

Blue Cross Blue Shield of Michigan Mutual Insurance Company and Subsidiaries

Consolidated Financial Statements as of and for the
Years Ended December 31, 2019 and 2018, and
Independent Auditors' Report

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, 2019 and 2018; the related consolidated statements of operations, comprehensive income, policyholders' reserves, and cash flows for the years then ended; and related notes to 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.

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, 2019 and 2018, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 13 to the financial statements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

March 25, 2020

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2019 AND 2018 (Amounts in millions)

	2019	2018
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 1,032	\$ 1,248
INVESTMENTS	8,735	8,085
SECURITIES LENDING CASH COLLATERAL	16	20
RECEIVABLES (Net of allowance of \$19 and \$16 in 2019 and 2018, respectively)	4,136	3,805
PROPERTY AND EQUIPMENT—Net	619	532
NET DEFERRED TAX ASSETS	383	588
GOODWILL—Net	324	361
INVESTMENTS IN JOINT VENTURES AND EQUITY INTERESTS	1,118	1,028
OTHER ASSETS	<u>468</u>	<u>392</u>
TOTAL	<u>\$16,831</u>	<u>\$16,059</u>

**BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE
COMPANY AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND 2018
(Amounts in millions)**

	2019	2018
LIABILITIES AND POLICYHOLDERS' RESERVES		
LIABILITIES FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Health	\$ 2,894	\$ 2,871
Nonhealth	<u>2,868</u>	<u>2,584</u>
Total liabilities for unpaid claims and claim adjustment expenses	5,762	5,455
ACCRUED LIABILITY TO GROUPS	255	457
UNEARNED PREMIUM REVENUE	1,089	1,036
SECURITIES LENDING PAYABLE	16	20
OTHER LIABILITIES:		
Employee expenses	1,129	1,445
Debt	425	622
Other	<u>1,422</u>	<u>1,151</u>
Total liabilities	<u>10,098</u>	<u>10,186</u>
POLICYHOLDERS' RESERVES:		
Accumulated reserves	6,939	6,144
Accumulated other comprehensive loss	<u>(286)</u>	<u>(335)</u>
Policyholders' reserves attributable to the Corporation	6,653	5,809
Noncontrolling interest	<u>80</u>	<u>64</u>
Total policyholders' reserves	<u>6,733</u>	<u>5,873</u>
TOTAL	<u>\$16,831</u>	<u>\$16,059</u>

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, 2019 AND 2018
(Amounts in millions)**

	2019	2018
PREMIUM REVENUE AND PREMIUM EQUIVALENT:		
Underwritten premiums earned	\$ 16,464	\$ 15,914
Self-funded premium equivalents from employer groups	13,648	13,324
Revenue from administrative services	<u>108</u>	<u>92</u>
Total	30,220	29,330
Less amounts attributable to claims under self-funded arrangements	<u>(12,722)</u>	<u>(12,326)</u>
Net premium and administrative fee revenue	<u>17,498</u>	<u>17,004</u>
COST OF SERVICES:		
Benefits provided	13,643	12,793
Operating expenses	<u>3,607</u>	<u>3,579</u>
Total cost of services	<u>17,250</u>	<u>16,372</u>
OPERATING GAIN	248	632
INVESTMENT INCOME AND OTHER—Net	<u>603</u>	<u>96</u>
ADDITION TO POLICYHOLDERS' RESERVES BEFORE FEDERAL INCOME TAX EXPENSE	851	728
INCOME TAX EXPENSE	<u>(26)</u>	<u>(152)</u>
ADDITION TO POLICYHOLDERS' RESERVES	825	576
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST—Net of tax	<u>(7)</u>	<u>(10)</u>
ADDITION TO POLICYHOLDERS' RESERVES ATTRIBUTABLE TO THE CORPORATION	<u>\$ 818</u>	<u>\$ 566</u>

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, 2019 AND 2018
(Amounts in millions)**

	2019	2018
ADDITION TO POLICYHOLDERS' RESERVES	<u>\$ 825</u>	<u>\$ 576</u>
OTHER COMPREHENSIVE INCOME:		
Unrealized gains (losses) on available for sale securities:		
Unrealized holding gains (losses) arising during period	362	(218)
Reclassification adjustment for (losses) gains included in net income	<u>(75)</u>	<u>30</u>
Net unrealized gains (losses) on available for sale securities	287	(188)
Change in foreign currency translation adjustment	(2)	
Defined benefit retirement plans—change in unrecognized pension and postretirement liabilities	<u>(249)</u>	<u>20</u>
Other comprehensive income (loss)—before tax	36	(168)
Income tax benefit related to items of other comprehensive income	1	24
Prior year tax reclassification to accumulated reserves		8
Other comprehensive (loss) attributable to joint ventures—net of tax	<u>(2)</u>	<u>(1)</u>
Other comprehensive income (loss)—net of tax	<u>35</u>	<u>(137)</u>
COMPREHENSIVE INCOME	860	439
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(16)</u>	<u>(10)</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE CORPORATION	<u>\$ 844</u>	<u>\$ 429</u>

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, 2019 AND 2018
(Amounts in millions)**

	Accumulated Reserves	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total
BALANCES—January 1, 2018	\$ 5,602	\$ (198)	\$ 142	\$ 5,546
Addition to policyholders' reserves	566		10	576
Purchase of Tessellate NCI	(14)		(90)	(104)
EIN Liquidation	(2)		2	
Reclassification of net stranded tax rate change impact	(8)			(8)
Other comprehensive income	<u> </u>	<u>(137)</u>	<u> </u>	<u>(137)</u>
BALANCES—December 31, 2018	<u>\$ 6,144</u>	<u>\$ (335)</u>	<u>\$ 64</u>	<u>\$ 5,873</u>
Cumulative adjustment as a result of adoption of ASU 2016-01	<u>(23)</u>	<u>23</u>	<u> </u>	<u> </u>
Adjusted policyholders' reserves after cumulative adjustment as a result of adoption of ASU 2016-01	<u>6,121</u>	<u>(312)</u>	<u>64</u>	<u>5,873</u>
Addition to policyholders' reserves	818		7	825
Other comprehensive income	<u> </u>	<u>26</u>	<u>9</u>	<u>35</u>
BALANCES—December 31, 2019	<u>\$ 6,939</u>	<u>\$ (286)</u>	<u>\$ 80</u>	<u>\$ 6,733</u>

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, 2019 AND 2018 (Amounts in millions)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Addition to policyholders' reserves	\$ 825	\$ 576
Adjustments to reconcile addition to policyholders' reserves to cash provided by operating activities:		
Depreciation and amortization	161	193
Net realized and unrealized (gain) loss on investments	(274)	176
Distributions from equity method investees	23	
Loss on disposal of property		51
Provision for deferred income taxes	208	309
Pension and other postretirement expenses (benefits)	22	(75)
Reversal of noncontrolling interest		104
Changes in assets and liabilities:		
Receivables	(331)	(536)
All other assets	(94)	(74)
Accrued liability to groups	(203)	102
Liabilities for unpaid claims and claim adjustment expense	307	636
Unearned revenue	53	89
Other liabilities	<u>(315)</u>	<u>(132)</u>
Cash provided by operating activities	<u>382</u>	<u>1,419</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(9,273)	(9,497)
Sales and maturities of investments	9,241	8,854
Additional investments in joint ventures	(241)	(340)
Distributions from equity method investees	54	
Acquisition of property and equipment	<u>(182)</u>	<u>(144)</u>
Cash used in by investing activities	<u>(401)</u>	<u>(1,127)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	70	
Repayment of debt	(267)	(315)
Purchase of Tessellate noncontrolling interest		(104)
Noncontrolling member distribution and capital contribution	<u> </u>	<u>(3)</u>
Cash used in financing activities	<u>(197)</u>	<u>(422)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(216)	(130)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>1,248</u>	<u>1,378</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 1,032</u>	<u>\$ 1,248</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid for federal income taxes	<u>\$ -</u>	<u>\$ 10</u>
Cash paid for interest	<u>\$ 12</u>	<u>\$ 15</u>

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, 2019 AND 2018 (Amounts in millions)

1. ORGANIZATION

Blue Cross Blue Shield of Michigan Mutual Insurance Company (Company or BCBSM), originally founded in 1939, operates under Chapter 58 of the Michigan Insurance Code as a nonprofit mutual disability insurer. Chapter 58 specifically authorizes the Company to offer individual, small group, and Medicare supplemental products within the state of Michigan. Chapter 58 prohibits the Company from converting to a domestic stock insurer and from paying policyholder dividends to its members. In addition, the state law requires that upon dissolution, any residual value of the Company be transferred into the Michigan Health Endowment Fund (MHEF), for the benefit of the residents of the state of Michigan.

For accounting and financial reporting purposes, even though characterized as a nonprofit insurer under the state law, the Company does not receive charitable contributions and provides services at market rates sufficient to be self-sustaining. Accordingly, the Company follows the accounting principles applicable to a non-public-for-profit organization.

Operating Subsidiaries of the Company

Health Maintenance Organizations (HMO)—

- Blue Care Network of Michigan (BCNM), a tax exempt HMO, provides health care services to subscribers and contracts with various physician groups, hospitals, and other health care providers to provide such services. BCNM is a nonprofit stock corporation and a wholly owned subsidiary of the Company.
- Blue Cross Complete of Michigan, LLC (BCC) is a taxable joint venture formed by AmeriHealth Caritas Health Plan (ACHP) and Michigan Medicaid Holdings Company (MMH), each holding a 50% ownership interest. MMH is a wholly owned subsidiary of BCBSM. BCBSM indirectly holds a 38.74% ownership interest in ACHP, resulting in a 69.37% combined ownership in BCC.

LifeSecure Holdings Corporation (LifeSecure) provides long-term care and accident and hospital indemnity insurance. The Company owns an 80% interest in LifeSecure. BCS Financial Corporation owns the remaining 20%.

Woodward Straits Insurance Company, a wholly owned subsidiary of the Company, operates as a Michigan captive insurance company.

Emergent Holdings, Inc. (EMHI), a wholly owned subsidiary of the Company, was formed on July 3, 2018. Refer to Note 4 regarding reorganization. EMHI is the parent company of:

- Accident Fund Holdings, Inc. (Accident Fund) provides workers' compensation insurance.

- COBX Co. (COBX) provides shared and corporate services to its affiliated entities.
- Tessellate Holdings, LLC (Tessellate), an innovative healthcare service company that collaborates with health plans and providers to deliver high-quality provider and member-centric solutions.
- Advantasure, Inc. (Advantasure), and its wholly owned subsidiary, ikaSystems Corporation, is a provider of enterprise-level web-based technology to the health care payor industry.

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 (US 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 (LLCs) and partnerships, the equity method is generally used. Intercompany transactions and balances are eliminated in consolidation.

The consolidated financial statements include variable interest entities (VIEs): BCC, EIN Properties, LLC, Phoenix Development Partners, Phoenix Master Tenant, LLC, and Phoenix Development Partners II. Refer to Note 4 regarding dissolution of EIN. 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 legally owned by the Corporation are reflected in the consolidated financial statements as noncontrolling interest.

Cash Equivalents—Cash equivalents, which are carried at fair value, are composed of short-term investments that mature within three months or less from the date of acquisition and have minimal credit or liquidity risk. Cash overdrafts are reported in other liabilities in the consolidated balance sheets.

Investments—The Corporation's investments in debt and equity securities are carried at fair value. Debt securities are classified as either trading or available-for-sale in accordance with the Corporation's intent. Debt securities are classified as trading if they are part of an investment portfolio that is actively managed by an external investment manager and the manager has broad authority to buy and sell securities without prior approval. Internally managed debt securities that were acquired with the intention to sell in the near term or are intended to be held for a short period of time are classified as trading. All other debt securities are classified as available-for-sale.

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.

In the 2019 consolidated statements of operations unrealized gains and losses related to equity securities and trading debt securities are included in investment income and other. Available for sale debt securities unrealized gains and losses are included in accumulated other comprehensive loss (ACOL) net of income tax. For 2018, before the adoption of Accounting Standards Update (ASU) 2016-01, unrealized gains and losses for available for sale equity and debt securities were accounted as part of the accumulated other comprehensive loss as a separate component of policyholders' reserves, net of applicable income tax. Unrealized gains and losses related to trading securities are included in investment income and other for 2018.

Available-for-sale debt 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 noncredit (interest) component of the other-than-temporary impairment (OTTI) of available-for-sale debt securities is recognized in AOCL. For all available-for-sale debt securities that the Corporation intends to hold but does not expect to recover its amortized cost basis, the credit component of the OTTI 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.

Financial futures and forward contracts are commitments to purchase or sell designated financial instruments at a future date for a specified price or yield. They may be settled in cash or through delivery. Most of the securities the Corporation purchases settle within normal time requirements and, therefore, are not considered futures or forward contracts. The Corporation periodically purchases "to-be-announced" securities that settle more than 30 days from the trade date. The Corporation considers such securities to be forwards and accounts for increases or decreases in the fair value as basis adjustments, with the change flowing through earnings. As of December 31, 2019, the Corporation had no commitments to purchase any security expected to settle outside normal time requirements.

