

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

Re: Report on Examination – **CareFirst BlueChoice, Inc.** as of December 31, 2023

ORDER

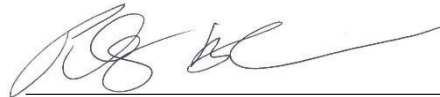
An Examination of **CareFirst BlueChoice, Inc.** as of December 31, 2023 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 28th day of May 2025, 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.



Philip Barlow
Associate Commissioner

REPORT ON EXAMINATION
CareFirst BlueChoice, Inc.
AS OF
DECEMBER 31, 2023

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Washington, D.C.
May 8, 2025

The Honorable Karima M. Woods
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, D.C. 20002

Dear Commissioner Woods,

In accordance with Section 31-1402 of the District of Columbia Official Code (“D.C. Code”), we have examined the financial condition and activities of

CareFirst BlueChoice, Inc.

hereinafter referred to in this report as the (“Company” or “CFBC”). The examination was conducted remotely. The Company’s statutory home office is located at 840 First Street, NE, Washington, DC, 20002, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

The Company was last examined by representatives of the District of Columbia, Department of Insurance, Securities and Banking (“DISB” or the “Department”) and covered the period from January 1, 2014, to December 31, 2018. The current full-scope risk-focused examination was conducted by examiners representing the Department and covered the period from January 1, 2019, to December 31, 2023, including any material transactions and/or events occurring after the examination date and noted during this examination.

The examination was conducted in accordance with procedures and guidelines prescribed by the 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.

The examination of Washington, D.C., domestic companies of CareFirst was called by the Department in accordance with the Handbook guidelines, through the NAIC's *Financial Examination Electronic Tracking System*. This examination was conducted as part of a multi-state risk-focused financial examination (the “Coordinated Examination”) of the CareFirst, Inc. group of insurance entities. The Department served as the lead state on the examination. The Maryland Insurance Administration

("MIA") accepted the invitation to participate in this Coordinated Examination for the following Maryland-domiciled insurance companies examined at the same time during the above examination:

Company Name	NAIC	Acronym
CareFirst, Inc. (MD)	47021	CFI
CareFirst of Maryland, Inc. (MD)	47058	CFMI
First Care, Inc. (MD)	60113	FirstCare
The Dental Network, Inc. (MD)	13130	TDN
CareFirst Advantage, Inc. (MD)	16724	CFAI
CareFirst Advantage DSNP, Inc. (MD)	15528	CFDSNP
CareFirst Advantage PPO, Inc. (MD)	16971	CFAI PPO
CareFirst Community Partners, Inc. (MD)	15015	CFCP

Concurrent with this examination, we have examined the Company's affiliates, Group Hospitalization and Medical Services, Inc. (GHMSI), a District domiciled non-profit corporation, and Trusted Health Plans (District of Columbia), Inc. (THPDC), a District domiciled company which offers managed healthcare services for Medicaid and alliance members in Washington, DC. Reports for GHMSI and THPDC will be issued under a separate cover. In addition, reports of examination for each of the eight (8) Maryland domiciled entities will be issued under separate covers by MIA.

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. In planning and conducting the examination, the examiners gave consideration to the concepts of materiality and risk, and the examination efforts were directed accordingly. The examination does not attest to the fair presentation of the financial statements. 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.

In addition to the above, the examiners have reviewed workpapers prepared by Ernst & Young, LLP. (EY), the Company's independent auditors, in their audit of the Company's accounts and records for the year ending December 31, 2023. The firm expressed unmodified opinions on the Company's financial statements for the years 2022 and 2023. The examination team also relied on the work of the Company's internal auditors, including Model Audit Rule "MAR" work, for the years ending December 31, 2022, and 2023. Certain audit workpaper were reviewed and relied upon whenever possible and applicable to assist in the completion of examination procedures.

The examination Report includes significant findings of facts, as mentioned in Section 31-1404 of the District of Columbia Code and general information about the Company 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 in the Report but may be separately communicated to the other regulators and/or the Company.

Report findings and comments from the prior examination were reviewed and their status was followed-

up on during the current examination.

SUMMARY OF SIGNIFICANT FINDINGS

The Examination did not result in any material adverse findings or adjustments that impact the Company's reported capital and surplus.

COMPANY HISTORY

General

The Company was incorporated on June 22, 1984, in the District of Columbia under the name of CapitalCare, Inc. On July 26, 2001, the Company's name was changed to CareFirst BlueChoice, Inc. to reflect management's intent to create a regional health maintenance organization (HMO) for the CareFirst, Inc. group of insurance affiliates.

CFBC is a state-licensed HMO that provides managed health care products and services to individuals and employees of businesses and governmental agencies in the Washington, D.C. metropolitan area, Northern Virginia, and the State of Maryland. Benefits are provided to members through fees for services and capitation agreements with local area physicians, hospitals, and other health care providers.

