



Government of the District of Columbia
Muriel Bowser, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Acting Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – Group Hospitalization and Medical Services, Inc. (GHMSI) as
of December 31, 2013

ORDER

An Examination of **GHMSI** as of December 31, 2013 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 19th day of June, 2015, that the attached financial condition examination report be adopted and filed as an official record of this Department.

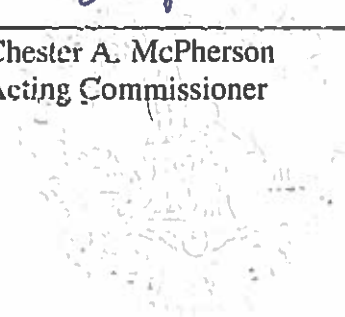
Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.


Acting Deputy Commissioner for

Chester A. McPherson
Acting Commissioner



GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

GROUP HOSPITALIZATION AND MEDICAL SERVICES, INC.

AS OF

DECEMBER 31, 2013

NAIC COMPANY CODE 53007

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Washington, D.C.

May 25

Honorable Chester A. McPherson
Acting Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Commissioner:

In accordance with Section 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of

Group Hospitalization and Medical Services, Inc.
840 First Street N.E.
Washington, D.C. 20065

hereinafter referred to as "GHMSI" or "the Company". The examination was conducted at the administrative office of the Company located at 10455 Mill Run Circle, Owings Mills, MD, 21117, and the following Report of Examination thereon is submitted.

SCOPE OF EXAMINATION

The examination, covering the period from January 1, 2009 to December 31, 2013, and including any material transactions and/or events noted occurring subsequent to December 31, 2013, was conducted under the association plan of the National Association of Insurance Commissioners (NAIC) by examiners representing the District of Columbia Department of Insurance, Securities and Banking (the Department or DISB).

The last examination as of Company was a full scope examination, covering the period from January 1, 2004 to December 31, 2008.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. 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 assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the statutory basis Company's financial statements for calendar years 2009 through 2013. We placed substantial reliance on the audited financial statements for calendar years 2009 through 2012, and consequently performed only minimal testing for those periods. We concentrated examination efforts on the year ended December 31, 2013. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2013, and directed efforts to the extent practical to those areas not covered by the firm's audit.

SUMMARY OF SIGNIFICANT FINDINGS

The examination included a review to determine the current status of the comments and recommendations in the preceding Examination Report, dated July 30, 2009, which covered the period from January 1, 2004 to December 31, 2008. We determined that the Company had satisfactorily addressed all of those findings.

The examination did not disclose any material adverse findings or any adjustments that impacted the Company's reported capital and surplus.

SUBSEQUENT EVENTS

Surplus Review

The Hospital and Medical Services Corporation Regulatory Act of 1996, as amended by the Medical Insurance Empowerment Amendment Act of 2008 ("MIEAA"), requires the Department to review the surplus of the Company at least once every three years to determine whether it is "excessive" as defined by the law. On December 30, 2014, the Department issued a decision and order determining that the Company's 2011 surplus attributable to the District of Columbia was excessive and ordered the Company to submit a plan for dedication of the excess 2011 surplus attributable to the District to community health reinvestment in a fair and equitable manner in accordance with District law.

On March 16, 2015, the Company submitted its plan. The Company stated in the plan that it "has already reduced the surplus attributable to the District by more than [the approximately \$56 million that] is required under the December 30 Order" because GHMSI "incurred \$62 million in underwriting losses attributable to the District and provided more than \$70 million in community health reinvestment" since 2011. Specifically, the Company stated that its 2012-2014 community health reinvestment included:

- \$30 million in premium rate reductions and moderations;
- \$11 million in direct community giving
- \$24 million in losses from the District's Open Enrollment Program; and
- \$15 million in funding for the District's Healthcare Alliance Program.

As of the date of this report, the Department had not ruled on the sufficiency of the submitted plan.

ACA Fee

The Company is subject to an annual fee under Section 9010 of the Affordable Care Act ("ACA"). The annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premium 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. SSAP No. 35R does not require an accrual for this known liability until January 1 of the payment year. The Notes to the 2013 Annual Statement disclosed that the Company estimated the amount of the ACA fee payable on September 30, 2014 to be \$48 million. A review of the Company's records indicated that it paid \$45.7 million for its portion of the ACA fee during 2014.

HISTORY

General

The Company is a not-for-profit corporation, chartered by the U.S. Congress. The Company provides comprehensive health insurance and managed health care products and services to

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December 31, 2013

individuals, businesses and governmental agencies. With the issuance of the Certificate of Authority on November 19, 2001, the DISB became the Company's primary regulator. The Company was formed in 1985 through the merger of Group Hospitalization, Inc. ("GHI") and Medical Service of the District of Columbia ("MSDC").

