



**Blue Cross
Blue Shield**
of Michigan

A nonprofit corporation and independent licensee
of the Blue Cross and Blue Shield Association

**Blue Cross Blue Shield of Michigan
and Subsidiaries**

**✓
VALUE
DEFINED**

**Consolidated Financial Statements
as of and for the Years Ended
December 31, 2010 and 2009,
and Independent Auditors' Report**

Management Statement of Responsibility



The management of Blue Cross Blue Shield of Michigan and its subsidiaries prepared the accompanying consolidated financial statements, and has the responsibility for the integrity, objectivity and freedom from material misstatement (whether caused by error or fraud). They were prepared in accordance with accounting principles generally accepted in the United States of America, and they include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the consolidated financial statements.

Management is further responsible for maintaining a system of internal control designed to provide reasonable assurance that transactions are executed in accordance with management authorization, and that they are appropriately recorded, in order to permit preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America and to adequately safeguard, verify and maintain accountability of assets. An important element of the system is an ongoing internal audit program.

Deloitte & Touche LLP, independent certified public accountants, is engaged to audit the consolidated financial statements of Blue Cross Blue Shield of Michigan and its subsidiaries and express an opinion thereon. Their audit is conducted in accordance with auditing standards generally accepted in the United States of America, which comprehend the consideration of internal control and tests of transactions to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management. The Independent Auditors' Report appears on the next page.

The Board of Directors, acting through its Audit Committee, is responsible for assuring that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The board appoints the independent public accountants on the recommendation of the Audit Committee. It meets regularly with management, internal auditors and independent accounts. The independent accountants have full and free access to the Audit Committee and meet with it to discuss their audit work, the company's internal controls and financial reporting matters.

Handwritten signature of Daniel J. Loepp in black ink.

Daniel J. Loepp
President and
Chief Executive Officer

Handwritten signature of Mark R. Bartlett in black ink.

Mark R. Bartlett
Executive Vice President,
Chief Financial Officer and
President of Emerging Markets

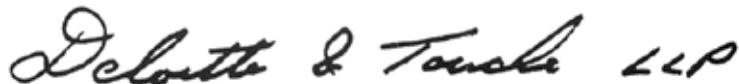
Independent Auditors' Report

To the Board of Directors of Blue Cross Blue Shield of Michigan Detroit, Michigan

We have audited the accompanying consolidated balance sheets of Blue Cross Blue Shield of Michigan and subsidiaries (the "Corporation") as of December 31, 2010 and 2009, and the related consolidated statements of operations, subscribers' reserves, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



March 10, 2011



Deloitte & Touche LLP
600 Renaissance Center
Suite 900
Detroit, MI 48243-1895
USA

Tel: + 1 313 396 3000

Fax: + 1 313 396 3618

www.deloitte.com

Member of
Deloitte Touche Tohmatsu Limited

BLUE CROSS BLUE SHIELD OF MICHIGAN AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009 (Amounts in millions)

	2010	2009
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 416.2	\$ 448.8
INVESTMENTS:		
Trading securities	857.3	676.8
Available-for-sale securities	<u>6,046.6</u>	<u>5,686.2</u>
Total investments	6,903.9	6,363.0
SECURITIES LENDING COLLATERAL	494.8	305.8
RECEIVABLES — Net	2,277.6	2,455.5
PROPERTY AND EQUIPMENT — Net	627.9	597.7
NET DEFERRED TAX ASSETS	207.4	321.7
GOODWILL	171.9	207.7
OTHER ASSETS	<u>281.7</u>	<u>288.7</u>
TOTAL	<u>\$ 11,381.4</u>	<u>\$ 10,988.9</u>
LIABILITIES AND SUBSCRIBERS' RESERVES		
LIABILITIES FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES:		
Health	\$ 1,792.4	\$ 1,980.1
Nonhealth	<u>1,818.9</u>	<u>1,718.2</u>
Total liabilities for unpaid claims and claim adjustment expenses	3,611.3	3,698.3
PREMIUM DEFICIENCY RESERVES	616.9	608.0
ACCRUED LIABILITY TO GROUPS	263.8	292.8
UNEARNED REVENUE	571.2	588.7
SECURITIES LENDING PAYABLE	494.8	305.8
OTHER LIABILITIES:		
Accrued employee expenses	1,165.4	878.2
Debt	1,024.2	1,042.8
Other	<u>713.7</u>	<u>751.2</u>
Total liabilities	<u>8,461.3</u>	<u>8,165.8</u>
SUBSCRIBERS' RESERVES:		
Accumulated reserves	3,212.7	2,990.5
Accumulated other comprehensive loss	<u>(292.6)</u>	<u>(167.4)</u>
Total subscribers' reserves	<u>2,920.1</u>	<u>2,823.1</u>
TOTAL	<u>\$ 11,381.4</u>	<u>\$ 10,988.9</u>

See notes to consolidated financial statements.

BLUE CROSS BLUE SHIELD OF MICHIGAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in millions)

	2010	2009
PREMIUM AND PREMIUM EQUIVALENT REVENUE:		
Underwritten premiums earned	\$ 9,763.8	\$ 10,086.9
Self-funded premium equivalent revenue	<u>9,559.2</u>	<u>11,549.8</u>
Total revenue	19,323.0	21,636.7
Less amounts attributable to claims under self-funded arrangements	<u>(8,845.7)</u>	<u>(10,778.2)</u>
Net premium and self-funded fee revenue	<u>10,477.3</u>	<u>10,858.5</u>
COST OF SERVICES:		
Benefits provided	8,626.0	9,068.6
Change in premium deficiency reserves	8.9	64.0
Operating expenses	<u>2,010.1</u>	<u>2,045.4</u>
Total cost of services	<u>10,645.0</u>	<u>11,178.0</u>
OPERATING LOSS	(167.7)	(319.5)
INVESTMENT AND OTHER INCOME, NET	<u>442.9</u>	<u>594.6</u>
ADDITION TO SUBSCRIBERS' RESERVES BEFORE FEDERAL INCOME TAXES	275.2	275.1
FEDERAL INCOME TAX EXPENSE	<u>53.0</u>	<u>42.0</u>
ADDITION TO SUBSCRIBERS' RESERVES	<u>\$ 222.2</u>	<u>\$ 233.1</u>

See notes to consolidated financial statements.