CFBC and its subsidiaries became wholly owned subsidiaries of CareFirst Consolidated, Inc. (CFCI) effective July 1, 2022. CFCI and its subsidiaries are wholly owned subsidiaries of CareFirst Holdings, LLC.

On October 9, 2020, CFBC acquired CareFirst Community Partners, Inc. ("CFCP") and CareFirst Advantage DSNP, Inc. ("CFDSNP"). On November 1, 2023, CFBC acquired 100% of the membership interest and all assets of Comprehensive Primary Care, LLC (CPC), and Comprehensive Primary Care and Associates, LLC (CPCA), resulting in the two companies becoming wholly owned subsidiaries of CFBC. During the period ending December 31, 2023 CFBC was the parent of Trusted Health Plan, Inc. (THP) and its direct subsidiary, THPDC.

There were no amendments to the CFBC Articles of Incorporation or by-laws during the period of examination. During the period under examination, several new entities were formed, and restructurings impacted the company's holding company system. For additional information, refer to the 'Holding Company System' and 'Subsequent Events' sections of this Report.

Capitalization

The Company's Articles of Incorporation authorized the Company to issue 25,000 shares of common capital stock with a par value of \$1.00 per share. As of December 31, 2023, the number of shares issued and outstanding is 10,000. The Company has no preferred stock authorized, issued or outstanding. The number of issued shares and the par value per share were unchanged during the examination period. The gross paid in and contributed surplus was \$290,615,750 as of 12/31/2023 and \$265,615,750 as of

12/31/2022.

In 2022, CFMI and GHMSI transferred \$107,502,000 and \$107,498,000 to CFBC through CFBC's parent, CFH and CFCI. CFBC, in turn provided additional capital contributions to its Medicare Advantage subsidiaries, which include \$15,000,000 to CFAI PPO, \$10,000,000 to CFAI, and \$10,000,000 to CFDSNP, to maintain the regulatory and capital requirements from the jurisdictions where the subsidiaries are licensed to write insurance. Furthermore, in 2023, CFBC provided additional capital contributions, which include \$40,000,000 to CFAI PPO, \$20,000,000 to CFAI, and \$10,000,000 to CFCP. CFBC also provided additional capital contributions of \$15,000,000 to its non-insurance subsidiary, Atlas Health, LLC (Atlas).

In 2023, CareFirst Management Company, LLC (CMC), a subsidiary of CFH, transferred \$25,000,000 to CFBC through CFBC's parent, CFH and CFCI for purposes of increasing CFBC's surplus and liquidity.

Dividends to Stockholders

CFBC did not pay any dividends to policyholders or stockholders in 2023.

During the period ending December 31, 2023, CFBC owned 100% of the capital stock of THP, which owns 100% of the capital stock of THPDC. In October 2023, THPDC issued and paid an extraordinary dividend of \$45,000,000 in cash through THP to CFBC.

Pursuant to D.C. Code 31-706(b), the Company is required to receive prior approval from the D.C. DISB Commissioner before declaring a dividend in excess of 10% of the prior year's capital and surplus balance or the prior year's net income balance amount. The extraordinary dividends from THPDC through THP to CFBC were approved by DISB via Form D Filing on July 13, 2023.

MANAGEMENT AND CONTROL

The By-Laws state that the governing body of the Company shall be the Board of Directors, which shall conduct the business and affairs of the Company. All board members are elected at the annual meeting of shareholders. Article IV, Section 4.1. of the Bylaws states that the board of directors shall be composed of not less than three (3) persons. At December 31, 2023, the members of the Board of Directors were as follows:

Board of Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jeffrey P. DiLisi South Carolina	Retired
Eugene D. Bond Maryland	Managing Partner, Continuing Care Actuaries
Kevin H. Beverly	Retired

Maryland

Jonca C. Bull District of Columbia	Self Employed Consultant
Tracy S. Harris District of Columbia	Chief Financial Officer Arabella Advisors
Jason D. León District of Columbia	Managing Director, Diversified Search
Julissa Marengo Virginia	Assistant Secretary for Communications and External affairs, Smithsonian Institution
Michael J. McShea Maryland	Chief Scientist Johns Hopkins, Applied Physics Laboratory
Donald M. Parsons South Carolina	President Financial Health Matters, LLC
Brian D. Pieninck Maryland	President & CEO, CareFirst

Officers

The Company's By-Laws require the following officers: Chairman of the Board of Directors, a president, a secretary, and a treasurer. The Board elects these officers of the Company and other officer positions at its annual meeting. The principal officers elected or appointed and holding office at the Company as of December 31, 2023, were as follows:

<u>Name</u>	<u>Title</u>
Brian D. Pieninck	President & CEO
Randolph S. Sergent	VP, Corporate Secretary
Xuejun J. Smith	EVP, CFO, Corporate Treasurer
Arjun S. Amernath	Assistant Secretary
Angela L. Celestin	EVP, Chief Human Resources Officer
Susan G. Idzi	SVP, Commercial Operations
Ricardo R. Johnson	EVP, Enterprise Strategy & Healthworx
Rose V. Megian	EVP, Chief Admin Officer
Peter A. Berry	SVP, Chief Actuary
Dorothea H. Henderson	SVP, Chief Digital Information Officer
Brian R. Wheeler	SVP, Health Services
Matthew H. Snyder	SVP, Chief Risk Officer

