Hawaiʻi Medical Service Association

Statutory Financial Statements and Supplemental Schedules

December 31, 2023 and 2022

Table of Contents

Page(s)

Report of Independent Auditors

Statutory Financial Statements

Statements of Admitted Assets, Liabilities and Unassigned Surplus
December 31, 2023 and 2022 4

Statements of Operations
Years Ended December 31, 2023 and 2022 5

Statements of Unassigned Surplus
Years Ended December 31, 2023 and 2022 6

Statements of Cash Flows
Years Ended December 31, 2023 and 2022 7

Notes to Financial Statements
December 31, 2023 and 2022 8–45

Supplemental Schedules

Schedule 1 – Investment Summary Schedule
December 31, 2023 46

Schedule 2 – Investment Risk Interrogatories
December 31, 2023 47–49

Schedule 3 – Reinsurance Summary Schedule
December 31, 2023 50

ACCUITY

Report of Independent Auditors

To the Board of Directors of
Hawaiʻi Medical Service Association

Opinions
We have audited the accompanying statutory financial statements of the Hawaiʻi Medical Service Association (the "Association"), which comprise the statutory statements of admitted assets, liabilities and unassigned surplus as of December 31, 2023 and 2022, and the related statutory statements of operations, unassigned surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Unmodified Opinion on Regulatory Basis of Accounting
In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and unassigned surplus of the Association as of December 31, 2023 and 2022, and the results of its operations, changes in unassigned surplus, and cash flows for the years then ended, in accordance with the financial reporting provisions prescribed or permitted by the Insurance Division of the Department of Commerce and Consumer Affairs of the State of Hawaiʻi ("Insurance Division") as described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the statutory financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Association as of December 31, 2023 and 2022, or the results of its operations, changes in unassigned surplus, or cash flows for the years then ended.

Basis for Opinions
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Statutory Financial Statements section of our report. We are required to be independent of the Association and to meet our 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 unmodified audit opinion on the regulatory basis of accounting and our adverse opinion on U.S. generally accepted accounting principles.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles
As described more fully in Note 1, the statutory financial statements are prepared by the Association on the basis of the financial reporting provisions of the Insurance Division, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Insurance Division. The effects on the statutory financial statements of the variances

999 Bishop Street
Suite 2300
Honolulu, HI 96813
OFFICE 808.531.3400
FAX 808.531.3433
accuityllp.com

between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of the statutory financial statements in accordance with the financial reporting provisions of the Insurance Division, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audits of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards 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 statutory financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the statutory 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 statutory 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 Association'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 statutory financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association'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.

Required Supplementary Information

Financial reporting provisions prescribed or permitted by the Insurance Division require that the Supplemental Investment Summary Schedule, Investment Risk Interrogatories, and Reinsurance Summary Schedule as of December 31, 2023 on pages 46-50 be presented to supplement the basic statutory financial statements. Such information is the responsibility of management and, although not part of the basic statutory financial statements, is required by the National Association of Insurance Commissioners, who considers it to be an essential part of financial reporting for placing the basic statutory financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic statutory financial statements, and other knowledge we obtained during our audit of the basic statutory financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Accuity LLP

Honolulu, Hawaiʻi
April 26, 2024

ACCUITY

Hawaiʻi Medical Service Association
Statutory Statements of Admitted Assets, Liabilities and Unassigned Surplus
December 31, 2023 and 2022
(All Dollars in Thousands)

	2023	2022
Admitted Assets		
Investments		
Debt securities ($20,000 restricted at December 31, 2023 and 2022) (Note 2)	$ 247,915	$ 224,298
Mutual funds (Note 2)	200,498	175,245
Exchange traded funds (Note 2)	23,456	20,747
Real estate	89,874	93,029
Investment in subsidiaries (Note 2)	15,148	14,342
Private equity investments (Note 2)	46,806	47,611
Total investments	623,697	575,272
Cash, cash equivalents, and short-term investments ($26,003 and $24,779 restricted at December 31, 2023 and 2022, respectively)	820,244	849,122
Total cash and invested assets	1,443,941	1,424,394
Receivables		
Accident and health premiums	120,643	121,191
Retrospective premiums and contracts subject to redetermination	36,212	18,691
Pharmacy rebates (Note 14)	66,226	53,845
Reinsurance (Note 13)	12,236	7,849
Investment income	3,779	2,933
Federal income taxes	27,344	32,895
Other receivables	49,139	70,793
Total receivables	315,579	308,197
Cash surrender value of life insurance policies (Note 3)	60,883	51,461
Net deferred income taxes (Note 5)	42,572	28,643
Electronic data processing equipment at cost, less accumulated depreciation of $15,517 and $14,142 at December 31, 2023 and 2022, respectively	2,863	2,334
Total admitted assets	$ 1,865,838	$ 1,815,029
Liabilities and Unassigned Surplus		
Liabilities		
Claims unpaid (Note 12)	$ 474,202	$ 431,593
Unpaid claims adjustment expenses (Note 12)	14,470	15,260
Premiums received in advance	48,573	73,141
Accrued expenses	387,399	369,233
Provision for experience rating (Note 10)	14,967	36,096
Reserve for loss contracts (Note 1)	51,600	31,400
Other liabilities	15,741	10,771
Total liabilities	1,006,952	967,494
Unassigned surplus	858,886	847,535
Total liabilities and unassigned surplus	$ 1,865,838	$ 1,815,029

The accompanying notes are an integral part of the statutory financial statements.

Hawaiʻi Medical Service Association

Statutory Statements of Operations

Years Ended December 31, 2023 and 2022

(All Dollars in Thousands)

	2023	2022
Underwriting income (Note 11)		
Premiums earned (net of ceded premiums of $66,144 and $64,835 in 2023 and 2022, respectively)	$ 4,136,192	$ 4,010,212
Expenses incurred		
Medical and hospital claims (net of reinsurance recoveries of $41,367 and $27,808 in 2023 and 2022, respectively)	3,847,864	3,673,136
Claims adjustment expenses	120,852	117,309
General administrative expenses	188,658	171,873
Change in reserve for loss contracts	20,200	27,300
Total underwriting deductions	4,177,574	3,989,618
Net underwriting income (loss)	(41,382)	20,594
Investment income (Note 2)		
Net investment income	58,294	14,797
Net realized investment gains (losses), net of tax	(2,259)	5,322
Net investment income	56,035	20,119
Other income (expense)	1,459	(12,902)
Income before federal income tax provision	16,112	27,811
Federal income tax provision (Note 5)	8,660	927
Net income	$ 7,452	$ 26,884

The accompanying notes are an integral part of the statutory financial statements.

Hawaiʻi Medical Service Association
Statutory Statements of Unassigned Surplus
Years Ended December 31, 2023 and 2022
(All Dollars in Thousands)

	2023	2022
Unassigned surplus		
Balance at beginning of year	$ 847,535	$ 796,101
Net income	7,452	26,884
Net change in unrealized gains and losses, net of tax (Note 2)	19,863	(50,181)
Net change in deferred income taxes (Note 5)	5,333	(10,394)
Net change in nonadmitted assets	(3,621)	(30,802)
Net change in unrecognized prior service costs and actuarial gains and losses, net of tax (Note 8)	(12,192)	109,180
Other	(5,484)	6,747
Balance at end of year	$ 858,886	$ 847,535

The accompanying notes are an integral part of the statutory financial statements.

Hawai'i Medical Service Association
Statutory Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(All Dollars in Thousands)

	2023	2022
Cash received from (applied for) operations		
Premiums collected	$ 4,073,628	$ 3,997,341
Claims and claims adjustment expenses paid, net of recoveries	(3,802,783)	(3,622,852)
Underwriting expenses paid	(293,423)	(388,338)
Cash applied for underwriting	(22,578)	(13,849)
Investment income	50,998	28,688
Federal income taxes paid	-	(17,000)
Net cash received from (applied for) operations	28,420	(2,161)
Proceeds from investments sold or matured		
Debt securities	67,667	77,561
Stocks, including mutual funds	594	7,080
Other	1,544	3,225
Total investment proceeds	69,805	87,866
Cost of investments acquired		
Debt securities	(93,163)	(81,818)
Stocks, including mutual funds	(5,870)	(4,657)
Other	(1,693)	(5,524)
Total cost of investments acquired	(100,726)	(91,999)
Net cash applied for investments	(30,921)	(4,133)
Cash received from (applied for) financing and miscellaneous sources		
Other cash	(26,377)	52,341
Net cash received from (applied for) financing and miscellaneous sources	(26,377)	52,341
Net change in cash, cash equivalents, and short-term investments	(28,878)	46,047
Cash, cash equivalents, and short-term investments		
Beginning of year	849,122	803,075
End of year	$ 820,244	$ 849,122

The accompanying notes are an integral part of the statutory financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization and Description of Business

The Hawaiʻi Medical Service Association (the "Association") is an independent member of the Blue Cross and Blue Shield Association ("BCBSA"), an association of independent Blue Cross and Blue Shield plans. It is the largest health care insurer in the state of Hawaiʻi ("State").

The Association is organized as a mutual benefit society under the laws of the State and operates solely as a nonprofit medical indemnity service association. Hospitalization and health benefits are provided to members through doctors, hospitals, skilled nursing facilities, and other organizations contracted by the Association. The Association also processes claims for other Blue Cross and Blue Shield plans' subscribers through BCBSA agreements.

Basis of Presentation

The accompanying statutory financial statements have been prepared in conformity with statutory accounting practices as prescribed or permitted by the Insurance Division, which vary in some respects from accounting principles generally accepted in the United States of America ("GAAP").

The National Association of Insurance Commissioners ("NAIC") has adopted the Codification of Statutory Accounting Principles Project ("Codification") as the NAIC-supported basis of accounting. The Codification project was approved with the provision for commissioner discretion in the determination of appropriate statutory accounting for insurers. Such discretion will allow prescribed or permitted accounting practices that may differ from state to state. The State and, accordingly, the Association adopted Codification effective January 1, 2001.

See Note 6 for a reconciliation of the Association's GAAP basis equity and net income (loss) to its statutory basis unassigned surplus and net income. As of and for the years ended December 31, 2023 and 2022, the more significant differences between GAAP and statutory accounting principles were as follows:

1) Certain assets, including non-electronic data processing equipment, prepaid expenses, drug rebate receivables greater than 90 days, and a portion of the Association's deferred tax assets designated as "nonadmitted assets" are charged to unassigned surplus for statutory purposes.

2) Investments are accounted for as explained below for statutory purposes, while GAAP requires investments in marketable debt securities to be identified and classified into one of three categories as follows: (1) held-to-maturity, carried at amortized cost; (2) trading, carried at fair value with changes in fair value charged or credited to the statement of operations; and (3) available-for-sale, carried at fair value with changes in fair value charged or credited directly to equity, net of tax. GAAP also requires marketable equity securities to be carried at fair value with changes in fair value charged or credited to the statement of operations. For statutory purposes, investments in excess of statutory limitations are reflected as nonadmitted assets.

3) Deferred tax assets and liabilities are recognized with modifications for the realization criteria for deferred tax assets. Under statutory accounting practices, deferred tax assets are subject to an admissibility test and are admitted as assets based on a defined formula. Changes in deferred tax assets and liabilities, including changes in tax rates, are recognized as direct increases or decreases in unassigned surplus. Under GAAP, deferred tax assets are subject to a valuation allowance which is charged to operations and/or equity. Changes in deferred tax assets and liabilities, including changes in tax rates, are charged to operations.

4) Under statutory accounting practices, the Association is required to calculate imputed rental income and expense for owner-occupied real estate.

5) The presentation methodology of the statutory statements of cash flows is not in conformity with GAAP. The statements also do not include a reconciliation of net income to net cash received from (applied for) operations. Under statutory accounting practices, the statutory statements of cash flows reconcile changes in cash on hand and on deposit, cash equivalents, and short-term investments with original maturities of one year or less. Under GAAP, the statements of cash flows reconcile changes in cash and equivalents and restricted cash and equivalents. Cash equivalents are financial instruments with an original maturity of three months or less.

6) The presentation methodology of the statutory statements of operations is not in conformity with GAAP in regard to the reporting of comprehensive income.

7) Under statutory accounting practices, the Association's wholly-owned subsidiaries are accounted for under the equity method. Under GAAP, wholly-owned subsidiaries are consolidated. Intercompany transactions were not significant for the Association.