BLUE CROSS BLUE SHIELD OF MICHIGAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SUBSCRIBERS' RESERVES AS OF DECEMBER 31, 2010 AND 2009 (Amounts in millions — net of tax)

	Accumulated Reserves	Accumulated Other Comprehensive Income (Loss)	Total
BALANCES — January 1, 2009	\$ 2,757.4	\$ (431.0)	\$ 2,326.4
Addition to subscribers' reserves	233.1	-	233.1
Other comprehensive income	<u>-</u>	<u>263.6</u>	<u>263.6</u>
BALANCES — December 31, 2009	2,990.5	(167.4)	2,823.1
Addition to subscribers' reserves	222.2	-	222.2
Other comprehensive loss	<u>-</u>	<u>(125.2)</u>	<u>(125.2)</u>
BALANCES — December 31, 2010	<u>\$ 3,212.7</u>	<u>\$ (292.6)</u>	<u>\$ 2,920.1</u>

See notes to consolidated financial statements.

BLUE CROSS BLUE SHIELD OF MICHIGAN AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in millions)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Addition to subscribers' reserves	\$ 222.2	\$ 233.1
Adjustments to reconcile addition to subscribers' reserves to cash (used in) provided by operating activities:		
Depreciation and amortization	163.9	123.0
Realized (gain) loss on investments	(237.3)	(87.2)
Investment impairments	4.1	29.9
Gain on sale of subsidiary	-	(26.3)
Gain on sale of property	-	(7.9)
Asset impairment charges	72.1	14.8
Provision for deferred income taxes	146.1	41.7
Pension and other postretirement benefits	24.6	16.5
Change in premium deficiency reserve	8.9	64.0
Changes in assets and liabilities that provided (used) cash:		
Receivables	178.3	(73.8)
Other assets	(3.4)	(44.5)
Accrued liability to groups	(28.9)	(95.3)
Liabilities for unpaid claims and claim adjustment expense	(86.8)	(8.1)
Unearned revenue	(17.5)	(39.3)
Other liabilities	(36.8)	90.6
Cash provided by operating activities	<u>409.5</u>	<u>231.2</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(6,878.2)	(7,304.3)
Sales and maturities of investments	6,605.8	6,698.5
Acquisitions of property and equipment	(101.4)	(84.4)
Investment in capitalized software	(49.8)	(70.1)
Proceeds from sale of subsidiary	-	45.0
Proceeds from sale of property	-	17.5
Cash used in investing activities	<u>(423.6)</u>	<u>(697.8)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	181.0	550.0
Proceeds from sale-leaseback	31.4	86.3
Repayment of debt	(230.9)	(126.6)
Cash (used in) provided by financing activities	<u>(18.5)</u>	<u>509.7</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(32.6)	43.1
CASH AND CASH EQUIVALENTS — Beginning of year	<u>448.8</u>	<u>405.7</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 416.2</u>	<u>\$ 448.8</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid for federal income taxes	<u>\$ 89.2</u>	<u>\$ 3.8</u>
Cash paid for interest	<u>\$ 28.3</u>	<u>\$ 11.9</u>

See notes to consolidated financial statements.

BLUE CROSS BLUE SHIELD OF MICHIGAN AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in millions)

1. SIGNIFICANT ACCOUNTING POLICIES

Blue Cross Blue Shield of Michigan (the “Company”) is incorporated as a nonprofit corporation under the provisions of Public Act 350 (“P.A. 350”) of the State of Michigan. Hospital, medical, and other health benefits are provided under contracts with subscribers. The Company also operates health maintenance organization (HMO) subsidiaries, Blue Care Network of Michigan (BCNM), and BlueCaid of Michigan that provide health care services to subscribers and contracts with various physician groups, hospitals, and other health care providers to provide such services. In addition, the Company provides workers’ compensation insurance through Accident Fund Holdings, Inc. and its subsidiaries (“Accident Fund”) and long-term care insurance through LifeSecure Insurance Company (“LifeSecure”). The Company also provided network services to numerous entities through DenteMax (which was sold in June 2009) (Note 2) and Michigan Health Insurance Company (MHIC) (which was merged into LifeSecure in March 2009). Collectively, the Company and its subsidiaries are referred to herein as the “Corporation.”

Basis of Presentation — The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which vary in certain respects from statutory basis accounting practices and prescribed practices by the Michigan Office of Financial and Insurance Regulation (“OFIR”) (see Note 25).

Principles of Consolidation — All majority-owned subsidiaries are consolidated. All significant nonmajority-owned investments, including investments in partnerships and joint ventures, are accounted for using the equity method when the Corporation is able to influence the financial operating policies of the investee, or the investment percentage is more than minor. Significant influence is deemed to exist when the Corporation owns at least 20% of the voting stock of the investee. For limited liability companies, the equity method is generally used. For all other investments, the Corporation applies the cost method. All significant intercompany transactions and balances are eliminated in consolidation.

Cash Equivalents — Cash equivalents, which are carried at fair value, are comprised of short-term investments with maturities of 90 days or less.

Investments — The Corporation classifies its investments in debt and equity securities as either trading or available-for-sale, and accordingly, such securities are carried at fair value. Securities are classified as trading if they are part of an investment portfolio that is actively managed by an external investment manager and the manager has broad authority to buy and sell securities without prior approval. All other securities are classified as available-for-sale.

The unrealized gains and losses related to trading securities are included in investment and other income. The unrealized gains and losses related to available-for-sale securities are excluded from investment income and reported as a component of other comprehensive income, net of related income taxes. Realized gains and losses on sales of securities are determined based on the specific identification method and are included in investment and other income. For available-for-sale securities, the Corporation employs a systematic methodology that considers available evidence in evaluating potential other than temporary impairment of its investments. In the event that the amortized cost of an investment

exceeds its fair value, the Corporation evaluates, among other factors, the magnitude and duration of the decline in fair value, the financial health and business outlook of the issuer, and the Corporation's ability and intent to hold the investments for equity securities and its intent to sell for debt securities. When a decline in fair value is determined to be other-than-temporary on a security held as available-for-sale, an impairment charge is recorded as a realized loss and a new cost basis in the investment is established.

Fair Value Measurements — The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced liquidation or sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced liquidation or sale.

Fair values are based on quoted market prices when available. The Corporation obtains quoted or other observable inputs for the determination of fair value for actively traded securities. For securities not actively traded, the Corporation determines fair value using a discounted cash flow analyses, incorporating inputs such as non-binding broker quotes, benchmark yields, and credit spreads. In instances where there is little or no market activity for the same or similar instruments, the Corporation estimates fair value using methods, models, and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which become significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model, or input used. The Corporation's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (FASB ASC) Topic 820, *Fair Value Measurements and Disclosures*. It defines fair value as the price that would be received for an asset or paid to transfer a liability (exit price) in the principal most advantageous market for the asset or liability in an orderly transaction between market participants. An asset's or a liability's classification is based on the lowest-level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

Topic 820 prioritizes the inputs used in measuring fair value into the following levels:

Level 1 — Unadjusted quoted prices for identical assets or liabilities in active markets

Level 2 — Inputs other than Level 1 that are based on observable market data, including quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, and inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs reflecting the Corporation's own assumptions based on the best information available in the circumstances

Securities Lending — The Corporation enters into secured lending transactions and recognizes the cash collateral received and the corresponding liability to return the cash collateral. Cash received for collateral is reinvested in various commingled trusts.

