

CERTIFICATION

September 29, 2014

I, Bruce R. Ramage, 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
BLUE CROSS BLUE SHIELD OF NEBRASKA

as of

December 31, 2013

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.



STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

SEP 29 2014

FILED



Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

BLUE CROSS BLUE SHIELD OF NEBRASKA

dated as of December 31, 2013, verified under oath by the examiner-in-charge on August 28, 2014, and received by the company on September 9, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 22 day of September, 2014.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

BLUE CROSS BLUE SHIELD OF NEBRASKA

as of

December 31, 2013



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Omaha, Nebraska
August 1, 2014

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
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:

**BLUE CROSS BLUE SHIELD OF NEBRASKA
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 Company was last examined as of December 31, 2009, by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2013, and includes 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.

SCOPE OF EXAMINATION

This 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.

A general review was made 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, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. The Certificate of Authority to conduct the business of insurance in Nebraska was 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 years ended December 31, 2012 and 2013. 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

Blue Cross of Nebraska was organized under the laws of the State of Nebraska on January 12, 1939, with the given name of "Associated Hospital Service of Nebraska." It commenced business in Omaha, Nebraska, on February 1 of that same year as a nonprofit hospital service corporation. By appropriate amendments to its Articles of Incorporation, the Corporation's name

was changed to "Nebraska Blue Cross Hospital Service Corporation" in 1945; to "Nebraska Blue Cross" in 1969; and to "Blue Cross of Nebraska" in 1973.

Blue Shield of Nebraska was incorporated under the laws of the State of Nebraska on October 19, 1944, as the "Nebraska Surgical Plan." It commenced business in Omaha, Nebraska, on November 11 of that same year as a nonprofit assessment association. The association's name was changed to "Nebraska Surgical Service" in 1946; and to "Blue Shield of Nebraska" in 1972 by appropriate amendments to its Articles of Incorporation.

Pursuant to a contract of consolidation approved by the Nebraska Department of Insurance on October 7, 1974, and effective April 1, 1975, Blue Shield of Nebraska was merged into and became a part of Blue Cross of Nebraska with the Articles of Incorporation and the By-Laws of the continuing and surviving corporation being amended to change the name thereof to "Blue Cross and Blue Shield of Nebraska".

Effective with approval from its membership, the Company became a mutual insurance company on February 9, 1987. This change was accomplished by amending the Company's Articles of Incorporation changing its purpose from that of a Hospital Service Corporation to that of a Mutual Insurance Company. The Revised Articles of Incorporation empower the Corporation to transact any kind of insurance or reinsurance authorized by Section 44-201 of the Nebraska Revised Statutes.

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 2013 Annual Statement, is represented by the following (subsidiaries are denoted

through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Blue Cross and Blue Shield of Nebraska
 - Prime Therapeutics, Inc. (50%)
 - Prime Therapeutics, LLC (19.12%)
 - QuadTech, LLC (49%)
 - QuadTech II, LLC (49%)
 - AmeriHealth Nebraska, Inc. (30%)
 - Azure Equity Management, LLC
 - CoreLink Administrative Solutions, LLC (50%)
 - Th!nk Primary Care, LLC (25%)

Members

The business of the Company is conducted on the mutual plan and therefore each person, corporation, association, or partnership owning a contract of insurance shall be a member of the Company. Article X of the Company's Revised Articles of Incorporation provides that “the annual meeting of the members shall be at 4:00 p.m., Standard Time, upon the second Monday of each February at the Home Office of the Corporation in Omaha, Nebraska.” No notice need be given of any Annual Meeting to members, but may be included in the members' contract or certificate application.

Board of Directors

Article VI of the Company's Amended and Restated 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 twenty-one (21) persons who are members of the Corporation. A majority of the Board of Directors must be citizens of the State of Nebraska.”

