

JAN 14 2023

FILED

CERTIFICATION

January 14, 2023

I, Eric Dunning, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

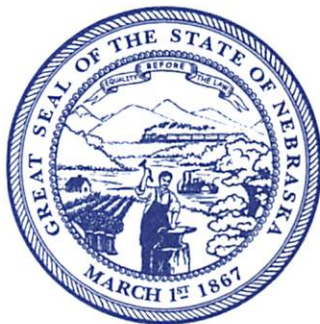
SAPPHIRE EDGE, INC.

AS OF

DECEMBER 31, 2021

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



A handwritten signature in blue ink, appearing to read "Eric Dunning".

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

SAPPHIRE EDGE, INC.
1919 AKSARBEN DRIVE
OMAHA, NEBRASKA 68180

dated as of December 31, 2021, verified under oath by the examiner-in-charge on December 15, 2022, and received by the company on December 16, 2022, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 3rd day of January 2023.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', written in a cursive style.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

SAPPHIRE EDGE, INC.

as of

December 31, 2021

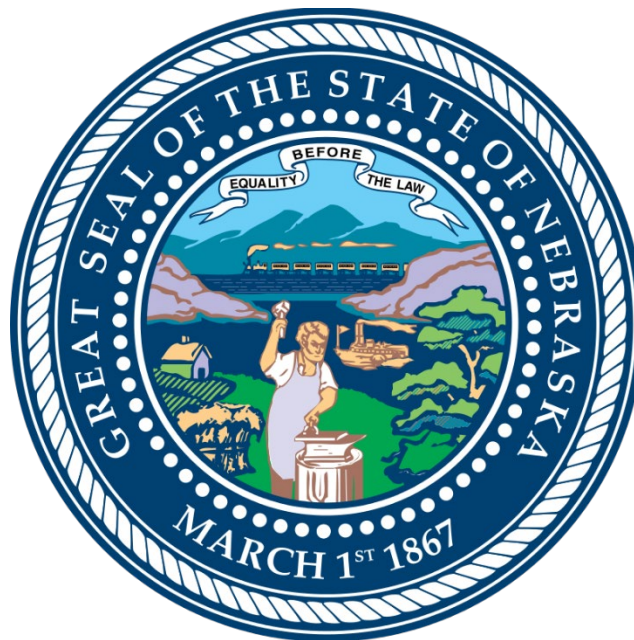


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Omaha, Nebraska
November 28, 2022

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

**SAPPHIRE EDGE, INC.
1919 Aksarben Drive
Omaha, Nebraska 68180**

(hereinafter also referred to as the “Company”), and the report of such examination is respectfully presented herein.

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2017. The current financial condition examination covers the intervening period to, and includes the close of business on December 31, 2021 and such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

The same examination staff conducted a concurrent financial condition examination of the Company’s parent, Blue Cross and Blue Shield of Nebraska, Inc.

SCOPE OF EXAMINATION

The examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska

Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

The Nebraska Department of Insurance made a general review of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Members, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, and approval of investment transactions were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

The Company's reinsurance facilities were ascertained and noted and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Eide Bailly LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2021. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was organized as a mutual insurance company under the laws of the State of Nebraska on February 9, 2016. Effective January 1, 2017, it contracted with the Centers for Medicare & Medicaid Services (CMS) in order to participate in the Medicare Advantage Program with an effective date of January 1, 2017.

The Amended and Restated Articles of Incorporation approved by the Nebraska Department of Insurance on December 17, 2018 empower the Company to transact any kind of insurance or reinsurance as authorized by the Insurance Code of the State of Nebraska.

As of July 1, 2018 the Company's parent company, Blue Cross and Blue Shield of Nebraska, Inc., reorganized from a mutual benefit insurance company to a stock insurance company, simultaneously with the creation of a mutual insurance holding company named GoodLife Partners, Inc. As part of the reorganization, GoodLife Solutions, Inc. was formed as a new intermediate stock holding company and is wholly owned by GoodLife Partners, Inc. Blue Cross and Blue Shield of Nebraska, Inc. is a wholly owned subsidiary of GoodLife Solutions, Inc. Sapphire Edge, Inc. remains a wholly owned subsidiary of Blue Cross and Blue Shield of Nebraska, Inc.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the "Ultimate Controlling Person," as reported in the 2021 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- GoodLife Partners, Inc.
- GoodLife Solutions, Inc.
 - Blue Cross and Blue Shield of Nebraska, Inc.
 - AmeriHealth Nebraska, Inc. (30%)
 - QuadTech II, LLC (49%)
 - Sapphire Edge, Inc.
 - TWBC TIF Holdings, LLC (49%)
 - Azure Equity Management, LLC
 - Think Nebraska, LLC (60%)

Members

Article 3 of the Company's By-Laws states that, "each person, corporation, association, partnership, or limited liability company owning a policy or policies of insurance shall be a Member of the Company." Article 3 also provides that, "an annual meeting of Members for the purpose of electing Directors and transacting any other business shall be held on a date established by the Board of Directors."

