

**PLAN OF OPERATIONS FOR THE
VERMONT DEPARTMENT OF FINANCIAL REGULATION**

IN CONNECTION WITH THE LICENSING OF VERMONT BLUE ADVANTAGE

This submission supports the organizational and licensing filings for VERMONT BLUE ADVANTAGE (the “Applicant”), a Vermont insurance company, with the Vermont Department of Financial Regulation (“DFR”). This submission includes proprietary information, including trade secrets, which if disclosed could cause severe competitive injury to the Applicant. Accordingly, the Applicant hereby requests confidential treatment be afforded to the Applicant with respect to this filing (the “Application”) pursuant to 8 V.S.A. § 3574(d)(4) and 1 V.S.A. §§ 317(c)(7) and 317(c)(9).

I. OVERVIEW OF ORGANIZATION

The Applicant seeks to be organized as a stock insurance company and obtain a certificate of authority as a health insurer to write Medicare Advantage (“MA”) business in the State of Vermont. A draft copy of the Applicant’s articles of incorporation (the “Articles”), which will be filed with the Vermont Secretary of State after DFR issues a Certificate of General Good (a “CGG”) to the Applicant, are attached hereto as **Exhibit A**. Following the approval of the Applicant’s articles of incorporation by the Vermont Secretary of State and DFR, Vermont Blue Advantage, LLC, a Delaware limited liability company (“VBA LLC”), will subscribe for all of the issued and outstanding shares of capital stock of the Applicant pursuant to the terms and subject to the conditions of a subscription agreement, substantially in the form attached hereto as **Exhibit B** (the “Subscription Agreement”). As a result of the consummation of the transactions contemplated by the Subscription Agreement, the Applicant will become a wholly-owned subsidiary of VBA LLC. The Applicant’s proposed bylaws (which will also be finalized and adopted after the Applicant files the Articles), a copy of which is attached hereto as **Exhibit C**, contain provisions relating to the management and governance of the business affairs of the Applicant. The Applicant’s home office will be located in Berlin, Vermont.

Covantage Health Partners, a Michigan corporation (“CHP”) and Blue Cross and Blue Shield of Vermont, a Vermont nonprofit hospital and medical service corporation (“BCBSVT”) will be the sole members of VBA LLC. CHP will own a fifty-one percent (51%) membership interest in VBA LLC, while BCBSVT will own the remaining forty-nine percent (49%) membership interest. The ultimate beneficial owner of CHP is Blue Cross Blue Shield of Michigan Mutual Insurance Company, a Michigan nonprofit mutual insurance company (“BCBSM”), because CHP is a wholly-owned subsidiary of Emergent Holdings, Inc., a Michigan corporation (“EH”), and EH is a wholly-owned subsidiary of BCBSM. The rights, duties and obligations of CHP and BCBSVT, as the members of VBA LLC, including the provisions relating to the management and governance of VBA LLC, are set forth in a limited liability company operating agreement that will be entered into by CHP, BCBSVT and VBA LLC. An organizational chart reflecting the ownership structure of CHP is attached hereto as **Exhibit D**. An organizational chart reflecting the ownership structure of BCBSVT is attached hereto as **Exhibit E**.

The Applicant will seek to enter into contracts with the Centers for Medicare and Medicaid Services (“CMS”) to sponsor and administer Medicare Advantage (MA) and Medicare Advantage

with Prescription Drug Coverage (MA-PD) (“MA Part C”) plans. The Applicant will also enter into a licensing arrangement (the “License Agreement”) with the Blue Cross Blue Shield Association (the “BCBSA”) and procure any other approvals from the BCBSA that are necessary to enable the Applicant to market, sell and write MA Part C plans in the State of Vermont using the “Blue Cross and Blue Shield” tradenames and marks. The Applicant will market, sell and write preferred provider organization (“PPO”) and health maintenance organization (“HMO”) MA plans in the State of Vermont.

