

# Blue Cross Blue Shield of Michigan Mutual Insurance Company and Subsidiaries

Consolidated Financial Statements as of and for the  
Years Ended December 31, 2023 and 2022, and  
Independent Auditor's Report

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the 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 "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, policyholders' reserves, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, based on our audits and the report of other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Star Insurance Company, a wholly-owned subsidiary, for the year ended December 31, 2022, which statements reflect total assets constituting 10% of consolidated total assets at December 31, 2022. Those statements, which were prepared in accordance with accounting practices as prescribed or permitted by the Michigan Department of Insurance and Financial Services, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of Star Insurance Company, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for Star Insurance Company, prior to these conversion adjustments, is based solely on the report of the other auditors.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Disclaimer of Opinion on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information regarding short-duration contracts included in Note 14 to the financial statements are presented for the purpose of additional analysis and are not a required part of the financial statements. This supplementary information is the responsibility of the Company's management. Such information has not been subjected to the auditing procedures applied in our audits of the financial statements and, accordingly it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

*Deloitte + Touche LLP*

March 26, 2024

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

### CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2023 AND 2022 (Amounts in millions)

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 2,068	\$ 1,855
INVESTMENTS—Net	9,212	9,861
SECURITIES LENDING CASH COLLATERAL	42	28
RECEIVABLES (Net of allowance of \$32 and \$29 in 2023 and 2022, respectively)	7,203	5,212
PROPERTY AND EQUIPMENT—Net	509	479
DEFERRED TAX ASSETS—Net	171	314
GOODWILL—Net	98	113
INVESTMENTS IN JOINT VENTURES AND EQUITY INTERESTS	2,408	2,363
LEASE RIGHT-OF-USE ASSETS	108	79
OTHER ASSETS	981	975
ASSETS HELD FOR SALE	<u>-</u>	<u>184</u>
TOTAL	<u>\$ 22,800</u>	<u>\$ 21,463</u>

(Continued)

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

## CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2023 AND 2022 (Amounts in millions)

	2023	2022
<b>LIABILITIES AND POLICYHOLDERS' RESERVES</b>		
LIABILITIES FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Health	\$ 3,982	\$ 3,580
Nonhealth	5,968	5,678
Total liabilities for unpaid claims and claim adjustment expenses	9,950	9,258
PREMIUM DEFICIENCY RESERVES	59	-
ACCRUED LIABILITY TO GROUPS	624	383
UNEARNED PREMIUM REVENUE	1,636	1,482
SECURITIES LENDING PAYABLE	42	28
LEASE LIABILITIES	112	82
PAYABLE FOR ACQUISITION	-	609
OTHER LIABILITIES:		
Employee expenses	932	1,022
Debt	422	752
Other	2,097	1,244
LIABILITIES HELD FOR SALE	-	67
Total liabilities	15,874	14,927
POLICYHOLDERS' RESERVES:		
Accumulated reserves	7,387	7,172
Accumulated other comprehensive loss	(565)	(717)
Policyholders' reserves attributable to the Company	6,822	6,455
Noncontrolling interest	104	81
Total policyholders' reserves	6,926	6,536
<b>TOTAL</b>	<b>\$ 22,800</b>	<b>\$ 21,463</b>

See notes to consolidated financial statements.

(Concluded)

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

## CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (Amounts in millions)

	<u>2023</u>	<u>2022</u>
PREMIUM REVENUE AND PREMIUM EQUIVALENT:		
Underwritten premiums earned	\$ 20,688	\$ 18,040
Self-funded premium equivalents from employer groups	15,345	14,386
Revenue from administrative services	296	373
Total	36,329	32,799
Less amounts attributable to claims under self-funded arrangements	(14,389)	(13,504)
Net premium and administrative fee revenue	21,940	19,295
COST OF SERVICES:		
Benefits provided	17,753	15,418
Change in premium deficiency reserves	20	(17)
Operating expenses	4,711	4,705
Total cost of services	22,484	20,106
OPERATING LOSS	(544)	(811)
INVESTMENT INCOME (LOSS) AND OTHER—Net	757	(74)
ADDITION (REDUCTION) TO POLICYHOLDERS' RESERVES BEFORE INCOME TAX (EXPENSE) BENEFIT	213	(885)
INCOME TAX (EXPENSE) BENEFIT	(94)	118
ADDITION (REDUCTION) TO POLICYHOLDERS' RESERVES	119	(767)
LESS NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST—Net of tax	(19)	(10)
ADDITION (REDUCTION) TO POLICYHOLDERS' RESERVES ATTRIBUTABLE TO THE COMPANY	<u>\$ 100</u>	<u>\$ (777)</u>

See notes to consolidated financial statements.

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Amounts in millions)

	<u>2023</u>	<u>2022</u>
ADDITION (REDUCTION) TO POLICYHOLDERS' RESERVES	\$ 119	\$ (767)
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding gains (losses) arising during the year (net of tax of \$(21) and \$166 in 2023 and 2022, respectively)	142	(763)
Reclassification adjustment for losses included in net income (net of tax of \$(10) and \$(20) in 2023 and 2022, respectively)	87	90
Net unrealized gains (losses) on available-for-sale securities—net of tax	229	(673)
Change in foreign currency translation adjustment (net of tax of \$0 in both 2023 and 2022)	(4)	4
Defined benefit retirement plans—change in unrecognized pension and postretirement liabilities (net of tax of \$4 and \$(49) in 2023 and 2022, respectively)	(102)	181
Other comprehensive income (loss) attributable to joint ventures (net of tax of \$0 and \$1 in 2023 and 2022, respectively)	6	(6)
Other comprehensive income (loss)—net of tax	129	(494)
COMPREHENSIVE INCOME (LOSS)	248	(1,261)
LESS COMPREHENSIVE (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS—Net of tax	(23)	16
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	<u>\$ 225</u>	<u>\$ (1,245)</u>

See notes to consolidated financial statements.

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

### CONSOLIDATED STATEMENTS OF POLICYHOLDERS' RESERVES FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Amounts in millions)

	Accumulated Reserves	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
BALANCES—January 1, 2022	\$ 7,949	\$ (249)	\$ 97	\$ 7,797
(Reduction) addition to policyholders' reserves	(777)	-	10	(767)
Other comprehensive loss	-	(468)	(26)	(494)
BALANCES—December 31, 2022	7,172	(717)	81	6,536
Cumulative adjustment as a result of adoption of ASU 2016-13 - net of tax	(29)	29	-	-
Adjusted policyholders' reserves after cumulative adjustment as a result of adoption of ASU 2016-13	7,143	(688)	81	6,536
Addition to policyholders' reserves	100	-	19	119
Acquisition of BCBSVT (see note 3)	144	-	-	144
Other comprehensive income	-	123	4	127
BALANCES—December 31, 2023	\$ 7,387	\$ (565)	\$ 104	\$ 6,926

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, 2023 AND 2022 (Amounts in millions)

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Addition (reduction) to policyholders' reserves	\$ 119	\$ (767)
Adjustments to reconcile addition (reduction) to policyholders' reserves to cash provided by operating activities:		
Depreciation and amortization	144	210
Net realized and unrealized (gain) loss on investments	(254)	334
Distributions from equity method investees	119	45
Loss on disposal of property	-	1
Noncash lease expense	25	22
Gain on sale of held-for-sale assets and liabilities	(12)	-
Asset impairments	18	370
Provision for deferred income taxes	161	(122)
Pension and other postretirement changes	(175)	116
Change in premium deficiency reserve	20	(17)
Changes in assets and liabilities, excluding AmeriTrust Group Inc. in 2022:		
Receivables—net	(1,839)	229
Cash on held-for-sale entities	-	(49)
Held-for-sale assets and liabilities	3	-
All other assets	(122)	7
Accrued liability to groups	241	7
Liabilities for unpaid claims and claim adjustment expense	619	329
Unearned premium revenue	80	(137)
Lease liabilities	(25)	(21)
Other liabilities	882	(429)
Cash provided by operating activities	<u>4</u>	<u>128</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(7,757)	(7,890)
Sales and maturities of investments	8,856	7,839
Additional investments in joint ventures and equity interests	(162)	(219)
Distributions from equity method investees	181	48
Acquisition of property and equipment	(88)	(85)
Cash received in business acquisitions	39	223
Proceeds from sale of held-for-sale assets	79	-
Net cash paid in business acquisitions	(609)	-
Cash provided by (used in) investing activities	<u>539</u>	<u>(84)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from debt	2,302	837
Repayment of debt	(2,632)	(592)
Cash (used in) provided by financing activities	<u>(330)</u>	<u>245</u>
INCREASE IN CASH AND CASH EQUIVALENTS	213	289
CASH AND CASH EQUIVALENTS—Beginning of year	1,855	1,566
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 2,068</u>	<u>\$ 1,855</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid for income taxes	<u>\$ 8</u>	<u>\$ 8</u>
Cash paid for interest	<u>\$ 34</u>	<u>\$ 6</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, 2023 AND 2022 (Amounts in millions)

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### 1. ORGANIZATION

Blue Cross Blue Shield of Michigan Mutual Insurance Company (BCBSM), originally founded in 1939, operates under Chapter 58 of the Michigan Insurance Code as a nonprofit mutual disability insurer. Chapter 58 specifically authorizes BCBSM to offer individual, small group, and Medicare supplemental products within the state of Michigan. Chapter 58 prohibits BCBSM 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 BCBSM be transferred into the Michigan Health Endowment Fund (MHEF), for the benefit of the residents of the state of Michigan. BCBSM operates as a primary licensee of the Blue Cross Blue Shield Association (BCBSA), a healthcare trade association, which enables BCBSM to offer products under the Blue Cross Blue Shield trademark in the state of Michigan.

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

#### Operating Subsidiaries of BCBSM

Blue Care Network of Michigan (BCN), a tax-exempt health maintenance organization (HMO), provides health care services to subscribers and contracts with various physician groups, hospitals, and other health care providers to provide such services. BCN is a nonprofit stock corporation and a wholly owned subsidiary of BCBSM.

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 holds a 38.74% ownership interest in ACHP, resulting in a 69.37% combined ownership in BCC.

Blue Cross and Blue Shield of Vermont (BCBSVT), a not-for-profit hospital and medical service corporation operating in the state of Vermont, offers a variety of group indemnity plans, health maintenance organizations, preferred provider networks, Medicare supplemental, Medicare Advantage and other benefit coverage to its members on both an insured and self-funded basis. On October 10, 2023, BCBSM and BCBSVT executed an affiliation agreement. Under the agreement, BCBSM became the sole member of BCBSVT. The agreement provides that neither BCBSM nor BCBSVT will have access to the capital or surplus of the other party and that BCBSM has no right to the policyholders' reserves of BCBSVT in the event of liquidation. Under the terms of the agreement it was determined that BCBSVT met the conditions of a Variable Interest Entity (VIE) with BCBSM as the primary beneficiary and, as such, is included in the consolidated financial statements. Refer to Note 3 regarding this business combination. BCBSVT is the parent company of:

- The Vermont Health Plan, LLC (TVHP) which is licensed and approved to operate as an HMO in the state of Vermont.
- Catamount Insurance Services, LLC (CIS) serves as the holding company for BCBSVT's investments in non-insurance affiliates. Comprehensive Benefits Administrator, LLC (CBA), a wholly owned subsidiary of CIS, is a Vermont based third party administrator, which administers employer benefit plans on a fee basis. CIS owns 50% of Vermont Collaborative

Care, LLC (VCC). VCC delivers benefit management, care management and care improvement services, combining expertise in mental and physical health.

Vermont Blue Advantage, Inc. (VBA) provides Blue Cross Blue Shield branded Medicare Advantage medical insurance products in the state of Vermont. Before acquiring BCBSVT, BCBSM held an indirect 51% ownership in VBA, utilizing the equity method of accounting due to the lack of substantive control, as minority stakeholders had significant participation rights. Following the BCBSVT acquisition, VBA transitioned into a wholly owned subsidiary of BCBSM.

LifeSecure Holdings Corporation (LifeSecure) provides long-term care and other supplemental health insurance products. BCBSM owns an 80% interest in LifeSecure. BCS Financial Corporation owns the remaining 20%.

Woodward Straits Insurance Company (WSIC), a wholly owned subsidiary of BCBSM, operates as a Michigan captive insurance company.

Emergent Holdings, Inc. (EHI), a wholly owned subsidiary of BCBSM, is a holding company for the workers' compensation insurance and healthcare support services companies. EHI is the parent company of:

- Accident Fund Holdings, Inc. (Accident Fund) provides workers' compensation insurance.
- AmeriTrust Group Inc. (AmeriTrust), a Michigan based property and casualty insurance company licensed in several states, currently offers workers compensation and other insurance coverages. Effective December 31, 2022, Accident Fund purchased 100% of the common shares of Miracle Nova I (U.S) LLC from Fosun Wealth Holdings Limited. Refer to Note 3 regarding this acquisition.
- COBX Co. (COBX) provides shared and corporate services to its affiliated entities.
- Emergent, Inc. (Emergent) through joint ventures, partners with other licensed plans in the BCBSA to bring leading Medicare Advantage coverage and capabilities to new and existing markets across the nation in order to improve care for its members.

Care Transformation Holding Company (CTHC), a wholly owned subsidiary of BCBSM, is a holding company for healthcare support service companies that seek to modernize health care delivery by providing healthcare support services to medical providers. CTHC is the parent company of:

- Triarq Health, LLC (Triarq), and its subsidiaries, is a value-focused risk sharing care management service entity that participates in musculoskeletal shared savings programs.
- gloStream, Inc. (gloStream), and its subsidiary, provides technology-based revenue cycle management services and the cloud-based workflow and platform for performance management and administrative services.
  - One Team Care, LLC (OTC), a 50% owned VIE that is a multi-specialty management services organization in partnership with MSO Investment Group Inc., a third-party entity that assists doctors with administrative services.

National Account Service Company LLC (NASCO), a wholly owned subsidiary of BCBSM, is a provider of innovative healthcare technology that delivers both integrated solutions and care delivery models that personalize the member experience and advance the future of digital health.

Bricktown Capital, LLC (Bricktown), a wholly owned subsidiary of BCBSM, is a registered investment adviser with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended. Bricktown provides investment advisory services to BCBSM, its subsidiaries and certain affiliates.

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

## 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 entities under the control of the Company are consolidated. All significant investments not under the control of the Company, including investments in joint ventures and equity interests, are accounted for using the equity method when the Company 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 Company 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 the following VIEs: BCBSVT, BCC, OTC, and Phoenix Development Partners II. 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 Company are reflected in the consolidated financial statements as noncontrolling interest.

In accordance with the BCBSA guidelines, BCBSM guarantees to the full extent of its assets, all of the contractual and financial obligations of BCC and BCBSVT, to its customers.

See note 3 for additional information relating to BCBSVT.