Committees

The Company's Bylaws allow for the designation of one or more committees of the Board by resolution

adopted by a majority of the trustees in office. At December 31, 2023, the Board did not have any Committees at the entity level. Pursuant to D.C. Official Code § 31-311.01, the Audit and Compliance Committee of CFI serves as the Audit Committee for the Company. Additional committees are the Finance and Investment Committee, Mission Oversight Committee, Executive Committee, and Governance and Nominating Committee of CFI.

Conflict of Interest

The By-Laws state that the Board of Directors shall adopt a code of business conduct and compliance that governs the conduct of the Company's director, officers, and associates. In accordance with the By-Laws, the Company has 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. It was determined that all Directors and Officers listed in the Management and Control section of the Report have reviewed and signed their statements as of December 31, 2023.

Corporate Records

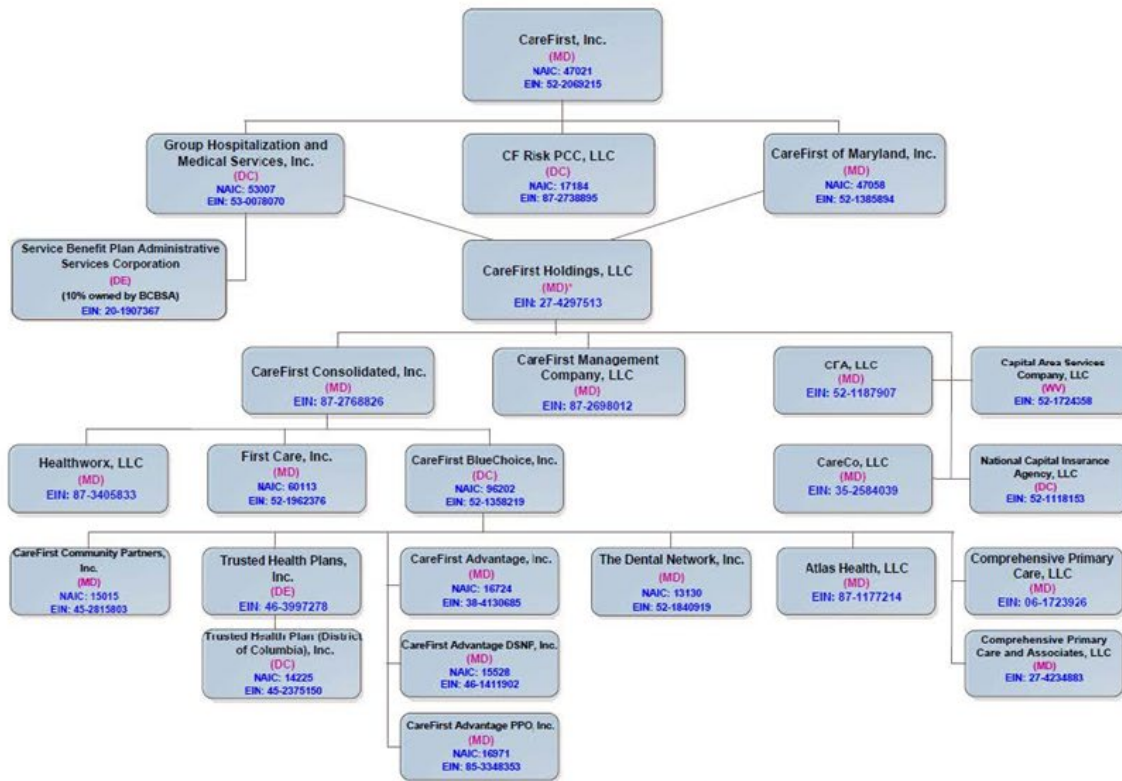
The Company's Articles of Incorporation, By-Laws, and recorded minutes of the Shareholder(s), Board of Directors, and certain internal committees were reviewed for the period under examination. Based on the review, it appears the minutes documented the Company's significant transactions and events, and the directors approved those transactions and events.

HOLDING COMPANY SYSTEM

CFBC is a member of an insurance holding company system pursuant to the provisions of the District of Columbia Code Section 31-701. The CareFirst, Inc. holding company structure as of December 31, 2023, is depicted in the following organizational chart:

Organizational Chart

**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP
 PART 1 – ORGANIZATIONAL CHART**



* CareFirst Holdings, LLC is owned 50.001% by CareFirst of Maryland, Inc. and 49.999% by Group Hospitalization and Medical Services, Inc.