The By-Laws state that Directors shall be elected for a term of three (3) years. If a vacancy occurs on the Board of Directors, the Board of Directors may fill the vacancy. Such replacement Director may serve until the next annual meeting of members following appointment, at which time

the members may elect the replacement Director, or his or her successor, to serve the remainder of the vacated term. The members, at their 2013 annual meeting, established the number of Directors for 2013 at thirteen (13).

The following persons were serving as Directors at December 31, 2013:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Karen B. Aman Blair, Nebraska	Vice President, Mid America Computer Corporation
George G. Beattie Lincoln, Nebraska	President and Chief Executive Officer, Nebraska Bankers Association
Richard R. Bell Omaha, Nebraska	Chairman Emeritus, HDR, Inc.
Lyndee J. Black Lincoln, Nebraska	Partner, Thomas, Kunc & Black, LLP
Allen D. Dvorak, M.D. Papillion, Nebraska	President and Managing Partner, ADDRAD, LLC
Marvin B. Dvorak, D.D.S. Omaha, Nebraska	Consultant, Dental Education and Licensure
Dan E. Ernst Lincoln, Nebraska	Associate Executive Director, Nebraska Council of School Administrators
Steven S. Martin Omaha, Nebraska	President and Chief Executive Officer, Blue Cross Blue Shield of Nebraska
Keith R. Olsen Grant, Nebraska	Farmer and Past President, Nebraska Farm Bureau Federation
Anthony F. Raimondo, Jr. Columbus, Nebraska	Vice Chairman of the Board and Co-President, International and Diversified Products, Behlen Mfg. Co.
Jeffrey L. Schumacher Lincoln, Nebraska	President, Capitol Casualty Company

<u>Name and Residence</u>	<u>Principal Occupation</u>
Todd S. Sorensen, M.D., M.S. Scottsbluff, Nebraska	President and Chief Executive Officer, Regional West Health Services and Regional West Medical Center
Robert E. Synowicki, Jr. Omaha, Nebraska	Executive Vice President, Driver Resources, Werner Enterprises

Directors shall be paid, except for salaried Officers, an amount determined annually by the Board of Directors as reimbursement for services provided. Members are also reimbursed for reasonable and necessary expenses incurred in their role as a Board Member. For 2013, the Board set their retainer, excluding the Chairperson at \$36,000, plus Board and committee meeting fees of \$1,800 for all members. Committee Chairpersons receive \$3,000 per committee meeting. If a committee meeting is held by teleconference, or if a member participates by telephone, remuneration will be two-thirds of the set amount.

Article II Section 4 of the By-Laws states that the Board shall elect from its membership a Chairperson and Vice Chairperson.

Officers

The By-Laws state that, “the Officers of the Company shall be the Chief Executive Officer and President, a Secretary, a Treasurer, a Compliance Officer, any Executive Vice President, and any Senior Vice President or Vice President appointed by the President. The President, Secretary, Treasurer and Compliance Officer shall be elected by the Board of Directors”.

The following is a listing of Senior Officers elected and serving the Company at December 31, 2013:

<u>Name</u>	<u>Office</u>
Steven S. Martin Lewis E. Trowbridge	President and Chief Executive Officer Executive Vice President, Chief Financial Officer, and Treasurer

<u>Name</u>	<u>Office</u>
Steven H. Grandfield	Executive Vice President and Chief Operating Officer
Patrick J. Bourne	Senior Vice President, Sales and Account Services
Gerald T. Byers	Senior Vice President, Finance
Susan E. Courtney	Senior Vice President, Technology and Operations
Lee J. Handke	Senior Vice President, Providers and Products
Jennifer A. Richardson	Senior Vice President, Operations
Sarah A. Waldman	Senior Vice President, Administration and Corporate Compliance Officer
Russell S. Collins	Vice President, General Counsel, and Secretary

Committees

Article II, Section 11 of the By-Laws states that, “the Board of Directors shall be divided into appropriate committees” and “the Board Chairperson shall annually determine the membership of such committees, subject to approval by a majority of the Board of Directors.” This Section recognizes and sets forth duties for the Audit and Compliance Committee, Compensation Committee, Executive Committee, Finance Committee, Governance Committee, Nominating Committee, and Marketing and Operations Committee.

