

Government of the District of Columbia
Department of Insurance, Securities and Banking



Gennet Purcell
Acting Commissioner

BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA

Re: Report on Examination – **CareFirst BlueChoice, Inc.**, as of December 31, 2008

ORDER

Pursuant to Examination Warrant 2009-3, an Examination of **CareFirst BlueChoice, Inc.** as of December 31, 2008 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 25th day of September, 2009, 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.

A handwritten signature in black ink, consisting of a large 'G' and a stylized 'P'.

Gennet Purcell
Acting Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

CAREFIRST BLUECHOICE, INC.

AS OF

DECEMBER 31, 2008

NAIC COMPANY CODE 96202

CareFirst BlueChoice, Inc

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REPORT ON EXAMINATION OF FINANCIAL CONDITION

Washington, D.C.
July 30, 2009

Honorable Alfred W. Gross, Commissioner
Chairman, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Tyler Building
1300 East Main Street
Richmond, Virginia 23219

Honorable Joel Ario
Secretary, Northeastern Zone, NAIC
Commissioner
Insurance Department
Commonwealth of Pennsylvania
1345 Strawberry Square
Harrisburg, Pennsylvania 17120

Honorable Gennet Purcell
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 Commissioners:

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

CareFirst BlueChoice, Inc.
840 First Street N.E.
Washington, D.C. 20002

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

CareFirst BlueChoice, Inc.

Report on Examination
December 31, 2008

SCOPE OF EXAMINATION

The examination, covering the period from January 1, 2004 to December 31, 2008, and including any material transactions and/or events noted occurring subsequent to December 31, 2008, was performed as an association examination of CareFirst BlueChoice, Inc. The examination was performed by examiners representing the District of Columbia Department of Insurance, Securities and Banking (“DISB”) representing the Northeastern Zone of the National Association of Insurance Commissioners (NAIC).

The last examination as of December 31, 2003 was conducted by the examiners of the District of Columbia Department of Insurance, Securities and Banking.

This examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook, incorporating the risk-focused examination techniques and in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking. Accordingly, included in the examination were such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

Our examination included a review of the Company’s principles used and significant estimates made by management; business policies and practices; management and corporate governance; and verification and evaluation of assets and a determination of the existence of liabilities to evaluate the overall financial statement presentation in compliance with Statutory Accounting Principles and annual statement instructions. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. Risk-focused techniques were used in planning and conducting our examination. We identified 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.

The Company was audited annually by an independent certified public accounting firm. The firm expressed an unqualified opinion on the Company’s financial statements for calendar year 2008 and each year during the examination period. We concentrated our examination efforts on the year ended December 31, 2008. We reviewed the working papers prepared by the independent certified public accounting firm related to the audits for the years ended December 31, 2008 and 2007, and directed our efforts to the extent practical to those areas not covered by the firm’s audit.

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STATUS OF PRIOR EXAMINATION FINDINGS

This examination included a review to determine the current status of the three exceptions commented upon in the preceding Report of Examination dated March 15, 2005. The examination determined that the Company had satisfactorily addressed the three items.

SUMMARY OF SIGNIFICANT FINDINGS

DISB defines material adverse finding as follows:

“A finding, typically made by a financial examiner or financial analyst, with respect to an event, trend, transaction or series of transactions, fluctuation, agreement, arrangement, operating results or violation of law, which either has, or reasonably could have, a significant negative impact on a company's financial position.”

No material adverse findings were noted during the examination. In addition, no material changes were made to the financial statements. Other non-compliance findings are noted under “Comments and Recommendation” section of this report.

SUBSEQUENT EVENTS

Restructure

The Company's two shareholders' (GHMSI and CareFirst of Maryland, Inc.) have prepared a restructuring plan whereby GHMSI and CareFirst of Maryland, Inc. would contribute the stock of their subsidiary companies (principle downstream subsidiary of both these companies is CFBC) to a holding company. Both companies would be 50% owners of the new holding company. The plan has been presented to DISB and Maryland Insurance Administration for approval.

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HISTORY

CareFirst BlueChoice, Inc 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 for the CareFirst, Inc. group of insurance affiliates. CFBC is a state-licensed health maintenance organization, which provides managed health care products and services to individuals and employees of businesses and governmental agencies in the State of Maryland, Washington, D.C. and Northern Virginia. Benefits are provided to members through fee for services and capitation agreements with local area physicians, hospital and other health care providers.