8) Under statutory accounting practices, amounts receivable from reinsurers are based on covered policy claims paid, with the difference between covered policy claims incurred and covered policy claims paid, netted against claims unpaid. Under GAAP, amounts receivable from reinsurers are based on covered policy claims incurred.

9) The measurement of a loss contingency is not in conformity with GAAP. Under statutory accounting practices, when no amount within management's estimate of the range of a loss is a better estimate than any other amount, the midpoint of the range shall be accrued. Under GAAP, the minimum amount in the range shall be accrued.

Use of Estimates
The preparation of statutory financial statements requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

The Association has entered into performance-based contracts and risk-sharing government and provider agreements. Management's accrual of performance-based and risk-sharing assets and liabilities at December 31, 2023 and 2022 was based on preliminary performance data and is subject to change once actual data becomes available in the following year.

Concentrations of Risk
Financial instruments that potentially subject the Association to significant concentrations of credit risk consist principally of cash, cash equivalents, and short-term investments, receivables, debt securities, mutual funds, exchange traded funds ("ETFs"), and private equity investments. Although a majority of cash, cash equivalents, and short-term investment deposits exceed federally insured limits, management does not anticipate nonperformance by their financial institutions and reviews the financial viability of these institutions on a regular basis. The Association also attempts to limit its risk in receivables and investments by maintaining diversified member plans and investment portfolios, and by reviewing the financial viability of the entities to which it extends credit.

The Association has various investments in a combination of cash equivalents, short-term investments, debt securities, mutual funds, ETFs, and private equity investments. In addition to credit risk, investments are exposed to interest rate and market risks.

The Association is also subject to certain provisions of the Patient Protection and Affordable Care Act ("ACA"). The ACA imposes fees and premium stabilization provisions on health insurers to balance insurer risks in the individual and small group markets. The three risk-sharing provisions known as risk adjustment, transitional reinsurance, and risk corridors took effect in 2014. While the transitional reinsurance and risk corridors programs were finite programs that ended in 2016, the risk adjustment program is a permanent program. The risk adjustment program transfers funds from lower risk plans to higher risk plans within the same state to adjust premiums for adverse selection among carriers. See Note 18.

Cash, Cash Equivalents, and Short-term Investments

The Association considers all highly liquid debt instruments, except for certificates of deposit purchased with an original maturity of three months or less, to be cash equivalents and an original maturity of one year or less (excluding cash equivalents) to be short-term investments. Certificates of deposit with original maturity dates of one year or less are classified as cash. Cash equivalents and short-term investments are admitted at amortized cost which approximates fair value and include money market instruments and debt securities. Net negative cash, cash equivalents, and short-term investments are reported as negative admitted assets.

Fair Value Measurements

For financial and nonfinancial assets and liabilities reported at fair value, the Association defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants. The Association measures fair value using observable and unobservable inputs based on the following hierarchy:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.

- **Level 2** – Inputs, other than quoted market prices included within Level 1, that are observable for an asset or liability, directly or indirectly.

- **Level 3** – Unobservable inputs for an asset or liability reflecting the Association's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or Level 2 inputs are not available.

The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Association measures certain investments that do not have readily determinable fair values based on the investments' Net Asset Value ("NAV") as a practical expedient without further adjustment unless it is probable that the investments will be sold at a value significantly different than NAV.

Fair Value of Financial Instruments and Benefit Plan Assets
The following methods and assumptions were used by the Association in estimating the fair value of its financial instruments:

- **Cash, cash equivalents, and short-term investments, receivables, accrued expenses, and other liabilities** – The admitted amounts approximate fair value due to the short-term nature of these financial instruments.

- **Debt securities** – Debt securities held by the Association are classified as U.S. government, U.S. states, territories and possessions; U.S. political subdivisions of states, territories and possessions; U.S. special revenue and special assessment obligations; or industrial and miscellaneous securities. The fair value of each class of debt securities was estimated using quoted prices in an active market or exchange or an income approach with both observable and market-based inputs and unobservable inputs such as extrapolated data and proprietary pricing models. Debt securities were categorized in Level 1 or Level 2 of the fair value hierarchy.

- **Mutual funds** – Mutual funds held by the Association are classified as either domestic equity or fixed income. The fair value of each class of mutual funds was estimated using quoted prices in an active market or exchange. These mutual funds were categorized in Level 1 of the fair value hierarchy.

- **Exchange traded funds** – ETFs held by the Association are classified as foreign equity. The fair value of each class of ETF was estimated using quoted prices in an active market or exchange. These ETFs were categorized in Level 1 of the fair value hierarchy.

- **Private equity investments** – The fair value of the Association's investments in the common stock of unaffiliated entities was estimated using NAIC Securities Valuation Office ("SVO") prices derived from unobservable inputs such as the residual claim on common stock derived from the issuer's financial information. The Association considers the SVO prices which are published annually to approximate fair value. These investments in the common stock of unaffiliated entities were categorized in Level 3 of the fair value hierarchy.

The following methods and assumptions were used by the Association in estimating the fair value of pension and postretirement plan assets as of December 31, 2023 and 2022:

- **Insurance contracts** – The fair value of insurance contracts was estimated using an income approach with unobservable inputs. These insurance contracts were categorized in Level 3 of the fair value hierarchy.

- **Registered investments** – The fair value of registered investments was estimated using quoted prices in an active market or exchange. These registered investments were categorized in Level 1 of the fair value hierarchy.

- **Common collective trusts** – These common collective trusts commingle assets of participating trusts to generate income and long-term capital appreciation through strategies which mirror or outperform their correlated benchmark indices. Units held in common collective trusts are valued using the NAV reported by the investment managers.

Fair value estimates were made at a specific point in time based on relevant information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Investments
Investments in debt securities include bonds and SVO-identified ETFs which qualify for bond treatment. These debt securities are reported at admitted values (generally amortized cost for bonds or fair value for SVO-identified ETFs) established by the NAIC. Discounts and premiums related to debt securities are amortized to investment income using the scientific method. Investments in debt securities issued by companies not meeting specific solvency or financial performance requirements are reflected as nonadmitted assets. Investments in mutual funds and ETFs are reported at fair value. The change in unrealized gains and losses, net of tax, is accounted for as a direct increase or decrease in unassigned surplus.

Investments in preferred stock with NAIC designations 1 and 2 are recorded at fair value. Preferred stock with NAIC designations 3 – 6 are recorded at the lower of amortized cost or fair value.

Investments in subsidiaries, controlled or affiliated (“SCA”) and non-SCA insurance and non-insurance entities, partnerships, trusts and limited liability companies are reported at the Association’s proportionate share of statutory or GAAP equity (equity method of accounting). Investments in the common stock of unaffiliated entities are reported at fair value. Investments in unaudited SCA entities, partnerships, and limited liability companies or investment balances in excess of statutory limits are reflected as nonadmitted assets.

The Association evaluates its investments for impairment based on the NAIC-established impairment indicators specific to each investment. An impairment loss is recognized for any decline in fair value which is other-than-temporary as the difference between the investment’s carrying value and fair value.

Investments in real estate are reported at cost, less accumulated depreciation. The Association’s office buildings and related components are being depreciated on a straight-line basis over 40 years. Under statutory accounting practices, the Association is required to calculate imputed rental income and expense related to its owner-occupied buildings, which is calculated based on its estimated market value multiplied by rentable square feet. Imputed annual rental income and expense amounted to $5,392 and $5,515 for the years ended December 31, 2023 and 2022, respectively.

Due To and From Affiliates
Amounts due to and from affiliates are settled on a current basis.

Life Insurance Policies
The Association has various life insurance policies on certain employees. Generally, these policies will provide the cash surrender value of the policy if cancelled prior to the demise of the insured or the balance up to the face value of the policy upon the demise of the insured to the Association.

Claims Unpaid and Unpaid Claims Adjustment Expenses
The liability for claims unpaid includes claims reported but not yet processed, claims processed but not yet paid, and a provision for incurred, but not reported, claims.

The estimate for incurred, but not reported, claims commences by using historical paid claims data that has been formatted into claims development triangles which compare claims-incurred dates to the dates of claim payments. This information is used to create monthly completion factors that represent the percentage of total incurred claims that have been paid through a given date after being incurred. Completion factors are applied to claims paid through month-end dates and accumulated to estimate the ultimate claims incurred. Actuarial estimates of incurred, but not reported, claims liabilities are then determined by subtracting the actual paid claims from the estimate of the ultimate claims incurred. For more recent incurred months, the percentage of claims paid to claims incurred is generally low, making the completion factor methodology less reliable. Therefore, incurred claims for those more recent incurred months are instead projected based on recent claims expense levels and medical cost trends.

Claims processing expenses are also accrued based on an estimate of expenses necessary to process such claims.

Such reserves are continually monitored and reviewed with any adjustments reflected in current operations. Management believes that its reserves for claims unpaid are adequate to satisfy its ultimate claims liability. However, these estimates are inherently subject to a number of highly variable circumstances. Consequently, the actual results could differ materially from the amount recorded in the statutory financial statements.

Reserve for Loss Contracts
The Association recognizes a liability for probable losses on unprofitable insurance contracts if the sum of expected claims costs and claims adjustment expenses exceed the sum of expected premiums for each line of business. At December 31, 2023, the Association recognized a reserve for loss contracts associated with its QUEST and Medicare lines of business. At December 31, 2022, the Association recognized a reserve for loss contracts associated with its QUEST line of business.

Reinsurance
Premiums earned and medical and hospital claims are reported net of reinsurance amounts. The Association remains obligated for amounts ceded in the event the reinsurer does not meet its obligation. Reinsurance recoverables have been reported based on the number of claims incurred. Ceded reinsurance premiums payable have been reported based on stated rates per covered member owed or premiums collected for which its proportionate share has not been remitted to the reinsurer. See Note 13.

Provision for Experience Rating
The provision for experience rating liability reflects amounts due under retrospectively-rated and certain federal contracts. The liability and adjustments to earned premiums are recognized based on the provisions in the contracts and actual plan performance. Net premiums written subject to retrospective rating features are a significant component of total net premiums written. See Note 10 for a description of the contracts.

Revenue Recognition
All of the Association's individual and certain of the Association's group contracts provide for the individual or the group to be fully insured. Premiums for these contracts are billed in advance of coverage periods and recognized as revenue pro rata over the period of service or coverage. Other revenue is recognized when earned. Premium rates for certain lines of business are subject to approval by the State Insurance Commissioner.

The Association earns administrative fees from certain other groups under contracts that provide for the group to be at risk for all or a portion of its claims experience. The Association charges these self-funded or retrospectively rated groups a fee, based on the number of members in the group, the group's claims experience, or a percentage of premiums. Some self-funded groups purchase aggregate and/or specific stop-loss coverage from the Association. In exchange for a premium, the group's aggregate liability or the group's liability for each member is capped for the year.

(All Dollars in Thousands)

Depreciation
Depreciation is computed using the straight-line method over the assets' estimated useful lives; leasehold improvements are amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the related assets. Generally, the estimated useful lives of the assets are as follows:

	Years
Electronic data processing equipment	3
Furniture and equipment	5 – 15
Leasehold improvements	4 – 10
Computer software	3 – 5

Total depreciation expense, including other property and equipment, amounted to $7,526 and $8,568 in 2023 and 2022, respectively.

Income Taxes
Under provisions of the Tax Reform Act of 1986, the Association is subject to federal income tax as a stock property and casualty insurance company.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect for the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets are subject to an admissibility test and are admitted as assets based on a defined formula as described in paragraph 11 of the Statement of Statutory Accounting Principles ("SSAP") No. 101. Changes in deferred tax assets and liabilities, including changes in tax rates, are recognized as direct increases or decreases in unassigned surplus.

The Association and its subsidiary, Integrated Services, Inc. ("ISI"), file a consolidated federal income tax return. In accordance with the Association's tax allocation policy, income taxes have been allocated to its subsidiary based on taxable income computed as if the subsidiary had filed a separate tax return. Intercompany tax balances are settled annually.

At December 31, 2023, management believes there were no material uncertain income tax positions.

Reclassifications
Certain balances in the 2022 statutory financial statements have been reclassified to conform with the 2023 presentation. These reclassifications had no effect on the net income or unassigned surplus previously reported.

Subsequent Events
The Association has reviewed all events that have occurred from January 1, 2024 through April 26, 2024, the date that the statutory financial statements were available for issuance, for proper accounting and disclosure in the statutory financial statements.