Condensed consolidated balance sheets of BCC and BCBSVT as of December 31, 2023 and December 31, 2022 are as follows:

	2023		2022
	BCBSVT	BCC	BCC
Assets	\$ 324	\$ 718	\$ 518
Liabilities	\$ 182	\$ 483	\$ 336

**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 or liabilities for unpaid claims and claim adjustment expense in the consolidated balance sheets.

**Investments in Debt and Equity Securities**—The Company's investments in debt and equity securities are carried at fair value. Debt securities are classified as either trading or available-for-sale (AFS) in accordance with the Company'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 also classified as trading. All other debt securities are classified as AFS.

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.

Unrealized gains and losses related to equity securities and trading debt securities are included in investment income and other. Unrealized gains and losses on available for sale debt securities are included in accumulated other comprehensive loss (AOCL) net of income tax.

Prior to 2023, AFS debt securities were evaluated for other than temporary impairment (OTTI) where credit-related impairments were presented within the OTTI losses recognized in investment income and other in the consolidated statements of operations. Effective January 1, 2023, if an AFS security is in an unrealized loss position and the Company has the intent to sell the AFS debt security, or it is more likely than not that the Company will have to sell the AFS debt security before recovery of its amortized cost basis, the Company writes down the security's cost basis to fair value and records an impairment loss in the consolidated statements of operations. For impaired AFS debt securities that the Company does not intend to sell or if it is more likely than not that the Company will not have to sell such securities, but the Company expects that it will not fully recover the amortized cost basis, the Company recognizes the credit component of the impairment as an allowance for credit loss in the consolidated balance sheets and records an impairment loss in the consolidated statements of operations. The noncredit (interest) component of the impairment is recognized in AOCL.

The credit component of an impairment is determined primarily by comparing the net present value of projected future cash flows with the amortized cost basis of the AFS debt security. The net present value is calculated by discounting our best estimate of projected future cash flows at the effective interest rate implicit in the debt security at the date of purchase. Cash flow estimates are driven by assumptions regarding probability of default, including changes in credit ratings and estimates regarding timing and amount of recoveries associated with a default.

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 Company purchases settle within normal time requirements and, therefore, are not considered futures or forward contracts. The Company periodically purchases "to-be-announced" securities that settle more than 30 days from the trade date. The Company 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, 2023, the Company 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.

**Derivative Financial Instruments**—BCBSM invests in the following types of derivative financial instruments: US Treasury Futures, US Treasury Options, Credit Default Swaps, US Equity Index Futures and US Equity Index Options. BCBSM's use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which BCBSM is subject, and by our own derivative policy.

Exchange traded derivatives require the Company to post and maintain margin for the change in value on a daily basis. As such, the credit risk is that of the exchange, which is considered to be minimal. The Company does not engage in any derivative instrument transactions for speculative purposes.

All investments in derivatives are recorded as assets or liabilities at fair value. Management has elected to forgo the assessment of hedge effectiveness; therefore, the Company is not using hedge accounting and considers derivative positions to be economic/non-designated hedges. The gain or loss resulting from the change in the fair value of the derivative is recognized in results of operations in the period of change. Cash flows associated with the settlement of non-designated derivatives are shown on a net basis in investing activity in the consolidated statements of cash flows.

**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 Company obtains quoted or other observable inputs for the determination of fair value for actively traded securities. For securities not actively traded, the Company 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 Company 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 Company'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 Company 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: (i) quoted prices for similar assets or liabilities, (ii) quoted prices in markets that are not active, or (iii) 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 Company uses the net asset value (NAV) per share as a practical expedient for valuation purposes of securities. Securities measured using NAV are not required to be classified into the fair value hierarchy levels.

The aforementioned techniques were used to estimate the fair value and determine the classification of assets and liabilities pursuant to the valuation hierarchy. Below are the specific techniques used for the Company's various investment categories:

**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 Agency Securities**—Consist of debt issued by government agencies, not including US treasury securities. 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**—Consist of corporate notes and bonds, commercial paper that matures after three months and debt issued by noncorporate entities. When quoted prices are not available, 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. Securities with valuation based on an observable price in an active market are classified as Level 1. Securities valued based on inputs derived directly from observable market data are classified as Level 2. Securities that are not actively traded are analytically priced and classified as Level 3.

**Preferred Stocks**—Consist of preferred stock. Valuation is based on inputs derived directly from observable market data are classified as Level 2. Preferred stock that are not actively traded are analytically priced and classified as Level 3.

**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.

**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.

**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.

**Discount Notes**—Consist of corporate notes issued at a discount to par. Valuation for discount notes is based on inputs derived 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.

**Derivatives**—Consist of exchange traded derivative securities. Derivatives presented within the fair value hierarchy table are presented on a gross basis and not on a master netting basis. Valuation is based on unadjusted quoted prices for these securities in an active market and are classified as Level 1.

**Commingled Equity Funds—Pension and Postretirement 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 a 30-day notice. There are no unfunded commitments related to these funds.

**Commingled Fixed Income Funds—Pension Trust Investments only**—Consist of fixed income securities valued at NAV and are not required to be classified in the fair value hierarchy. Redemption of these funds requires a 30-day 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 a 60–75-day notice, or in the case of one limited partnership investment, 25% per quarter with a 45-day 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. Valuation is recorded at NAV and are not required to be classified in the fair value hierarchy. Redemption of these funds requires a 30-day notice. There are no unfunded commitments related to these funds.

**Limited Liability Corporations—NASCO Pension Investments only**—Consist of interests in limited liability companies holding marketable securities. Valuation based on inputs derived directly from observable market data are classified as Level 2.

**Common/Collective Trust—NASCO Pension Investments only**—Consist of index funds and bond funds with various investments managers. Valuation based on inputs derived directly from observable market data are classified as Level 2.

**Real Estate—NASCO Pension Investments only**—Valued using NAV provided by the administrator of the fund as a practical expedient. The NAV is based on the value of the underlying assets owned by the funds minus its liabilities, divided by the number of shares outstanding.

**Securities Lending**—The Company 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 and are classified as Level 1.

**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 Company 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 Company 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 Company 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 Company to concentrations of credit risk consist primarily of cash, cash equivalents, and trade accounts receivable. Unbilled receivables related to service contracts are included in trade accounts receivable. The Company routinely assesses the creditworthiness of its customers. The Company generally has not experienced any material losses related to receivables from individual customers or groups of customers. The Company 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 Company's accounts receivable. Other than guarantees disclosed in Note 27, the Company 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 as well as majority owned investments where the minority owner holds substantive participation rights. These entities are accounted for using the equity method.

The Company'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 Company elected the Private Company Council accounting alternative 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 Company level at the end of each reporting period.

**Other 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 Company amortizes the cost of the asset on a straight-line basis over its expected useful life. The Company 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.

The Company owns life insurance on personnel holding key positions to mitigate the financial risk that may result due to their untimely death. The recognized cash surrender value of the policies has been recognized as other assets.

**Value of Business Acquired (VOBA)**—VOBA is an intangible asset that arises in the application of US GAAP purchase accounting as the difference between the reported value and the fair value of insurance contract liabilities determined in a business combination. VOBA contains two components, an unearned premium component and a loss and loss adjustment reserve component. VOBA is included within other assets in the consolidated balance sheets.

**Unearned Premium Component of VOBA**—This component represents the difference between the a) risk adjusted and discounted to present value future losses and expenses associated with policies that are in-force as of the acquisition date and b) the future premium remaining to be earned, which is typically the unearned premium reserve. The difference between the above represent VOBA and is amortized consistent with the premium earning pattern of the underlying contracts. Unearned premium component of VOBA is included within other assets in the consolidated balance sheets.

**Loss and Loss Adjustment Expense (LAE) Reserve Component of VOBA**—This component represents the differences between the estimated fair value of the loss and LAE reserve and the adjusted carrying value of the loss and LAE reserve. The fair value of the loss and LAE reserve is estimated by factoring in both the cost of capital required by a market participant to assume the loss and loss adjustment expense reserves of the Company (e.g., a market-based risk margin) and by present valuing the loss and loss adjustment expense reserve based on the expected payout of net unpaid loss and loss adjustment reserves. The adjusted carrying value of the loss and LAE reserve represents the application of the acquirers' reserving methodologies and policies to the acquired loss and LAE reserves. The estimated VOBA amount is amortized based on expected losses to be paid. LAE reserve component of VOBA within other assets in the consolidated balance sheets.

**Deferred Policy Acquisition Costs**—For the Company's non-health insurance 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, 2023 and 2022, was \$256 and \$195, respectively. The Company continually reviews deferred policy acquisition costs for recoverability and considers 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 Company'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 Company 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 and Preferred Provider Organization (PPO) 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 and claim adjustment expense on the consolidated balance sheets. Risk sharing receivables refer to funds that providers owe to the Company and are included in receivables on the consolidated balance sheet.

**Policyholder Dividends**—The Company 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 and Loss Contract 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 Company'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. Loss contract reserves may be necessary when administrative fee revenues are insufficient to cover the direct fixed and variable expenses allocated to self-insured groups.

**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 Company 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 Company recorded a rebate liability of \$16 and \$31 at December 31, 2023 and 2022, 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 Company has compiled and submitted medical diagnosis information to Centers for Medicare and Medicaid Services (CMS). The Company 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. The Company recorded prior-year risk score revenue adjustments that increased revenue by \$13 and decreased revenue by \$10 in 2023 and 2022, 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 Company 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 Company 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 Company 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**—The Insurance Provider Assessment 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).

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

**Income Tax**—The Company 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.

The Company's accounting policy for releasing stranded income tax effects from accumulated other comprehensive loss is on an aggregate portfolio approach with separate portfolios for AFS debt securities, investments in joint ventures and equity interests, pension plans, and postretirement plans.

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 Company pays premium taxes in lieu of state income taxes. Premium taxes are reported in operating expense in the consolidated statements of operations. The Company recorded premium taxes of \$159 and \$76 at December 31, 2023 and 2022, respectively.

BCN 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 Company 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 Company'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 Company 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 Company 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 BCBSM and BCN are recognized as premium revenue over the period coverage is provided.

**ACA Risk Adjustment Program**—The ACA established a 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 Department of 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 2023 and 2022 amounts recorded under the risk adjustment program is set forth below.

	<b>2023 Activity</b>				
	<b>Balance at January 1, 2023 Receivable (Payable)</b>	<b>(Received) Paid in 2023 Pertaining to Prior Years</b>	<b>Adjustments Pertaining to 2022 Balances</b>	<b>Current Year Accrued</b>	<b>Balance at December 31, 2023 Receivable (Payable)</b>
Risk adjustment program:					
Premium adjustment receivable	\$ 124	\$ (143)	\$ 19	\$ 149	\$ 149
Premium adjustment payable	(34)	19	15	(37)	(37)
Risk adjustment fee payable	(3)	2	1	(1)	(1)
<b>Total for risk adjustment program</b>	<b>\$ 87</b>	<b>\$ (122)</b>	<b>\$ 35</b>	<b>\$ 111</b>	<b>\$ 111</b>

	<b>2022 Activity</b>				
	<b>Balance at January 1, 2022 Receivable (Payable)</b>	<b>(Received) Paid in 2022 Pertaining to Prior Years</b>	<b>Adjustments Pertaining to 2021 Balances</b>	<b>Current Year Accrued</b>	<b>Balance at December 31, 2022 Receivable (Payable)</b>
Risk adjustment program:					
Premium adjustment receivable	\$ 121	\$ (115)	\$ (11)	\$ 129	\$ 124
Premium adjustment payable	(58)	30	30	(36)	(34)
Risk adjustment fee payable	(2)	1	-	(2)	(3)
<b>Total for risk adjustment program</b>	<b>\$ 61</b>	<b>\$ (84)</b>	<b>\$ 19</b>	<b>\$ 91</b>	<b>\$ 87</b>

**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; allowance for credit losses; reinsurance recoverables; deferred policy acquisition costs; premium deficiency reserves; liabilities for unpaid claims, specifically IBNR; litigation-related accounts and contingencies; and pension and postretirement benefits.

**Accounting Standards Adopted**—In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*, which created (Topic 842), *Leases* and supersedes the lease requirements in Topic 840, *Leases*. The Company adopted the provisions of ASU 2016-02 on January 1, 2022, using the modified retrospective transition approach. The consolidated financial statements for periods prior to January 1, 2022, were not modified for the application of the new lease accounting standard.

Upon adoption of ASU 2016-02, the Company recorded \$81 of right-of-use assets, included in other assets, and lease obligations of \$82, included in other liabilities, associated with operating leases in the consolidated balance sheet.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*. The guidance in ASU 2016-13, and all related subsequent amendments thereto, 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 AFS 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 2016-13 requires a cumulative-effect adjustment to the opening balance of retained earnings on the balance sheet at the date of adoption and a prospective transition approach for debt securities for which an other-than-temporary impairment had been recognized before the adoption date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the date of adoption. The Company adopted ASU 2016-13 on January 1, 2023, and recognized a cumulative-effect adjustment to opening retained earnings for credit related allowances on AFS securities. The adoption did not have a material impact on the consolidated financial statements and related disclosures.

In March 2023, FASB issued ASU 2023-01, *Leases (Topic 842)—Common Control Arrangements*. The amendments in ASU 2023-01 describe certain provisions to arrangements between related parties under common control. The application of this guidance generally results in the recognition of written terms and conditions of an arrangement between entities under common control to determine (1) whether a lease exists and (2) the subsequent accounting for (and classification of) the lease. This guidance is effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The Company early adopted ASU 2023-01 effective January 1, 2023. The adoption did not have a material impact on the consolidated financial statements and related disclosures.

**Forthcoming Accounting Pronouncements**—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 2019-09 defers the effective date of ASU 2018-12 to January 1, 2024, with early adoption permitted. ASU 2020-11, *Financial Services—Insurance (Topic 944) Effective Date and Early Application*, further defers the effective date of ASU 2018-12 to January 1, 2025. The Company continues to evaluate the effects the adoption of ASU 2018-12 will have on the consolidated financial statements and related disclosures.

In August 2023, FASB issued ASU 2023-05, *Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*. ASU 2023-05 clarifies existing guidance to reduce diversity in practice and is requiring a joint venture to recognize and initially measure its assets and liabilities using a new basis of accounting, at fair value, upon formation. These amendments are effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. The adoption of ASU 2023-05 is not expected to have a material impact on the consolidated financial statements and disclosures.

In December 2023, FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. ASU 2023-09 requires the Company to provide further disaggregated income tax disclosures for specific categories on the effective tax rate reconciliation, as well as additional information about federal, state and local and foreign income taxes. ASU 2023-09 also requires the Company to disclose its income taxes paid (net of refunds received), disaggregated by jurisdiction. ASU 2023-09 is effective on January 1, 2026, with early adoption permitted. ASU 2023-09 is to be applied on a prospective basis, although optional retrospective application is permitted. While ASU 2023-09 will require additional disclosures related to the Company's income taxes, it is not expected to have a material impact on the Company's consolidated operating results, financial condition or cash flows.