The Company is 60% owned by CareFirst of Maryland, Inc. (CFMI) and 40% owned by Group Hospitalization and Medical Services, Inc. (GHMSI). GHMSI and CFMI are both affiliates of a not-for-profit parent company, CareFirst, Inc. (CFI). These affiliates do business as CareFirst BlueCross BlueShield.

MANAGEMENT AND CONTROL

Board of Trustees

The by-laws 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 board members are elected at the annual meeting of shareholders. The by-laws currently call for at least three (3) members. In addition, DC Code §31-706(c)(3) requires one-third of trustees be independent; and DC Code §31-706(c)(3) requires the Audit Committee, Compensation Committee for Corporate Officers, Nomination Committee, and Officer Performance Committee to be composed entirely of non-employees of the Company. The Company complied with these requirements.

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The following board members are listed on the jurat page of the Company's 2008 Annual Statement:

Company Board Members

Jon Shematek, M.D.	Director, President
David Wolf	Director, Executive VP
Mark Chaney	Director, Executive VP
Gregory Devou	Director, Executive VP
John Piccotto	Director, Executive VP

Independent Board Members

John Herold
Robert Jeffrey
Teresa Harrison

Officers

The Board of Trustees elects the officers of the Company at its annual meeting. Each officer serves until a successor is elected or until removed by the Board of Trustees. On December 31, 2008, the officers are follows:

Jon Shematek, M.D.	President
Jeanne Kennedy	Treasurer
Lisa Myers	Secretary

Corporate Governance

The Company's corporate governance was evaluated through a review of the Company's Corporate Governance Guidelines, Executive Officer and Board member interviews, Board of Director general meeting minutes, and other various examination documentation obtained during the examination. The Corporate Governance review followed the format provided by Exhibit M of the NAIC Financial Condition Handbook. From this review, it was determined, overall, the Company maintains an effective corporate governance structure. The Board and key executives set an appropriate "tone at the top" with a clear commitment to promote integrity and ethical behavior throughout the Company.

Evidence of this commitment was the creation in 2006 of a Sarbanes-Oxley Department to evaluate internal controls when the Company was not subject to the Sarbanes-Oxley Act. The Company believed it important because rating agencies and regulators have placed new emphasis on the importance of risk management.

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Conflicts of Interest

Directors and officers of the Company regularly respond to conflict of interests questionnaires. When possible conflicts are disclosed on the questionnaires, Company management and legal counsel scrutinize the conflicts further. Our review of the conflict of interest questionnaires for non-employee directors for the period under examination did not disclose any conflicts of interests that would adversely affect the Company. Employee officers and directors reported no conflict of interest upon completion of the annual on-line Code of Conduct training.

Corporate Records

We reviewed the minutes of the meetings of the board of directors for the period under examination. Based on our review, it appeared that the minutes documented the Company's significant transactions and events, and that the trustees approved those transactions and events.

AFFILIATED COMPANIES

As of December 31, 2008, the Company was affiliated with GHMSI, a D.C. domiciled not-for-profit health service organization and CFMI, a Maryland domiciled not-for-profit health services organization, through CFI, a not for profit holding company.