Statement of cash flows classification of distributions from equity method interests are determined using the cumulative earnings approach, under which, distributions are classified as either returns on investment in operating cash inflows or returns of investment in investing cash inflows, based on the cumulative distributions received (less prior period distributions determined to be returns on investment) in excess of cumulative equity recognized in earnings.

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 (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).

Fair Value Classification of Investments Including Pension and Postretirement Trust Assets—The Corporation classifies fair value balances on these investments 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.

Certain securities that do not have readily determined fair values are measured at fair value using methods, models and assumptions that management deems appropriate.

Certain securities do not have readily determined fair values; however, the securities' underlying investments are measured at fair value. The Corporation uses the net asset value (NAV) per share for valuation purposes on these securities. Securities measured using NAV are not required to be classified into the fair value hierarchy levels.

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 within three months or less of acquisition and have minimal credit or liquidity risk. 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.

US Treasury Securities—Consist of certain US government securities, and bonds issued by US government-backed agencies. US Treasury securities are valued based on observable inputs such as the US Treasury yield curve and/or similar assets in markets that are active and are classified as Level 2.

US Government Agency Securities—Consist of debt issued by government agencies, but not including US Treasury securities. In situations where valuations of US agency securities are based on unadjusted quoted prices for similar assets in an active market and there is transparency into the specific pricing of individual securities, these securities are classified as Level 2.

Common Stocks and Equity Exchange-Traded Funds—Primarily 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. Common stocks that are not actively traded are analytically priced and classified as Level 3.

Corporate Debt Securities, Mortgage-Backed Securities, Other Asset-Backed Securities and Preferred Stocks—Consist of corporate notes and bonds, commercial paper that matures after three months, government bonds, preferred stock 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—Consist 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.

Sovereign Debt Securities—Consist of foreign government bonds issued in the local currency. Valuation is based on inputs derived directly from observable market data and 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.

Mutual Funds—Consist of registered mutual funds actively traded on an open exchange. Valuation is based on an observable price in an active market and, therefore, classified as Level 1.

Commingled International Equity Funds—Pension Trust Investments only—Consist of international equity securities valued at NAV and are not required to be classified in the fair value hierarchy. Redemption of these funds requires 30 days' notice. There are no unfunded commitments related to these funds.

Limited Partnerships—Pension Trust Investments only—Consist of interests in private equity funds and hedge funds structured as partnerships. Valuation is recorded at NAV based on information provided by the fund managers along with audited financial information. These securities are not required to be classified in the fair value hierarchy.

Redemptions of these investments can be made with 60–75 days' notice, or in the case of one limited partnership investment, 25% per quarter with 45 days' notice. There are no unfunded commitments related to these funds.

Limited Liability Companies—Pension Trust Investments only—Consist of interests in limited liability companies holding fixed income securities and interests in limited liability companies providing large cap US equity exposure. For limited liability companies holding fixed income securities, valuations are recorded at NAV based on unobservable inputs and is provided by the fund managers. For interests held in limited liability companies providing large cap US equity exposure, valuations are recorded at NAV based on the underlying investments held by the limited liability companies. The underlying investments in the limited liability companies providing US large cap equity exposure have readily determinable and observable market prices and interests in these limited liability companies. These securities are not required to be classified in the fair value hierarchy. Redemption of these funds requires 30 days' notice. There are no unfunded commitments related to these funds.

Securities Lending—The Corporation enters into secured lending transactions and recognizes the cash collateral received and the corresponding liability to return the 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. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining lease term.

Customer Implementation Costs—The Corporation defers the recognition of implementation costs associated with long term customers where implementation revenue is also deferred. Deferred implementation expense is recognized ratably over the same amortization period used for recognizing the associated implementation revenue.

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

Software and Cloud-Based Service Contract Costs—Certain costs related to acquired or developed computer software for internal use and cloud-based service contracts are capitalized as incurred. Capitalized costs are amortized, generally over a 3 to 10-year useful life, using the straight-line method. Capitalized software costs are included in property and equipment and capitalized cloud-based service contracts are included in other assets 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.

Concentrations of Credit Risk and Off-Balance Sheet Risk—Financial instruments that potentially expose the Corporation to concentrations of credit risk consist primarily of cash, cash equivalents, and trade accounts receivable. Unbilled receivables related to service contracts are included in the trade accounts receivable. The Corporation routinely assesses the creditworthiness of its customers. The Corporation generally has not experienced any material losses related to receivables from individual customers or groups of customers. The Corporation does not require collateral. Because of these factors, no additional credit risk beyond the amount provided for collection losses is believed by management to be probable in the Corporation's accounts receivable. Other than guarantees disclosed in Note 25, the Corporation has no significant off-balance sheet risk.

Investments in Joint Ventures and Equity Interests—Investments in joint ventures and equity interests consist primarily of non-majority-owned entities and limited partnerships and are accounted for using the equity method or fair value. If fair value is not available, the Corporation accounts for these investments using the practicability exception, which is cost less impairments and observable price changes.

The Corporation's investment in Federal Home Loan Bank of Indianapolis (FHLBI) stock is carried at cost as it is not publicly traded and must be sold back to the FHLBI. The FHLBI stock is reported as part of the investment in joint ventures and equity interests in the consolidated balance sheets.

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. Effective January 1, 2017, the Corporation elected the Private Company Council election for the amortization of goodwill on a straight-line basis over a ten-year period. The accounting alternative election eliminates the requirement for annual impairment testing. Under the election, impairment testing is only required when management determines that a triggering event has occurred. If a triggering event occurs, impairment testing will be performed at the enterprise level.

Other Intangible Assets—The acquisition of subsidiaries has resulted in recognition of intangible assets consisting of provider networks, trademarks and other intangible assets. Where the useful life is not indefinite, the Corporation amortizes the cost of the asset on a straight-line basis over its expected useful life. The Corporation reviews indefinite-lived intangible assets for impairments at least annually or more frequently should circumstances indicate. Impairments, if any, are recorded in operating expenses in the consolidated statements of operations. These assets are included within other assets in the consolidated balance sheets.

Deferred Policy Acquisition Costs—For the Corporation's non-health subsidiaries, the costs directly related to the successful acquisition of new or renewal insurance policies is referred to as policy acquisition costs and consist of commissions, premium-based taxes and assessments, and certain other direct underwriting expenses. Although these costs are typically paid when the policy is issued, the expense is deferred and amortized over the same period as the corresponding premiums are earned. Amortization of deferred policy acquisition costs for the years ended December 31, 2019 and 2018, was \$217 and \$193, respectively. The Corporation continually reviews deferred policy acquisition costs for recoverability and consider anticipated investment income in this analysis, as well in determining whether premium deficiency reserves (PDR) are necessary. These assets are included within other assets in the consolidated balance sheets.

For the Corporation's health insurance products, policy acquisition costs are not deferred, but expensed in the year accrued.

Benefits Provided—Benefits provided are expensed as incurred.

Liabilities for Unpaid Claims and Claim Adjustment Expenses Reserves—Liabilities for unpaid health claims and claims adjustment expenses are actuarial estimates of outstanding claims, including claims incurred but not reported (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.

Loss reserves for workers' compensation claims represent the amounts the Corporation expects to pay for reported and unreported claims, reduced for estimated recoveries from third parties. The costs of investigating, resolving, and processing these claims are included in loss adjustment expenses. The liability for loss and loss adjustment reserves is an estimate based on actuarial and other assumptions related to the ultimate cost to settle such claims.

For long-term care contracts, reserves for future policy benefits are determined using the net level premium method and assumptions as of the issue date as to mortality, interest, persistency and expenses, plus provisions for adverse deviations, and generally vary by characteristics such as type of coverage, year of issue and policy duration. The assumptions are established at the time the policy is issued and are generally not changed during the life of the policy. For interest sensitive life contracts and fixed deferred annuities, liabilities approximate the policyholder's account value.

Settlements Payable—Under HMO contracts, amounts owed to primary care groups or physicians for capitation and claim withholds, risk sharing, and incentive programs are accrued in the period in which the amounts were earned. Settlements payable are included in liabilities for unpaid claims.

Policyholder Dividends—The Corporation records estimated policyholder dividends related to worker's compensation insurance contracts as an expense over the effective period of the related policies.

Premium Deficiency Reserves—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, if any, 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 the 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, ACA), the Corporation is required to provide rebates to policyholders if the coverage provided does not satisfy a specified medical loss ratio (MLR). MLR is determined using a three-year average of annual results. For individual and small group business, if a health insurer does not meet an 80%

average MLR for the year, it is 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 September 30 following the end of the year in which an applicable MLR standard was not met. The Corporation recorded a rebate liability of \$45 and \$6 at December 31, 2019 and 2018, respectively.

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 of additional premiums 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 2019 and 2018, the Corporation recorded prior-year risk score revenue adjustments that increased revenue by \$31 and \$67 in 2019 and 2018, 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.

Medicare Advantage/Medicare Part D Rebates—Under the provisions of the ACA, Medicare Advantage Managed Care Organizations (MCO) are subject to MLR requirements. The MCO must maintain a MLR of at least 85%. Failure to maintain MLR requirements will result in the Corporation remitting payments to CMS. Failure to meet MLR requirements for more than 3 consecutive years will subject the MCO to enrollment sanctions and, after 5 consecutive years, to contract termination.

Administrative Service Contract Receivables and Payables for IBNR—The Corporation recognizes a liability for the IBNR for health care services provided to subscribers covered under Administrative Service Contract arrangements and a corresponding receivable amount for the reimbursement from the administrative service contract groups.

Michigan Taxes—Effective October 1, 2018, the State of Michigan enacted the Insurance Provider Assessment (IPA). The IPA is a fixed-rate tax based on per member per month membership assessed on health insurers authorized to deliver, issue for delivery, or renew a policy in the state of Michigan (including HMOs). Prior to the IPA, a Michigan Health Insurance Claim Assessment tax was applied to certain Michigan paid claims arising from health and medical services provided on or after January 1, 2012 through September 30, 2018.

Insurance Related Assessments—The Corporation recognizes liabilities for insurance related assessments when an assessment has been imposed. The Corporation also recognizes such liabilities when available information indicates an assessment is probable, the event giving rise to the assessment has occurred, and the Corporation can reasonably estimate the assessment.

Income Tax—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 taxes payable for the year, using tax rates enacted at the reporting date, and any adjustment to taxes payable in respect of previous years. Except for items recorded in equity, deferred income tax expense or benefit primarily represents the net change in deferred income tax assets and liabilities during the year.

The Company and its qualifying taxable subsidiaries file a consolidated federal income tax return. Each subsidiary included in the consolidated tax return is responsible for its own federal tax liability and the Company has a master tax-sharing agreement in place with each respective subsidiary. 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 \$92 at December 31, 2019 and 2018, respectively.

BCNM has been recognized by the Internal Revenue Service (IRS), under Internal Revenue Code Section 501(c)(4), as an organization exempt from tax under 501(a). Unrelated business income incurred generates federal income taxes which is subject to FASB ASC 740, *Income Taxes*.

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.

Health Care Benefits—The Corporation self-insures certain medical, dental, vision, and short-term disability benefits provided to some of its employees. Liabilities for such benefits are based on actual claim data and estimates of IBNR claim developed by use of historical claim trends. Actual settlements and claims could differ materially from these estimates.

Reinsurance—The Corporation assumes and cedes reinsurance and participates in various pools. Underwritten premiums earned, benefits provided, and receivables and other liabilities are adjusted to reflect the reinsurance contracts. Amounts recoverable from insurers are estimated in a manner consistent with the claim liability associated with the reinsured policies.

Advance Premium Tax Credit—The ACA 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 federal poverty level. 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—The Company and BCNM is subject to an annual fee under Section 9010 of the ACA. This annual fee is assessed and allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any US health risk that is written during the preceding calendar year. The liability related to the fee is estimated and recorded in full once qualifying insurance coverage is provided on January 1st of each calendar year with a corresponding deferred cost that is amortized ratably over the year as a charge to operating expense.

Payment of the fee to the IRS is required no later than September 30th. The Continuing Appropriations Act of 2018 has suspended the assessment and collection of the fee for the calendar year 2019. The fee was assessed in calendar year 2018 and will resume in 2020 and has been repealed for years after 2020. The Annual Health Insurer Fee assessed and paid for calendar years 2019 and 2018 was \$0 and \$185, respectively.

Cadillac Tax—A 40% tax on employers that provide high-cost benefits through employer-sponsored group health coverage, often referred to as the "Cadillac Tax," is a permanent excise tax on the aggregate value in excess of statutory thresholds. The tax is deductible for federal income tax and is expected to reduce health care usage and costs by encouraging employers to offer plans, which share the cost of care with the employees. The Further Consolidated Appropriations Act, 2020 enacted December 20, 2019, permanently repealed the Cadillac tax.

ACA Risk Adjustment Program—The ACA established a permanent risk adjustment program which is designed to spread the financial risk borne by issuers and to mitigate the risk of adverse selection. This program requires management to utilize considerable professional judgment as the estimates are impacted by market variables and government regulations.