Property and Equipment — Property and equipment is stated at cost and is depreciated using the straight-line method over estimated useful lives ranging from 30 to 40 years for buildings and 5 to 10 years for equipment.

Software Costs — Certain costs related to acquired and developed computer software for internal use are capitalized as incurred. Capitalized costs are amortized, generally over a three- to ten-year useful life, using the straight-line method.

Long-Lived Assets — Long-lived assets held and used by the Corporation are reviewed for impairment based on market factors and operational considerations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets “held for sale” are no longer depreciated. The Corporation writes down the carrying amount of a long-lived asset to its fair value at the time an impairment has been determined (see Note 7).

Other Assets — Other assets consist primarily of investments in nonmajority-owned entities, investments in partnerships and joint ventures and deferred policy acquisition costs of Accident Fund and LifeSecure. Deferred policy acquisition costs consist primarily of commissions, premium-based taxes and assessments, salaries and certain other underwriting expenses that vary with and are primarily related to, the production of new and renewal insurance policies. Policy acquisition costs are deferred and amortized over the period in which the related premiums are earned. Amortization expense of policy acquisition costs was \$1.1 and \$0.7 for 2010 and 2009, respectively.

Intangible Assets — The acquisition of subsidiaries has resulted in recognition of intangible assets consisting of customer contracts, provider networks, and trademarks. These intangible assets are being amortized over their expected useful life. The Corporation recorded amortization expense of \$9.6 and \$9.1 in 2010 and 2009, respectively, for these intangible assets. Additionally, intangible asset amortization of \$9.3 is scheduled to be recognized for 2011, \$4.2 for 2012, and \$4.2 for 2013.

Goodwill — In connection with acquiring the assets and liabilities of subsidiaries, the excess of the purchase price over fair value of identifiable net assets acquired is recorded as goodwill. Goodwill is not amortized for the Corporation’s for-profit subsidiaries. Prior to 2010, goodwill on the books of BCNM, a not-for-profit HMO, was amortized over a period of 10 years. Effective January 1 2010, FASB ASC 805, *Business Combinations and Reorganization* provides that accounting of goodwill for not-for-profits should be similar to for profits in that goodwill would no longer be amortized. The carrying value of goodwill is reviewed for impairment at least annually or more frequently should circumstances indicate.

Liabilities for Unpaid Claims and Claim Adjustment Expenses — Liabilities for unpaid claims and claim adjustment expenses are actuarial estimates of outstanding claims, including claims incurred but not reported (IBNR). These estimates are based upon historical claims experience modified for current trends and changes in benefit coverage, which could vary as the claims are ultimately settled. Health benefits payable to hospitals and other facilities are stated net of interim advances. Processing expense related to claims is accrued based on an estimate of expenses to process such claims. Revisions in actuarial estimates are reported in the period in which they arise. Policy reserves are established for long-term care and annuity products to satisfy future policy obligations to contract holders.

Experience Rated Groups — A liability is recognized in accrued liability to groups for experience-rated group contracts as a result of favorable experience based on an actuarial estimate of underwriting gains, which will be returned to groups either as cash refunds or future rate reductions. Under terms of most of the experience-rated group contracts, recovery, if any, of underwriting losses through future rate increases is not recognized until received.

Premium Deficiency Reserve — A liability for premium deficiency losses is an actuarial estimate that is recognized when it is probable that expected claim losses and allocable administrative expenses will exceed future premiums on existing health and other contracts without consideration of investment income. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Corporation’s method of acquiring, servicing, and measuring the profitability of such contracts. Premium deficiency losses are generally released over the period that the contract is in a loss position.

Premium and Premium Equivalent Revenue — Underwritten premiums, which generally are billed in advance, are recognized as revenue during the respective periods of coverage. Premiums applicable to the unexpired portion of coverage are reflected in the accompanying consolidated balance sheets as unearned revenue.

Revenue from self-funded administrative service contracts (ASC) primarily consists of claim reimbursements and administrative fees for services provided, such as management of medical services, claims processing, and access to provider networks. Collectively, the claim reimbursement and fee revenue from ASC arrangements is referred to as premium equivalents in the consolidated statements of operations. Amounts due from ASC groups are equal to the amounts required to pay claims and administrative fees. Under ASC arrangements, self-funded groups retain the primary underwriting risk of paying claims and the Corporation retains an element of credit risk to providers in the event reimbursement is not received from the group; therefore, claims paid by the Corporation and the corresponding reimbursement of claims, plus administrative fees are separately presented and netted in the statements of operations. Administrative fees are earned and recorded as services are performed and are calculated based on the number of members in a group or the group's claim experience. The Corporation may agree to maintain certain performance standards with respect to its servicing obligation to the group. Penalties arising from non-performance of standards established are tracked and recorded as a reduction to the ASC administrative fees during annual settlement with the ASC group.

ASC Receivables and Payables for IBNR — The Corporation recognizes a liability for the IBNR for health care services provided to subscribers covered under ASC arrangements and a corresponding receivable amount for the reimbursement from the groups.

Employee Benefit Plans — The Corporation has two qualified defined benefit pension plans covering substantially all employees 21 years or older having one year or more of continuous service. The Corporation sponsors separate plans for its union and nonunion employees. Approximately 34% of the Corporation's workforce is unionized. The Corporation's policy is to fund its defined benefit pension plans as required by law.

The Corporation has defined contribution plans for its union and nonunion employees, which are qualified under Section 401(k) of the Internal Revenue Code (IRC). The Corporation's defined contribution plans are called savings plans and they cover all employees who elect to participate. Under both savings plans, the Corporation matches a specified percentage of employees' contributions, as defined in the plan provisions.

The Corporation has a deferred compensation benefit plan for a group of key employees and members of the Corporation's board of directors. Under the plan, eligible participants may elect to defer to a future period a portion of salary or director fees that are earned and normally payable as services are rendered. Elections to defer compensation must be made prior to the beginning of the year in which the deferral is effective. Deferred amounts are unfunded and paid out of the general assets of the Corporation.

The Corporation provides defined benefit post-retirement health care and other post-retirement benefits for substantially all employees and their dependents who retire from active employment and meet minimum age and service requirements. In recent years, post-retirement health care benefits have been reduced for newly hired employees. Defined benefit health care options are still offered to nonunion employees hired after January 1, 2007, but payment of the premiums is the responsibility of the employee. Union employees hired after January 1, 2009 are not provided defined benefit post-retirement health care coverage. All post-retirement defined benefit health care and other post-retirement benefits are funded on a pay-as-you-go basis.