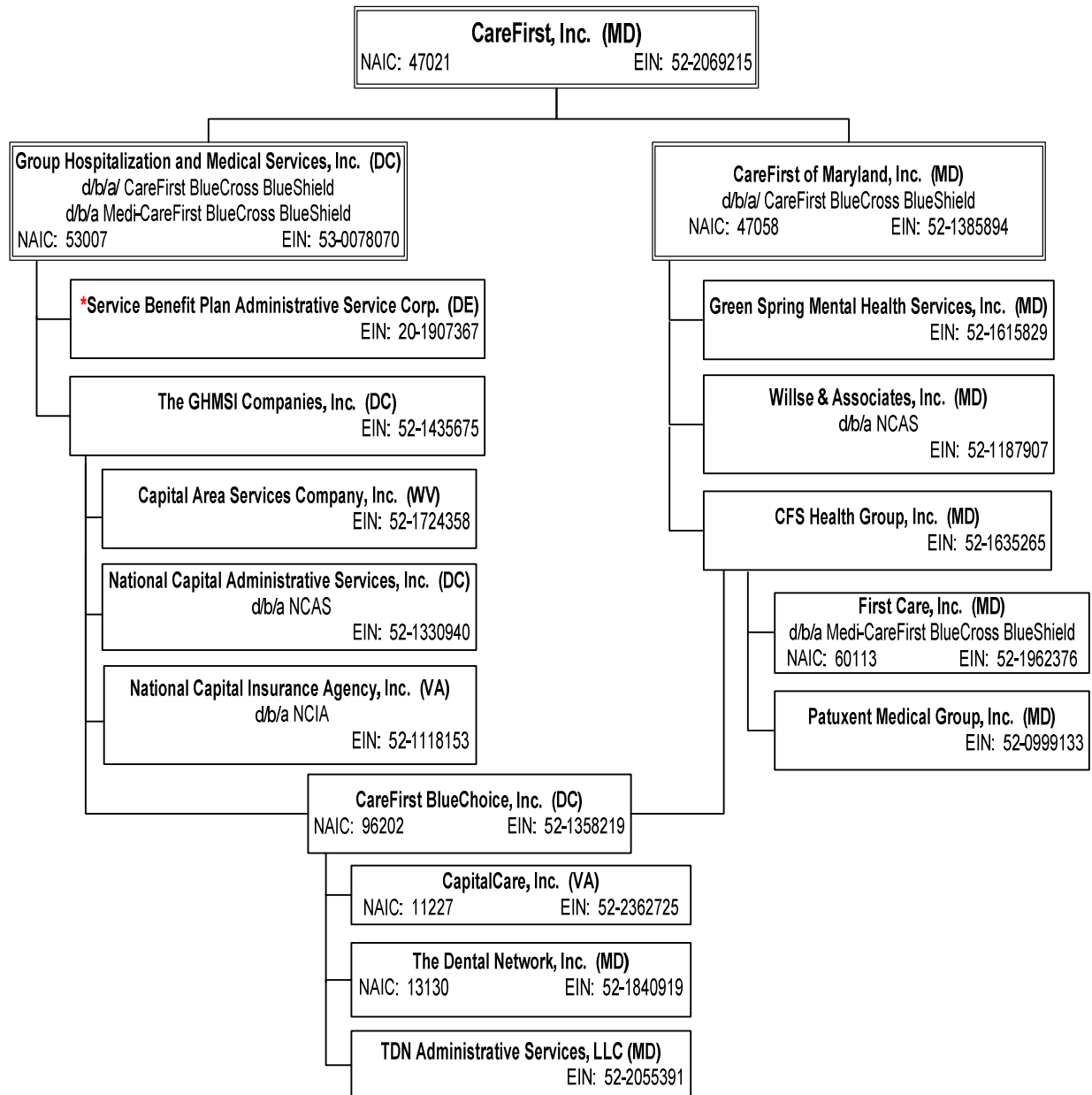
CFBC has numerous affiliates. The holding company structure for the entire group is depicted in the organization chart on the next page:

CareFirst BlueChoice, Inc.

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CareFirst Organizational Chart

Revised July 2008



*Service Benefit Plan Administrative Services Corporation is owned 90% by Group Hospitalization and Medical Services, Inc. and 10% by the Blue Cross and Blue Shield Association.

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Subsidiaries

The following is a brief description of the Company's subsidiaries:

CapitalCare, Inc. – (100% owned, directly)

CapitalCare is a health maintenance organization (HMO), which provides managed health care products and services to individuals and businesses. Benefits are provided to members through fee-for-service and capitation agreements with local area physicians, hospitals and other health care providers. CapitalCare was capitalized by CareFirst BlueChoice, Inc. on January 24, 2002, received its HMO license in the Commonwealth of Virginia on March 4, 2002, and commenced business on May 1, 2002.

The Dental Network, Inc. – (100% owned directly)

The Dental Network, Inc. was formed on September 20, 2007 to meet the regulatory requirements of selling freestanding dental products in the State of Maryland. In March 2008, The Dental Network, Inc. obtained a license to sell insurance products in the State of Maryland from the Maryland Insurance Administration.

TDN Administrative Services, LLC – (100% owned directly)

TDN Administrative Services was acquired on November 1, 2004. TDN Administrative Services, LLC is no longer an active entity.

INTERCOMPANY AGREEMENTS

Intercompany Agreement

The Company is party to an amended and restated Intercompany Agreement with CareFirst, Inc., Group Hospitalization and Medical Services, Inc. and CareFirst of Maryland, Inc. The agreement was entered into on March 22, 2000 and amended on September 22, 2006. The Agreement also includes various affiliates of these entities. The purpose of the Agreement is to combine business operations, centralize certain managerial and administrative functions, facilitate intercompany transfers of assets and liabilities, and to provide a proportional share of financial resources to any affiliate unable to meet its financial obligations, regulatory capital and/or reserve requirements. Settlements of amounts due occur on a monthly basis. Almost all of the other intercompany cost sharing arrangements are covered under this Agreement.

