

STATE OF INDIANA )  
 ) SS:  
COUNTY OF MARION : ) BEFORE THE INDIANA  
 ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
Anthem Insurance Companies, Inc. )  
120 Monument Circle )  
Indianapolis, Indiana 46204 )

Examination of Anthem Insurance Companies, Inc.

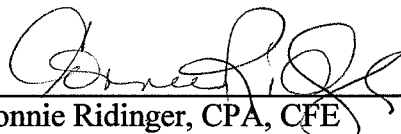
**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Douglas Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Anthem Insurance Companies, Inc., any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Anthem Insurance Companies, Inc. shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

Date June 17, 2010

  
\_\_\_\_\_  
Connie Ridinger, CPA, CFE  
Chief Examiner/Deputy Commissioner

**CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2293**

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Anthem Insurance Companies, Inc. )  
120 Monument Circle )  
Indianapolis, Indiana 46204 )

Examination of Anthem Insurance Companies, Inc.

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Anthem Insurance Companies, Inc. (hereinafter "Company") for the time period January 1, 2004 through December 31, 2008.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on 1/15/2009.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 19, 2010 and was received by the Company on June 4, 2010.

On June 16, 2010 pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

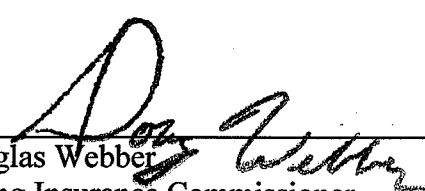
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.
2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2008.

3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 17<sup>th</sup> day of June, 2009.

  
\_\_\_\_\_  
Douglas Webber  
Acting Insurance Commissioner

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

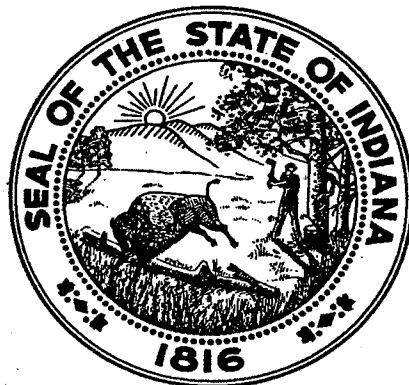
**OF**

**ANTHEM INSURANCE COMPANIES, INC.**

NAIC Co. CODE 28207

As of

December 31, 2008



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# STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

# IDOI

**INDIANA DEPARTMENT OF INSURANCE**  
311 W. WASHINGTON STREET, SUITE 300  
INDIANAPOLIS, INDIANA 46204-2787  
TELEPHONE: (317) 232-2385  
FAX: (317) 232-5251

CAROL CUTTER, Commissioner

May 10, 2010

Honorable Alfred W. Gross  
Chairman, Financial Condition (E) Committee, NAIC  
Commissioner of Insurance  
Commonwealth of Virginia  
1300 East Main Street  
Richmond, Virginia 23219

Honorable Douglas Webber  
Acting Commissioner  
Indiana Department of Insurance  
311 W. Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioners:

Pursuant to the authority vested in Appointment Number 3575, an examination has been made of the affairs and financial condition of:

**Anthem Insurance Companies, Inc.**  
**120 Monument Circle**  
**Indianapolis, Indiana 46204**

hereinafter referred to as the "Company," an Indiana domestic, stock, health insurance company. The examination was conducted at WellPoint, Inc. corporate offices in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

CONSUMER SERVICES  
(317) 232-2395  
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES  
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MEDICAL MALPRACTICE  
(317) 232-2402

SECURITIES / COMPANY RECORDS  
(317) 232-1991

## SCOPE OF EXAMINATION

The Company was last examined by representatives of Noble Consulting Services, Inc. (Noble) as of the period ending December 31, 2004. The present examination was conducted by Noble and covered the period from January 1, 2005 through December 31, 2008 and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Merlinos & Associates, Inc. was appointed by the Indiana Department of Insurance (IDOI) and conducted a review of the Company's statutory reserves as of December 31, 2008. There were no actuarial adjustments or recommendations resulting from the review performed by Merlinos & Associates, Inc.