(All Dollars in Thousands)

2. Investments

At December 31, 2023 and 2022, debt and equity investments (excluding real estate, investments in subsidiaries, and certain private equity investments not valued at fair value) were comprised of the following:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2023				
Debt securities				
U.S. government	$ 74,364	$ 912	$ (2,712)	$ 72,564
U.S. states, territories and possessions	675	12	(21)	666
U.S. political subdivisions of states, territories and possessions	308	-	(7)	301
U.S. special revenue and special assessment obligations	70,786	580	(4,289)	67,077
Industrial and miscellaneous	106,951	540	(8,051)	99,440
Total debt securities	$ 253,084	$ 2,044	$ (15,080)	$ 240,048
Mutual funds				
Domestic equity	$ 33,788	$ 78,934	$ -	$ 112,722
Fixed income	106,812	39	(19,075)	87,776
Total mutual funds	$ 140,600	$ 78,973	$ (19,075)	$ 200,498
Exchange traded funds				
Foreign equity	$ 21,428	$ 2,028	$ -	$ 23,456
Private equity investments	$ 1,109	$ 31	$ -	$ 1,140
2022				
Debt securities				
U.S. government	$ 49,414	$ 316	$ (4,608)	$ 45,122
U.S. states, territories and possessions	681	9	(28)	662
U.S. political subdivisions of states, territories and possessions	321	-	(19)	302
U.S. special revenue and special assessment obligations	63,331	85	(5,998)	57,418
Industrial and miscellaneous	117,393	26	(12,229)	105,190
Total debt securities	$ 231,140	$ 436	$ (22,882)	$ 208,694
Mutual funds				
Domestic equity	$ 31,551	$ 59,983	$ (60)	$ 91,474
Fixed income	103,683	-	(19,912)	83,771
Total mutual funds	$ 135,234	$ 59,983	$ (19,972)	$ 175,245
Exchange traded funds				
Foreign equity	$ 21,428	$ -	$ (681)	$ 20,747
Private equity investments	$ 1,109	$ 31	$ -	$ 1,140

(All Dollars in Thousands)

At December 31, 2023 and 2022, private equity investments reported at fair value and other than fair value were as follows:

	2023	2022
Reported at fair value		
TriWest Healthcare Alliance Corporation and Subsidiary	$ 991	$ 991
BlueCross BlueShield Ventures, Inc.	99	99
BlueCross BlueShield Ventures II, Inc.	50	50
Plans' Liability Insurance Company	-	-
	1,140	1,140
Reported at other than fair value		
Life and Specialty Ventures, LLC	18,150	18,445
NHIT: Credit Asset Trust	17,307	15,865
BlackSand Capital Opportunity Fund II, L.P.	4,798	3,709
BlueCross BlueShield Venture Partners, L.P.	2,536	3,894
BlueCross BlueShield Venture Partners II, L.P.	1,806	3,546
BlackSand Capital Opportunity Fund I, L.P.	957	1,012
BlueCross BlueShield Venture Partners V, L.P.	112	-
Navvis & Company, LLC	-	-
InnovateRx, LLC	-	-
Synergie Medication Collective, LLC	-	-
	45,666	46,471
Total private equity investments	$ 46,806	$ 47,611

At December 31, 2023 and 2022, the aggregate gross value of private equity investments reported at other than fair value amounted to $53,313 and $50,514, respectively. The December 31, 2023 aggregate gross value included a portion of the investment in Life and Specialty Ventures, LLC ("LSV"), InnovateRx, LLC and Synergie Medication Collective, LLC of $7,647, which was nonadmitted. The December 31, 2022 aggregate gross value included a portion of the investment in LSV and InnovateRx, LLC of $4,043, which was nonadmitted.

At December 31, 2023 and 2022, the Association's remaining aggregate capital commitment in BlueCross BlueShield Venture Partners, L.P., BlueCross BlueShield Venture Partners II, L.P., BlueCross BlueShield Venture Partners V, L.P., BlackSand Capital Opportunity Fund I, L.P., and BlackSand Capital Opportunity Fund II, L.P. approximated $7,309 and $5,979, respectively.

(All Dollars in Thousands)

At December 31, 2023 and 2022, information pertaining to investments in SCA entities is as follows:

	Percentage of SCA Ownership	Gross Amount	Nonadmitted Amount	Admitted Asset Amount	Date of Filing to NAIC	Type of NAIC Filing	NAIC Response Received	NAIC Valuation	NAIC Disallowed Entity's Valuation Method, Resubmission Required	Code
2023										
Integrated Services, Inc.	100 %	$ 18,296	$ 3,148	$ 15,148	2/9/2024	S2	Y	$ 18,340	N	I
2022										
Integrated Services, Inc.	100 %	$ 18,182	$ 3,840	$ 14,342	1/31/2023	S2	Y	$ 24,689	N	N/A

Debt securities with NAIC designations 3 – 6 are recorded at the lower of amortized cost or fair value. SVO-identified ETFs, which qualify for bond treatment, are recorded at fair value. Treasury inflation-protected securities are recorded at amortized cost adjusted for inflation. Admitted value adjustments in 2023 and 2022 were related to U.S. government and industrial and miscellaneous debt securities. A reconciliation to the statutory statements of admitted assets, liabilities and unassigned surplus is as follows:

	Amortized Cost or Cost	Admitted Value Adjustment	Net Admitted Amount
2023			
Debt securities	$ 253,084	$ (5,169)	$ 247,915
2022			
Debt securities	$ 231,140	$ (6,842)	$ 224,298

At December 31, 2023 and 2022, there were no NAIC-designated 5* securities.

(All Dollars in Thousands)

The Association's investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at December 31, 2023 and 2022 as follows:

		Fair Value Measurements at Reporting Date Using		
	Estimated Fair Value	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2023				
Debt securities				
Industrial and miscellaneous	$ 37,956	$ 33,233	$ 4,723	$ -
Mutual funds				
Domestic equity	112,722	112,722	-	-
Fixed income	87,776	87,776	-	-
Exchange traded funds				
Foreign equity	23,456	23,456	-	-
Private equity investments	1,140	-	-	1,140
Total	$ 263,050	$ 257,187	$ 4,723	$ 1,140
2022				
Debt securities				
Industrial and miscellaneous	$ 39,508	$ 32,460	$ 7,048	$ -
Mutual funds				
Domestic equity	91,474	91,474	-	-
Fixed income	83,771	83,771	-	-
Exchange traded funds				
Foreign equity	20,747	20,747	-	-
Private equity investments	1,140	-	-	1,140
Total	$ 236,640	$ 228,452	$ 7,048	$ 1,140

There were no changes in Level 3 private equity investments measured at fair value on a recurring basis for the years ended December 31, 2023 and 2022.

(All Dollars in Thousands)

The amortized cost and estimated fair value of debt instruments included in cash equivalents, short-term investments, and debt securities at December 31, 2023 and 2022 by contractual maturity are shown below:

	U.S. Government		U.S. States, Territories and Possessions		U.S. Political Subdivisions of States, Territories and Possessions		U.S. Special Revenue and Special Assessment Obligations		Industrial and Miscellaneous	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
2023										
Due one year or less	$ 89,784	$ 90,175	$ -	$ -	$ 308	$ 301	$ -	$ -	$ 6,940	$ 6,829
Due after one to five years	26,723	26,919	-	-	-	-	4,643	4,381	28,818	27,939
Due after five to ten years	26,148	25,059	375	387	-	-	3,704	3,493	19,498	18,433
Due after ten years	19,273	18,371	300	279	-	-	62,439	59,203	51,928	46,475
Total	$ 161,928	$ 160,524	$ 675	$ 666	$ 308	$ 301	$ 70,786	$ 67,077	$ 107,184	$ 99,676
2022										
Due one year or less	$ 103,563	$ 104,042	$ -	$ -	$ -	$ -	$ 2,194	$ 2,148	$ 7,238	$ 7,149
Due after one to five years	18,633	17,358	-	-	321	302	4,734	4,358	28,823	26,890
Due after five to ten years	18,469	16,826	-	-	-	-	3,431	2,998	28,540	25,285
Due after ten years	11,320	9,957	681	662	-	-	52,972	47,914	52,792	45,866
Total	$ 151,985	$ 148,183	$ 681	$ 662	$ 321	$ 302	$ 63,331	$ 57,418	$ 117,393	$ 105,190

Expected maturities may differ from stated due dates because borrowers may have the right to call or prepay obligations.

Net Investment Income

Net investment income for the years ended December 31, 2023 and 2022 is summarized below:

	2023	2022
Debt securities	$ 7,920	$ 6,161
Mutual funds	4,791	4,146
Real estate	5,290	5,273
Short-term investments	4,741	1,294
Private equity investments	1,349	2,430
Exchange traded funds	766	-
Other	39,436	1,300
Investment income	64,293	20,604
Less: Investment expense	5,999	5,807
Net investment income	$ 58,294	$ 14,797

For the year ended December 31, 2023, other investment income included an increase in the cash surrender value of the Association’s life insurance policies of $9,422, plus interest income from its cash and cash equivalent holdings. For the year ended December 31, 2022, other investment income included a decrease in the cash surrender value of the Association’s life insurance policies of $9,905, offset by interest income from its cash and cash equivalent holdings.

(All Dollars in Thousands)

Realized and Unrealized Gains and Losses

A summary of realized and unrealized gains and losses on the Association's investments for the years ended December 31, 2023 and 2022 is as follows:

	Gross Realized Gains	Gross Realized Losses	Net Realized Gain (Loss)
2023			
Debt securities	$ 49	$ (3,498)	$ (3,449)
Mutual funds	590	-	590
Short-term investments	1	(2)	(1)
Total	$ 640	$ (3,500)	(2,860)
Tax effect			601
Net realized gain, net of tax			$ (2,259)
2022			
Debt securities	$ 277	$ (3,611)	$ (3,334)
Mutual funds	511	-	511
Preferred stock	6,568	-	6,568
Private equity	3,000	-	3,000
Short-term investments	1	(2)	(1)
Total	$ 10,357	$ (3,613)	6,744
Tax effect			(1,422)
Net realized gain, net of tax			$ 5,322

	2023	2022
Proceeds from sales and maturities	$ 69,805	$ 87,866
Net unrealized gain (loss) on investment securities	$ 22,253	$ (55,321)
Tax effect	(4,649)	10,462
Net unrealized gain (loss) on investment securities, net of tax	17,604	(44,859)
Reclassification adjustment for realized loss (gain) included in net investment income	2,860	(6,744)
Tax effect	(601)	1,422
Reclassification adjustment for realized loss (gain), net of tax included in net investment income	2,259	(5,322)
Change in net unrealized investment gains and losses arising in the current year, net of tax	$ 19,863	$ (50,181)

(All Dollars in Thousands)

Information pertaining to securities with gross unrealized gains and losses at December 31, 2023 and 2022 aggregated by investment category and length of time that individual securities have been in a continuous gain or loss position is as follows:

	Less Than Twelve Months				Over Twelve Months			
	Gross Unrealized Gains	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Gains	Fair Value	Gross Unrealized Losses	Fair Value
2023								
Debt securities								
U.S. government	$ 912	$ 41,031	$ (103)	$ 9,128	$ -	$ -	$ (2,609)	$ 22,405
U.S. states, territories and possessions	12	387	-	-	-	-	(21)	279
U.S. political subdivisions of states, territories and possessions	-	-	-	-	-	-	(7)	301
U.S. special revenue and special assessment obligations	580	18,405	(44)	8,601	-	11	(4,245)	40,060
Industrial and miscellaneous	509	17,032	(5)	743	31	413	(8,046)	81,252
Mutual funds	213	5,583	-	-	78,760	110,312	(19,075)	84,603
Exchange traded funds	2,028	23,456	-	-	-	-	-	-
Private equity investments	-	-	-	-	31	1,140	-	-
2022								
Debt securities								
U.S. government	$ 316	$ 3,043	$ (2,781)	$ 31,658	$ -	$ -	$ (1,827)	$ 10,421
U.S. states, territories and possessions	9	384	(28)	278	-	-	-	-
U.S. political subdivisions of states, territories and possessions	-	-	-	-	-	-	(19)	302
U.S. special revenue and special assessment obligations	84	4,564	(2,475)	31,682	1	32	(3,523)	21,140
Industrial and miscellaneous	18	996	(8,925)	77,919	8	585	(3,304)	25,690
Mutual funds	-	-	(214)	4,444	59,983	89,525	(19,758)	81,276
Exchange traded funds	-	-	(681)	20,747	-	-	-	-
Private equity investments	-	-	-	-	31	1,140	-	-

Management evaluates mutual funds and private equity securities for other-than-temporary impairment on a regular basis, and when economic or market concerns warrant such evaluation. Consideration given to equity securities is based on (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Association to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Consideration given to loan-backed securities, including mortgage-backed obligations, where fair value is less than amortized cost is based on whether the Association (1) intends to sell the security, (2) has the ability and intent to retain the security for a period of time sufficient to recover its amortized cost, and (3) expects to recover the entire amortized cost basis of the security.