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Administrative Services Agreement

The Company is party to an administrative services agreement dated 11/1/2001 with its affiliate, CareFirst of Maryland, Inc. (“CFMI”), Group Hospitalization and Medical Services, Inc. (“GHMSI”), and its direct subsidiary, CapitalCare, Inc. The Agreement calls for the Company and its subsidiaries to receive staffing, administrative and operational support services from CFMI and GHMSI and a reimbursement methodology for all services received under the agreement. Settlements of amounts due occur on a monthly basis. CFMI and GHMSI also provide stop-loss reinsurance coverage for the Company through this agreement.

Tax Sharing Agreement

The Company is party to a Tax Sharing Agreement with CareFirst, Inc., and CareFirst of Maryland, Inc., and all eligible affiliates and subsidiaries. The Tax Sharing Agreement was effective September 21, 2007. The tax sharing agreement calls for allocation of current federal income tax liability/recoverable attributable to the Company on the basis of the percentage of the consolidated federal income tax liability/recoverable attributable to the Company computed on a separate company basis to the total consolidated federal income tax liability/recoverable.

AFFILIATION WITH OTHER PLANS

The Company through CFI, operates under licensing agreement with the Blue Cross and Blue Shield Association (BCBSA), a non-profit Illinois Corporation, which is the national coordinating agency for member plans. The Company must meet specified membership standards, and participate in various national and inter-plan programs and agreements required of all members of the Association.

The purpose of these national and inter-plan programs is to provide membership services between the licensees, efficiencies, convenience and ease of claims processing for customers receiving benefits outside of the plan’s service area.

BlueCard Program

The BlueCard Program enables members who are traveling or living in another Plan’s service area to receive all of the same benefits, claims processing and customer service of their contracting BCBS Plan and access to other BlueCard providers and savings.

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Inter-Plan Teleprocessing System (ITS) and electronic submittal of claims

ITS sets standards, policies and procedures used for the identification and processing of all eligible member claims and claims data electronically, instead of manually. The Company must use electronic submittal for all ITS eligible claims processing.

National Account Program Manual

The purpose of the National Account Program Manual is to provide a reference guide to help Plans market, implement, and support national account business according to the National Account Program Policies and Provisions.

National Accounts Agreement

National Accounts are groups of subscribers located in different areas serviced by more than one participating plan. The National Account groups are enrolled through a participating plan called a control plan. The control plan is usually the plan servicing the geographical area of the group's headquarters. National accounts are handled normally under a local benefit agreement or on a syndicated account basis.

Business Associate Agreement for licensees

This agreement was effective as of April 14, 2003 and sets standards, requirements and guidelines for each licensee's obligation under the Administrative Simplification provisions of HIPAA and the related HIPAA Rules.

Federal Employee Program

The Company has an experienced-rated contract with the Office of Personnel Management (OPM) to provide managed health care services under the Federal Employees Health Benefits Program ("FEHBP"). Premiums in excess of charges for the life of the program are considered the special reserve. 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. Amounts incurred for claims and expenses, in excess of special reserves and contingency reserves held by OPM would not be reimbursed to the Company. Special reserves held by OPM at December 31, 2008 and 2007 were \$12,624,000 and \$15,623,000 respectively. Contingency reserves at December 31, 2008 and 2007 were \$26,067,000 and \$20,048,000 respectively. FEP premiums earned were \$78,936,000 and \$57,154,000 for the years ended December 31, 2008 and 2007 respectively. The Company is subject to audit by OPM for compliance with the FEHBP requirements.

COMPLIANCE WITH BCBSA MEMBERSHIP STANDARDS

Per review of the Company's Risk Based Capital calculation as of December 31, 2008, and Annual Statement to the Commissioner that the Company filed with the NAIC and the Company's audited financial statements, the Company indicates compliance with the BCBSA minimum statutory standards.

CONTINGENT LIABILITIES

A line of credit was obtained by CFI through a commercial bank in which CFI and certain of its affiliates, including the Company, may borrow up to a maximum of \$60,000,000. There have been no draws made on this line of credit during 2008 and no amounts were outstanding as of December 31, 2008.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond issued to CFI. Other affiliated insurance and non-insurance companies are also named insureds. The bond provides coverage in the amount of \$5,000,000. The coverage exceeds the minimum amount of fidelity bond coverage recommended by the National Association of Insurance Commissioners for GHMSI and its insurance affiliates.

In addition, the Company has other insurance policies (e.g., directors and officers liability, business property, etc.). The Company has adequate insurance coverage from all risk exposures.

STATUTORY DEPOSITS

The Company is not required to maintain a deposit with the District of Columbia Insurance Commissioner, as trustee, for the subscribers and creditors of the Company. A deposit is maintained with the State of Maryland in the amount of \$650,000 for two downstream risk providers.