We conducted our risk-focused examination pursuant to and in accordance with the 2009 NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The working papers prepared by Ernst and Young, LLP; the Company's auditors, in their audit of the Company's accounts for the years ended December 31, 2008 were reviewed. A portion of the auditor's working papers have been incorporated into the working papers of the examiners and have been utilized for the purposes of this examination in accordance with the provisions contained in the Handbook.

## HISTORY

The Company was incorporated on May 22, 1944, under the name Mutual Hospital Insurance, Inc. (MHII). On June 20, 1985, Mutual Medical Insurance, Inc., merged into MHII with MHII being the survivor and taking the name Associated Insurance Companies, Inc. (Associated Insurance Companies). On March 28, 1996, Associated Insurance Companies changed its name to its present title.

On November 2, 2001, the Company converted from a mutual insurance company to a stock insurance company in accordance with IC 27-15-1-1 *et seq.*, the Indiana Demutualization Law, under a plan of conversion approved by its Board of Directors on June 18, 2001, by the Commissioner of the Indiana Department of Insurance on October 25, 2001, and by the Company's statutory members on October 29, 2001. As part of the conversion, the Company became a wholly-owned subsidiary of Anthem, Inc. (Anthem) a new Indiana stock corporation created for the purpose of being the public holding company for the Anthem family of companies.

On October 27, 2003, Anthem and WellPoint Health Networks, Inc. (WHN) announced that they had entered into a definitive agreement and plan of merger. On November 30, 2004, Anthem and WHN completed their merger. As a result of the merger, the Company became a subsidiary of WellPoint, Inc. (WellPoint). WellPoint is the largest publicly traded commercial health benefits company in terms of membership in the United States.

In 2006, the Company developed and executed a restructuring plan to simplify the ownership structure of

the Company and its' subsidiaries. The primary objective of the plan was to transfer ownership of certain indirect wholly-owned insurance and non-insurance subsidiaries of the Company to another intermediate of the WellPoint holding company and for the Company to assume direct ownership of certain other indirect wholly-owned non-insurance subsidiaries.

On December 27, 2006, as a part of the restructuring plan, 100% of the outstanding capital stock of Arison Insurance Services, Inc. (Arison), OneNation Benefit Administrators, Inc., and National Government Services, Inc. were contributed to the Company via a dividend from Anthem Midwest, LLC (Anthem Midwest), a subsidiary of the Company.

On December 28, 2006, as part of the restructuring plan, the Company's three limited liability company subsidiaries, Anthem East, LLC (Anthem East), Anthem Midwest and Anthem West, LLC (Anthem West) merged with ATH Holding Company, LLC (ATH Holding). ATH Holding was the surviving entity. The merger terminated the Company's ownership of the subsidiaries and indirect ownership of the following regulated insurance companies: Anthem Health Plans of Kentucky, Inc., Anthem Health Plans of Maine, Inc., Anthem Health Plans of New Hampshire, Inc., Anthem Health Plans, Inc., Anthem Life Insurance Company, Community Insurance Company, OneNation Insurance Company, and Rocky Mountain Hospital and Medical Services, Inc.

On June 30, 2008, the Company sold its' ownership of 1,000 shares of common stock of Arison to Arison Holdings, Inc. an unaffiliated Kentucky corporation.

As of December 31, 2008, the Company is wholly-owned by WellPoint and has three wholly-owned subsidiaries: National Government Services, Inc., OneNation Benefit Administrators, Inc., and Associated Group, Inc. Associated Group, Inc. has two wholly-owned subsidiaries: Anthem Financial, Inc. and Lease Partners, Inc.

### CAPITAL AND SURPLUS

As of December 31, 2008, the Company had 100,000,000 shares of common stock authorized with a par value of \$1 per share, of which all shares were issued and outstanding. See the table below for the extraordinary dividends paid to WellPoint during the examination period.

