Blue Cross Blue Shield of Michigan **2014 ANNUAL REPORT**

Blue Cross Blue Shield of Michigan
Mutual Insurance Company and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2014 and 2013

AND INDEPENDENT AUDITOR'S REPORT

Blue Cross Blue Shield of Michigan is a nonprofit corporation and independent licensee of the Blue Cross and Blue Shield Association.

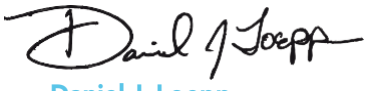
MANAGEMENT STATEMENT OF RESPONSIBILITY

The management of Blue Cross Blue Shield of Michigan Mutual Insurance Company and its subsidiaries prepared the accompanying consolidated financial statements, and has the responsibility for the integrity, objectivity and freedom from material misstatement (whether caused by error or fraud). They were prepared in accordance with accounting principles generally accepted in the United States of America, and they include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the consolidated financial statements.

Management is further responsible for maintaining a system of internal control designed to provide reasonable assurance that transactions are executed in accordance with management authorization, and that they are appropriately recorded, in order to permit preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America and to adequately safeguard, verify and maintain accountability of assets. An important element of the system is an ongoing internal audit program.

Deloitte & Touche LLP, independent certified public accountants, is engaged to audit the consolidated financial statements of Blue Cross Blue Shield of Michigan Mutual Insurance Company and its subsidiaries and express an opinion thereon. Their audit is conducted in accordance with auditing standards generally accepted in the United States of America, which comprehend the consideration of internal control and tests of transactions to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management. The Independent Auditors' Report appears on the next page.

The Board of Directors, acting through its Audit Committee, is responsible for assuring that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The board appoints the independent public accountants on the recommendation of the Audit Committee. The Audit Committee meets regularly with management, internal auditors and independent accountants. The independent accountants have full and free access to the Audit Committee and meet with it to discuss their audit work, the company's internal controls and financial reporting matters.



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Blue Cross Blue Shield of Michigan Mutual Insurance Company
Detroit, Michigan

We have audited the accompanying consolidated financial statements of Blue Cross Blue Shield of Michigan Mutual Insurance Company and its subsidiaries, d/b/a, Blue Cross Blue Shield of Michigan (the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, policyholders' reserves, and cash flows for the years then ended and related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Member of
Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 26, 2015

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(Amounts in millions)

	2014	2013
ASSETS		
CASH AND CASH EQUIVALENTS	$ 710	$ 695
INVESTMENTS:		
Trading securities	1,491	1,544
Available-for-sale securities	6,459	6,271
Total investments	7,950	7,815
SECURITIES LENDING COLLATERAL	18	32
RECEIVABLES (Net of allowance of $15 and $12 in 2014 and 2013, respectively)	2,932	2,709
PROPERTY AND EQUIPMENT — Net	587	636
NET DEFERRED TAX ASSETS	254	256
GOODWILL	166	172
INVESTMENTS IN JOINT VENTURES AND EQUITY INTERESTS	470	405
OTHER ASSETS	139	126
TOTAL	$ 13,226	$ 12,846

See notes to consolidated financial statements.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(Amounts in millions)

	2014	2013
LIABILITIES AND POLICYHOLDERS' RESERVES		
LIABILITIES FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Health	$ 2,035	$ 1,936
Nonhealth	1,907	1,887
Total liabilities for unpaid claims and claim adjustment expenses	3,942	3,823
PREMIUM DEFICIENCY RESERVES	199	424
ACCRUED LIABILITY TO GROUPS	228	378
UNEARNED REVENUE	678	660
SECURITIES LENDING PAYABLE	18	32
OTHER LIABILITIES:		
Employee expenses	1,593	1,200
Debt	1,357	1,373
Other	1,312	1,150
Total liabilities	9,327	9,040
POLICYHOLDERS' RESERVES:		
Accumulated reserves	4,344	4,072
Accumulated other comprehensive loss	(465)	(289)
Policyholders' reserves attributable to the Corporation	3,879	3,783
Noncontrolling interest	20	23
Total policyholders' reserves	3,899	3,806
TOTAL	$ 13,226	$ 12,846

See notes to consolidated financial statements.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts in millions)

	2014	2013
PREMIUM AND PREMIUM EQUIVALENT REVENUE:		
Underwritten premiums earned	$ 11,649	$ 10,171
Self-funded premium equivalent revenue	11,482	11,089
Total revenue	23,131	21,260
Less amounts attributable to claims under self-funded arrangements	(10,638)	(10,232)
Net premium and self-funded fee revenue	12,493	11,028
COST OF SERVICES:		
Benefits provided	9,559	8,597
Change in premium deficiency reserves	(225)	(81)
Operating expenses	3,076	2,629
Total cost of services	12,410	11,145
OPERATING REVENUE (LOSS)	83	(117)
INVESTMENT INCOME AND OTHER — Net	290	417
ADDITION TO POLICYHOLDERS' RESERVES BEFORE FEDERAL INCOME TAX EXPENSE	373	300
FEDERAL INCOME TAX EXPENSE	(104)	(37)
ADDITION TO POLICYHOLDERS' RESERVES	269	263
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST — Net of tax	3	2
ADDITION TO POLICYHOLDERS' RESERVES ATTRIBUTABLE TO THE CORPORATION	$ 272	$ 265

See notes to consolidated financial statements.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
AS OF DECEMBER 31, 2014 AND 2013
(Amounts in millions)

	2014	2013
ADDITION TO POLICYHOLDERS' RESERVES	$ 269	$ 263
OTHER COMPREHENSIVE INCOME:		
Unrealized gains (losses) on available for sale securities:		
Unrealized holding gains (losses) arising during period	213	(342)
Less reclassification adjustment for gains included in net income	(83)	(50)
Net unrealized gains (losses) on available for sale securities	130	(292)
Defined benefit retirement plans — change in unrecognized pension and postretirement liabilities	(314)	382
Other comprehensive (loss) income — before tax	(184)	90
Income tax benefit (expense) related to items of other comprehensive income	18	(26)
Other comprehensive (loss) income attributable to joint ventures — net of tax	(10)	8
Other comprehensive (loss) income — net of tax	(176)	72
COMPREHENSIVE INCOME	93	335
COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	3	2
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE CORPORATION	$ 96	$ 337

See notes to consolidated financial statements.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF POLICYHOLDERS' RESERVES
AS OF DECEMBER 31, 2014 AND 2013
(Amounts in millions)

	Accumulated Reserves	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
BALANCES — January 1, 2013	$ 3,807	$ (361)	$ 25	$ 3,471
Addition to policyholders' reserves	265		(2)	263
Other comprehensive income		72		72
BALANCES — December 31, 2013	4,072	(289)	23	3,806
Addition to policyholders' reserves	272		(3)	269
Other comprehensive loss		(176)		(176)
BALANCES — December 31, 2014	$ 4,344	$ (465)	$ 20	$ 3,899

See notes to consolidated financial statements.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts in millions)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Addition to policyholders' reserves	$ 269	$ 263
Adjustments to reconcile addition to policyholders' reserves to cash provided by operating activities:		
Depreciation and amortization	182	172
Realized gain on investments	(116)	(252)
Loss on disposal of property	2	1
Provision for deferred income taxes	21	5
Pension and other postretirement benefits	21	64
Change in premium deficiency reserve	(225)	(81)
Changes in assets and liabilities:		
Receivables	(225)	(126)
All other assets	2	(12)
Accrued liability to groups	(149)	4
Liabilities for unpaid claims and claim adjustment expense	120	(182)
Unearned revenue	19	(1)
Other liabilities	218	202
Cash provided by operating activities	139	57
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(9,297)	(13,370)
Sales and maturities of investments	9,332	13,286
Additional investments in joint ventures	(95)	(45)
Acquisitions of property and equipment	(37)	(43)
Investment in capitalized software	(11)	(52)
Cash used in investing activities	(108)	(224)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt		550
Repayment of debt	(12)	(506)
Repayment of sale-leaseback	(4)	(6)
Cash (used in) provided by financing activities	(16)	38
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15	(129)
CASH AND CASH EQUIVALENTS — Beginning of year	695	824
CASH AND CASH EQUIVALENTS — End of year	$ 710	$ 695
SUPPLEMENTAL DISCLOSURES:		
Cash paid for federal income taxes	$ 46	$ 33
Cash paid for interest	$ 23	$ 23

See notes to consolidated financial statements.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Amounts in millions)

1. ORGANIZATION

Blue Cross Blue Shield of Michigan, a nonprofit corporation organized under the provisions of Michigan Public Act 350 of 1980, and Blue Cross Blue Shield of Michigan Mutual Insurance Company, a nonprofit mutual insurance company under Chapter 58 of the Michigan Insurance Code, merged on December 31, 2013. Blue Cross Blue Shield of Michigan Mutual Insurance Company (the Company) remained as the surviving entity. Under the merger, the Company assumed the performance of all contracts and policies of Blue Cross Blue Shield of Michigan that existed as of December 31, 2013. The Company continues to conduct business as Blue Cross Blue Shield of Michigan (BCBSM).

Based on membership, the Company is the largest health insurer in Michigan and provides coverage to approximately 4.5 million members through underwritten insurance and self-funded arrangements. The Company's health maintenance organization (HMO) subsidiaries, Blue Care Network of Michigan (BCNM) and Blue Cross Complete of Michigan (BCC), provide health care services to subscribers, and contract with various physician groups, hospitals, and other health care providers to provide such services. Subsidiaries of Accident Fund Holdings, Inc. (collectively, Accident Fund), a wholly owned subsidiary of the Company, provide workers' compensation insurance. Life Secure Insurance Company (LifeSecure), another wholly owned subsidiary of the Company, provides long-term care, accident and hospital indemnity insurance. Woodward Straits Insurance Company (WSIC), a newly formed wholly owned subsidiary of the Company in 2014, was approved by Department of Insurance and Financial Services (DIFS) to begin operations beginning January 1, 2015. WSIC will underwrite certain risks of the Company's operations that were previously insured by outside third parties.

Collectively, the Company and its subsidiaries are referred to herein as the "Corporation."

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Principles of Consolidation — All majority owned subsidiaries are consolidated. All significant non-majority owned investments, including investments in joint ventures and equity interests, are accounted for using the equity method when the Corporation is able to influence the financial operating policies of the investee, or the investment percentage is more than minor. Significant influence is generally deemed to exist when the Corporation owns at least 20% of the voting stock of the investee. For limited liability companies, the equity method is generally used. For all other investments, the Corporation applies the cost method. All significant intercompany transactions and balances are eliminated in consolidation.

The consolidated financial statements include two variable interest entities (VIEs). A VIE is an entity where the reporting enterprise or its subsidiaries participate significantly in the design and the financial benefits of the entity. VIEs are designed so that the reporting entity is the primary beneficiary of substantially all of the VIEs activities irrespective of the underlying legal ownership of the entity. The equity interest of the VIEs not owned by the Corporation are reflected in the consolidated financial statements as noncontrolling interest.

Cash and Cash Equivalents — Cash equivalents, which are carried at fair value, are composed of short-term investments with original maturities of 90 days or less. Cash overdrafts are reported in the liability section of the consolidated balance sheet.

Investments — The Corporation classifies its investments in debt and equity securities as either trading or available-for-sale, and accordingly, such securities are carried at fair value. Securities are classified as trading if they are part of an investment portfolio that is actively managed by an external manager and the manager has broad authority to buy and sell securities without prior approval. All other securities are classified as available-for-sale.

Unrealized gains and losses related to trading securities are included in investment income and other in the consolidated statements of operations. Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive loss (AOCL) as a separate component of policyholders' reserves, net of applicable income tax.

Available for sale securities are evaluated and a determination is made as to whether a decline in value is deemed to be other-than-temporary. If the Corporation does not have the intent and ability to hold the securities until their full amortized cost can be recovered, or it is more likely than not that the Corporation will have to sell the security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and it is recognized as a realized loss in investment income and other in the consolidated statements of operations.

The non-credit (interest) component of the other-than-temporary impairment of available-for-sale securities is recognized in AOCL. For all available for sale securities that the Corporation intends to hold but does not expect to recover its amortized cost basis, the credit component of the other-than-temporary impairment is recognized in realized losses in investment income and other in the consolidated statements of operations. Furthermore, unrealized losses entirely caused by non-credit related factors related to fixed maturity securities, for which the Corporation expects to fully recover the amortized cost basis, continue to be recognized in AOCL.