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TERRITORY AND PLAN OF OPERATION

Policy Forms and Underwriting

The Company offers prepaid health service coverages to individuals and groups. Group coverage is the most prevalent and the Federal Employees Program (FEP) is the largest group. The Company is required to file all of its District of Columbia contract forms, policies and rates with the District of Columbia, Department of Insurance, Securities and Banking. The Office of Personnel Management has jurisdiction over all contracts and rates subject to the FEP Program. The forms and rate filings were reviewed to determine compliance with the filing requirements of DC Code, Section 31-3508. A sample of the application of appropriate rates to contract holders and subscribers was reviewed. The Company was in compliance with both the filing requirements and application of rates.

Territory and Plan of Operation

The Company is authorized to transact business as a health maintenance organization in the District of Columbia, Maryland and Virginia.

Treatment of Subscribers

A cursory review of claims settlement practices were performed to determine the Company's compliance with the requirements of the "DC Prompt Pay Regulations", which requires that claims be settled timely and fairly upon receipt of all pertinent information. The Company filed with DISB the Prompt Pay Report as required by DC Code 31-3132. In 2008, 95.9% of paid claims were paid within 30 days.

MARKET CONDUCT

A limited review of Market Conduct Activities was performed by the Market Conduct Branch of the District of Columbia, Department of Insurance, Securities and Banking. The last Market Conduct Examination of this Company by the District of Columbia, Department of Insurance, Securities and Banking was also a limited review as of December 31, 2003.

The Company has in place a system which systematically determines the degree to which products and services satisfy its customers. The focus of the information from these systems is the development of process improvements. Data is collected on factors of customer satisfaction such as responsiveness, reliability, accuracy, and ease of access. Other customer satisfaction measurement systems focus on identifying variations in quality of service and the effect on consumer expectations.

CareFirst BlueChoice, Inc.

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When customer feedback data indicates a problem or when a goal is set to raise the level of customer satisfaction, the organization focuses on improving the processes that delivers both the healthcare product and service. In order to ensure that customer service processes are continuously improved, the Company collects and analyzes consumer data on a continuing basis, with attention to variation in processes. The causes of variation are examined to determine whether they result from special causes or from recurring or common causes. Management adopts different strategies to correct each type of cause on a scheduled time cycle.

The Company recently restructured its internal service team. Customer inquiries are directed to individuals with the experience and knowledge that would be required to respond more effectively to the customer. The objective is to ensure that the Company's customer service personnel are assigned customer inquiries that best align with their expertise. This change is designed to meet the following consumer service objectives:

- Reduce rework of complaints to achieve the desired outcome;
- Reduce waste in the healthcare delivered;
- Reduce customer complaint cycle time; and
- Improve accuracy

As the Company's new president put a strategic plan in place to enhance policyholder services through the use of advanced technology, an adequate measurement of all planned system deliverables could not be concluded with efficacy and effectiveness during the course of this examination. The Company's market conduct activities will be monitored through DISB's use of continued management interviews and meetings and off-site monitoring options. DISB has the option to require the Company to establish a compliance plan should the Company fail to meet its planned deliverables' expectations.

REINSURANCE

Assumed Business

The Dental Network, Inc. Quota Share Reinsurance Contract

Effective April 1, 2008, the Company entered into a quota-share reinsurance agreement with its subsidiary, The Dental Network, Inc. Under the terms of the agreement, the Company assumes all the underwriting risk on the business written by The Dental Network, Inc.

CareFirst BlueChoice, Inc.
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Ceded Business

Stop Loss Reinsurance Contract

Under the current terms of the contract, the Company cedes to GHMSI and CFMI claims in excess of a 105% loss ratio through a self-administered Annual Experience Fund. The premium associated with this contract is \$25,000.

ACTUARIAL REVIEW

As of December 31, 2008, the Company reported "Claims Unpaid" and "Unpaid Claims Adjustment Expenses" totaling \$149,221,780 and \$5,482,000 respectively. The Company's actuarial liabilities included in the December 31, 2008 Annual Statement were reviewed by Company's actuary who provided the statement of actuarial opinion. The District of Columbia Department of Insurance, Securities and Banking also retained an independent actuary to conduct a review in association with their financial examination of the Company as of December 31, 2008. Actuarial standards for documentation of the development of the unpaid claims liability were followed. CFBC's description and documentation indicated that their methodology for estimating unpaid claims uses traditional completion factors (estimated per member per month (PMPM) incurred claim amount for the last three months). The assumptions used appear appropriate based on past history. The reviewing actuary determined that the Company's accruals for Claims Unpaid and Unpaid Claims Adjustment Expenses as of December 31, 2008 were adequate.