<u>Year</u>	<u>Dividends Paid</u>
2008	\$ 250,000,000
2007	\$ 780,000,000
2006	\$ -
2005	\$ 430,000,000

As of December 31, 2008, the Company has two issued surplus notes outstanding. These two notes have a total par value of \$67.1 million and interest rates of 9.00% and 9.125%. Any payment of interest and repayment of principal may be paid only out of the Company's earnings, subject to approval by the IDOI. During the examination period, \$477,129,722 has been paid in principal and interest.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business in thirty-six states. The Company is licensed as both a property and casualty insurance company and a health maintenance organization (HMO) in the



State of Indiana. The Company primarily offers traditional indemnity products and a diversified mix of managed care products, including HMO, preferred provider organization (PPO) and point-of-service (POS) plans. The Company also offers other hybrid plans including consumer-driven health plans (CDHP's), these include but are not limited to health savings plans (Lumenos) and consumer wellness programs (360 Health). The Company also provides a limited volume of supplemental products such as prescription drugs, disability, vision, and dental coverage. The Company was one of three companies awarded a four (4) year contract from the Office of Medicaid and Policy Planning (OMPP) for Indiana Medicaid business, which is effective January 1, 2007 through December 2010.

- Traditional Indemnity – A traditional indemnity plan is a “fee-for-service” plan that does not utilize a network and allows members to see any provider. This type of plan does not offer the cost controls of a managed care plan.
- Preferred Provider Organization – A preferred provider organization is a managed care plan that offers the most freedom in selecting providers. Members save money when they use network providers, but they may go out of the network by sharing more of the cost.
- Point-of-Service – A point-of-service product is a managed care plan that offers some flexibility in choosing providers. Members save money when their primary care providers (PCP) coordinate care, but they may visit any provider by sharing more of the cost.
- Health Maintenance Organization – A health maintenance organization offers the most cost control because it uses a select provider network.

The Company underwrites and markets a comprehensive range of health care benefit plan products and services to individuals and group accounts. The Company operates as a licensee of the Blue Cross Blue Shield Association. Health coverage marketed include, traditional hospital; surgical and medical insurance; managed care networks; preferred provider organizations, point of service products and administrative services for self-insured groups.

The Company distributes its products through various mediums such as business partnerships, call centers, captive sales agents, brokers, and many other distribution channels. Group health products are generally offered under a cafeteria plan with employer selected options. These products are marketed and priced based on the benefits being offered. The Company also provides coverage to large automotive employers; participates in the Federal Employee Health Benefits Program, services national account business under contract with Blue Cross Blue Shield organizations from other states, and processes claim payments under the government’s Medicare Advantage, Medicare Part D, Medicare Supplement, and Durable Medical Equipment Resource Center (DMERC).

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Total Revenue</u>	<u>Net Income (Loss)</u>
2008	\$2,204,027,435	\$1,731,851,961	\$472,175,474	\$4,909,830,480	\$318,438,578
2007	1,897,357,699	1,338,197,483	559,160,215	4,023,412,795	359,654,971
2006	2,229,756,168	1,502,902,545	726,853,623	3,311,669,450	855,236,175
2005	4,371,510,945	1,406,777,664	2,964,733,281	2,618,765,714	706,491,897

Admitted assets have decreased during the examination period due primarily to the merger of Anthem East, Anthem Midwest, and Anthem West, into ATH Holding. As a result of the merger, the subsidiaries are no longer reported as other invested assets.

Capital and surplus decreased by approximately \$2.3 billion during the examination period related to the merger of Anthem East, Anthem Midwest, and Anthem West, into ATH Holding. The merger terminated the Company's ownership in these entities and indirect subsidiaries resulting in a reduction of the Company's statutory capital and surplus by approximately \$2.7 billion.

Net premium income increased in part to Medicare products (Medicare Advantage and Part D) introduced during the examination period. These products resulted in membership enrollment and premium increases. Also the increase was due to the growth in comprehensive hospital and medical and the Federal Employee Health Benefit premiums.