As described in more detail below, BCBSM and its affiliates will render certain administrative services to the Applicant pursuant to the Services Agreement (as hereinafter defined). BCBSM and its affiliates market, sell, write and administer affordable, compliant and high-quality MA plans to Medicare-eligible residents in the State of Michigan. This is reflected in the overall “star rating” that BCBSM receives from CMS for its MA Part C. For example, BCBSM received a four (4) star rating from CSM in 2019 for both its “Medicare Plus Blue PPO” (Part C) plan and its “Prescription Blue PDP” (Part D) plan.

Following the execution of the License Agreement, the Applicant will be able to rely on BCBSVT’s superior brand recognition in the State of Vermont by utilizing its “Blue Cross and Blue Shield” tradenames and marks when marketing and selling MA Part C plans. The Applicant will also leverage BCBSVT’s knowledge of local Vermont market conditions and BCBSVT’s professional, facility and pharmacy networks in order to facilitate the provision of affordable, high-quality healthcare to Medicare-eligible residents of the State of Vermont.

II. INITIAL CAPITALIZATION AND RISK-BASED CAPITAL LEVELS

The initial capitalization of the Applicant will occur in two phases, with the Applicant receiving the statutorily-required funds in phase one. In phase one, a capital contribution in the aggregate amount of five million dollars (\$5,000,000) (two million (\$2,000,000) with respect to capital stock and three million (\$3,000,000) in paid-in surplus) shall be made to VBA LLC by CHP and BCBSVT, *pro rata* based on their ownership interests in VBA LLC. Upon receipt of the phase one capital contribution, VBA LLC will immediately contribute the amount of such capital contribution to the Applicant for purposes of obtaining a certificate of authority from DFR. In phase two, capital contributions in support of implementation costs and start-up operations in the aggregate amount of seven million, nine hundred fifty-eight thousand, six hundred fifty-four dollars (\$7,958,654) shall be made to VBA LLC by CHP and BCBSVT, *pro rata* based on their ownership interests in VBA LLC. Upon receipt of the phase two capital contributions, VBA LLC will immediately contribute the amount of such capital contribution to the Applicant to ensure adequate capitalization of the Applicant to support its internal operations at an appropriate level. To the extent that the Applicant determines that it requires additional capital following its initial capitalization, the board of managers of VBA LLC will make additional capital calls, and CHP and BCBSVT will be required to contribute capital or lend funds to VBA LLC *pro rata* based on their ownership interests in VBA LLC to satisfy such capital calls, and in turn, VBA LLC will contribute such funds to the Applicant. Oversight requirements for ensuring the adequate capitalization of the Applicant are intended to be incorporated into the operating agreement that will be entered into by CHP, BCBSVT and VBA LLC.

The Applicant’s risk-based capital (“RBC”) ratios will remain above the RBC requirements imposed by both DFR and the BCBSA. The Applicant’s RBC ratio projections for the next four (4) years are as follows:

2020 YE	2021 YE	2022 YE	2023 YE
2722%	848%	465%	400%

The Applicant’s Board (as hereinafter defined) will regularly monitor the Applicant’s RBC ratio levels to ensure that acceptable and appropriate levels of capital are maintained. As of the date of this application, the Applicant does not have any outstanding debt.

III. CORPORATE GOVERNANCE AND MANAGEMENT

A. Board of Directors

The business and affairs of the Applicant will be overseen by its board of directors (the “Board”). The Board shall consist of seven (7) directors, who will be elected by VBA LLC. Three (3) of those directors will be named to the Board by BCBSVT, and four (4) will be named by BCBSM.¹ The proposed directors serving on the Board will consist of senior executives who are serving in a variety of roles within BCBSM, BCBSVT and their respective affiliates, who have significant experience in the health insurance industry, and, in particular, with respect to the administration and operation of MA Part C plans.

The directors serving on the Board will not receive any additional compensation for such service. While the Board will be comprised of directors who serve in a variety of roles within BCBSM, BCBSVT and their respective affiliates, each of VBA LLC, CHP and BCBSVT is part of an insurance holding company system that has independent directors serving on the governing bodies of its ultimate controlling entity.