TRANSACTIONS WITH AFFILIATES

Pharmacy Benefit Service Agreement

The Company has a Pharmacy Benefit Service Agreement with Prime Therapeutics, Inc. (Prime). Prime provides the following pharmacy benefit services to the Company: electronic claims processing, eligibility services, benefit design support services, rebate management, account management services, sales support web-based tools, integrated product solutions, reporting, formulary services, pharmacy network services, contract center services, clinical management, and pharmacy network audit services. The Company compensates Prime according to a fee schedule for the net price for core services, ancillary fees, and special project fees, offset by

all applicable funding levers. The Company paid and expensed \$2.9 million and \$1.6 million in fees to Prime in 2013 and 2012, respectively.

Information Technology Services and Support Agreement

Effective January 1, 2009, the Company and CoreLink entered into an Information Technology Services and Support Agreement for CoreLink to provide information technology services to the Company. The Company compensates CoreLink according to a fee schedule for core systems and services, optional systems and services and special projects.

Operating Level Agreement

Effective January 1, 2009, the Company and CoreLink Administrative Solutions, LLC (CoreLink) entered into an Operating Level Agreement for the Company to provide a CEO, Program Manager, Systems Architect and Implementation Project Manager. Effective March 21, 2012, these job functions were assumed by CoreLink.

Master Services Agreement

Effective January 1, 2009, the Company and CoreLink entered into a Master Services Agreement for the Company to provide mainframe services to CoreLink with the scope of the services provided by the Company's assigned individuals. CoreLink compensates the Company according to a fee schedule for the design, development, testing, documentation, and installation of assigned new and existing computer programs/subsystem, following all appropriate policies and procedures to the CoreLink system.

Credit Tenant Lease Financing Agreement

The Company and Tetrad Holding Corporation (Tetrad) own QuadTech, LLC and QuadTech II, LLC (QuadTech), a commercial real estate joint venture. Tetrad is an unrelated entity. The Company has a 49% equity interest in the joint venture. QuadTech managed the

construction and owns the Company's new Corporate Headquarters. On December 23, 2010, the Company took occupancy of the Blue Cross Centre and entered a credit tenant lease financing agreement with QuadTech in the amount of \$83 million. The Company is a co-guarantor with Tetrad on the financing of the real estate owned by QuadTech and leased by the Company. The guarantee would be triggered only in the event of certain eventualities such as fraud or undisclosed environmental liabilities. The Company investment in QuadTech is \$7.1 million at December 31, 2013, and QuadTech paid dividends to the Company of \$1.1 million in 2013.

Management Services Agreement

The Company has ownership interest in Regional Advantage Services, LLC (RAS), an administrative services company formed by several unrelated Blue Cross Blue Shield plans known as the Northern Plains Alliance, to perform the necessary management services of the regional Medicare Advantage PPO and Medicare Part D contracts sponsored by the affiliated Blue Cross Blue Shield plans. The administrative services provided by RAS for this contract include adjudicating claims, issuing explanation of benefits, providing centralized customer service, utilization management, enrollment, accounting and reporting services related to these contracts. The Company pays RAS an administrative fee for services rendered. The Company paid and expensed \$3.8 million and \$5.7 million in fees to RAS in 2013 and 2012, respectively.

AmeriHealth Nebraska, Inc.

During 2012, the Company entered into a joint venture with AmeriHealth Mercy Family of Companies (AMFC) and formed AmeriHealth Nebraska, Inc. (AHNI). The Company contributed \$3 million for a 30% ownership in AHNI. AHNI, along with Coventry Health Care, was awarded the state's Medicaid business in 83 rural counties. The Company's investment in AHNI is \$2.2 million at December 31, 2013.