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). Our review did not disclose any significant deficiencies in these records. The Company has no employees and receives staffing under the Administrative Services Agreement described above.

CareFirst BlueChoice, Inc.

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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, 2008, as determined by this examination:

Balance Sheet:

Assets

Liabilities, Capital and Surplus

Statement of Operations

Statement of Capital and Surplus Account

Analysis of Changes to Surplus

The accompanying “**Notes to Financial Statements**” are an integral part of these financial statements.

CareFirst BlueChoice, Inc.

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BALANCE SHEET

Assets

December 31, 2008

				Examination	Net Admitted
		Nonadmitted	Net Admitted	Adjsutments	Assets per
Assets	Assets	Assets	Assets	Increase (Decrease)	Examination
Bonds	\$ 374,339,162		\$ 374,339,162		\$ 374,339,162
Preferred stocks	3,254,294		\$ 3,254,294		\$ 3,254,294
Common Stocks	64,923,424		\$ 64,923,424		\$ 64,923,424
Cash	79,163,650		\$ 79,163,650		\$ 79,163,650
Other invested assets	130,782	130,782	\$ -		\$ -
Subtotal	\$ 521,811,312	\$ 130,782	\$ 521,680,530	\$ -	\$ 521,680,530
Investment income due and accrued	3,190,070		\$ 3,190,070		\$ 3,190,070
Uncollected premium and agents' balances in the course of collection	39,081,390	122,714	\$ 38,958,676		\$ 38,958,676
Other amounts receivable under reinsurance contracts	869,959		\$ 869,959		\$ 869,959
Current Federal income tax recoverable	736,361		\$ 736,361		\$ 736,361
Net deferred tax asset	12,986,332	7,749,517	\$ 5,236,815		\$ 5,236,815
Receivables from parent, subsidiaries and affiliates	12,037,937		\$ 12,037,937		\$ 12,037,937
Health care and other receivables	63,672,086	3,068,392	\$ 60,603,694		\$ 60,603,694
Aggreagate write-ins for other than invested assets	3,272,951	1,078,538	\$ 2,194,413		\$ 2,194,413
Total assets	\$ 657,658,398	\$ 12,149,943	\$ 645,508,455	\$ -	\$ 645,508,455

See accompanying Notes to Financial Statements

CareFirst BlueChoice, Inc.Report on Examination
December 31, 2008**BALANCE SHEET****Liabilities, Capital and Surplus****December 31, 2008**

Liabilities	Liabilities per Annual Statement	Examination Adjustments	Liabilities per Examination
Claims unpaid	\$ 149,221,780	\$ -	\$ 149,221,780
Unpaid claims adjustment expenses	5,482,000		5,482,000
Aggregate health policy reserves	12,623,584		12,623,584
Premiums received in advance	46,867,503		46,867,503
General expenses due or accrued	23,316,789		23,316,789
Amounts withheld or retained for the account of others	34,877		34,877
Aggregate write-ins for other liabilities	1,286,539		1,286,539
Total liabilities	\$ 238,833,072	\$ -	\$ 238,833,072
Capital and Surplus			
Common capital stock	10,000		10,000
Gross paid in and contributed surplus	50,615,750		50,615,750
Unassigned surplus funds	356,049,633		356,049,633
Unassigned funds and surplus as regards policyholders	406,675,383		406,675,383
Total liabilities and surplus	\$ 645,508,455	\$ -	\$ 645,508,455

See accompanying Notes to Financial Statements

CareFirst BlueChoice, Inc.Report on Examination
December 31, 2008**STATEMENT OF OPERATIONS****For the Year Ended December 31, 2008**

	<u>Reported in Annual Statement</u>
Revenue	
Net premium income	\$ 1,743,313,552
Change in unearned premium reserves and reserve for rate credit	2,999,388
Risk revenue	<u>102,827</u>
Total Revenue	\$ 1,746,415,767
Hospital and Medical Expenses	
Hospital and medical benefits	\$ 1,093,734,284
Other professional services	27,194,897
Outside referrals	10,248,980
Emergency room and out-of-area	85,097,662
Prescription drugs	<u>241,417,493</u>
Subtotal	\$ 1,457,693,316
Less reinsurance recoveries	<u>(4,776,439)</u>
Total hospital and medical expenses	\$ 1,462,469,755
Claims adjustment expenses	54,772,752
General and administrative expenses	<u>222,550,634</u>
Total underwriting deductions	\$ 1,739,793,141
Net underwriting gain (loss)	\$ 6,622,626
Investment Income	
Net Investment income earned	\$ 24,834,203
Net realized capital gains (losses) less capital gains taxes	<u>(13,332,325)</u>
Net investment gain	\$ 11,501,878
Aggregate write-ins for other income or (expense)	(940,277)
Net income (loss) after capital gains tax and before federal income taxes	\$ 17,184,227
Federal and foreign income taxes expense (recoveries)	(2,128,333)
Net Income	\$ 19,312,560