Effective January 16, 1998, CareFirst of Maryland, Inc. ("CFMI") and the Company became affiliates when CareFirst, Inc. ("CFI") became their parent managing member. CFMI is a not-for-profit Maryland company. In 1998 and prior years, the Company did business as Blue Cross and Blue Shield of the National Capital Area. In 1999, both the CFMI and the Company began doing business as CareFirst Blue Cross Blue Shield.

The historical transactions that occurred prior to the issuance of the Company's Certificate of Authority by DISB and the merger referred to above are as follows:

- GHI began operations on March 15, 1934 as a not-for-profit corporation. GHI subsequently was ordered to reorganize as a stock or mutual insurance company in order to be subject to the same regulation and taxation as commercial insurance companies. In response, GHI's trustees sought Congressional action to preserve and maintain the civic, charitable and nonprofit status of GHI. On August 11, 1939, Congress passed an act which authorized GHI to contract with individuals or groups of individuals to provide benefits for their hospital care. In addition, the act authorized GHI to operate only for the benefit of its subscribers and be a not-for-profit institution.
- In 1942, the American Hospital Association authorized the use of the Blue Cross service mark as its symbol of approved prepayment plans. GHI's Board of Trustees authorized full participation in the Blue Cross system in 1951.
- MSDC was incorporated in the District of Columbia on April 1, 1948 to provide prepaid coverage for a limited number of physician services to all subscribers who had contracts with GHI. In 1952, MSDC was authorized to use the Blue Shield service mark.
- On October 17, 1984, Congress granted GHI the authority to create affiliates and subsidiaries by amending its Congressional Charter.
- In 1985, GHI and MSDC merged after amendment of GHI's Congressional Charter. The successor entity, Group Hospitalization and Medical Services, Inc. continued the Blue Cross and Blue Shield affiliation and adopted the trade name Blue Cross and Blue Shield of the National Capital Area. Inc.
- Effective October 5, 1992, Congress enacted legislation to require the Company to be domiciled in and regulated by the District of Columbia. On February 12, 1993, the Company entered into a Consent Order with the District of Columbia Commissioner of Insurance under which the Company would be regulated by the District of Columbia. The Consent Order set out the existing statutes that would be applicable to the Company.

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- The Company subsequently was issued its Certificate of Authority from the District of Columbia, Department of Insurance, Securities and Banking (formerly known as the Department of Insurance and Securities Regulation) effective November 19, 2001 as a hospital and medical services corporation.

Surplus Note

The Company has issued no surplus notes during the examination period.

Management

Trustees

The Company's By-Laws call for one class of member. CareFirst, Inc., a not-for-profit health service plan organized under Maryland Law, has been designated as the sole member of GHMSI. The By-Laws also state that the governing body of the Company shall be the Board of Trustees which shall conduct the business and affairs of the Company. All trustees are nominated by the sole member and are elected by the Board of Trustees of GHMSI. The By-Laws state that the Board of Trustees consists of up to fourteen members. Of the fourteen members, at least seven of the trustees shall be individuals that serve as Class I Directors of the Sole Member.

In addition, DC Code §31-706(c)(3) requires that not less than one-third of trustees and one-third of each committee shall be persons who are not officers or employees of the Company. DC Code §31-706(c)(4) requires the any committee that has the responsibility for the following functions shall be composed entirely of non-employees of the Company: 1) Recommending the selection of the independent certified public accountants; 2) Nomination of candidates for director; 3) Evaluation of the performance of the officers; and 4) Recommending the selection and compensation of the Company's principle officers. The Company complied with all requirements of the Code.

The following individuals were serving on the Company's Board of Trustees as of December 31, 2013:

<u>Name and Address</u>	<u>Principal Occupation</u>
Natalie O. Ludaway Washington, D.C.	Managing Member Lefwich and Ludaway, LLC
Janice D. Anderson Washington, D.C.	Retired
Larry D. Bailey Washington, D.C.	President LDB Consulting

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<u>Name and Address</u>	<u>Principal Occupation</u>
Faye F. Fields Washington, D.C.	President and CEO Integrated Resources Technologies, Inc.
Artis G. Hampshire-Cowen Mitchellville, Maryland	Senior Vice President and Secretary Howard University
Bernard K. Jarvis Washington, D.C.	Chief Financial and Administrative Officer Association of American Medical Colleges
Wendell L. Johns Washington, D.C.	Retired
Jack A. Meyer Washington, D.C.	Managing Principle Health Management Associates
Elizabeth Oliver-Farrow Chevy Chase, Maryland	Chairman and CEO The Oliver Group, Inc.
Elena V. Rios Washington, D.C.	President and CEO National Hispanic Medical Association
Carlos M. Rodriguez Washington, D.C.	Principle Research Scientist American Institute for Research
Patricia A. Rodriguez Arlington, Virginia	Hematologist/Oncologist U.S. Oncology
Robert L. Sloan Washington, D.C.	Retired
James Wallace Washington, D.C.	CPA Wallace Group