Realized gains and losses on sales of securities are determined based on the specific identification method and are included in investment income and other in the consolidated statements of operations.

Fair Value Measurements — The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced liquidation or sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced liquidation or sale.

Fair values are based on quoted market prices when available. The Corporation obtains quoted or other observable inputs for the determination of fair value for actively traded securities. For securities not actively traded, the Corporation determines fair value using discounted cash flow analyses, incorporating inputs, such as nonbinding broker quotes, benchmark yields, and credit spreads. In instances where there is little or no market activity for the same or similar instruments, the Corporation estimates fair value using methods, models, and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model, or input used. The Corporation's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by the Financial Accounting Standards Board (FASB) Accounting Standards Codification FASB ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value as the price that would be received for an asset or paid to transfer a liability (exit price) in the most advantageous market

for the asset or liability in an orderly transaction between market participants. An asset's or a liability's classification is based on the lowest level input that is significant to an asset or liability. For example, a Level 3 fair value measurement may include inputs that are both observable (Level 1 and Level 2) and unobservable (Level 3).

Securities Lending — The Corporation enters into secured lending transactions and recognizes the cash collateral received and the corresponding liability to return the cash collateral. Cash received for collateral is reinvested in money market securities.

Property and Equipment — Property and equipment is stated at cost, net of depreciation. Depreciation is calculated using the straight-line method over estimated useful lives ranging from 30 to 40 years for buildings and 5 to 10 years for equipment.

Capital Projects in Progress — Capital projects in progress (CIP) represents all ongoing costs involved in developing in-house software and facilities management projects. CIP is not depreciated or amortized until the project is complete and placed in service.

Software Costs — Certain costs related to acquired and developed computer software for internal use are capitalized as incurred. Capitalized costs are amortized, generally over a 3- to 10-year useful life, using the straight-line method and are included in property and equipment in the consolidated balance sheets.

Long-Lived Assets — Long-lived assets held and used by the Corporation are reviewed for impairment based on market factors and operational considerations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets held for sale are no longer depreciated. The Corporation writes down the carrying amount of a long-lived asset to its fair value at the time impairment has been determined.

Investments in Joint Ventures and Equity Interests — Investments in joint ventures and equity interests consist primarily of nonmajority-owned entities and limited partnerships. If the Corporation holds significant influence over the entity, through either equity ownership or other means, the financial results of the entity are accounted for using the equity method. If the Corporation does not hold significant influence, the financial results of the entity are accounted for using the cost method.

Other Assets — Other assets consist primarily of the deferred policy acquisition costs of the Accident Fund and LifeSecure. Deferred policy acquisition costs consist primarily of commissions, premium based taxes and assessments, salaries, and certain other underwriting expenses that are related directly to the successful acquisition of new or renewal insurance contracts. Policy acquisition costs are deferred and amortized over the period in which the related premiums are earned.

Intangible Assets — The acquisition of subsidiaries has resulted in recognition of intangible assets consisting of customer contracts, provider networks, and trademarks. These intangible assets are amortized on a straight-line basis over their expected useful life.

Goodwill — In connection with acquiring the assets and liabilities of subsidiaries, the excess of the purchase price over the fair value of identifiable net assets acquired is recorded as goodwill. Goodwill is reviewed at least annually for impairment and more frequently should impairment indicators arise.

Benefits Provided — Benefits provided are expensed as incurred.

Liabilities for Unpaid Claims and Claim Adjustment Expenses— Liabilities for unpaid claims and claims adjustment expenses are actuarial estimates of outstanding claims, including claims IBNR. Estimates are based upon historical claims experience modified for current trends and changes in benefit coverage, which could vary as the claims are ultimately settled.

Premium Deficiency Reserves (PDR) — A liability for premium deficiency losses is an actuarial estimate that is recognized when it is probable that expected claim losses and allocable administrative expenses will exceed future premiums on existing health and other contracts. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Corporation's method of acquiring, servicing, and measuring the profitability of such contracts and represents management's best estimate in a range of potential outcomes. The full amount of premium deficiency losses are recorded in the period in which it is identified as a loss contract.

Experience Rated Groups — A liability is recognized in accrued liability to groups for experience-rated group contracts as a result of favorable experience based on an actuarial estimate of underwriting gains, which will be returned to groups as either cash refunds or future rate reductions. Under terms of most of the experience-rated group contracts, recovery of underwriting losses through future rate increases is not recognized until received.

Premium Rebates — Under the provisions of the Patient Protection and Affordable Care Act and the Education Reconciliation Act of 2010 (collectively, "Health Care Reform" or "ACA"), the Corporation is required to provide rebates to policyholders if the coverage provided does not satisfy a specified medical loss ratio (MLR). Beginning in 2013, the MLR is determined using a 3-year average. In prior years, the MLR was determined using annual results. For individual and small-group business, if a health insurer does not meet an 80% three year average MLR for the year, it will be required to provide a rebate to the policyholders. The required MLR for large groups is 85%. Premium rebates are reported as reductions to premium revenue. MLR rebates are required to be paid to policyholders by August 1 following the end of the year in which an applicable MLR standard was not met. The Corporation recorded a rebate liability of $9 and $0 at December 31, 2014, and 2013, respectively.

Premium and Premium Equivalent Revenue — Underwritten premiums, which generally are billed in advance, are recognized as revenue during the respective periods of coverage. Premiums applicable to the unexpired portion of coverage are reflected in the accompanying consolidated balance sheets as unearned revenue. Unearned revenue is comprised of unearned premium reserves and advanced premiums received before the start of the coverage period and are classified as advanced premiums.

Revenue from self-funded administrative service contracts (ASC) (self-funded premium equivalent revenue) primarily consists of claim reimbursements and administrative fees for services provided, such as management of medical services, claims processing, and access to provider networks. Amounts due from ASC groups are equal to the amounts required to pay claims and administrative fees. Under ASC arrangements, self-funded groups retain the primary underwriting risk of paying claims and the Corporation retains an element of credit risk to providers in the event reimbursement is not received from the group; therefore, claims paid by the Corporation and the corresponding reimbursement of claims, plus administrative fees, are separately presented in the statements of operations. Administrative fees are earned and recorded as services are performed.

Medicare Advantage — This coverage provides Medicare eligible beneficiaries with a managed care alternative to traditional Medicare. Medicare Advantage special needs plans provide tailored benefits to Medicare beneficiaries who have chronic diseases and also cover certain dual eligible customers, which represent low-income seniors and persons under age 65 with disabilities who are enrolled in both Medicare and Medicaid plans.

Medicare Advantage has the potential for collection of additional premium based on the risk profile of enrollees. However, the risk adjustment does not occur in the initial year of enrollment, but in the subsequent periods, after the Corporation has compiled and submitted medical diagnosis information to Centers for Medicare and Medicaid Services (CMS). The Corporation records revenues and a receivable from CMS based on the estimate of the members' risk scores and such estimate is adjusted in the following year, as a result of the annual settlement with CMS. In 2014 and 2013, the Corporation recorded prior year risk score revenue adjustments that increased the current revenue by approximately $15 and $25, respectively.

Medicare Part D — This program offers a prescription drug plan to Medicare and dual eligible (Medicare and Medicaid) beneficiaries. Pharmacy benefits under Medicare Part D plans may vary in terms of coverage levels and out-of-pocket costs for beneficiary premiums, deductibles, and coinsurance. However, all Medicare Part D plans must offer either "standard coverage" or its actuarial equivalent (with out-of-pocket threshold and deductible amounts that do not exceed those of standard coverage). These "defined standard" benefits represent the minimum level of benefits required under law. Additionally, the Corporation offers other prescription drug plans containing benefits in excess of the standard coverage limits, in many cases for an additional beneficiary premium.

ASC Receivables and Payables for Incurred But Not Reported (IBNR) — The Corporation recognizes a liability for the IBNR for health care services provided to subscribers covered under ASC arrangements and a corresponding receivable amount for the reimbursement from the ASC groups.

Health Insurance Claim Assessment (HICA) — A Michigan HICA tax is applied to certain Michigan health insurance claims. The Company bears the inherent legal liability of the tax and therefore records the amounts collected from customers and the tax paid to the state under the gross method, whereby claims taxes collected and paid are recorded as revenue and expense, respectively. Effective July 1, 2014, the HICA tax rate was reduced from 1% to .75%.

Income Tax — In accordance with FASB ASC 740, *Income Taxes (Topic 740),* the Corporation recognizes deferred tax assets and liabilities for the expected tax consequences resulting from temporary differences between the accounting value of assets and liabilities and the value for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted at the reporting date.

Income tax expense includes current and deferred tax expense. Current tax expense is the expected tax payable for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred income tax expense or benefit represents the net change in deferred income tax assets and liabilities during the year, except for those changes for items recorded in equity.

The Company and its taxable subsidiaries file a consolidated federal income tax return. Two subsidiaries, BCNM and BCC, are exempt from taxation under Section 501(c)(4) of IRC; the exempt status of the organization reduces the effective tax rate of the Corporation and is reflected accordingly in the rate reconciliation.

In certain states, the Corporation pays premium taxes in lieu of state income taxes. Premium taxes are reported in operating expense in the consolidated statements of operations. The Corporation recorded premium taxes of $79 and $14 at December 31, 2014 and 2013, respectively.

The Corporation accounts for uncertain tax positions, and recognizes a tax contingency when it is more likely than not that the position will not be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the likelihood of a favorable outcome.

Employee Benefit Plans — The Corporation's obligations related to its defined benefit pensions and postretirement health care and other postretirement defined benefits are estimated using actuarial methods.

Reinsurance — Losses recoverable from reinsurers are reported as a reduction of benefits provided and a portion of the premiums paid to reinsurers are reported as other assets. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance policies.

Health Care Reform — Pursuant to the enactment of the ACA, the U.S. health insurance industry underwent comprehensive market changes. Effective January 1, 2014, the Company and BCNM began participating in federally-facilitated marketplace exchanges and became subject to several additional taxes and fees imposed by the ACA. Also effective for 2014, the three new premium stabilization programs commenced; reinsurance, risk adjustment and risk corridors (the "3Rs"). These new programs require management to utilize considerable professional judgment and accordingly, the financial statements reflect management's best estimate in establishing the required receivables and payables and the corresponding revenue and expense items required to be recognized in the consolidated financial statements.

Marketplace Exchange User Fee — Beginning in calendar year 2014, issuers participating on the Marketplace Exchange are assessed a monthly fee for coverage purchased through the Exchange of 3.5% of premium for all individual and small group market products sold. The fee is charged to operating expense in the period the premiums are billed. User fees of approximately $21 were recorded for the year ended December 31, 2014.

Marketplace Cost Sharing Subsidy — Commencing in 2014, the U.S. Department of Health and Human Services (HHS) began remitting advance payments to health insurance issuers to subsidize a portion of the health care out-of-pocket costs associated with individual members, including deductibles and co-payments for services rendered. Individuals with income up to 250% of the Federal Poverty Level (FPL) are eligible to receive cost sharing subsidies. The Company and BCNM record a liability if the Cost Sharing Subsidy is paid in advance or a receivable if incurred health care costs exceed the Cost Sharing Subsidy received to date. Notification of final settlement amounts are provided by June 30 of the year following the benefit year.

Advance Premium Tax Credit — The ACA also provides Advance Premium Tax Credits to help low and moderate income enrollees afford health care coverage. The Tax Credits are available on a sliding scale to individuals and families with household income up to 400% of the FPL. An eligible enrollee may opt to receive the credit when they file their federal tax return. Premium credits received by the Company and BCNM are recognized as premium revenue over the period coverage is provided.

Health Insurer Fee — As further explained in the Accounting Standards Adopted section of this footnote for ASU 2011-06, beginning in calendar year 2014, the ACA imposed an annual premium-based fee payable to the Internal Revenue Service (IRS) on each covered entity "engaged in the business of providing health insurance" (issuer). The liability related to the fee was estimated and recorded in full once qualifying insurance coverage was provided on January 1, 2014 with a corresponding deferred cost that has been amortized ratably over the year as a charge to operating expense. Payment of the current year fee to the IRS is required in full no later than September 30. The annual Health Insurer Fee assessed and paid for the calendar year 2014 was $107.