The Corporation's obligations related to its defined benefit pensions and post-retirement health care and other post retirement defined benefits are estimated using actuarial estimates.

Reinsurance — Accident Fund reinsures certain of its risks, generally on an excess-of-loss basis, with other companies in order to limit losses. Reinsurance does not relieve Accident Fund of its primary obligations to its policyholders. Losses recoverable from reinsurers are reported as a reduction of benefits provided and a portion of the premiums paid to reinsurers are reported as other assets. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance policies.

LifeSecure cedes all its life insurance and annuity business and all its accident and health business except long-term care, to Allstate Life Insurance Company ("Allstate") under a 100% coinsurance reinsurance agreement. Under this agreement, Allstate receives 100% of the premiums and pays 100% of the claims, surrender benefits, and other expenses that are directly allocable to the reinsured business. Allstate administers the reinsured business and bears all administrative expenses. Allstate reimburses LifeSecure for any expenses it pays directly related to the reinsured business. LifeSecure remains obligated for amounts ceded in the event that the reinsurer does not meet its obligation.

LifeSecure assumes the risk on several blocks of long-term care business from nonaffiliated insurance companies under various coinsurance agreements. In accordance with these agreements, LifeSecure assumes varying percentages of the premiums, claims, and expenses on the business, ranging from 40% to 100%. LifeSecure pays the ceding companies monthly commission and expense allowances, which are charged immediately to operating expense. Amounts paid to the ceding company for the initial assumption of this business have been capitalized and are being amortized over the life of the reinsurance contracts in proportion to the premium revenue recognized.

Medicare Advantage Benefits — The Corporation provides health care coverage to Medicare eligible subscribers under the CMS Medicare Advantage ("Medicare Part C") program. Under the arrangement with CMS, the Corporation generally receives premium in advance of medical services being provided to subscribers. Premium revenue is earned over the period the Corporation is obligated to reimburse providers for medical services provided to subscribers. CMS utilizes a risk-adjustment model which adjusts member premium based on the underlying health conditions of subscribers. Under this model, the potential for additional premium does not occur in the initial year of enrollment, but in subsequent periods after the Corporation has compiled and submitted medical diagnosis information to CMS. Risk scores are established at the beginning of each calendar year and then retroactively adjusted on two separate occasions. The first adjustment for a given calendar year generally occurs in the third quarter and results in a retroactive premium adjustment as well as an updated risk score for the member. The second adjustment occurs after the end of the year following a CMS reconciliation of all medical diagnosis information submitted by the Corporation. The Corporation records revenues and a receivable from CMS based on an estimate of the members' risk scores. This estimate is then adjusted the following year during annual settlement with CMS. CMS has announced their intention to audit the data used to calculate the risk scores of Medicare Advantage carriers. Such an audit, if it were to occur, could result in adjustments to the Corporation's risk scores and retroactive premium adjustments subsequent to the annual settlement. In 2010, the Corporation received additional revenues of approximately \$178 for prior year risk scores revenue adjustment, of which \$112 was refunded to ASC customers. Receivables for anticipated risk score settlements were \$28 and \$113 at December 31, 2010 and 2009, respectively.

Medicare Part D Prescription Drug Benefits — The Corporation serves as a plan sponsor offering Medicare Part D prescription drug insurance coverage under a contract with the Center for Medicare & Medicaid Services (CMS). In general, pharmacy benefits under Part D plans may vary in terms of coverage levels and out-of-pocket costs for beneficiary premiums, deductibles, and coinsurance.

However, all Part D plans must offer either “standard coverage” or its actuarial equivalent (with out-of-pocket threshold and deductible amounts that do not exceed those of standard coverage). These “defined standard” benefits represent the minimum level of benefits required under law. In addition to defined standard plans, the Corporation offers other prescription drug plans containing benefits in excess of the standard coverage limits, in many cases for an additional beneficiary premium.

Under the Medicare Part D program, there are six separate elements of payment received by the Corporation during the plan year. These payment elements are as follows:

CMS Premium — CMS pays a fixed monthly premium per member to the Corporation for the entire plan year.

Member Premium — Each member pays a fixed monthly premium to the Corporation for the entire plan year.

Low-Income Premium Subsidy — For qualifying low-income members, CMS pays some portion of the member’s monthly premiums to the Corporation on the member’s behalf.

Catastrophic Reinsurance Subsidy — CMS pays the Corporation a cost reimbursement estimate monthly to fund the CMS obligation to pay approximately 80% of the costs incurred by individual members in excess of the individual annual out-of-pocket maximum of \$4,550 (in dollars). A settlement is made based on actual cost experience subsequent to the end of the plan year.

Low-Income Member Cost Sharing Subsidy — For qualifying low-income members, CMS pays on the member’s behalf, some portion or all of a member’s cost-sharing amounts, such as deductibles and coinsurance. The cost-sharing subsidy is funded by CMS through monthly payments to the Corporation. The Corporation administers and pays the subsidized portion of the claims on behalf of CMS, and a settlement payment is made between CMS and the Corporation based on actual claims experience, subsequent to the end of the plan year.

CMS Risk Share — If the annual per member per month benefit costs varies by more than a predetermined percentage above or below the level anticipated in the CMS-approved annual bid, there is a risk-share settlement with CMS that is settled subsequent to the end of the plan year. The risk-share adjustment, if any, is recorded as an adjustment to premium revenues and other receivables or liabilities.

The CMS premium, the member premium, and the low-income premium subsidy represent payments for the Corporation’s insurance risk coverage under the Medicare Part D program and, therefore, are recorded as premium revenues in the consolidated statements of operations. Premium revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. Premium payments received in advance of the applicable service period are recorded as unearned premiums.

The catastrophic reinsurance subsidy and the low-income member cost-sharing subsidies represent cost reimbursements under the Medicare Part D program. The Corporation is fully reimbursed by CMS for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Corporation. Amounts received for these subsidies are not considered premium revenue, but are accounted as ASC revenue when the corresponding claims are paid. The reimbursement is recorded as receivables — net and the outstanding advance is recorded as other liabilities in the consolidated balance sheets. The Corporation has an outstanding payable to CMS related to this reinsurance of \$6.0 and a receivable from CMS of \$25.2 of incurred costs as of December 31, 2010 and December 31, 2009, for the 2009 and 2008 plan years, respectively.

Pharmacy benefit costs and administrative costs under the contract are expensed as incurred and are recognized in medical costs and operating costs, respectively, in the consolidated statements of operations. Pharmacy benefit costs are recognized net of rebates. The Corporation has subcontracted certain membership enrollment and pharmacy claims administration functions to third-party vendors.

Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Standards — In May 2009, the FASB issued FASB ASC Topic 958, *Not-for-Profit Entities: Business Combinations*. Topic 958 is specifically applicable to not-for-profit entities, provides accounting and reporting guidance for business combinations, including principles and requirements to determine whether a combination is a merger or an acquisition, and whether the acquiring corporation applies the carryover method or the acquisition method in accounting for an acquisition. Topic 958 also improves the information a not-for-profit entity provides about goodwill and other intangible assets after an acquisition. Topic 958 was effective for the Corporation on January 1, 2010. The adoption of ASC 958 did not have a material impact on the Corporation's consolidated financial position or results of operations.

In June 2009, the FASB issued FASB ASC Topic 860, *Transfers and Servicing*. Topic 860 is intended to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its consolidated financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. Topic 860 was effective for the Corporation on January 1, 2010. The adoption of ASC 860 did not have a material impact on the Corporation's consolidated financial position or results of operations.

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurement*. It requires that the reporting entity disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. This section of ASU 2010-06 was effective for the Corporation for the year ended December 31, 2010 and resulted in expanded disclosures in Note 3. Effective for the year ending December 31, 2011, the Corporation, under ASU 2010-06, will be required to disclose separately the gross purchases, sales, issuances, and settlements in the roll forward activity in the Level 3 fair value measurements.

In October 2010, the FASB issued Accounting Standard Update (ASU) 2010-26 *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. The ASU addresses diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. ASU 2010-26 is effective for the Corporation on January 1, 2012. Under the standard costs such as, incremental direct costs of contract acquisition and certain costs related directly to acquisition activities performed by the insurer for the contract, including: underwriting, policy issuance and processing, medical and inspection and sales force contracting selling costs should be capitalized. Only costs associated with a successful contract acquisition should be capitalized. Most advertising and costs associated with soliciting potential customers and non-direct costs including overhead related to sales are not capitalized. Insurance contracts of the Company and BCNM are typically short-term in nature and acquisition costs of new or renewal insurance contracts are generally expensed in the year of acquisition or renewal. Insurance contract costs of the Accident Fund and LifeSecure are already being capitalized over the same period as the corresponding premiums are earned. The new standard is not expected to have a material impact on the Corporation's consolidated financial position or results of operations.

2. PURCHASE, SALE, AND FORMATION OF SUBSIDIARIES

DenteMax Sale — On June 30, 2009, the Company sold 100% of its interest in its dental network subsidiary, DenteMax, to Dental Network of America for \$45.0, resulting in a net gain of \$26.3, which is included in the investment and other income for the year ended December 31, 2009.

3. CASH EQUIVALENTS AND INVESTMENTS

Cash equivalents consist primarily of corporate notes and commercial paper, money market funds, and certificates of deposit.

Investments in debt and equity securities are classified as either trading or available-for-sale.

The amortized cost, fair value, and unrealized gains and losses of available-for-sale securities at December 31, 2010, by asset category are as follows:

	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
U.S. government and agency securities	\$ 906.1	\$ 32.0	\$ -	\$ 938.1
Asset-backed securities and collateralized mortgage obligations	1,994.0	37.1	7.9	2,023.2
Corporate notes	2,638.0	105.7	6.0	2,737.7
Equity mutual funds	321.7	8.5	7.3	322.9
Certificate of deposit	0.5	-	-	0.5
Collateralized debt obligations	<u>24.1</u>	<u>3.5</u>	<u>3.4</u>	<u>24.2</u>
Total available-for-sale investments	<u>\$ 5,884.4</u>	<u>\$ 186.8</u>	<u>\$ 24.6</u>	<u>\$ 6,046.6</u>

Included in the above table are asset backed securities valued at \$1,024.4 and U.S. government and agency securities valued at \$513.1 that are used as collateralization for the FHLBI borrowings.

The amortized cost, fair value, and unrealized gains and losses of available-for-sale securities at December 31, 2009, by asset category are as follows:

	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
U.S. government and agency securities	\$ 722.9	\$ 1.1	\$ 21.6	\$ 702.4
Asset-backed securities and collateralized mortgage obligations	2,168.9	77.3	5.9	2,240.3
Corporate notes	2,368.9	60.7	5.1	2,424.5
Equity mutual funds	327.8	-	41.6	286.2
Certificate of deposit	2.8	-	-	2.8
Collateralized debt obligations	<u>32.0</u>	<u>-</u>	<u>2.0</u>	<u>30.0</u>
Total available-for-sale investments	<u>\$ 5,623.3</u>	<u>\$ 139.1</u>	<u>\$ 76.2</u>	<u>\$ 5,686.2</u>

The amortized cost and estimated fair values of available-for-sale securities at December 31, 2010, by contractual maturity, are shown below:

	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 727.6	\$ 727.5
Due after one year through five years	739.9	759.7
Due after five years through ten years	2,066.1	2,177.6
Due after ten years	<u>11.0</u>	<u>11.5</u>
 Total	 3,544.6	 3,676.3
 Asset-backed securities and collateralized mortgage obligations	 1,994.0	 2,023.2
Equity securities	321.7	322.9
Collateralized debt obligations	<u>24.1</u>	<u>24.2</u>
 Total available-for-sale securities	 <u>\$ 5,884.4</u>	 <u>\$ 6,046.6</u>

The following table shows the gross unrealized losses and fair value of the Corporation's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the securities in each investment category have been in a continuous unrealized position at December 31, 2010 and 2009, respectively. Because the Corporation has determined the investments have not been subject to credit losses and the Corporation does not have the intent to sell the securities and has the ability to hold such securities, the Corporation does not consider these investments to be other-than-temporarily impaired.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2010						
U.S. government and agency securities	\$ 3.0	\$ 0.1	\$ -	\$ -	\$ 3.0	\$ 0.1
Asset-backed securities and collateralized mortgage obligations	691.9	4.3	67.3	3.6	759.2	7.9
Corporate notes	732.4	5.9	-	-	732.4	5.9
Equity mutual funds	-	-	118.9	7.3	118.9	7.3
Collateralized debt obligations	<u>-</u>	<u>-</u>	<u>11.6</u>	<u>3.4</u>	<u>11.6</u>	<u>3.4</u>
 Total available-sale-securities	 <u>\$ 1,427.3</u>	 <u>\$ 10.3</u>	 <u>\$ 197.8</u>	 <u>\$ 14.3</u>	 <u>\$ 1,625.1</u>	 <u>\$ 24.6</u>