### 3. ACQUISITIONS AND DIVESTITURES

**Divestitures**—On August 31, 2022, EHI executed a binding letter of intent to sell 100% of the capital stock of Advantasure and 100% of the membership interests of Tessellate to UST HealthProof. Pursuant to the letter of intent, as of December 31, 2022, the assets and liabilities of Advantasure and Tessellate were designated as held-for-sale and written down to their fair values, generating a gross loss of \$314 and an after-tax loss of \$248. This loss was included in operating expenses on the consolidated statements of operations for the year ended December 31, 2022.

The sale was completed in 2023 with net proceeds of \$23, resulting in an additional pre-tax loss of \$1 recognized in 2023. The loss is included in operating expenses on the consolidated statement of operations for the year ended December 31, 2023.

In conjunction with the sale of Advantasure and Tessellate, the Company entered into a Transition Services Agreement with the buyer whereby the Company provided advisory and consulting services related to transition of the business to the buyer. The services were provided at cost beginning as of the date of sale in 2023.

**Acquisitions**—On January 19, 2023, the Company signed a non-binding Letter of Intent with BCBSVT, whereby the Company would acquire a 100% membership interest in BCBSVT for no consideration exchanged. On April 28, 2023, the parties executed a binding Principal Transaction Agreement (PTA). Consistent with the PTA, amended Articles of Incorporation and Bylaws were drafted that reflect BCBSM's sole membership interest in BCBSVT. On October 10, 2023, BCBSVT became a subsidiary of BCBSM.

The acquisition met the business combination criteria set forth in ASC 805, *Business Combinations*, and, as such, is accounted for using the acquisition method of accounting. In a business combination, the entity fair value of BCBSVT was allocated to assets acquired and liabilities assumed based on their underlying fair values, with any excess over fair value recognized as goodwill. The fair value of BCBSVT's assets were \$144, which resulted in goodwill of \$7. The goodwill arising from the acquisitions consists largely of the synergies expected from combining operations of the Companies.

The following table, summarizes the fair values of the assets acquired and liabilities assumed which are included in the consolidated balance sheet:

	<b>As of October 10, 2023</b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 14
Investments—net	119
Receivables	129
Property and equipment—net	20
Investments in joint ventures and equity interests	21
Other assets	28
Total assets acquired	331
<b>Liabilities:</b>	
Liabilities for unpaid claims and claims adjustment expense	55
Unearned premium revenues	66
Premium deficiency reserve	36
Other liabilities	37
Total liabilities assumed	194
Total identifiable net assets acquired	137
Goodwill	7
Total net assets acquired	\$ 144

Effective December 31, 2022, Accident Fund acquired AmeriTrust. AmeriTrust, through its affiliated insurance company subsidiaries is a specialty niche focused commercial insurance underwriter and insurance administration services company. The acquisition of AmeriTrust by the Company enhances the Company's distribution channels and diversifies its product offerings.

The acquisition met the conditions of a business combination as defined by ASC 805, *Business Combinations*, and, as such, is accounted for using the acquisition method of accounting. In a business combination, the purchase price is allocated to assets acquired and liabilities assumed based on their fair value, with any excess of purchase price over fair value recognized as goodwill. The aggregate purchase price was \$609, resulting in goodwill of \$4 and intangible assets of \$93, of which \$45 are classified as held for sale. At December 31, 2022, the purchase price of \$609 was recorded as payable for acquisition on the consolidated balance sheet. The cash payment was completed on January 3, 2023.



The following table summarizes the fair values of the assets acquired and liabilities assumed which are included in the consolidated balance sheet:

	<b>As of December 31, 2022</b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 223
Investments	1,564
Receivables	719
Property and equipment-net	16
Net deferred tax assets	38
Investments in joint ventures and equity interests	37
Other assets	184
Lease right-of-use assets	17
Assets held for sale	45
Total assets acquired	<u>2,843</u>
<b>Liabilities:</b>	
Liabilities for unpaid claims and claims adjustment expense	1,730
Unearned premium revenues	280
Debt	121
Employee expenses	11
Lease liabilities	19
Other liabilities	77
Total liabilities assumed	<u>2,238</u>
Total identifiable net assets acquired	605
Goodwill	4
Total net assets acquired	<u>\$ 609</u>
Total purchase consideration	<u>\$ 609</u>

The Company previously held an equity interest in NASCO of approximately 19.5% and accounted for its investment using the equity method of accounting. On November 30, 2021, the Company increased its ownership position to become NASCO's sole owner for cash consideration of \$40.

The NASCO acquisition agreements contain provisions for contingent consideration related to pension litigation which was pending as of December 31, 2021. Under the terms set forth in the purchase agreements, additional consideration must be paid to the former owners in the event of any unappealable judgement or final settlement of cash proceeds resulting from the case. The additional consideration will be based on the cash proceeds of the litigation, reduced by applicable taxes, attorney fees, and other court costs. In January of 2022, a financial settlement was reached in favor of the pension trust of NASCO. As a result of these contingent consideration requirements, 80.5% of the pension recovery was paid to the former owners of NASCO and the remaining funds were recognized as a gain and reduction to pension liability. As a result of the recovery, the Company's Investment in NASCO increased by approximately \$33.

Goodwill was pushed down to the acquired subsidiaries. The Company has elected to use an accounting alternative allowed under ASC 805-20-25-30, in recognizing goodwill for private companies.

**Held for Sale**—Upon acquisition of AmeriTrust in 2022, the Company determined that it would attempt to sell the insurance agency operations of one of AmeriTrust’s subsidiaries. As of December 31, 2022, the assets associated with these operations were designated as held-for-sale. The sale closed during October of 2023 with proceeds of \$56, resulting in a gain of \$12. This gain is included in investment income (loss) and other-net on the consolidated statement of operations for the year ended December 31, 2023.

There were no assets and liabilities held for sale at December 31, 2023. The major classes of assets and liabilities held for sale at December 31, 2022, are as follows:

	AmeriTrust Agency				Total
	Advantasure	Tessellate	Operations	Eliminations	
Cash and cash equivalents	\$ 29	\$ 20	\$ -	\$ -	\$ 49
Accounts receivable, net	40	29	-	(53)	16
Property, equipment, and software, net	1	-	-	-	1
Net deferred income taxes	11	36	-	-	47
Intangible Assets	-	-	45	-	45
Other Assets	24	2	-	-	26
Total assets classified as held-for-sale	<u>\$ 105</u>	<u>\$ 87</u>	<u>\$ 45</u>	<u>\$ (53)</u>	<u>\$ 184</u>
Accrued employee expenses	\$ 8	\$ 11	\$ -	\$ -	\$ 19
Other Liabilities	71	38	-	(61)	48
Total liabilities associated with assets held-for-sale	<u>\$ 79</u>	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ (61)</u>	<u>\$ 67</u>

#### 4. 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 Company maintains the contract with hospitals and physicians and controls the reimbursement rates for medical services provided to customers. The Company also retains an element of credit risk to providers in the event reimbursement is not received from the group; therefore, claims paid by the Company 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 Company 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 Company is financially at risk if these guarantees are not met, though the maximum amount at risk is typically limited to a 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 Company 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 Company 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 Company is financially at risk if these guarantees are not met, though the maximum amount of risk is typically limited to a percentage of the fees payable.

**National Program Health Care Business**—As a BCBSA licensee, to provide health care benefits to members traveling or residing outside its local service area, BCBSM and its licensed affiliates, participate 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. Blue Plan licensees have the 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 Company has billed, but which its policyholders have not yet paid; future premium installments the Company 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, medical practice management services, and health management services. These services are offered in all fifty states and the territory of Puerto Rico.

BPaaS revenues are recognized when the services have been provided to the customer in the amount the Company 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 Company is financially at risk if these guarantees are not met, though the maximum amount at risk is typically limited to a 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 the SaaS. These services are offered in all fifty states. Analyzing these arrangements required the use of judgment to determine if a performance obligation had existed. In order to treat services in a multiple-element arrangement as separate units of accounting, the services must have had stand-alone value upon delivery. The Company determined that none of its services had stand-alone value upon delivery. As such, implementation and configuration services were combined with application service provider fees and treated as a single performance obligation.

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. Revenue from change order requests, which comprised all of the Company's point-in-time revenue was \$1 and \$3 during 2023 and 2022, respectively, and was recorded within revenue from administrative services in the Consolidated Statement of Operations. Some SaaS arrangements provide service level guarantees with respect to customer service and SaaS technology performance. The Company is financially at risk if these guarantees are not met, though the maximum amount at risk is typically limited to a percentage of the fees payable.

**Claims Processing Revenue**—The Company recognizes revenue over time as a performance obligation is satisfied by transferring goods or services promised in a contract to a customer, in an amount that reflects the consideration that the Company expects to receive in exchange for those services. Performance obligations in the Company's contracts represent distinct or separate service streams that it provides to its customers.

Claims processing revenue from processing agreements is based on the volume of transactions processed at agreed-upon rates and recognized as the transactions are processed. Professional service revenue is based on expert and consulting services provided and is based on the volume of hours worked and recognized as the services are provided. Change systems request revenue is based on the volume of hours worked and recognized as the services have been delivered and may contain more than one performance obligation. Optical Disk Retrieval imaging revenue results from document storage services and is recognized over the storage period (generally 7 years). Fixed fee project revenue is based on specific arrangements with the Control Plans for product implementation projects with fixed consideration, and is recognized when the services have been performed. Blue Card revenues relate to processing of out-of-state insurance claims for members.

**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.

Excluding point-in-time revenues noted above, all revenue streams noted are recognized over time. Within Revenue from administrative services in the Consolidated Statement of Operations, revenue recognized over time was \$295 and \$370 during 2023 and 2022, respectively.

## 5. CASH EQUIVALENTS AND INVESTMENTS—Net

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, 2023 and 2022 was \$1,230 and \$713, respectively.

The amortized cost, fair value, and unrealized gains and losses of AFS debt securities at December 31, 2023, by asset category, are as follows:

	<b>Cost or Amortized Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized Loss</b>	<b>Allowance for Credit Losses</b>	<b>Estimated Fair Value</b>
Corporate debt securities	\$ 2,949	\$ 53	\$ 89	\$ 31	\$ 2,882
US treasury securities	2,122	14	147	-	1,989
US agency securities	21	-	-	-	21
Mortgage-backed securities	1,752	7	141	-	1,618
Other asset-backed securities	561	11	5	-	567
Foreign debt securities	297	3	7	4	289
State and local debt securities	222	2	9	-	215
Discount notes	54	-	-	-	54
Sovereign debt securities	8	-	1	-	7
<b>Total available-for-sale securities</b>	<b>\$ 7,986</b>	<b>\$ 90</b>	<b>\$ 399</b>	<b>\$ 35</b>	<b>\$ 7,642</b>

Included in the above table are mortgage-backed securities valued at \$584 and US treasury securities valued at \$428 that were used as collateralization for the \$58 of FHLBI borrowings in 2023.

The amortized cost, fair value, and unrealized gains and losses of AFS debt securities at December 31, 2022, by asset category, are as follows:

	<b>Cost or Amortized Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>
Corporate debt securities	\$ 3,384	\$ 5	\$ 212	\$ 3,177
US treasury securities	2,070	2	192	1,880
US agency securities	58	-	-	58
Mortgage-backed securities	1,839	1	177	1,663
Other asset-backed securities	428	-	2	426
Foreign debt securities	290	-	18	272
State and local debt securities	234	-	13	221
Discount notes	17	-	-	17
Sovereign debt securities	7	-	1	6
<b>Total available-for-sale securities</b>	<b>\$ 8,327</b>	<b>\$ 8</b>	<b>\$ 615</b>	<b>\$ 7,720</b>

Included in the above table are mortgage-backed securities valued at \$315 and US treasury securities valued at \$522 that were used as collateralization for the \$324 of FHLBI borrowings in 2022.

The amortized cost and fair values of AFS securities at December 31, 2023, 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.

	<b>Cost or Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ 841	\$ 841
Due after one year through five years	1,777	1,759
Due after five years through ten years	1,439	1,437
Due after ten years	1,616	1,420
<b>Total</b>	<b>5,673</b>	<b>5,457</b>
Mortgage-backed securities	1,752	1,618
Other asset-backed securities	561	567
<b>Total available-for-sale securities</b>	<b>\$ 7,986</b>	<b>\$ 7,642</b>

**Unrealized Losses**—The following tables summarize AFS debt securities in a gross unrealized loss position at December 31, 2023 and 2022, the aggregate fair value and gross unrealized loss by length of time those securities have been in an unrealized loss position.

	<b>Less than 12 Months</b>		<b>12 Months or Greater</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>2023</b>						
US treasury securities	\$ 339	\$ 5	\$ 1,078	\$ 142	\$ 1,417	\$ 147
Corporate debt	355	3	623	86	978	89
Foreign debt securities	87	1	59	6	146	7
State and local securities	32	-	52	9	84	9
Sovereign debt securities	-	-	6	1	6	1
Other asset-backed securities	139	5	29	-	168	5
Mortgage-backed securities	236	11	910	130	1,146	141
<b>Total available-for-sale debt securities in a loss position</b>	<b>\$ 1,188</b>	<b>\$ 25</b>	<b>\$ 2,757</b>	<b>\$ 374</b>	<b>\$ 3,945</b>	<b>\$ 399</b>

2022	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US treasury securities	\$ 1,451	\$ 132	\$ 253	\$ 60	\$ 1,704	\$ 192
Corporate debt	1,220	94	613	118	1,833	212
Foreign debt securities	165	6	44	12	209	18
State and local securities	40	9	16	4	56	13
Sovereign debt securities	3	-	4	1	7	1
Other asset-backed securities	97	2	7	-	104	2
Mortgage-backed securities	717	66	547	111	1,264	177
Total available-for-sale debt securities in a loss position	<u>\$ 3,693</u>	<u>\$ 309</u>	<u>\$ 1,484</u>	<u>\$ 306</u>	<u>\$ 5,177</u>	<u>\$ 615</u>

An allowance for credit losses has been recorded based on qualitative factors that determine the expected credit losses across macroeconomic scenarios in these primary sectors: Industrial, Energy, Financial, Leisure, Insurance, Utility and Telecom. The key variables used in determining credit losses are Unemployment Rate, GDP Growth, BBB spreads, Stock Index, CPI inflation and historical default rates. With multiple risk factors present securities were reviewed for expected future cash flow to determine the portion of the unrealized losses that were credit related and to record an allowance for credit losses.

As for the securities without an allowance for credit losses, unrealized losses on these securities have not been recognized into income because we do not intend to sell these investments and it is likely that we will not be required to sell these investments prior to their anticipated recovery. The decline in fair value is largely due to changes in interest rates and other market conditions. We have evaluated these securities for any change in credit rating and have determined that no allowance is necessary. The fair value is expected to recover as the securities approach maturity.