AGREEMENTS AND TRANSACTIONS WITH AFFILIATES

The Company has entered into numerous agreements and cost-sharing arrangements with affiliated companies. We performed a review, and the significant agreements are described below:

Administrative Services Agreement

Effective January 1, 2023, CareFirst Management Company, LLC (CMC), a subsidiary of CFH, began operations, resulting in the consolidation of the employment of all CFI personnel, the ownership of all

CFI equipment, and contracting for all CFI real estate, leases, and services into CMC. Effective January 1, 2023, CFI, CFMI, GHMSI, and all of their respective subsidiaries entered into an administrative services agreement. The agreement calls for CFMI, GHMSI, and CMC to provide administrative and operational support services to CareFirst Companies. In consideration of the services provided, CFMI, GHMSI, and CMC are paid a fee based upon direct and indirect cost plus a mark-up based on market rates. Settlement amounts are due on a monthly basis. The total charges to CFBC for services provided by CMC were \$419,875,000 for the year ended December 31, 2023. These allocations are included in general and administrative expenses.

Network Access Agreement

Effective April 1, 2008, GHMSI, CFBC, and TDN entered into a network access agreement. Under the terms of the agreement, TDN provides GHMSI and CFBC access to its network of Dentists and Dental Care Providers in Maryland and its benefits administration services. In exchange, GHMSI and CFBC pays TDN a set amount per member per month to be paid monthly.

CFI Fee Sharing Agreement

Effective January 29, 2014, all entities in the CareFirst group entered into a Fee Sharing Agreement with CFI pursuant to the Affordable Care Act, which required covered entities to pay the annual Health Insurer Fee (“HIF”). According to the Fee Sharing Agreement, each entity shall pay CFI the entity’s individual HIF liability based upon each entity’s proportional share of net premiums as reported.

Tax Sharing Agreement

Effective September 13, 2021, the Company became a party to a federal tax sharing agreement that exists among its Parent, CFCI, and its subsidiaries. The tax sharing agreement calls for the allocation of the current income federal income tax liability to the Company on the basis of the percentage of the consolidated federal income tax liability attributable to the Company, computed on a separate company basis, of the total consolidated federal income tax liability. The agreement also provides that to the extent the Company’s subsidiaries’ tax attributes (e.g., net operating losses) reduce the consolidated federal income tax liability, CFCI shall pay the subsidiaries for use of such attributes in the year utilized. Amounts due from the subsidiaries for federal income taxes are settled quarterly.

Pursuant to this agreement, the Company has the enforceable right to recoup federal taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income, subject to federal income taxes.

Quota Share Reinsurance Agreement Among CFBC, CFMI, and GHMSI

Effective April 1, 2014, CFMI, GHMSI, and CFBC, collectively referred to as the Party, entered into a quota share reinsurance agreement. Under the terms of the agreement, for any Dual Option Products in which CFMI and CFBC or GHMSI and CFBC provide adjusted or blended rates, each Party agrees to transfer premiums among entities to achieve an equivalent medical loss ratio for the dual option policies on CFBC, CFMI, and GHMSI. The companies do not apply reinsurance accounting for this

agreement as there is no transfer of risk. The agreement is accounted for as an intercompany agreement. Intercompany cash settlements between CFMI/GHMSI and CFBC, based upon the distribution of the underwriting gains or losses shall occur no less frequently than each quarter. Total premiums allocated from CFBC for these products were \$80,864,000 for the year ended December 31, 2023.

Point-of-service Agreement between GHMSI, CFMI, and CFBC

Effective January 1, 2018, GHMSI and CFMI entered into an agreement with CFBC. GHMSI and CFMI bear all of the out-of-network (indemnity) underwriting risk, and CFBC bears the in-network (HMO) underwriting risk for certain fully insured point-of-service (POS) health care products. CFBC pays a per-member-per-month fee to GHMSI and CFMI for providing the out-of-network (indemnity) benefits for CFBC's POS products. The fee is based on actual membership and paid in exchange for CFBC's POS products, gaining access to GHMSI's regional provider network, and claims processing for the out-of-network services. All premiums, cost of care, and operating expenses of CFBC's POS products are recorded directly by CFBC. The total fee paid from CFBC to the CFMI and GHMSI was \$4,937,000 for the year ended December 31, 2023.

Broker arrangements

The Company has arrangements with brokers through its affiliate, GHMSI. Under these arrangements, GHMSI pays broker commissions and incentives and allocates a portion of these amounts to the Company based upon relevant statistics. Total broker fees allocated to the Company as of December 31, 2023, were \$103,651,000.

Loan Agreements

On October 1, 2023, CFMI and GHMSI entered into five-year term loan agreements with CFBC to increase the liquidity of CFBC and to facilitate a transfer of additional funds from CFBC to its subsidiaries. In accordance with the loan agreements, CFMI and GHMSI can provide up to \$300,000,000 loan to CFBC in proportion to their respective ownership interest in CFH. The loan amount is subject to interest, which accrues quarterly and is paid semi-annually at the mid-term applicable federal rate set by the Internal Revenue Service. As of December 31, 2023, CFMI and GHMSI each provided loans of \$2,500,000 to CFBC. For additional information, refer to the "Subsequent Events" section of this Report.