Net income decreased during the examination period due mainly to the twenty-five percent (25%) increase in total hospital and medical expenses from 2007 to 2008. Net investment income decreased in 2007 compared to 2006 due to the decrease in dividends received from the subsidiaries due to the merger of subsidiaries to ATH Holding.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the number of Directors must be set by the Articles of Incorporation. The majority of the Directors shall at all times be public members. The Directors are elected on an annual basis with one-third, respectively, terminating after each annual meeting. The Articles of Incorporation provide that the business affairs of the Company are to be managed by a Board of Directors consisting of not less than five (5) and no more than nineteen (19) persons. The shareholders, at the annual meeting, elect the members of the Board of Directors. The following is a listing of persons serving as Directors at December 31, 2008 and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Robert Wade Hillman Fishers, Indiana	President, Chairperson and Chief Executive Officer Anthem Insurance Companies, Inc.
Wayne Scott DeVeydt Indianapolis, Indiana	Executive Vice President and Chief Financial Officer WellPoint, Inc.
John Cannon III Carmel, Indiana	Executive Vice President and General Counsel WellPoint, Inc.
Nancy Louise Purcell Carmel, Indiana	Vice President and Corporate Secretary WellPoint, Inc.
Carter Allen Beck Manchester, New Hampshire	Vice President and Counsel WellPoint, Inc.

Officers

The Company's Bylaws state the officers of the Company, who shall be chosen by the Board of Directors, shall consist of a Chairman of the Board, the Executive Officer, the President, the Secretary, and the Treasurer. Any two (2) or more offices may be held by the same person, except the person holding the office of Secretary shall not hold the office of Chairman, Chief Executive Officer, or President. The Chief Executive Officer shall have the authority to appoint administrative officers such as, Vice Presidents, Assistant Secretaries, and Assistant Treasurers, to perform such duties and functions as prescribed and approved by the Chief Executive Officer. The following is a list of key officers and their respective titles as of December 31, 2008:

<u>Name</u>	<u>Office</u>
Robert Wade Hillman	President, Chairperson and Chief Executive Officer
Robert David Krestchmer	Treasurer
Nancy Louise Purcell	Secretary
Raymond Lee Umstead, Jr.	Assistant Secretary
John Cannon III	Executive Vice President and General Counsel
Wayne Scott DeVeydt	Executive Vice President and Chief Financial Officer

**CONFLICT OF INTEREST**

Officers and Directors are required to review and sign Conflict of Interest statements annually. It was determined that officers and Directors listed in the management and control section of this report have reviewed and signed their statements as of year-end 2008.

**OATH OF OFFICE**

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each Director signed an Oath of Office statement in 2008.

**CORPORATE RECORDS**

Articles of Incorporation and Bylaws

There were no amendments made to the Articles of Incorporation or the Bylaws during the examination period.

Minutes

The Board of Directors, Pension Committee, and Sole Shareholder meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

**AFFILIATED COMPANIES**

Organizational Structure

The following organization chart shows the upstream affiliate and its wholly-owned subsidiaries:

	<u>NAIC Co.</u>	<u>Domiciliary</u>
	<u>Code</u>	<u>State</u>
WellPoint, Inc.		IN
<b>Anthem Insurance Companies, Inc.*</b>	<b>28207</b>	IN
National Government Services, Inc.		IN
OneNation Benefit Administrators, Inc.		OH
Associated Group, Inc.		IN
Anthem Financial, Inc.@		DE
Lease Partners, Inc.@		DE

\* Denotes Insurer

@ Denotes Company which is affiliated, but not owned

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed as required with the IDOI, in accordance with IC 27-1-23-4.

Master Administrative Services Agreement

Effective January 1, 2005, the Company entered into an Amended and Restated Master Administrative Services Agreement with WHN and other affiliates. Under the agreement, each company provides certain administrative, consulting, and other support services for the benefit/use of the other affiliated companies. The costs and expenses related to these administrative management and support services are allocated by the company in an amount equal to the direct and indirect costs and expenses incurred in providing these services. The Company paid \$334,505,273 in 2008.

Cash Concentration Agreement

Effective November 20, 2007, the Company entered into the WellPoint Cash Concentration Agreement. Under this agreement, any of the Company's affiliates may be designated as a cash manager to handle the collection and /or payment of funds on behalf of the Company. Conversely, the Company may be designated as a cash manager to handle the collection and/or payment of funds on behalf of its affiliates. Cash services covered under this agreement include the collection of premiums and other revenue, the collection of benefit and administrative expense reimbursements, the payment of policy benefits, payroll expense, general and administrative expense, and accounts payable disbursements. At December 31,

2008, the Company had an estimated net receivable of \$50,343,710.