Officers

The By-Laws require the following officers: chairman of the Board of Trustees, a chief executive officer, president, a secretary and a treasurer. The Board of Trustees elects these officers of the Company and other officer positions at its annual meeting. Each officer serves until a successor is elected or until removed by the Board of Trustees. The following persons were serving as the Company's officers as of December 31, 2013:

<u>Name</u>	<u>Title</u>
Natalie O. Ludaway	Chairperson of the Board of Trustees

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<u>Name</u>	<u>Title</u>
Chester E. Burrell	President and Chief Executive Officer
Meryl D. Burgin	Executive Vice President, General Counsel and Secretary
Gregory M. Chaney	Executive Vice President, Chief Financial Officer
William S. Gould	Executive Vice President, Medical Affairs
John J. Kaelin	Executive Vice President, Strategic Business Development
Fred A. Plumb	Executive Vice President, SBU – FEP
Michael T. Avotins	Senior Vice President, ASU – Large Groups
Jennifer A. Baldwin	Senior Vice President, Patient Centered Medical Home
Rita A. Costello	Senior Vice President, Strategic Marketing
Michael B. Edwards	Senior Vice President, Networks Management
Michael J. Felber	Senior Vice President, Sales
Harry D. Fox	Senior Vice President, Technical and Ops Support
Kenny W. Kan	Senior Vice President, Chief Actuary
Stephen J. Margolis	Senior Vice President, ASU – Small and Medium Groups
Wanda K. Oneferu-Bey	Senior Vice President, ASU – Consumer Direct
Jon P. Shematek	Senior Vice President, Chief Medical Officer
Gwendolyn D. Skillern	Senior Vice President, General Auditor
Maria H. Tildon	Senior Vice President, Public Policy
Michelle J. Wright	Senior Vice President, Human Resources
Jeanne A. Kennedy	Vice President and Treasurer

Committees

As of December 31, 2013, the Company's Board of Trustees had established the following committees:

Audit and Compliance Committee

James Wallace, Chair
Janice D. Anderson
Larry D. Bailey
Bernard K. Jarvis
Wendell L. Johns
Robert L. Sloan

Finance and Investment Committee

Larry D. Bailey, Chair
Faye F. Fields
Bernard K. Jarvis
James Wallace

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Governance and Nominating Committee

Carlos M. Rodriquez, Chair
Faye F. Fields
Artis G. Hampshire-Cowan
Bernard K. Jarvis
Robert L. Sloan
James Wallace

Mission Oversight Committee

Carlos M. Rodriguez, Chair
Wendell L. Johns
Jack A. Meyer
Elizabeth Oliver-Farrow
Elena V. Rios

Service and Quality Committee

Elena V. Rios, Chair
Janice D. Anderson
Jack A. Meyer
Elizabeth Oliver-Farrow
Carlos M. Rodriguez

Conflict of Interest

The By-Laws state that the Board of Trustees shall adopt a code of business conduct and compliance that governs the conduct of the Company's trustees, officers and associates. In accordance with the By-Law, the Company adopted a conflict-of-interest policy. This policy required all trustees, officers, and associates to annually complete a Conflict of Interest Disclosure Statement documenting any potential conflicts.

A review of the completed questionnaires for calendar years 2009 to 2013 indicated no reported conflicts.

Corporate Records

The Company's Corporate Charter and By-Laws were reviewed. While the Charter remained unchanged over the examination period, the Company did amend their By-Laws. The minutes of the meetings of the Board of Trustees and its committees for the period under examination were also reviewed. The minutes documented the Company's significant transactions and events, which the trustees then approved and they were in compliance with the Charter and By-Laws.

AFFILIATED COMPANIES

The Company is controlled by CareFirst, Inc. (CFI), a nonprofit health service plan domiciled in Maryland. CFI was established to serve exclusively as the holding company for CareFirst of Maryland, Inc. (CFMI) and the Company.