The proposed directors of the Applicant are set forth in the table below:

Name	Title
Anthony G. Phillips	Director
Elizabeth R. Haar	Director
Pritpal S. Virdee	Director
Jeffery L. Turner	Director
Don George	Director

¹ The number of directors BCBSVT and BCBSM will each appoint to the Board of the Applicant is in proportion to their respective membership shares in its holding company owner, VBA LLC. The exact number of directors appointed by each member could change if their ownership shares change. The amount of such change will be specified in the operating agreement of VBA LLC.

Name	Title
Ruth Greene	Director
Andrew Garland	Director

The biographical affidavits for all of the proposed directors are included in Form 11 of the application, at Tab 13.

B. Key Committees of the Board

The Board may create one or more committees of the Board and appoint members of the Board to serve on such committees.

Audit Committee

The Board will establish an audit committee of the Board (the “Audit Committee”). The responsibilities of the Audit Committee will include, without limitation, the oversight of the accounting and financial reporting processes of the Applicant and the external audits of the financial statements of the Applicant. The Audit Committee will consist of 7 members and will be comprised entirely of directors serving on the Board.

The proposed members of the Audit Committee are set forth in the table below:

Name	Title
Anthony G. Phillips	Chair of Audit Committee
Elizabeth R. Haar	Audit Committee member
Pritpal S. Virdee	Audit Committee member
Jeffery L. Turner	Audit Committee member
Don George	Audit Committee member
Ruth Greene	Audit Committee member
Andrew Garland	Audit Committee member

While the Audit Committee will be comprised of directors who serve on the Board, each of CHP and BCBSVT is part of an insurance holding company system whose members and/or ultimate controlling entities (as applicable) have audit committees that are comprised entirely of independent members.

Other Committees

The Board may create additional committees of the Board as appropriate and/or necessary and appoint members to serve on such committees.

C. Management

The business, property and daily operations of the Applicant will be managed by a management team consisting of senior executives who have significant experience in the health insurance industry, and, in particular, with respect to the administration and operation of MA Part C plans. Certain of these individuals may also serve in a variety of roles within BCBSM, BCBSVT and their respective affiliates. The compensation of the officers will be fixed and approved by the Board or a committee thereof, based upon the recommendations of the President of the Applicant. The President’s compensation will consist of an annual salary and potentially an annual bonus, but the Treasurer and Secretary will not be compensated by the Applicant.

The proposed officers of the Applicant and their titles are set forth in the table below:

Name	Title
Pritpal S. Virdee	President (Interim)
Anthony G. Phillips	Treasurer
Bobbi J. Elliott	Secretary

The biographical affidavits for all proposed officers are included in Tab 13 of the application.

IV. DESCRIPTION OF BUSINESS WRITTEN

MA Part C coverage is the only line of business that will be written by the Applicant; such coverage will be offered to Medicare-eligible residents of the State of Vermont. The Applicant intends to offer the following MA Part C plans to individual and group subscribers:

- Medicare Advantage PPO Plan; and
- Medicare Advantage HMO Plan.

Each plan listed above is uniquely designed to provide members with choice and flexibility to meet their health insurance and prescription drug needs.

Because the Applicant will write only MA Part C coverage, rates and product forms for such coverage are regulated by CMS, rather than the State. As a result, the Applicant does not anticipate filing rates and product forms with DFR or the Green Mountain Care Board.

The Applicant will offer the above-described MA Part C plans, designed to target specific segments of the individual MA Part C marketplace in Vermont, with distinctive features that are designed to meet the needs of such targeted segments. Plan design will be informed by market research conducted on behalf of the Applicant, which will focus on various plan attributes, including, without limitation, types of benefits included (e.g., vision, dental) and provider and pharmacy network preferences.

The Applicant's sales approach will include reliance on digital and online marketing efforts complemented by traditional promotional approaches (e.g., print ads and television advertising), as well as the use of independent agents and brokers. The Applicant will use resources from BCBSM and BCBSVT employees (who are licensed as insurance producers in Vermont) to sell its new product offerings. With respect to pricing, the Applicant aims to maintain stable and competitive annual premiums in the marketplace. Due to the competitive nature of the bidding process with respect to MA contracts, it is anticipated that premiums for the MA Part C plans may fluctuate on a year-over-year basis, depending on market conditions, as well as the Applicant's financial position and experience.