Consideration given to non-loan-backed securities where fair value is less than amortized cost is based on whether the Association (1) intends to sell the security, (2) has evidence indicating the need to sell the security before a recovery of its amortized cost, (3) determined the decline in value to be interest related, (4) would be unable to collect all amounts due according to the contractual terms in effect at the date of acquisition, and (5) has determined any other factors indicating that an impairment should be recorded, such as the length of time and the extent to which the fair value has been less than cost, or the financial condition and near-term prospects of the issuer.

(All Dollars in Thousands)

All cash flow estimates used to measure non-interest related declines are analyzed using the prospective adjustment method, and include prepayment assumptions obtained from portfolio managers.

The majority of unrealized losses were associated with investments in fixed income mutual funds and debt securities. These unrealized losses resulted principally from changes to interest rates, with the underlying debt security held by the bond mutual fund or held directly by the Association either guaranteed by the U.S. Government or secured by mortgage loans. In addition to the specific considerations given to debt and equity securities, management considered whether the securities were issued by the federal government or its agencies, whether downgrades by rating agencies have occurred, and whether any reviews have identified problems with the issuer's financial condition.

There were no impairment losses recognized for the years ended December 31, 2023 and 2022.

The total amount of restricted assets by category at December 31, 2023 and 2022 was as follows:

	Total Admitted	Total Nonadmitted	Total From Prior Year (Admitted & Nonadmitted)	Increase	Total Current Year Admitted Restricted	Total Admitted & Nonadmitted Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
2023							
On deposit with states	$ 46,003	$ -	$ 44,779	$ 1,224	$ 46,003	2 %	2 %
Total	$ 46,003	$ -	$ 44,779	$ 1,224	$ 46,003	2 %	2 %
2022							
On deposit with states	$ 44,779	$ -	$ 44,538	$ 241	$ 44,779	2 %	2 %
Total	$ 44,779	$ -	$ 44,538	$ 241	$ 44,779	2 %	2 %

A certificate of deposit of $300 was held in the name of the State of Hawaiʻi Insurance Commissioner to satisfy minimum capital and surplus requirements at December 31, 2023 and 2022. The Association was also required to maintain $20,000 in cash or approved investments at December 31, 2023 and 2022 to satisfy State statutory requirements to operate as an insurance entity.

Investments of $25,703 and $24,479 were maintained and restricted by the Association in accordance with State requirements for the "Hawaiʻi QUEST" waiver-only demonstration program ("QUEST") and for the Association's discontinued self-insured workers' compensation program at December 31, 2023 and 2022, respectively.

(All Dollars in Thousands)

3. Life Insurance Policies

The aggregate face and cash surrender values of life insurance policies at December 31, 2023 and 2022 were as follows:

	2023		2022	
	Face Value	Surrender Value	Face Value	Surrender Value
Life insurance policies	$ 89,932	$ 60,883	$ 78,498	$ 51,461

At December 31, 2023 and 2022, the cash surrender value of life insurance policies were invested entirely in mutual funds.

No policies were surrendered in 2023 or 2022.

4. Transactions with Affiliates

The Association leases office space and provides various administrative services for certain wholly-owned subsidiaries. These transactions did not have a material effect on the statutory financial statements.

The Association has a reinsurance agreement with LSV, an affiliate, that the Association maintains an equity investment that is in excess of 10%. See Note 13.

Beginning in 2022, each non-employee director on the Association’s Board of Directors was compensated with an annual retainer payable quarterly. For the years ended December 31, 2023 and 2022, total Board of Directors compensation was not significant.

5. Income Taxes

The Association’s actual income tax provision from continuing operations differs from the “expected” income tax provision computed by applying the U.S. federal corporate income tax rate to the income before federal income tax provision for the following reasons:

	2023	2022
“Expected” income tax provision	$ 3,384	$ 5,840
Dividends received deduction, net of proration	312	(118)
Officers’ life insurance	(1,979)	2,080
Net change in deferred income taxes	5,333	(10,394)
Statutory adjustments	901	4,324
Tax on realized gains and losses	601	(1,422)
Non-deductible expense	1,947	2,293
Other	(1,839)	(1,676)
Federal income tax provision	$ 8,660	$ 927

(All Dollars in Thousands)

The Federal income tax provision for the years ended December 31, 2023 and 2022 consisted of the following:

	2023	2022
Federal income tax provision for the current year	$ 8,660	$ 927
Expected tax refunds from prior years	-	-
Federal income tax provision	8,660	927
Tax on realized capital gains and losses	(601)	1,422
Federal income tax provision, including tax on realized capital gains and losses	$ 8,059	$ 2,349

The net change in deferred income taxes for the years ended December 31, 2023 and 2022 was comprised of the following:

	2023	2022	Change
Benefits of net operating loss carryforward	$ -	$ -	$ -
Deferred tax assets, less benefits of net operating loss carryforward	88,552	83,619	4,933
Total deferred tax liabilities	(35,558)	(27,931)	(7,627)
Net deferred tax asset	$ 52,994	$ 55,688	(2,694)
Tax effect of change in unrecognized prior service costs and actuarial gains and losses			2,777
Tax effect of change in unrealized gains and losses			5,250
Net change in deferred income taxes			$ 5,333

	2022	2021	Change
Benefits of net operating loss carryforward	$ -	$ -	$ -
Deferred tax assets, less benefits of net operating loss carryforward	83,619	92,607	(8,988)
Total deferred tax liabilities	(27,931)	(26,645)	(1,286)
Net deferred tax asset	$ 55,688	$ 65,962	(10,274)
Tax effect of change in unrecognized prior service costs and actuarial gains and losses			11,764
Tax effect of change in unrealized gains and losses			(11,884)
Net change in deferred income taxes			$ (10,394)

(All Dollars in Thousands)

The components of the Association's net deferred income taxes as of December 31, 2023 and 2022 are as follows:

	Ordinary	Capital	Total
2023			
Gross deferred tax assets	$ 87,492	$ 3,416	$ 90,908
Statutory valuation allowance	-	(2,356)	(2,356)
Adjusted gross deferred tax assets	87,492	1,060	88,552
Deferred tax assets nonadmitted	(10,422)	-	(10,422)
Net admitted deferred tax assets	77,070	1,060	78,130
Deferred tax liabilities	(17,322)	(18,236)	(35,558)
Net admitted deferred tax asset (liability)	$ 59,748	$ (17,176)	$ 42,572
2022			
Gross deferred tax assets	$ 82,559	$ 3,416	$ 85,975
Statutory valuation allowance	-	(2,356)	(2,356)
Adjusted gross deferred tax assets	82,559	1,060	83,619
Deferred tax assets nonadmitted	(27,045)	-	(27,045)
Net admitted deferred tax assets	55,514	1,060	56,574
Deferred tax liabilities	(14,318)	(13,613)	(27,931)
Net admitted deferred tax asset (liability)	$ 41,196	$ (12,553)	$ 28,643

(All Dollars in Thousands)

The admitted amounts of adjusted gross deferred tax assets as of December 31, 2023 and 2022 were calculated as follows:

	Ordinary	Capital	Total
2023			
Federal income taxes recoverable through loss carrybacks (Step 1)	$ -	$ -	$ -
Adjusted gross deferred tax assets expected to be realized following the statement of admitted assets, liabilities and unassigned surplus date (Step 2a)	$ 42,572	$ 50	$ 42,622
Adjusted gross deferred tax assets allowed per limitation threshold (Step 2b)			$ 122,018
Adjusted gross deferred tax assets expected to be realized after application of threshold limitation and Step 1 (Step 2)	$ 42,572	$ 50	$ 42,622
Adjusted gross deferred tax assets (after application of Steps 1 and 2) offset by gross deferred tax liabilities (Step 3)	$ 34,498	$ 1,010	$ 35,508
Total admitted deferred taxes	$ 77,070	$ 1,060	$ 78,130
2022			
Federal income taxes recoverable through loss carrybacks (Step 1)	$ -	$ -	$ -
Adjusted gross deferred tax assets expected to be realized following the statement of admitted assets, liabilities and unassigned surplus date (Step 2a)	$ 28,643	$ 50	$ 28,693
Adjusted gross deferred tax assets allowed per limitation threshold (Step 2b)			$ 122,484
Adjusted gross deferred tax assets expected to be realized after application of threshold limitation and Step 1 (Step 2)	$ 28,643	$ 50	$ 28,693
Adjusted gross deferred tax assets (after application of Steps 1 and 2) offset by gross deferred tax liabilities (Step 3)	$ 26,871	$ 1,010	$ 27,881
Total admitted deferred taxes	$ 55,514	$ 1,060	$ 56,574

	2023	2022
Ratio percentage used to determine recovery period and threshold limitation amount	618 %	619 %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in Step 2b above	$ 813,452	$ 816,558

(All Dollars in Thousands)

The impact of the Association’s tax-planning strategies by tax character on adjusted gross and net admitted deferred tax assets is as follows:

	Ordinary Percent	Capital Percent	Total Percent
2023			
Adjusted gross deferred tax assets	0.0 %	0.0 %	0.0 %
Net admitted deferred tax assets	0.0 %	0.0 %	0.0 %
2022			
Adjusted gross deferred tax assets	0.0 %	0.0 %	0.0 %
Net admitted deferred tax assets	0.0 %	0.0 %	0.0 %

The Association’s tax-planning strategies do not include the use of reinsurance.

The tax effects of temporary differences that give rise to significant portions of deferred income taxes at December 31, 2023 and 2022 are as follows:

	2023	2022
Deferred tax assets		
Intangible asset – subscribers and providers	$ 4,672	$ 4,672
Discounted estimated member claims outstanding	1,441	1,202
Accrued expenses related to incentive and deferred compensation	7,192	6,505
Liability for postretirement benefits	10,052	9,516
Allowance for doubtful accounts	2,750	4,535
Accrued paid time off	2,219	1,828
Reserve for loss contracts	10,836	6,594
Step-up in basis of building	2,356	2,356
Impairment loss on investments	1,010	1,010
Provider quality payments and settlements	40,669	37,782
Accrued income related to pension	7,607	9,856
Other	104	119
Gross deferred tax assets	90,908	85,975
Nonadmitted deferred tax assets	(12,778)	(29,401)
Admitted deferred tax assets	78,130	56,574
Deferred tax liabilities		
Net unrealized gain on investments	16,953	11,703
Depreciation on electronic data processing equipment	526	490
Unrecognized prior service costs and actuarial gains	14,916	12,139
Accrued expenses related to deferred compensation	173	654
Other	2,990	2,945
Gross deferred tax liabilities	35,558	27,931
Net deferred income taxes	$ 42,572	$ 28,643

(All Dollars in Thousands)

During the year ended December 31, 2023, the Association recognized a decrease in nonadmitted deferred tax assets of $16,623. During the year ended December 31, 2022, the Association recognized a decrease in nonadmitted deferred tax assets of $23,200.

The Association considers the step-up in basis of building, impairment loss on investments, and net unrealized gain on investments to be capital in nature. All other deferred tax assets and liabilities are considered ordinary in nature.

The 2020 through 2022 tax years remain open for federal purposes.