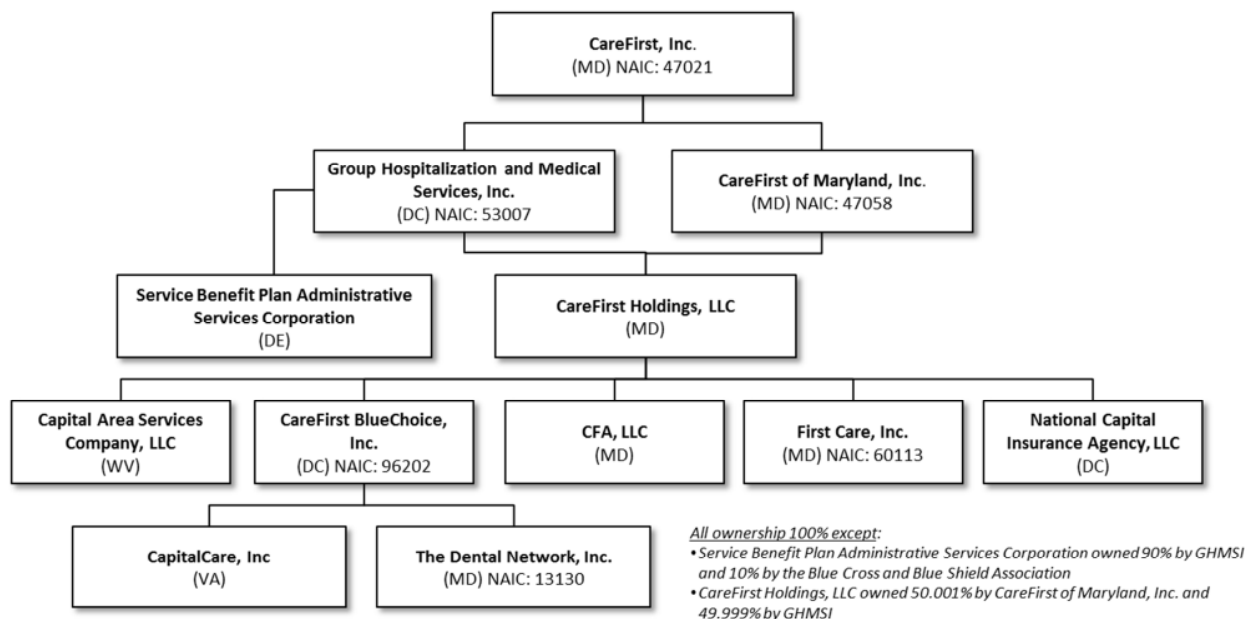
As of December 31, 2013, the Company owned 90% of Service Benefit Plan Administrative Service Corp (SBP). SBP was created to operate the Federal Employee Program Operations Center. BlueCross and BlueShield Association (BCBSA) is the owner of the 10% stock not owned by the Company.

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On December 31, 2010, CareFirst Holdings, LLC (CFH) was created as an intermediate holding company to streamline and restructure the ownership of all of the subsidiaries of CFMI and the Company (excluding SBP). CFH was organized as a Maryland limited liability company, with 50.001% of its equity owned by CFMI and 49.999% percent of its equity owned by the Company.

ORGANIZATION CHART

The CareFirst, Inc. holding company structure as of December 31, 2013, is depicted in the following organizational chart:



INTERCOMPANY AGREEMENTS

In addition to intercompany reinsurance agreements described below under the “Reinsurance” caption of this Report, the Company was a party to the following agreements with affiliates:

Administrative Services Agreement

Effective January 1, 2009, the Company, CareFirst, Inc., CareFirst of Maryland, Inc. (CFMI) and all of their respective subsidiaries entered into an administrative services agreement. The agreement calls for the Company and CFMI to provide its parent and other related entities, including each other, with administrative and operational support services. In consideration for the services provided, the Company and CFMI are paid a fee based upon direct and indirect costs plus (for CareFirst BlueChoice, Inc. only) a mark-up based on market rates (as approved by the Commissioners of Maryland and the District of Columbia). Settlements of amounts due occur on a monthly basis.

Administrative Services Agreement with Capital Area Services Company, LLC

Effective January 1, 2010, the Company, CareFirst of Maryland, Inc., CareFirst BlueChoice, Inc., First Care, Inc. and the Dental Network, Inc. entered into an administrative services agreement with Capital Area Services Company, LLC (CACSI). The agreement calls for CACSI to perform the following services: 1) Claims processing, adjudication and customer services; 2) Document storage and retention; and 3) Miscellaneous administrative services. In consideration for the services provided, CACSI is paid a fee based upon direct and indirect costs plus a mark-up based on market rates (as approved by the Commissioners of Maryland and the District of Columbia). Settlements of amounts due occur on a monthly basis.

Shared Services Agreement

Effective January 1, 2005, the Company and CareFirst of Maryland, Inc. (CFMI) entered into a Shared Services Agreement with Service Benefit Plan Administrative Services Corporation (SBP). SBP performs certain administrative functions as the national operations center for the Federal Employee Health and Benefit Program under its ten-year cost reimbursement contract, which was effective January 1, 2005, with the BlueCross BlueShield Association (BCBSA). The agreement calls for the Company and CFMI and their subsidiaries to provide services to SBP including management, human resources, legal, corporate services, finance, and accounting. Settlements of amounts due occur on a monthly basis. SBP is a 90% owned subsidiary of the Company. BCBSA owns the remaining 10%.