The table below presents a roll-forward by major security type of the allowance for credit losses on AFS securities held at the year ended December 31, 2023:

	Corporate Debt	Foreign Debt	Total
Allowance for Credit Losses:			
Beginning balance	\$ 34	\$ 4	\$ 38
Additions for securities for which no previous expected credit losses were recognized	6	1	7
Securities sold during the year	(6)	(1)	(7)
Decrease to the allowance for credit losses	(3)	-	(3)
Total allowance for credit losses on AFS securities	<u>\$ 31</u>	<u>\$ 4</u>	<u>\$ 35</u>

**Realized Gains (Losses)**—In the ordinary course of business, sales will produce realized gains and losses. The Company 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, 2023 and 2022, are shown in the following table:

	<u>2023</u>	<u>2022</u>
Net realized loss on securities held as available-for-sale:		
Gross realized gains from sales	\$ 19	\$ 15
Gross realized losses from sales	<u>(116)</u>	<u>(125)</u>
Net realized loss from sale of securities held as available-for-sale	<u>(97)</u>	<u>(110)</u>
Net realized loss on securities held as trading:		
Gross realized gains from sales	7	6
Gross realized losses from sales	<u>(70)</u>	<u>(29)</u>
Net realized loss from sale of securities held as trading	<u>(63)</u>	<u>(23)</u>
Net realized gain on equity securities:		
Gross realized gains from sales	76	96
Gross realized losses from sales	<u>(41)</u>	<u>(42)</u>
Net realized gain from sale of equity securities	<u>35</u>	<u>54</u>
Net realized (loss) gain on derivatives:		
Gross realized gains from sales	136	74
Gross realized losses from sales	<u>(139)</u>	<u>(41)</u>
Net realized (loss) gain from sale of derivatives	<u>(3)</u>	<u>33</u>
Total net realized loss from sales of securities	<u>\$ (128)</u>	<u>\$ (46)</u>
Change in net loss on securities held at the end of the period:		
Unrealized on available-for-sale debt securities	\$ 260	\$ (819)
Unrealized on trading debt securities	112	(161)
Unrealized on equity securities	92	(220)
Unrealized on derivatives	<u>(4)</u>	<u>(1)</u>
Total change in net loss on securities held at the end of the period	<u>\$ 460</u>	<u>\$ (1,201)</u>

The value of the Company's equity portfolio at December 31, 2023 and 2022, was \$665 and \$1,142, respectively. As of December 31, 2023 and 2022, the unrealized gains (losses) on the Company's equity portfolio was \$92 and \$(220), respectively.

During the years ended December 31, 2023 and 2022, the Company sold or redeemed \$8,856 and \$7,839 of investments, which resulted in gross realized gains of \$238 and \$191, and gross realized losses of \$366 and \$237, respectively.



The Company recognized impairment losses for the years ended December 31, 2023 and 2022, for an amount of \$18 and \$56, respectively. For the remaining securities in unrealized loss positions, the Company has determined the investments have not been subject to credit losses and the Company does not have the intent to sell the securities and has the ability to hold such securities.

The value of the Company's trading portfolio at December 31, 2023 and 2022, was \$892 and \$998, respectively.

The Company has entered into investment transactions that were not settled. As of December 31, 2023 and 2022, there was \$12 and \$103, respectively, in other liabilities for investments purchased on account and \$3 and \$59 in other assets, respectively, for investments sold on account. As these amounts are pending settlement, they have been excluded from the consolidated statements of cash flows.

The Company, in the normal course of business, enters into securities lending agreements with various counterparties. Under these agreements, the Company 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, 2023 and 2022, the Company had securities loaned of \$42 and \$30, respectively, with corresponding cash collateral of \$42 and \$28, respectively, and noncash collateral of \$1 and \$4, respectively. Cash collateral transactions are treated as noncash items in the consolidated statement of cash flows.

Investments contained in rabbi trust funds to satisfy the Company's nonqualified and deferred compensation plan obligations had a fair market value of \$162 and \$135, at December 31, 2023 and 2022, respectively, and are included in the investment tables above.

As a condition of maintaining its certificate of authority with various states where the Company 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 Company. The statutory deposits had a carrying value of \$899 and \$1,389 as of December 31, 2023 and 2022, respectively, and are included in the investment tables above.

## 6. DERIVATIVE FINANCIAL INSTRUMENTS

BCBSM primarily invests in the following types of derivative financial instruments: put and call options and futures.

A summary of aggregate contractual or notional amounts and estimated fair values related to derivative financial instruments at December 31, 2023 and 2022 is as follows:

	Contractual/ Notional Amount (a)	Consolidated Balance Sheets Location	Estimated Fair Value	
			Asset	(Liability)
<b>December 31, 2023</b>				
<b>Non Hedging Instruments</b>				
Options	\$ 1,581	Investments/other liabilities	\$ 13	\$ -
Futures	73	Investments/other liabilities	-	-
Total derivatives	<u>\$ 1,654</u>		<u>\$ 13</u>	<u>\$ -</u>
<b>December 31, 2022</b>				
<b>Non Hedging Instruments</b>				
Options	\$ 144	Investments/other liabilities	\$ 1	\$ -
Futures	139	Investments/other liabilities	-	-
Total derivatives	<u>\$ 283</u>		<u>\$ 1</u>	<u>\$ -</u>

(a) Represents the sum of gross long and gross short third-party notional derivative contracts.

### Non-Hedging Derivatives

A summary of the effect of non-hedging derivatives on the consolidated statements of operations for the years ended December 31, 2023 and 2022 is as follows:

Type of Non-hedging Derivatives	Consolidated Statements of Operations Location of Gain(Loss) Recognized	Derivative Gain(Loss) Recognized
<b>Year ended December 31, 2023</b>		
Options	Investment income (loss) and other-net	\$ 6
Futures	Investment income (loss) and other-net	(13)
Total		<u>\$ (7)</u>
<b>Year ended December 31, 2022</b>		
Options	Investment income (loss) and other-net	\$ 24
Futures	Investment income (loss) and other-net	9
Total		<u>\$ 33</u>

## 7. FAIR VALUE MEASUREMENTS

Fair values of the Company'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 Company 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 Company 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 Company's Level 3 securities consist of other asset-backed securities based on preferred stocks and/or common stocks.

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 Company 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 Company's assets recorded at fair value at December 31, 2023, are as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash equivalents	\$ 1,201	\$ 29	\$ -	\$ 1,230
Available for sale debt securities:				
Corporate debt securities	\$ -	\$ 2,882	\$ -	\$ 2,882
US treasury securities	-	1,989	-	1,989
US agency securities	-	21	-	21
Mortgage-backed securities	-	1,618	-	1,618
Foreign debt securities	-	289	-	289
State and local debt securities	-	215	-	215
Sovereign debt securities	-	7	-	7
Discount notes	-	54	-	54
Other asset backed securities	-	567	-	567
Total available for sale debt securities	-	7,642	-	7,642
Trading debt securities:				
US treasury securities	-	87	-	87
Mortgage-backed securities	-	56	-	56
Corporate debt securities	-	630	-	630
State and local debt securities	-	1	-	1
Other asset backed securities	-	4	-	4
Foreign debt securities	-	114	-	114
Total trading debt securities	-	892	-	892
Equity securities:				
Preferred stocks	-	-	1	1
Mutual funds	114	-	-	114
Common stock and exchange traded funds	513	-	37	550
Total equity securities	627	-	38	665
Derivative securities—options	13	-	-	13
Total derivative securities	13	-	-	13
Total investments measured at fair value	\$ 640	\$ 8,534	\$ 38	\$ 9,212
Securities lending collateral measured at fair value	\$ 42	\$ -	\$ -	\$ 42
Liabilities—security lending payable measured at fair value	\$ 42	\$ -	\$ -	\$ 42

The Company's assets recorded at fair value at December 31, 2022, are as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash equivalents	\$ 623	\$ 90	\$ -	\$ 713
Available for sale debt securities:				
Corporate debt securities	\$ -	\$ 3,177	\$ -	\$ 3,177
US treasury securities	-	1,880	-	1,880
US agency securities	-	58	-	58
Mortgage-backed securities	-	1,663	-	1,663
Foreign debt securities	-	272	-	272
State and local debt securities	-	221	-	221
Sovereign debt securities	-	6	-	6
Discount notes	-	17	-	17
Other asset backed securities	-	426	-	426
Total available for sale debt securities	-	7,720	-	7,720
Trading debt securities:				
US treasury securities	-	67	-	67
Mortgage-backed securities	-	54	-	54
Corporate debt securities	-	740	-	740
State and local debt securities	-	1	-	1
Other asset backed securities	-	4	-	4
Discount notes	-	2	-	2
Foreign debt securities	-	130	-	130
Total trading debt securities	-	998	-	998
Equity securities:				
Preferred stocks	-	-	2	2
Mutual funds	96	-	-	96
Common stock and exchange traded funds	1,009	-	35	1,044
Total equity securities	1,105	-	37	1,142
Derivative securities—options	1	-	-	1
Total derivative securities	1	-	-	1
Total investments measured at fair value	\$ 1,106	\$ 8,718	\$ 37	\$ 9,861
Securities lending collateral measured at fair value	\$ 28	\$ -	\$ -	\$ 28
Liabilities—security lending payable measured at fair value	\$ 28	\$ -	\$ -	\$ 28

There were no transfers into or out of Level 3. The Company had no issues of Level 3 assets in 2023 or 2022.

## 8. INVESTMENT INCOME (LOSS) AND OTHER—NET

Investment income (loss) and other—net for the years ended December 31, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Dividends and interest:		
Debt securities	\$ 375	\$ 277
Equity securities	13	17
Short-term investments	62	15
	<u>450</u>	<u>309</u>
Total dividends and interest		
Realized loss on sales of securities and settlement of derivatives	(128)	(46)
Realized impairment loss on investments	(18)	(56)
Unrealized gain (loss) on equity securities held at year end	92	(220)
Unrealized gain (loss) on trading securities held at year end	112	(161)
Unrealized loss on derivative securities held at year end	(4)	(1)
	<u>54</u>	<u>(484)</u>
Total gain (loss) on investments		
Interest expense	(76)	(10)
Earnings in joint ventures and other equity interests	178	108
Gain on sale of AmeriTrust Agency (see note 3)	12	-
Net periodic pension and post retirement benefit income, excluding service cost for benefits earned during the year	28	31
Other income from non-recurring transactions	54	29
Other income, losses and expenses	57	(57)
	<u>253</u>	<u>101</u>
Total other		
Total investment income (loss) and other—net	<u>\$ 757</u>	<u>\$ (74)</u>

## 9. RECEIVABLES—NET

Receivables—net as of December 31, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Administrative service contracts—IBNR	\$ 1,253	\$ 1,237
Reinsurance recoverable on workers' compensation business	1,620	1,494
Underwritten contracts	1,311	1,066
Reinsurance recoverable on life insurance and other policies	682	194
Administrative service contracts—claim and fees	380	154
Government programs	595	425
Pharmacy rebates	812	389
Accrued interest	80	77
Federal income tax recovery	130	41
Risk sharing receivable	166	-
Other	174	135
	<u>7,203</u>	<u>5,212</u>
Total receivables-net	<u>\$ 7,203</u>	<u>\$ 5,212</u>

Receivables from government programs consist of the following:

	<u>2023</u>	<u>2022</u>
Medicare advantage	\$ 442	\$ 299
Risk adjustment revenue anticipated for ACA Qualified Health Plans	149	122
Other government programs	4	4
	<u>595</u>	<u>425</u>
Total	<u>\$ 595</u>	<u>\$ 425</u>

Receivables are net of allowances for uncollectible amounts of \$32 and \$29 as of December 31, 2023 and 2022, respectively.

## 10. PROPERTY AND EQUIPMENT—NET

Property and equipment-net at December 31, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Land and buildings	\$ 513	\$ 473
Equipment	148	120
Software	753	651
Capital projects in process	74	76
	<u>1,488</u>	<u>1,320</u>
Total property and equipment	1,488	1,320
Less accumulated depreciation and amortization	<u>(979)</u>	<u>(841)</u>
Total property and equipment-net	<u>\$ 509</u>	<u>\$ 479</u>

Depreciation and amortization expense was \$80 and \$103 for the years ended December 31, 2023 and 2022, respectively.

There was no impairment recorded on any property, equipment, and software during 2023. During 2022, equipment and software related to Advantasure and Tessellate was adjusted to fair value resulting in an impairment loss of \$113. Refer to Note 3.

## 11. 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 changes in carrying amount of goodwill from the purchase and divestiture of subsidiaries at December 31, 2023 and 2022, consists of the following:

	<u>2023</u>	<u>2022</u>
Goodwill	\$ 589	\$ 579
Additions (Note 3)	7	4
Accumulated amortization	(332)	(310)
Accumulated impairment losses	(166)	(166)
Other related to NASCO (Note 3)	<u>-</u>	<u>6</u>
Net goodwill	<u>\$ 98</u>	<u>\$ 113</u>

Amortization expense for the years ended December 31, 2023 and 2022, was \$22 and \$39, respectively.

There was no goodwill impairment loss recorded for 2023. During 2022, goodwill related to Advantasure and Tessellate was adjusted to fair value resulting in an impairment loss of \$130. Refer to Note 3.

The Company did not complete an impairment test for 2023, as testing is only required upon the occurrence of a triggering event. In 2022, the Company concluded that a triggering event occurred related to the deterioration of the general economic conditions due to high inflation and market downturn. After assessing the totality of events, including the overall financial performance of the



Company and other qualitative factors, it was determined that the triggering event did not result in an impairment of goodwill, making further impairment testing unnecessary.