See accompanying Notes to Financial Statements

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STATEMENT OF CAPITAL AND SURPLUS

For the Year Ended December 31, 2008

Surplus as regards policyholders, December 31, 2007		<u>\$ 399,421,305</u>
Net Income for year ended December 31, 2008	\$ 19,312,560	
Change in net unrealized capital gains (losses) less capital gains tax	(8,824,431)	
Change in net unrealized foreign exchange capital gain or (losses)	(224,422)	
Change in net deferred income tax	5,917,087	
Change in nonadmitted assets	(8,960,817)	
Aggregate write-ins for gains or (losses) in surplus	<u>34,101</u>	
Net change in capital & surplus		<u>\$ 7,254,078</u>
Surplus as regards policyholders, December 31, 2008		<u><u>\$ 406,675,383</u></u>

See accompanying Notes to Financial Statements

ANALYSIS OF CHANGES TO SURPLUS

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

NOTES TO FINANCIAL STATEMENTS

Note 1 - Claims unpaid & Unpaid Claims Adjustment Expenses

As of December 31, 2008, the Company reported "Claims Unpaid" and "Unpaid Claims Adjustment Expenses" totaling \$149,221,780 and \$5,482,000 respectively. The District of Columbia Department of Insurance, Securities and Banking retained an independent actuary to conduct a review in association with their financial examination of the Company as of December 31, 2008. The Company's accruals for Claims Unpaid and Unpaid Claims Adjustment Expenses were determined to be adequate as of December 31, 2008.

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COMMENTS AND RECOMMENDATIONS

Finding during the examination is as follows:

Medicare Coordination of Benefits

The Company has insureds that are qualified Medicare beneficiaries. The Centers for Medicare and Medicaid Services (CMS) has written rules that determine which of the Company's insureds medical claims should be paid first by CMS or the Company (primary payor) and then the portion of the claim that would be paid by party not paying as primary payor (secondary payor). As a result of system errors, the Company incorrectly paid as the secondary payor on certain claims resulting in CMS paying as the primary payor. The issues were communicated to CMS in a letter dated May 15, 2009. The Company's liability to CMS has not been fully determined. In April 2009, corrective measures were taken to (1) correctly identify Medicare beneficiaries that should be paid primary and (2) modify software programs to correctly adjudicate claims to Medicare beneficiaries. **The Company shall establish an ongoing plan of communication with DISB regarding its remediation activities with Medicare. In addition, the Company shall submit to DISB its plan to develop and monitor the internal controls used to coordinate benefits with Medicare.**

Management Letter Comments

During our examination, in addition to the above Comments and Recommendations, we made other suggestions and recommendations to the Company with regard to record keeping and other procedures relating to its operations in a management letter. These additional suggestions and recommendations were not deemed significant for inclusion in our Report on Examination.

CareFirst BlueChoice, Inc.

Report on Examination
December 31, 2008

CONCLUSION

This examination disclosed at December 31, 2008, the Company had:

Admitted assets	<u>\$ 645,508,455</u>
Liabilities	<u>\$238,833,072</u>
Capital stock and paid in capital	<u>\$50,625,750</u>
Unassigned funds (surplus)	<u>\$356,049,633</u>
Surplus as regards policyholders	<u>\$406,675,383</u>
Total liabilities, capital and surplus	<u>\$645,508,455</u>

Based on this examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2008, and the accompanying statement of operations 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 25 ("FIRE, CASUALTY AND MARINE INSURANCE") of Title 31 ("Insurance and Securities") of the District of Columbia Official Code specify the level of capital and surplus required for the Company. The Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

CareFirst BlueChoice, Inc.

Report on Examination

December 31, 2008

ACKNOWLEDGMENT

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:

Ed Fossa, CFE, Examiner – Huff Thomas & Company

Wayne Weber, CPA, Examiner – Huff Thomas & Company

Ahmed Palejwala, CFE, Examiner – Huff Thomas & Company

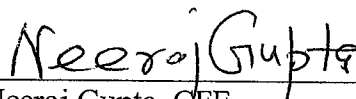
Chidinma Ukairo, D.C. Department of Insurance, Securities and Banking

The Market Conduct review was conducted by William McCune of the District of Columbia Department of Insurance, Securities and Banking

The electronic data processing review was contracted to INS Services, Inc. by DISB to perform the IS review of the Company's systems.