As noted above, the Applicant will also market its products through independent insurance agents and brokers in Vermont. Such agents and brokers will have the authority to market the Applicant's products and services, as well as have the authority to collect and remit premiums (if any) on the Applicant's behalf; however, they will not have underwriting or binding authority. Agents and brokers will enter into standard producer agreements (which may be styled as either agency or broker agreements), which will outline the duties, roles and responsibilities that will be delegated to such producers, as well as their respective compensation levels.

V. FINANCIAL PROJECTIONS

Three (3)-year financial projections for the Applicant, including the assumptions used to develop such financial projections, are attached hereto as **Exhibit F**.

VI. FINANCIAL REPORTING AND OPERATING BUDGET

BCBSM, BCBSVT and their respective licensed insurance company subsidiaries are required to file statutory financial statements with the National Association of Insurance Commissioners (the "NAIC") and the applicable state insurance departments. The Applicant will prepare such financial statements in accordance with all applicable laws, including the policies and procedures prescribed by the applicable NAIC Accounting Practices and Procedures Manual and Model Audit Rule, each as adopted in the State of Vermont. In accordance with such applicable laws, policies and procedures, the Applicant will be subject to annual external audits. The Applicant intends to appoint Deloitte & Touche LLP as its independent, external auditor.

The Applicant's specific financial reporting controls will include policies and procedures that provide for appropriate segregation of duties; limited access to financial reporting systems and files; checklists to ensure that all recurring entries have been performed and approvals obtained (as required) for any non-recurring entries; routine completion of account reconciliations; preparation of detailed analyses that will be presented and discussed at regular review meetings; and preparation of quarterly financial statements consisting of balance sheets, income statements, cash flow

statements and investment schedules. The financial statements will be reviewed with the Applicant's executive management and the Audit Committee on a regular basis.

The Applicant's employees, the contracted service providers from BCBSVT and CHP, and the Applicant's management team will develop an operating budget annually that will be presented to the Applicant's Board for approval. In developing the operating budget, the employees and management team of the Applicant will take into account a number of financial and operational factors of the Applicant, including, without limitation, projected membership and premium targets, quality bonus payments (if any), projected claims payments, administrative expenses and investment income.

In addition, each quarter the Applicant's management team will review certain key performance indicators to measure the Applicant's financial and operational performance. These measurement factors include, but are not limited to, revenue and earnings for each line of business and for the enterprise, medical loss ratios for each line of business, operating expense ratios for each line of business and for the enterprise, as well as other performance measures that vary by line of business.

VII. SERVICES AGREEMENTS

Because the Applicant is in the initial stage of its growth, it would be operationally and financially inefficient for the Applicant to acquire its own resources, information technology systems and platforms, office space, and to hire its own employees to write MA Part C business. In that regard, the Applicant will enter into a number of administrative services agreements with certain of its affiliates, as well as unaffiliated third parties. The Applicant may also obtain certain of its own resources and personnel in the future depending on the needs of its business.

The Applicant anticipates entering into a master services agreement with Advantasure, Inc. ("Advantasure"), a wholly-owned subsidiary of Emergent Holdings (the "Advantasure MSA"), which agreement will set forth (i) the types of services that will be performed by Advantasure, (ii) any service level agreements agreed to by the parties with respect to such services (if applicable) and (iii) the fees associated with the services performed by Advantasure thereunder. The Applicant anticipates that Advantasure and its affiliates will provide the following services to the Applicant under the Advantasure MSA: membership enrollment, claims management, billing services, customer service, MA star program management, and MA risk and quality service and health management services.

The Applicant also anticipates entering into a master services agreement with BCBSVT (the "BCBSVT MSA"), which agreement will set forth (i) the types of services and access to facilities that will be performed or provided by BCBSVT and its affiliates, (ii) any service level agreements agreed to by the parties with respect to such services and/or access to facilities (if applicable) and (iii) the fees associated with the services performed and access to facilities provided by BCBSVT and its affiliates thereunder. The Applicant anticipates that the BCBSVT MSA will provide the Applicant with following: a lease for office space; access to BCBSVT's broad network of primary care physicians, specialty physicians and other health care professionals; access to BCBSVT's broad network of hospital and other health care facilities; network management; group sales and account management services; and local/age-in broker program management.

