accounting Principles No. 25 and No. 70. The California Department of Insurance (CDI) approved the agreement on June 15, 2010. The term of this agreement will be for five years, effective July 1, 2010.

Effective January 1, 2014, the Company amended the agreement to incorporate certain changes to the holding company laws and regulations that resulted from the National Association of Insurance Commissioners's 2010 amendment of its Model Insurance Holding Company Regulatory Act and Model Insurance Company System Model Regulation. The amendment also extended the term of the agreement for five years, effective January 1, 2015. The CDI issued the non-objection letter to the amendment on September 2, 2014.

The Company filed various amendments during the examination period to modify the compensation arrangement for specific services, add pharmacy benefit management services, update the list of service-receiving and providing companies, and extend the term of the agreement. The amendments were reviewed and found to be compliant with California Insurance Code (CIC) Section 1215.5 and were filed with the CDI with approvals as required.

Under the terms of the agreement, the Company reimburses Elevance Health for the fair market value of these services. For 2018, 2019, 2020, 2021, and 2022, the Company paid \$961,277,629, \$985,852,703, \$1,051,350,539, \$986,074,222, and \$1,065,585,409, respectively.

California Amended and Restated Master Service Agreement: Effective January 1, 2021, the Company entered into a California Amended and Restated Master Service Agreement with Beacon Health Strategies LLC, Beacon Health Options, Inc., and ValueOptions of New Jersey, Inc. (collectively referred to as "Beacon"). Under the terms of the agreement, Beacon shall provide administrative, management, utilization review, and/or other behavioral health and related services in connection with mental health and substance abuse services to the Company for an amount up to the fair market value of the services. The Company paid Beacon \$0 and \$396,130,998 in 2021 and 2022, respectively. The CDI approved this agreement on November 3, 2022.

Consolidated Tax Allocation Agreements: Effective December 31, 2005, the Company

and its affiliates are part of a consolidated federal income tax agreement with its ultimate parent, Elevance Health, and its subsidiaries. Allocation of taxes is based upon separate return calculations. The intercompany income balances are settled based on the Internal Revenue Service due dates. For 2018, 2019, 2020, 2021, and 2022, the Company paid \$20,701,154, \$47,852,764, \$77,443,292, \$27,871,476, and \$48,766,376, respectively, in federal income taxes. The CDI approved this agreement on April 26, 2007.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact life and disability insurance solely in the state of California. The Company offers traditional medical and dental coverage as well as preferred provider organization and indemnity coverage, and provides administrative services relating to health plans for self-insured employers. The Company also writes individual and group life insurance for small and large employer groups.

The Company's total direct written premium for the year ending 2022 was \$1.9 billion. The written premium was comprised of individual and group accident and health insurance of \$1,444.3 million (76.2%), other accident and health insurance of \$382.1 million (20.2%), and individual and group life insurance of \$69.2 million (3.6%).

The Company operates as a licensee of the Blue Cross Blue Shield Association and serves approximately 3.36 million members. It does not have employees. Employees of Elevance Health and its subsidiaries provide administrative services on behalf of the Company. The Company markets its products through independent agents and direct marketing.

REINSURANCE

Assumed

The following is a summary of the principal assumed reinsurance treaties in force as of December 31, 2022:

Type of Contract	Reinsurer's Name	Cedant's Retention	Company's Maximum Limits
Quota Share - Medicaid - Arkansas	UniCare Life and Health Insurance Company	0%	100%
Quota Share - Medicaid - Colorado	UniCare Life and Health Insurance Company	0%	100%
Quota Share - Medicaid – North Carolina	UniCare Life and Health Insurance Company	0%	100%

As of December 31, 2022, the Company assumed \$1,820,300,940 in premiums from UniCare Life and Health Insurance Company.

Ceded

The following is a summary of the principal ceded reinsurance treaties in force as of December 31, 2022:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Life and Long-Term Care (LTC)	Anthem Life Insurance Company (Authorized)	98% Life and 20% LTC Coinsurance	2% Life and 80% LTC Coinsurance
Life, Individual and Group Disability, and Accidental Death and Disability	Anthem Life Insurance Company (Authorized)	0% Coinsurance	100% Coinsurance after all other third-party reinsurance agreements
Long-Term Care	General Reins Corp (Authorized)	80% Quota Share	20% Quota Share
Long-Term Care	Westport Insurance Corp (Authorized)	60% Quota Share	40% Quota Share
Long-Term Care	General Re Life Corp (Authorized)	40% Quota Share	60% Quota Share
Accident, Critical Illness and Hospital Indemnity	Hartford Life & Accident Insurance Co (Authorized)	50% Quota Share	50% Quota Share
Commercial Chiropractic Preferred Provider Organization members	American Specialty Health Insurance Co. (Authorized)	0% Quota Share	100% Quota Share
Vision	Eyemed Insurance Company (Authorized)	0% Quota Share	100% Quota Share
Group Life and Accidental Death and Dismemberment	Hartford Life & Accident Insurance Co. (Authorized)	\$300,000 per person	\$1,700,000 per person
Long-Term Disability	Munich American Reassurance Co. (Authorized)	\$6,000 of gross monthly benefit	Varies by class of coverage