The actuarial portion of this examination was completed by Donna Novak, FCA, ASA, MAAA, FLMI, HIA of NovaRest Consulting.

Respectfully submitted,



Neeraj Gupta, CFE

Examiner-In-Charge

Representing the District of Columbia

Department of Insurance, Securities

and Banking

Under the Supervision of,



Nathaniel Kevin Brown, CFE, CPA

Chief Examiner

District of Columbia Department of

Insurance, Securities and Banking

Government of the District of Columbia
Department of Insurance, Securities and Banking



Gennet Purcell
Acting Commissioner

September 25, 2009

William V. Stack
Vice President
GHMSI and CareFirst BlueChoice
10455 Mill Run Circle
Owings Mills, MD 21117-4208

Dear Mr. Stack:

We are in receipt of your responses dated September 18, 2009, which addresses the corrective actions taken by management to comply with the recommendations made in the Reports on Examination and Management Letters as of December 31, 2008.

The September 18, 2009 letters adequately address the recommendations made in the Reports and Management Letters. During our next examination of the Companies, we will review the implementation of the corrective actions taken.

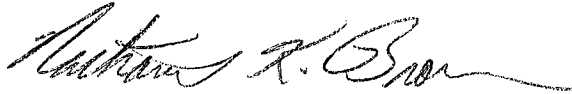
The adopted Reports and the Orders evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Reports will be held private and confidential for a period of 10 days from the date of the Orders evidencing such adoption. After this 10 day period has passed, the Reports will be publicly available, and will be forwarded electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to the National Association of Insurance Commissioners, and to each state in which the Companies are licensed, according to your Annual Statement.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Orders, affidavits executed by each Company's director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention here at the Department.

William V Stack
September 25, 2009

Please contact me at 202-442-7785 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Nathaniel K. Brown", with a long horizontal flourish extending to the right.

Nathaniel Kevin Brown, CFE, CPA
Chief Financial Examiner

Enclosures

William V. Stack
Vice President and
Corporate Controller

CareFirst BlueCross BlueShield
10455 Mill Run Circle
Owings Mills, MD 21117-4208
Tel. 410-998-7011
Fax 410-998-6850
Cellular 410-218-6634
E-mail: Bill.Stack@carefirst.com



September 18, 2009

Kevin Brown
Chief Financial Examiner
Department of Insurance, Securities and Banking
810 First Street, N.E., #610
Washington, D.C., 20002

Dear Mr. Brown:

We would like to thank you for the opportunity to respond to your financial examination report of CareFirst BlueChoice, Inc. (CFBC) as of December 31, 2008. We have responded to certain notes and to all of the comments and recommendations in the report by including the text from the report followed by our comments.

Comments and Recommendations:

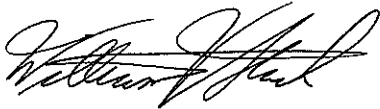
Medicare Coordination of Benefits

The Company has insureds that are qualified Medicare beneficiaries. The Centers for Medicare and Medicaid Services (CMS) has written rules that determine which of the Company's insureds medical claims should be paid first by CMS or the Company (primary payor) and then the portion of the claim that would be paid by party not paying as primary payor (secondary payor). As a result of system errors, the Company incorrectly paid as the secondary payor on certain claims resulting in CMS paying as the primary payor. The issues were communicated to CMS in a letter dated May 15, 2009. The Company's liability to CMS has not been fully determined. In April 2009, corrective measures were taken to (1) correctly identify Medicare beneficiaries that should be paid primary and (2) modify software programs to correctly adjudicate claims to Medicare beneficiaries. The Company shall establish an ongoing plan of communication with DISB regarding its remediation activities with Medicare. In addition, the Company shall submit to DISB its plan to develop and monitor the internal controls used to coordinate benefits with Medicare.

CFBC's Response: The Company will continue to communicate with the DSIB regarding this issue including the corrective actions taken to resolve the internal controls associated with these claims.

If you have any questions or need additional information, please feel free to contact me at (410) 998-7011.

Sincerely,

A handwritten signature in black ink, appearing to read "William V. Stack". The signature is fluid and cursive, with a horizontal line drawn across the middle of the name.

William V. Stack
Vice President and Corporate Controller