The 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. In contrast to the Medicare Advantage risk adjustment program, that determines risk scores based on prior year health status, the commercial risk adjustment program determines risk scores based on current-year health status of members. Risk adjustment calculations are completed by the Health and Human Services with notification to eligible health plans by June 30 following the benefit year.

The accompanying financial statements reflect management's best estimate in establishing the required receivables and payables and the corresponding revenue and expense items for the risk adjustment program. A summary of the 2019 and 2018 amounts recorded under the risk adjustment program is set forth below.

	2019 Activity					Balance at December 31, 2019 Receivable (Payable)
	Balance at January 1, 2019 Receivable (Payable)	(Received) Paid in 2019 Pertaining to Prior Year	Adjustments Pertaining to 2018 Balances	Current Year Accrued	Current Year Payments	
Risk adjustment program:						
Premium adjustment receivable	\$124	\$(123)	\$ (1)	\$126	\$ -	\$126
Premium adjustment payable	(46)	35	11	(52)		(52)
Risk adjustment fee payable	(1)	—	—	—	—	(1)
Total for risk adjustment program	<u>\$ 77</u>	<u>\$ (88)</u>	<u>\$ 10</u>	<u>\$ 74</u>	<u>\$ -</u>	<u>\$ 73</u>

	2018 Activity					Balance at December 31, 2018 Receivable (Payable)
	Balance at January 1, 2018 Receivable (Payable)	(Received) Paid in 2018 Pertaining to Prior Year	Adjustments Pertaining to 2017 Balances	Current Year Accrued	Current Year Payments	
Risk adjustment program:						
Premium adjustment receivable	\$114	\$(125)	\$19	\$116	\$ -	\$124
Premium adjustment payable	(48)	28	20	(46)		(46)
Risk adjustment fee payable	(1)	—	—	—	—	(1)
Total for risk adjustment program	<u>\$ 65</u>	<u>\$ (97)</u>	<u>\$39</u>	<u>\$ 70</u>	<u>\$ -</u>	<u>\$ 77</u>

Estimates—The preparation of consolidated financial statements in conformity with US 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 amounts recorded relating to the ACA risk adjustment program; assumptions used in goodwill triggering analysis; deferred policy acquisition costs; liabilities for unpaid claims, specifically IBNR; litigation-related accounts and contingencies; and pension and postretirement benefits.

Accounting Standards Adopted—In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as modified by ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. Insurance contracts are not within the scope of this new guidance that requires an entity to 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 applies to various contracts with customers to provide goods or services, including noninsurance, administrative services contracts. The Corporation adopted the provisions of ASU 2014-09 on January 1, 2019. The adoption of ASU 2014-09 did not have a material impact on our consolidated financial condition or results of operations.

In January 2016, FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance requires equity investments, not accounted for under the equity method of accounting or those that result in the consolidation of the investee, to be measured at fair value with changes in value recognized in net income. The guidance simplifies impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The guidance also removes the requirement to disclose fair value of financial instrument measured at amortized costs for entities that are not public business entities. This guidance was effective on January 1, 2019. The adoption of ASU 2016-01 resulted in a January 1, 2019 reclassification of \$(23) of unrealized losses related to equity securities from OCI to accumulated reserves.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*. The guidance of ASU 2016-15 adds or clarifies guidance on the classification of eight types of cash receipts and payments in the statement of cash flows. The update was issued with the intent of reducing diversity in practice with respect to eight types of cash flows. Seven of the eight cash flows issues do not apply or do not have a significant impact on the Corporation's statement of cash flows. The remaining cash flow issue, related to distributions received from equity method investees, required the Corporation to make an accounting policy election to classify distributions received from equity method investees. The Corporation elected the cumulative earnings approach, under which distributions are classified as either returns on investment in operating cash inflows or returns of investment in investing cash inflows. The cash is presumed to be operating inflows until the amount of cumulative distributions received exceeds the amount of cumulative equity previously recognized in earnings. The Corporation applied the guidance using a prospective approach, as permitted, since retrospective transition was impracticable. The Corporation determined the retrospective transition was impracticable as the information for the equity investments was either not readily available or not available at all for all of the years needed for the calculations. This guidance was effective on January 1, 2019. The adoption of ASU 2016-15 did not have a material impact on the Corporation's statement of cash flows and related disclosures.

In March 2017, FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in ASU 2017-07 require an employer to split the net periodic pension and postretirement benefit costs (NPPC) between compensation expenses reported as part of operating income and other expenses outside of operating income. In addition, only the service cost component is eligible for capitalization. This guidance was effective on January 1, 2019. The adoption of ASU 2017-07 required a \$27 reclassification of the 2018 other NPPC expenses from operating expenses to investment income and other. See footnote 15.

In August 2018, FASB issued ASU 2018-15 *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)—Customer's Accounting for implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments of ASU 2018-15 update the accounting for implementation, setup and other upfront costs that apply to entities that are a customer in a hosting arrangement that is a service contract. This guidance is effective beginning January 1, 2022, with early adoption permitted. The Corporation early adopted ASU 2018-15 effective January 1, 2019. The adoption did not have a material impact on the consolidated financial statements and related disclosures.

Forthcoming Accounting Pronouncements—In February 2016 the FASB issued ASU 2016-02, *Leases*, which created (Topic 842), *Leases* as modified by ASU 2018-20, *Narrow-Scope Improvements for Lessors* and supersedes the lease requirements in Topic 840, *Leases*. The guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet. The guidance requires disclosures to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The transition to ASU 2016-02 requires the recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective approach. ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, defers the effective date of ASU 2016-02 to January 1, 2021. Early application of the amendments in ASU 2016-02 is permitted for all entities. The Corporation continues to evaluate the effects the adoption of ASU 2016-02 will have on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as modified by ASU 2018-19, *Codification Improvements to Topic 326 Financial Instruments—Credit Losses* and ASU 2019-04, *Codification Improvements to Topic 326 Financial Instruments—Credit Losses* and ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326) Targeted Transition Relief*, as modified by ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. The guidance in ASU 2016-13 amends the reporting of credit losses for assets held at amortized cost basis, eliminating the probable initial recognition threshold and replacing it with a current estimate of all expected credit losses. Estimated credit losses are recognized as a credit loss allowance reflected in a valuation account that is deducted from the amortized cost basis of the financial asset to present the net amount expected to be collected. The guidance also addresses available-for-sale securities, whereby credit losses remain measured on an incurred loss basis with the presentation of the credit losses using an allowance rather than as a write-down. ASU No. 2019-10 defers the effective date of ASU 2016-13 to January 1, 2023. The Corporation continues to evaluate the effects the adoption of ASU 2016-13 will have on the consolidated financial statements and related disclosures.

In March 2017, FASB issued ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*. The amendments in ASU 2017-08 change the guidance on the amortization period of premiums on purchased callable debt securities to the earliest call date. The investment in the callable debt security must have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date. This guidance is effective beginning January 1, 2020. The Corporation continues to evaluate the effects the adoption of ASU 2017-08 will have on the consolidated financial statements and related disclosures.

In August 2018, FASB issued ASU 2018-12, *Financial Services—Insurance (Topic 944)—Targeted Improvements to the Accounting for Long-Duration Contracts*. The amendments in ASU 2018-12 address the assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts, measurement of market risk benefits, amortization of deferred acquisition costs and enhanced disclosures. ASU No. 2019-09 defers the effective date of ASU 2018-12 to January 1, 2024, with early adoption permitted. The Corporation continues to evaluate the effects the adoption of ASU 2018-12 will have on the consolidated financial statements and related disclosures.

In August 2018, FASB issued ASU 2018-13 *Fair Value Measurement (Topic 820)-Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in ASU 2018-13 describe the development of a framework that promotes consistent decisions about disclosure requirements and the appropriate exercise of discretion by reporting entities. The ASU adds, modifies and deletes certain disclosures related to Fair Value contained in Topic 820. This guidance is effective beginning January 1, 2020, with early adoption permitted. The Corporation does not expect this standard to have an impact on the consolidated financial condition, cash flows, or results of operations.

In August 2018, FASB issued ASU 2018-14 *Compensation—Retirement Benefits-Defined Benefits Plans-General (Subtopic 715-20)-Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*. The amendments in ASU 2018-14 modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance is effective beginning January 1, 2022. The Corporation continues to evaluate the effects the adoption of ASU 2018-14 will have on the consolidated financial statements and related disclosures.

In October 2018, FASB issued ASU 2018-17 *Consolidation (Topic 810)—Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The amendments of ASU 2018-17 provide private companies an alternative to applying VIE guidance to certain common control arrangements. This guidance is effective beginning January 1, 2021, with early adoption permitted. The Corporation continues to evaluate the effects the adoption of ASU 2018-17 will have on the consolidated financial statements and related disclosures.

In December 2019, FASB issued ASU 2019-12 *Income Taxes (Topic 740)—Simplifying the Accounting for Income Taxes*. The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This guidance is effective beginning January 1, 2022, with early adoption permitted. The Corporation continues to evaluate the effects the adoption of ASU 2019-12 will have on the consolidated financial statements and related disclosures.

3. REVENUE RECOGNITION

Health Care Underwritten Premium Revenue

Health care underwritten premiums, which generally are billed in advance, are recognized as revenue during the respective periods of coverage and, if applicable, net of amounts recognized for ACA MLR rebates, risk adjustment, reinsurance, and contract premium stabilization programs. Premiums are reported net of an allowance for estimated terminations and uncollectible amounts. Premium revenue includes adjustments for experience rated contracts where revenue is based on estimated gain or loss experience of the contract. Premiums applicable to the unexpired portion of coverage are reflected in the accompanying consolidated balance sheets as unearned premium revenue. Unearned revenue is comprised of unearned premium reserves that relate to the unexpired term of policies in force and advance premiums received before the start of the coverage period.

Health Care Administrative Service Contracts

Self-funded premium equivalents from employer groups consists of health care claim reimbursements and administrative fees for services provided. These are self-funded contracts that provide bundled end to end claims management including, but not limited to, provider network pricing, access and management; claims processing and adjudication; customer service; and health care value programs.

Amounts due from self-funded customers are equal to the amounts required to pay claims and administrative fees. Under the arrangement, the Corporation maintains the contract with hospitals and physicians and controls the reimbursement rates for medical services provided to customers. The Corporation also 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 consolidated statements of operations.

Administrative fees are earned and recorded over time as services are performed as a series of distinct events. The Corporation has the right to invoice self-funded customers administrative fees monthly on a per member per month (PMPM) or per contract per month (PCPM) basis. Some self-funded arrangements provide service level guarantees with respect to customer service, claims accuracy and claims processing time. The Corporation is financially at risk if these guarantees are not met, though the maximum amount at risk is typically limited to percentage of the fees payable.

Administrative Service Only Contracts

Revenue from administrative service only contracts (revenue from administrative services) within the health care business primarily consists of administrative fees for services provided. The Corporation acts as the third-party administrator for these contracts processing claims on a stand ready to perform basis without holding the credit risk associated with an administrative service contract.

Amounts due from administrative service only contracts are equal to the amounts of the administrative service fee. Fees are earned and recorded over time as services are performed as a series of distinct events. The Corporation has the right to invoice administrative fees monthly on a PMPM or PCPM basis. Some administrative service only contracts provide service level guarantees with respect to customer service, claims accuracy and claims processing time. The Corporation is financially at risk if these guarantees are not met, though the maximum amount of risk is typically limited to percentage of the fees payable.

National Program Health Care Business

As a BCBS Association licensee, to provide health care benefits to members traveling or residing outside the Company's service area, the Company participates in a national program with other Blue plans in a centralized electronic network for reciprocal claim processing and reimbursement which allows providers to submit claims to their local participating plan for reimbursement. Fee revenue under this program is earned as services are rendered. The Company has a right to invoice for fees and reimbursements on a monthly basis. Claims paid to providers and reimbursements from other Plans are not included on the consolidated statements of operations.

Property and Casualty Underwritten Premium Revenue

Property and casualty underwritten premiums, mainly from worker's compensation policies, are recognized as earned over the policy terms using the daily pro rata method. Unearned premium revenue represents the portion of written premium that relates to the unexpired terms of the policies in force. Premiums receivable represent premiums earned that the Corporation has billed, but which its policyholders have not yet paid; future premium installments the Corporation has not yet billed; and estimates of additional earned but unbilled premiums that the company projects will result from policy audits. Premiums receivable are reported net of allowance for doubtful accounts. Underwritten property and casualty business products are offered in all fifty states.

Business Process as a Service (BPaaS)

BPaaS revenue includes revenues from full-service models which offer end to end customer services including, but not limited to, Medicare Advantage market solutions (revenue from administrative services). The product portfolio includes a variety of services including administrative service solutions, medical record review services, risk adjustment and quality services, and health management services. These services are offered in all fifty states and the territory of Puerto Rico.

Revenues are recognized when the services have been provided to the customer in the amount the Corporation is expected to collect. The services offered are a series of distinct events and are recognized over the life of the contract, including reasonably assured renewal options. Revenue is invoiced monthly on either a PMPM basis or, in the case of medical record reviews, may be invoiced on a fixed rate per record. Revenue from some arrangements provide service level guarantees with respect to customer service. The Corporation is financially at risk if these guarantees are not met, though the maximum amount at risk is typically limited to percentage of the fees payable.