**Amortization Years Ending  
December 31**

2024	\$	23
2025		23
2026		23
2027		6
2028		6
2029 and thereafter		<u>17</u>
Total future amortization	<u>\$</u>	<u>98</u>

**12. INVESTMENTS IN JOINT VENTURES AND EQUITY INTERESTS**

The Company's investments in joint ventures (JVs) and equity interests consist of the following:

	<u>2023</u>	<u>2022</u>
Affiliates:		
BMH, LLC	\$ 1,097	\$ 960
Evio Pharmacy Solutions, LLC	3	4
Medicare Advantage JVs with Blue Plans	27	23
Cobalt Benefits Group, LLC	8	-
Vermont Collaborative Care, LLC	<u>1</u>	<u>-</u>
	<u>1,136</u>	<u>987</u>
Partnerships and LLC's:		
Health care oriented investments	138	136
Return oriented investments	1,058	1,157
Social mission oriented investments	<u>18</u>	<u>26</u>
	<u>1,214</u>	<u>1,319</u>
Total Affiliates, Partnerships and LLC's	2,350	2,306
Lending and other institutions	<u>58</u>	<u>57</u>
Total joint ventures and equity interests	<u>\$ 2,408</u>	<u>\$ 2,363</u>

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

BMH is a significant affiliate of the Company. Its summarized financial position and results of operations used to record the share of the earnings as reported by the Company for the years ended December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>		<u>2023</u>	<u>2022</u>
Assets	\$ 7,268	\$ 6,397	Revenue	\$ 23,677	\$ 20,178
Liabilities	\$ 4,279	\$ 3,785	Net income	\$ 368	\$ 280
Equity	\$ 2,989	\$ 2,612			

Emergent, a wholly-owned subsidiary of EHI, formed joint ventures with Blue Cross Blue Shield of North Dakota, BCBSVT, and Wellmark Blue Cross Blue Shield to provide Medicare Advantage (MA) medical insurance products. The joint ventures are permissible under BCBSA licensee standards that allow non-local Blue Plans to partner with local plans to provide MA products. The joint ventures with Blue Cross Blue Shield of North Dakota and BCBSVT began providing coverage on January 1, 2021. The joint venture with Wellmark Blue Cross Blue Shield began providing coverage on January 1, 2022. Under the JV operating agreements, Emergent holds a 51% equity interest but due to substantive participation rights held by the minority owners, the JVs are accounted for using the equity method. After the BCBSVT acquisition, the joint venture with BCBSVT transitioned into a wholly owned subsidiary of BCBSM. As a result, VBA is consolidated into the Company's consolidated financial statements as of October 10, 2023, the date of the acquisition.

The Company has other investments in Partnerships and LLCs which are recorded using the equity method of accounting. Due to the 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, 2023 and 2022, the Company's ownership interests in these investments ranged from 0.20% to 50.00% and 0.27% to 26.78%, respectively.

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 Company's investment in lending and other institutions is comprised primarily of FHLBI common stock which is carried at cost. The Company 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 Company 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 Company completed its analysis and as a result, the Company recognized impairments of \$5 and \$0 for its joint ventures and equity investments in 2023 and 2022, respectively.

The Company determined that there were no changes in circumstances or adverse events that would be expected to change the carrying value of these investments. The Company's share of income from joint ventures and equity interest investments was \$183 and \$108 for 2023 and 2022, respectively, which is recorded in investment income and other in the consolidated statements of operations.

In total, the Company made \$162 and \$219 in contributions to fund joint venture and other equity investments in 2023 and 2022, respectively.

At December 31, 2023 and 2022, the Company had future unfunded capital and loan commitments of \$405 and \$434, respectively, for all its investments in joint ventures and equity interests.

As part of the Company's liquidity management, the Company structures its investments in joint ventures and equity interests to provide ample liquidity to contribute towards the Company's operational expenses as they come due. The notification periods for withdrawals for equity interest investments range from 30 to 90 days. Redemption periods range from 12 to 18 months. The Company does not have the ability to withdraw capital from regulated entities without approval by the associated board/members. The Company does not have the ability to withdraw capital from the limited partnerships without approval by the general partner.

### 13. OTHER ASSETS

Other assets at December 31, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Net other intangible assets	\$ 175	\$ 215
Deferred policy acquisition costs	195	130
Ceded unearned premiums	226	197
Prepaid assets and other	<u>385</u>	<u>433</u>
Total other assets	<u>\$ 981</u>	<u>\$ 975</u>

Intangible assets are amortized over periods ranging from three years to 27 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, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Intangible assets:		
Covenant not to compete	\$ 16	\$ 16
Customer relationships	84	67
Broker networks	20	20
Trademarks	3	3
Tradenames	12	11
Value of business acquired	88	88
Software related to business	105	78
State licenses	<u>22</u>	<u>22</u>
Total intangible assets	350	305
Less accumulated amortization	<u>(175)</u>	<u>(90)</u>
Net other intangible assets	<u>\$ 175</u>	<u>\$ 215</u>

Amortization expense for 2023 and 2022 was \$85 and \$23, respectively.

**Amortization Years Ending  
December 31**

2024	\$	32
2025		29
2026		27
2027		15
2028		12
2029 and thereafter		<u>30</u>
Total future amortization	<u>\$</u>	<u>145</u>

**14. LIABILITIES FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES**

Activity in the liabilities for unpaid claims and claim adjustment expenses, at December 31, 2023, is summarized as follows:

	Health	Worker's Comp and other property and casualty insurance	Long-Term Care	Total
Balance of unpaid claims—January 1	\$ 1,897	\$ 4,208	\$ 740	\$ 6,845
Less reinsurance recoverable	1	858	194	1,053
Net balance—January 1	<u>1,896</u>	<u>3,350</u>	<u>546</u>	<u>5,792</u>
Incurred related to:				
Current year	16,076	1,708	78	17,862
Prior years	(95)	(16)	2	(109)
Total incurred	<u>15,981</u>	<u>1,692</u>	<u>80</u>	<u>17,753</u>
Paid related to:				
Current year	(14,187)	(532)	(5)	(14,724)
Prior years	(1,664)	(1,550)	(23)	(3,237)
Total paid	<u>(15,851)</u>	<u>(2,082)</u>	<u>(28)</u>	<u>(17,961)</u>
BCBSVT and VBA unpaid claims as of the affiliation date October 10, 2023	67	-	-	67
Balance of unpaid claims—December 31	2,093	2,960	598	5,651

Liabilities subject to reinsurance recoverable	3	1,520	179	1,702
Liability for claim adjustment expenses	35	711	-	746
Liability for ASC claims	1,851	-	-	1,851
	<hr/>			
Total unpaid claims and claim adjustment expenses	\$ 3,982	\$ 5,191	\$ 777	\$ 9,950
	<hr/> <hr/>			

Amounts in the table above are net of Intercompany eliminations.

Activity in the liabilities for unpaid claims and claim adjustment expenses, at December 31, 2022, is summarized as follows:

	Health	Worker's Comp	Long-Term Care	Total
	<hr/>	<hr/>	<hr/>	<hr/>
Balance of unpaid claims—January 1	\$ 2,020	\$ 2,634	\$ 699	\$ 5,353
Less reinsurance recoverable	-	738	203	941
	<hr/>			
Net balance—January 1	2,020	1,896	496	4,412
	<hr/> <hr/>			
Incurred related to:				
Current year	14,387	1,163	73	15,623
Prior years	(175)	(31)	1	(205)
	<hr/>			
Total incurred	14,212	1,132	74	15,418
	<hr/> <hr/>			
Paid related to:				
Current year	(12,581)	(381)	(4)	(12,966)
Prior years	(1,755)	(650)	(20)	(2,425)
	<hr/>			
Total paid	(14,336)	(1,031)	(24)	(15,391)
	<hr/> <hr/>			
ATG unpaid claims acquired	-	1,353	-	1,353
	<hr/>			
Balance of unpaid claims—December 31	1,896	3,350	546	5,792
	<hr/>			
Liabilities subject to reinsurance recoverable	1	858	194	1,053
Liability for claim adjustment expenses	29	730	-	759
Liability for ASC claims	1,654	-	-	1,654
	<hr/>			
Total unpaid claims and claim adjustment expenses	\$ 3,580	\$ 4,938	\$ 740	\$ 9,258
	<hr/> <hr/>			

The Company 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 Company'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.

In 2023, the nonhealth claims includes other property and casualty insurance, which consists of auto liability, general liability, short-tail, and other lines of insurance.

The Company consistently applies IBNR estimation methodology, which did not change in 2023 or 2022. The Company'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, 2023, 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 consists of the following:

**Health Claim Segment**

<b>Cumulative Incurred Claims—Net of Reinsurance Accident Year</b>	<b>2022</b>	<b>2023</b>	<b>As of December 31, 2023 Total of Incurred-but-Not Reported Liabilities Plus Expected Development on Reported Claims</b>
2022	\$ 14,393	\$ 14,315	\$ 50
2023		16,096	1,901
Total	<u>\$ 14,393</u>	<u>\$ 30,411</u>	1,951
Total outstanding prior year unpaid claims—net of reinsurance			75
BCBSVT and VBA as of the affiliation date October 10, 2023—net of reinsurance			<u>67</u>
Total outstanding unpaid claims—net of reinsurance			<u>\$ 2,093</u>
<b>Cumulative Paid Claims—Net of Reinsurance Accident Year</b>	<b>2022</b>	<b>2023</b>	
2022	\$ 12,581	\$ 14,265	
2023		14,195	
Total	<u>\$ 12,581</u>	28,460	
Total outstanding prior year unpaid claims—net of reinsurance			75
BCBSVT and VBA as of the affiliation date October 10, 2023—net of reinsurance			<u>67</u>
Total outstanding unpaid claims—net of reinsurance			<u>\$ 2,093</u>

Supplemental Information

As of December 31,  
2023 Total of Incurred-  
but-Not Reported  
Liabilities Plus Expected  
Development on  
Reported Claims

Workers' Compensation and Other Property and Casualty Claim Segment

Accident Year	Incurred Claims and Allocated Claim Adjustment Expenses-Net of Reinsurance (unaudited)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	\$ 531	\$ 502	\$ 486	\$ 484	\$ 469	\$ 463	\$ 459	\$ 459	\$ 493	\$ 463	\$	24
2015	—	580	557	555	530	523	518	517	551	515		28
2016		—	666	630	593	578	567	562	599	561		39
2017			—	726	688	673	662	658	703	655		55
2018				—	788	803	805	808	874	815		76
2019					—	941	942	943	1,021	978		58
2020					—	—	992	992	1,052	1,015		208
2021					—	—	—	950	1,005	1,026		213
2022					—	—	—	—	948	1,046		386
2023					—	—	—	—	—	1,541		1,164
Total						3,981	4,945	5,889	7,246	8,615		2,251
Total outstanding unpaid claims prior to 2014—net of reinsurance												386
Liability for allocated claim adjustment expenses												148
Total ATG outstanding unpaid claims 2014-2022												954
Foreign Currency Exchange												(26)
ADC contract reinsurance adjustments												(500)
												<u>\$ 2,969</u>

Accident Year	Cumulative Paid Claims and Allocated Claim Adjustment Expenses-Net of Reinsurance (unaudited)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	\$ 141	\$ 271	\$ 341	\$ 381	\$ 400	\$ 415	\$ 422	\$ 427	\$ 430	\$ 439		
2015	-	152	315	391	426	453	466	476	479	487		
2016		-	320	513	404	456	485	499	510	522		
2017			-	165	368	476	533	564	580	600		
2018				-	215	480	603	670	701	739		
2019					-	273	576	729	812	920		
2020					-	-	251	534	664	807		
2021					-	-	-	252	537	813		
2022					-	-	-	-	225	660		
2023					-	-	-	-	-	377		
Total						2,553	3,336	4,151	4,938	6,364		
Total outstanding unpaid claims prior to 2014—net of reinsurance												386
Total ATG outstanding unpaid claims 2014-2022												954
Liability for allocated claim adjustment expenses												148
Foreign Currency Exchange												(26)
ADC contract reinsurance adjustments												(500)
Total outstanding unpaid claims and CAE—net of reinsurance						<u>\$1,428</u>	<u>\$1,609</u>	<u>\$1,737</u>	<u>\$2,308</u>	<u>\$2,969</u>		



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 and other property and casualty insurance historical claims duration as of December 31, 2023.

<b>Average Annual Percentage Payout of Incurred Claims by Age-Net of Reinsurance (unaudited)</b>										
<b>Years</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
Workers' compensation and other property and casualty insurance	27.1 %	31.3 %	15.4 %	8.3 %	5.0 %	2.7 %	1.8 %	1.0 %	0.7 %	1.3 %

## 15. 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.

Effective March 31, 2023, Star Insurance Company (Star), a wholly owned subsidiary of AmeriTrust, entered into an Adverse Development Cover Excess of Loss (ADC) reinsurance contract with WSIC. The Company is accounting for this contract using retrospective reinsurance accounting based on ASC 944-805-S99-1, whereby the financial impact of the ADC agreement is recognized in the consolidated income statement and balance sheet. As part of the ADC reinsurance contract, WSIC in turn reinsured the risk to Premia Reinsurance LTD (Premia), a third party reinsurer. As part of the ADC reinsurance contract WSIC recorded a receivable related to the reinsurance recoverable and a liability related to funds held related to reinsurance contract.

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, 2023 and 2022, no allowance was required.

The effects of reinsurance activities related to Accident Fund, Star, and WSIC on premiums and losses for the years ended December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Premiums written:		
Direct	\$ 2,948	\$ 2,078
Reinsurance assumed	240	125
Reinsurance ceded	<u>(652)</u>	<u>(596)</u>
Net premium written	<u>\$ 2,536</u>	<u>\$ 1,607</u>
Premium earned:		
Direct	\$ 2,873	\$ 2,235
Reinsurance assumed	244	126
Reinsurance ceded	<u>(623)</u>	<u>(664)</u>
Net premium earned	<u>\$ 2,494</u>	<u>\$ 1,697</u>
	<u>2023</u>	<u>2022</u>
Losses and loss adjustment expenses incurred:		
Direct	\$ 2,514	\$ 1,567
Reinsurance assumed	183	68
Reinsurance ceded	<u>(983)</u>	<u>(503)</u>
Net losses and loss adjustment expenses incurred	<u>\$ 1,714</u>	<u>\$ 1,132</u>

Reinsurance recoverables related to Accident Fund, Star and WISC included in receivables—net, and prepaid reinsurance and ceded unearned premiums, included in other assets, at December 31, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Reinsurance recoverables:		
Unpaid losses recoverable on workers' compensation and other policies	\$ 2,035	\$ 1,430
Accrued reinsurance premiums recoverable	-	2
Due fronting partners	-	7
Paid losses recoverable	78	46
Total prepaid reinsurance	10	-
Allowance on reinsurance recoverables	(3)	-
	<u>          </u>	<u>          </u>
Total reinsurance recoverables	<u>\$ 2,120</u>	<u>\$ 1,485</u>
Prepaid reinsurance:		
Ceded unearned premiums	\$ 226	\$ 197
Prepaid reinsurance	10	9
	<u>          </u>	<u>          </u>
Total prepaid reinsurance	<u>\$ 236</u>	<u>\$ 206</u>
	<u>          </u>	<u>          </u>
Total funds held under reinsurance treaties	<u>\$ 554</u>	<u>\$ 33</u>

LifeSecure cedes all of its life insurance and annuity business, and certain accident and health business to Everlake Life Insurance Company (Everlake) under a 100% coinsurance reinsurance agreement. Under this agreement, Everlake receives 100% of the premiums and pays 100% of the claims, surrender benefits, and other expenses that are directly allocable to the reinsured business. Everlake administers the reinsured business and bears all administrative expenses. Everlake 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, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Premiums written:		
Direct	\$ 78	\$ 79
Reinsurance assumed	27	27
Reinsurance ceded	<u>(4)</u>	<u>(4)</u>
Net premium written	<u>\$ 101</u>	<u>\$ 102</u>
Premium earned:		
Direct	\$ 80	\$ 79
Reinsurance assumed	27	27
Reinsurance ceded	<u>(4)</u>	<u>(2)</u>
Net premium earned	<u>\$ 103</u>	<u>\$ 104</u>

	<u>2023</u>	<u>2022</u>
Losses and loss adjustment expenses incurred:		
Direct	\$ 56	\$ 56
Reinsurance assumed	35	27
Reinsurance ceded	<u>(12)</u>	<u>(9)</u>
Net losses and loss adjustment expenses incurred	<u>\$ 79</u>	<u>\$ 74</u>

The reinsurance recoverables included in receivables, net, at December 31, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Recoverable on life insurance and other policies	<u>\$ 182</u>	<u>\$ 194</u>

BCBSVT has reinsurance coverage to limit its losses on individual claims. Ceded reinsurance premiums are recognized over the policy period. Losses recoverable under these policies are deducted from claims incurred. BCBSVT is liable for amounts recoverable from reinsurers in the event that the reinsurers do not meet their contractual obligations.

