



BlueCross BlueShield of Vermont

An Independent Licensee of the Blue Cross and Blue Shield Association.

February 27, 2018

Kevin Mullin, Chair
Jessica Holmes, Ph.D.
Robin Lunge, J.D., MHCDS
Tom Pelham
Maureen Usifer
Green Mountain Care Board
144 State Street
Montpelier, VT 05602

Re: Anticipated Federal Tax Changes

Dear Members of the Green Mountain Care Board,

We are writing to inform you of the anticipated, positive, impact on Blue Cross and Blue Shield of Vermont (BCBSVT) and its members as a result of the elimination of the corporate alternative minimum tax (AMT) in the federal 2017 Tax Cuts and Jobs Act. Since we became aware of the change, we have been working with our external accounting firm KPMG to estimate the fiscal impact and determine the appropriate reporting requirements resulting from the federal tax legislation. BCBSVT intends that the benefit from these tax changes will be shared with our members through slightly lower costs included in annual premiums and mitigating future rate increases.

The elimination of the federal corporate AMT had two distinct aspects for BCBSVT. First, the BCBSVT legal entity's federal income tax obligation is anticipated to be zero beginning in 2018. BCBSVT has been responsible for federal corporate income tax since 1987 when a federal change that applies only to Blue Cross and Blue Shield organizations in combination with the AMT resulted in a tax liability in most years. The elimination of the federal tax obligation will positively impact BCBSVT members and consumers through lower premiums beginning next year. This is estimated to be just under 1% of insured premiums annually, or approximately 2-3 million per year.

Secondly, BCBSVT is anticipated to receive a significant, unanticipated federal tax refund over several years, beginning in late 2019. Under the previous tax system, BCBSVT owed federal alternative minimum tax but was able to accrue an AMT credit due to a special provision for Blue Cross and Blue Shield organizations whose surplus does not exceed 25% of annual claims and administrative expenses. The AMT credit amount has been reported in BCBSVT's annual Consolidated Financial Statements, but because of the company's tax situation, was always considered an unrecoverable asset.

The total balance of the AMT credit due to BCBSVT is estimated to be approximately \$30 million. The federal tax changes require a portion of the AMT credit to be realized over a 4-year period, beginning in late 2019. In each tax year, the amount of tax refund is limited to half of the remaining AMT credit balance. The current estimates for the tax refund are \$16.6 million in 2019; \$7.9 million in 2020; \$3.6 million in 2021 and \$2.8 million in 2022. The federal tax refund, when realized, will be dedicated to mitigate future premium increases for all BCBSVT members.

The passage of the Tax Cuts and Jobs Act in 2017 requires that this change be reflected in the BCBSVT 2017 financial statements, yet the impacts on risk based capital (RBC) will not be realized until funds are received. BCBSVT has requested a "permitted practice" from the Department of Financial Regulation (DFR) to admit the tax refund receivable into surplus as the funds are received. Finally, we should note that there is no change in the state tax status of BCBSVT due to the federal changes and BCBSVT's for-profit affiliates will continue to pay federal and state corporate income taxes.

Sincerely,



Don C. George
President & CEO



Ruth Greene
VP, Treasurer & CFO

cc: Susan Barrett, Executive Director, GMCB
Michael Pieciak, Commissioner, Department of Financial Regulation