On November 1, 2023, CFBC entered into a loan agreement with CPC and CPCA, jointly to provide liquidity for CPC and CPCA to meet their obligations, such as payroll and operational needs. The term of the agreement is one year from the effective date or when the loan amount plus interest is paid in full, whichever occurs first. The total loan amount was \$1,500,000 and was paid in full on October 31, 2024.

FIDELITY BOND AND OTHER INSURANCE

The Company, along with other affiliates, was included as named insureds in a fidelity bond issued to the Company’s parent, CFI. The Company was protected under a Fidelity Bond with a single loss limit and an aggregate loss limit of \$25,000,000 and a deductible of \$250,000. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the NAIC for these companies on a consolidated basis.

In addition, the Company had other insurable risks. In this regard, the Company had insurance policies that provided coverage for other operational risks incurred by the Company and its affiliates (e.g., general liability, workers' compensation, and business property).

STATUTORY DEPOSIT

In compliance with Section 31-3412(b) of the District of Columbia Official Code requirement of maintaining a minimum deposit of \$300,000 value, the Company had deposited in trust with the US Treasury, a total par value of \$400,000 and a fair market value of \$374,484 as of December 31, 2023. These funds were held for the protection of all of the Company's policyholders and creditors.

In addition, as of December 21, 2023, the Company had deposits, consisting of Short-Term Investments and a United States Treasury Bond with Maryland and the Commonwealth of Virginia, respectively. The Maryland Special Deposit is required to satisfy obligations to external providers for services rendered on behalf of the Company. The Virginia Special Deposit was held for the protection of the policyholders in Virginia.

Jurisdiction	Par Value	Market Value	Security Type
District of Columbia	\$ 400,000	\$ 374,484	Bonds
Maryland	\$ 714,828	\$ 714,828	S/T Investment
Virginia	\$ 800,000	\$ 776,472	Bonds

TERRITORY AND PLAN OF OPERATION

The Company is a Health Maintenance Organization (“HMO”) that provides managed health care products and services to individuals and employees of businesses and governmental agencies in the Washington, D.C., Metropolitan Area, Virginia, and Maryland. Benefits are provided to members through fee-for-service and capitation agreements with local area physicians, hospitals, and other health care providers. CFBC's lines of business are segmented into market categories, including the Federal Employees Health Benefits Program (“FEHBP”), individual members under the age of 65, small employer groups with fewer than 50 eligible enrollees, and large groups consisting of employer customers with 51 or more eligible enrollees. CareFirst uses CFBC as its HMO product in all of its service areas.

The significant lines of business and total revenues for the Company are presented below based on the 2023 statutory financial data filed by the Company with the Department:

Line of Business	Total Revenues	Percentage of Total
Comprehensive (hospital and medical)	\$ 3,660,348,482	88.26%
Dental Only	3,629,165	0.09%
Vision Only	(10,644)	0.00%
FEHBP	483,079,036	11.65%
Totals	\$ 4,147,046,039	100%

REINSURANCE

Quota Share Reinsurance Agreement

Effective April 1, 2008, CFBC and TDN entered a quota share reinsurance agreement where CFBC acts as the reinsurer. Under the terms of the agreement, TDN's monthly underwriting gain/loss will be distributed to CFBC, based upon the experience of TDN in the State of Maryland with intercompany cash settlements due-and-payable within thirty (30) days of the end of each month; surplus funds will be maintained by TDN sufficient to meet statutory and regulatory requirements; and CFBC will contribute capital to TDN as necessary, to maintain a sufficient level of capital and surplus to meet all applicable BlueCross BlueShield Association ("BCBSA"), NAIC, and federal and state legal and regulatory requirements.

Stop Loss Reinsurance Agreement Among CFBC, CFMI, GHMSI

Effective January 1, 2009, CFMI and GHMSI (collectively the Reinsurers) entered into a Stop Loss Reinsurance Contract with the CFBC. Under the terms of the agreement, the Reinsurers provide stop loss coverage for all of CFBC's claims that exceed 105% of 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 statutory home office is located at 840 First Street NE, Washington, D.C., 20002. This also serves as the primary location of the Company's books and records. This satisfies the requirements of Section 31-3431 of the District of Columbia Official Code, which requires that a domestic health maintenance organization maintain its principal office within the District and shall keep its books, records, or files without the permission of the Department.

The Company's accounting procedures, practices, account records, and supporting data were reviewed

and tested to the extent deemed necessary. A review of the Company's Information Technology General Controls (ITGC) and General Application Controls (GAC) was also performed as required by the Handbook. The review did not disclose any significant deficiencies in these systems and records.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition and results of operations as reported by the Company for the period ending December 31, 2023:

- Admitted Assets, Liabilities, Capital and Surplus
- Statement of Revenue and Expenses
- Statement of Changes in Capital and Surplus
- Notes to the Financial Statements
- Analysis of Changes in Surplus Resulting from the Examination
- Comments on Financial Statement Items

Financial statements are the responsibility of the Company's management. The accompanying "Comments on Financial Statement Items" (if any) should be considered an integral part of the financial statements.