Intercompany Agreement

Effective December 31, 2010, the Company, CareFirst, Inc. (CFI), CareFirst of Maryland, Inc. and CareFirst Holdings, LLC entered into an intercompany agreement which requires that in the event that the capital reserves of the entities or their respective subsidiaries, who are required by law to maintain a statutory or regulatory requirement, fall below their respective statutory, regulatory or BCBSA requirements, the party with the shortfall shall notify all other parties of the shortfall. The other parties, subject to certain terms, conditions and limitations, shall transfer to the requesting party such financial resources as needed to satisfy the shortfall. In addition to reserve shortfalls, the agreement provides for financial support for other situations including the inability to pay claims and/or other legally enforceable obligations including, but not limited to, creditor demands, judgments and surplus notes. The determination as to whether any of the aforementioned conditions exists shall be made by the Board of Directors of CFI.

Tax Sharing Agreement

Effective December 31, 2010, the Company, CareFirst, Inc., CareFirst of Maryland, Inc., Service Benefit Plan Administrative Services Corporation and all of their wholly-owned limited liability subsidiaries entered into a Tax Sharing Agreement. The agreement calls for allocation of current federal and state (where permitted) income tax liability/recoverable attributable to the

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companies on the basis of the percentage of the consolidated federal income tax liability/recoverable attributable to the companies computed on a separate company basis (as if they were to file a separate corporate income tax return) to the total consolidated federal income tax liability/recoverable.

Surplus Notes:

Effective March 1, 1999, CareFirst, Inc., issued a subordinated surplus note with the Company for \$167,000 and with CareFirst of Maryland, Inc. for \$333,000. The notes are unsecured and bear interest at 6% per annum, payable in arrears commencing on the initiation date. No payment of principle or interest shall be made on the notes unless and until CFI has sufficient earned surplus to make such payment, after providing for its minimum required surplus, all required reserves and other liabilities. In December 2007, these notes were amended to extend the maturity date from January 16, 2008 to January 16, 2018. Principle on these notes, if not paid sooner, shall be due and payable on January 16, 2018. Both interest and principle payments require the prior approval of the Maryland Insurance Administration (MIA).

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2013, the Company, along with other affiliates, was included as a named insured in its parent's blanket fidelity bond. The amount of the fidelity bond coverage was \$5,000,000 with a \$100,000 deductible. The Parent's blanket fidelity bond satisfies the amount of the minimum coverage recommended by the National Association of Insurance Commissioners for the consolidated group.

The Company is a named insured on other policies of insurance in accordance with its procedures to manage insurable risks.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

Pension Benefits

Prior to December 31, 2002, the Company maintained a qualified noncontributory defined benefit retirement plan covering substantially all full-time employees (the GHMSI Plan). Effective December 31, 2002, the GHMSI Plan merged with a qualified noncontributory defined benefit retirement plan maintained by CFMI (the CFMI Plan) to become the CareFirst, Inc. Retirement Plan (the CFI Plan). Although CFI merged the CFMI and GHMSI plans, it has committed to maintain separate recordkeeping of plan assets and benefit obligations so that it will comply with certain regulatory restrictions that apply the Company and CFMI. Consistent with the standards for multiple-employer plan accounting, the Company and CFMI have accounted for their net pension obligations as if the plans remained separate. Employees hired on or after January 1, 2009, no longer participate in the CFI Plan. These employees participate in an enhanced 401(k) program.

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The Company also has nonqualified supplemental retirement benefit plans covering certain officers, which provide for these individuals to receive additional benefits based principally on compensation and years of service. These plans provide for incremental benefit payments so that total benefit payments equal amounts that would have been payable from the Company's principal retirement plans if it were not for limitations imposed by the Internal Revenue Service. The Company also contributes to the nonqualified pension plans as benefits are paid.

Post-Retirement Benefits

The Company provides certain health care benefits for retired employees. The Company's postretirement benefit program provides for a specific credit amount, which may be used to purchase health insurance upon retirement. The credit amount is based upon the retiree's age and years of service with the Company. The Company also contributes to non-qualified supplemental benefit plan for certain officers as those benefits are paid.

Other Insurance and Benefits

The Company provides Medical and Dental Insurance (with the Company paying most of the cost), a Vision Plan, Short Term and Long Term Disability, Life Insurance, a Flexible Spending Account, Tuition Reimbursement, and Paid Time Off (in the form of "vacation time" and "sick leave").

STATUTORY DEPOSITS

The Company is not required to maintain a deposit with the DISB or other regulatory authority.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business as a nonprofit health services plan in the District of Columbia, Maryland and Virginia. The Company is authorized to use the BlueCross BlueShield trade names and service marks in the District of Columbia, Maryland, and limited areas of Virginia in proximity to the District of Columbia Metropolitan Area.