6. Accounting Principles Generally Accepted in the United States of America

The accompanying statutory financial statements have been prepared in conformity with accounting practices and procedures of the NAIC as prescribed or permitted by the Insurance Division, which vary in some respects from GAAP. A reconciliation of net income (loss) and equity/unassigned surplus as reported under GAAP and as reported on the statutory basis as of and for the years ended December 31, 2023 and 2022 follows:

	2023	2022
Net income (loss) reported under GAAP	$ 33,298	$ (23,680)
Difference in statutory accounting and GAAP for subsidiary investments	873	8,035
Deferred income tax benefit not recognized	(154)	(949)
Difference in net periodic benefit costs	(1,923)	(2,256)
Change in unrealized losses (gains) of marketable equity securities	(23,091)	46,334
Difference in earnings from equity investments	(2,078)	(2,249)
Difference in statutory accounting and GAAP for depreciation on electronic data processing equipment	1,209	1,572
Other	(682)	77
Net income as reported on the statutory basis	$ 7,452	$ 26,884
Equity as reported under GAAP	$ 1,147,846	$ 1,122,190
Difference in statutory accounting and GAAP for loss contingency	(140,000)	(140,000)
Assets nonadmitted under statutory basis	(153,683)	(150,062)
Unrealized losses on bonds, carried at amortized cost under statutory basis, net of tax	5,890	12,259
Difference in statutory accounting and GAAP for equity and cost investments, net of tax	(2,094)	(2,400)
Difference between statutory accounting and GAAP basis of assets and liabilities in deferred income taxes	(3,568)	(3,479)
Difference in accounting for pension, supplemental retirement, and postretirement plans, net of tax	6,766	13,090
Difference in statutory accounting and GAAP for accumulated depreciation on electronic data processing equipment	(1,889)	(3,258)
Other	(382)	(805)
Unassigned surplus as reported on the statutory basis	$ 858,886	$ 847,535

(All Dollars in Thousands)

7. Leases

As Lessee
The Association leases office space and equipment under long-term lease agreements expiring at various dates through 2029. The leases are primarily noncancelable and contain escalation and renewal clauses. In addition, most of the office space leases provide that the Association pay taxes, maintenance, insurance and certain other operating expenses applicable to the leased premises.

Future minimum rental payments due under noncancelable operating leases are as follows:

Years ending December 31,	
2024	$ 2,473
2025	2,225
2026	1,568
2027	976
2028	440
Thereafter	212
Total	$ 7,894

Total rent expense for all operating leases (including those on a month-to-month basis) amounted to $3,019 and $3,585 for the years ended December 31, 2023 and 2022, respectively.

8. Benefit Plans

The Association sponsors a defined lump sum pension plan. The Association funds pension plan accruals to the extent that such contributions are deductible for federal income tax purposes. Effective January 1, 2014, the pension plan was frozen to all employees hired or rehired by the Association. All employees hired before January 1, 2014 continue to be eligible to participate in the existing pension plan.

The Association also sponsors a supplemental retirement plan to provide benefits for employees whose benefits under the pension plan are restricted by the limitations of Sections 401(a)(17) and 415 of the Internal Revenue Code (the “Code”).

In August 2020, the Association elected to freeze its pension and supplemental retirement plan benefits for all participants effective December 31, 2024.

Continued life insurance coverage is provided by the Association for eligible retirees who have met minimum age and participation requirements. The Association also provides postretirement health benefits to eligible retirees and/or their domestic partners. These benefits are subject to deductibles, copayment provisions, and other limitations. The Association may amend or change the benefits periodically. The Association funds a portion of health benefit costs under the postretirement plan through a trust established under Section 401(h) of the Code. The remaining benefit costs are funded through a separate trust which the Association has qualified as a Voluntary Employees’ Beneficiary Association (“VEBA”) under Section 501(c)(9) of the Code. The Association funds the benefit costs of the postretirement benefit plan through cash contributions.

The Association uses December 31 as the obligation measurement date for its plans.

(All Dollars in Thousands)

The prior service costs and actuarial losses (gains) recognized in unassigned funds (surplus) during the year, reclassification adjustments for amounts recognized in net periodic benefit cost (credit), and the remaining amounts in unassigned funds (surplus) as of and for the years ended December 31, 2023 and 2022 were as follows:

	Pension and Supplemental Retirement Benefits		Postretirement Benefits	
	Prior Service Costs	**Actuarial Losses (Gains)**	**Prior Service Costs (Credit)**	**Actuarial Losses (Gains)**
2023				
Amounts recognized in unassigned funds during the year	$ -	$ (2,625)	$ -	$ 9,473
Amortization into net periodic benefit credit included in general administrative expenses	$ -	$ 9,872	$ (2,315)	$ 567
Amounts in unassigned funds (surplus) not yet recognized as components of net periodic benefit cost	$ -	$ (103,498)	$ 848	$ (5,111)
2022				
Amounts recognized in unassigned funds during the year	$ -	$ (107,309)	$ -	$ (27,851)
Amortization into net periodic benefit credit included in general administrative expenses	$ -	$ (492)	$ (2,315)	$ (80)
Settlement income into net periodic benefit cost included in general administrative expenses	$ -	$ 17,103	$ -	$ -
Amounts in unassigned funds (surplus) not yet recognized as components of net periodic benefit cost	$ -	$ (110,745)	$ 3,163	$ (15,151)

(All Dollars in Thousands)

The following table reconciles the changes to the benefit obligations and plan assets for the years ended December 31, 2023 and 2022 to the funded status of the plans and net amounts recognized in the statutory financial statements as of December 31, 2023 and 2022:

	Pension and Supplemental Retirement Benefits		Postretirement Benefits	
	2023	**2022**	**2023**	**2022**
Change in benefit obligations				
Benefit obligations at beginning of year	$ 153,636	$ 202,014	$ 97,575	$ 132,444
Service cost	4,080	6,038	2,282	3,943
Interest cost	7,111	4,802	4,890	3,695
Actuarial loss (gain)	6,274	(32,906)	14,907	(39,428)
Benefits paid	(12,552)	(5,261)	(3,324)	(3,079)
Curtailment gain	-	(14)	-	-
Settlements	-	(21,037)	-	-
Benefit obligations at end of year	158,549	153,636	116,330	97,575
Change in plan assets				
Fair value of plan assets at beginning of year	203,577	146,940	70,187	80,106
Actual return on plan assets	19,136	80,909	9,869	(6,919)
Benefits paid	(12,070)	(3,235)	(2,165)	(3,000)
Settlements	-	(21,037)	(377)	-
Fair value of plan assets at end of year	210,643	203,577	77,514	70,187
Funded status	$ 52,094	$ 49,941	$ (38,816)	$ (27,388)

The accumulated pension benefit obligation at December 31, 2023 and 2022 was $137,594 and $134,452, respectively. At December 31, 2023 and 2022, the accumulated benefit obligation related to the unfunded supplemental retirement plan amounted to $16,265 and $12,306, respectively.

At December 31, 2023 and 2022, the projected benefit obligation related to the unfunded supplemental retirement plan amounted to $18,280 and $14,986, respectively. At December 31, 2023 and 2022, the accumulated benefit obligation related to the postretirement health plan amounted to $108,118 and $89,684, respectively. At December 31, 2023 and 2022, the fair value of plan assets related to the postretirement health plan was $77,514 and $70,187, respectively. At December 31, 2023 and 2022, the accumulated benefit obligation for the unfunded postretirement life plan amounted to $8,212 and $7,891, respectively.

The actuarial loss for the pension plan for the year ended December 31, 2023 primarily resulted from a decrease in the discount rate from 5.00% to 4.75%. The actuarial gain for the pension plan for the year ended December 31, 2022 primarily resulted from an increase in the discount rate from 2.50% to 5.00%. The curtailment gain for the pension plan for the year ended December 31, 2022 resulted from changes to participation rates resulting from the Association's sourcing initiative. The actuarial loss for the supplemental retirement benefit plan for the years ended December 31, 2023 and 2022 primarily resulted from differences between actual and assumed executive compensation.

The actuarial loss for the postretirement benefit plans for the year ended December 31, 2023 primarily resulted from a decrease in the discount rate from 5.25% to 5.00% and assumption changes related to healthcare cost trends. The actuarial gain for the postretirement benefit plans for the year ended December 31, 2022 primarily resulted from an increase in the discount rate from 3.00% to 5.25%.

(All Dollars in Thousands)

In February 2022 and September 2022, the Blue Cross and Blue Shield Association National Employee Benefits Committee entered into settlement agreements with a fund manager and investment advisor, respectively, resulting from investment losses incurred by the Blue Cross and Blue Shield National Retirement Trust. As a participant of the Blue Cross and Blue Shield National Retirement Program at the time the investment losses were incurred, the pension plan and trust established under Section 401(h) of the Code were eligible to receive an allocable share of the settlement proceeds. In February 2022, the trust holding the pension plan assets and trust established under Section 401(h) of the Code received proceeds from the settlement with the fund manager of approximately $103,145 and $11,312, respectively. In September 2022, the trust holding the pension plan assets and trust established under Section 401(h) of the Code received proceeds from the settlement with the investment advisor of approximately $6,588 and $722, respectively. The Association's portion of the total settlements received were reflected as a component of actual return on plan assets.

The components of net periodic benefit cost (credit) for the years ended December 31, 2023 and 2022 are as follows:

	Pension and Supplemental Retirement Benefits		Postretirement Benefits	
	2023	**2022**	**2023**	**2022**
Components of net periodic benefit cost (credit)				
Service cost	$ 4,080	$ 6,038	$ 2,282	$ 3,943
Interest cost	7,111	4,802	4,890	3,695
Expected return on plan assets	(10,237)	(6,519)	(4,432)	(4,657)
Amortization of prior service cost	-	-	2,315	2,315
Amortization of actuarial losses (gains)	(9,872)	492	(567)	80
Settlement income	-	(17,103)	-	-
Net periodic benefit cost (credit)	$ (8,918)	$ (12,290)	$ 4,488	$ 5,376

	Pension and Supplemental Retirement Benefits		Postretirement Benefits	
	2023	**2022**	**2023**	**2022**
Weighted average assumptions				
Benefit obligation				
Discount rate	4.75 %	5.00 %	5.00 %	5.25 %
Rate of compensation increase for pension	4.00 %	4.00 %	N/A	N/A
Rate of compensation increase for supplemental retirement	4.00 %	3.50 %	N/A	N/A
Net periodic benefit cost				
Discount rate	5.00 %	2.50 %	5.25 %	3.00 %
Rate of compensation increase for pension	4.00 %	3.00 %	N/A	N/A
Rate of compensation increase for supplemental retirement	3.50 %	3.00 %	N/A	N/A
Expected return on plan assets (excluding VEBA)	5.25 %	4.75 %	5.25 %	4.75 %
Expected return on VEBA plan assets	N/A	N/A	6.75 %	6.00 %

(All Dollars in Thousands)

The expected long-term rate of return on assets was based on an analysis of the historical rate of return for a portfolio with a similar asset allocation.

The assumed health care cost trend rates at December 31, 2023 and 2022 are as follows:

	2023	**2022**
Health care cost trend rate assumed for next year	6.50 %	6.75 %
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.75 %	4.75 %
Year that the rate reaches the ultimate trend rate	2032	2032

The Association's pension plan assets reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at December 31, 2023 and 2022 as follows:

			Fair Value Measurements at Reporting Date Using		
	Estimated Fair Value	**NAV**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2023					
Common collective trusts					
Domestic equity	$ 25,906	$ 25,906	$ -	$ -	$ -
Foreign equity	17,355	17,355	-	-	-
Fixed income	157,668	157,668	-	-	-
Other	9,714	9,714	-	-	-
Total	$ 210,643	$ 210,643	$ -	$ -	$ -
2022					
Common collective trusts					
Domestic equity	$ 26,121	$ 26,121	$ -	$ -	$ -
Foreign equity	12,913	12,913	-	-	-
Fixed income	111,823	111,823	-	-	-
Other	52,720	52,720	-	-	-
Total	$ 203,577	$ 203,577	$ -	$ -	$ -

(All Dollars in Thousands)

The Association's postretirement plan assets reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at December 31, 2023 and 2022 as follows:

			Fair Value Measurements at Reporting Date Using		
	Estimated Fair Value	**NAV**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2023					
Insurance contracts	$ 53,551	$ -	$ -	$ -	$ 53,551
Registered investments					
Domestic equity	1,311	-	1,311	-	-
Foreign equity	356	-	356	-	-
Common collective trusts					
Domestic equity	2,714	2,714	-	-	-
Foreign equity	1,818	1,818	-	-	-
Fixed income	16,517	16,517	-	-	-
Other	1,018	1,018	-	-	-
Other	229	-	229	-	-
Total	$ 77,514	$ 22,067	$ 1,896	$ -	$ 53,551
2022					
Insurance contracts	$ 45,936	$ -	$ -	$ -	$ 45,936
Registered investments					
Domestic equity	2,828	-	2,828	-	-
Foreign equity	921	-	921	-	-
Common collective trusts					
Domestic equity	2,612	2,612	-	-	-
Foreign equity	1,291	1,291	-	-	-
Fixed income	11,184	11,184	-	-	-
Other	5,273	5,273	-	-	-
Other	142	-	142	-	-
Total	$ 70,187	$ 20,360	$ 3,891	$ -	$ 45,936

The Association's overall investment strategy is based on the precepts of capital market theory that are generally accepted and followed by long-term oriented investors. The strategy provides for a long-term investment horizon which provides for the appreciation of assets and compensating returns over time at an acceptable and controlled level of risk.