Admitted Assets, Liabilities, Capital and Surplus

December 31, 2023

Bonds	\$ 353,880,280
Preferred stocks	500,000
Common stocks	203,117,216
Other invested assets	3,940,572
Cash, cash equivalents and short-term investments	32,019,900
Subtotals, cash and invested assets	593,457,968
Investment income due and accrued	3,318,832
Uncollected premiums and agents' balances	122,862,009
Accrued retrospective premiums	20,401,422
Amounts recoverable from reinsurers	327,171,377
Other amounts receivable under reinsurance contracts	328,155
Current federal and foreign income tax recoverable and interest thereon	28,327,619
Net deferred tax asset	577,168
Receivables from parent, subsidiaries and affiliates	110,609,875
Health care and other amounts receivable (Note 2)	354,482,247
Total assets	\$ 1,561,536,672

Liabilities, Capital and Surplus

Claims unpaid (Note 1)	\$ 407,889,336
Accrued medical incentive pool and bonus amounts	10,936,548
Unpaid claims adjustment expenses (Note 1)	9,911,888
Aggregate health policy reserves (Note 2)	135,244,151
Premiums received in advance	72,871,886
General expenses due or accrued	79,539,250
Amounts withheld or retained for the accounts of others	48,453,776
Remittances and items not allocated	113
Borrowed money	65,761,752
Amounts due to parent, subsidiaries and affiliates	6,945,350
Payable for securities	204,354
Aggregate write-ins for other liabilities	47,933,826
Total liabilities	\$ 885,692,230

Capital and Surplus

Common capital stock	\$ 10,000
Gross paid in and contributed surplus	290,615,750
Unassigned funds (surplus)	385,218,692
Total capital and surplus	675,844,442
Total liabilities, capital and surplus	\$ 1,561,536,672

Statement of Revenue and Expenses
For the Year Ended December 31, 2023

Net premium income	\$ 4,157,399,456
Change in unearned premium reserves and reserve for rate credits	(13,978,333)
Aggregate write ins for other health care related revenues	3,624,916
Total Revenue	<u>4,147,046,039</u>
 Hospital and Medical:	
Hospital/medical benefits	2,502,770,975
Other professional services	291,803,030
Outside referrals	15,904,723
Emergency room and out-of-area	103,333,334
Prescription drugs	786,865,584
Incentive pool, withhold adjustments and bonus amounts	15,918,395
Subtotal hospital and medical expenses	<u>3,716,596,041</u>
Less: Net reinsurance recoveries	(333,766,677)
Total hospital and medical	<u>3,382,829,364</u>
Claims adjustment expenses	136,035,776
General administrative expenses	619,310,904
Increase in reserves for life and accident and health contracts	(14,750,000)
Total underwriting deductions	<u>4,123,426,044</u>
 Net underwriting gain or (loss)	 23,619,995
Net investment income earned	21,958,720
Net realized capital gains (losses) less capital gains tax	(2,156,262)
Net investment gains	19,802,458
Aggregate write-ins for other income or expenses	427,920
Net income or (loss) after capital gains tax and before all other federal income taxes	<u>43,850,373</u>
Federal and foreign income taxes incurred	(11,294,878)
 Net income (loss)	 <u><u>\$ 32,555,495</u></u>

Statement of Changes in Capital and Surplus

	2023	2022	2021	2020	2019
Capital and surplus, December 31, prior year	\$754,458,845	\$728,884,056	\$918,540,455	\$916,778,984	\$721,055,178
Net income or (loss)	32,555,495	(116,928,856)	(160,669,763)	97,593,666	183,552,553
Change in net unrealized capital gains (losses)	(87,605,922)	(92,649,210)	(78,436,051)	8,906,448	16,032,635
Change in net deferred income tax	3,112,139	(17,880,028)	(3,426,874)	4,640,206	(3,467,498)
Change in nonadmitted assets	(51,801,509)	37,930,698	61,239,707	(109,371,706)	(393,884)
Paid in surplus	25,000,000	215,000,000	-	-	-
Dividends to stockholder	-	-	-	-	-
Aggregate write-ins for gains or (losses) in surplus	125,394	102,186	(8,363,418)	(7,143)	-
Capital and surplus, December 31, current year	\$675,844,442	\$754,458,845	\$728,884,056	\$918,540,455	\$916,778,984
Exam adjustments	-	-	-	-	-
Capital and surplus, December 31, current year	\$675,844,442	\$754,458,845	\$728,884,056	\$918,540,455	\$916,778,984

NOTES TO FINANCIAL STATEMENTS

1. Claims Incurred and Unpaid Claims and Claim Adjustment Expenses: The Company pays fees based upon negotiated contractual fee schedules to medical providers that provide physician and hospital services. The Company also negotiates contractual agreements with certain physicians and medical management groups to provide health care and ancillary services to its members. In addition, the Company has a contractual agreement with a pharmacy benefit management company to provide pharmacy benefits to its members. Cost of care is recognized in the period in which members receive medical services. In addition to actual benefits paid, cost of care includes the impact of accruals for estimates of reported and unreported claims, which are unpaid as of the balance sheet dates.