Effective April 1, 2017, the Company entered into a coinsurance arrangement reinsurance agreement with Anthem Life Insurance Company (ALIC), under which the Company cedes a portion of a closed block of life and long-term care (LTC) policies to ALIC. The remainder of that block of business has already been ceded to third-party reinsurers. The agreement allows for the consolidated reporting of life and related business within the Anthem enterprise and streamlines financial reporting for administrative efficiency. While the Company did not provide the information needed to be considered for the proposed reinsurance agreement to be effective in 2017 at the

time, the California Department of Insurance (CDI) has subsequently reviewed the 2017 actual results and determined that the Company was not required to submit for prior approval because the insurance premiums and liabilities associated with it was less than the statutory threshold.

Effective July 1, 2022, the Company amended and restated the agreement to (1) recapture from ALIC the reinsured LTC business; (2) cede to ALIC the Company's liability arising under the individual and group life contracts, as well as individual and group disability and accidental death and disability products in force as of April 1, 2017, that were not reinsured; and (3) amend and restate the agreement in its entirety. The CDI approved the agreement on December 2, 2022.

ACCOUNTS AND RECORDS

A review was made of the Company's Annual Statement. Pursuant to the Statement of Statutory Accounting Principle (SSAP) No. 55 and the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners (NAIC), Notes to the Financial Statements Number 14D, Claims Related Extra-Contractual Obligation and Bad Faith Losses Stemming from Lawsuits, the Company shall disclose the dollar amount paid (for the extra-contractual and bad faith portion of the total claim amount) for claims related extra-contractual obligations and bad faith losses stemming from lawsuits, in the current reporting period on a direct basis. The Company's Annual Statement Note to Financial Statements 14D was not prepared in accordance with the NAIC's Annual Statement Instructions. It did not disclose the potential risks and/or uncertainties related to lawsuits in the manner or format required by the NAIC. The Company should compile its bad faith/extra-contractual litigation settlements arising from claims and disclose them annually in the Notes to Financial Statements 14D in accordance with the NAIC Annual Statement Instructions. The Company failed to comply with the instructions for all years under examination. It is recommended that the Company complete Annual Statement Note 14D in accordance with the NAIC Annual Statement Instructions to ensure future compliance with SSAP No. 55.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2022

Statement of Revenue and Expenses for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Policyholders from December 31, 2018 through December 31, 2022

Statement of Financial Condition
as of December 31, 2022

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 802,845,395	\$	\$ 802,845,395	
Stocks				
Preferred stocks	533,952		533,952	
Common stocks	10,783,095		10,783,095	
Cash, cash equivalents, and short-term investments	(277,369,876)		(277,369,876)	
Contract loans	187,290		187,290	
Derivatives	20,313		20,313	
Other invested assets	177,108,128	1,823,874	175,284,254	
Receivables for securities	236		236	
Securities lending reinvested collateral assets	184,760,405		184,760,405	
Investment income due and accrued	10,207,624		10,207,624	
Uncollected premiums and agents' balances in the course of collection	324,423,287	5,561,902	318,861,385	
Accrued retrospective premiums and contracts subject to redetermination	29,490,608		29,490,608	
Reinsurance:				
Amount recoverable from reinsurers	921,490		921,490	
Funds held by or deposited with reinsured companies	213,045,732		213,045,732	
Other amounts receivable under reinsurance contracts	1,842,439		1,842,439	
Amounts receivable relating to uninsured plans	811,966,366	69,850,528	742,115,838	
Current federal and foreign income tax recoverable and interest thereon	5,240,982		5,240,982	
Net deferred tax asset	55,863,736	6,670,990	49,192,746	
Receivables from parent, subsidiaries and affiliates	150,593,349		150,593,349	
Health care and other amounts receivable	45,081,107	30,455,846	14,625,261	
Aggregate write-ins for other than invested assets	<u>210,888,636</u>	<u>2,248,345</u>	<u>208,640,291</u>	
Total assets	<u>\$ 2,758,434,295</u>	<u>\$ 116,611,485</u>	<u>\$ 2,641,822,810</u>	
 <u>Liabilities, Capital and Surplus</u>				
Claims unpaid			\$ 462,800,823	(1)
Accrued medical incentive pool and bonus amounts			4,642,269	(1)
Unpaid claims adjustment expenses			10,677,078	(1)
Aggregate health policy reserves			231,487,542	(1)
Aggregate health claim reserves			4,896,020	(1)
Premiums received in advance			18,322,747	
General expenses due or accrued			92,732,125	
Ceded reinsurance premiums payable			9,189,500	
Amounts withheld or retained for the account of others			6,321,019	
Remittances and items not allocated			50,106,278	
Derivatives			64,830	
Payable for securities			487,412	
Payable for securities lending			184,760,405	
Liabilities for amounts held under uninsured plans			182,068,943	
Aggregate write-ins for other liabilities			<u>90,953,893</u>	
Total liabilities			1,349,510,882	
Common capital stock	\$ 5,000,000			
Gross paid-in and contributed surplus		25,000,000		
Unassigned funds (surplus)		<u>1,262,311,928</u>		
Total capital and surplus			<u>1,292,311,928</u>	
Total liabilities, capital and surplus			<u>\$ 2,641,822,810</u>	