Reinsurance, Risk Adjustment and Risk Corridor (the "3Rs") — The risk stabilization programs include a transitional reinsurance program, a permanent risk adjustment program and a temporary risk corridors program designed to spread the financial risk borne by issuers and to mitigate the risk of adverse selection. The transitional reinsurance and temporary risk corridors programs are for years 2014 through 2016, with potential for additional reinsurance recoveries through 2018 to the extent funds are available. Policies issued prior to March 23, 2010 are considered grandfathered policies and are exempt from the 3Rs.

The transitional reinsurance program requires contributions for calendar years 2014 through 2016 to a HHS established reinsurance entity based on a national contribution rate per covered member as determined by HHS. While all issuers of commercial major medical plans, and self-funded plans, are required to fund the reinsurance pool, only qualified health plans in the individual commercial market are eligible for recoveries if an enrolled individual's eligible annual claim costs exceed a specified attachment point. Payments to fund the reinsurance pool may be remitted in two installments, the first payment being no later than January 15, 2015 and the second installment in November 2015. For the year ended December 31, 2014, $9 of the Company's and BCNM's total contribution expenses of $92 was charged to a contra revenue account and characterized as ceded premium for the portion attributable to the individual insured health product and $83 was charged to operating expense for the assessment portion attributable to the non-individual products.

Reinsurance recoveries attributable to eligible Individual claims are recorded as a reduction to benefit expense in the consolidated statement of operations. Receivables for reinsurance recoveries in the amount of $140 are anticipated to be received from HHS.

The permanent risk adjustment program adjusts the premiums that commercial individual and small group health insurance issuers receive based on risk scores derived from the demographic factors and health status of each member. This program transfers funds to health insurers that attract disproportionately high-risk populations and charges additional assessments on insurers that attract disproportionately lower-risk populations. A risk score is assigned to each covered member to determine an average risk score at the individual and small group level by legal entity in a particular market in a state. Additionally, an average risk score is determined for the entire subject population for each market in each state. Settlements are determined on a net basis by legal entity and state. Each health insurance issuer's average risk score is compared to the state's average risk score. Risk adjustment calculations will be completed by HHS and both the Company and BCNM will receive notification of recoveries due or payments owed under the risk adjustment programs by June 30, 2015. Payments due to HHS under the risk adjustment program must be remitted within 30 days of notification and will be collected prior to the distribution of recoveries by HHS. Based on an estimate of the risk of the qualified plan members relative to the state average risk scores the Company and BCNM recorded a risk adjustment receivable of $71 and a payable of $65, respectively, at December 31, 2014, with a corresponding impact to premium revenue.

The temporary risk corridor program applies to individual and small group Qualified Health Plans, or (QHPs) as defined by HHS, operating both on and off the exchanges. The risk corridor program protects issuers of QHPs from uncertainty in rate setting by providing limitations on issuer losses and gains. The program creates a mechanism for sharing the risk for allowable medical costs with the federal government by comparing allowable medical costs to target amounts prescribed by HHS. Variances from the targets exceeding certain thresholds result in HHS making additional payments to the Company and BCNM or require refunds back to HHS for a portion of the premiums received. Risk corridor calculations are due by July 31 of the year following the benefit year. Payment and recovery amounts are settled with HHS annually in the second half of the year following the benefit year. No amounts have been recorded at year end 2014 for the Company's small group products due to underwriting

results expected to be within allowable target ranges. For the Company's individual products, no receivables have been recorded due to the uncertainty surrounding the timing and source of funds for 2014.

The accompanying consolidated balance sheets include the following amounts associated with the 3Rs at December 31, 2014 for the Company and BCNM.

	December 31, 2014		
	Risk Adjustment	Reinsurance Contribution	Reinsurance Recoverables
Other receivables	$ 71	$	$ 140
Payables	(65)	(44)	
Net receivable (payable)	$ 6	$ (44)	$ 140

Estimates — The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include pension, postretirement benefits, amounts recorded relating to the ACA, deferred policy acquisition costs, liabilities for unpaid claims; specifically IBNR, premium deficiency reserves and litigation related accounts and contingencies, and assumptions used in goodwill impairment analysis.

Accounting Standards Adopted - In February 2013, the FASB issued ASU 2013-02 requiring an entity to present information about significant items reclassified out of AOCI by component either (1) on the face of the statement where net income is presented or (2) as a separate disclosure in the notes to the financial statements. If an entity elects to present information on the face of the financial statement where net income is presented, it would include the reclassification before-tax amount in parentheses on the line item affected. The aggregate tax amount attributed to the significant reclassification adjustments included on the face of the financial statement would be presented parenthetically on the income tax expense (benefit) line. If an entity is unable to determine (1) the income statement line item affected or (2) whether, when all reclassifications for the period are not to net income in their entirety, it must follow the disclosure requirements in ASC 220-10-45-17B (added by the ASU) for presentation in the footnotes.

An entity that does not present information on the face of the financial statements, for its significant items reclassified to net income in their entirety in the same reporting period, must separately disclose in a footnote (1) the amount reclassified and (2) the individual income statement line items affected. The total of the reclassification adjustments by component must be the same as the total presented in the changes in AOCI information. Either before-tax or net-of-tax presentation is acceptable. However, for significant partial reclassifications, an entity would refer to the footnote disclosure that contains information about the impact of the reclassifications. The ASU does not amend guidance on determining which components of AOCI are reclassified partially and which are reclassified entirely. The adoption of ASU 2013-02 did not have a material impact on the Corporation's consolidated financial position or results of operations.

On July 20, 2011, the FASB issued ASU 2011-06, *Other Expenses (Topic 720)*, which provides guidance on fees paid to the federal government by health insurers. The ASU is based on the Emerging Issues Task Force's consensus on Issue 10-H, *Fees Paid to the Federal Government by Health Insurers*. The Task Force considered the amendments to be necessary to avoid diversity in the way in which entities account for and present the fee when it becomes effective. Specifically, the annual fee imposed on health insurers by the ACA is not considered an insurance related assessment. This ASU became effective on January 1, 2014. As disclosed in the Health Reform section above, the Corporation recorded $107 of operating expense for the health insurer fee in 2014.

The health insurer fee imposed by the ACA is an annual market share premium-based fee payable to the IRS on each covered entity "engaged in the business of providing health insurance" (issuer). The fee is considered an excise tax that is not deductible for tax purposes. An issuer's share of the annual fee is based on the ratio of the net premiums written by the entity for any U.S. health risk during the preceding calendar year to the aggregate national net premiums written for all covered entities during the preceding year that is applied to the applicable national fee amount for a given year. There is an additional 50% reduction to the premium revenue for certain federally tax-exempt nonprofits such as BCNM when calculating the annual fee. The liability related to the fee must be estimated and recorded in full once qualifying insurance coverage is provided in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized ratably to operating expense over the same calendar year. At December 31, 2014, deferred cost was fully amortized.

Forthcoming Accounting Pronouncements- In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* Insurance contracts are not within the scope of this new guidance that requires an entity recognize revenue for the transfer of goods or services to a customer at an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services. The new guidance may apply to various contracts with customers to provide goods or services, including non-insurance, administrative services contracts. Companies may choose to adopt the new standard using the full retrospective approach, with or without practical expedients, or with a cumulative effect adjustment upon adoption. ASU 2014-09 will become effective for the Corporation January 1, 2018. The Corporation is currently evaluating the potential effects of the new requirements for its noninsurance customer contracts.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,* which changes the criteria for reporting discontinued operations while enhancing disclosures in this area. The new standard will become effective January 1, 2015.

Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results when a component of an entity or a group of components are either classified as held for sale or are disposed of by sale. Additionally, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. If the Corporation were to have a discontinued operation after the effective date, these changes could result in increased reporting and disclosure requirements.

3. CASH EQUIVALENTS AND INVESTMENTS

Cash equivalents consist of short-term investments with original maturities of 90 days or less.

The amortized cost, fair value, and unrealized gains and losses of available-for-sale securities at December 31, 2014, by asset category are as follows:

	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Corporate debt securities	$ 2,419	$ 59	$ 6	$ 2,472
U.S. treasury securities	2,017	59	1	2,075
Mortgage-backed securities	1,734	25	1	1,758
Equity exchange traded funds	126	6	5	127
State and local debt securities	17			17
Other asset-backed securities	11		1	10
Total available-for-sale investments	$ 6,324	$ 149	$ 14	$ 6,459

Included in the above table are mortgage-backed securities valued at $510 and U.S. Treasury securities valued at $1,022 that were used as collateralization for the $1,327 of Federal Home Loan Bank of Indianapolis (FHLBI) borrowings in 2014.

The amortized cost, fair value, and unrealized gains and losses of available-for-sale securities at December 31, 2013, by asset category are as follows:

	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Corporate debt securities	$2,774	$58	$33	$2,799
Mortgage-backed securities	1,972	7	16	1,963
U.S. treasury securities	1,463	6	13	1,456
Mutual funds	27		1	26
Other asset backed securities	22		2	20
State and local debt securities	7			7
Total available-for-sale investments	$6,265	$71	$65	$6,271

Included in the above table are mortgage-backed securities valued at $831 and U.S. Treasury securities valued at $762 that were used as collateralization for the $1,332 in outstanding FHLBI borrowings in 2013.

The amortized cost and fair values of available-for-sale securities at December 31, 2014, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the rights to prepay obligations without prepayment penalties.

	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,342	$ 1,341
Due after one year through five years	1,242	1,254
Due after five years through ten years	1,028	1,051
Due after ten years	841	918
Total	4,453	4,564
Mortgage-backed securities	1,734	1,758
Common stocks and private mutual funds	126	127
Other asset-backed securities	11	10
Total available-for-sale securities	$ 6,324	$ 6,459

Unrealized Losses — The following tables summarize available-for-sale securities in a gross unrealized loss position at December 31, 2014 and 2013, the aggregate fair value and gross unrealized loss by length of time those securities have been in an unrealized loss position.

	Less than 12 Months		12 Months or Greater		Total	
December 31, 2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	$ 1,157	$ 5	$ 54	$ 1	$ 1,211	$ 6
U.S. treasury securities	366	1	11		377	1
Mortgage-backed securities	185	1	34		219	1
Equity exchange traded funds	49	5			49	5
Other asset-backed securities			10	1	10	1
Total available-for-sale-securities	$ 1,757	$12	$ 109	$ 2	$ 1,866	$ 14

	Less than 12 Months		12 Months or Greater		Total	
December 31, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	$ 1,321	$ 31	$ 38	$ 2	$ 1,359	$ 33
Mortgage-backed securities	1,330	16			1,330	16
U.S. treasury securities	755	12	1	1	756	13
Mutual funds	16	1			16	1
Other asset-backed securities	20	2			20	2
Total available-for-sale-securities	$ 3,442	$ 62	$ 39	$ 3	$ 3,481	$ 65

Realized Gains/(Losses) — In the ordinary course of business, sales will produce realized gains and losses. The Corporation will sell securities at a loss for a number of reasons, including, but not limited to: (i) changes in the investment environment; (ii) expectations that the fair value could deteriorate further; (iii) desire to reduce exposure to an issuer or an industry; or (iv) a change is credit quality.

Net realized investment gain/(losses) and net change in unrealized gains/losses in investments for the years ended December 31 are as follows:

	2014	2013
Net realized gain on securities held as available-for-sale:		
Gross realized gains from sales	$ 98	$ 185
Gross realized losses from sales	(15)	(135)
Net realized gain from sale of securities held as available-for-sale	83	50
Net realized gain on securities held as trading:		
Gross realized gains from sales	103	93
Gross realized losses from sales	(26)	(19)
Net realized gain from sale of securities held as trading	77	74
Total net realized gain from sales of securities	$ 160	$ 124
Change in net gain/(loss) on securities held at the end of the period:		
Available-for-sale securities	$ 128	$ (292)
Trading securities	(45)	140
Total change in gain (loss) on securities held at the end of the period	$ 83	$ (152)

During the year ended December 2014 and 2013, the Corporation sold $9,332 and $12,731 of investments which resulted in gross realized gains of $201 and $278, and gross realized losses of $41 and $154, respectively.

The determination of when a decline in value of a marketable security is other-than-temporary impairment (OTTI) requires significant judgment. The Corporation has a consistent process for recognizing impairments, of securities that have sustained other-than-temporary declines in value. The decision to impair includes both quantitative and qualitative information. For securities that are deemed to be other-than-temporarily impaired, the security is adjusted to fair value and the resulting losses are recognized in realized losses in the consolidated statements of operations. The portion of OTTI related to interest rate risk and non-credit losses is included in unrealized gains and losses in AOCI if the criteria above are not met. Subsequent to the impairment, future recoveries in value of the impaired securities are not recognized.