The liability for medical claims payable is computed in accordance with generally accepted actuarial practices and is based upon past claims payment experience, together with other current factors, which, in management's judgment, require recognition in the calculation. The Company develops its estimates for care services incurred but not reported using an actuarial process that is consistently applied.

The actuarial model considers factors such as time from the dates of service to claims receipt, claims backlogs, seasonal variances in medical care consumption, provider rate changes, medical care utilization, medical cost trends, membership volume, and demographics. Depending on the health care provider and type of service, the typical billing lag for services can vary significantly. Substantially all claims are known and settled within 12 months from the date of service.

2. Federal Employees Health Benefits Program (FEHBP): The Company has an experience-rated HMO contract with OPM to provide managed health care services under FEHBP. The excess of gross premiums for the life of the program over the charges for the life of the program is considered the special reserve under the contract between OPM and the Company. Each year, OPM also allocates additional funds to a contingency reserve, which may be utilized by the Company in the event that funds set aside from annual premiums are insufficient or fall below certain prescribed levels by OPM. Funds available to the Company are held at the U.S. Treasury, including amounts unused from prior periods. Any funds that remain unused upon termination of the contract, after the claims run-out and reimbursement of allowable administrative expenses, would be returned to OPM for the benefit of FEHBP. The OPM contract renews automatically each year unless written notice of termination is given by either party.

The amounts being held in the special reserve are \$73,664,000 and \$59,666,000 as of December 31, 2023, and 2022, respectively. The amounts being held in the contingency reserve are \$111,921,000 and \$87,019,000 as of December 31, 2023, and 2022, respectively. Amounts incurred in excess of the total reserves held at the U.S. Treasury for FEHBP would not be reimbursed to the Company.

The Company has recorded the amount of the special reserve being held by OPM as an asset, with an equivalent amount recorded as a rate stabilization reserve. These amounts are included in health care and other amounts receivable and aggregate health policy reserves, respectively. FEHBP revenue earned was \$483,079,000 and \$457,664,000 for the years ended December 31, 2023 and 2022, respectively.

3. Commitments and Contingencies: CFMI and GHMSI entered into an intercompany agreement that requires CFMI or GHMSI, or their respective affiliates, to provide the financial resources necessary to satisfy the respective statutory or regulatory reserve requirement, subject to specific limitations, if either CFMI or GHMSI or their respective affiliates fail to meet or maintain their respective statutory or regulatory reserve requirement as required by law, or if such transfer of financial resources is needed to satisfy any other legally enforceable obligation.

The Company, along with the BCBSA and all of the other BCBSA licensees, has been named as a defendant in multiple suits that make up the Blue Cross Blue Shield antitrust litigation. This matter is part of a multi-district litigation combining several antitrust cases, brought by two putative nationwide classes of plaintiffs, health plan subscribers, and providers, which challenge the exclusive service areas outlined in the BCBSA license agreements. The Company has been cooperating in the joint defense with the BCBSA. During 2022, the remaining balances of the insurance recoverable and the settlement liability related to the subscriber cases were settled. Various subscribers have exercised their right to opt out of the case and file separate lawsuits. Those claims continue to be assessed but the Company concludes that liability on them is not probable or estimable at this time.

On May 25, 2023, the Blue Plans and plaintiff representatives representing providers and seeking provider classes reached agreement on certain settlement terms and parameters, subject to final negotiation and approval. The parties have not agreed on terms for a final agreement. Any proposed settlement for the provider class is subject to court approval. The Company concluded that it was probable that a loss was incurred, and the amount of loss was reasonably estimable. The receipt of the insurance proceeds was also considered probable. As a result, the Company recorded an insurance recoverable of \$3,679,000 and a settlement liability of \$23,855,000. The insurance recoverable is recorded as a non-admitted other amounts receivable, and the settlement liability is recorded as aggregate write-ins for other liabilities.

In the jurisdictions in which the Company is licensed to conduct business, guaranty associations have been created for insolvent payors, among others, of protecting insured parties under health insurance policies when a health insurer becomes impaired or insolvent or fails. The Company is contingently liable for assessments in any calendar year in order to provide any required funds to carry out the general aims and duties of the associations. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by the respective member

insurers in the line of business in which the impaired, insolvent, or failed insurer is engaged. Some states permit member insurers to recover assessments through full or partial premium tax offsets.

Various lawsuits, including class action lawsuits and other claims, occur in the normal course of business and are pending against the Company. The Company records reserves for such matters when a loss is deemed to be probably and estimable. Management, after consultation with legal counsel, is of the opinion that the lawsuits and other claims, when resolved, will not have a material adverse effect on the accompanying financial statements; however, there can be no assurance in this regard.