The Company contracts with various health care providers, including hospitals, nursing homes, home health care facilities, alcohol and drug treatment facilities, pharmacies, physicians, and dentists, as participating providers to render services to subscribers of health care plans administered by the Company. In most instances, those providers accept the usual and customary or reasonable allowance set by the Company for a particular service as payment in full. Provider contracts were filed with the DISB as required by DC Code, Section 31-3507.

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GROWTH OF COMPANY

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Admitted Assets	\$2,216,046,918	\$2,251,288,120	\$2,293,335,088	\$2,173,566,611	\$1,887,553,982
Total Liabilities	1,281,295,443	1,310,217,166	1,329,753,778	1,204,067,237	1,126,095,545
Total Capital and Surplus	934,751,475	941,070,954	963,581,310	969,499,374	761,458,437
Premium Income	3,095,809,333	3,204,928,073	3,126,784,071	2,996,119,351	2,927,358,276
Net Underwriting Gain /(Loss)	(35,866,029)	(47,874,136)	14,704,541	60,798,240	(1,132,531)
Net Income/(Loss)	8,982,666	(7,516,480)	53,553,789	86,731,549	44,801,453

LOSS EXPERIENCE

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Premium Income	\$3,141,756,011	\$3,149,311,541	\$3,047,639,681	\$2,903,974,381	\$2,876,847,111
Medical and Hospital Experience	2,799,374,281	2,843,999,881	2,694,989,911	2,516,299,291	2,576,445,701
Pure Loss Ratio	89.10%	90.31%	88.43%	86.65%	89.56%

REINSURANCE

The Company was party to the following reinsurance agreements:

Quota-Share Reinsurance Contract between the Company, CareFirst of Maryland, Inc. and First Care, Inc.

Effective January 1, 2009, the Company and CareFirst of Maryland, Inc. (CFMI), (collectively the Reinsurers) entered into a Reinsurance Contract with affiliate First Care, Inc. (First Care). First Care writes exclusively Medicare Part D coverage. Under the terms of the agreement, the Reinsurers assume all underwriting risk on the business written in their respective service areas.

Quota-Share Reinsurance Contract between the Company and CareFirst of Maryland, Inc.

Effective January 1, 2008, the Company entered into a Cross-Jurisdictional Parity Agreement with CareFirst of Maryland, Inc. Historically, the two companies have sold products in each other's BCBSA market regions and thus incurred underwriting results for these cross-jurisdictional products. The purpose of this agreement is to properly redistribute those underwriting gains/losses in each other's jurisdiction from the entity who earned them to the entity whose service area the subscriber/group resided. Under the terms of the agreement, each company tracks the premium revenues, administrative expenses and care costs related to the other company's geographic region. On a quarterly basis, the amounts from this cross-jurisdictional business are transferred via a quota share reinsurance contract. There is a typical indemnity and hold harmless clause between the parties for any actions alleging injuries out of or related to the acts or omissions with performance under this agreement. In addition to the reinsurance portion of this agreement, CFMI is required to contribute capital to First Care, as necessary, to maintain sufficient levels of capital and surplus to maintain all regulatory, statutory and BCBSA requirements.

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Stop Loss Reinsurance Contract between the Company, CareFirst of Maryland, Inc. and CareFirst BlueChoice, Inc.

Effective January 1, 2009, the Company and CareFirst of Maryland, Inc. (collectively the Reinsurers) entered into a Stop Loss Reinsurance Contract with CareFirst BlueChoice, Inc. (CFBC). Under the terms of the agreement, the Reinsurers provide stop loss coverage for all of CFBC claims that exceed 105% Medical Loss Ratio. The reinsurers share any liability based upon their respective ownership percentage in CFBC at the beginning of the calendar year.

ACCOUNTS AND RECORDS

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). A review did not disclose any significant deficiencies in these records.

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FINANCIAL STATEMENTS

The financial statements listed below are reflected on the following pages and present the financial condition of the Company as of December 31, 2013, as determined by this examination:

Statement of Assets and Liabilities:

Assets

Liabilities and Surplus

Statement of Revenue and Expenses

Statement of Capital and Surplus Account

Reconciliation of Surplus

Analysis of Examination Changes to Surplus

The accompanying "Notes to Financial Statements" are an integral part of these financial statements.