December 31, 2009	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency securities	\$ 556.6	\$ 8.8	\$ 125.0	\$ 12.8	\$ 681.6	\$ 21.6
Asset-backed securities and collateralized mortgage obligations	362.1	3.6	54.1	2.3	416.2	5.9
Corporate notes and commercial paper	448.4	5.1	-	-	448.4	5.1
Equity mutual funds	-	-	273.3	41.6	273.3	41.6
Collateralized debt obligations	<u>16.8</u>	<u>0.1</u>	<u>13.1</u>	<u>1.9</u>	<u>29.9</u>	<u>2.0</u>
Total available-sale-securities	<u>\$ 1,383.9</u>	<u>\$ 17.6</u>	<u>\$ 465.5</u>	<u>\$ 58.6</u>	<u>\$ 1,849.4</u>	<u>\$ 76.2</u>

In accordance with the Corporation's impairment policy, securities that have a fair market value that is below amortized cost are considered impaired and are analyzed and reviewed by management to determine if the impairment is other-than-temporary. Factors taken into account for each individual security include the length of time and extent to which the fair value has been less than the amortized cost, the underlying financial condition, and the specific circumstances that are impacting the issuer in the marketplace. For debt securities, an OTTI is present when a credit loss is determined to exist for the underlying security or the Corporation has the intent to sell the security before anticipated recovery. A credit loss for impairment purposes occurs when the Corporation does not anticipate the full recovery of amortized cost. For equity securities, the Corporation evaluates whether it has the intent and ability to hold the security for a sufficient period of time to allow for a full recovery in value. The Corporation has an impairment loss of \$4.1 and \$29.9 as of December 31, 2010 and 2009, respectively.

The value of the Corporation's trading portfolio at December 31, 2010 and 2009 was \$857.3 and \$676.8, respectively. The Corporation recognized gains of \$104.2 and \$261.2 at December 31, 2010 and 2009, respectively, relating to investments still held at year-end.

The proceeds received from sales of investment securities and the related gross realized gains and losses at December 31, 2010 and 2009, are summarized as follows:

	2010	2009
Proceeds from sales of investment securities	\$ 5,848.6	\$ 6,405.5
Gross gains on sales of investment securities	199.6	233.7
Gross losses on sales of investment securities	66.5	146.5

The Corporation enters into investment transactions that are not settled as of December 31. As of December 31, 2010 and 2009, there was approximately \$2.7 and \$0.9 in other liabilities, respectively, for investments purchased on account and \$.8 and \$0.4 in accounts receivable, respectively, for investments sold on account. As these amounts are noncash, they have been excluded from the consolidated statements of cash flows.

The Corporation, in the normal course of business, enters into securities lending agreements with various counterparties. Under these agreements, the Corporation lends U.S. Treasury notes and various other security types in exchange for collateral, consisting primarily of cash and U.S. government notes, approximating 102% of the value of the securities loaned. These agreements are primarily overnight in nature and settle the next business day. As of December 31, 2010 and 2009, the Corporation had

securities loaned of \$527.0 and \$297.8, respectively, corresponding cash collateral of \$494.8 and \$305.8, respectively, and corresponding noncash collateral of \$43.4 and \$0.5, respectively. As these amounts are noncash, they have been excluded from the consolidated statements of cash flows.

The Corporation voluntarily holds a portion of its securities in two grantor trusts in order to fund medical malpractice and stop-loss claims of BCNM. Oversight of the trusts is provided by a Policy Committee, which is comprised of officers and board members of the Corporation. In accordance with the trust agreements, BCNM is beneficiary of the trust assets. As of December 31, 2010 and 2009, the value of the securities held in trust was \$114.6 and \$100.7, respectively, and are included in the investment tables above.

As part of its Blue Cross Blue Shield Association (BCBSA) license requirements, the Corporation is required to maintain a custodial bank account to assure the payment of claims in the event of the Corporation's insolvency. The account balance is calculated as a percentage of the Corporation's unpaid claim liability and consists primarily of marketable securities. The funds in the account are included in the Corporation's investment portfolio. The Corporation has the ability to trade and transfer securities within the account as long as the balance in the account is at or above the required minimum. The required balance for the period April 1, 2010 through March 31, 2011, is \$143.8. As of December 31, 2010 and 2009, the balance in this custodial account was \$164.8 and \$155.8, respectively, and is included in the investment tables above.

The Corporation's investment in Deferred Compensation and Rabbi Trust funds at December 31, 2010 and 2009, had a fair market value of \$42.5 and \$43.1, respectively, for its nonqualified benefit plans and are included in the investment tables above.

As a condition of maintaining its certificate of authority with various states where the Corporation is licensed to do business, the Corporation maintains deposits in segregated accounts for the benefit of the policy holders in the event of the Corporation's insolvency. The funds are invested in various securities and the related interest income accrues to the Corporation. The carrying value of the deposits were \$177.6 and \$163.5 as of December 31, 2010 and 2009, respectively.

4. FAIR VALUE DISCLOSURES

The Corporation determines fair values by applying the following guidelines. If available, the Corporation uses quoted market prices in active markets for identical assets and classifies these assets as Level 1. When market prices for identical financial instruments in an active market are not available, the Corporation estimates fair value based on quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets and/or inputs derived directly from observable market data and classifies these assets as Level 2. In situations where there is little or no market activity for same or similar financial instruments, the Corporation estimates fair value using its own assumptions about future cash flows and appropriate risk-adjusted discount rates and classifies these assets as Level 3.

The Corporation's assets recorded at fair value that are measured on a recurring basis at December 31, 2010 are as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash equivalents	<u>\$ 364.6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 364.6</u>
Available-for-sale securities:				
Corporate debt	\$ -	\$ 2,737.7	\$ -	\$ 2,737.7
Residential mortgage backed	-	1,480.8	-	1,480.8
U.S. government and agency	938.1	-	-	938.1
Equity mutual funds	322.9	-	-	322.9
Auction rate securities	-	-	66.3	66.3
Collateralized debt obligation	-	-	24.2	24.2
Collateralized mortgage obligation	-	476.1	-	476.1
Certificate of deposit	<u>0.5</u>	<u>-</u>	<u>-</u>	<u>0.5</u>
	<u>\$ 1,261.5</u>	<u>\$ 4,694.6</u>	<u>\$ 90.5</u>	<u>\$ 6,046.6</u>
Trading securities:				
Common stock	\$ 593.8	\$ -	\$ -	\$ 593.8
Corporate debt	-	250.6	-	250.6
Collateralized mortgage backed	-	0.7	-	0.7
Residential mortgage backed	-	3.3	-	3.3
Other asset backed	-	0.8	-	0.8
Preferred stock	-	5.0	-	5.0
Collateralized mortgage obligation	<u>-</u>	<u>3.1</u>	<u>-</u>	<u>3.1</u>
	<u>\$ 593.8</u>	<u>\$ 263.5</u>	<u>\$ -</u>	<u>\$ 857.3</u>
Total investments	<u>\$ 1,855.3</u>	<u>\$ 4,958.1</u>	<u>\$ 90.5</u>	<u>\$ 6,903.9</u>
Securities lending collateral:				
Commingled trusts	<u>\$ -</u>	<u>\$ 494.7</u>	<u>\$ -</u>	<u>\$ 494.7</u>