#### Consolidated Federal Income Tax Agreement

The Company entered into a Consolidated Federal Income Tax Agreement with WellPoint effective December 31, 2005. Allocation of federal income taxes is based upon separate return calculations with credit for net losses that can be used on a consolidated basis, and is recorded as part of the federal income tax receivable or payable. Federal income tax balances are settled based on the Internal Revenue Service due dates.

#### Lease Agreement

Effective January 1, 2001, the Company entered into a Lease Agreement with Community Insurance Company (CIC). Under this agreement, the Company leases furniture and equipment from CIC used in Indiana. During 2008, the Company paid CIC \$1,231,363.

#### Pharmaceutical Service Agreement

Effective January 1, 2000, the Company entered into a Pharmaceutical Service Agreement with Anthem Prescription Management, LLC, now known as NextRx, LLC (NextRx). Under this agreement, NextRx provides prescription drug benefits management services to the Company. NextRx, directly or through its designee, provides claims payment services, cost-containment services, quality assurance services, and administrative services, pharmacy benefit group recovery services, delegates services, and Medicare Advantage and Medicare Part D related services for prescription drug programs underwritten or administered by the Company. The basis for compensation paid to NextRx is an administrative fee paid for each prescription claim serviced, plus other fees for specific services such as identification card reissues, paper and direct claims handling, drug utilization review, and software programming, all as prescribed in the Agreement. During 2008, the Company paid \$14,004,644 pursuant to the Pharmaceutical Service Agreement.

#### Employee Benefits

The Company participates in the WellPoint Cash Balance Pension Plan (the Plan), a frozen non-contributory defined benefit pension plan sponsored by ATH Holding covering most employees of WellPoint and its subsidiaries. ATH Holding allocates a share of the total accumulated costs of the Plan to the Company based on the number of allocated employees. During 2008 these costs totaled \$(2,213,252). The Company has no legal obligation for the benefits under this plan. Prior to December 31, 2007, the Company sponsored the Plan.

The Company participates in a postretirement medical benefit plan, sponsored by ATH Holding, providing certain health, life, vision, and dental benefits to eligible retirees. ATH Holding allocates a share of the total accumulated costs of this benefit to the Company based on the number of allocated employees. During 2008, these costs totaled \$2,112,807. The Company has no legal obligation for the benefits under this plan.

The Company participates in various deferred compensation plans sponsored by WellPoint which covers certain employees. The deferred accounts are payable according to the terms and subject to the conditions of said deferred compensation agreements. WellPoint allocates a share of the total accumulated costs of this plan to the Company based on the number of allocated employees participating in the plan. During 2008, these costs totaled \$727,360. The Company has no legal obligation for the benefits under this plan.

The Company participates in the WellPoint 401(K) Retirement Savings Plan, sponsored by ATH Holding, covering substantially all employees. Voluntary employee contributions are matched by ATH Holding subject to certain limitations. ATH Holding allocates a share of the total accumulated costs of the plan to the Company based on the number of allocated employees. During 2008, these costs approximated \$7,266,671. The Company has no legal obligation for benefits under this plan.

Reinsurance Agreements

See the “Reinsurance” section of this Report of Examination for affiliated reinsurance agreements.

**FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Federal Insurance Company (Chubb Group of Insurance Companies). The bond has blanket coverage of \$10,000,000 with a \$1,500,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by NAIC.

The Company had additional types of coverage in-force at December 31, 2008 including, but not limited to, auto, commercial property, Directors & officers liability, managed care professional liability, fiduciary, umbrella, general liability, and workers’ compensation.

**STATUTORY AND SPECIAL DEPOSITS**

The Company reported the following statutory deposits at December 31, 2008:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Georgia	\$ 30,015	\$ 31,460
Indiana	5,179,363	5,339,938
Louisiana	50,010	50,693
Nevada	278,281	278,673
New Hampshire	501,433	520,783
New Mexico	255,694	258,508
North Carolina	550,105	557,626
Virginia	233,885	241,690
Total Deposits	<u>\$ 7,078,786</u>	<u>\$ 7,279,371</u>

**REINSURANCE**

Reinsurance Assumed

During the current examination period, the Company entered into a 100% co-insurance agreement with Blue Cross Blue Shield Kansas (BCBS KS) effective August 15, 2005. Pursuant to this agreement the Company assumed all financial liability associated with BCBS KS’s Prescription Drug Program Contract

for Prescription Drug Plans offered in Part D Service Area designated by Centers for Medicare and Medicaid Services (CMS) that includes the state of Kansas for an access fee per member. In 2008, this contract accounted for premiums assumed from BCBS KS totaling \$42.8 million.

