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July 30, 2019

via electronic mail only

Michael Barber, Esq., General Counsel
Green Mountain Care Board
144 State Street
Montpelier, Vermont 05620

Re: BCBSVT VT Health Connect 2020 Hearing
Docket No. GMCB-006-19rr

Dear Mr. Barber, Chair Mullin and Members of the Board,

This letter serves to clarify a discussion which arose during my July 23, 2019 testimony regarding Blue Cross Blue Shield of Vermont's (BCBSVT) statutory accounting practices. Specifically, there was a discussion regarding how BCBSVT treated certain deferred tax assets on its annual financial statements. I hope you will accept this letter to supplement my testimony and solvency opinion, as I was unable to offer a fuller context due to time constraints during the hearing.

BCBSVT's Annual Financial Statements

Since the 1980s Blue Cross Blue Shield organizations have received a special deduction effectively eliminating any corporate income tax obligations.[1] Such organizations, however, were still required to pay the corporate alternative minimum tax (AMT). During the past three decades BCBSVT paid in excess of $35 million in AMT.

Generally, these AMT payments could be used to offset any future corporate income tax obligations, however, since BCBSVT did not pay corporate income taxes, the company wrote off its AMT credit balances.

In December 2017, the Tax Cuts and Jobs Act eliminated the AMT thus creating a deferred tax asset of just over $35 million for BCBSVT that is scheduled to be paid out over the next five years. Further, in February 2018, the Department ordered a permitted practice allowing BCBSVT to treat

[1] Internal Revenue Code § 833.

this newly created asset as a non-admitted asset since payments were not to be made for some time.

Therefore, it is important to note that the deferred tax asset has not yet been recorded on BCBSVT's financial statements because BCBSVT does not yet possess the asset. Further, once the deferred tax asset was created, the Department's order to treat it as a non-admitted asset did not result in lowering the Company's surplus (and thus its risk based capital).[2]

BCBSVT's financial statements over the past five years do reflect real reductions to the company's surplus, primarily due to:

- $(24.2) million expenditure related to electronic data processing equipment and software; and

- $(21.2) million in net underwriting losses.

These surplus reductions were partially offset by a positive change to investments and other income, however, the net result is an approximately $28 million reduction.

Accordingly, the permitted practice did not lower BCBSVT's surplus or RBC over the past five years, however, certain IT expenditures and net underwriting losses did contribute to a $28 million reduction in surplus and correspondingly the company's RBC.

I hope the additional information above will help clarify previously discussed items and aid the Board in their rate filing decision.

All the best,

Michael S. Pieciak
Commissioner of Financial Regulation

Cc: Jay Angoff, Esq.; Kaili Kuiper, Esq.; Eric Schultheis, Esq.
Bridget Asay, Esq.; Michael Donofrio, Esq.

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[2] This order did temporarily prevent BCBSVT's surplus from increasing, however, the Department believes this was the most prudent course since deferred tax assets are unavailable to pay claims and including them in the surplus figure would not have accurately reflected their status.