Web-Based Technology

Web-based technology services include software as a service (SaaS) arrangements and customized implementation and configuration services (revenue from administrative services). These arrangements are cloud-based hosted software services that customers access through the internet and do not convey a software license to the customer. SaaS arrangements often include up-front implementation and configuration to customers' specific needs of the hosted software before the SaaS may be used. After the acceptance of the SaaS implementation the customer arrangement often includes customer support over the contract period for routine upgrades, maintenance, and technical support or the customer may submit change orders to make specific modifications to SaaS services. These services are offered in all fifty states.

SaaS-based subscription fees are generally recognized monthly on a PMPM basis as the service is utilized over the term of the contract including reasonably assured renewal options. Implementation and configuration revenues are deferred until the SaaS application is operational for the customer; the revenue is recognized over the term of the contract, including renewal periods. Customer support revenue is generally included as part of the PMPM as a stand ready to perform service. In limited instances customer support change order requests are considered point in time obligations when the customer request is unique from regular customer technical support. Some SaaS arrangements provide service level guarantees with respect to customer service and SaaS technology performance. The Corporation is financially at risk if these guarantees are not met, though the maximum amount at risk is typically limited to percentage of the fees payable.

Deferred Revenue from Non-Insurance Services

Deferred revenue from non-insurance services includes amounts collected from customers for whom revenue has not been recognized. This includes the unearned portion of implementation revenue, and deferred SaaS fees. Deferred revenue from non-insurance services is included in other liabilities on the consolidated balance sheets.

4. ACQUISITIONS AND REORGANIZATIONS

On January 1, 2018, the Company purchased the remaining 29.9% ownership of Tessellate for \$105 and then contributed it to COBX. Effective with the closing of the purchase transaction, COBX became the 100% owner of Tessellate. The excess purchase price over the carrying value of the non-controlling interest, net of taxes, was recorded as a reduction to the Company's policyholders' reserves of \$15.

In December of 2018, the Company transferred its ownership of Accident Fund and COBX to EMHI, a wholly owned subsidiary of the Company. COBX then distributed all of its shares of Advantasure and Tessellate to EMHI.

EIN Properties, LLC, a variable interest entity of the Company prior to its dissolution on July 2, 2018, was a leasing entity formed to leverage the utilization of tax credits and office remodeling of the Company's leased office space in downtown Detroit. As part of the dissolution, the Company received the assets and obligations of EIN in exchange for its investment in EIN.

5. CASH EQUIVALENTS AND INVESTMENTS

Cash equivalents consist of short-term investments that mature within three months or less at acquisition and have minimal credit or liquidity risk. Cash equivalents at years-ended December 31, 2019 and 2018 was \$733 and \$1,031, respectively.

The amortized cost, fair value, and unrealized gains and losses of available-for-sale debt securities at December 31, 2019, by asset category, are as follows:

	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Available-for-sale securities:				
Corporate debt securities	\$ 2,455	\$ 85	\$ 2	\$ 2,538
US treasury securities	1,927	99	3	2,023
US government agencies	12			12
Mortgage-backed securities	1,908	39	1	1,946
Foreign debt securities	216	4		220
State and local debt securities	75	1	1	75
Sovereign debt securities	6			6
Discount notes	<u>27</u>	<u> </u>	<u> </u>	<u>27</u>
Total available-for-sale securities	<u>\$ 6,626</u>	<u>\$ 228</u>	<u>\$ 7</u>	<u>\$ 6,847</u>

Included in the above table are mortgage-backed securities valued at \$237 and US Treasury securities valued at \$287 that were used as collateralization for the \$411 of FHLBI borrowings in 2019.

The amortized cost, fair value, and unrealized gains and losses of available-for-sale debt and equity securities at December 31, 2018, by asset category, are as follows:

	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Debt securities:				
Corporate debt securities	\$2,371	\$ 4	\$ 45	\$2,330
US treasury securities	1,925	22	28	1,919
US government agencies	11			11
Mortgage-backed securities	1,752	8	23	1,737
Foreign debt securities	208		3	205
State and local debt securities	23		1	22
Sovereign debt securities	31		1	30
Discount notes	<u>18</u>	—	—	<u>18</u>
Total debt securities	<u>6,339</u>	<u>34</u>	<u>101</u>	<u>6,272</u>
Equity securities:				
Preferred stocks	1			1
Equity exchange traded funds	402	1	51	352
Common stock	<u>11</u>	<u>25</u>	—	<u>36</u>
Total equity securities	<u>414</u>	<u>26</u>	<u>51</u>	<u>389</u>
Total available-for-sale investments	<u>\$6,753</u>	<u>\$60</u>	<u>\$152</u>	<u>\$6,661</u>

Included in the above table are mortgage-backed securities valued at \$347 and US Treasury securities valued at \$359 that were used as collateralization for the \$544 of FHLBI borrowings in 2018.

The amortized cost and fair values of available-for-sale securities at December 31, 2019, 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	\$ 673	\$ 674
Due after one year through five years	1,767	1,792
Due after five years through ten years	1,062	1,114
Due after ten years	<u>1,216</u>	<u>1,321</u>
Total	4,718	4,901
Mortgage-backed securities	<u>1,908</u>	<u>1,946</u>
Total available-for-sale securities	<u>\$ 6,626</u>	<u>\$ 6,847</u>

Unrealized Losses—The following tables summarize available-for-sale debt securities in a gross unrealized loss position at December 31, 2019 and 2018, 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	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2019						
Corporate debt securities	\$485	\$ 2	\$ -	\$ -	\$485	\$ 2
US treasury securities	205	3			205	3
Mortgage-backed securities			91	1	91	1
State and local debt securities	<u>33</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>33</u>	<u>1</u>
Total available-for-sale debt securities	<u>\$723</u>	<u>\$ 6</u>	<u>\$91</u>	<u>\$ 1</u>	<u>\$814</u>	<u>\$ 7</u>

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018						
Corporate debt securities	\$1,139	\$24	\$ 409	\$21	\$1,548	\$ 45
US treasury securities	153	1	684	27	837	28
Mortgage-backed securities	101	1	708	22	809	23
Foreign debt securities	108	1	35	2	143	3
Equity exchange traded funds	333	51			333	51
State and local debt securities			12	1	12	1
Sovereign debt securities	<u>—</u>	<u>—</u>	<u>7</u>	<u>1</u>	<u>7</u>	<u>1</u>
Total available-for-sale securities	<u>\$1,834</u>	<u>\$78</u>	<u>\$1,855</u>	<u>\$74</u>	<u>\$3,689</u>	<u>\$152</u>

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 in credit quality.

Net realized investment gain (loss) and net change in unrealized gain (loss) in investments for the years ended December 31, 2019 and 2018 are shown in the following table. This table includes a separate equities section for 2019; while the 2018 equities are included in the available-for-sale and trading sections, consistent with 2018 financial statement presentation.

	2019	2018
Net realized gain on securities held as available-for-sale:		
Gross realized gains from sales	\$ 85	\$ 68
Gross realized losses from sales	<u>(10)</u>	<u>(98)</u>
Net realized (loss) gain from sale of securities held as available-for-sale	<u>75</u>	<u>(30)</u>
Net realized gain on securities held as trading:		
Gross realized gains from sales	22	87
Gross realized losses from sales	<u>(21)</u>	<u>(27)</u>
Net realized gain from sale of securities held as trading	<u>1</u>	<u>60</u>
Net realized gain on equity securities:		
Gross realized gains from sales	47	
Gross realized losses from sales	<u>(23)</u>	<u> </u>
Net realized gain from sale of equity securities	<u>24</u>	<u>-</u>
Total net realized gain from sales of securities	<u>\$ 100</u>	<u>\$ 30</u>
Change in net (loss) gain on securities held at the end of the period:		
Unrealized on Available-for-sale debt securities	\$ 287	\$ (188)
Unrealized on trading debt securities	69	(168)
Unrealized on equity securities	<u>177</u>	<u> </u>
Total change in net (loss) gain on securities held at the end of the period	<u>\$ 533</u>	<u>\$ (356)</u>

The value of the Corporation's equity portfolio at December 31, 2019 and 2018, was \$968 and \$794. As of December 31, 2019, the unrealized gains on the Corporation's equity portfolio was \$195.

The adoption of ASU 2016-01 resulted in a January 1, 2019 reclassification of \$(23) of unrealized losses related to equity securities from OCI to accumulated reserves.

During the years ended December 2019 and 2018, the Corporation sold or redeemed \$9,241 and \$8,856 of investments, which resulted in gross realized gains of \$153 and \$155, and gross realized losses of \$53 and \$125, respectively.

The determination of when a decline in value of a marketable security is 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 OTTI, the security is adjusted to fair value and the resulting losses are recognized in realized losses in the consolidated statements of operations. Subsequent to the impairment, future recoveries in value of the impaired securities are not recognized.

The Corporation recognized OTTI losses for the years ended December 31, 2019 and 2018, for an amount of \$0 and \$17, respectively. For the remaining securities in unrealized loss positions, 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.

The value of the Corporation's trading portfolio at December 31, 2019 and 2018, was \$920 and \$1,424 respectively.

The Corporation has entered into investment transactions that were not settled. As of December 31, 2019 and 2018, there was \$25 and \$1, respectively, in other liabilities for investments purchased on account and \$12 and \$0 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 US Treasury notes and various other security types in exchange for collateral, consisting primarily of cash and US 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, 2019 and 2018, the Corporation had securities loaned of \$32 and \$23, respectively, with corresponding cash collateral of \$16 and \$20, respectively, and noncash collateral of \$17 and \$3, respectively.

Investments contained in rabbi trust funds to satisfy the Corporation's nonqualified and deferred compensation plan obligations had a fair market value of \$169 and \$141, at December 31, 2019 and 2018, 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 \$322 and \$300 as of December 31, 2019 and 2018, respectively, and are included in the investment tables above.

6. FAIR VALUE MEASUREMENTS

Fair values of the Corporation's securities are based on quoted market prices, where available. These fair values are obtained from either the custodian banks or third-party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value.

The Corporation obtains one quoted price for each security, either from the custodian banks or third-party pricing services, 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, either the custodian banks or third-party pricing services 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. As the Corporation is responsible for the determination of fair value, management performs periodic analysis on the prices received from third parties to determine whether the prices are reasonable estimates of fair value.

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. The Corporation's Level 3 securities consist of other asset-backed securities based on loans and common stocks. 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 primary market risks are exposures to (i) changes in interest rates that affect our investment income and interest expense and the fair value of our fixed-rate financial investments and debt and (ii) changes in equity prices that affect our equity investments.

An increase in the market interest rates decreases the market value of fixed-rate investments and fixed-rate debt. Conversely, a decrease in market interest rates increases the market value of fixed-rate investments and fixed-rate debt.

The Corporation manages exposure to market interest rates by diversifying investments across fixed-income market sectors and across various maturities. Future increases in prevailing interest rates could have an adverse effect on our financial results.

The Corporation's assets recorded at fair value at December 31, 2019, are as follows:

	Fair Value Measurements Using			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents	<u>\$491</u>	<u>\$ 242</u>	<u>\$ -</u>	<u>\$ 733</u>
Available for sale debt securities:				
Corporate debt securities	\$ -	\$2,538	\$ -	\$2,538
US treasury securities		2,023		2,023
US government agencies		12		12
Mortgage-backed securities		1,946		1,946
Foreign debt securities		220		220
State and local debt securities		75		75
Sovereign debt securities		6		6
Discount notes		<u>27</u>		<u>27</u>
	<u>-</u>	<u>6,847</u>	<u>-</u>	<u>6,847</u>
Trading debt securities:				
US treasury securities		81		81
Mortgage-backed securities		64		64
Corporate debt securities		576		576
Mutual funds	48			48
State and local debt securities		1		1
Foreign debt securities		149		149
Discount notes		<u>1</u>		<u>1</u>
	<u>48</u>	<u>872</u>	<u>-</u>	<u>920</u>
Equity securities:				
Common stocks	508		38	546
Preferred stocks		9		9
Equity exchanged traded funds	<u>413</u>			<u>413</u>
	<u>921</u>	<u>9</u>	<u>38</u>	<u>968</u>
Total investments measured at fair value	<u>\$969</u>	<u>\$7,728</u>	<u>\$38</u>	<u>\$8,735</u>
Securities lending collateral	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16</u>
Liabilities—Security lending payable	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16</u>

The Corporation's assets recorded at fair value at December 31, 2018, are as follows:

	Fair Value Measurements Using			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents	<u>\$844</u>	<u>\$ 187</u>	<u>\$ -</u>	<u>\$1,031</u>
Available for sale securities:				
Corporate debt securities	\$ -	\$2,330	\$ -	\$2,330
US treasury securities		1,919		1,919
US government agencies		11		11
Mortgage-backed securities		1,737		1,737
Equity exchanged traded funds	352			352
Foreign debt securities		205		205
State and local debt securities		22		22
Sovereign debt securities		30		30
Common stocks			36	36
Preferred stocks		1		1
Discount notes		18		18
	<u>352</u>	<u>6,273</u>	<u>36</u>	<u>6,661</u>
Trading securities:				
Common stocks	401			401
US treasury securities		79		79
Mortgage-backed securities		61		61
Corporate debt securities		656		656
Other asset backed securities		2		2
Mutual funds	36			36
Foreign debt securities		185		185
Preferred stocks		4		4
	<u>437</u>	<u>987</u>	<u>-</u>	<u>1,424</u>
Total investments measured at fair value	<u>\$789</u>	<u>\$7,260</u>	<u>\$36</u>	<u>\$8,085</u>
Securities lending collateral	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20</u>
Liabilities—Security lending payable	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20</u>

The Corporation's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2019, are as follows:

	(Level 3)		
	Other Asset Backed Securities	Common Stock	Total
Balance—January 1, 2018	\$ 10	\$ 38	\$ 48
Total gains or losses (realized/unrealized):			
Included in earnings		(2)	(2)
Included in other comprehensive income			
Purchases, issuances, settlements and transfers			
Sales	<u>(10)</u>	<u>—</u>	<u>(10)</u>
Balance—December 31, 2018	-	36	36
Total gains or losses (realized/unrealized):			
Included in earnings		2	2
Included in other comprehensive income			
Purchases, issuances, settlements and transfers			
Sales	<u>—</u>	<u>—</u>	<u>—</u>
Balance—December 31, 2019	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ 38</u>
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, 2018	<u>\$ -</u>	<u>\$ (2)</u>	<u>\$ (2)</u>
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, 2019	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 2</u>

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 US 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—There were no transfers in 2019 and 2018.