Investment goals include investing assets with care and prudence in a diversified manner for the exclusive purpose of maintaining sufficient liquidity levels in order to provide benefits to plan participants and beneficiaries and defraying reasonable expenses of administering the plan.

(All Dollars in Thousands)

Investment risk is controlled through the diversification of asset classes, investment approaches, and individual securities. Investment portfolios are also rebalanced in response to market fluctuations or cash flows in order to remain within the set target asset allocation ranges, to the extent it is appropriate and practicable.

The Association invests its plan assets in order to achieve a target return consisting of market index returns for each asset class weighted in accordance with the target asset allocation. In establishing its risk tolerance, the ability to withstand short and intermediate-term volatility in market conditions was considered. Additionally, the time horizon was also considered with a focus on balancing risk with expected return.

The target asset allocation ranges for the retirement and 401(h) plans and VEBA trust are as follows:

	Retirement and 401(h)	**VEBA**
2023		
Equity securities	4 % – 50 %	45 % – 55 %
Debt securities	55 % – 95 %	36 % – 44 %
Other	0 % – 20 %	6 % – 14 %
2022		
Equity securities	4 % – 55 %	45 % – 55 %
Debt securities	50 % – 90 %	36 % – 44 %
Other	0 % – 20 %	6 % – 14 %

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension and Supplemental Retirement Benefits	**Postretirement Benefits**
Years ending December 31,		
2024	$ 19,024	$ 4,824
2025	15,566	5,186
2026	15,183	5,539
2027	14,255	5,844
2028	13,625	6,103
2029–2033	56,010	34,668

The Association does not expect to make any contributions to its pension benefit plan or postretirement benefit plan in 2024.

The Association sponsors a deferred compensation plan under Section 401(k) of the Code for substantially all regular employees. Participants in the plan may contribute a minimum percentage of pretax salary, depending on months of eligibility service. Effective January 1, 2014, the plan was amended to allow discretionary non-elective contributions for employees hired on or after January 1, 2014. Additionally, all eligible employees were automatically enrolled into the plan. The Association matches an amount equal to the participant's minimum contribution. The Association's matching and discretionary non-elective contributions vest over a six-year period commencing in the second year of vesting service. The total amount contributed by the Association to the plan for the years ended December 31, 2023 and 2022 was $5,677 and $5,998, respectively.

9. Notes Payable

The Association has an unsecured $50,000 revolving line of credit ("LOC") with a financial institution. Monthly interest-only payments accrue at the financial institution's base interest rate with any unpaid principal and interest due in May 2028. At December 31, 2023 and 2022, no amounts were due on the LOC.

In August 2022, the Association entered in a second $25,000 revolving LOC with a financial institution. Monthly interest payments accrue at an interest rate option selected by the Association in accordance with the agreement. Any unpaid principal and interest will be due in August 2027. At December 31, 2023 and 2022, no amounts were due on the LOC.

The LOCs contain restrictions and covenants, including the maintenance of minimum liquidity, net worth, and a current ratio not less than the threshold specified in the agreement. The Association was in compliance with all restrictions and covenants in 2023 and 2022.

10. Federal and State Plans and Other Contracts

Federal Plan
The Association has a contract under the Federal Employees Health Benefits Act (Chapter 89, Title 5) with the Office of Personnel Management ("OPM") to provide coverage for health services to qualified federal employees for an administrative fee. Underwriting losses incurred are recoverable by the Association from OPM to the extent funds are available in the special reserve account and then from a contingency reserve fund. The contingency reserve fund is maintained by OPM. Underwriting gains are used to fund the special reserve account and are available to offset future underwriting losses.

Hawaii Employer-Union Benefits Trust Fund ("EUTF")
Effective January 1, 2021 for retirees and their dependents, and effective July 1, 2021 for active employees and their dependents, the EUTF continues to be under a retrospective financial arrangement. The Association will absorb underwriting losses and return underwriting gains to the EUTF. Terms of the arrangement call for underwriting gains and losses for all retiree benefit plans to be settled together by contract year, with underwriting gains or losses in one retiree benefit plan being applied to underwriting gains or losses in another. Any retiree net underwriting gain or loss for a contract year can be carried forward to offset future retiree contract years' net underwriting gains or losses. Similarly, all active benefit plans will be settled together by contract year, with underwriting gains or losses in one active benefit plan being applied to underwriting gains or losses in another. Any active net underwriting gain or loss for a contract year can be carried forward to offset future active contract years' net underwriting gains or losses. Chiropractic benefits are integrated with the medical plans for all active employees and their dependents and HSTA VB retirees and their dependents. The initial contract for the retirees and their dependents was for 24 months, from January 1, 2021 through December 31, 2022. The contract was extended for two 12-month periods from January 1, 2023 through December 31, 2023 and January 1, 2024 through December 31, 2024. The initial contract for the active employees and their dependents was for 24 months, from July 1, 2021 through June 30, 2023. The contract was extended for one 12-month period from July 1, 2023 through June 30, 2024. It may be extended for another 12-month period from July 1, 2024 through June 30, 2025. At the end of the contract, for the actives and retirees separately,

if the risk charge minus any net loss exceeds 2% of the premiums, then this excess risk charge minus any net loss amount over the 2% of premiums will be returned to the EUTF. If there is a net gain over the contract that exceeds 2% of premiums, for the actives and retirees separately, then the premiums used to calculate the risk charge cap will be reduced by the gain amount in excess of 2% of premiums. The risk charge amount returned will be determined after the completion of the active and retiree final reconciliations for the last year of the contract.

Effective July 1, 2021, the EUTF continues to offer a voluntary Active 75/25 Medical and Drug Plan to part-time and temporary employees and their dependents who are not eligible to participate in the EUTF's medical and drug plans for full-time employees. This plan is fully insured, with no year-end settlement. The premiums are entirely paid by the employee and must be self-supporting, with the experience for this population not being applied against any other EUTF plan. The initial contract was for 24 months, from July 1, 2021 through June 30, 2023. The contract was extended for one 12-month period from July 1, 2023 through June 30, 2024. It may be extended for another 12-month period from July 1, 2024 through June 30, 2025.

At December 31, 2023, unsettled retiree plan losses amounted to $3,032 while unsettled active plan gains amounted to $9,583. At December 31, 2022, unsettled retiree and active plan gains amounted to $35,949. Net unsettled plan gains were recorded as a liability in the provision for experience rating.

Contracts for Medicare Services
Effective January 1, 2011, the Association commenced a Medicare Advantage risk-based contract with CMS, referred to as Akamai Advantage. The contract provides medical and prescription drug benefits based on Medicare regulations. Effective January 1, 2014, the Association ended its contract with CMS for the Medicare Parts A and B services 65C+ medical plan and the Medicare Part D plan associated with the 65C+ medical plan. Effective January 1, 2015, the Association ended its R7439 contract with CMS for Medicare Parts A, B and D. Effective January 1, 2020, the Association ended its H7317 contract with CMS for Medicare Parts A, B and D.

At December 31, 2023 and 2022, there were no premium refunds due to 65C+ members.

At December 31, 2023 and 2022, amounts due from CMS for Medicare Advantage risk-based contracts were $11,879 and $4,535, respectively, and were included in receivables from retrospective premiums and contracts subject to redetermination.

Hawaiʻi QUEST Plan
The Association has contracted with the State's Department of Human Services to administer the QUEST program approved by CMS under the authority of Section 1115 of the Social Security Act. Under the contract, the Association provides medical and behavioral health services to eligible recipients in a managed care environment.

In January 2014, the Association was awarded a contract with the State for the QUEST Integration program effective January 1, 2015. This contract will continue to include QUEST eligible recipients on all islands as well as integrate the aged, blind and disabled recipients that were assigned exclusively by the State to two other QUEST plans. The Association will provide medical and behavioral health services for all QUEST recipients as well as long-term care and home and community-based services for the aged, blind and disabled recipients.

In March 2021, the Association was awarded a contract with the State for the QUEST Integration program effective July 1, 2021.

There is a pay-for-quality program that rewards providers for meeting certain performance measures. At December 31, 2023 and 2022, amounts due to participating providers, including amounts related to the pay-for-quality program, amounted to $9,461 and $9,517, respectively. Any underwriting gains or losses under the medical plan remaining after the risk-sharing provisions with participating providers may be subject to risk-sharing with the State. At December 31, 2023 and 2022, amounts due to the State under risk-sharing agreements were $19,892 and $11,377, respectively.

Provider Contracts
The Association has various contracts with providers that contain quality incentive and settlement provisions. The amounts that will ultimately be paid or received for final settlement may vary significantly in the near term from the estimated amounts included in the statutory financial statements.

In 2016, the Association began working with select physician organizations and their primary care providers to implement a new reimbursement model named the Payment Transformation program. The Payment Transformation program is a per-member per-month payment model which moves participating primary care providers away from the current fee-for-service payment model. The payment model also incorporates at-risk and incentive and shared savings bonuses into the program.

Other Contracts
In March 2016, the Association entered into a strategic collaboration agreement with Navvis to improve the health of and health care received by residents of the state of Hawaiʻi through various strategic initiatives for a five-year term. The Association has the right to early terminate the agreement from December 31, 2018 with a 90-day notice to Navvis for any reason for an early termination fee of $1,000.

The Association also entered into a population management services agreement with Navvis commencing October 1, 2016 through December 31, 2026 to develop and deploy a population management services organization that would enhance the delivery of care, support physicians and physician organizations in the state of Hawaiʻi in their preparation for new payment methodologies, and organize post-acute providers to ensure continuous care. The agreement automatically extends for an additional five-year period unless written notice is given by either party of their intention not to extend the agreement. Fees payable under the population management services agreement will be considered when determining if the Association satisfied the compensation requirements under the strategic collaboration agreement.

In March 2018, the strategic collaboration and population management services agreements with Navvis were terminated and replaced with an Integrated Health Management Services ("IHMS") and Strategic Collaboration Agreement which was retroactively effective on October 1, 2016 and continues through December 31, 2026. Under the IHMS and Strategic Collaboration Agreement, Navvis will provide advisory services in the form of strategic initiatives and management services to support the on-going operations of the IHMS. During 2017, the Association prepaid $10,000 in management services fees in consideration for a $5,000 discount. Both the prepayment and the discount are pro-ratably applied against management service fees during the nine-year period January 1, 2018 through December 31, 2026.

(All Dollars in Thousands)

11. Administrative Service Contracts

The Association provides claims administration for its administrative services only and minimum premium funding (commencing in 2019) members through administrative service contract and minimum premium funding arrangements. Revenues and expenses attributable to administrative services only and minimum premium funding members below stop-loss coverage limits are netted in the statutory financial statements. Had these revenues and expenses been reported gross, the statutory statements of operations would have been as follows:

	Net Amount	Self-Insured Business	Total	% of Premiums Earned
2023				
Net premiums earned	$ 4,136,192	$ 525,271	$ 4,661,463	100.0 %
Expenses incurred				
Medical and hospital claims	3,847,864	498,135	4,345,999	93.2 %
Claims adjustment expenses	120,852	10,597	131,449	2.8 %
General administrative expenses	188,658	16,539	205,197	4.4 %
Change in reserve for loss contracts	20,200	-	20,200	0.4 %
Total underwriting deductions	4,177,574	525,271	4,702,845	100.8 %
Net underwriting loss	$ (41,382)	$ -	$ (41,382)	(0.8)%
2022				
Net premiums earned	$ 4,010,212	$ 466,334	$ 4,476,546	100.0 %
Expenses incurred				
Medical and hospital claims	3,673,136	440,768	4,113,904	91.8 %
Claims adjustment expenses	117,309	10,372	127,681	2.9 %
General administrative expenses	171,873	15,194	187,067	4.2 %
Change in reserve for loss contracts	27,300	-	27,300	0.6 %
Total underwriting deductions	3,989,618	466,334	4,455,952	99.5 %
Net underwriting income	$ 20,594	$ -	$ 20,594	0.5 %

At December 31, 2023 and 2022, amounts receivable under administrative service contract and minimum premium funding arrangements were $29,664 and $41,444, respectively, and are included in other receivables.