The Corporation recognized OTTI losses for the year ended December 31, 2014 for an amount of $2. For the remaining securities in an unrealized loss position, the Corporation has determined the investments have not been subject to credit losses and the Corporation does not have the intent to sell the securities and has the ability to hold such securities, therefore the Corporation did not record OTTI losses during the year ended December 31, 2013.

The value of the Corporation's trading portfolio at December 31, 2014 and 2013 was $1,491 and $1,544,

respectively and includes $38 and $71, respectively, of holdings in international equity funds that hold investments in publicly traded international equity securities. The Corporation can redeem its investment in these funds on a monthly basis upon written notification 30 days prior to the predetermined monthly redemption date. At December 31, 2014 and 2013, the portfolio also includes $44 and $26 of holdings in a private mutual fund that primarily invests in mortgage-backed and other asset-backed securities. There are no restrictions on the Corporation with regard to redemption of this fund. The fair market value of these funds was determined using the net asset value (NAV) per share of the funds. Accordingly, the change in NAV is included in investment income.

The Corporation has entered into investment transactions that were not settled. As of December 31, 2014 and 2013, there was approximately $11 and $3 in other liabilities, respectively, for investments purchased on account and $17 and $2 in accounts receivable, respectively, for investments sold on account. As these amounts are pending settlement, they have been excluded from the consolidated statements of cash flows.

The Corporation, in the normal course of business, enters into securities lending agreements with various counterparties. Under these agreements, the Corporation lends U.S. Treasury notes and various other security types in exchange for collateral, consisting primarily of cash and U.S. government notes, approximating 102% of the value of the securities loaned. These agreements are primarily overnight in nature and settle the next business day. As of December 31, 2014 and 2013, the Corporation had securities loaned of $18 and $31, respectively, with corresponding cash collateral of $18 and $32, respectively.

The Corporation voluntarily holds a portion of its securities in two grantor trusts in order to fund medical malpractice and stop-loss claims of BCNM. Oversight of the trusts is provided by a policy committee, which is composed of officers and board members of the Corporation. In accordance with the trust agreements, BCNM is the primary beneficiary of the trust assets. As of December 31, 2014 and 2013, the value of the securities held in trust was $145 and $140, respectively, and is included in the investment tables above.

In conjunction with the Company's transition to a nonprofit mutual insurance company, the Company became a member of the Michigan Life and Health Guaranty Association and is no longer required to maintain funds in a custodial bank account to satisfy the Blue Cross Blue Shield Association (BCBSA) licensee requirements.

As a non-profit health care company and as part of the BCBSA license requirements, the Company was required to maintain a custodial bank account to assure the payment of claims in the event of the Company's insolvency. The account balance was calculated as a percentage of the Company's unpaid claim liability and consisted primarily of marketable securities. The Company had the ability to trade and transfer securities within the account as long as the balance in the account was at or above the required minimum. At December 31, 2013, the Company was in compliance with the requirement.

Investments contained in rabbi trust funds to satisfy the Corporation's nonqualified and deferred compensation plan obligations had a fair market value of $81 and $68, at December 31, 2014 and 2013 respectively, and are included in the investment tables above.

As a condition of maintaining its certificate of authority with various states where the Corporation is licensed to do business, statutory deposits are maintained in segregated accounts for the benefit of the policyholders in the event of insolvency. The funds are invested in various marketable securities and the related interest income accrues to the Corporation. The statutory deposits had a carrying value of $264and $282 as of December 31, 2014 and 2013, respectively and are included in the investment tables above.

4. FAIR VALUE DISCLOSURES

Fair values of the Corporation's securities are based on quoted market prices, where available. These fair values are obtained primarily from custodian banks, which generally use Level 1 or Level 2 inputs for the determination of fair value in accordance with U.S. GAAP guidance.

The Corporation obtains only one quoted price for each security from its custodian banks, which are derived through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. For securities not actively traded, the custodian banks may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. In certain circumstances, it may not be possible to derive pricing model inputs from observable market activity, and therefore, such inputs are estimated internally. Such securities are designated Level 3 in accordance with ASU 820 guidance. The Corporation's Level 3 securities consist of other asset backed securities based on loans. The fair values of these securities are estimated using a discounted cash flow model that incorporates inputs such as credit spreads, default rates and benchmark yields.

The Corporation classifies fair value balances based on the hierarchy defined below:

Level 1 — Quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as: (a) quoted prices for similar assets or liabilities, (b) quoted prices in markets that are not active, or (c) other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities as of the reporting date.

Level 3 — Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets and liabilities.

The following techniques were used to estimate the fair value and determine the classification of assets and liabilities pursuant to the valuation hierarchy:

Cash Equivalents — Consist of commercial paper, discount notes, money market funds and other securities that mature in 90 days or less. Valuation for the money market funds is based on unadjusted quoted prices and are classified as Level 1. Valuation for commercial paper and discount notes is based on inputs derived from observable market data and are classified as Level 2.

U.S. Treasury Securities — Consist of certain U.S. government securities, and bonds issued by U.S. government-backed agencies. Because valuation is based on unadjusted quoted prices for these securities in an active market and there is a lack of transparency into the specific pricing of the individual securities they are classified as Level 2.

Common Stocks and Exchange Traded Funds — Consist of actively traded, exchange listed equity securities. Valuation is based on unadjusted quoted prices for these securities or funds in an active market and are classified as Level 1.

Commingled International Equity Funds — Consist of international equity securities. Valuation is recorded at NAV and is based on the underlying investments in the funds and are classified as Level 2.

Corporate Debt Securities, Mortgage Backed Securities, Other Asset Backed Securities and Preferred Stocks — Consist of corporate notes and bonds, commercial paper that matures after 90 days or less, government bonds and debt issued by noncorporate entities. Valuation is determined using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the security is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risk or a broker quote, if available. These securities are classified as Level 2.

Foreign Debt Securities — Consists of foreign notes and bonds issued by governmental and corporate entities. Valuation is based on inputs derived directly from observable market data and are classified as Level 2.

State and Local Debt Securities — Consists of long term notes and bonds issued by state and local governments. Valuation is based on inputs derived directly from observable market data and are classified as Level 2.

Commingled Trusts — Consists of investment assets that are combined together under a common investment management strategy. Commingled trust funds represent a pool of assets that are managed by the same investment manager. Commingled trust funds are not registered with the U.S. Securities and Exchange Commission. Valuation is based on observable pricing model and are classified as Level 2.

Mutual Funds — Includes both private mutual funds and registered mutual funds actively traded on an open exchange. The private mutual fund valuation is recorded at NAV and is based on the underlying investments in the funds and are classified as Level 2. The public traded funds is based on an observable price in an active market and therefore classified as Level 1.

The Corporation's assets recorded at fair value at December 31, 2014, are as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash equivalents	$ 566	$ 71	$	$ 637
Available for sale securities:				
Corporate debt securities	$	$ 2,472	$	$ 2,472
U.S. treasury securities		2,075		2,075
Mortgage-backed securities		1,758		1,758
Equity exchanged traded funds	127			127
State and local debt securities		17		17
Other asset-backed securities			10	10
	127	6,322	10	6,459
Trading securities:				
Common stocks	750			750
Corporate debt securities		578		578
Mutual funds	21	44		65
Commingled international equity funds		37		37
Foreign debt securities		32		32
Preferred stocks		24		24
U.S. treasury securities		2		2
Other asset backed securities		2		2
Mortgage-backed securities		1		1
	771	720		1,491
Total investments	$ 898	$ 7,042	$ 10	$ 7,950
Securities lending collateral	$	$ 18	$	$ 18

The Corporation's assets recorded at fair value at December 31, 2013, are as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash equivalents	$ 633	$ 7	$	$ 640
Available for sale securities:				
Corporate debt securities	$	$ 2,799	$	$ 2,799
Mortgage-backed securities		1,963		1,963
U.S. treasury securities		1,456		1,456
Mutual funds	26			26
Other asset backed securities			20	20
State and local debt securities		7		7
	26	6,225	20	6,271
Trading securities:				
Corporate debt securities		554		554
Common stocks	820			820
Commingled international equity funds		71		71
Mutual funds	18	41		59
Foreign debt securities		19		19
Preferred stocks		15		15
Other asset backed securities		6		6
	838	706		1,544
Total investments	$ 864	$ 6,931	$ 20	$ 7,815
Securities lending collateral	$	$ 32	$	$ 32

The Corporation's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2014, are as follows:

	(Level 3) Other Asset Backed Securities
Balance — January 1, 2013	$ 21
Total gains or losses (realized/unrealized):	
Included in earnings	
Included in other comprehensive income	
Purchases, issuances, and settlements	
Sales	(1)
Balance — December 31, 2013	20
Total gains or losses (realized/unrealized):	
Included in earnings	
Included in other comprehensive income	1
Purchases, issuances, and settlements	
Sales	(11)
Balance — December 31, 2014	$ 10
The amount of total gains or losses for the period included in earnings (or other comprehensive income) attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2013	$ (2)
The amount of total gains or losses for the period included in earnings (or other comprehensive income) attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2014	$

The techniques and inputs used to evaluate Level 3 financial instruments include a monthly valuation and a more detailed analysis of the values on a quarterly basis. The assumptions used for the discounted cash flow model include, estimated principal prepayment speeds to determine the life of the Level 3 asset and anticipated annual cash flow, utilizing an approximation of the future London Interbank Offered Rate (LIBOR). Cash flows are discounted using a rate determined by the credit/market spread over the appropriate U.S. Treasury interest rate.

Transfers between levels may occur due to changes in the availability of market observable inputs. Transfers in and/or out of any level are assumed to occur at the end of the period.

Transfers into Level 3 — During the years ended December 31, 2014 and 2013, there were no transfers into or out of level 3.

5. INVESTMENT INCOME AND OTHER — NET

Investment Income and Other – Net for the years ended December 31, 2014 and 2013, consist of the following:

	2014	2013
Dividends and interest:		
Debt securities	$ 175	$ 191
Equity securities	16	13
Short-term investments	1	3
Total dividends and interest	192	207
Gain on sales of securities	160	124
(Loss) gain on trading securities held at year end	(45)	140
Realized impairment loss on investments in joint venture	(2)	(12)
Total gains on investments	113	252
Interest expense	(37)	(36)
Earnings (losses) in joint ventures and other equity interests	31	(2)
Other expense	(9)	(4)
Total investment income and other — net	$ 290	$ 417

6. RECEIVABLES — NET

Receivables — net as of December 31, 2014 and 2013, consist of the following:

	2014	2013
Administrative service contracts — IBNR	$ 1,033	$ 996
Reinsurance recoverable on workers' compensation business	489	564
Underwritten contracts	458	422
Reinsurance recoverable on life insurance and other policies	283	290
Administrative service contracts — claim and fees	90	126
Government Programs	378	116
Pharmacy rebates	66	65
Accrued interest	53	61
Federal income tax recovery	3	20
Other	79	49
Total	$ 2,932	$ 2,709
Receivables from Government Programs consists of the following:		
Medicare Advantage Risk Adjustment Revenue	$ 133	$ 96
Medicare Part D Reinsurance	16	10
Medicare Part D Discount	18	10
Risk Adjustment Revenue anticipated for ACA QHP Plans	71	
Recoveries from ACA Reinsurance Program	140	
Total	$ 378	$ 116

Receivables are net of allowances for uncollectible amounts of $15 and $12 as of December 31, 2014 and 2013, respectively.

7. PROPERTY AND EQUIPMENT — NET

Property and equipment, net at December 31, 2014 and 2013, consist of the following:

	2014	2013
Land and buildings	$ 471	$ 458
Equipment	259	242
Software	537	467
Capital projects in process	26	81
Total property and equipment	1,293	1,248
Less accumulated depreciation and amortization	(706)	(612)
Total	$ 587	$ 636

Depreciation and amortization expense was $96 and $94, respectively for the years ended December 31, 2014 and 2013.

8. GOODWILL

Acquisitions are accounted for under the purchase method of accounting and, accordingly, the purchase price is allocated to assets acquired and liabilities assumed based on their estimated fair values.