TriWest Alliance, Inc.

At December 31, 2013, the Company had an ownership interest of \$21.3 million or 5% in TriWest Alliances, Inc. (TriWest). The Company recorded dividend income from TriWest of \$5.8 million and \$5.6 million in 2013 and 2012, respectively. During 2013, the Company decided to liquidate their investment in TriWest. The Company evaluated any impairment with the investment in TriWest and determined no impairment was necessary at December 31, 2013. Based on the TriWest liquidation plan, the Company anticipates recovering the entire investment during 2014 without any material loss.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificate of Authority, the Company is licensed to transact business only in the state of Nebraska.

The Company is authorized to conduct the business of insurance as defined in Section 44-201, Subsection (4) of the Nebraska Insurance Statutes. The Company has also been authorized and licensed to transact business as a Utilization Review Agent as described by Section 44-5401 of the Nebraska Insurance Statutes.

The Company provided health insurance to 374,136 members under insured health plans and administered health benefits for 317,760 members under self-funded arrangements, approximately 80,000 which are administered by Highmark Blue Cross and Blue Shield of Pittsburgh (Highmark), as of December 31, 2013.

Production is the responsibility of the Company's Marketing Unit, which is headed by the Senior Vice President Sales and Account Services. All of the Sales Department personnel are employees of the Company and are compensated on a salary, commission and bonus basis. The marketing strategy emphasizes the use of brokers in the group market rather than a direct sales

force. The Company continues to utilize a captive sales force for individual sales in addition to brokers. Brokers are compensated on a commission basis only.

The Company has changed its distribution strategy during the last several years. Traditionally, the Company had relied on direct sales; however, more recently the Company has changed focus to place more emphasis on the small group market and, as such, the broker distribution has become a primary channel. The Company continues to utilize a captive sales force for individual sales. In addition, the Company has an exclusive alliance with Nebraska Farm Bureau for individual product distribution.

The Company provides individual, group and association health insurance benefits to approximately 28% of Nebraska's population making the Company the largest health insurer in the state. The majority of the enrollees are covered under a preferred provider organization (PPO).

The Company has negotiated provider arrangements with 95.2% of physicians, 78.8% of dentists, 89.1% of miscellaneous providers, and 100% of hospitals in the state.

The Company is a participant in the Blue Card Program which is organized and operated by the Blue Cross and Blue Shield Association. The objective of the Blue Card Program is to increase timely and accurate claim processing through a nationwide provider network with its corresponding provider discounts in support of national group accounts and the traveling public. Under the Blue Card Program, "Home" plans are defined as the Blue Cross Blue Shield plan that is the insurance carrier for the subscriber who is receiving medical services. The "Host" plan is defined as the Blue Cross Blue Shield plan which is located where the actual medical services were performed for the subscriber of the "Home" Blue Cross Blue Shield plan. The Host plan sends claim and provider reimbursement information to the Home plan. The Home plan sends

approval to the Host plan along with deductible and benefit levels. Information is processed daily by electronic means between plans. The Host plan pays the provider and bills the Home plan for the claim payment plus fees through the Central Financial Agency.

In addition, the Company provides dental coverage to approximately 250,000 members, including roughly 31,000 on a stand-alone plan. Drug and vision coverage is also provided to a portion of the Company's members.

The Company subcontracted with the Blue Cross Association and the National Association of Blue Shield Plans (Blue Cross and Blue Shield Associations) to act as fiscal administrator for service to those federal employees located in Nebraska who are provided hospital and surgical services under the Federal Employee Health Benefit Act of 1959.

The Company has historically focused on large group and individual segments of the market. Over the past 10 years concentrated efforts of marketing have occurred in the small group market. Over the last several years the penetration into the small group market has increased. The Company enrollment plans are segregated primarily into four main types, which are as follows:

- The Large Group segment consists of employer groups of 51 employees or more and represents about 49% of the market share. The membership is heavily concentrated within the two largest groups: Nebraska Educators Health Alliance and Federal Employees Program.
- The Small Group Segment includes groups with 50 or less eligible employees. The Company's market share in this segment grew from 14% to 20% over the last five years. Approximately 8% are on ACA-compliant products.