The effects of reinsurance activities of BCBSVT on premiums and losses for the year ended December 31, 2023 are as follows:

	<u>2023</u>
Premiums written:	
Direct	\$ 140
Reinsurance assumed	-
Reinsurance ceded	<u>(1)</u>
Net premium written	<u>\$ 139</u>
Premium earned:	
Direct	\$ 140
Reinsurance assumed	-
Reinsurance ceded	<u>(1)</u>
Net premium earned	<u>\$ 139</u>

	<u>2023</u>
Losses and loss adjustment expenses incurred:	
Direct	\$ 144
Reinsurance assumed	-
Reinsurance ceded	<u>-</u>
Net losses and loss adjustment expenses incurred	<u>\$ 144</u>

The reinsurance recoverables included in receivables, net, at December 31, 2023 consist of the following:

	<u>2023</u>
Reinsurance recoverable from reinsurers on paid claims	<u>\$ 3</u>

## 16. PREMIUM DEFICIENCY AND LOSS CONTRACT 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. Loss contract reserves may be necessary when administrative fee revenues are insufficient to cover the direct fixed and variable expenses allocated to self-insured groups. For the years ended December 31, 2023 and 2022, the Company considered anticipated investment income as part of both actuarial estimate calculations. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with BCBSM method of acquiring, servicing, and measuring the profitability of such contracts. Premium deficiency losses are generally released over the period that the contract is in a loss position. Loss contracts are calculated similar to premium deficiency losses over the administrative service contract period. As of December 31, 2023 and 2022 the Company recorded premium deficiency losses of \$46 and \$0, respectively. The PDR recorded in 2023 was related to the Senior Market segment and Medicaid segment. As of December 31, 2023 and 2022 the Company recorded loss contract reserves related to administrative service contracts of \$13 and \$0, respectively. These liabilities are recorded within premium deficiency reserves in the consolidated balance sheets.

The Company's health insurance contracts are considered short duration insurance contracts. As such, any required PDR accrual recorded typically represents a 1-year term.

## 17. 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. NASCO's savings plan covers substantially all full-time employees. Nonrepresented and represented employees' contributions are matched by the Company subject to certain limitations. The Company's expense for matching contributions during 2023 and 2022 totaled \$45 and \$46, respectively.

**Defined Benefit Plans**—The Company 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. Participants employed prior to January 1, 1999, have an initial account balance based on their accrued benefit under a prior defined benefit plan the Company sponsored for nonrepresented employees, while nonrepresented participants hired after January 1, 1999, have an initial account balance of zero. 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.

**NASCO Defined Benefit Pension Plan**—Certain employees of NASCO are covered by a noncontributory defined benefit pension plan. The benefits are based on years of service and the employee's final average compensation. As of January 1, 2008, this plan was closed to new participants. NASCO's funding policy is to contribute the minimum amount required by applicable regulations plus such additional amounts as the trust sponsor may determine to be appropriate from time to time. NASCO expects to contribute \$1 to its pension program in 2024.

Pension benefits were frozen effective December 31, 2021. As a result of this action, no additional employment service credits will be accrued after the effective date.

According to ASC 715-30, settlement accounting is triggered if lump sums paid during the year exceed service costs plus interest cost in the current year expense. Due to lump sum pension payments of \$4 and \$6 that occurred during 2023 and 2022, respectively, additional pension income of \$1 was recognized during both 2023 and 2022.

**BCBSVT Defined Benefit Pension Plan**—Certain employees of BCBSVT are covered by a noncontributory, defined benefit pension plan. The benefits are based on age and years of service requirements. As of December 31, 2021 this plan was closed to new participants and existing participants stopped accruing benefits. Participants will retain all plan benefits accrued and will continue to earn interest on benefits accrued prior to the plan closure, but no additional service time or pay changes will be credited.

**BCBSVT Supplemental Executive Retirement Plans**—Certain executives of BCBSVT are covered by supplemental executive retirement plans (SERP). These nonqualified plans are designed to offset the impact of restrictions in the BCBSVT qualified pension plan, which limits benefits for highly compensated employees and to defer federal and state income taxes to future periods. Benefits under the SERP are determined based on a formula applied to compensation, reduced for the benefits under the qualified pension plan. The present value of the future benefit will be accrued over the estimated remaining service life of the employees. The total amount accrued under the SERP is included in other liabilities in the accompanying consolidated balance sheets. The discount rate used to determine the liability is 5% at December 31, 2023.

**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 Internal Revenue Code (IRC). Benefits under the plans are unfunded and paid out of the general assets of the Company. The projected benefit obligation for these plans at December 31, 2023 and 2022, was \$172 and \$160, respectively, and are included within the amounts in the tables below. Amounts payable under NASCO nonqualified plans of \$9 and \$8 are included in accrued employee expense in the Company's 2023 and 2022 consolidated balance sheets, respectively, and are excluded from the amounts in the tables below.

**Postretirement Benefits**—The Company provides certain health care and selected other benefits to certain employees and dependents of employees who retire from active employment or who become disabled. Post-retirement health care and other retirement benefits are offered for employees and retirees represented under a collectively bargained union contract and for nonunionized employees and retirees. Eligibility requirements vary based on hire date, years of service, and retirement age. Represented employees hired on or after January 1, 2009 (January 1, 2010 for AFICA) and nonbargaining unit employees hired on or after January 1, 2007, 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 Company.

In 2019, the Company established two tax exempt 501(c)(9) entities to fund retiree medical benefits. Plan sponsorship, and the determination of plan benefit design, continues to reside with the Company. Similar to pension trust assets, the assets in the retiree medical trusts are restricted and cannot revert

back to the Company for any purpose. Prior to 2019, the Company'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, 2023 and 2022, consist of the following:

	Pension		Postretirement	
	2023	2022	2023	2022
Accumulated benefit obligation	\$ 1,871	\$ 1,660	\$ 477	\$ 448
Effects of estimated future pay increases	89	79	-	-
Projected benefit obligation	1,960	1,739	477	448
Plan assets at fair market value	1,722	1,399	477	480
Funded status	\$ (238)	\$ (340)	\$ -	\$ 32
Prepayments included in other assets	\$ 17	\$ -	\$ 170	\$ 176
Liabilities included in accrued employee expenses	(255)	(340)	(170)	(144)
Funded Status	\$ (238)	\$ (340)	\$ -	\$ 32
Information for plans with an accumulated benefit obligations in excess of plan assets:				
Projected benefit obligation	\$ 1,960	\$ 1,739	\$ -	\$ -
Accumulated benefit obligation	1,871	1,660	-	-
Fair value of plan assets	1,722	1,399	-	-



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

	<b>Pension</b>		
	<b>Net (Gain) Loss</b>	<b>Prior Service Cost</b>	<b>Total</b>
Balance—January 1, 2022	\$ 347	\$ -	\$ 347
Recognized during the year	(28)	-	(28)
Occurring during the year	<u>(113)</u>	<u>-</u>	<u>(113)</u>
Subtotal before tax	<u>(141)</u>	<u>-</u>	<u>(141)</u>
Deferred tax expense	<u>29</u>	<u>-</u>	<u>29</u>
Balance—December 31, 2022	<u>235</u>	<u>-</u>	<u>235</u>
Recognized during the year	-	-	-
Occurring during the year	<u>74</u>	<u>-</u>	<u>74</u>
Subtotal before tax	<u>74</u>	<u>-</u>	<u>74</u>
Deferred tax expense	<u>(2)</u>	<u>-</u>	<u>(2)</u>
Balance—December 31, 2023	<u>\$ 307</u>	<u>\$ -</u>	<u>\$ 307</u>
Accumulated balance—(gain) loss			\$ 372
Deferred tax assets			<u>(65)</u>
Balance—December 31, 2023			<u>\$ 307</u>

	Postretirement			All Plans Grand Total
	Net (Gain) Loss	Prior Service Cost	Total	
Balance—January 1, 2022	\$ 33	\$ 24	\$ 57	\$ 404
Recognized during the year	-	23	23	(5)
Occurring during the year	(155)	44	(111)	(224)
Subtotal before tax	(155)	67	(88)	(229)
Deferred tax expense (benefit)	19	-	19	48
Balance—December 31, 2022	(103)	91	(12)	223
Recognized during the year	12	16	28	28
Occurring during the year	3	-	3	77
Subtotal before tax	15	16	31	105
Deferred tax expense (benefit)	(1)	-	(1)	(3)
Balance—December 31, 2023	<u>\$ (89)</u>	<u>\$ 107</u>	<u>\$ 18</u>	<u>\$ 325</u>
Accumulated balance (gain) loss			\$ 16	\$ 388
Deferred tax assets			2	(63)
Balance—December 31, 2023			<u>\$ 18</u>	<u>\$ 325</u>

For the year ended December 31, 2023, the increase in pension benefit obligation was primarily due to the decrease in the discount rate. For the year ended December 31, 2022, the decrease in pension benefit obligation was primarily due to the increased discount rates.

For the year ended December 31, 2023, the increase in postretirement benefit obligation was primarily due to the decrease in the discount rate. For the year ended December 31, 2022, the decrease in postretirement benefit obligation was primarily due to the increase in discount rates and changes to the per capita claims costs and health care trend assumptions reflecting favorable past experience and BCBSM expectations of future experience.

The benefit costs, employer contributions, and benefits paid for the years ended December 31, 2023 and 2022, are as follows:

	<b>Pension</b>		<b>Postretirement</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Service cost for benefits earned during the year	\$ 63	\$ 76	\$ 8	\$ 16
Interest cost	101	67	25	22
Expected return on assets	(98)	(93)	(28)	(30)
Amortization of net prior service cost	-	-	(16)	(23)
Actuarial loss recognized	1	28	(13)	-
Other Adjustments	(1)	(2)	-	-
Net periodic benefit cost	<u>\$ 66</u>	<u>\$ 76</u>	<u>\$ (24)</u>	<u>\$ (15)</u>
Total benefit expense for the year	<u>\$ 66</u>	<u>\$ 76</u>	<u>\$ (24)</u>	<u>\$ (15)</u>
Employer contributions	<u>\$ 228</u>	<u>\$ 40</u>	<u>\$ 1</u>	<u>\$ 6</u>
Benefits paid	<u>\$ 90</u>	<u>\$ 112</u>	<u>\$ 39</u>	<u>\$ 37</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 operations.

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

	<b>Pension</b>			
	<b>Non Represented and Nonqualified Plans</b>		<b>Represented Plan</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Projected benefit obligations:				
Discount rate	5.0%-5.5%	5.3%-5.9%	5.5 %	5.9 %
Rate of compensation increase	3.5%-11.5%	3.5%-11.5%	1.5%-4.5%	1.5%-4.5%
Interest crediting rates (for cash balance and other plans with promised interest crediting rates)	4.0 %	4.0 %	4.0 %	4.0 %
Net periodic benefit cost:				
Discount rate	5.1% - 5.9%	3.1 %	5.9 %	3.2 %
Rate of compensation increase	4.3%-11.5%	3.5%-11.5%	1.5%-4.5%	1.5%-4.5%
Expected long term return	5.7%-6.8%	5.5%-5.7%	5.7 %	5.7 %
Interest crediting rates (for cash balance and other plans with promised interest crediting rates)	4.0 %	4.0 %	4.0 %	4.0 %

	Postretirement			
	Non Represented Employees		Represented Employees	
	2023	2022	2023	2022
Projected benefit obligations—discount rate	4.7%-5.6%	5.90 %	5.55 %	5.90 %
Net periodic benefit cost—discount rate	4.9%-5.9%	3.10 %	5.90 %	3.15 %

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. As of 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:

	2023	2022
Pre 65 PPO	4.20 %	4.50 %
Pre 65 HMO	6.36	5.40
Pre 65 Drug	15.00	9.00
Post 65 Non MA PPO	4.20	4.50
Post 65 Non MA HMO	11.76	7.65
Post 65 Composite (MA and EGWP) PPO	—	(2.00)
Post 65 Composite (MA and EGWP) HMO	—	(2.00)
Post 65 Drug Non-EGWP	15.00	9.00
Ultimate Trend Rate	4.84	4.41
Year rate reaches ultimate rate	2027	2026

**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 liquid alternative investments based on the pension investment policy statement.

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

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

The target allocation under the Company's investment policy for the pension trust is based on the funded status, allocated between long duration fixed income securities and return-seeking assets. Return-seeking assets under the policy are defined as any asset class other than long-duration fixed-income securities and cash equivalents. The return-seeking allocation currently includes publicly traded equities, publicly traded high-yield fixed income securities, multi-strategy hedge funds, core real estate and fund of fund private equity. At December 31, 2023, the actual allocation of plan assets was approximately 51% long-duration fixed-income securities and cash and 49% return-seeking assets.

Investment policies for the medical trust consider risk and return objectives, the hedging interest rate risk on plan liabilities and are designed to preserve the availability of funds to pay benefits. Medical trust target allocations include a 40-60% allocation to return-seeking assets and the balance to long duration bonds and municipal bonds.