The carrying amount of goodwill from the purchase of subsidiaries at December 31, 2014 and 2013, consist of the following:

	2014	2013
Goodwill	$ 294	$ 294
Accumulated amortization	(86)	(86)
Accumulated impairment losses	(36)	(36)
Adjustments	(6)	
Net goodwill balance	$ 166	$ 172

The Corporation completed its annual impairment tests for the years ended December 31, 2014 and 2013, and determined no impairments were necessary.

9. INVESTMENTS IN JOINT VENTURES AND EQUITY INTERESTS

The Corporation's investments in joint ventures and equity interests consists of the following:

	2014	2013
Equity method:		
BMH LLC	$ 196	$ 189
Data Driven Delivery Systems LLC	61	
Bloom Health		
NASCO LLC	20	18
Other	94	82
Total equity method	371	289
Cost method:		
FHLBI	69	79
Other	30	37
Total cost method	99	116
Total joint ventures and equity interests	$ 470	$ 405

The Company owns a 38.7% interest in BMH, LLC (BMH). The remaining 61.3% of BMH is owned by Independence Blue Cross. BMH operates as Amerihealth Caritas and provides health care solutions for Medicaid beneficiaries.

In July 2014, the Company made an investment into Data Driven Delivery Systems, LLC (DDDS) for an amount of $61 which represents a 40.0% interest. DDDS provides a risk adjustment program that ensures accurate medical documentation and claims coding to support accurate risk scores. DDDS also provides services that improve the management of Medicare Advantage member health and help the Company identify patients who may benefit from disease and medical management programs.

The Company owns a 28.68% interest in Bloom Health (Bloom). Bloom is an emerging healthcare technology company that provides innovative defined contribution and private exchange products for Blues plans. The Company's investment in Bloom is presently valued at $0 as the goodwill of the investment was impaired in 2013.

The Corporation owns a 19.99% interest in National Account Service Company LLC (NASCO). NASCO operates a national claims processing system for several Blue Cross Blue Shield plans.

The Corporation has other investments in entities that are recorded using the cost and equity methods of accounting. At December 31, 2014 and 2013, the Corporation's ownership interests in these investments ranged from 0.27% to 13.8%.

Joint ventures and equity interests reported using the Equity Method are based on the most recent financial information available as of the year ended December 31, recognizing that there may be a one to three month lag in the receipt of financial statements from the investee. The summarized financial positions and results of operations for BMH, DDDS, Bloom and NASCO used to record the share of the earnings or losses as reported by the Corporation for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Assets:		
BMH LLC	$ 1,754	$ 1,450
DDDS	6	
Bloom Health	12	20
NASCO	185	184
Total assets	$ 1,957	$ 1,654
Liabilities:		
BMH LLC	$ 1,219	$ 936
DDDS	6	
Bloom Health	78	68
NASCO	90	84
Total liabilities	$ 1,393	$ 1,088
Equity		
BMH LLC	$ 536	$ 513
DDDS		
Bloom Health	(66)	(47)
NASCO	94	101
Total equity	$ 564	$ 567
Revenue		
BMH LLC	$ 5,762	$ 4,748
DDDS	4	
Bloom Health	6	4
NASCO	323	309
Total revenue	$ 6,095	$ 5,061
Net income		
BMH LLC	$ 23	$ 22
DDDS	1	
Bloom Health	(18)	(20)
NASCO	4	4
Total net income	$ 10	$ 6

The Corporation's share of income (loss) from equity method investments included in the above financial results was $31 and $(2) for 2014 and 2013, respectively, which is recorded in investment income and other in the consolidated statement of operations.

Other equity method interests consist primarily of investments structured as limited partnerships. The Corporation determines the carrying values of these investments based on information provided by the external investment administrators and fund managers or the general partners. Audited financial statements of the investee are the primary consideration when evaluating the overall reasonableness of the recorded values.

The principal investment carried at cost is the Corporation's investment in the FHLBI common stock. FHLBI stock is registered with the Securities and Exchange Commission (SEC), but is not publicly traded. The Corporation is required to be a member of the FHLBI in order to gain access to borrowings and credit.

The Corporation regularly reviews its investments to determine whether there is an indication of impairment. If any indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss. The Corporation completed its analysis and as a result, the Corporation recognized impairments for its joint ventures and equity investments of $0 and $12 in 2014 and 2013, respectively.

In total, the Corporation made $95 and $45 in contributions to fund joint venture and other equity investments in 2014 and 2013, respectively.

At December 31, 2014 and 2013, the Corporation had future unfunded capital commitments of approximately $69 and $134, respectively for all its investments in joint ventures and equity interests.

The Corporation has concluded that it is not practicable to estimate the fair value of these investments because they do not have a ready market value. The Corporation determined that there were no other changes in circumstances or adverse events that would be expected to change the carrying value of these investments.

10. OTHER ASSETS

Other assets at December 31, 2014 and 2013, consist of the following:

	2014	2013
Net intangible assets	$ 29	$ 33
Deferred policy acquisition costs	72	59
Prepaid assets	38	34
Total	$ 139	$ 126

Intangible assets are amortized over periods ranging from one year to 12 years, as applicable. Trade names and state licenses have indefinite useful lives and are not amortized but are evaluated for impairment on an annual basis, and at December 31, 2014 and 2013, these assets totaled $10. Other intangible assets at December 31, 2014 and 2013, consist of the following:

	2014	2013
Intangible assets:		
Covenant not to compete	$ 16	$ 16
Customer related intangibles	41	41
Broker networks	20	20
Trademarks	3	3
Tradenames	7	7
State licenses	3	3
Total intangible assets	90	90
Less accumulated amortization	(61)	(57)
Net intangible assets	$ 29	$ 33

The current and future amortization is as follows:

	2014	2013
Current year amortization expense	$ 4	$ 4

Amortization Years Ending December 31	
2015	$ 4
2016	4
2017	1

11. LIABILITIES FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Activity in the liabilities for unpaid claims and claim adjustment expenses, at December 31, 2014 and 2013, is summarized as follows:

	2014	2013
Balance of unpaid claims — January 1	$2,658	$2,762
Less reinsurance recoverable	848	782
Net balance — January 1	1,810	1,980
Incurred related to:		
Current year	9,550	8,682
Prior year	9	(85)
Total incurred	9,559	8,597
Paid related to:		
Current year	8,176	7,634
Prior year	1,121	1,133
Total paid	9,297	8,767
Balance of unpaid claims — December 31	2,072	1,810
Unpaid loss assumed under quota-share reinsurance agreement		27
Liabilities subject to reinsurance recoverable	696	848
Liability for claim adjustment expenses	144	142
Liability for ASC claims	1,030	996
Total unpaid claims and claim adjustment expenses	$3,942	$3,823

The Corporation estimates the amount of the medical claims liability costs (IBNR) using standard actuarial developmental methodologies based upon historical data including run out patterns, expected medical cost inflation, seasonality patterns and changes in membership, and other factors. The Corporation's IBNR best estimate also includes a provision for adverse deviation, which is an estimate for known environmental factors that are reasonably likely to affect the required level of IBNR reserves. This provision for adverse deviation is intended to capture the potential adverse development from known and special environmental factors such as changes in payment patterns, trends, and benefits versus historical levels, system issues not captured in inventory reports, and/or exceptional situations that require judgmental adjustments in setting the reserves for claims. The change in estimate for prior year claims recorded in the financial statements reflects favorable claims experience related to health and nonhealth claims.

The Corporation consistently applies the IBNR estimation methodology from period to period. The Corporation's best IBNR estimate is made on an accrual basis and adjusted in future periods if required. Any adjustments to the prior period estimates are included in the current period. The majority of the IBNR reserve balance held at the end of each year is associated with the most recent months' incurred services because these are the services for which the fewest claims have been paid. The degree of uncertainty in the estimates of incurred claims is greater for the most recent months' incurred services.

Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts estimated. Processing expenses related to claims are accrued based on an estimate of expenses to process such claims.

12. PREMIUM DEFICIENCY RESERVES

PDR for the years ended December 31, 2014 and 2013, consist of the following balances as of:

	January 1, 2014	Increase	Decrease	December 31, 2014
Senior segment	$ 396	$	$ 200	$ 196
Individual	25		25	
Medicaid	3	3	3	3
Total	$ 424	$ 3	$ 228	$ 199

	January 1, 2013	Increase	Decrease	December 31, 2013
Senior segment	$ 416	$ 80	$ 100	$ 396
Individual	78	25	78	25
Medicaid		3		3
MI Child	11		11	
Total	$ 505	$ 108	$ 189	$ 424

Projected Loss by Year (As of Dec 31, 2014)	Medicaid	Individual	Senior Segment	Total
2015	$ 3	$	$ 22	$ 25
2016			168	168
2017			6	6
Total	$ 3	$	$ 196	$ 199

Senior Segment — In 2011, the Company entered into an agreement with the Michigan Attorney General to freeze Medigap premium rates through July 31, 2016. This agreement was incorporated into the terms of the Company's transition to a nonprofit mutual insurer. The Senior Segment PDR recorded at December 31, 2014, reflects the loss obligations for years 2015 through 2016 that are expected to be realized in the Senior Segment for the Medicare complimentary policies that are currently issued given the guarantee renewal of these policies.

Individual — The prior year PDR incorporated significant regulatory and marketplace changes under the ACA that were effective January 1, 2014, as well as the Company's transition to a nonprofit mutual insurer that resulted in anticipated underwriting losses for 2014. No PDR was established at December 31, 2014, as the Company anticipates the Individual segment to be profitable in future years under rating and pricing provisions contained in the ACA.

Medicaid — The 2014 PDR for BCC's Medicaid HMO product is largely due to market expansion and membership growth.

MIChild — Effective October 2013 BCBSM's PPO arrangement was not renewed by the Michigan Department of Community Health. As of December 31, 2013, the MIChild PDR balance was zero.

13. REINSURANCE

In the ordinary course of business, Accident Fund enters into reinsurance contracts, whereby Accident Fund and its subsidiaries assume and cede premiums and losses with other insurance companies.

Ceded reinsurance does not relieve Accident Fund of its primary obligations under its contracts of insurance. To the extent reinsurers are unable or unwilling to honor their obligations under the reinsurance treaties, Accident Fund remains primarily liable to its policyholders. To manage this risk, Accident Fund periodically evaluates the financial condition of its reinsurers. When needed, allowances are established for uncollectible reinsurance recoverables. At December 31, 2014 and 2013, no allowance was required.

Accident Fund also participates as a reinsurer in various residual market workers' compensation pools. Participation in these pools is mandatory in many states in which Accident Fund conducts business, and thus the pools are frequently referred to as involuntary pools. Involuntary pools and associations represent a mechanism employed by states to provide insurance coverage to those with expected higher than average probability of loss who otherwise would be excluded from obtaining coverage. Reporting entities are generally required to participate in the underwriting results, including premiums, losses, expenses, and other operations of involuntary pools, based on their proportionate share of similar business written in the state. The effects of reinsurance activities on premiums and losses for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Premiums written:		
Direct	$ 943	$ 870
Reinsurance assumed	43	37
Reinsurance ceded	(48)	(192)
Net premium written	$ 938	$ 715
Premium earned:		
Direct	$ 916	$ 840
Reinsurance assumed	42	35
Reinsurance ceded	(43)	(191)
Net premium earned	$ 915	$ 684

	2014	2013
Losses and loss adjustment expenses incurred:		
Direct	$ 574	$ 571
Reinsurance assumed	23	21
Reinsurance ceded	60	(146)
Net losses and loss adjustment expenses incurred	$ 657	$ 446

Reinsurance prepaids and recoverables are included in receivables — net in the consolidated financial statements.

	2014	2013
Reinsurance recoverables:		
Unpaid losses recoverable on workers' compensation policies	$ 404	$ 548
Unpaid losses recoverable on disability policies	9	10
Profit commission	67	
Accrued reinsurance premiums recoverable	2	2
Paid losses recoverable	7	4
Total reinsurance recoverables	489	564
Total prepaid reinsurance	10	10
Total	$ 499	$ 574

LifeSecure cedes all its life insurance and annuity business, and certain accident and health business to Allstate under a 100% coinsurance reinsurance agreement. Under this agreement, Allstate receives 100% of the premiums and pays 100% of the claims, surrender benefits, and other expenses that are directly allocable to the reinsured business. Allstate administers the reinsured business and bears all administrative expenses. Allstate reimburses LifeSecure for any expenses it pays directly related to the reinsured business. LifeSecure remains obligated for amounts ceded in the event that the reinsurer does not meet its obligation.