7. INVESTMENT INCOME AND OTHER—NET

Investment income and other—net for the years ended December 31, 2019 and 2018, consist of the following:

	2019	2018
Dividends and interest:		
Debt securities	\$249	\$ 225
Equity securities	20	16
Short-term investments	<u>34</u>	<u>28</u>
Total dividends and interest	<u>303</u>	<u>269</u>
Realized gain on sales of securities	100	53
Realized impairment loss on investments		(17)
Unrealized gain on equity securities held at year end	177	
Unrealized gain (loss) on trading securities held at year end	<u>69</u>	<u>(168)</u>
Total gain (loss) on investments	<u>346</u>	<u>(132)</u>
Interest expense	(12)	(16)
Earnings in joint ventures and other equity interests	(28)	13
Pension expense and other than service cost	(5)	(27)
Other (loss) income	<u>(1)</u>	<u>(11)</u>
Total other	<u>(46)</u>	<u>(41)</u>
Total investment income and other—net	<u><u>\$603</u></u>	<u><u>\$ 96</u></u>

8. RECEIVABLES—NET

Receivables—net as of December 31, 2019 and 2018, consist of the following:

	2019	2018
Administrative service contracts—IBNR	\$ 1,209	\$ 1,173
Reinsurance recoverable on workers' compensation business	352	258
Underwritten contracts	915	858
Reinsurance recoverable on life insurance and other policies	207	235
Administrative service contracts—claim and fees	388	492
Government programs	354	199
Pharmacy rebates	296	247
Accrued interest	52	58
Federal income tax recovery	181	154
Other	<u>182</u>	<u>131</u>
Total	<u><u>\$ 4,136</u></u>	<u><u>\$ 3,805</u></u>

Receivables from Government Programs consists of the following:

	2019	2018
Medicare Advantage	\$221	\$ 74
Risk adjustment revenue anticipated for ACA QHP Plans	126	124
Other government programs	<u>7</u>	<u>1</u>
Total	<u>\$354</u>	<u>\$199</u>

Receivables are net of allowances for uncollectible amounts of \$19 and \$16 as of December 31, 2019 and 2018, respectively.

9. PROPERTY AND EQUIPMENT—NET

Property and equipment, net at December 31, 2019 and 2018, consist of the following:

	2019	2018
Land and buildings	\$ 439	\$ 440
Equipment	112	127
Software	671	599
Capital projects in process	<u>148</u>	<u>66</u>
Total property and equipment	1,370	1,232
Less accumulated depreciation and amortization	<u>(751)</u>	<u>(700)</u>
Total	<u>\$ 619</u>	<u>\$ 532</u>

Depreciation and amortization expense was \$96 and \$103, respectively for the years ended December 31, 2019 and 2018.

10. 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, 2019 and 2018, net of accumulated amortization, impairment losses, and other adjustments recorded prior to December 31, 2017 of \$407, consists of the following:

Balance—January 1, 2018	\$407
Amortization	<u>(46)</u>
Balance—December 31, 2018	361
Additions	8
Amortization	<u>(45)</u>
Balance—December 31, 2019	<u><u>\$324</u></u>

The Corporation did not complete an impairment test for 2019 or 2018, as under the Private Company Council election, testing is only required upon the occurrence of a triggering event.

**Amortization Years Ending
December 31**

2020	\$ 46
2021	46
2022	46
2023	46
2024 and thereafter	<u>140</u>
Total future amortization	<u><u>\$324</u></u>

11. INVESTMENTS IN JOINT VENTURES AND EQUITY INTERESTS

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

	2019	2018
Affiliates:		
BMH	\$ 456	\$ 446
NASCO	<u>21</u>	<u>21</u>
	<u>477</u>	<u>467</u>
Partnerships and LLC's:		
Health care oriented investments	108	94
Return oriented investments	450	385
Social mission oriented investments	<u>21</u>	<u>21</u>
	<u>579</u>	<u>500</u>
Total Affiliates, Partnerships and LLC's	<u>1,056</u>	<u>967</u>
Lending and other institutions	<u>62</u>	<u>61</u>
Total joint ventures and equity interests	<u><u>\$1,118</u></u>	<u><u>\$1,028</u></u>

The Corporation 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.

BMH is a significant affiliate of the Corporation. Its summarized financial position and results of operations used to record the share of the earnings or losses as reported by the Corporation for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018		2019	2018
Assets	<u>\$3,121</u>	<u>\$2,739</u>	Revenue	<u>\$12,083</u>	<u>\$9,015</u>
Liabilities	<u>\$1,853</u>	<u>\$1,504</u>	Net income	<u>\$ (200)</u>	<u>\$ 29</u>
Equity	<u>\$1,268</u>	<u>\$1,235</u>			

The Corporation owns a 19.5% 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 Partnerships and LLCs which are recorded using the equity method of accounting. Due to nature of these investments and because profits and losses are allocated to individual partner/member accounts which are also reported to

the IRS for income tax purposes, there is a presumption that ownership in these investments provides sufficient influence (stated or unstated) to use the equity method of accounting regardless of the ownership percentage. At December 31, 2019 and 2018, the Corporation's ownership interests in these investments ranged from 0.27% to 100%.

Joint ventures and equity interests reported using the equity method that approximates fair value are based on the most recent financial information available as of and for 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 Corporation determined that there were no changes in circumstances or adverse events that would be expected to change the carrying value of these investments. The Corporation's share of income from joint ventures and equity interest investments was \$(28) and \$13 for 2019 and 2018, respectively, which is recorded in investment income and other in the consolidated statement of operations. The Corporation's investment in lending and other institutions is comprised primarily of FHLBI common stock which is carried at cost.

The Corporation is required to be a member of the FHLBI in order to gain access to borrowings and credit. FHLBI stock is registered with the Securities and Exchange Commission but is not publicly traded. 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 no impairments for its joint ventures and equity investments in 2019 or 2018.

In total, the Corporation made \$241 and \$340 in contributions to fund joint venture and other equity investments in 2019 and 2018, respectively.

At December 31, 2019 and 2018, the Corporation had future unfunded capital and loan commitments of \$335 and \$281, respectively, for all its investments in joint ventures and equity interests.

12. OTHER ASSETS

Other assets at December 31, 2019 and 2018, consist of the following:

	2019	2018
Net other intangible assets	\$124	\$142
Deferred policy acquisition costs	156	142
Prepaid assets and other	<u>188</u>	<u>108</u>
Total	<u>\$468</u>	<u>\$392</u>

Intangible assets are amortized over periods ranging from three years to 20 years, as applicable. State licenses and tradenames with indefinite useful lives are not amortized, but are evaluated for impairment on an annual basis. Other intangible assets at December 31, 2019 and 2018, consist of the following:

	2019	2018
Intangible assets:		
Covenant not to compete	\$ 16	\$ 16
Customer relationships	172	172
Broker networks	20	20
Trademarks	3	3
Tradenames	10	10
Purchased software from business combinations	43	43
State licenses	<u>2</u>	<u>2</u>
Total intangible assets	266	266
Less accumulated amortization	<u>(142)</u>	<u>(124)</u>
Net other intangible assets	<u>\$ 124</u>	<u>\$ 142</u>

Amortization expense for 2019 and 2018 was \$18 and \$19, respectively.

**Amortization Years Ending
December 31**

2020	\$ 18
2021	18
2022	18
2023	18
2024 and thereafter	<u>44</u>
Total future amortization	<u>\$116</u>

13. LIABILITIES FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Activity in the liabilities for unpaid claims and claim adjustment expenses, at December 31, 2019, is summarized as follows:

	Health	Worker's Comp	Long-Term Care	Total
Balance of unpaid claims—January 1	\$ 1,653	\$ 1,807	\$ 589	\$ 4,049
Less reinsurance recoverable	<u> </u>	<u> 247</u>	<u> 233</u>	<u> 480</u>
Net balance—January 1	<u>1,653</u>	<u>1,560</u>	<u> 356</u>	<u>3,569</u>
Incurred related to:				
Current year	12,884	1,095	60	14,039
Prior years	<u>(343)</u>	<u>(55)</u>	<u> 2</u>	<u>(396)</u>
Total incurred	<u>12,541</u>	<u>1,040</u>	<u> 62</u>	<u>13,643</u>
Paid related to:				
Current year	(11,128)	(400)	(3)	(11,531)
Prior years	<u>(1,426)</u>	<u>(535)</u>	<u>(14)</u>	<u>(1,975)</u>
Total paid	<u>(12,554)</u>	<u>(935)</u>	<u>(17)</u>	<u>(13,506)</u>
Balance of unpaid claims—December 31	1,640	1,665	401	3,706
Liabilities subject to reinsurance recoverable		339	227	566
Liability for claim adjustment expenses	10	236		246
Liability for ASC claims	<u>1,244</u>	<u> </u>	<u> </u>	<u>1,244</u>
Total unpaid claims and claim adjustment expenses	<u>\$ 2,894</u>	<u>\$ 2,240</u>	<u>\$ 628</u>	<u>\$ 5,762</u>

Activity in the liabilities for unpaid claims and claim adjustment expenses, at December 31, 2018, is summarized as follows:

	Health	Worker's Comp	Long-Term Care	Total
Balance of unpaid claims—January 1	\$ 1,331	\$ 1,666	\$ 560	\$ 3,557
Less reinsurance recoverable	<u> </u>	<u>208</u>	<u>239</u>	<u>447</u>
Net balance—January 1	<u>1,331</u>	<u>1,458</u>	<u>321</u>	<u>3,110</u>
Incurred related to:				
Current year	12,043	914	61	13,018
Prior years	<u>(132)</u>	<u>(93)</u>	<u> </u>	<u>(225)</u>
Total incurred	<u>11,911</u>	<u>821</u>	<u>61</u>	<u>12,793</u>
Paid related to:				
Current year	10,425	288	2	10,715
Prior years	<u>1,164</u>	<u>431</u>	<u>24</u>	<u>1,619</u>
Total paid	<u>11,589</u>	<u>719</u>	<u>26</u>	<u>12,334</u>
Balance of unpaid claims—December 31	1,653	1,560	356	3,569
Liabilities subject to reinsurance recoverable		243	237	480
Liability for claim adjustment expenses	11	188		199
Liability for ASC claims	<u>1,207</u>	<u> </u>	<u> </u>	<u>1,207</u>
Total unpaid claims and claim adjustment expenses	<u>\$ 2,871</u>	<u>\$ 1,991</u>	<u>\$ 593</u>	<u>\$ 5,455</u>

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 consolidated financial statements reflects favorable claims experience related to health and nonhealth claims.

The Corporation consistently applies IBNR estimation methodology, which did not change in 2019 or 2018. 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.