The fair values of the Company's pension plan assets are measured and classified as disclosed in the significant accounting policies footnote. The pension assets (excluding the NASCO and BCBSVT plans shown separately below) by category for 2023 and 2022, are as follows:

	<b>Fair Value Measurements at December 31, 2023</b>			
	<b>Quoted in Active Markets for Identical (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Corporate debt securities	\$ -	\$ 370	\$ 1	\$ 371
Common stocks	62	-	-	62
Other asset backed	-	2	-	2
Cash equivalents	159	-	-	159
US treasury securities	-	13	-	13
Foreign debt securities	-	12	-	12
State and local debt securities	-	13	-	13
Total measured at fair value	<u>\$ 221</u>	<u>\$ 410</u>	<u>\$ 1</u>	632
Measured at NAV:				
Commingled equity funds				343
Commingled fixed income funds				319
Limited partnerships				<u>295</u>
Total				<u>\$ 1,589</u>

**Fair Value Measurements at December 31, 2022**

	<b>Quoted in Active Markets for Identical (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservabl Inputs (Level 3)</b>	<b>Total</b>
Corporate debt securities	\$ -	\$ 329	\$ 1	\$ 330
Common stocks	52	-	-	52
Cash equivalents	52	-	-	52
US treasury securities	-	18	-	18
Mortgage-backed securities	2	-	-	2
Foreign debt securities	-	12	-	12
State and local debt securities	-	13	-	13
<b>Total measured at fair value</b>	<b>\$ 106</b>	<b>\$ 372</b>	<b>\$ 1</b>	<b>479</b>
Measured at NAV:				
Commingled equity funds				321
Commingled fixed income funds				274
Limited partnerships				259
<b>Total</b>				<b>\$ 1,333</b>

The fair values of the Company'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 2023 and 2022, are as follows:

<b>Fair Value Measurements at December 31, 2023</b>				
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
Corporate debt securities	\$ -	\$ 160	\$ -	\$ 160
Common stock ETFs	91	-	-	91
Common stocks	24	-	-	24
Cash equivalents	8	-	-	8
US treasury securities	-	31	-	31
Mortgage-backed securities	-	5	-	5
Foreign debt securities	-	3	-	3
State and local debt securities	-	36	-	36
Other asset-backed securities	-	2	-	2
	<u>\$ 123</u>	<u>\$ 237</u>	<u>\$ -</u>	360
Total measured at fair value				
Measured at NAV:				
Commingled equity funds				<u>117</u>
Total				<u>\$ 477</u>

**Fair Value Measurements at December 31, 2022**

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
Corporate debt securities	\$ -	\$ 169	\$ -	\$ 169
Common stock ETFs	83	-	-	83
Common stocks	21	-	-	21
Cash equivalents	6	-	-	6
US treasury securities	-	33	-	33
Mortgage-backed securities	-	2	-	2
Foreign debt securities	-	2	-	2
State and local debt securities	-	43	-	43
Other asset-backed securities	-	3	-	3
<b>Total measured at fair value</b>	<b><u>\$ 110</u></b>	<b><u>\$ 252</u></b>	<b><u>\$ -</u></b>	<b>362</b>
Measured at NAV:				
Commingled equity funds				<u>118</u>
<b>Total</b>			<b><u>\$ 480</u></b>	

Transfers between levels may occur due to changes in the availability of market observable inputs. The Company transferred assets of \$0 into or out of Level 3 for both 2023 and 2022. During both 2023 and 2022, the Company purchased Level 3 assets of \$0.

For the NASCO's pension plan assets, the basis of the overall expected long-term rate of return on assets is a forward-looking approach based on the current long-term capital market outlook assumptions of the asset categories the trust invests in and the trust's target asset allocation. The assumed target asset allocation for the program is: 15%-25% equity securities, 72.5%-82.5% debt securities, and 1.5%-3.5% other securities.

The NASCO plan assets are comingled in the National Retirement Trust with assets of other plan sponsors. The values presented represent the NASCO's allocated portion of the assets.



The fair values of NASCO’s allocated pension plan assets are measured and classified as disclosed in the significant accounting policies footnote. The pension assets for NASCO by category for 2023 and 2022, are as follows:

<b>NASCO Pension Plan</b>				
<b>Fair Value Measurements at December 31, 2023</b>				
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
U.S. Treasury Securities	\$ -	\$ 3	\$ -	\$ 3
Limited Liability Corporations	-	2	-	2
Corporate Debt Securities	-	18	-	18
Common/Collective Trusts	-	40	-	40
Total measured at fair value	<u>\$ -</u>	<u>\$ 63</u>	<u>\$ -</u>	63
Measured at NAV—Real Estate				<u>4</u>
Total				<u>\$ 67</u>

<b>NASCO Pension Plan</b>				
<b>Fair Value Measurements at December 31, 2022</b>				
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
U.S. Treasury Securities	\$ -	\$ 1	\$ -	\$ 1
Corporate Debt Securities	-	7	-	7
Mutual Funds	6	-	-	6
Common/Collective Trusts	-	48	-	48
Total measured at fair value	<u>\$ 6</u>	<u>\$ 56</u>	<u>\$ -</u>	62
Measured at NAV—Real Estate				<u>4</u>
Total				<u>\$ 66</u>

For the BCBSVT's pension plan assets, the basis of the overall expected long-term rate of return on assets is a forward-looking approach based on the current long-term capital market outlook assumptions of the asset categories the trust invests in and the trust's target asset allocation. The assumed target asset allocation for the program is: 30%-40% equity securities, 50%-60% debt securities, and 5%-15% other securities.

The BCBSVT plan assets are comingled in the National Retirement Trust, with assets of other plan sponsors. The values presented represent the BCBSVT's allocated portion of the assets.

The fair values of BCBSVT's allocated pension plan assets are measured and classified as disclosed in the significant accounting policies footnote. The pension assets for BCBSVT by category for 2023 are as follows:

<b>BCBSVT Pension Plan</b>				
<b>Fair Value Measurements at December 31, 2023</b>				
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
U.S. Treasury Securities	\$ -	\$ 1	\$ -	\$ 1
Corporate Debt Securities	-	8	-	8
Common/Collective Trusts	-	51	-	51
Total measured at fair value	<u>\$ -</u>	<u>\$ 60</u>	<u>\$ -</u>	60
Measured at NAV—Real Estate				<u>6</u>
Total				<u>\$ 66</u>

**Pension Plan Contributions**—The Company contributed \$228 and \$40 in 2023 and 2022, respectively, to its defined benefit pension plans. The contribution made in 2023 was due to normal course of business operations. The contribution for 2022 was largely due to a settlement of claims against Allianz and Aon in 2022. As of December 31, 2023, the Company anticipates it will have a required contribution in 2024 of \$1.

**Postretirement Medical Contributions**—After initially funding the medical trusts in 2019, the Company did not make additional contributions to the trusts from 2020 to 2023. Future contributions are not required under existing regulations and the Company does not plan to make a contribution in 2024.

In 2023, the Company began to utilize the postretirement trust assets to pay eligible medical claims incurred by active represented employees participating in the BCBSM Medical Plan for the 2023 and 2024 plan years.

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

<b>Years Ending December 31</b>	<b>Pension Benefits Future Benefit Payments</b>
2024	\$ 142
2025	141
2026	138
2027	139
2028	142
2029 through 2033	747
Total	<u>\$ 1,449</u>

**Postretirement 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, 2023, are expected to be paid as follows:

<b>Years Ending December 31</b>	<b>Postretirement Benefits</b>	
	<b>Future Benefit Payments</b>	<b>Anticipated Future Subsidies</b>
2024	\$ 42	\$ -
2025	37	-
2026	37	(1)
2027	38	(1)
2028	38	(1)
2029 through 2033	191	(3)
Total	<u>\$ 383</u>	<u>\$ (6)</u>

## 18. DEBT

The carrying value of the Company's outstanding debt as of December 31, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
FHLBI:		
BCBSM: 0.87%–2.22%, due 2023–2026	\$ -	\$ 225
Accident Fund: 4.81%–5.53%, due 2028	8	9
AmeriTrust: 0.80%–1.59%, due 2023	-	40
BCN: 1.89%, due 2024	50	50
Accident Fund Economic Development Corporation of the City of Lansing debt: 5.47%, due 2042	5	10
Accident Fund Surplus Notes: 8.5%, due 2032	359	337
AmeriTrust Senior Debentures: 8.61%–8.96%, due 2034	-	25
AmeriTrust Junior Debentures: 7.72%–8.77%, due 2032–2035	-	56
	<u>\$ 422</u>	<u>\$ 752</u>
Total debt		

All FHLBI borrowings have fixed interest rates. The Accident Fund Economic Development Corporation of the City of Lansing debt has a variable interest rate determined weekly subject to a maximum rate of 12%.

On November 7, 2022, Accident Fund issued \$350 in surplus notes at par, with an August 1, 2032, maturity date. Included in the issuance, BCN purchased surplus notes for \$8, LifeSecure for \$5, and WSIC for \$1. These investments by BCN, LifeSecure and WSIC were eliminated on consolidation. On August 4, 2023, these surplus notes owned by BCN, LifeSecure, and WSIC were sold. Interest on surplus notes is fixed at 8.5% payable semiannually. Accrued interest has been added to the balance of the surplus notes. The surplus notes are an unsecured obligation of Accident Fund. Repayment of principal and interest on the surplus notes is restricted to earned surplus of Accident Fund and all such payments must be approved by the Michigan Department of Insurance and Financial Services (DIFS).

AmeriTrust's junior subordinated debentures issued in 2003 and 2005 amounting to \$31, were issued in conjunction with the issuance of \$10 and \$20 in mandatory redeemable trust preferred securities to a trust formed by an institutional investor from the AmeriTrust's unconsolidated subsidiary trusts, Meadowbrook Capital Trust I and Meadowbrook Capital Trust II, respectively. These debentures were paid off in 2023.

AmeriTrust's junior subordinated debentures that were acquired in AmeriTrust's ProCentury Merger amounting to \$25, were issued in conjunction with the issuance of \$15 and \$10 in floating rate trust preferred securities to a trust formed from AmeriTrust's unconsolidated trust, ProFinance Statutory Trust I and ProFinance Statutory Trust II. These debentures were paid off during 2023.

The interest rate on the junior and senior subordinated debt was based on the three-month LIBOR rate, plus a fixed percentage which varied from 3.58% to 4.20%. The junior subordinated debentures were unsecured obligations of AmeriTrust and were junior to the right of payment to all senior indebtedness of AmeriTrust.

The total interest expense for the aforementioned debt for the years ended December 31, 2023 and 2022, was \$52 and \$10, respectively.

**Liquidity Facilities**—The Company has facilities with limits totaling \$2,450 with FHLBI. The limits are \$2,000 for BCBSM, \$300 for Accident Fund, and \$150 for BCN. The FHLBI debt is collateralized by government and mortgage-backed securities at 103%–115% of the outstanding loan balance. The FHLBI weighted-average borrowing rate was 2.32% and 1.68% at December 31, 2023 and 2022, respectively.

BCBSVT has available a \$15 revolving line of credit from M&T Bank which expires on March 31, 2024. The outstanding balance on the line of credit was \$0 as of December 31, 2023.

**Standby Letter of Credit**—For one debt agreement, Accident Fund 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 the specific debt agreement.

	<u>Expiration Date</u>	<u>Percentage of Financed Amount</u>	<u>Available Amount</u>
<b>Letter of Credit Commitment</b>			
Economic Development Corp, City of Lansing	2031	100 %	\$ 5

At December 31, 2023, future minimum payments required for outstanding debt are as follows:

Years Ending December 31

2024	\$ 50
2025	-
2026	-
2027	-
2028	8
2029 and thereafter	<u>364</u>
Total future minimum payments	<u>\$ 422</u>

## 19. OTHER LIABILITIES

Other liabilities at December 31, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Accrued administrative expenses	\$ 304	\$ 228
Advance deposits from ASC groups	343	58
Legal reserves	3	6
Accrued taxes, assessments, and other	92	102
Government programs	48	46
Social mission accrual	100	100
Reinsurance liabilities	715	170
Premium rebates due to customers	16	31
Payable for purchase of securities	12	103
Payable to outstate plans	45	34
Administrative cash overdrafts	120	126
Guaranty fund assessment	18	22
Deferred revenue from non-insurance services	50	19
Board of escheats	17	14
Accrued agent commissions	54	51
Other	160	134
Total other liabilities	<u>\$ 2,097</u>	<u>\$ 1,244</u>

Payables to government programs consist of the following:

ACA risk adjustment	\$ 38	\$ 37
ACA Comparative Effective Fee	5	3
Medicare Advantage	5	6
Total	<u>\$ 48</u>	<u>\$ 46</u>

## 20. INCOME TAXES

Significant components of net deferred tax assets at December 31, 2023 and 2022, are summarized as follows:

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Tax credit carryforwards	\$ 4	\$ -
Accrued expenses associated with postretirement and pension benefits	47	62
Accrued expenses	70	74
Discount of claim liabilities as required for tax purposes	70	82
Premium Deficiency Reserve	12	-
Depreciation and Amortization	33	-
Unrealized losses on investments	10	118
Net operating loss carryover	101	34
Gross deferred tax assets	<u>347</u>	<u>370</u>
Valuation allowance	<u>(176)</u>	<u>(39)</u>
Deferred tax assets net of valuation allowance	171	331
Deferred tax liabilities:		
Depreciation and amortization	<u>-</u>	<u>(17)</u>
Gross deferred tax liabilities	<u>-</u>	<u>(17)</u>
Net deferred tax assets	<u>\$ 171</u>	<u>\$ 314</u>

The change in the net deferred tax assets in 2023 is primarily due to decreases in unrealized losses on investments and an increase in valuation allowance.

Significant components of the provision for income taxes for the years ended December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Current tax (benefit) expense	\$ (56)	\$ 5
Deferred tax expense (benefit)	<u>150</u>	<u>(123)</u>
Total tax expense (benefit)	<u>\$ 94</u>	<u>\$ (118)</u>

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

	<b>2023</b>	<b>2022</b>
Amount at statutory rate (21%)	\$ 45	\$ (186)
State income tax	(4)	(24)
833(b) deduction	(7)	-
Loss (income) of tax exempt subsidiary	(10)	19
Executive compensation limitation	25	47
Permanent items	(6)	19
Change in valuation allowance	64	22
Return to provision	-	(16)
Subsidiary divestiture	(10)	-
Other	(3)	1
Total tax expense (benefit)	<u>\$ 94</u>	<u>\$ (118)</u>

As Blue Cross Blue Shield organizations, BCBSM and BCBSVT are 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, BCBSM and BCBSVT are 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.

BCBSM's and BCBSVT's financial results reflect year-end best estimates for the 2023 tax MLR of 86.5% and 94.04%, respectively, which are above the 85% threshold required to qualify for the IRC Section 833(b) Special Deduction. The final ratios will not be determined until the MLR filings for commercial rebate purposes are filed with the CMS on July 31, 2024. If the final claims results in the CMS submissions are approximately \$242 and \$42 lower than current projections, respectively, BCBSM's and BCBSVT's 2023 Tax MLRs would fail the 85% threshold needed to qualify for the Special Deduction. Failing to qualify for the Special Deduction would increase tax expense by \$7.

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, 2023, tax years 2018 through 2023 remain open to examination by the IRS.

The Company recognizes accrued interest and penalties related to uncertain income tax positions in income tax expense. On examination of all relevant facts and circumstances for the Company's tax issues, it was determined that there were uncertain tax positions of \$4 and \$3 as of December 31, 2023 and 2022, respectively.

At December 31, 2023 and 2022, the balance of unrecognized tax benefits that, if recognized, would affect our effective tax rate are \$4 and \$3, respectively. The Company does not believe that it is reasonably possible that this liability balance will significantly increase within the next 12 months.