LifeSecure assumes the risk on several blocks of long-term care business from nonaffiliated insurance companies under various coinsurance agreements. In accordance with these agreements, LifeSecure assumes varying percentages of the premiums, claims, and expenses on the business, ranging from 40% to 100%. LifeSecure pays the ceding companies monthly commission and expense allowances, which are charged immediately to operating expense. Amounts paid to the ceding company for the initial assumption of this business have been capitalized and are being amortized over the life of the reinsurance contracts in proportion to the premium revenue recognized.

The effects of reinsurance activities of LifeSecure on premiums and losses for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Premiums written:		
Direct	$ 29	$ 20
Reinsurance assumed	23	23
Reinsurance ceded	(10)	(10)
Net premium written	$ 42	$ 33
Premium earned:		
Direct	$ 28	$ 19
Reinsurance assumed	22	23
Reinsurance ceded	(9)	(9)
Net premium earned	$ 41	$ 33

	2014	2013
Losses and loss adjustment expenses incurred:		
Direct	$ 34	$ 27
Reinsurance assumed	28	21
Reinsurance ceded	(21)	(20)
Net losses and loss adjustment expenses incurred	$ 41	$ 28

The reinsurance recoverables included in receivables, net, at December 31, 2014 and 2013, consist of the following:

	2014	2013
Recoverable on life insurance and other policies	$ 283	$ 290

14. PENSION AND POSTRETIREMENT PLANS

Defined Contribution Plan — Bargaining unitemployees who have completed three months of continuous service are automatically enrolled in the savings plan established for represented employees. Nonrepresented employees are enrolled in the savings plan established for nonrepresented employees immediately upon employment. Both savings plans are tax qualified under IRC Section 401(k). For both represented and nonrepresented employees the Corporation matches 50% of employee contributions up to 10% of biweekly adjusted W-2 wages after one year of continuous service. The Section 401(k) limit on elective employee deferrals was $17,500 (in dollars) for 2014 and 2013, respectively. The law also allows for catch-up contributions for employees who are age 50 or older as of December 31 in the amount of $5,500 (in dollars) for 2014 and 2013, respectively. Catch-up contributions are not matched by the Corporation. The Corporation's expense for matching contributions during 2014 and 2013 totaled $20 and $19, respectively.

Defined Benefit Plans — The Corporation sponsors two tax-qualified defined benefit pension plans administered under a single master trust as follows:

Retirement Account Plan — Nonrepresented employees who meet age and service requirements participate in this plan. Pension benefits of participants in this plan become vested after three years of service. Under a cash balance arrangement, participants have an account balance to which interest and earnings credits are added. Subject to an annual 4% minimum, interest is credited quarterly based on a rate equal to the yield on a one-year Treasury Constant Maturities for the month of August immediately preceding the plan year. Annual earnings credits ranging from 3% to 10% based on age and date of hire are credited on a monthly basis. Employees can elect to receive their vested account balance as a lump sum or in monthly payments at retirement.

Represented Employees' Retirement Income Plan — Represented employees who meet age and service requirements participate in this plan. Pension benefits of participants in this plan become vested after three years of service if hired after January 1, 2009. The plan is a final average pay arrangement for participants hired prior to January 1, 2009, and provides a postretirement monthly benefit based on average monthly earnings and credited service years. For post January 1, 2009, represented new hires (January 1, 2010, for Accident Fund represented employees), the plan is a cash balance arrangement and provides an account balance that grows through earnings and interest credits. Each month, represented employees participating under the cash balance arrangements receive a basic credit of 6.4% of the participants' defined monthly income. Interest is credited quarterly in a manner similar to that in the Retirement Account Plan. Post January's 2009 represented participants can elect to receive their vested balance as a lump sum or in monthly payments upon retirement. Represented employees participating under the final average payment provisions of the represented employee plan only can elect from various monthly payment options upon retirement.

Nonqualified Plans — Retirement benefits are provided for a group of key employees under nonqualified defined benefit pension plans. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitations contained applicable to tax qualified plans under the IRC. Benefits under the plans are unfunded and paid out of the general assets of the Corporation. The projected benefit obligation for these plans at December 31, 2014 and 2013, was $77 and $64, respectively, and are included in the tables below.

Postretirement Benefits — The Corporation provides certain health care and selected other benefits to certain employees and dependents of employees who retire from active employment or who become disabled. Eligibility requirements vary based on hire date, years of service and retirement age. Represented employees hired after January 1, 2009, are not eligible for postretirement health care. All participants in the nonrepresented plan and the represented plan are required to enroll in the Medicare Advantage program upon reaching age 65.

Postretirement health care benefits are subject to revision at the discretion of BCBSM. The Corporation's postretirement healthcare plan is unfunded.

The projected benefit obligation and funded status at the plan measurement date and the accrued expenses at December 31, 2014 and 2013, consist of the following:

	2014	2013	2014	2013
	Pension		Postretirement	
Accumulated benefit obligation	$ 1,481	$ 1,314	$ 971	$ 777
Effects of estimated future pay increases	108	87		
Projected benefit obligation	1,589	1,401	971	777
Plan assets at fair market value	1,228	1,182		
Funded status	$ (361)	$ (219)	$ (971)	$ (777)
Liabilities included in accrued employee expenses	$ (361)	$ (219)	$ (971)	$ (777)
Information for plans with an accumulated benefit obligations in excess of plan assets:				
Projected benefit obligation	$ 1,589	$ 1,401	$ 971	$ 777
Accumulated benefit obligation	1,481	1,314	971	777
Fair value of plan assets	1,228	1,182		

The amounts recognized in accumulated other comprehensive loss; including amounts arising during the year are as follows:

	Pension		
	Net (Gain) Loss	Prior Service Cost	Total
Balance at January 1, 2013	$ 442	$ 4	$ 446
Recognized during the year	(42)	(1)	(43)
Occurring during the year	(219)	3	(216)
Subtotal before tax	(261)	2	(259)
Deferred tax expense (benefit)	52		52
Balance at December 31, 2013	233	6	239
Recognized during the year	(23)	(1)	(24)
Occurring during the year	159		159
Subtotal before tax	136	(1)	135
Deferred tax expense (benefit)	(13)		(13)
Balance at December 31, 2014	$ 356	$ 5	$ 361
Accumulated balance-(gain)/loss			$ 434
Deferred tax assets			(73)
Balance at December 31, 2014			$ 361

	Postretirement			All Plans
	Net (Gain) Loss	Prior Service Cost	Total	Grand Total
Balance at January 1, 2013	$ 196	$ (38)	$ 158	$ 604
Recognized during the year	(13)	14	1	(42)
Occurring during the year	(124)		(124)	(340)
Subtotal before tax	(137)	14	(123)	(382)
Deferred tax expense (benefit)	27	(3)	24	76
Balance at December 31, 2013	86	(27)	59	298
Recognized during the year	(1)	11	10	(14)
Occurring during the year	169		169	328
Subtotal before tax	168	11	179	314
Deferred tax expense (benefit)	(28)		(28)	(41)
Balance at December 31, 2014	$ 226	$ (16)	$ 210	$ 571
Accumulated balance-(gain)/loss			$ 252	$ 686
Deferred tax assets			(42)	(115)
Balance at December 31, 2014 in AOCL			$ 210	$ 571

Included in the tables above is the actuarial loss resulting from the issuance of revised mortality tables (RP-2014 and MP-2014) that reflect the increasing life expectancies of individuals living in the United States. As a result, the Corporation recorded an additional $61 of Pension and $111 of Postretirement liabilities during the year ended December 31, 2014.

The benefit costs, employer contributions, and benefits paid for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013	2014	2013
	Pension		Postretirement	
Service cost for benefits earned during the year	$ 51	$ 53	$ 20	$ 24
Interest cost	68	61	37	36
Expected return on assets	(83)	(77)		
Amortization of net prior service cost	1	1	(12)	(14)
Actuarial loss recognized	23	42	2	13
Net periodic benefit cost	$ 60	$ 80	$ 47	$ 59
Total benefit expense for the year	$ 60	$ 80	$ 47	$ 59
Employer contributions	$ 50	$ 40	$	$
Benefits paid	$ 115	$ 62	$ 32	$ 32

The Corporation expects to recognize the following as components of the net periodic benefit cost in 2015:

	Pension	Postretirement
Net loss/(gain)	$ 34	$ 18
Prior service cost	1	(10)
Total	$ 35	$ 8

Assumptions used to determine benefit obligation and net periodic benefit cost were as follows:

	Pension			
	2014	2013	2014	2013
	Non Represented and Nonqualified Plans		Represented Plan	
Projected benefit obligations:				
Discount rate	4.20 %	4.75 %	4.50 %	5.25 %
Rate of compensation increase	3.0%–10.0%	3.0%–10.0%	3.0%–8.0%	3.0%–8.0%
Net periodic benefit cost:				
Discount rate	4.75 %	4.00 %	5.25 %	4.45 %
Rate of compensation increase	3.0%–10.0%	3.0%–10.0%	3.0%–8.0%	3.0%–8.0%
Expected long term return	7.80 %	8.00 %	7.80 %	8.00 %

	Postretirement			
	2014	2013	2014	2013
	Nonrepresented Employees		Represented Employees	
Projected benefit obligations — discount rate	4.45 %	5.15 %	4.45 %	5.20 %
Net periodic benefit cost — discount rate	5.15	4.35	5.20	4.40

The expected long-term rate of return on plan assets is determined based on the weighted average of the expected long-term returns for active management of the various asset classes represented in the pension trust allocation. The expected long-term rate of return is then reviewed for reasonableness with historical asset returns for the master trust and against asset return models, which consider current market conditions and long term asset class returns.

Health Care Cost Trend Rates — Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. The postretirement benefit obligation includes assumed health care cost trend rates as follows:

	2014	2013
Pre 65 PPO	6.95 %	7.20 %
Pre 65 HMO	6.90 %	7.20 %
Pre 65 Drug	8.00 %	8.50 %
Post 65 Non MA PPO	4.50 %	4.50 %
Post 65 Non MA HMO	5.70 %	5.90 %
Post 65 MA PPO	5.95 %	6.20 %
Post 65 MA HMO	6.30 %	6.70 %
Post 65 Drug	7.50 %	8.00 %
Ultimate Trend Rate	5.00 %	5.00 %
Year rate reaches ultimate rate	2020	2020

A one-percentage point change in assumed health care cost trend rates would have the following effects at December 31, 2014:

	Point Increase	Point Decrease
Effect on postretirement benefit obligation	$ 162	$ (117)
Effect on total of service cost and interest cost components	8	(6)

Pension Trust Investment Policy — Plan assets for both the nonrepresented and represented employee's pension plans are held in a single master trust with State Street Bank. Each plan owns its allocable share of all master trust assets. Master trust assets are for the exclusive benefit of participants and can only be used to pay plan benefits and administrative expenses. Plan assets in the master trust are currently managed by 11 external investment managers with assets allocated to equity, fixed-income securities, cash, and alternative investments based on the pension investment policy statement.

The Corporation's pension trust asset allocation considers return objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. The pension investment policy is long-term oriented and consistent with the Corporation's risk posture and is periodically reviewed by the Finance Committee. The Finance Committee has asset administration and fiduciary responsibilities with

respect to the pension trust assets. The pension trust asset allocation is currently transitioning to an allocation that will reduce balance sheet and funding volatility for the Corporation while ensuring the continued maintenance of trust assets sufficient to cover plan benefits and expenses.

The ultimate target allocation under the Corporation's investment policy is 60% long duration fixed-income securities and 40% return-seeking assets. Return-seeking assets under the policy are defined as any asset class other than long duration fixed-income securities and cash equivalents. The return-seeking allocation currently includes publicly traded equities, publicly traded high-yield fixed-income securities, multi-strategy hedge funds and fund of fund private equity. At December 31, 2014, the actual allocation of plan assets was approximately 43% long-duration fixed-income securities cash and 57% return-seeking assets. The ultimate target asset allocation is expected to occur by the end of 2016 but could take more or less time, dependent on market conditions.