The Company's parent, Blue Cross and Blue Shield of Nebraska, Inc. (BCBSNE) made additional capital contributions to the Company each year as follows: December 24, 2018 in the amount of \$825,000; December 31, 2019 in the amount of \$475,000; December 28, 2020 in the amount of \$1,300,000; December 21, 2021 in the amount of \$2,540,994. As of the exam date, BCBSNE has invested \$20,244,233 in the Company.

Board of Directors

Article 5 of the Company's Articles of Incorporation states that, "the affairs and business of the Corporation shall be conducted by a Board of Directors of not less than five (5) nor more than seven (7) persons who are members of the Corporation. A majority of the Board of Directors must be citizens of the State of Nebraska."

Per Article 4 of the Company's By-Laws, "each Director shall hold office until the next annual meeting of Member(s) and until his or her successor shall have been appointed." Article 4 also states that "a regular meetings of the Board of Directors shall be held without other notice than this By-Law immediately after, and at the same place as, the annual meeting of Members."

The following persons were serving as Directors at December 31, 2021:

Name and Residence

Principal Occupation

Michael A. Nelson
Omaha, Nebraska

President, Sapphire Edge, Inc. and Executive Vice President, Sales and Account Management, Blue Cross and Blue Shield of Nebraska, Inc.

Susan E. Courtney
Elkhorn, Nebraska

Executive Vice President, Operations and Clinical Effectiveness, Blue Cross and Blue Shield of Nebraska, Inc.

Malorie Maddox
Elkhorn, Nebraska

Chief Marketing, Communications and Strategy Officer, Blue Cross and Blue Shield of Nebraska, Inc.

Ron Rowe
Omaha, Nebraska

Chief Revenue Officer, Sapphire Edge, Inc.

Chad J. Werner
Elkhorn, Nebraska

Treasurer, Sapphire Edge, Inc. and Treasurer and Chief Financial Officer, Blue Cross and Blue Shield of Nebraska, Inc.

Officers

Per Article 5 of the Company’s By-Laws, “the Officers of the Company shall be a President, a Secretary, and a Treasurer. Such other Officers as may be deemed necessary may be appointed by the Board of Directors, and such Officers to have authority to perform the duties prescribed, from time to time, by the Board of Directors.”

The following is a listing of Officers elected and serving the Company at December 31, 2021:

Name

Office

Michael A. Nelson
Chad J. Werner
Gretchen L. Twohig
Derong L. Duckett

President
Treasurer
Secretary
Appointed Actuary

Committees

Article 6 of the Company's By-Laws states that, "the Board of Directors may, by resolution, designate and appoint one or more Committees to have and exercise the authority of the Board. The designation and appointment of any such Committee and the delegation thereto of authority shall not operate to relieve the Board, or any individual Director, of any responsibility imposed by law. Each Committee may adopt rules for its own government not inconsistent with these By-Laws or with rules adopted by the Board." As of the examination date, the Company had not established any committees.

TRANSACTIONS WITH AFFILIATES

Management Services Agreement

Effective January 29, 2016, the Company and BCBSNE entered into a Management Services Agreement whereby BCBSNE provides administrative services in support of the Company's Medicare Advantage line of business. An amendment was filed on March 17, 2016 to outline the rate of compensation.

TERRITORY AND PLAN OF OPERATIONS

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business as a Health Maintenance Organization (HMO), only in the State of Nebraska.

The Company provides individual Medicare Advantage under a traditional, preferred provider organization and managed care contracts. In addition, drug coverage is also provided in conjunction with a medical contract.

REINSURANCE

Ceded

Effective January 1, 2017, the Company entered into a reinsurance agreement with BCBSNE. Subject to this agreement, BCBSNE assumes a 40% quota share participation of the Medicare Advantage business written by the Company.