The information about health and workers' compensation incurred and paid claims development, net of reinsurance, for the year ended December 31, 2019, and the total of incurred-but-not-reported liabilities plus expected development on reported claims included with the net incurred claims amounts set forth below consistent of the following:

Health Claim Segment

			As of December 31, 2019
			Total of incurred-but-not reported liabilities plus expected development on reported claims
Cumulative Incurred Claims—Net of Reinsurance			
Accident Year	2018	2019	
2018	\$ 12,043	\$ 11,700	\$ (130)
2019	<u> </u>	<u>12,884</u>	<u>1,756</u>
Total	<u>\$ 12,043</u>	<u>24,584</u>	1,626
			<u>14</u>
			<u>\$ 1,640</u>
Cumulative Paid Claims—Net of Reinsurance			
Accident Year	2018	2019	
2018	\$ 10,425	11,830	
2019	<u> </u>	<u>11,128</u>	
Total	<u>\$ 10,425</u>	22,958	
Total outstanding prior year unpaid claims—net of reinsurance		<u>14</u>	
Total outstanding unpaid claims—net of reinsurance		<u>\$ 1,640</u>	

SUPPLEMENTAL INFORMATION

Workers' Compensation Claim Segment

As of December 31, 2019
Total of incurred-but-not reported liabilities plus expected development on reported claims

Accident Year	Incurring Claims and Allocated Claim Adjustment Expenses—Net of Reinsurance										
	(unaudited) 2010	(unaudited) 2011	(unaudited) 2012	(unaudited) 2013	(unaudited) 2014	(unaudited) 2015	(unaudited) 2016	(unaudited) 2017	(unaudited) 2018	(unaudited) 2019	
2010	\$542	\$550	\$563	\$574	\$584	\$582	\$581	\$581	\$ 574	\$ 580	\$ 26
2011		386	366	361	379	393	396	389	379	382	23
2012			350	331	353	363	357	356	351	353	30
2013				365	368	375	381	379	368	370	34
2014					531	502	486	484	469	463	49
2015						579	557	554	530	523	70
2016							666	630	593	578	122
2017								727	688	674	197
2018									670	803	323
2019										941	668
									<u>4,622</u>	<u>5,666</u>	1,541
											211
											(155)
											<u>68</u>
											<u>\$1,665</u>

Accident Year	Cumulative Paid Claims and Allocated Claim Adjustment Expenses—Net of Reinsurance										
	(unaudited) 2010	(unaudited) 2011	(unaudited) 2012	(unaudited) 2013	(unaudited) 2014	(unaudited) 2015	(unaudited) 2016	(unaudited) 2017	(unaudited) 2018	(unaudited) 2019	
2010	\$151	\$322	\$416	\$472	\$508	\$527	\$540	\$547	\$ 545	\$ 554	
2011		138	274	328	353	362	369	349	351	359	
2012			125	256	302	318	327	311	314	323	
2013				119	255	297	320	319	327	336	
2014					141	271	341	381	400	415	
2015						152	316	391	426	453	
2016							320	513	404	456	
2017								165	368	476	
2018									215	480	
2019										273	
									<u>3,350</u>	<u>4,124</u>	
											193
											(155)
									<u>66</u>	<u>68</u>	
									<u>\$1,531</u>	<u>\$1,665</u>	

Total outstanding unpaid claims prior to 2010—net of reinsurance
 Liability for allocated claim adjustment expenses
 Other Short-Duration Insurance Lines

Total outstanding unpaid claims and CAE—net of reinsurance

Claim frequency is not used in the calculation of our liability. In addition, it is impracticable to disclose claim frequency information for health care and workers' compensation claims due to multiple claim systems and substantial claim volumes.

The following is information about average workers' compensation historical claims duration as of December 31, 2019.

Average Annual Percentage Payout of Incurred Claims by Age-Net of Reinsurance (unaudited)

Years	1	2	3	4	5	6	7	8	9	10
Workers' Compensation	29.5 %	32.4 %	14.4 %	7.3 %	4.1 %	2.7 %	1.9 %	1.4 %	0.9 %	0.6 %

14. 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.

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 pool underwriting results generally are distributed to companies writing workers' compensation insurance in each state based upon each company's market share of the total voluntary workers' compensation market. 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.

Accident Fund also enters into quota share reinsurance agreements in conjunction with its fronting arrangements, whereby Accident Fund cedes to the reinsurer the majority (50% to 100%) of its gross liability under all policies issued by and on their behalf. Accident Fund remains exposed to the credit risk of the reinsurer, or the risk that one of its reinsurers becomes insolvent or otherwise unable or unwilling to pay policyholder claims. This credit risk is generally mitigated by selecting well capitalized, highly rated authorized reinsurers and in some cases requiring that the reinsurer post collateral to secure the reinsured risks.

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, 2019 and 2018, no allowance was required.

The effects of reinsurance activities on premiums and losses for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Premiums written:		
Direct	\$1,987	\$1,685
Reinsurance assumed	85	84
Reinsurance ceded	<u>(382)</u>	<u>(216)</u>
Net premium written	<u>\$1,690</u>	<u>\$1,553</u>
Premium earned:		
Direct	\$1,876	\$1,557
Reinsurance assumed	76	88
Reinsurance ceded	<u>(328)</u>	<u>(172)</u>
Net premium earned	<u>\$1,624</u>	<u>\$1,473</u>

	2019	2018
Losses and loss adjustment expenses incurred:		
Direct	\$1,167	\$888
Reinsurance assumed	28	52
Reinsurance ceded	<u>(156)</u>	<u>(111)</u>
Net losses and loss adjustment expenses incurred	<u>\$1,039</u>	<u>\$829</u>

Reinsurance recoverables included in receivables—net, and prepaid reinsurance, included in other assets, at December 31, 2019 and 2018, consist of the following:

	2019	2018
Reinsurance recoverables:		
Unpaid losses recoverable on workers' compensation policies	\$339	\$242
Unpaid losses recoverable on disability policies		5
Accrued reinsurance premiums recoverable	2	4
Paid losses recoverable	<u>11</u>	<u>7</u>
Total reinsurance recoverables	<u>\$352</u>	<u>\$258</u>
Prepaid reinsurance	<u>\$ 3</u>	<u>\$ 1</u>

LifeSecure cedes all of 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, 2019 and 2018, are as follows:

	2019	2018
Premiums written:		
Direct	\$ 62	\$ 60
Reinsurance assumed	25	27
Reinsurance ceded	<u>(5)</u>	<u>(5)</u>
Net premium written	<u>\$ 82</u>	<u>\$ 82</u>
Premium earned:		
Direct	\$ 64	\$ 62
Reinsurance assumed	25	27
Reinsurance ceded	<u>(6)</u>	<u>(7)</u>
Net premium earned	<u>\$ 83</u>	<u>\$ 82</u>
	2019	2018
Losses and loss adjustment expenses incurred:		
Direct	\$ 51	\$ 20
Reinsurance assumed	27	57
Reinsurance ceded	<u>(16)</u>	<u>(16)</u>
Net losses and loss adjustment expenses incurred	<u>\$ 62</u>	<u>\$ 61</u>

The reinsurance recoverables included in receivables, net, at December 31, 2019 and 2018, consist of the following:

	2019	2018
Recoverable on life insurance and other policies	<u>\$226</u>	<u>\$235</u>

15. PENSION AND POSTRETIREMENT PLANS

Defined Contribution Plan—Represented employees 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 Internal Revenue Code (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 IRC Section 401(k) limits on elective employee deferrals were \$19,000 and \$18,500 (in dollars) for 2019 and 2018, 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 \$6,000 (in dollars) for both 2019 and 2018. Catch-up contributions are not matched by the Corporation. The Corporation's expense for matching contributions during 2019 and 2018 totaled \$36 and \$30, 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. Under the final average pay provisions, the postretirement monthly benefit is 1.4% of average monthly compensation multiplied by years of credited service. 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. Represented participants hired after January 2009 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 are required to 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 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, 2019 and 2018, was \$150 and \$129, respectively, and are included within the amounts 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. There are health care and other benefit plans for employees and retirees represented under a collectively bargained union contract and separate plans for nonunionized employees and retirees. 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 both plans 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 the Corporation.

In 2019, the Corporation established two trusts to fund retiree medical benefits. With respect to the trusts, the Company is requesting from the IRS that the trusts be designated as tax exempt 501(c)(9) entities. At year-end 2019, the IRS approval is still

pending. The purpose of the trusts is to fund retiree medical payments. Plan sponsorship, and the determination of plan benefit design, continues to reside with the Corporation. Similar to pension trust assets, the assets in the retiree medical trusts are restricted and cannot revert back to the Corporation for any purpose. The initial trust funding was \$541 and \$107 for the bargaining and nonbargaining plans respectively. Prior to 2019, the Corporation's postretirement health care and other post-retirement benefit plans were unfunded.

The projected benefit obligation and funded status at the plan measurement date and the accrued expenses at December 31, 2019 and 2018, consist of the following:

	Pension		Postretirement	
	2019	2018	2019	2018
Accumulated benefit obligation	\$ 1,856	\$ 1,651	\$ 759	\$ 538
Effects of estimated future pay increases	<u>124</u>	<u>109</u>	<u> </u>	<u> </u>
Projected benefit obligation	1,980	1,760	759	538
Plan assets at fair market value	<u>1,459</u>	<u>1,294</u>	<u>648</u>	<u> </u>
Funded status	<u>\$ (521)</u>	<u>\$ (466)</u>	<u>\$ (111)</u>	<u>\$ (538)</u>
Prepayments included in other assets	\$ -	\$ -	\$ 37	\$ -
Liabilities included in accrued employee expenses	<u>(521)</u>	<u>(466)</u>	<u>(148)</u>	<u>(538)</u>
Funded Status	<u>\$ (521)</u>	<u>\$ (466)</u>	<u>\$ (111)</u>	<u>\$ (538)</u>
Information for plans with an accumulated benefit obligations in excess of plan assets:				
Projected benefit obligation	\$ 1,980	\$ 1,760	\$ 759	\$ 538
Accumulated benefit obligation	1,856	1,651	759	538
Fair value of plan assets	1,459	1,294	648	

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, 2018	<u>\$ 346</u>	<u>\$ 3</u>	<u>\$ 349</u>
Recognized during the year	(29)	(1)	(30)
Occurring during the year	<u>60</u>	<u>—</u>	<u>60</u>
Subtotal before tax	<u>31</u>	<u>(1)</u>	<u>30</u>
Deferred tax expense (benefit)	<u>(6)</u>	<u>—</u>	<u>(6)</u>
Balance at December 31, 2018	<u>371</u>	<u>2</u>	<u>373</u>
Recognized during the year	(19)	(1)	(20)
Occurring during the year	<u>24</u>	<u>—</u>	<u>24</u>
Subtotal before tax	<u>5</u>	<u>(1)</u>	<u>4</u>
Deferred tax expense (benefit)	<u>(13)</u>	<u>—</u>	<u>(13)</u>
Balance at December 31, 2019	<u>\$ 363</u>	<u>\$ 1</u>	<u>\$ 364</u>
Accumulated balance—(gain) loss			\$ 461
Deferred tax assets			<u>(97)</u>
Balance at December 31, 2019			<u>\$ 364</u>

	Postretirement			All Plans Grand Total
	Net (Gain) Loss	Prior Service Cost	Total	
Balance at January 1, 2018	<u>\$ 239</u>	<u>\$ (316)</u>	<u>\$ (77)</u>	<u>\$ 272</u>
Recognized during the year	(25)	35	10	(20)
Occurring during the year	<u>(71)</u>	<u>11</u>	<u>(60)</u>	<u>—</u>
Subtotal before tax	<u>(96)</u>	<u>46</u>	<u>(50)</u>	<u>(20)</u>
Deferred tax expense (benefit)	<u>9</u>	<u>—</u>	<u>9</u>	<u>3</u>
Balance at December 31, 2018	<u>152</u>	<u>(270)</u>	<u>(118)</u>	<u>255</u>
Recognized during the year	(5)	37	32	12
Occurring during the year	<u>—</u>	<u>213</u>	<u>213</u>	<u>237</u>
Subtotal before tax	<u>(5)</u>	<u>250</u>	<u>245</u>	<u>249</u>
Deferred tax expense (benefit)	<u>(48)</u>	<u>—</u>	<u>(48)</u>	<u>(61)</u>
Balance at December 31, 2019	<u>\$ 99</u>	<u>\$ (20)</u>	<u>\$ 79</u>	<u>\$ 443</u>
Accumulated balance—(gain) loss			\$ 100	\$ 561
Deferred tax assets			<u>(21)</u>	<u>(118)</u>
Balance at December 31, 2019			<u>\$ 79</u>	<u>\$ 443</u>

In June of 2016, the Corporation announced and communicated to certain non-grandfathered plan participants in the non-union and union retiree health plans, design changes to move the benefit design from a traditional defined benefit model to a defined contribution stipend-based benefit model effective January 1, 2017. The design changes for the non-union plan were implemented as scheduled but the design changes for the union plan were delayed and remained deferred through the 2019 benefit year. With respect to the union retiree health plan, the delay in the effective date was due to many factors, including but not limited to, ACA marketplace uncertainty and the desire to achieve a long-term benefit design solution with retiree participants and stakeholders.

In September of 2019, the Company amended the stipend-based union retiree medical plan to reflect a defined benefit design.

The amendment increased the accumulated postretirement liability of the union retiree plan by \$213, which is being amortized over a period of approximately 8 years as a component of net period postretirement benefit cost over the average remaining number of years of service of the participants.