Analysis of Changes in Surplus Resulting from the Examination

The following is a reconciliation of capital and surplus between what was reported by the Company and as determined by the examination. There were no changes to the Company’s surplus as a result of this Examination.

Capital and surplus, December 31, 2023 – per Annual Statement			\$675,844,442
			Increase (Decrease)
	Per	Per	In Capital and
	Company	Examination	Surplus
Total assets	\$1,561,536,672	\$1,561,536,672	\$ -
Total liabilities	885,692,230	885,692,230	\$ -
Capital and surplus, December 31, 2023 – per examination			\$675,844,442

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no material adverse findings affecting the financial statements, or material changes to the financial statements were identified.

SUBSEQUENT EVENTS

A restructuring of CareFirst entities took effect on January 1, 2025, in order to achieve greater operational efficiency. The following changes were included in the restructuring:

1. Dissolution of Capital Area Service Company, LLC (“CASCI”): CASCI has no operations and is not anticipated to operate in the future.
2. Merger of CFAI and CFDSNP: CFAI has not renewed its contract with CMS for 2025 and will no longer sell individual HMO product. CFDSNP will administer the run-out period under CFAI’s 2024 contracts with CMS.
3. Movement of CFBC Subsidiaries: CFBC moved the ownership of its Medicare Advantage and

Medicaid subsidiaries under CFCI instead of CFBC. The Medicare and Medicaid Companies will no longer be included in CFBC's RBC calculations. There will be no member impact from the movement of these companies within the holding system.

4. Movement of National Capital Insurance Agency ("NCIA"): CareFirst transferred 100% of the membership units of NCIA from CFH to CMC.

In addition to this restructuring, there were changes made to the CareFirst Intercompany and Administrative Services Agreement (ASA), the primary mechanism that CMC uses to provide intercompany services. CFMI and GHMSI have previously provided services under the ASA. The amendment, effective January 1, 2025, permits any CareFirst company to provide administrative services to other companies and charge direct and indirect costs as well as a market-based service fee.

Effective January 1, 2025, CFBC transferred the ownership of its subsidiaries, including CFCP, CFDSNP, CFAI PPO, THP, and THPDC to its parent, CFCI. CFBC's subsidiary, CFAI merged into CFDSNP on March 1, 2025, with CFDSNP surviving.

In 2024, CMC transferred \$170,000,000 to CFBC through CFBC's parent CFH and CFCI, for purposes of increasing CFBC's surplus and liquidity. In order to maintain the regulatory and capital requirements from the jurisdictions where its Medicaid and Medicare Advantage subsidiaries are licensed to write insurance. CFBC provided additional capital contributions of \$80,000,000 to CFCP, \$45,000,000 to CFAI PPO, \$20,000,000 to CFAI, and \$10,000,000 to CFDSNP. CFBC also provided additional capital contributions to its provider subsidiaries, which include \$35,000,000 to Atlas, \$10,500,000 to CPCA, and \$6,100,000 to CPC.

On September 3, 2024, CMC entered into a five-year loan agreement with CFMI, GHMSI, and CFBC to increase the liquidity of CFMI, GHMSI, and CFBC. Under the terms of the agreement, CMC can provide up to \$300,000,000 in total funds, and each of CFMI, GHMSI, and CFBC, in its sole discretion, may borrow in \$5,000,000 increments up to the total loan amount. As of December 31, 2024, CMC provided loans in amounts of \$45,000,000, \$0, and \$0 to CFMI, GHMSI, and CFBC, respectively. This new loan agreement replaced the previously mentioned loan agreement between CFMI and GHMSI with CFBC, which was paid off by CFBC on August 30, 2024, and terminated.

SUMMARY OF RECOMMENDATIONS

As a result of the financial examination, no material report findings or recommendations were made.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **CareFirst BlueChoice, Inc.**, consistent with the insurance laws of the District of Columbia. Such procedures performed on this examination do not constitute an audit made following generally accepted auditing standards, and no audit opinion is expressed on the

financial statements contained in this Report. No material adjustments were identified during the examination.

Chapters 20 (“Risk-Based Capital”) and 34 (“Health Maintenance Organizations”) 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.

Acknowledgment is made of the cooperation and assistance extended by the Company’s officers and employees during the course of the examination.

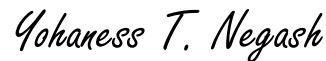
SIGNATURES

In addition to the undersigned, Financial, IT, and Actuarial Examiners with the firm Baker Tilly US, LLP, representing the Department, also participated in the examination.

Respectfully submitted,



Jessie L. Adamson, CFE, CISA
Examiner-In-Charge
Representing District of Columbia, Department of Insurance,
Securities and Banking
Baker Tilly, Inc.



Yohanness Negash, CFE, CFE (Fraud), PIR, CIA, CISA
Examination Manager
District of Columbia, Department of
Insurance, Securities and Banking