(All Dollars in Thousands)

12. Claims Unpaid

The activity in the liability for claims unpaid and unpaid claims adjustment expenses for the years ended December 31, 2023 and 2022 is summarized as follows:

	2023	2022
Claims unpaid net of reinsurance recoverable and unpaid claims adjustment expenses at beginning of year	$ 438,964	$ 361,471
Total incurred benefits and services provided, net of reinsurance		
Current year	3,966,833	3,766,313
Prior years	(6,338)	14,579
	3,960,495	3,780,892
Paid, net of reinsurance, related to		
Current year	3,507,117	3,349,286
Prior years	415,948	354,113
	3,923,065	3,703,399
Claims unpaid net of reinsurance recoverable at end of year	476,394	438,964
Plus: Reinsurance recoverable	12,278	7,889
Less: Unpaid claims adjustment expenses	14,470	15,260
Claims unpaid at end of year	$ 474,202	$ 431,593

The amounts incurred related to prior years reflect that the unpaid liability at the beginning of 2023 and 2022 differed from actual subsequent developments.

13. Reinsurance

In the normal course of business, the Association seeks to reduce the loss that may arise from catastrophe or other events that may cause unfavorable underwriting results by reinsuring under various contracts. The Association's reinsurance program involves unrelated insurers to indemnify the Association for each member's medical claims incurred which exceed a specific retention amount.

During 2023 and 2022, medical claims incurred for certain lines of private business were subject to two excess layers of reinsurance. Under the first layer, the reinsurer was liable for none of the first $2,500 and 100% of the next $2,500 of ultimate net losses for each policy member. Under the second layer, the reinsurer was liable for 100% of the ultimate net losses for each policy member in excess of $5,000, subject to a limit of $5,000.

During 2023 and 2022, medical claims incurred for Akamai Advantage members were subject to one excess layer of reinsurance. The reinsurer was liable for none of the first $750 and 100% of the ultimate losses for each policy member in excess of $750, subject to a limit of $4,250.

During 2023 and 2022, medical claims incurred for the Association's individual exchange members were subject to one excess layer of reinsurance. The reinsurer was liable for none of the first $5,000 and 40% of the ultimate losses for each policy member in excess of $5,000, subject to a limit of $5,000.

During 2023, medical claims incurred for QUEST program members were subject to two excess layers of reinsurance. Under the first layer, the reinsurer was liable for none of the first $3,000 and 100% of the next $2,000 of ultimate net losses for each policy member. Under the second layer, the reinsurer was generally liable for 100% of the ultimate net losses for each policy member in excess of $5,000, subject to a limit of $5,000. During 2022, medical claims incurred for QUEST program members were subject to two excess layers of reinsurance. Under the first layer, the reinsurer was liable for none of the first $2,000 and 100% of the next $3,000 of ultimate net losses for each policy member. Under the second layer, the reinsurer was generally liable for 100% of the ultimate net losses for each policy member in excess of $5,000, subject to a limit of $5,000.

During 2023 and 2022, medical claims incurred for EUTF members were subject to two excess layers of reinsurance. Under the first layer, the reinsurer was liable for none of the first $1,750 and 100% of the next $3,250 of ultimate net losses for each policy member. Under the second layer, the reinsurer was liable for 100% of the ultimate net losses for each policy member in excess of $5,000, subject to a limit of $5,000.

During 2023 and 2022, medical claims incurred for certain professional employer organization members were subject to one excess layer of reinsurance. The reinsurer was liable for none of the first $2,500 and 100% of the ultimate losses for each policy member in excess of $2,500, subject to a limit of $7,500.

During 2023 and 2022, medical claims incurred for the Association’s private business members must exceed an aggregate specific deductible in order for the reinsurer to be liable.

For the years ended December 31, 2023 and 2022, the amounts recoverable from the unrelated reinsurers were $6,956 and $4,182, respectively. At December 31, 2023 and 2022, the reinsurance receivable from the unrelated reinsurers was $12,236 and $7,849, respectively.

The Association has a reinsurance agreement with LSV, an affiliate, to cede its private business dental plans, except for Keiki Care and the Federal Employees Health Benefit contracts. The reinsurer assumes 100% of the Association’s dental claims on an indemnity basis. All premiums are collected by the Association and remitted to the reinsurer as reinsurance premiums. For the years ended December 31, 2023 and 2022, amounts ceded to its reinsurance affiliate amounted to $53,172 and $49,428, respectively. At December 31, 2023 and 2022, the reinsurance receivable amounted to $43 and $41, respectively, and was included in other receivables.

(All Dollars in Thousands)

14. Pharmacy Rebate Receivables

The Association recognizes pharmaceutical rebate receivables based on past collection patterns. Pharmacy rebate receivables outstanding less than 90 days of $66,226 and $53,845 at December 31, 2023 and 2022, respectively, were considered admitted assets. The following presents quarterly information on pharmacy rebate receivables as of December 31, 2023 for 2023, 2022 and 2021:

Quarter Ended	Rebate Receivable Reported	Rebate Invoiced/ Confirmed	Collected Within 90 Days of Invoicing/ Confirmation	Collected Within 91-180 Days of Invoicing/ Confirmation	Collected More than 180 Days of Invoicing/ Confirmation
2023					
March 31, 2023	$ 55,912	$ 55,568	$ 55,568	$ -	$ -
June 30, 2023	58,435	56,980	56,980	-	-
September 30, 2023	67,338	62,786	62,786	-	-
December 31, 2023	66,226	70,492	70,492	-	-
2022					
March 31, 2022	$ 45,709	$ 44,084	$ 44,084	$ -	$ -
June 30, 2022	49,589	49,664	49,664	-	-
September 30, 2022	51,481	51,111	51,111	-	-
December 31, 2022	53,845	55,441	55,441	-	-
2021					
March 31, 2021	$ 36,193	$ 36,092	$ 36,092	$ -	$ -
June 30, 2021	38,542	34,111	34,111	-	-
September 30, 2021	40,503	46,937	46,937	-	-
December 31, 2021	45,386	44,070	44,070	-	-

The Association's pharmacy benefits management company makes no quarterly guaranteed rebate payments. Instead, rebate payments to the Association are delayed until after they are billed and collected from pharmacy manufacturers. At December 31, 2023, 2022 and 2021, the gross pharmacy rebate receivables of $90,537, $81,115 and $72,520, respectively, were adjusted to nonadmit the portion outstanding for more than 90 days. At December 31, 2023, 2022 and 2021, amounts nonadmitted were $24,311, $27,270 and $27,134, respectively.

(All Dollars in Thousands)

15. Fair Value of Financial Instruments

The fair values and admitted values of financial instruments at December 31, 2023 and 2022 are shown below:

	Estimated Fair Values	Admitted Values	Level 1	Level 2	Level 3
2023					
Cash, cash equivalents, and short-term investments	$ 820,244	$ 820,244	$ -	$ 820,244	$ -
Receivables	315,579	315,579	-	315,579	-
Debt securities	240,048	247,915	33,232	206,816	-
Mutual funds	200,498	200,498	200,498	-	-
Exchange traded funds	23,456	23,456	23,456	-	-
Private equity investments	1,140	1,140	-	-	1,140
Accrued expenses	387,399	387,399	-	387,399	-
Other liabilities	6,931	-	-	6,931	-
2022					
Cash, cash equivalents, and short-term investments	$ 849,122	$ 849,122	$ -	$ 849,122	$ -
Receivables	308,197	308,197	-	308,197	-
Debt securities	208,694	224,298	32,460	176,234	-
Mutual funds	175,245	175,245	175,245	-	-
Exchange traded funds	20,747	20,747	20,747	-	-
Private equity investments	1,140	1,140	-	-	1,140
Accrued expenses	369,233	369,233	-	369,233	-
Other liabilities	2,768	2,768	-	2,768	-

16. Legal Matters

Beginning July 2012, several lawsuits, most of which are purported class actions, were filed in federal district courts and state courts throughout the United States brought by providers and subscribers naming Blue Plans, including the Association, and BCBSA alleging an antitrust conspiracy among Blue Plans. Those lawsuits have since been consolidated into a multidistrict litigation centralized in the U.S. District Court for the Northern District of Alabama. In 2022, the court granted final approval of a subscriber settlement which was partially covered by insurance; however, certain subscribers have appealed the final order. Additionally, certain subscribers have opted out of the subscriber settlement and are participating in separate litigation proceedings. Parties to the provider lawsuit have yet to reach a settlement. At December 31, 2023, the Association had $136,000 accrued for estimated future legal and settlement costs.

Separately, there are various other claims and lawsuits pending against the Association involving complaints that are incidental to its business. Insurance coverage has been purchased for these claims. In the opinion of management based on consultation with legal counsel, the resolution of these other claims will not have a material adverse effect on the business, operating results, financial position, and cash flows of the Association.

(All Dollars in Thousands)

17. Surplus

Under applicable laws and regulations, the Association is required to maintain a minimum surplus determined in accordance with regulatory accounting practices, in the aggregate amount of $335,899 and $319,210 as of December 31, 2023 and 2022, respectively.

18. Affordable Care Act

As of and for the years ended December 31, 2023 and 2022, the Association recognized amounts related to the risk adjustment program as follows:

	2023	2022
Risk adjustment program		
Premium adjustment receivable	$ 21,000	$ 18,732
Risk adjustment user fee payable	-	-
Premium adjustment payable	3,034	5,045
Risk adjustment premium reported in revenue	24,862	17,149
Risk adjustment user fees reported in expenses	122	119

A rollforward of the December 31, 2022 and 2021 asset and liability risk adjustment program balances as of December 31, 2023 and 2022 is as follows:

	Accrued During the Prior Year on Business Written Before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before December 31 of the Prior Year		Differences		Adjustments		Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments	Prior Year Accrued Less Payments	To Prior Year Balances	To Prior Year Balances	Cumulative Balance from Prior Years	Cumulative Balance from Prior Years
	Receivable	Payable	Receivable	Payable	Receivable	Payable	Receivable	Payable	Receivable	Payable
2023										
Risk adjustment program										
Premium adjustment receivable	$ 18,732	$ -	$ 25,453	$ -	$ (6,721)	$ -	$ 6,722	$ -	$ 1	$ -
Premium adjustment payable	-	5,045	-	4,976	-	69	-	1,559	-	1,628
Total for risk adjustment program	$ 18,732	$ 5,045	$ 25,453	$ 4,976	$ (6,721)	$ 69	$ 6,722	$ 1,559	$ 1	$ 1,628
2022										
Risk adjustment program										
Premium adjustment receivable	$ 26,506	$ -	$ 30,303	$ -	$ (3,797)	$ -	$ 3,797	$ -	$ -	$ -
Premium adjustment payable	-	1,897	-	657	-	1,240		3,805	-	5,045
Total for risk adjustment program	$ 26,506	$ 1,897	$ 30,303	$ 657	$ (3,797)	$ 1,240	$ 3,797	$ 3,805	$ -	$ 5,045

(All Dollars in Thousands)

19. Annual Statement Adjustments and Reclassifications

The accompanying audited statutory financial statements included reclassifications to properly reflect the admitted assets, liabilities and unassigned surplus, net income, and cash flow activities which were reported differently in the 2023 and 2022 annual statements filed with the Insurance Division in March 2024 and 2023, respectively.

	Admitted Assets	Liabilities	Unassigned Surplus	Net Income
December 31, 2023				
As reported in the annual statement	$ 1,865,838	$ 1,006,952	$ 858,886	$ 7,452
Adjustments	-	-	-	-
As reported in the audited statutory financial statements	$ 1,865,838	$ 1,006,952	$ 858,886	$ 7,452
December 31, 2022				
As reported in the annual statement	$ 1,815,029	$ 967,494	$ 847,535	$ 26,884
Adjustments	-	-	-	-
As reported in the audited statutory financial statements	$ 1,815,029	$ 967,494	$ 847,535	$ 26,884

	Net Cash Received from (Applied for) Operations	Net Cash Applied for Investments	Net Cash Received from (Applied for) Financing
December 31, 2023			
As reported in the annual statement	$ 40,046	$ (32,130)	$ (36,794)
Reclassifications	(11,626)	1,209	10,417
As reported in the audited statutory financial statements	$ 28,420	$ (30,921)	$ (26,377)
December 31, 2022			
As reported in the annual statement	$ (18,417)	$ (4,136)	$ 68,600
Reclassifications	16,256	3	(16,259)
As reported in the audited statutory financial statements	$ (2,161)	$ (4,133)	$ 52,341

The reclassifications between net cash flow categories were made as a result of differences in the classification of account balances for the years ended December 31, 2023 and 2022.