The benefit costs, employer contributions, and benefits paid for the years ended December 31, 2019 and 2018, are as follows:

	<u>Pension</u>		<u>Postretirement</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Service cost for benefits earned during the year	\$ 69	\$ 67	\$ 17	\$ 20
Interest cost	75	66	23	22
Expected return on assets	(88)	(81)		
Amortization of net prior service cost	1	1	(37)	(35)
Actuarial loss recognized	<u>18</u>	<u>29</u>	<u>6</u>	<u>25</u>
Net periodic benefit cost	<u>\$ 75</u>	<u>\$ 82</u>	<u>\$ 9</u>	<u>\$ 32</u>
Total benefit expense for the year	<u>\$ 75</u>	<u>\$ 82</u>	<u>\$ 9</u>	<u>\$ 32</u>
Employer contributions	<u>\$ 20</u>	<u>\$122</u>	<u>\$648</u>	<u>\$ -</u>
Benefits paid	<u>\$ 97</u>	<u>\$ 85</u>	<u>\$ 33</u>	<u>\$ 35</u>

The components of net periodic benefit costs other than the service cost components are included in investment income and other in the consolidated statements of comprehensive income.

The Corporation expects to recognize the following as components of the net periodic cost (benefit) in 2020:

	Pension	Postretirement
Net loss	\$32	\$ 4
Prior service cost (benefit)	<u>1</u>	<u>(22)</u>
Total	<u>\$33</u>	<u>\$(18)</u>

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

	Pension			
	Non Represented and Nonqualified Plans		Represented Plan	
	2019	2018	2019	2018
Projected benefit obligations:				
Discount rate	3.30 %	4.40 %	3.60 %	4.45 %
Rate of compensation increase	4.0-10.0 %	4.0-10.0 %	2.0-7.0 %	2.0-7.0 %
Net periodic benefit cost:				
Discount rate	4.40 %	3.65 %	4.45 %	3.75 %
Rate of compensation increase	4.0-10.0 %	4.0-10.0 %	2.0-7.0 %	2.0-7.0 %
Expected long term return	6.75 %	6.45 %	6.75 %	6.45 %

	Postretirement			
	2019	2018	2019	2018
	Nonrepresented Employees		Represented Employees	
Projected benefit obligations—discount rate	3.55 %	4.45 %	3.45 %	4.45 %
Net periodic benefit cost—discount rate	4.45 %	3.70 %	4.45 %	3.70 %

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 health care plans. After January 1, 2017 for Non-Bargaining Unit (NBU) retirees, the health care trend assumptions will only apply to retirees or disabled employees who retired or became disabled before January 1, 1993 and to pre-65 NBU retirees as these groups continue to receive post-retirement medical benefits under the traditional design. Bargaining Unit (BU) retirees and active BU employees will continue to receive post-retirement medical benefits under a traditional design. The postretirement benefit obligation includes assumed health care cost trend rates as follows:

	2019	2018
Pre 65 PPO	4.00 %	4.00 %
Pre 65 HMO	4.70 %	5.00 %
Pre 65 Drug	7.50 %	9.50 %
Post 65 Non MA PPO	4.00 %	4.00 %
Post 65 Non MA HMO	6.10 %	7.25 %
Post 65 MA PPO	4.00 %	4.00 %
Post 65 MA HMO	5.65 %	5.25 %
Post 65 Drug Non-EGWP	7.50 %	9.50 %
Post 65 Drug EGWP	6.75 %	6.25 %
Ultimate Trend Rate	4.91 %	4.91 %
Year rate reaches ultimate rate	2025	2025

A one-percentage-point change in assumed health care cost trend rates at December 31, 2019, would have the following effects:

	One- Percentage Point Increase	One- Percentage Point Decrease
Effect on postretirement benefit obligation	\$ 84	\$ (71)
Effect on total of service cost and interest cost components	7	(5)

Pension and Retiree Medical Trusts 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. Plan assets for the retiree medical trusts are held with Northern Trust. Each pension 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 trust payable administrative expenses. Pension plan assets in the master trust are currently managed by 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 for the pension trust 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, multistrategy hedge funds, and fund of fund private equity. At December 31, 2019, the actual allocation of plan assets was approximately 46% long-duration fixed-income securities and cash and 54% return-seeking assets. The ultimate target asset allocation is expected to possibly occur by the end of 2021, but could take more or less time, dependent on market conditions.

The investment policy for the medical trusts, which were funded in December of 2019, will be further developed in 2020. Investment allocations will seek to match plan liability to preserve the availability of funds to pay benefits as they become due while achieving investment results that meet or exceed the discount rate associated with the liability.

The fair values of the Corporation's pension plan assets are measured and classified as disclosed in the significant accounting policies footnote. The pension assets by category for 2019 and 2018, are as follows:

	Fair Value Measurements at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Corporate debt securities	\$ -	\$ 507	\$ -	\$ 507
Common stocks	62			62
Cash equivalents	27	25		52
US treasury securities		108		108
US agency securities		5		5
Mortgage-backed securities	1	7		8
Foreign debt securities		15		15
State and local debt securities		16		16
Other asset-backed securities		9	1	10
Total measured at fair value	<u>\$ 90</u>	<u>\$ 692</u>	<u>\$ 1</u>	783
Measured at NAV:				
Commingled Equity Funds				246
Limited liability companies				241
Limited partnerships				<u>189</u>
Total				<u>\$1,459</u>

Fair Value Measurements at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Corporate debt securities	\$ -	\$ 441	\$ -	\$ 441
Common stocks	47	6		53
Cash equivalents	28	20		48
US treasury securities		84		84
Mortgage-backed securities		6		6
Foreign debt securities		13		13
State and local debt securities		13		13
Other asset-backed securities		8		8
Total measured at fair value	<u>\$ 75</u>	<u>\$ 591</u>	<u>\$ -</u>	666
Measured at NAV:				
Commingled Equity Funds				207
Limited liability companies				219
Limited partnerships				<u>202</u>
Total				<u>\$1,294</u>

In 2019, the Corporation established two post retirement trusts to fund retiree medical benefits. The fair values of the Corporation's retiree medical trust plan assets are measured and classified as disclosed in the significant accounting policies footnote. The retiree medical trust plan assets by category for 2019 are as follows:

Fair Value Measurements at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents	<u>\$ 648</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 648</u>
Total measured at fair value	<u>\$ 648</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 648</u>

Pension Plan and OPEB Contributions—The Corporation contributed \$20 and \$122 in 2019 and 2018, respectively, to its defined benefit pension plans. As of December 31, 2019, the Corporation anticipates it will have a required contribution in 2020 of \$41.

Postretirement Medical Contributions—The Corporation contributed \$648 in 2019 to its postretirement medical plans. As of December 31, 2019, the Corporation anticipates it will not have a required contribution in 2020.

Expected Benefit Payments - The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Years Ending December 31	Pension Benefits Future Benefit Payments
2020	\$ 121
2021	126
2022	132
2023	130
2024	131
2025 through 2029	<u>663</u>
Total	<u>\$1,303</u>

Expected Benefit Payments—The benefit payments, which reflect expected future service, and expected postretirement benefits, before deducting the Medicare Part D subsidy at December 31, 2019, are expected to be paid as follows:

Years Ending December 31	Postretirement Benefits	
	Future Benefit Payments	Anticipated Future Subsidies
2020	\$ 39	\$ (1)
2021	39	(1)
2022	40	(1)
2023	41	(1)
2024	42	(1)
2025 through 2029	<u>226</u>	<u>(3)</u>
Total	<u>\$427</u>	<u>\$ (8)</u>

16. DEBT

The carrying value of the Corporation's outstanding debt as of December 31, 2019 and 2018, is as follows:

	2019	2018
Federal Home Loan Bank of Indianapolis (FHLBI):		
The Company: 1.49%–2.37%, due 2020–2024	\$ 295	\$ 426
Accident Fund: 1.50%–5.53%, due 2020–2028	66	68
BCNM: 1.89%, due 2024	50	50
Tessellate: Capital One, N.A.: variable interest rate, due 2023		63
Accident Fund: Economic Dev Corp of City of Lansing debt: 1.80% due 2030	<u>14</u>	<u>15</u>
Total debt	<u>\$ 425</u>	<u>\$ 622</u>

All borrowings have fixed interest rates except for the borrowing obtained by Tessellate which was paid off in 2019.

The total interest expense for the years ended December 31, 2019 and 2018, was \$12 and \$16, respectively.

Liquidity Facilities—The Corporation has facilities with limits totaling \$2,450 with FHLBI. The limits are \$2,000 for the Company, \$300 for Accident Fund, and \$150 for BCNM. The outstanding borrowings with FHLBI total \$411 and \$544 as of December 31, 2019 and 2018, respectively. The FHLBI debt is collateralized by government securities at 103%–115% of the outstanding loan balance. The FHLBI weighted-average borrowing rate is 1.85% and 1.87% at December 31, 2019 and 2018, respectively. The non-FHLBI debt weighted-average borrowing rate is 1.80% and 3.78% at December 31, 2019 and 2018, respectively.

Standby Letter of Credit—For certain debt agreements, the Corporation is required to maintain a letter of credit to collateralize the debt. The letter of credit is issued by FHLBI. The table below shows the available letter of credit related to those debt agreements.

Letter of Credit Commitment	Expiration Date	Percentage of Financed Amount	Available Amount
Economic Development Corp, City of Lansing	2021	100 %	\$16

At December 31, 2019, future minimum payments required for outstanding debt are as follows:

Years Ending December 31	
2020	\$ 203
2021	2
2022	98
2023	22
2024 and thereafter	<u>100</u>
Total future minimum payments	<u>\$ 425</u>

17. OTHER LIABILITIES

Other liabilities at December 31, 2019 and 2018, consist of the following:

	2019	2018
Accrued administrative expenses	\$ 288	\$ 261
Advance deposits from ASC groups	206	211
Legal reserves	207	78
Accrued taxes, assessments, and other	94	115
Government programs	57	68
Social mission accrual	85	85
Reinsurance liabilities	145	101
Premium rebates due to customers	45	6
Payable for purchase of securities	25	0
Payable to outstate plans	30	30
Administrative cash overdrafts	73	53
Guaranty fund assessment	23	21
Deferred revenue from non-insurance services	24	18
Board of escheats	12	10
Other	<u>108</u>	<u>94</u>
Total	<u>\$1,422</u>	<u>\$1,151</u>
Payables to government programs consist of the following:		
ACA risk adjustment	\$ 53	\$ 47
ACA advance premium tax subsidy payments	1	1
Medicare Advantage	<u>3</u>	<u>20</u>
Total	<u>\$ 57</u>	<u>\$ 68</u>

18. INCOME TAXES

Significant components of net deferred tax assets at December 31, 2019 and 2018, are summarized as follows:

	2019	2018
Deferred tax assets:		
Alternative Minimum Tax (AMT) and other credit carryforwards	\$ 96	\$ 153
Accrued expenses associated with postretirement and pension benefits	120	181
Accrued expenses	129	140
Discount of claim liabilities as required for tax purposes	49	42
Depreciation and amortization	7	2
Unrealized loss on investments		66
Net operating loss carryover	<u>21</u>	<u>23</u>
Gross deferred tax assets	422	607
Valuation allowance	<u>(19)</u>	<u>(19)</u>
Deferred tax assets net of valuation allowance	<u>403</u>	<u>588</u>
Deferred tax liabilities—Unrealized gains on investments	<u>(20)</u>	<u>—</u>
Gross deferred tax liabilities	<u>(20)</u>	<u>-</u>
Net deferred tax assets	<u><u>\$ 383</u></u>	<u><u>\$ 588</u></u>

The valuation allowance remained unchanged in 2019 and increased by \$8 in 2018. The change in the net deferred tax assets in 2019 is primarily due to the utilization and refund of AMT credits and funding two postretirement trusts. The change in the net deferred tax assets in 2018 is primarily due to the utilization of AMT credits and the change in the unrealized loss on investments.

Significant components of the provision for income taxes for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Current tax benefit	\$ (184)	\$ (157)
Deferred tax expense	<u>210</u>	<u>309</u>
Total tax expense	<u><u>\$ 26</u></u>	<u><u>\$ 152</u></u>

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

	2019	2018
Amount at statutory rate (21%)	\$ 179	\$ 156
State income tax	(11)	
Income of tax exempt subsidiary	(31)	(50)
Health insurer fee		31
Executive compensation limitation	16	16
Permanent items	8	4
AMT credit and rate differential		1
Change in tax status of subsidiary		(15)
Change in valuation allowance		5
Return to provision	(132)	
Other	<u>(3)</u>	<u>4</u>
 Total tax expense	 <u>\$ 26</u>	 <u>\$ 152</u>

As a Blue Cross Blue Shield organization, the Company is eligible for a Special Deduction under IRC Section 833(b) for claims and claims related administrative expenses. This deduction may be claimed until tax surplus exceeds 25% of annual underwritten claims incurred, liabilities incurred under cost-plus contracts, and related administrative expenses. To qualify for the Special Deduction, on an annual basis, the Company is required to satisfy a tax MLR requirement of at least 85%. The tax MLR calculation follows the MLR rules as prescribed under the ACA in determining premium rebates for commercial insurance contracts.

The Company had historically been subject to AMT since first becoming taxable in 1987 and the AMT had been reflected in its financial statements for federal income tax. Corporate AMT is considered a prepayment of regular federal income tax and generated a tax credit which is carried forward as a credit to offset future regular tax paid. Beginning in 2018 the AMT federal income tax provisions have been repealed. The balance of AMT credit carryforwards will be used to reduce future consolidated federal income tax liabilities and 50% of the remaining carryforward will be refunded for tax returns filed for tax years 2018 through 2021 at which time any remaining AMT tax credits will be fully refundable. The Corporation has recorded a deferred tax asset as of December 31, 2019 and 2018, of \$95 and \$153, respectively, representing the amount of the AMT credit carryforward.