In addition, the Company reported a total of \$1 million premiums assumed from Anthem Life Insurance Company (ALIC) under an agreement in effect since 1993. Pursuant to this agreement, the Company assumed 100% of the risk for health insurance business written or assumed by ALIC.

The Company reported no other reinsurance assumed in their 2008 Annual Statement.

#### Reinsurance Ceded

The Company reported no significant reinsurance ceded in their 2008 Annual Statement.

### RESERVES

Cheryl G. Allari, FSA, MAAA, Vice President and Valuation Actuary, for the Company was appointed by the Board of Directors on March 1, 2008 to render an opinion on the statutory-basis loss reserves and loss adjustment expense reserves for the year ended December 31, 2008. Tim P. Deno, FSA, MAAA, provided the opinion for 2007 and 2006. Cynthia S. Miller, FSA, MAAA, provided the opinion for 2005.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves, actuarial liabilities and related items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials as of December 31, 2008. In forming the opinion, information prepared by the Company was relied upon. In all other respects, the examination included such review of the actuarial assumptions and methods used and of the underlying basic records and/or summaries and such tests of the calculations as considered necessary.

The 2008 opinion stated that the balances of reserves and related actuarial values 1) are in accordance with accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles; 2) are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared; 3) meet the requirements of the laws of the state of Indiana; 4) make a good and sufficient provisions for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements; 5) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end; and 6) include appropriate provisions for all actuarial items that ought to be established.

During the examination, it was determined that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared from the Company's general ledger for the years ended December 31, 2007 and 2008 were reconciled to the respective Annual Statements. The Annual Statements for the years ended December 31, 2005 through December 31, 2008 were reconciled to each year's independent audit report with no material exceptions noted.

**ANTHEM INSURANCE COMPANIES, INC.**

**FINANCIAL STATEMENTS**

**Assets**

	As of December 31, 2008			
	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Assets:</b>				
Bonds	\$ 716,467,262	\$ -	\$ 716,467,262	\$ 698,000,998
Stocks:				
Preferred stocks	26,395,633	-	26,395,633	17,756,867
Common stocks	99,139,148	-	99,139,148	128,482,606
Real estate:				
Properties occupied by the company	398,804	-	398,804	410,349
Cash, cash equivalents and short-term investments	(100,395,534)	-	(100,395,534)	(12,804,702)
Other invested assets	99,293,321	-	99,293,321	83,292,727
Receivables for securities	391,260	-	391,260	1,391,915
Subtotals, cash and invested assets	\$ 841,689,894	\$ -	\$ 841,689,894	\$ 916,530,760
Investment income due and accrued	9,072,410	-	9,072,410	7,382,611
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	95,762,333	-	95,762,333	73,972,801
Deferred premiums, agents' balances and installments booked but deferred and not yet due	188,957,000	-	188,957,000	129,414,000
Accrued retrospective premiums	-	-	-	8,685,147
Reinsurance:				
Amounts recoverable from reinsurers	146,720	-	146,720	11,126
Amounts receivable relating to uninsured plans	200,260,895	-	200,260,895	213,036,024
Current federal and foreign income tax recoverable and interest thereon	44,826,392	-	44,826,392	26,700,000
Net deferred tax asset	64,740,937	-	64,740,937	33,778,070
Electronic data processing equipment and software	11,645,927	-	11,645,927	12,764,627
Receivables from parent, subsidiaries and affiliates	406,013,588	-	406,013,588	216,394,637
Health care and other amounts receivable	187,813,658	-	187,813,658	105,792,474
Aggregate write-ins for other than invested assets	153,097,680	-	153,097,680	152,895,422
<b>Total assets</b>	<b>\$ 2,204,027,434</b>	<b>\$ -</b>	<b>\$ 2,204,027,434</b>	<b>\$ 1,897,357,699</b>