- The Individual Under 65 segment covers about 82,000 members, or 22% of fully insured membership and approximately 45% market share. Approximately 32% of these members are on ACA-compliant products.
- The Senior products segment consists of Medicare supplement and Part D Prescription Drug Plans (PDP). For Part D, the Company and five other plans in the six upper midwest states formed and collectively own Regional Advantage Services (RAS) that manages and administers the Part D plans. Two PDP plans are currently offered in Nebraska. The Company's market share in this segment is about 20%.

The Company also provides non-risk claims administration services and stop loss coverage to over 94 self-funded employer groups based in Nebraska. In accordance with these types of arrangements, the Company does not underwrite any of the risk, or underwrites only the risk which is in excess of any stop-loss provisions, and is reimbursed for the administrative cost of claim processing which is either on a per member per month basis (PCPM) or on a percentage of the claim cost basis.

REINSURANCE

Ceded

Effective January 1, 1994, the Company ceded its Group Long Term Care Programs under a proportional share contract with the American Long Term Care Reinsurance Group, a group of ten insurers. The Company's net retention was a 20% quota share with the pool assuming 100% of the excess. By means of a novation dated April 1, 2003, Med America was substituted as the reinsurer. An addendum of the same date amended the Company's net retention to be a 0% quota share with the reinsurer assuming 100% of the excess. The group long term care block is in runoff with no new groups or certificates being added.

Effective January 1, 1998, the Company entered into a reinsurance agreement to cede its Individual Long Term Care Program on a coinsurance basis to Genworth Life Insurance Company (Genworth), formerly General Electric Capital Assurance Company. The Company's net retention is 30%. Effective with the date of this reinsurance treaty, January 1, 1998, the Company entered into a service agreement with Genworth. Duties performed by Genworth include, but are not limited to, the following: product development; underwriting; premium billing and collection; accounting; actuarial services; claim eligibility, evaluation, processing, reserving and payment, and in-force policy administration. Genworth agrees to provide all its services for the business covered hereunder in consideration for the Company having entered into the reinsurance agreement and the reinsurance ceded premiums due and collected by Genworth. This block is in runoff with no new business written on a primary basis.

The Company entered into two medical excess of loss reinsurance agreements beginning in 2007. The Company renewed these policies effective January 1, 2014 to December 31, 2014 with Navigators Insurance Company (Navigators).

The first agreement covers fully insured group medical, small group medical, and individual medical policies, and is on an incurred year basis. This agreement has three layers; Layer 1 reinsures the Company for \$1,000,000 in excess of the Company's \$1,000,000 retention with respect to any one covered person per contract term, but only after the Company is liable for an aggregate retention of \$600,000; Layer 2 reinsures the Company for \$3,000,000 in excess of \$2,000,000 with respect to any one covered person per contract term; and Layer 3 reinsures the Company for \$5,000,000 in excess of \$5,000,000 with respect to any one covered person per contract term.

The second agreement covers specific stop loss policies, and is on a policy year attaching basis. These agreements each have three layers; Layer 1 reinsures the Company for \$1,000,000 less the specific stop loss deductible, in excess of the Company's \$1,000,000 retention after the specific stop loss deductible, with respect to any one covered person per contract term; Layer 2 reinsures the Company for \$3,000,000 in excess of \$2,000,000 with respect to any one covered person per contract term; and Layer 3 reinsures the Company for \$5,000,000 in excess of \$5,000,000 with respect to any on covered person per contract term.

Both reinsurance agreements have a profit commission where Navigators will pay the Company 30% of 70% of gross premium due and paid under the first two layers, less 100% of reinsurer liability less any deficit carried forward from prior contract terms for the two policies combined.