Statement of Revenue and Expenses
for the Year Ended December 31, 2022

Underwriting Income

Net premium income	\$ 3,620,268,433	
Change in unearned premium reserve for rate credits	(9,044,445)	
Aggregate write-ins for other non-health revenues	<u>2,268</u>	
Total Revenue		\$ 3,611,226,256

Deductions:

Hospital/medical benefits	780,513,851	
Other professional services	182,179,776	
Outside referrals	113,672,894	
Emergency room and out-of-area	157,659,207	
Prescription drugs	246,869,706	
Incentive pool, withhold adjustments and bonus amounts	8,572,585	
Net reinsurance recoveries	1,586,815,389	
Non-health claims	154,610	
Claims adjustment expenses including cost containment expense	138,011,047	
General administrative expenses	161,362,367	
Increase in reserves for life and accident and health contracts	<u>4,492,195</u>	
Total underwriting deductions		<u>3,380,303,626</u>
Net underwriting gain*		230,922,631*

Investment Income

Net investment income earned	\$ 60,727,900	
Net realized capital losses	<u>(22,323,234)</u>	
Net investment gain		38,404,666

Other Income

Net loss from agents' or premium balances charged off	\$ (296,496)	
Aggregate write-ins for other income or expenses	<u>19,569,750</u>	
Total other income		<u>19,273,254</u>

Net income before federal and foreign income taxes		288,600,551
Federal and foreign income taxes incurred		<u>34,974,622</u>
Net income		<u>\$ 253,625,929</u>

Capital and Surplus Account

Capital and surplus, December 31, 2021		\$ 1,250,121,988
Net income	\$ 253,625,929	
Change in net unrealized capital gains (losses) less capital gains tax	(33,174,481)	
Change in net deferred income tax	(26,558,066)	
Change in nonadmitted assets	33,347,808.	
Dividends to stockholders	(183,800,000)	
Aggregate write-ins for gains (losses) in surplus	<u>(1,251,250)</u>	
Net change in capital and surplus for the year		<u>42,189,94</u>
Surplus as regards policyholders, December 31, 2022		<u>\$ 1,292,311,92</u>

* \$1 calculation difference due to rounding

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2018 through December 31, 2022

Surplus as regards policyholders, December 31, 2017				\$ 1,216,816,751
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 934,789,536	\$ 36,195,866		
Change in net unrealized capital gain	36,941,362	30,847,974		
Change in net deferred income taxes	35,119,619	15,945,265		
Change in nonadmitted assets	66,405,015	893,500,000		
Dividend to stockholders		21,271,250		
Aggregate write-ins for losses in surplus		<u>21,271,250</u>		
Total gains and losses	<u>\$ 1,073,255,532</u>	<u>\$ 997,760,355</u>		
Change in surplus as regards policyholders Capital and surplus, December 31, 2022			<u>75,495,177</u>	<u>\$ 1,292,311,928</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

- (1) Claims unpaid
- (1) Accrued medical incentives pool and bonus amounts
- (1) Unpaid claims adjustment expenses
- (1) Aggregate health policy reserves
- (1) Aggregate health claim reserves

The lead state, Indiana, retained Merlinos and Associates and Alberts Actuarial Consulting, LLC. to determine the reasonableness of the Group's health and life reserves, including the Company. Based on their analysis and the review of their work by California's Associate Life Actuary, the Company's December 31, 2022 reserves were found to be reasonably stated. No material findings were noted, and the reserves have been accepted for the purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Annual Statement Note 14D (Page 10): It is recommended that the Company complete Annual Statement Note 14D in accordance with the National Association of Insurance Commissioners Annual Statement Instructions to ensure future compliance with Statements of Statutory Accounting Principles No. 55.

Previous Report of Examination

Management and Control – Management Agreements (Pages 7 and 10): It is recommended that the Company implement procedures to ensure future compliance with California Insurance Code Section 1215.5(b). The Company has complied with this recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by Elevance Health, Inc.'s officers and employees during the course of this examination.

Respectfully submitted,

Young, Shu  Digitally signed by Young, Shu
Date: 2024.05.15 15:48:25 -07'00'

Shu Young, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

Oseguera, Ralph  Digitally signed by Oseguera, Ralph
Date: 2024.06.14 10:34:42 -07'00'

Ralph Oseguera, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California