**ANTHEM INSURANCE COMPANIES, INC.**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Exam Adjustments	Per Examination	
<b>Liabilities:</b>				
Claims unpaid	\$ 564,419,349	\$ -	\$ 564,419,349	\$ 396,043,834
Accrued medical incentive pool and bonus amounts	48,244	-	48,244	1,713
Unpaid claims adjustment expenses	21,119,437	-	21,119,437	15,876,538
Aggregate health policy reserves	321,026,266	-	321,026,266	266,303,215
Aggregate health claim reserves	7,043,851	-	7,043,851	8,362,619
Premiums received in advance	29,751,076	-	29,751,076	31,568,346
General expenses due or accrued	144,570,958	-	144,570,958	230,783,979
Current federal and foreign income tax payable and interest thereon	-	-	-	20,370,322
Ceded reinsurance premiums payable	19,684	-	19,684	-
Amount withheld or retained by the account of others	18,590,646	-	18,590,646	18,824,158
Remittances and items not allocated	55,673,897	-	55,673,897	40,543,499
Borrowed money and interest thereon	98,037,894	-	98,037,894	-
Amounts due to parent, subsidiaries and affiliates	387,812,203	-	387,812,203	234,793,043
Payable for securities	1,803,979	-	1,803,979	3,002,625
Liability for amounts held under uninsured plans	33,390,164	-	33,390,164	30,948,112
Aggregate write-ins for liabilities	48,544,313	-	48,544,313	40,775,480
<b>Total liabilities</b>	<b>\$ 1,731,851,961</b>	<b>\$ -</b>	<b>\$ 1,731,851,961</b>	<b>\$ 1,338,197,483</b>
Common capital stock	\$ 100,000,000	\$ -	\$ 100,000,000	\$ 100,000,000
Gross paid in and contributed surplus	305,045,474	-	305,045,474	392,030,215
Surplus notes	67,130,000	-	67,130,000	67,130,001
<b>Total capital and surplus</b>	<b>\$ 472,175,474</b>	<b>\$ -</b>	<b>\$ 472,175,474</b>	<b>\$ 559,160,216</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 2,204,027,435</b>	<b>\$ -</b>	<b>\$ 2,204,027,435</b>	<b>\$ 1,897,357,699</b>