Finally, the Applicant will enter into an administrative services agreement with CHP (the “CHP ASA”), pursuant to which CHP will provide certain personnel and resources to the Applicant, including, without limitation, with respect to the following services: accounting, actuarial, financial reporting, payroll administration, human resources, legal, cybersecurity, compliance, audit and investigations services, procurement/vendor management services, actuarial services, information technology services, facilities management services and plan performance management. The ASA will set forth (i) the types of services that will be performed by CHP, (ii) any service level agreements agreed to by the parties with respect to such services (if applicable) and (iii) the fees associated with the services performed by CHP thereunder.

A. MEMBER ENROLLMENT AND BILLING

The Applicant’s member enrollment and billing will be managed by Advantasure, pursuant to the Advantasure MSA. Advantasure will be contractually obligated to provide enrollment services with regards to member enrollment and reconciliation processing. This includes business processes supporting adherence to CMS processing of Part C enrollment, fulfillment activities for Part C within defined timeliness standards and management of the health plan membership, including processing disenrollments based on CMS guidelines. Enrollment services include determining member eligibility and distributing eligibility information, as needed, to downstream vendors.

In addition, Advantasure will administer the premium billing function in accordance with CMS requirements. This service includes invoicing, payment processing and delinquency management capabilities, and shall integrate with banks and automated payment applications for compliant functionality. This functionality includes:

- a. Accounts Receivable service – lockbox processing
- b. Delinquency Processing
- c. Member ACH Premium Processing and Reconciliation
- d. Paper Premium Billing Generation
- e. Premium Billing Reconciliation

B. UNDERWRITING

Medicare Advantage plans are generally available to all Medicare-eligible individuals. As such, Applicant does not expect to use significant underwriting resources. However, the Applicant will enter into an administrative services agreement with one or more affiliates that will provide underwriting, actuarial and other related services as needed.

C. CLAIMS MANAGEMENT

The Applicant’s claims management/services will be managed by Advantasure, pursuant to the Advantasure MSA. The claims management services include all the activities involved with

receiving, pricing, editing, processing and payment of claims for Medicare Part C Medical Services. These activities range from receipt of Medical claims for Professional and Institutional Services for place of service including Office, Ancillary, Laboratory or Outpatient/Inpatient Hospital. Claims management services also include financial reporting and reconciliation.

D. ACCOUNTING AND FINANCIAL REPORTING

The Applicant's accounting and financial reporting will be managed by CHP, pursuant to the CHP ASA. CHP will be responsible for preparing financial statements in accordance with applicable laws, including the policies and procedures prescribed by the NAIC Accounting Practices and Procedures Manual and Model Audit Rule, each as adopted in the State of Vermont, and establishing financial controls related to accounting and financial reporting.

E. CYBERSECURITY

The Applicant's cybersecurity will be managed by CHP, pursuant to the CHP ASA. CHP will be responsible for establishing and managing security and privacy policies consistent with federal, state and CMS requirements, including management of cybersecurity and privacy risk and implementation of security and privacy controls.

F. MA COMPLIANCE PROGRAM

The Applicant's MA compliance program will be managed by CHP, pursuant to the CHP ASA. CHP will be responsible for establishing and managing an MA Compliance Program in accordance with CMS requirements (which shall, at a minimum, meet the requirements of Chapter 21 of the Medicare Managed Care Manual and Chapter 9 of the Medicare Prescription Drug Benefit Manual, as such manuals or chapters may be amended from time to time).

G. INVESTMENTS

The Applicant's investment portfolio will be managed by BCBSM's Investment/Treasury Function with investment and decisions tailored to meet the needs of the Applicant insurance company in accordance with a defined investment policy.

VIII. REINSURANCE ARRANGEMENTS

No use of reinsurance is planned. This section is not applicable.