At year-end 2018, the Company anticipated not meeting the tax MLR requirement necessary to benefit from the Special Deduction. Upon the Company's MLR filing with the Center for Medicare and Medicaid Services (CMS) on July 31, 2019, the Company's tax MLR satisfied the 85% requirement and qualified for the Special Deduction on the 2018 federal tax return.

The Company's financial results reflect a year-end best estimate for the 2019 tax MLR of 84.7% which is below the 85% threshold required to qualify for the IRC Section 833(b) Special Deduction. The final ratio will not be determined until the MLR filing for commercial rebate purposes is filed with the CMS on July 31, 2020. If the final underwriting results in the CMS submission are approximately \$50 lower than current projections, the Company's 2019 Tax MLR would meet the 85% threshold needed to qualify for the Special Deduction. Qualifying for the Special Deduction would reduce 2019 tax expense by approximately \$9.

In accordance with ASC 740-10-30, 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 all existing evidence, in order to determine whether a valuation allowance is required. Items considered include the reversal of deferred tax liabilities, projected future taxable income, and tax-planning strategies in making this assessment.

At December 31, 2019, tax years 2016 through 2019 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 uncertain tax positions of \$2 and \$1 as of December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, the balance of unrecognized tax benefits that, if recognized, would affect our effective tax rate is \$2 and \$1, respectively. The Corporation does not believe that it is reasonably possible that this liability balance will significantly increase within the next 12 months.

At December 31, 2019 and 2018, the Corporation had unused federal net operating loss carryforward amounts of \$34 and \$52, respectively, and state net operating loss carryforward amounts of \$310 and \$263, respectively, which can be used to offset future taxable income. The loss carryforwards begin to expire in 2024.

19. INDUSTRY CONCENTRATION

The Company and BCNM conduct business primarily 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 \$133 and \$97 at December 31, 2019 and 2018, respectively. These receivables primarily represent reimbursable claims and administrative fees for services provided to them as part of their ASC arrangements with the Corporation. Reimbursable claims paid under these arrangements totaled \$3,473 and \$3,425 for the years ended December 31, 2019 and 2018, respectively. Administrative fee revenue from these customers was \$208 and \$205 for the years ended December 31, 2019 and 2018, respectively.

The Corporation held cash advances from these customers of \$16 and \$20 at December 31, 2019 and 2018, 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 \$313 and \$311 at December 31, 2019 and 2018, respectively.

In addition, the Corporation holds investments in these customers' corporate bonds, and medium-term notes with a total fair value of \$24 and \$36 at December 31, 2019 and 2018, respectively.

20. OPERATING LEASES

The Corporation leases certain computer equipment and office space under various noncancelable operating leases. Rental expense was \$32 and \$35 for 2019 and 2018, respectively. At December 31, 2019, future minimum lease payments are as follows:

Years Ending December 31	
2020	\$ 25
2021	25
2022	22
2023	19
2024 and thereafter	<u>40</u>
Total	<u>\$131</u>

21. 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 \$145 and \$63 for the years ended December 31, 2019 and 2018, respectively.

December 31, 2019, future payments are as follows:

Years Ending December 31	
2020	\$ 124
2021	47
2022	23
2023	19
2024 and thereafter	<u>25</u>
Total	<u>\$238</u>

22. SOCIAL MISSION OBLIGATION

As part of the Company's transition to a mutual insurance company in 2014, the Company entered into a Community Health Investment Agreement (CHIA) with the State of Michigan whereby the Company committed to use its best efforts to make annual social mission payments to the 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. Future annual payments range from \$85 to \$100 depending on revenue levels. Payments under the commitment can be made by the Company or its subsidiaries. At December 31, 2019 and 2018, the Company recorded a liability (included in other liabilities) of \$85. The Corporation paid \$85 in 2019 and 2018, respectively. Through 2019, the Corporation has paid a total of \$440 to MHEF related to the agreement.

23. CONTINGENCIES

Hospital Contracts—Two civil lawsuits challenging the use of most favored nations (MFN) clauses in hospital contracts are pending that seek monetary relief. The Company has reached a settlement in one case, admitting no wrongdoing, that has received approval from the Court. With respect to the remaining lawsuit 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 case..

Customer Disputes—The Corporation is currently involved in disputes regarding 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.

Reimbursement Dispute—The Corporation is currently involved in a dispute with a provider regarding reimbursement for certain Medicare Advantage claims. The lawsuit alleges BCBSM breached the applicable contract. It is not yet possible to make an assessment regarding probability of an adverse outcome, nor estimate a range of potential loss.

BCBSA Litigation—Numerous antitrust class actions have been filed against BCBSA and every Plan. The cases were originally filed in 2012. The cases were consolidated into two, a provider case and a subscriber case. The cases are currently pending in United States District Court for the Northern District of Alabama. The cases allege that numerous BCBSA rules and/or regulations violate the Sherman Antitrust Act and related state laws. The Court issued its Opinion on April 5th, 2018 holding that the Exclusive Service Areas and National Best Efforts will be analyzed under the per se standard and the Blue Card program will be analyzed under the Rule of Reason. Defendants' appealed this decision, but the Court of Appeals declined to take the appeal, thereby sending it back to the trial court for further proceedings. If this matter goes to trial, the trial is anticipated to take place in 2021. The Company has accrued its best estimate of risk of loss associated with a possible settlement in the subscriber case. It is not yet possible to make an assessment regarding probability of an adverse outcome, nor estimate a range of potential loss in the provider case.

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, 2019, 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, 2019, and 2018, the Corporation recorded in other liabilities \$207 and \$78, respectively, for all probable and reasonably estimable losses..

The consolidated statements of operations for the years ended 2019 and 2018 include \$140 and \$0, respectively, related to legal losses and settlements.

24. RELATED-PARTY TRANSACTIONS

As discussed in Note 11, the Company holds an equity interest in BMH and NASCO. In addition to the equity interest, the Company also has service contracts with each of these entities.

BMH, through its subsidiaries, provides health care solutions and services in the Medicaid marketplace. During 2019 and 2018, the Corporation incurred \$118 and \$102, respectively, 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 2019 and 2018, the Company recorded \$62 and \$59 for the years ended, respectively, in fees paid to NASCO for claims processing.

25. GUARANTEES

BMH - As a 38.74% equity owner in BMH, the Company has agreed to guarantee its proportionate share of a line of credit loan outstanding with PNC Bank, National Association, administrative agent for lenders. The line of credit was amended and restated on May 10, 2019 and provides for borrowing up to \$700 and is for a one-year term. BMH has an option to request up to an additional \$150 in credit; however, the Lenders have no obligation to facilitate the request. The outstanding LOC debt balance with PNC Bank was \$0 as of December 31, 2019 and December 31, 2018.

26. 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 National Association of Insurance Commissioners (NAIC) Risk-Based Capital (RBC) requirements when evaluating if an insurer is in compliance with the "safe and reliable" requirement of Section 403.

At December 31, 2018, the Company's policyholders' reserves are in compliance with the requirements set forth in the Michigan Insurance Code. At December 31, 2019 and 2018, the Company's statutory surplus was \$5,332 and \$4,933, 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, 2019 and 2018, is \$1,729 and \$1,609, respectively. BCNM is required by DIFS to comply with certain RBC requirements. At December 31, 2019 and 2018, 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, 2019, the maximum amount of dividends and other distributions that may be made by Accident Fund during 2019 without prior approval is \$154. LifeSecure is currently in a cumulative 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, 2019 and 2018, is \$1,087 and \$934, respectively. Accident Fund is required by DIFS to comply with certain RBC requirements. At December 31, 2019 and 2018, Accident Fund was in compliance with the RBC requirement.

LifeSecure is required by DIFS to maintain minimum capital and surplus of \$7.5. In addition, the Company must maintain capital and surplus sufficient to achieve a RBC level of at least 300% of the authorized control level in accordance with licensing requirements of various states in which it does business. The State of Florida requires minimum capital equal to the sum of 4% of the total liabilities and 6% of the health liabilities. LifeSecure's statutory capital and surplus as of December 31, 2019 and 2018, is \$48 and \$47, respectively.

Pursuant to Michigan Insurance Code, Woodward Straits is required to maintain a minimum of unimpaired capital and surplus of \$0.2. As a pure captive insurance company, Woodward Straits is not subject to RBC requirements typical of traditional insurance companies. Woodward Straits reported \$72 and \$73 capital and surplus at December 31, 2019 and 2018, respectively.

At December 31, 2019, \$407 of cash and \$5,846 of investments are held at the Corporation's subsidiaries, which are subject to the aforementioned dividend limitations.

27. ACCUMULATED OTHER COMPREHENSIVE LOSS

The accumulated other comprehensive loss at December 31, 2019 and 2018, consists of the following:

	2019	2018
Unrealized gains (loss) on available-for-sale securities	\$ 171	\$ (71)
Change in foreign currency translation adjustment	(2)	
Unrecognized pension and postretirement liabilities	(443)	(255)
Other comprehensive loss attributable to joint ventures	<u>(12)</u>	<u>(9)</u>
 Total other comprehensive loss attributable to the Corporation	 (286)	 (335)
Other comprehensive income attributable to non-controlling interest	<u>9</u>	<u> </u>
Total accumulated other comprehensive loss	<u>\$ (277)</u>	<u>\$ (335)</u>

28. STATUTORY-BASIS ACCOUNTING INFORMATION

Statutory-basis consolidated 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 US GAAP. A reconciliation of US GAAP net income to statutory-basis net income at December 31, 2019 and 2018, is as follows:

	2019	2018
US GAAP addition to policyholders' reserves in the accompanying statements	\$ 825	\$ 576
Less income attributable to noncontrolling interest	(7)	(10)
Add (deduct) adjustments in accordance with SAP:		
(Loss) gain difference due to prior period impairment of securities	22	(31)
Pension and postretirement expense	(20)	(2)
Affiliates' earnings net of dividends to parent	(39)	(398)
Changes in unrealized gain (loss) for trading securities	(135)	109
Fair value adjustments of other invested assets	69	(14)
Deferred tax benefit (expense) recorded in SAP subscribers' reserve	<u>190</u>	<u>329</u>
Statutory-basis net gain as prescribed by DIFS	<u>\$ 905</u>	<u>\$ 559</u>

A reconciliation of the Corporation's US GAAP policyholders' reserves to SAP surplus is shown below for December 31, 2019 and 2018, respectively:

	2019	2018
US GAAP policyholders' reserves	<u>\$6,733</u>	<u>\$ 5,873</u>
Add (deduct):		
Bonds and preferred stocks	(71)	15
Investment in subsidiaries	(770)	(503)
Furniture, equipment, and automobiles	(12)	(11)
Capitalized software	(127)	(116)
Premium and other receivables	(15)	(37)
Deferred tax assets	(287)	(233)
Prepaid expenses and other assets	(106)	(58)
Social mission obligation—net of tax	67	67
Noncontrolling interest	<u>(80)</u>	<u>(64)</u>
Subtotal	<u>(1,401)</u>	<u>(940)</u>
SAP surplus as prescribed by DIFS	<u>\$5,332</u>	<u>\$ 4,933</u>

29. INSURANCE RELATED ASSESSMENTS

The Corporation is subject to guaranty fund assessments by various state guaranty associations. Assessments are levied on insurance companies to ensure policyholder obligations of insolvent insurance companies are paid. In some states, these assessments may be entitled to partial or full recoveries through a reduction in future premium taxes.

Liabilities and anticipated payment schedules for guaranty fund and other insurance-related assessments recorded as of December 31, 2019 and 2018, are as follows:

	2019	2018
Payable in one year or less	\$ 37	\$ 27
Payable after one year through five years	3	4
Payable after five years through 10 years	1	1
Payable after 10 years	<u>1</u>	<u>1</u>
Total insurance-related assessments	<u>\$ 42</u>	<u>\$ 33</u>

Guaranty fund assessment expense was \$3 in 2019 and 2018, respectively.

30. SUBSEQUENT EVENTS

Management has evaluated all events subsequent to the consolidated balance sheet date of December 31, 2019, through March 25, 2020, the date these consolidated financial statements were available to be issued, and has determined that there are no events that require disclosure under FASB ASC 855, *Subsequent Events*, except the following:

COVID-19

At the date of these financial statements, the adverse health and financial effects of the COVID-19 pandemic is still emerging and rapidly changing. The ultimate adverse financial impact on the Corporation's business, cash flows, financial condition and results of operations is unknown. Several factors including the rate of infection, the ability of the health care system to handle potential patient volumes and the availability of appropriate medicines and treatment options for those infected with the virus, will have a significant impact on the health of our members and the population at large.

The Corporation is taking proactive steps during this time of uncertainty to help our members including full coverage at no cost to members for COVID-19 testing, waiving of all pre-authorization requirements for COVID-19 related covered services and prescription drug limits during this period and expanding access to telemedicine and nurse hotlines.

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