**ANTHEM INSURANCE COMPANIES, INC.**

**FINANCIAL STATEMENTS**

**Statement of Revenue and Expenses**

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Exam Adjustments	Per Examination	
Member months	25,929,425		25,929,425	24,837,089
Net premium income	\$ 4,941,490,494	\$ -	\$ 4,941,490,494	\$ 4,062,040,608
Change in unearned premium reserves and reserve for rate credits	(31,794,099)	-	(31,794,099)	(36,748,923)
Aggregate write-ins for other health care related revenues	62,251	-	62,251	-
Aggregate write-ins for other non-health revenues	71,834	-	71,834	(1,878,890)
<b>Total revenues</b>	<b>\$ 4,909,830,480</b>	<b>\$ -</b>	<b>\$ 4,909,830,480</b>	<b>\$ 4,023,412,795</b>
<b>Hospital and medical:</b>				
Hospital/medical benefits	\$ 2,670,378,670	\$ -	\$ 2,670,378,670	\$ 1,968,470,655
Other professional services	246,630,146	-	246,630,146	218,761,888
Emergency room and out-of-area	27,520,515	-	27,520,515	23,420,279
Prescription drugs	1,284,912,861	-	1,284,912,861	1,161,719,947
Incentive pool, withhold adjustments and bonus amounts	69,044	-	69,044	5,039
<b>Subtotal</b>	<b>\$ 4,229,511,236</b>	<b>\$ -</b>	<b>\$ 4,229,511,236</b>	<b>\$ 3,372,377,808</b>
<b>Less:</b>				
Net reinsurance recoveries	(37,309,513)	-	(37,309,513)	(34,892,073)
<b>Total hospital and medical</b>	<b>\$ 4,266,820,749</b>	<b>\$ -</b>	<b>\$ 4,266,820,749</b>	<b>\$ 3,407,269,881</b>
Claims adjustment expenses	73,086,865	-	73,086,865	74,403,586
General administrative expenses	214,402,691	-	214,402,691	175,540,937
Increase in reserves for life and accident and health contracts	37,177,053	-	37,177,053	(1,234,000)
<b>Total underwriting deductions</b>	<b>\$ 4,591,487,358</b>	<b>\$ -</b>	<b>\$ 4,591,487,358</b>	<b>\$ 3,655,980,404</b>
<b>Net underwriting gain or (Loss)</b>	<b>\$ 318,343,122</b>	<b>\$ -</b>	<b>\$ 318,343,122</b>	<b>\$ 367,432,391</b>
Net investment income earned	\$ 57,806,267	\$ -	\$ 57,806,267	\$ 51,216,154
Net realized capital gains or (losses)	(5,626,406)	-	(5,626,406)	42,895,616
<b>Net investment gains or (losses)</b>	<b>\$ 52,179,861</b>	<b>\$ -</b>	<b>\$ 52,179,861</b>	<b>\$ 94,111,770</b>
Net gain or (loss) from agent's or premium balances charged off	\$ (97,083)	\$ -	\$ (97,083)	\$ (123,028)
Aggregate write-ins for other income or expenses	(3,727,342)	-	(3,727,342)	535,763
Net income or (loss) after capital gains tax and before all other federal income taxes	\$ 366,698,558	\$ -	\$ 366,698,558	\$ 461,956,896
Federal and foreign income taxes incurred	48,259,980	-	48,259,980	102,301,925
<b>Net income</b>	<b>\$ 318,438,578</b>	<b>\$ -</b>	<b>\$ 318,438,578</b>	<b>\$ 359,654,971</b>
<b>Capital and surplus account:</b>				
Capital and surplus prior reporting period	\$ 559,160,216	\$ -	\$ 559,160,216	\$ 726,853,623
Net income	318,438,578	-	318,438,578	359,654,971
Change in net unrealized capital gains (losses)	(80,683,491)	-	(80,683,491)	(47,791,542)
Change in net deferred income tax	31,986,468	-	31,986,468	111,654,178
Change in nonadmitted assets	(95,026,297)	-	(95,026,297)	309,421,262
Capital changes:				
Paid in	-	-	-	(128,124,106)
Surplus adjustments:				
Paid in	-	-	-	2,355,063
Dividends to stockholders	(250,000,000)	-	(250,000,000)	(780,000,000)
Aggregate write-ins for gains or (losses) in surplus	(11,700,000)	-	(11,700,000)	5,136,767
<b>Net change in capital and surplus</b>	<b>\$ (86,984,743)</b>	<b>\$ -</b>	<b>\$ (86,984,742)</b>	<b>\$ (167,693,406)</b>
<b>Capital and surplus end of reporting period</b>	<b>\$ 472,175,473</b>	<b>\$ -</b>	<b>\$ 472,175,474</b>	<b>\$ 559,160,216</b>

## **COMMENTS ON THE FINANCIAL STATEMENTS**

There were no recommended adjustments to surplus as of December 31, 2008 based on the results of this examination.

### **SUBSEQUENT EVENTS**

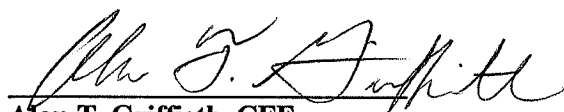
On January 12, 2009, the CMS imposed intermediate sanctions on WellPoint, thereby suspending WellPoint's marketing and enrollment activities for all WellPoint contracts. On September 9, 2009, CMS had determined WellPoint had made sufficient progress in correcting deficiencies to merit lifting the marketing and enrollment sanctions. Effective October 1, 2009, WellPoint may begin marketing and on November 15, 2009, may begin enrolling beneficiaries for the 2010 contract year. In addition, CMS will be periodically asking WellPoint for specific data to provide CMS with assurance that the deficiencies that were the basis for CMS' decision to impose intermediate sanctions do not recur.

### **MANAGEMENT REPRESENTATION**

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

## CONCLUSION

The preceding report of examination of **Anthem Insurance Companies, Inc.** as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, Michael P. Dinius, CPA, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of **Anthem Insurance Companies, Inc.**



**Alan T. Griffith, CFE**  
**Examinations Manager**  
**Indiana Department of Insurance**