Also effective January 1, 2017, the Company entered into a reinsurance agreement with Blue Cross Blue Shield of Michigan (BCBSMI) to cede the remaining 60% quota share participation of the Medicare Advantage business written by the Company.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Bonds	\$1,805,832	\$ 1,802,677	\$ 1,803,099	\$ 1,805,907
Admitted assets	7,311,178	7,110,267	12,798,886	26,523,636
Aggregate health policy reserves	1,638,126	1,017,866	1,296,760	2,230,683
Total liabilities	4,943,846	4,723,351	10,795,941	23,154,332
Capital and surplus	2,367,332	2,386,915	2,002,945	3,369,304
Net premium income				1,439,123
Hospital and medical benefits	8,435,564	10,713,813	23,775,024	66,390,391
Prescription drug benefits	2,241,279	2,845,805	6,382,534	12,341,294
Net income (loss)	(781,644)	(462,658)	(1,189,310)	(1,409,719)

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2021. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2021

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 1,805,907		\$ 1,805,907
Cash and cash equivalents	<u>11,563,114</u>		<u>11,563,114</u>
Subtotal, cash and invested assets	\$ 13,369,021		\$ 13,369,021
Investment income due and accrued	3,161		3,161
Uncollected premiums and agents' balances in course of collection	33,884	\$ 2,395	31,489
Accrued retrospective premiums	1,883,691		1,883,691
Amounts recoverable from reinsurers	8,643,941		8,643,941
Health care receivable	2,559,743	168,821	2,390,922
Local and ITS host A/R provider	201,411		201,411
ITS receivable – non admit	<u>218,065</u>	<u>218,065</u>	
Total assets	<u>\$26,912,917</u>	<u>\$ 389,281</u>	<u>\$ 26,523,636</u>
 <u>Liabilities, Surplus, and Other Funds</u>			
Claims unpaid			\$ 200,000
Unpaid claims adjustment expenses			126,859
Aggregate health policy reserves			2,230,683
Premiums received in advance			95,896
General expenses due or accrued			514,263
Ceded reinsurance premiums payable			5,431,168
Amounts due to parent and affiliates			2,125,625
Funds held under reinsurance treaties			12,300,000
Accounts payable – OTC			127,431
Other suspense			2,184
Ika benefit adjustment payable			<u>223</u>
Total liabilities			\$ 23,154,332
Gross paid in and contributed surplus			\$ 20,244,223
Unassigned funds			<u>(16,874,919)</u>
Total capital and surplus			\$ 3,369,304
Total liabilities, capital, and surplus			<u>\$ 26,523,636</u>

SUMMARY OF REVENUE AND EXPENSES – 2021

Net premium income	\$ 1,439,123
Total revenues	<u>\$ 1,439,123</u>
Hospital and medical benefits	\$ 66,390,391
Other professional services	178,928
Prescription drugs	12,341,294
Telephonics	91,750
Tivity	72,827
In-home assessments	(35,060)
Net reinsurance recoveries	(77,726,535)
Claims adjustment expenses	26,365
General administrative expenses	736,985
Increase in reserves for life and accident and health contracts	933,923
Total underwriting deductions	<u>\$ 3,010,868</u>
Net underwriting gain or (loss)	\$ (1,571,745)
Net investment income earned	28,556
Medicare Advantage care management and provider engagement	137,262
Provider interest	(3,792)
Net income	<u>\$ (1,409,719)</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Capital and surplus, beginning	\$2,448,934	\$2,367,332	\$ 2,386,915	\$ 2,002,945
Net income (loss)	\$ (781,644)	\$ (462,658)	\$(1,189,310)	\$(1,409,719)
Change in nonadmitted assets	(124,958)	7,241	(494,660)	235,085
Surplus adjustments: paid in	<u>825,000</u>	<u>475,000</u>	<u>1,300,000</u>	<u>2,540,993</u>
Net change for the year	<u>\$ (81,602)</u>	<u>\$ 19,583</u>	<u>\$ (383,970)</u>	<u>\$ 1,366,359</u>
Capital and surplus, ending	<u>\$2,367,332</u>	<u>\$2,386,915</u>	<u>\$ 2,002,945</u>	<u>\$ 3,369,304</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(16,874,919) as reported in the Company's 2021 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

Custodial Agreement – It is recommended that the Company amend the existing Institutional Custodial Agreement with First National Bank of Omaha to include the provisions required by Nebraska Rules and Regulations Title 210, Chapter 81.

Actions: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There are no comments or recommendations that have been made as a result of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Joe Jacobson, CFE, John Wiatr, CFE, Santosh Ghimire, CFE, Jennifer Lindblad, Financial Examiners; Gary Evans, CISA, CFE, AES, Information Systems Specialist; and Michael Muldoon, ASA, MAAA, FCA, and Margaret Garrison, Actuarial Examiners; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Tadd K. Wegner, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

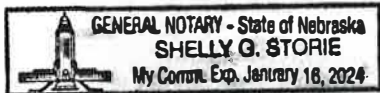
Tadd K. Wegner, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examinations of Blue Cross and Blue Shield of Nebraska, Inc. & Sapphire Edge, Inc.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examinations of was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

Tadd K. Wegner
Examiner-in-Charge's Signature

Subscribed and sworn before me by Tadd K. Wegner on this 15th day of December, 2022.



(SEAL)

Shelly G. Storie
Notary Public

My commission expires 1/18/24 [date].