The Company is a reinsuring carrier under the Nebraska Small Employer Reinsurance Program, a nonprofit entity, pursuant to Nebraska Revised Statutes Section 44-5223 to 44-5267, in particular 44-5261.

General

The Nebraska Small Employer Reinsurance Program is a statutory program, without contract. All of the other agreements were found to contain a proper insolvency, arbitration, errors and omissions, termination clauses. All placements were with authorized reinsurers under Nebraska Statutes.

BODY OF REPORT

GROWTH

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Bonds	\$ 432,633,182	\$ 456,205,055	\$ 417,780,719	\$ 459,536,342
Admitted assets	844,767,855	829,352,294	831,596,866	871,324,450
Claims and adjustment expenses unpaid	142,011,837	169,848,201	180,388,130	148,994,303
Aggregate health policy reserves	154,864,639	139,289,109	154,247,560	163,058,552
Total liabilities	447,349,065	449,022,475	441,336,904	432,349,097
Unassigned funds (surplus)	397,418,790	380,329,819	390,259,962	420,275,353
Net premium income	1,372,330,615	1,429,366,784	1,521,394,417	1,584,501,163
Hospital and medical benefits	927,433,953	1,061,775,214	1,102,047,741	1,143,823,957
Prescription drug benefits	183,804,578	186,961,164	194,199,554	207,607,906
Net investment income	19,596,024	17,287,679	21,508,086	29,353,267
Net income (loss)	29,140,874	11,389,463	8,296,170	24,547,085

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2013, and its transactions during the year 2013 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2013

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$459,536,342		\$459,536,342
Common stocks	186,651,532		186,651,532
Real estate:			
Occupied by Company	953,059		953,059
Held for production of income	12,190,024		12,190,024
Cash and short-term investments			8,295,866
Other invested assets	22,011,933	\$ 4,612,526	17,399,407
Receivables for securities	<u>37,062</u>	<u> </u>	<u>37,062</u>
Subtotals, cash and invested assets	\$689,675,819	\$ 4,612,526	\$685,063,293
Investment income due and accrued	4,209,068		4,209,068
Uncollected premiums and agents' balances in course of collection	43,596,150	1,431,129	42,165,021
Amounts recoverable from reinsurers	5,512,504	4,747,953	764,551
Amounts receivable relating to uninsured plans	31,910,496		31,910,496
Net deferred tax asset	23,010,979		23,010,979
Guaranty funds receivable or on deposit	1,504,010		1,504,010
Electronic data processing equipment and software	10,553,095	7,508,931	3,044,164
Furniture and equipment	11,534,966	11,534,966	
Receivables from subsidiaries and affiliates	2,065,505		2,065,505
Health care and other amounts receivable	19,414,763	1,632,047	17,782,716
Pre-paid pension assets	15,403,981	15,403,981	
Overfunded Plan Assets	(15,403,981)	(15,403,981)	
Funds held by Federal Employee Program	50,655,579		50,655,579
Prepaid expenses	3,955,830	3,955,830	
State taxes recoverable (LB775)	14,120		14,120
Note receivable	1,536,558	1,536,558	
Bluecard Inter Plan claim receivable	10,572,334	1,614,555	8,957,779
Miscellaneous receivables	<u>176,762</u>	<u>(409)</u>	<u>177,171</u>
Total assets	<u>\$909,898,536</u>	<u>\$38,574,086</u>	<u>\$871,324,450</u>