At December 31, 2023, the Company has an unused federal net operating loss carryforward amount of \$170 and an unused state net operating loss carryforward amount of \$1,088 which can be used to offset future taxable income. The loss carryforwards expire between 2024 and 2042.



On August 16, 2022, the U.S. government enacted the Inflation Reduction Act of 2022 that includes changes to the U.S. corporate income tax system, including a 15% minimum tax assessed on corporations with “adjusted financial statement income” in excess of \$1 billion, i.e. an applicable reporting corporation. The Company is not an applicable reporting corporation for 2023.

## 21. CONCENTRATIONS

BCBSM and BCN conduct business primarily within the state of Michigan. A significant portion of the Company’s customer base is concentrated in companies that are part of the automobile manufacturing industry. Receivables from the significant customers in this industry are \$56 and \$53 at December 31, 2023 and 2022, respectively. These receivables primarily represent reimbursable claims and administrative fees for services provided to them as part of their administrative service contract arrangements with the Company. Reimbursable claims paid under these arrangements totaled \$1,652 and \$1,621 for the years ended December 31, 2023 and 2022, respectively. Administrative fee revenue from these customers was \$198 and \$189 for the years ended December 31, 2023 and 2022, respectively.

The Company held cash advances from these customers of \$6 and \$0 at December 31, 2023 and 2022, respectively, to partially offset these receivables. Under an administrative service contract arrangement, the group sponsor retains the primary financial responsibility for the underwriting risk of their employees. The Company retains an element of credit risk to providers in the event reimbursement is not received from the plan sponsor, accordingly, the Company has recorded a liability for IBNR and a related receivable in the amount of \$286 and \$299 at December 31, 2023 and 2022, respectively.

In addition, the Company holds investments in these customers’ stock, corporate bonds, and medium-term notes with a total fair value of \$62 and \$83 at December 31, 2023 and 2022, respectively.

Effective March 31, 2023, Star entered into an ADC reinsurance contract with WSIC. WSIC in turn reinsure the risk to Premia, a third party reinsurer. As part of the reinsurance contract WSIC has recorded a receivable related reinsurance recoverable of \$500 and a liability related to funds held related to reinsurance contract of \$524.

At December 31, 2023, approximately 15% of the Company’s employees are represented by a union. The existing union agreements will expire on May 1, 2027.

## 22. LEASES

The Company leases certain computer equipment and office space under various noncancelable operating leases.

The following table presents the components of the Company’s right-of-use assets and liabilities related to leases and their classification in the consolidated balance sheet as of December 31, 2023 and 2022:

Components of Lease Balances	Classification in Consolidated Balance Sheet	2023	2022
Operating lease right-of-use assets	Lease right-of-use assets	\$ 102	\$ 70
Operating lease liabilities	Lease liabilities	\$ 106	\$ 73
Finance lease right-of-use assets	Lease right-of-use assets	\$ 6	\$ 9
Finance lease liabilities	Lease liabilities	\$ 6	\$ 9

The components of lease expenses and their classification in the consolidated statement of operations for the year ended December 31, 2023 and 2022 were as follows:

<b>Components of Lease Expenses</b>	<b>Classification in Consolidated Statement of Operations</b>	<b>2023</b>	<b>2022</b>
Operating lease expense	Operating expenses	\$ 22	\$ 21
Short term lease expense	Operating expenses	1	2
Variable lease cost	Operating expenses	21	12
Finance lease expense			
Amortization of right-of-use assets	Operating expenses	3	-
<b>Total lease expense</b>		<b><u>\$ 47</u></b>	<b><u>\$ 35</u></b>

The weighted average remaining lease term and weighted average discount rate as of and for the year ended December 31, 2023 and 2022, were as follows:

	<b>2023</b>	<b>2022</b>
<b>Weighted Average Remaining Lease Term (Years)</b>		
Operating leases	5	4
Finance leases	2	3
<b>Weighted Average Discount Rate</b>		
Operating leases	3.49 %	1.64 %
Finance leases	2.87 %	2.87 %

Supplemental cash flow information related to leases for the year ended December 31, 2023 and 2022 were as follows:

	<b>2023</b>	<b>2022</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	\$ 25	\$ 22
Right-of-use assets obtained in exchange for new lease liabilities:		
Operating leases	\$ 59	\$ 3

Future maturities of lease liabilities as of December 31, 2023 are presented in the following table:

	<b>Operating Leases</b>	<b>Finance Leases</b>
2024	\$ 18	\$ 3
2025	15	3
2026	14	-
2027	11	-
2028	10	-
2029 and thereafter	61	-
Total lease payments	<u>129</u>	<u>6</u>
Less: Imputed interest	24	-
Total lease obligations	<u>\$ 105</u>	<u>\$ 6</u>

### 23. UNCONDITIONAL PURCHASE OBLIGATIONS

The Company has entered into certain information technology infrastructure and application development agreements, long-term computer maintenance, license contracts, and building maintenance obligations. Payments recognized under such contracts totaled \$270 and \$132 for the years ended December 31, 2023 and 2022, respectively.

At December 31, 2023, future payments are as follows:

2024	\$ 373
2025	268
2026	195
2027	193
2028	8
2029 and thereafter	8
Total	<u>\$ 1,045</u>

### 24. 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 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 \$1,560 over 18 years and considers these payments to be an ordinary and necessary business expense. Future annual payments are \$100 provided revenue levels and Risk-Based Capital (RBC) thresholds are met. Payments under the commitment can be made by the Company or its subsidiaries. At December 31, 2023 and 2022, the Company recorded \$100 in other liabilities. The Company paid \$100 in 2023 and 2022, respectively. Through 2023, the Company has paid a total of \$810 to MHEF related to the agreement.

### 25. CONTINGENCIES

**BCBSA Litigation**—Numerous antitrust class actions have been filed against BCBSA and every BCBSA licensee. The cases were originally filed in 2012 and allege that numerous BCBSA rules and/or regulations violate the Sherman Antitrust Act and related state laws. The cases were consolidated into

two matters, a provider case and a subscriber case and are currently pending in United States District Court for the Northern District of Alabama. In October 2020, a preliminary settlement was reached in the subscriber matter and BCBSM paid its portion of the settlement amount in September 2022. Certain entities have opted out of the subscriber settlement and have filed separate legal actions. Additionally, several entities filed Notices of Appeal and intend to appeal the approval of the preliminary settlement to the Eleventh Circuit Court of Appeals. With respect to the opt-out cases, the appeal and the provider action, it is not yet possible to make an assessment regarding the probability of an adverse outcome, nor estimate a range of potential loss.

**Other**—The Company 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 Company’s management, as of December 31, 2023, estimates that these matters will be resolved without a material adverse effect on the Company’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 Company will accrue the estimated loss. As of December 31, 2023 and 2022, the Company recorded in other liabilities \$3 and \$6, respectively, for all probable and reasonably estimable losses.

The consolidated statements of operations for the years ended 2023 and 2022 include \$0 and \$51, respectively, related to legal losses and settlements.

## 26. RELATED-PARTY TRANSACTIONS

As discussed in Note 12, the Company holds a minority equity interest in BMH. In addition to the equity interest, the Company also has service contracts with BMH.

BMH, through its subsidiaries, provides health care solutions and services in the Medicaid marketplace. During 2023 and 2022, the Company incurred \$224 and \$214, respectively, for administrative service fees paid to BMH.

## 27. GUARANTEES

**BMH**—As a 38.74% equity owner in BMH, BCBSM 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 22, 2023, and provides for borrowing up to \$400 and is for a 364-day term. BMH has an option to request up to an additional \$250 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, 2023 and 2022.

**Emergent**—In accordance with the BCBSA guidelines, BCBSM guarantees to the full extent of its assets, its proportional share of the contractual and financial obligations of NextBlue of North Dakota Insurance Company, VBA and Wellmark Advantage Health Plan, Inc. to its customers.

## 28. STATUTORY POLICYHOLDERS’ RESERVES

BCBSM 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 RBC requirements when evaluating if an insurer is in compliance with the “safe and reliable” requirement of Section 403.

At December 31, 2023, BCBSM’s policyholders’ reserves are in compliance with the requirements set forth in the Michigan Insurance Code. At December 31, 2023 and 2022, BCBSM’s statutory surplus was \$6,362 and \$6,402, respectively.

BCN’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. BCN’s statutory capital and surplus as of December 31, 2023

and 2022, is \$1,749 and \$1,751, respectively. BCN is required by DIFS to comply with certain RBC requirements. At December 31, 2023 and 2022, BCN was in compliance with the RBC requirement.

Accident Fund, LifeSecure and BCC 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, 2023, the maximum amount of dividends and other distributions that may be made by Accident Fund and BCC without prior approval is \$184 and \$52, respectively. LifeSecure is currently in a cumulative statutory net loss position and would be unable to pay dividends based on the above criteria.

Emergent joint ventures are also subject to state regulatory restrictions that limit the maximum amount of annual dividends, or other distributions, without prior approval of their respective state insurance commissioners. All joint ventures are currently in cumulative statutory net loss positions and would be unable to pay dividends based on their respective states' dividend restriction criteria.

At December 31, 2023, \$1,227 of cash and \$7,114 of investments are held at the Company's subsidiaries, which are subject to the aforementioned dividend limitations.

Accident Fund's statutory capital and surplus as of December 31, 2023 and 2022, is \$1,836 and \$1,698, respectively. As of December 31, 2023 and 2022, Accident Fund's statutory capital and surplus included \$350 and \$350 of surplus notes issued, respectively. Accident Fund is required by DIFS to comply with certain RBC requirements. At December 31, 2023 and 2022, Accident Fund was in compliance with the RBC requirement.

Star's statutory capital and surplus as of December 31, 2023 and 2022, is \$638 and \$605, respectively. Star is required by DIFS to comply with certain RBC requirements. At December 31, 2023 and 2022, Star was in compliance with the RBC requirement.

LifeSecure is required by DIFS to maintain minimum capital and surplus of \$7.5. In addition, LifeSecure 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. LifeSecure's statutory capital and surplus as of December 31, 2023 and 2022, is \$62 and \$62, respectively. At December 31, 2023 and 2022, LifeSecure was in compliance with the RBC requirement.

BCC's statutory capital and surplus as of December 31, 2023 and 2022, is \$237 and \$178, respectively. BCC is required to maintain statutory surplus in excess of: (i) the minimum surplus level as defined by DIFS and (ii) a risk-based capital ratio of at least 200%. At December 31, 2023 and 2022, BCC was in compliance with the surplus and RBC requirements.

Pursuant to Michigan Insurance Code, WSIC is required to maintain a minimum of unimpaired capital and surplus of \$0.2. As a pure captive insurance company, WSIC is not subject to RBC requirements typical of traditional insurance companies. WSIC reported \$118 and \$109 capital and surplus at December 31, 2023 and 2022, respectively.

BCBSVT is required by the Vermont Department of Financial Regulation to maintain capital and surplus sufficient to achieve a RBC level of at least 200% of the RBC authorized control level. BCBSVT reported \$88 capital and surplus at December 31, 2023. At December 31, 2023, BCBSVT was in compliance with the surplus and RBC requirements.

## 29. ACCUMULATED OTHER COMPREHENSIVE LOSS

The accumulated other comprehensive loss, net of tax, at December 31, 2023 and 2022, consists of the following:

	<u>2023</u>	<u>2022</u>
Unrealized loss on available-for-sale securities	\$ (229)	\$ (481)
Accumulated foreign currency translation adjustments	-	4
Unrecognized pension and postretirement liabilities	(325)	(223)
Other comprehensive loss attributable to joint ventures	(11)	(17)
Total other comprehensive loss attributable to the Company	(565)	(717)
Unrealized loss on available-for-sale securities attributable to noncontrolling interest	(10)	(18)
Total accumulated other comprehensive loss	<u>\$ (575)</u>	<u>\$ (735)</u>

## 30. 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, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
US GAAP (reduction) addition to policyholders' reserves in the accompanying statements	\$ 119	\$ (767)
Less income attributable to noncontrolling interest	(19)	(10)
Add (deduct) adjustments in accordance with SAP:		
Premium deficiency reserve expense	(6)	-
(Loss) gain difference due to prior period impairment of securities	104	(78)
Pension and postretirement expense	(48)	-
Affiliates' earnings net of dividends to parent	(119)	472
Changes in unrealized gain (loss) for trading securities	(103)	237
Fair value adjustments of other invested assets	(125)	(103)
Deferred tax (expense) benefit recorded in SAP subscribers' reserve	121	(20)
Statutory-basis net gain as prescribed by DIFS	<u>\$ (76)</u>	<u>\$ (269)</u>

A reconciliation of the Company's US GAAP policyholders' reserves to SAP surplus is shown below for December 31, 2023 and 2022, respectively:

	<u>2023</u>	<u>2022</u>
US GAAP policyholders' reserves	\$ 6,926	\$ 6,536
Add (deduct):		
Bonds and preferred stocks	44	109
Investment in subsidiaries	29	292
Furniture, equipment, and automobiles	(34)	(23)
Capitalized software	(149)	(117)
Premium and other receivables	(142)	(39)
Deferred tax assets	9	(72)
Prepaid expenses and other assets	(291)	(282)
Premium deficiency reserve adjustment—net of tax	(5)	—
Social mission obligation—net of tax	79	79
Noncontrolling interest	(104)	(81)
Subtotal	<u>(564)</u>	<u>(134)</u>
SAP surplus as prescribed by DIFS	<u>\$ 6,362</u>	<u>\$ 6,402</u>

### 31. INSURANCE RELATED ASSESSMENTS

The Company 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, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Payable in one year or less	\$ 29	\$ 55
Payable after one year through five years	-	1
Payable after five years through 10 years	-	-
Payable after 10 years	<u>-</u>	<u>-</u>
Total insurance-related assessments	<u>\$ 29</u>	<u>\$ 56</u>

Guaranty fund assessment expense was \$1 and \$1 in 2023 and 2022, respectively.

### **32. SUBSEQUENT EVENTS**

Management has evaluated all events subsequent to the consolidated balance sheet date of December 31, 2023, through March 26, 2024, 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:

To enhance the Blue Cross branded business for BCBSM and Independence Health Group in their respective markets, the Company acquired, for approximately \$393, a 38.74% ownership interest in Vista Health Plan, Inc. on January 31, 2024. The remaining 61.26% is owned by Independence Health Group. There is no material impact to the consolidated financial statements.

As part of the transaction, AmeriHealth Caritas divvied its 50% ownership interest in Blue Cross Complete to Blue Cross Blue Shield of Michigan and Independence Health Group on a pro-rata basis, resulting in Blue Cross Blue Shield of Michigan increasing its direct ownership of BCC to 69.37%. As BCC is a consolidating subsidiary of BCBSM, there is no impact to the consolidated financial statements.

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