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Statement of Assets and Liabilities

**Assets
As of December 31, 2013**

	Assets	Nonadmitted Assets	Net Admitted Assets
	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>
Bonds	\$ 511,476,700	\$ 0	\$ 511,476,700
Common stocks	121,819,719	0	121,819,719
Cash, cash equivalents and short-term investments	5,226,484	0	5,226,484
Other invested assets	435,684,914	166,667	435,518,247
Investment income due and accrued	3,883,879	0	3,883,879
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	235,728,037	4,111,754	231,616,283
Reinsurance:			
Amounts recoverable from reinsurers	16,926,028	0	16,926,028
Other amounts receivable under reinsurance contracts	846,884	0	846,884
Amounts receivable relating to uninsured plans	69,410,115	4,585,896	64,824,219
Current federal and foreign income tax recoverable and interest thereon	11,858,431	0	11,858,431
Electronic data processing equipment and software	140,208,321	126,302,405	13,905,916
Furniture and equipment, including health care delivery assets	5,607,350	5,607,350	0
Receivables from parent, subsidiaries and affiliates	10,932,605	0	10,932,605
Health care and other amounts receivable	801,349,636	15,353,302	785,996,334
Aggregate write-ins for other than invested assets	98,082,860	96,867,671	1,215,189
	<u> </u>	<u> </u>	<u> </u>
Totals	\$ <u>2,469,041,963</u>	\$ <u>252,995,045</u>	\$ <u>2,216,046,918</u>

Group Hospitalization and Medical Services, Inc.
Report on Examination
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Statement of Assets and Liabilities

**Liabilities and Surplus
As of December 31, 2013**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid (Note 1)	\$ 240,462,451	\$ 12,203,217	\$ 252,665,668
Unpaid claims adjustment expenses (Note 1)	9,684,968	491,502	10,176,470
Aggregate health policy reserves	681,174,397	0	681,174,397
Premiums received in advance	50,122,646	0	50,122,646
General expenses due or accrued	75,312,788	0	75,312,788
Net deferred tax liability	22,352,282	0	22,352,282
Ceded reinsurance premiums payable	24,778,236	0	24,778,236
Amounts withheld or retained for the account of others	32,978,186	0	32,978,186
Remittances and items not allocated	1,898,216	0	1,898,216
Amounts due to parent, subsidiaries and affiliates	59,913,386	0	59,913,386
Liability for amounts held under uninsured plans	16,774,834	0	16,774,834
Aggregate write-ins for other liabilities	53,148,334	0	53,148,334
Total liabilities	<u>\$ 1,268,600,724</u>	<u>\$ 12,694,719</u>	<u>\$ 1,281,295,443</u>
Unassigned funds (surplus)			<u>934,751,475</u>
Total liabilities and surplus			<u>\$ 2,216,046,918</u>

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Statement of Revenue and Expenses

For the Year Ended December 31, 2013

	<u>Uncovered</u>	<u>Total</u>
Member months	XXX	8,972,558
Net premium income	XXX	\$ 3,095,809,333
Change in unearned premium reserves and reserve for rate credits	XXX	45,946,685
Aggregate write-ins for other health care related revenues	XXX	16,385,253
Aggregate write-ins for other non-health revenues	XXX	3,729,154
Total revenues	XXX	<u>3,161,870,425</u>
Hospital and Medical:		
Hospital/medical benefits	\$ 94,960,220	1,919,761,619
Other professional services	3,948,379	183,863,497
Outside referrals	40,786,619	40,786,618
Emergency room and out-of-area	1,511,950	69,411,341
Prescription drugs	0	709,848,954
Subtotal	<u>141,207,168</u>	<u>2,923,672,029</u>
Less: Net reinsurance recoveries	0	124,297,746
Total hospital and medical	<u>141,207,168</u>	<u>2,799,374,283</u>
Claims adjustment expenses, including \$65,340,004 cost containment expenses	0	144,404,857
General administrative expenses	0	253,957,314
Total underwriting deductions	<u>141,207,168</u>	<u>3,197,736,454</u>
Net underwriting loss	XXX	<u>(35,866,029)</u>
Net investment income earned	0	14,209,056
Net realized capital gains or (losses) less capital gains tax of \$4,939,901	0	19,759,606
Net investment gains	0	33,968,662
Aggregate write-ins for other income or expenses	0	<u>340,974</u>
Net income or (loss), after capital gains tax and before all other federal income taxes	XXX	<u>(1,556,393)</u>
Federal and foreign income taxes incurred	XXX	<u>(10,539,059)</u>
Net income	XXX	<u>\$ 8,982,666</u>

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Capital and Surplus Account

For the Year Ended December 31, 2013

Capital and surplus, December 31, 2012	\$ <u>941,070,954</u>
Net income	8,982,666
Change in net unrealized capital gains less capital gains tax	30,090,730
Change in net deferred income tax	(11,798,087)
Change in nonadmitted assets	(4,346,501)
Cumulative effect of changes in accounting principles	(2,174,001)
Aggregate write-ins for losses in surplus	<u>(27,074,286)</u>
Net change in capital and surplus	<u>(6,319,479)</u>
Capital and surplus, December 31, 2013	\$ <u>934,751,475</u>

Group Hospitalization and Medical Services, Inc.
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Reconciliation of Surplus