The fair values of the Corporation's pension plan assets by asset category for 2014 and 2013 are as follows:

	Fair Value Measurements at December 31, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Commingled equity funds	$ 165	$ 139	$	$ 304
Corporate debt securities		375	4	379
Common stocks	203			203
Cash equivalents	68	5		73
U.S. treasury securities		55		55
Limited liability companies		43		43
Limited partnerships			103	103
U.S. agency securities		30		30
Foreign debt securities		22		22
State and local debt securities		10		10
Other asset backed securities		3	7	10
Other pension assets	(5)	1		(4)
Total	$ 431	$ 683	$ 114	$ 1,228

	Fair Value Measurements at December 31, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Commingled equity funds	$	$ 311	$	$ 311
Corporate debt securities		298	3	301
Common stocks	274			274
Cash equivalents	69	20		89
U.S. treasury securities		64		64
Limited liability companies		46		46
Limited partnerships			41	41
U.S. agency securities		25		25
Foreign debt securities		18		18
State and local debt securities		8		8
Other asset backed securities		2		2
Other pension assets	1	2		3
Total	$ 344	$ 794	$ 44	$ 1,182

The Corporation and its investment managers determine fair values by applying the following guidelines. If available, the Corporation uses market prices in active markets for identical assets and classifies these assets as Level 1. When market prices for similar financial instruments in an active market are not available, the Corporation estimates fair value based on pricing models using matrix pricing or price discovery and classifies these assets as Level 2. In situations where there is little or no market activity for same or similar financial instruments, the Corporation estimates fair value using its own assumptions about future cash flows and appropriate risk-adjusted discount rates and classifies these assets as Level 3.

Cash Equivalents — Consist of money market and short term securities with an original maturity of 90 days or less. Securities where the valuation is based on unadjusted quoted prices, and are classified as Level 1. Some short term securities are valued using observable market data, but are not consistently or actively traded. These securities are classified as Level 2.

Commingled Equity Funds — Consist of international equity securities. Valuation is recorded at NAV and is based on the underlying investments in the funds, and are classified as Level 2.

Limited Partnerships — Consist of interests in two private equity funds and two hedge funds structured as partnerships. Valuation is based on information provided by the fund managers along with audited financial information. These securities have been classified as Level 3.

Limited Liability Companies —Valuation is based on unobservable inputs and is provided by the fund managers. These securities have been classified as Level 2.

U.S. Agency Securities — Consist of debt issued by government agencies. Because valuation is based on unadjusted quoted prices for these securities in an active market and there is a lack of transparency into the specific pricing of the individual securities they are classified as Level 2.

U.S. Treasury Securities — Consist of certain U.S. government securities, and bonds issued by U.S. government-backed agencies. Because valuation is based on unadjusted quoted prices for these securities in an active market and there is a lack of transparency into the specific pricing of the individual securities they are classified as Level 2.

Common Stocks — Consist of actively traded, exchange listed equity securities. Valuation is based on unadjusted quoted prices for these securities or funds in an active market, and are classified as Level 1.

Foreign Debt Securities — Consist of foreign notes and bonds issued by corporate entities. Valuation is based on inputs derived directly from observable market data and are classified as Level 2.

Other Asset Backed Securities — Consist of debt issued by non-corporate entities. Valuation is based on inputs derived directly from observable inputs but are not consistently traded. These securities are classified as Level 2. Some of these securities are valued based on information provided by the fund managers, using unobservable data. These securities are classified as a Level 3.

Corporate Debt Securities — Consist of corporate bonds and notes. Valuation is determined using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted process are not available for identical or similar bonds, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risk or a broker quote, if available. These securities are classified as Level 2.

State and Local Debt Securities — Consist of long term notes and bonds issued by state and local governments. Valuation is based on inputs derived directly from observable market data and are classified as Level 2.

Other Pension Assets — Consist of derivative instruments. Valuation is based on inputs derived directly from observable inputs and are consistently traded. These securities are classified as Level 1. There are also derivative instruments valued based on inputs derived directly from observable inputs but are not consistently traded. These securities are classified as Level 2.

Insurance Annuity Contract — Consists of various long-term investments issued by both private and public organizations. Valuations is based on alternative methods, using unobservable data. This investment is classified as Level 3.

The Corporation's pension assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for 2014 and 2013, are as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) at December 31, 2014				
	Insurance Annuity Contract	Limited Partnerships	Corporate Debt	Asset Backed	Total
Ending balance — January 1, 2013	$ 1	$ 39	$	$	$ 40
Actual return on plan assets — relating to assets still held at the reporting date	(1)	5			4
Purchases		2	3		5
Sales		(5)			(5)
Ending balance — December 31, 2013		41	3		44
Actual return on plan assets — relating to assets still held at the reporting date		9			9
Purchases		60			60
Sales		(7)			(7)
Transfers in and /or out of Level 3			1	7	8
Ending balance — December 31, 2014	$	$ 103	$ 4	$ 7	$ 114

Pension Plan Contributions — The Corporation contributed $50 and $40 in 2014 and 2013, respectively, to its defined benefit pension plans. As of December 31, 2014, the Corporation anticipates it will contribute up to $15 in required contributions in 2015.

Expected Benefit Payments — The benefit payments, which reflect expected future service, and expected postretirement benefits, before deducting the Medicare Pare D subsidy at December 31, 2014, are expected to be paid as follows:

Years Ending December 31	Postretirement Plans	Postretirement Medicare Part D Subsidy
2015	$ 41	$ 2
2016	44	3
2017	46	3
2018	49	4
2019	52	4
2020–2024	293	26
Total	$ 525	$ 42

15. DEBT

The carrying value of the Corporation's outstanding debt as of December 31, 2014 and 2013, is as follows:

	2014	2013
Federal Home Loan Bank of Indianapolis (FHLBI):		
The Company: 0.61% — 3.40%, due 2015–2020	$ 1,126	$ 1,127
The Company: 0.13% — 0.24%, due 2016	46	46
Accident Fund: 1.50% — 5.53%, due 2015–2028	80	84
BCNM: 0.73% — 1.10%, due 2016–2017	75	75
Accident Fund: Economic Dev Corp of City of Lansing debt: 0.17% due 2032	23	26
The Company: RBS asset-secured debt: 3.46% — 4.65%, due 2013-2014		4
Accident Fund: Fifth Third Bank: 2.95% — 5.87 % AFHI sale-leaseback, due 2014–2016	2	6
EIN Properties, LLC loan payable : 0.71% — 1.47%	5	5
Total Debt	$ 1,357	$ 1,373

The $46 FHLBI loan has a 10 year term and is subject to floating interest rate provisions that is reset every three months based on the FHLBI's cost of funds. All other borrowings have fixed interest rates.

The total interest expense for both years ended December 31, 2014 and 2013, was $23.

Liquidity Facilities — The Corporation has a facility limit of $2,450 with FHLBI. The limits are $2,000 for the Company, of which, borrowings longer than 1 year are limited to $1,500, $300 with the Accident Fund, and $150 with BCNM. The outstanding borrowings with FHLBI total $1,327 and $1,332 as of December 31, 2014 and 2013, respectively. The FHLBI debt is collateralized by government securities at 105%–110% of the outstanding loan balance. The FHLBI weighted-average borrowing rate is 1.79% and 1.58% at December 31, 2014 and 2013, respectively. The non-FHLBI debt weighted-average borrowing rate is 0.41% and 4.10% at December 31, 2014 and 2013, respectively.

Standby Letters of Credit — For certain debt agreements, the Corporation is required to maintain letters of credit to collateralize the debt. The letters of credit are all issued by FHLBI. The table below summarizes available letters of credit related to those debt agreements.

Letters of Credit Commitments	Expiration Date	Percentage of Financed Amount	Available Amount
Fifth Third Bank — AFHI	2015	100	1
Fifth Third Bank — AFHI	2016	100	1
Economic Development Corp, City of Lansing	2021	100	26

As of December 31, 2014 and 2013, the carrying value of the outstanding debt was $1,357 and $1,373, respectively. As of December 31, 2014 and 2013, fair value of the outstanding debt was $1,362 and $1,385, respectively.

The Corporation used a discounted cash flow method in determining fair value of outstanding debt and estimated fair value based on its own assumptions about future cash flows and appropriate adjusted discount factors.

At December 31, 2014, future minimum payments required for outstanding debt are as follows:

Years Ending December 31	
2015	$ 156
2016	249
2017	303
2018	303
2019	202
2020 and thereafter	144
Total future minimum payments	$ 1,357

16. OTHER LIABILITIES

Other liabilities at December 31, 2014 and 2013, consist of the following:

	2014	2013
Funds held - reinsurance treaties	$ 314	$ 360
Accrued administrative expenses	198	187
Accrued taxes, assessments, reserves and other	185	100
Advance deposits from ASC groups	180	179
Government Programs	139	11
Social mission accrual	50	100
Reinsurance liabilities	50	46
Administrative cash overdrafts	26	53
Policyholder dividends	24	27
Payable for purchase of securities	12	3
Board of escheats	11	9
Other	123	75
Total	$ 1,312	$ 1,150

Payables to Government Programs consists of the following:

Assessment from ACA Reinsurance Program	$ 65	$
ACA Risk Adjustment	44	
ACA Cost Sharing Reduction	23	
Medicare Advantage	7	11
Total	$ 139	$ 11

17. FEDERAL INCOME TAXES

Significant components of net deferred tax assets at December 31, 2014 and 2013, are summarized as follows:

	2014	2013
Deferred tax assets:		
Alternative Minimum Tax (AMT) credit carryforward	$ 521	$ 585
Accrued expenses associated with postretirement and pension benefits	379	286
Accrued expenses	93	68
Discount of claim liabilities as required for tax purposes	77	88
Premium deficiency reserve	68	147
Net operating loss carryover	5	7
Gross deferred tax assets	1,143	1,181
Valuation allowance	(715)	(777)
Deferred tax assets net of valuation allowance	428	404
Deferred tax liabilities:		
Depreciation and amortization	(61)	(53)
Unrealized gains on investments	(113)	(95)
Gross deferred tax liabilities	(174)	(148)
Net deferred tax assets	$ 254	$ 256

The valuation allowance decreased by $62 and $24 in 2014 and 2013, respectively. The change in the net deferred tax assets in 2014 is primarily due to the increase in the pension and postretirement benefits deferred tax asset and increase in accrued expenses, offset by a decrease in the deferred tax asset for premium deficiency reserves and discount of claim liabilities; the change in the net deferred tax assets in 2013 is primarily due to the decrease in the pension and postretirement benefits deferred tax asset, offset by a decrease in the deferred tax liability for unrealized gains on investments.

Significant components of the provision for federal income taxes for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Current tax expense	$ 83	$ 32
Deferred tax expense	21	5
Total tax expense	$ 104	$ 37

Income taxes were different from the amounts computed by applying the statutory federal income tax rate to income before taxes, as follows:

	2014		2013	
	Amount	Percent	Amount	Percent
Amount at statutory rate	$ 131	35.0 %	$ 105	35.0 %
Income of tax exempt subsidiaries	(3)	(0.8)	(41)	(13.2)
Health insurer fee	31	8.2		
Intangible asset abandonments	(10)	(2.6)	(1)	(0.2)
Executive compensation limitation	9	2.4	3	0.8
Permanent items		0.1	(1)	(0.3)
Audit and prior year settlements	9	2.3	(6)	(2.1)
DTA trueup	16	4.3	(10)	(3.4)
AMT rate differential	(79)	(21.0)	(12)	(4.1)
Total tax expense	$ 104	27.9 %	$ 37	12.5 %

Under current tax law, the Corporation is afforded a special deduction under IRC Section 833(b), for claims and administrative expenses, which typically reduces taxable income to zero on an annual basis. However, under the AMT structure, this deduction is a tax preference item, thereby subjecting the Corporation to the 20% AMT rate. The Corporation has recorded a deferred tax asset as of December 31, 2014 and 2013, of $521 and $585, respectively representing the amount of the AMT credit carryforward, which may be used to reduce its regular tax liability, in the event the Corporation's regular tax liability is greater than its AMT liability.

In accordance with ASC 740-30-5(e), deferred tax assets must be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realized. Consequently, each reporting period, management considers existing evidence, both positive and negative, in order to determine whether a valuation allowance is required. Items considered include the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Taking into consideration all evidence, in particular the AMT treatment of the special deduction afforded the corporation under IRC Section 833(b), management concluded that the Corporation is likely to remain an AMT taxpayer. The special deduction is available to the Corporation provided certain statutory requirements of Blue Cross organizations are satisfied and the Corporation's MLR is at or above 85%. For the 2014 tax year, the MLR is expected to be below 85%, however the Corporation remains in AMT due to regular tax NOLs. Utilization of the credit is uncertain, therefore the benefit for the AMT credit carryforward may not be realized. As a result, the Corporation established a full valuation allowance against the $521 AMT credit carryforward. In addition, due to the Corporation's continued status as an AMT taxpayer, all remaining deferred tax assets attributable to temporary differences will more likely than not be realizable at the AMT rate. Therefore, a valuation allowance was established against the remaining deferred tax assets equal to the difference between the value of the assets at the regular tax rate and their likely realizable value at the AMT rate.