Hawaiʻi Medical Service Association
Supplemental Schedule – Investment Summary Schedule
December 31, 2023
(All Dollars in Thousands) **Schedule 1**

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total	Percentage
Bonds (Schedule D, Part 1)						
U.S. governments	$ 74,379	5.1 %	$ 74,379	$ -	$ 74,379	5.2 %
All other governments	-	0.0 %	-	-	-	0.0 %
U.S. states, territories and possessions, etc., guaranteed	675	0.0 %	675	-	675	0.0 %
U.S. political subdivisions of states, territories and possessions, guaranteed	308	0.0 %	308	-	308	0.0 %
U.S. special revenue and special assessment obligations, etc., non-guaranteed	70,786	4.9 %	70,786	-	70,786	4.9 %
Industrial and miscellaneous	68,534	4.7 %	68,534	-	68,534	4.7 %
Hybrid securities	-	0.0 %	-	-	-	0.0 %
Parent, subsidiaries and affiliates	-	0.0 %	-	-	-	0.0 %
SVO identified funds	33,233	2.3 %	33,233	-	33,233	2.3 %
Unaffiliated bank loans	-	0.0 %	-	-	-	0.0 %
Total long-term bonds	247,915	17.0 %	247,915	-	247,915	17.1 %
Preferred stocks (Schedule D, Part 2, Section 1)						
Industrial and miscellaneous (unaffiliated)	500	0.0 %	-	-	-	0.0 %
Parent, subsidiaries and affiliates	-	0.0 %	-	-	-	0.0 %
Total preferred stocks	500	0.0 %	-	-	-	0.0 %
Common stocks (Schedule D, Part 2, Section 2)						
Industrial and miscellaneous publicly traded (unaffiliated)	23,456	1.6 %	23,456	-	23,456	1.6 %
Industrial and miscellaneous other (unaffiliated)	1,140	0.1 %	1,140	-	1,140	0.1 %
Parent, subsidiaries and affiliates publicly traded	-	0.0 %	-	-	-	0.0 %
Parent, subsidiaries and affiliates other	18,296	1.3 %	15,148	-	15,148	1.0 %
Mutual funds	200,498	13.8 %	200,498	-	200,498	13.9 %
Unit investment trusts	-	0.0 %	-	-	-	0.0 %
Closed-end funds	-	0.0 %	-	-	-	0.0 %
Total common stocks	243,390	16.8 %	240,242	-	240,242	16.6 %
Mortgage loans (Schedule B)						
Farm mortgages	-	0.0 %	-	-	-	0.0 %
Residential mortgages	-	0.0 %	-	-	-	0.0 %
Commercial mortgages	-	0.0 %	-	-	-	0.0 %
Mezzanine real estate loans	-	0.0 %	-	-	-	0.0 %
Total valuation allowance	-	0.0 %	-	-	-	0.0 %
Total mortgage loans	-	0.0 %	-	-	-	0.0 %
Investment categories						
Real estate (Schedule A)						
Property occupied by company	89,874	6.2 %	89,874	-	89,874	6.2 %
Property held for production of income	-	0.0 %	-	-	-	0.0 %
Property held for sale	-	0.0 %	-	-	-	0.0 %
Total real estate	89,874	6.2 %	89,874	-	89,874	6.2 %
Cash, cash equivalents, and short-term investments						
Cash (Schedule E, Part 1)	165,985	11.4 %	165,985	-	165,985	11.5 %
Cash equivalents (Schedule E, Part 2)	566,462	38.9 %	566,462	-	566,462	39.2 %
Short-term investments (Schedule DA)	87,797	6.0 %	87,797	-	87,797	6.1 %
Total cash, cash equivalents, and short-term investments	820,244	56.3 %	820,244	-	820,244	56.8 %
Contract loans	-	0.0 %	-	-	-	0.0 %
Derivatives (Schedule DB)	-	0.0 %	-	-	-	0.0 %
Other invested assets (Schedule BA)	53,313	3.7 %	45,666	-	45,666	3.3 %
Receivables for securities	-	0.0 %	-	-	-	0.0 %
Securities lending (Schedule DL, Part 1)	-	0.0 %	-	-	-	0.0 %
Other invested assets	-	0.0 %	-	-	-	0.0 %
Total invested assets	$ 1,455,236	100.0 %	$ 1,443,941	$ -	$ 1,443,941	100.0 %

Hawai'i Medical Service Association
Supplemental Schedule – Investment Risk Interrogatories
December 31, 2023
(All Dollars in Thousands) **Schedule 2-1**

Answer the following interrogatories by stating the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments as shown on the Summary Investment Schedule. All reporting entities must answer interrogatories 1 through 4, 11 through 16, 18, 19 and, if applicable 20 through 23. Answer each of the interrogatories 5 through 10 only if the reporting entity's aggregate holdings in foreign investments as addressed in interrogatory 4 equals or exceeds 2.5% of the reporting entity's total admitted assets. Answer interrogatory 17 only if the reporting entity's aggregate holdings in mortgage loans as addressed in interrogatory 16 equals or exceeds 2.5% of the reporting entity's total admitted assets. For Life, Health and Fraternal blanks, responses are to exclude Separate Accounts.

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. $ 1,865,838

2. State the single 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government securities, U.S. government agency securities, and those U.S. government money market funds listed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office as exempt, property occupied by the Company, policy loans and all SEC and foreign registered funds and common trust funds that are diversified within the meaning of the Investment Company Act of 1940.

Exposure			Amount	Percentage of Total Admitted Assets
a.	Life and Specialty Ventures, LLC	$	18,150	0.97 %
b.	Integrated Services, Inc.	$	15,148	0.81 %
c.	BlackSand Capital Opportunity Fund II, L.P.	$	4,798	0.26 %
d.	BlueCross BlueShield Venture Partners, L.P.	$	2,536	0.14 %
e.	BlueCross BlueShield Venture Partners II, L.P.	$	1,806	0.10 %
f.	Bank of America	$	1,677	0.09 %
g.	PNC Financial Services	$	1,357	0.07 %
h.	New York N Y City Transitional Fin	$	1,320	0.07 %
i.	Ford Motor Credit Co	$	1,195	0.06 %
j.	General Motors	$	1,014	0.05 %

3. State by NAIC designation, the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks (perpetual preferred and redeemable preferred).

Bonds		Amount	Percentage of Total Admitted Assets
NAIC-1	$	298,819	16.02 %
NAIC-2	$	30,183	1.62 %
NAIC-3	$	4,376	0.23 %
NAIC-4	$	1,704	0.09 %
Preferred Stocks			
None			

4. State the amounts and percentages of the reporting entity's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined in the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31, *Derivative Instruments*), including (i) foreign investments as determined by the rules or statutes of the state of Hawai'i of $9,366, (ii) foreign investments that support insurance liabilities denominated in that same foreign currency of $0, (iii) the amount of the insurance liabilities associated with the investments reported in (ii) and that are denominated in the same currency of $0.
Assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 5 – 10. **Yes [X] No [ ]**

(All Dollars in Thousands) Schedule 2-2

11. State the amounts and percentages of the reporting entity's total admitted assets held in Canadian investments, including Canadian-currency-denominated investments of $3,424, Canadian insurance liabilities of $0, and unhedged Canadian currency exposure.
    Assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 11. **Yes [X] No [ ]**

12. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days).
    Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 12. **Yes [X] No [ ]**

13. State the amounts and percentages of admitted assets held in the 10 largest equity interests (including equity funds that qualify individually as one of the largest equity interests and a look-through of investments in the shares of non-diversified mutual funds and ETFs, preferred stocks, publicly traded equity securities, and other equity securities, excluding SVO-identified U.S. direct obligations/full faith and credit exempt list of money market mutual funds, SVO-identified bond ETFs, and SVO-identified fund investments with underlying characteristics of fixed income instruments, which do not contain underlying equities and that are outlined within the Purposes and Procedures Manual of the NAIC Investment Analysis Office.
    Assets held in equity interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 13. **Yes [ ] No [X]**

Equity Interest			**Amount**	**Percentage**
a.	Doubleline Total Return Bond Fund	$	73,710	3.95 %
b.	Vanguard Institutional Index Fund	$	40,225	2.16 %
c.	Vanguard Total Stock Index Fund	$	38,349	2.06 %
d.	MFC Dimensional Word Ex U.S. Core	$	23,456	1.26 %
e.	Life and Specialty Ventures, LLC	$	18,150	0.97 %
f.	Vanguard Mid-Cap Index Fund	$	18,115	0.97 %
g.	CF Loomis New Hampshire Investment	$	17,307	0.93 %
h.	Vanguard Small-Cap Index Fund	$	16,033	0.86 %
i.	Integrated Services, Inc.	$	15,148	0.81 %
j.	MFO Legg Mason Partners Income	$	14,066	0.75 %

14. State the amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under Securities Exchange Commission ("SEC") Rule 144a or SEC Rule 144 without volume restrictions.
    Assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 14. **Yes [X] No [ ]**

15. State the amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities).
    Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 15. **Yes [X] No [ ]**
    Aggregate statement value of investments held in general partnership interests **None**
    Largest 3 investments with contractual sales restrictions **None**

16. With respect to mortgage loans reported in Schedule B, state the amounts and percentages of the reporting entity's total admitted assets.
    Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 16 and 17. **Yes [X] No [ ]**
    Each of the 10 largest aggregate mortgage interests. The aggregate mortgage interest represents the combined value of all mortgages secured by the same property or same group of properties. **None**

18. State the amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A, excluding property occupied by the company.
    Assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 18. **Yes [X] No [ ]**

19. State the aggregate amounts and percentages of potential exposure for mezzanine real estate loans.
    Assets held in mezzanine real estate loans are less than 2.5% of the reporting entity's admitted assets, therefore detail not required for interrogatory 19. **Yes [X] No [ ]**

1.	Disclose any ceded reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) subject to A-791 that includes a provision, which limits the reinsurer's assumption of significant risks identified as in A-791. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect.		**None**
	a.	If true, indicate the number of reinsurance contracts to which such provisions apply.	**N/A**
	b.	For contracts subject to A-791, indicate if deposit accounting was applied for all contracts, which limit significant risks.	**N/A**
2.	Disclose any ceded reinsurance contracts (or multiple contracts with the same reinsurer or its affiliates) not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk. Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar effect. Note that a stop loss or excess of loss reinsurance agreement with deductibles or loss caps which apply to the entire contract and are not adjustable based on other features, do not require disclosure under this paragraph.		
	a.	If true, indicate the number of reinsurance contracts to which such provisions apply.	**1**
	b.	If affirmative, indicate if reinsurance credit was reduced for the risk limiting features.	**Yes**
3.	Disclose if any ceded reinsurance contracts contain features (except reinsurance contracts with a federal or state facility) described below which result in delays in payment in form or in fact.		
	a.	Provisions which permit the reporting of losses, or settlements are made, less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date (unless there is no activity during the period).	**None**
	b.	Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.	**None**
4.	Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to A-791 and not yearly renewable term, which meet the risk-transfer requirements of SSAP No. 61R and identify the type of contracts and the reinsurance contracts.		**Yes**
	a.	Assumption reinsurance – as discussed in paragraph 60, which are new for the reporting period.	**No**
5.	Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:		
	a.	Accounted for that contract as reinsurance under statutory accounting principles ("SAP") and as a deposit under U.S. generally accepted accounting principles ("GAAP"); or	**N/A**
	b.	Accounted for that contract as reinsurance U.S. GAAP and as a deposit under SAP.	**N/A**
	If the reporting entity does not prepare U.S. GAAP financial statements or its financial statements are not part of upstream U.S. GAAP financial statements, this disclosure can be answered not applicable.		
6.	If affirmative disclosure is required for paragraph 83, explain why the contract(s) is treated differently for GAAP and SAP.		**N/A**