From January 1, 2009 through December 31, 2013

Capital and surplus, December 31, 2008	\$ 686,779,718
<u>2009</u>	
Net income or (loss)	44,801,453
Change in net unrealized capital gains (losses) less capital gains tax	36,072,553
Change in net deferred income tax	(98,906,990)
Change in nonadmitted assets	73,130,315
Cumulative effect of changes in accounting principles	1,633,801
Aggregate write-ins for gains or (losses) in surplus	17,947,588
Net change in capital and surplus	<u>74,678,720</u>
Capital and surplus, December 31, 2009	761,458,437
<u>2010</u>	
Net income or (loss)	86,731,549
Change in net unrealized capital gains (losses) less capital gains tax	80,886,945
Change in net deferred income tax	(4,692,390)
Change in nonadmitted assets	9,764,768
Aggregate write-ins for gains or (losses) in surplus	35,350,065
Net change in capital and surplus	<u>208,040,937</u>
Capital and surplus end, December 31, 2010	969,499,374
<u>2011</u>	
Net income or (loss)	53,553,789
Change in net unrealized capital gains (losses) less capital gains tax	12,057,317
Change in net deferred income tax	(10,686,261)
Change in nonadmitted assets	(45,847,653)
Aggregate write-ins for gains or (losses) in surplus	(14,995,252)
Net change in capital and surplus	<u>(5,918,060)</u>
Capital and surplus, December 31, 2011	963,581,310
<u>2012</u>	
Net income or (loss)	(7,516,480)
Change in net unrealized capital gains (losses) less capital gains tax	27,662,649
Change in net deferred income tax	(13,778,285)
Change in nonadmitted assets	(4,334,829)
Cumulative effect of changes in accounting principles	(39,698,083)
Aggregate write-ins for gains or (losses) in surplus	15,154,668
Net change in capital and surplus	<u>(22,510,360)</u>
Capital and surplus, December 31, 2012	941,070,954
<u>2013</u>	
Net income or (loss)	8,982,666
Change in net unrealized capital gains (losses) less capital gains tax	30,090,730
Change in net deferred income tax	(11,798,087)
Change in nonadmitted assets	(4,346,501)
Cumulative effect of changes in accounting principles	(2,174,001)
Aggregate write-ins for gains or (losses) in surplus	(27,074,286)
Net change in capital and surplus	<u>(6,319,479)</u>
Capital and surplus, December 31, 2013	<u>\$ 934,751,475</u>

Group Hospitalization and Medical Services, Inc.
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Analysis of Examination Changes to Surplus

There were no changes to the Company's reported surplus as a result of the examination.

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NOTES TO FINANCIAL STATEMENT

Note 1 – Claims unpaid & Unpaid Claims Adjustment Expenses

In connection with this examination, the Department retained an independent actuary to conduct a review of actuarially determined accounts. No significant adverse issues were noted as a result of that review.

COMMENTS AND RECOMMENDATIONS

There were no significant adverse findings as a result of the examination.

Group Hospitalization and Medical Services, Inc.
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CONCLUSION

The examination disclosed that as of December 31, 2013 the Company had:

Admitted assets	\$2,216,046,918
Liabilities	1,281,295,443
Unassigned funds (surplus)	934,751,475
Total surplus	934,751,475
Total liabilities and surplus	\$2,216,046,918

Based on the examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2013, and the accompanying statement of income properly presents the statutory results of operations for the period then ended. The supporting financial statements properly present the information prescribed by the District of Columbia Official Code and the National Association of Insurance Commissioners.

Chapters 20 (“Risk-Based Capital”) and 31 (“Hospital and Medical Services Corporations Regulation”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code specify the level of capital and surplus required for the Company. We concluded that the Company’s capital and surplus funds exceeded the minimum requirements during the period under examination.

Group Hospitalization and Medical Services, Inc.

Report on Examination

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SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Chidinma Ukairo, District of Columbia Department of Insurance, Securities and Banking

Donna Novak, NovaRest Consulting

Joseph Detrick, Bostick/Crawford Consulting Group

David Habony, Bostick/Crawford Consulting Group

Jenny Jeffers, Bostick/Crawford Consulting Group

Joanna Latham, Bostick/Crawford Consulting Group

Michael McNulty, Bostick/Crawford Consulting Group

Lindsey Pittman, Bostick/Crawford Consulting Group

Respectfully submitted,

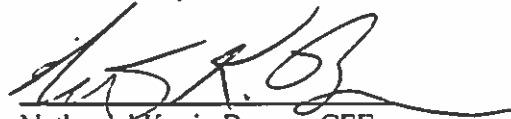


Robert F. Crawford, CFE

Examiner-in-Charge

On behalf of the District of Columbia Department
of Insurance, Securities and Banking

Under the Supervision of



Nathaniel Kevin Brown, CFE

District of Columbia Department of Insurance,
Securities and Banking