At December 31, 2014, certain tax years remain open to examination by the IRS.

The Corporation recognizes accrued interest and penalties related to uncertain income tax positions in federal income tax expense. On examination of all relevant facts and circumstances for the Corporation's tax issues, it was determined that there were no material uncertain tax positions as of December 31, 2014 and 2013.

At both December 31, 2014 and 2013, the balance of unrecognized tax benefits that, if recognized, would affect our effective tax rate is $0. Therefore, at December 31, 2014, the Corporation has no liability for uncertain tax positions. Moreover, the Corporation does not believe that it is reasonably possible that this zero liability balance will significantly increase within the next 12 months. Further, the Corporation had no liability for uncertain tax positions at December 31, 2013.

The Company and its taxable subsidiaries file a consolidated federal income tax return. Further, the Corporation has tax sharing agreements with its taxable subsidiaries to provide that each taxable subsidiary is responsible for its own federal tax liability as if it filed a standalone tax return.

At December 31, 2014, the Corporation had unused federal net operating loss carryforward amounts of $5, which can be used to offset future taxable income. The loss carryforwards begin to expire in 2027.

18. INDUSTRY CONCENTRATION

The Corporation primarily conducts business within the State of Michigan. A significant portion of the Corporation's customer base is concentrated in companies that are part of the automobile manufacturing industry. Receivables from the significant customers in this industry are $56 and $106 at December 31, 2014 and 2013, respectively. These receivables primarily represent reimbursable claims and administrative fees for services provided to them as part of their ASC arrangements with the Corporation. The Corporation held cash advances from these customers of $13 and $11 at December 31, 2014 and 2013, respectively, to partially offset these receivables. Under an ASC arrangement, the group sponsor retains the primary financial responsibility for the underwriting risk of their employees. The Corporation retains an element of credit risk to providers in the event reimbursement is not received from the plan sponsor, accordingly, the Corporation has recorded a liability for IBNR and a related receivable in the amount of $315 and $307 at December 31, 2014 and 2013, respectively. In addition, the Corporation holds investments in these customers' equity securities, corporate bonds, commercial paper, and medium-term notes with a total fair value of $41 and $51 at December 31, 2014 and 2013, respectively.

19. OPERATING LEASES

The Corporation leases certain computer equipment and office space under various noncancelable operating leases. Rental expense was $24 and $25 for 2014 and 2013, respectively. At December 31, 2014, future minimum lease payments are as follows:

Years Ending December 31	
2015	$ 25
2016	25
2017	25
2018	20
2019	20
2020 and thereafter	134
Total	$ 249

20. UNCONDITIONAL PURCHASE OBLIGATIONS

The Corporation has entered into certain noncancelable, long-term computer maintenance, license contracts, and building maintenance obligations. Payments recognized under such contracts totaled $31 and $26 for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014, future payments are as follows:

Years Ending December 31	
2015	$ 43
2016	37
2017	14
2018	10
2019	10
Subsequent years	2
Total	$ 116

21. SOCIAL MISSION OBLIGATION

As part of the Company's transition to a non-profit mutual insurance company, the Company entered into an agreement with the State of Michigan whereby the Company committed to use its best efforts to make annual social mission payments to the Michigan Health Endowment Fund (MHEF) for the continued improvement of public health and community health care, including quality, cost, and access for the people of the State of Michigan. Such social mission payments are calculated based on prior fiscal year's consolidated revenues. The Company's commitment is to make aggregate payments of up to $1.56 billion over 18 years and considers these payments to be an ordinary and necessary business expense. Annual payments range from $0 to $110 depending on revenue and risk based capital (RBC) levels.

At December 31, 2014 and 2013, the Company recorded a liability (included in other liabilities) of $50 and $100, respectively.

22. CONTINGENCIES

Hospital Contracts — Three civil lawsuits challenging the use of most favored nations (MFN) clauses in hospital contracts have been filed seeking injunctive and monetary relief. The Corporation believes that these lawsuits are without merit. The Corporation has recently reached a settlement in one case, admitting no wrongdoing, which was preliminarily approved by the Court. It is not yet possible to make an assessment regarding probability of an adverse outcome, nor estimate a range of potential loss in the remaining cases. One plaintiff has indicated, during the course of discovery, that they are seeking in excess of $1 billion in damages.

Customer Disputes — The Corporation is currently involved in lawsuits with several local self-funded group customers that allege the Corporation charged the groups provider network and other fees without their knowledge. The groups allege breach of contract and fiduciary duty. These cases are in various stages of development.

Other — The Corporation is a defendant in numerous other lawsuits and involved in other matters arising in the normal course of business primarily related to subscribers' benefits, breach of contracts, provider reimbursement issues and provider participation arrangements. The Corporation's management, as of December 31, 2014, estimates that these matters will be resolved without a material adverse effect on the Corporation's future financial position or results of operations.

Where available information indicates that it is probable that a loss has been incurred as of the date of the consolidated financial statements and the amount of the loss can be reasonably estimated, the Corporation will accrue the estimated loss. As of December 31, 2014, and 2013 the Corporation recorded in other liabilities $75 and $27, respectively for all probable losses.

23. RELATED PARTY TRANSACTIONS

As discussed in Note 9, the Company holds an equity interest in BMH, NASCO, DDDS and Bloom Health. In addition to the equity interest, the Company also has service contracts with each of these entities.

The Company made additional capital contributions to BMH, a Medicaid services provider, totaling $6 in 2014. During 2014 and 2013, the Corporation incurred $30 and $8 for administrative service fees paid to BMH.

NASCO provides Blues plans with the ability to support national accounts' benefit administration in a centralized, uniform manner. There is a significant volume of intercompany transactions between the Company and NASCO and a high degree of technological dependency between the two organizations. NASCO's strategic value to the Company is significant as the Company's primary claim systems were developed utilizing the NASCO platform. As such, the Company's operating expense includes charges for system fee payments to NASCO. Reimbursements received under ASC group arrangements are recorded as a recovery of the fee through operating expense. During 2014 and 2013, the Company recorded $81 for both years in fees paid to NASCO for claims processing.

The Company partnered with Bloom to assist in the development of a platform for enhanced health plan functionality, including the decision-support tool and integrating the Company's current account administrator, and the development of potential single-point for underwriting, consumer analytics and other insurance and financial products. During 2014 and 2013, the Company recorded $1 for both years for fees paid to Bloom for administrative and development costs. As well in 2013, the Company entered into an agreement with Bloom for the prepayment of $12 in service fees.

DDDS provides a risk adjustment program that ensures accurate medical documentation and claims coding to support accurate risk scores. DDDS also provides services that improve the management of Medicare Advantage member health and help the Company identify patients who may benefit from disease and medical management programs. During 2014, the Company recorded $10 in service fees to DDDS.

24. GUARANTEES

As a 38.7% equity owner in BMH, the Corporation has agreed to guarantee its proportionate share of a line of credit loan outstanding with PNC Bank N.A. The line of credit was entered into on May 20, 2014, and provides for borrowing up to $355 and is for a one year term. BMH's outstanding debt balance as of December 31, 2014 is $125.

25. STATUTORY POLICYHOLDERS' RESERVES

The Company must maintain adequate statutory surplus to comply with Section 403 of the Michigan Insurance Code, which requires authorized insurers to be safe, reliable, and entitled to public confidence. As set forth in Section 500.410, the Commissioner is authorized to take into account the NAIC RBC requirements when evaluating if an insurer is in compliance with the "safe and reliable" requirement of Section 403.

At December 31, 2014, the Company's policyholders' reserves are in compliance with the requirements set forth in the Michigan Insurance Code. At December 31, 2014 and 2013, the Company's statutory surplus was $3,340 and $3,289, respectively.

BCNM's Articles of Incorporation state that no dividends shall be directly paid on any shares nor shall the shareholder be entitled to any portion of the earnings derived through increment of value upon its property or otherwise incidentally made. BCNM's statutory capital and surplus as of December 31, 2014 and 2013, is $1,020 and $1,001, respectively. BCNM is required by DIFS to comply with certain RBC requirements. At December 31, 2014 and 2013, BCNM was in compliance with the RBC requirement.

Accident Fund and LifeSecure are subject to state regulatory restrictions that limit the maximum amount of annual dividends or other distributions, including loans or cash advances, available to the parent without prior approval of DIFS. As of December 31, 2014, the maximum amount of dividends and other distributions that may be made by Accident Fund during 2015 without prior approval is $75. LifeSecure is currently in a statutory net loss position and would be unable to pay dividends based on the above criteria.

Accident Fund's statutory capital and surplus as of December 31, 2014 and 2013, is $751 and $684, respectively. Accident Fund is required by DIFS to comply with certain RBC requirements. At December 31, 2014 and 2013, and was in compliance with the RBC requirement.

LifeSecure is required by DIFS to maintain minimum capital and surplus of $8. In addition, the Company must maintain capital and surplus sufficient to achieve a RBC level of at least 250% of the authorized control level in accordance with California, New Jersey and Rhode Island Department of Insurance requirements.

Woodward Straits is required to maintain minimum capital and surplus of $0.2 and at December 31, 2014 was in compliance. Woodward Straits has no RBC requirement.

At December 31, 2014, $396 of cash and $3,841 of investments are held at the Corporation's subsidiaries, which are subject to the aforementioned dividend limitations.

26. ACCUMULATED OTHER COMPREHENSIVE LOSS

The accumulated other comprehensive loss at December 31, 2014 and 2013, consists of the following:

	2014	2013
Unrealized gains on available-for-sale securities	$ 110	$ 3
Unrecognized pension and postretirement liabilities	(571)	(298)
Other comprehensive (loss) income attributable to joint ventures	(4)	6
Total other comprehensive loss	$ (465)	$ (289)

27. STATUTORY-BASIS ACCOUNTING INFORMATION

Statutory-basis financial statements are filed with DIFS and are prepared in accordance with statutory accounting principles (SAP) prescribed or permitted by DIFS, which is a basis of accounting that differs from U.S. GAAP. A reconciliation of U.S. GAAP net income to statutory basis net income at December 31, 2014 and 2013, is as follows:

	2014	2013
U.S. GAAP addition to policyholders' reserves in the accompanying statements	$ 269	$ 263
Loss attributable to noncontrolling interest	3	2
Add (deduct) adjustments in accordance with SAP:		
Statutory PDR changes — adjustment required to record two-year PDR	24	(31)
Social mission accrual reversal due to permitted practice	50	
Loss difference due to prior period impairment of securities		(10)
Pension and postretirement expense	(8)	(17)
Affiliates' earnings recorded as unrealized gain	(81)	(174)
Changes in unrealized gain or losses for trading securities	43	(112)
Fair value adjustments of other invested assets	(17)	(7)
Deferred tax expense recorded in SAP subscribers' reserve	11	1
Postemployment expenses	1	(1)
Statutory-basis net gain (loss) as prescribed by DIFS	$ 295	$ (86)

A reconciliation of the Corporation's U.S. GAAP policyholders' reserves to SAP surplus is shown below for December 31, 2014 and 2013, respectively:

	2014	2013
U.S. GAAP policyholders' reserves	$ 3,899	$ 3,806
Add (deduct):		
Bonds and preferred stocks	(62)	(33)
Investment in subsidiaries	(360)	(305)
Furniture, equipment, and automobiles	(10)	(10)
Capitalized software	(206)	(240)
Postemployment expenses		(1)
Retiree health obligation — net of tax	101	113
Premium and other receivables	(36)	(46)
Deferred tax assets	(80)	(16)
Prepaid expenses and other assets	(82)	(94)
Premium deficiency reserve adjustment — net of tax	156	137
Social mission obligation — net of tax	40	
Noncontrolling interest	(20)	(22)
Subtotal	(559)	(517)
SAP surplus as prescribed by DIFS	$ 3,340	$ 3,289

28. SUBSEQUENT EVENTS

Management has evaluated all events subsequent to the balance sheet date of December 31, 2014, through March 26, 2015, the date of issuance of these consolidated financial statements, and has determined that there are no subsequent events that require disclosure under FASB ASC 855, *Subsequent Events*.

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