Liabilities, Surplus, and Other Funds

Claims unpaid	\$120,385,645
Unpaid claims adjustment expenses	28,608,658
Aggregate health policy reserves	163,058,552
Aggregate health claim reserves	3,166,454
Premiums received in advance	42,851,704
General expenses due or accrued	55,672,968
Current federal income tax payable	141,423
Amounts withheld or retained for the account of others	3,431,604
Remittances and items not allocated	1,445,334
Liability for amounts held under uninsured plans	8,389,803
Bluecard Inter Plan claims payable	3,426,754
Guaranty fund liability accrued	1,504,010
Miscellaneous	<u>266,188</u>
Total liabilities	\$432,349,097
Estimated annual health insurance industry fee	18,700,000
Unassigned funds (surplus)	<u>420,275,353</u>
Total liabilities, capital and surplus	<u>\$871,324,450</u>

STATEMENT OF REVENUE AND EXPENSES
December 31, 2013

Net premium income	\$1,584,501,163
Change in unearned premium reserves	<u>(6,439,781)</u>
Total revenues	<u>\$1,578,061,382</u>
Hospital/medical benefits	\$1,143,823,957
Other professional services	24,244,882
Prescription drugs	207,607,906
Net reinsurance recoveries	(11,698,873)
Claims adjustment expenses	81,654,996
General administrative expenses	<u>143,318,219</u>
Total underwriting deductions	<u>\$1,588,951,087</u>
Net underwriting gain or (loss)	<u>\$ (10,889,705)</u>
Net investment income earned	\$ 29,353,267
Net realized capital gains	<u>6,686,914</u>
Net investment gains	<u>\$ 36,040,181</u>
Miscellaneous income	<u>\$ 50,047</u>
Net income before federal income taxes	\$ 25,200,523
Federal income taxes incurred	<u>653,438</u>
Net income	<u>\$ 24,547,085</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Surplus, prior year-end	<u>\$372,377,629</u>	<u>\$397,418,792</u>	<u>\$380,329,819</u>	<u>\$390,259,962</u>
Net income	\$ 29,140,874	\$ 11,389,463	\$ 8,296,170	\$ 24,547,085
Change in net unrealized capital gains and (losses)	(13,092,400)	(22,112,600)	1,692,812	13,110,303
Change in net deferred income tax	8,083,164	4,674,334	(4,547,735)	(8,529,553)
Change in nonadmitted assets	909,524	2,010,026	(8,561,299)	43,000,284
Minimum pension liability		(13,050,195)	13,050,195	
Pension and post retirement adjustment	_____	_____	_____	<u>(23,412,728)</u>
Net change for year	<u>\$ 25,041,162</u>	<u>\$ (17,088,973)</u>	<u>\$ 9,930,143</u>	<u>\$ 48,715,391</u>
Surplus, current year-end	<u>\$397,418,792</u>	<u>\$380,329,819</u>	<u>\$390,259,962</u>	<u>\$438,975,353</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$420,275,353, as reported in the Company's 2013 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

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There were no findings warranting comment in the report 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.

ACKNOWLEDGEMENT

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

In addition to the undersigned, Kim A. Hurst, CFE, Erin E. Garvin, CFE, Kimmea L. Shannon, Financial Examiners; Linda K. Scholl, CFE, Information Systems Specialist; and Daniel E. Eckstein, ASA, CIE, Life & Health Actuarial Examiner; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Don L. Gaskill, CFE
Examiner-in-Charge
Representing the Nebraska Department of Insurance
INS Regulatory Insurance Services, Inc.

State of Nebraska,

Douglas County,

Don L Gaskill, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Blue Cross Blue Shield of Nebraska.
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 examination of Blue Cross Blue Shield of Nebraska was performed in a manner consistent with the standards and procedures required by Department of Insurance of the State of Nebraska.

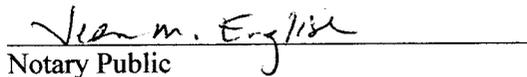
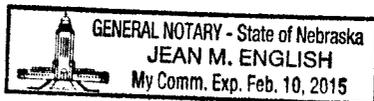
The affiant says nothing further.



Examiner's Signature

Subscribed and sworn before me by Don L. Gaskill on this 1st day of Aug, 2014.

(SEAL)



Notary Public

My commission expires 2/10/2015 [date].