The Corporation's assets recorded at fair value that are measured on a recurring basis at December 31, 2009 (there were no assets measured at fair value on a nonrecurring basis as of December 31, 2009) are as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	\$ 448.8	\$ -	\$ -	\$ 448.8
Available-for-sale securities:				
Corporate debt	\$ -	\$ 2,424.4	\$ -	\$ 2,424.4
Residential mortgage backed	-	1,740.5	-	1,740.5
U.S. government and agency	702.4	-	-	702.4
Collateralized mortgage backed	-	407.5	-	407.5
Equity mutual funds	203.7	82.6	-	286.3
Auction rate securities	-	-	80.3	80.3
Collateralized debt obligation	-	-	30.0	30.0
Collateralized mortgage obligation	-	5.5	-	5.5
Certificate of deposit	2.8	-	-	2.8
Other asset backed	-	6.5	-	6.5
	<u>\$ 908.9</u>	<u>\$ 4,667.0</u>	<u>\$ 110.3</u>	<u>\$ 5,686.2</u>
Trading securities:				
Common stock	\$ 418.8	\$ -	\$ -	\$ 418.8
Corporate debt	-	240.7	-	240.7
Collateralized mortgage backed	-	7.4	-	7.4
Residential mortgage backed	-	2.7	-	2.7
Other asset backed	-	2.8	-	2.8
Preferred stock	-	2.3	-	2.3
Collateralized mortgage obligation	-	2.1	-	2.1
	<u>\$ 418.8</u>	<u>\$ 258.0</u>	<u>\$ -</u>	<u>\$ 676.8</u>
Total investments	<u>\$ 1,327.7</u>	<u>\$ 4,925.0</u>	<u>\$ 110.3</u>	<u>\$ 6,363.0</u>
Securities lending collateral:				
Commingled trusts	\$ -	\$ 305.8	\$ -	\$ 305.8

Subsequent to the issuance of the 2009 consolidated financial statements, BCBSM management determined that certain securities presented in the Level 1 category should have been presented in the Level 2 category based on the observable inputs used to value the securities. BCBSM has corrected the 2009 presentation of such securities in the table above. The impact to the 2009 disclosure was to decrease Level 1 total investments from \$5,810.8 million to \$1,327.7 million and increase Level 2 total investments from \$441.9 million to \$4,925.0 million. Within total investments all of the corporate debt, residential mortgage backed, collateralized mortgage obligation and preferred stock investment types previously reported as Level 1 are now reported as Level 2 and \$82.6 million of the \$286.3 million in

equity mutual funds are now reported as Level 2. In addition, the securities lending collateral was moved from Level 1 to Level 2. The correction had no impact on investment values reported in 2009 and had no affect on the 2009 consolidated balance sheet, consolidated statement of operations, consolidated statement of subscribers' reserves, and consolidated statement of cash flows.

The following table presents our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2010.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Auction- Rated Securities	Collateralized Debt Obligations	Total
Balance at January 1, 2009	\$ -	\$ -	\$ -
Total gains or losses (realized/unrealized):			
Included in earnings	-	(12.8)	(12.8)
Included in other comprehensive income	(2.0)	(1.3)	(3.3)
Purchases, issuances, and settlements	-	-	-
Sales	-	-	-
Transfers in and/or out of Level 3	<u>82.3</u>	<u>44.1</u>	<u>126.4</u>
Balance at December 31, 2009	<u>\$ 80.3</u>	<u>\$ 30.0</u>	<u>\$ 110.3</u>
The amount of total gains or losses for the period included in earnings (or other comprehensive income) attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2009	<u>\$ (2.0)</u>	<u>\$ (14.1)</u>	<u>\$ (16.1)</u>
Balance at January 1, 2010	\$ 80.3	\$ 30.0	\$ 110.3
Total gains or losses (realized/unrealized):			
Included in earnings	0.1	(3.6)	(3.5)
Included in other comprehensive income	(0.8)	2.1	1.3
Purchases, issuances, and settlements	0.3	-	0.3
Sales	(13.5)	(4.4)	(17.9)
Transfers in and/or out of Level 3	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2010	<u>\$ 66.4</u>	<u>\$ 24.1</u>	<u>\$ 90.5</u>
The amount of total gains or losses for the period included in earnings (or other comprehensive income) attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2010	<u>\$ (0.7)</u>	<u>\$ (1.5)</u>	<u>\$ (2.2)</u>

Based on market conditions that resulted in the absence of quoted prices in active markets for our auction rated securities and collateralized debt obligations, we changed our valuation methodology for the securities to a discounted cash flow analysis during 2009. The discounted cash flow analysis consisted of using the market yield for a similar rate security to discount the expected cash flow of the bond. The fair value of the bond is the net present value of the discounted cash flow. Accordingly, during 2009 these securities changed from Level 2 to Level 3 within the fair value hierarchy.

5. INVESTMENT AND OTHER INCOME, NET

Net investment and other income (loss) for the years ended December 31, 2010 and 2009, consist of the following:

	2010	2009
Dividends and interest:		
Short-term investments	\$ 10.3	\$ 26.9
Debt securities	207.2	232.4
Equity securities	<u>11.7</u>	<u>13.1</u>
Total dividends and interest	<u>229.2</u>	<u>272.4</u>
Gain on sales of securities	133.1	87.2
Gain on trading securities held at year end	<u>104.2</u>	<u>261.2</u>
Total gain on securities	<u>237.3</u>	<u>348.4</u>
Other (expense) income	<u>(19.5)</u>	<u>3.7</u>
Realized impairment loss on investments	<u>(4.1)</u>	<u>(29.9)</u>
Total investment and other income, net	<u>\$ 442.9</u>	<u>\$ 594.6</u>

6. RECEIVABLES — NET

Receivables outstanding as of December 31, 2010 and 2009, consist of the following:

	2010	2009
ASC — IBNR	\$ 896.4	\$ 1,095.1
Reinsurance recoverable on long-term care business	312.2	356.7
Underwritten contracts	339.6	347.3
Federal income tax recovery	189.5	12.6
Reinsurance recoverable on workers' compensation business	198.8	206.8
Administrative service contracts — claim and fees	37.2	106.6
Unsettled ASC receivables	101.7	92.5
CMS receivables	29.1	116.9
Drug rebates	71.5	58.9
Accrued interest	63.8	54.2
Other	<u>37.8</u>	<u>7.9</u>
Total	<u>\$ 2,277.6</u>	<u>\$ 2,455.5</u>

Receivables are net of allowances for potentially uncollectible amounts of \$11.5 and \$18.1 as of December 31, 2010 and 2009, respectively.

7. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010 and 2009, consist of the following:

	2010	2009
Land and buildings	\$ 477.7	\$ 457.1
Equipment	245.9	240.6
Software	<u>591.6</u>	<u>546.9</u>
Total	1,315.2	1,244.6
Less accumulated depreciation	<u>(687.3)</u>	<u>(646.9)</u>
Net property and equipment	<u>\$ 627.9</u>	<u>\$ 597.7</u>

Depreciation and amortization expense was \$84.7 and \$84.8 for the years ended December 31, 2010 and 2009, respectively.

In December 2010, the Corporation has entered into a long-term lease to occupy space in the GM Renaissance Center in downtown Detroit, into which it plans to move its personnel currently located at the Corporation's service center in Southfield, Michigan. Consistent with the provisions of ASC 360, *Property, Plant and Equipment*, the Corporation intends to dispose of the Southfield Metro property and accordingly, has ceased depreciation and changed the property status to "Held for Sale." As a result, the Corporation wrote the property down to its estimated fair market value of \$11.4 and recorded an impairment loss of \$31.9 for the year ended December 31, 2010. In 2010 and 2009, the Corporation recorded a \$4.5 and \$10.0, respectively, asset impairment charge for capitalized software costs that will not be placed in service. The impairments are recorded in operating expense line of consolidated statements of operations.

The Corporation's total property value recorded at fair value is \$11.8. The fair value is determined by use of appraisals. The Corporation categorizes the assets as level 3 – unobservable inputs for fair value measurement purpose.

8. GOODWILL

Acquisitions are accounted for under the purchase method of accounting and, accordingly, the purchase price is allocated to assets acquired and liabilities assumed based on their estimated fair values.

The changes in the carrying amount of goodwill from the purchase of subsidiaries at December 31, 2010 and 2009 consists of the following:

	Accident Fund	United Heartland	Comp West	MHIC	M-CARE	DenteMax	Total
Balance, January 1, 2009							
Goodwill	\$ 125.0	\$ 24.7	\$ 35.8	\$ 17.0	\$ 90.7	\$ 1.4	\$ 294.6
Accumulated amortization	(58.3)	-	-	-	(18.2)	-	(76.5)
Accumulated impairment losses	-	-	-	-	-	-	-
Net goodwill	66.7	24.7	35.8	17.0	72.5	1.4	218.1
Amortization	-	-	-	-	(9.0)	-	(9.0)
Sale of Subsidiary	-	-	-	-	-	(1.4)	(1.4)
Balance, December 31, 2009							
Goodwill	125.0	24.7	35.8	17.0	90.7	-	293.2
Accumulated amortization	(58.3)	-	-	-	(27.2)	-	(85.5)
Accumulated impairment losses	-	-	-	-	-	-	-
Net goodwill	66.7	24.7	35.8	17.0	63.5	-	207.7
Impairment losses	-	-	(35.8)	-	-	-	(35.8)
Balance, December 31, 2010							
Goodwill	125.0	24.7	35.8	17.0	90.7	-	293.2
Accumulated amortization	(58.3)	-	-	-	(27.2)	-	(85.5)
Accumulated impairment losses	-	-	(35.8)	-	-	-	(35.8)
Net goodwill	<u>\$ 66.7</u>	<u>\$ 24.7</u>	<u>\$ -</u>	<u>\$ 17.0</u>	<u>\$ 63.5</u>	<u>\$ -</u>	<u>\$ 171.9</u>

The Corporation completed its annual impairment test for the year-ended December 31, 2009 and determined no impairment was necessary. During 2010, because of current workers compensation market conditions in California and uncertainty about the duration of such conditions, the Corporation determined during its annual impairment tests that the carrying value of the goodwill related to the acquisition of CompWest exceeded its fair value. As a result, the Corporation performed an impairment analysis using an income based approach and recognized an impairment loss of \$35.8 in 2010 which is included in operating expenses in consolidated statement of operations.

9. OTHER ASSETS

Other assets at December 31, 2010 and 2009, consist of the following:

	2010	2009
Invested assets in partnerships and joint ventures	\$ 54.9	\$ 44.4
Investment in Federal Home Loan Bank (FHLBI)	66.7	69.1
Net intangible assets	50.7	60.3
Deferred policy acquisition costs	55.2	56.5
Prepaid assets	17.1	21.6
Investment in NASCO	16.7	16.4
Other	20.4	20.4
Total	<u>\$ 281.7</u>	<u>\$ 288.7</u>

At December 31, 2010 and 2009, the Corporation held a 17% and 25% interest, respectively in National Account Service Company LLC (NASCO). The reduction in the investment interest occurred when two additional Blue Cross Blue Shield plans purchased full share interests, effective December 30, 2010. NASCO maintains and operates a national claim processing system for several Blue Cross plans. The Corporation's investment is accounted for using the equity method. The summarized financial position and results of operations for NASCO as of and for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Total assets	\$ 161.2	\$ 112.9
Total liabilities	58.6	46.4
Equity	102.6	66.5
Revenue	199.7	188.6
Net income	0.7	0.6

Invested assets in partnerships and joint ventures consist of investments in which the Corporation does not exert significant influence but, in some cases, does hold a more than minor ownership interest. Investments in partnerships and limited liability companies with a more than minor ownership interest are accounted for using the equity method and are not considered available-for-sale. All other invested assets are accounted for using the cost basis of accounting. The aggregate carrying amount of all cost method investments as of December 31, 2010 and 2009, was \$88.8 and \$85.8, respectively. The Corporation regularly reviews these investments for impairment. An impairment of \$0.3 and \$4.8 was recognized in 2010 and 2009 respectively. The Corporation has concluded that it is not practicable to estimate fair value of cost method investments because they do not have a ready market. Management does not believe there were any changes in circumstances or adverse events that would be expected to change the carrying value of the remaining investments.

Intangible assets from the purchase of subsidiaries are comprised primarily of customer related assets, provider and broker networks, trademarks, and covenants not to compete. Intangible assets are amortized over periods ranging from 1 year to 12 years, as applicable. Trade names and similar assets with indefinite useful lives which totaled \$9.8 are not amortized but are evaluated for impairment on an annual basis. Intangible assets at December 31, 2010 and 2009, at each of the subsidiaries amount to the following:

	2010	2009
Intangible assets:		
BCNM	\$ 49.8	\$ 49.8
MHIC	5.9	5.9
LifeSecure	2.3	2.3
Accident Fund	<u>32.0</u>	<u>32.0</u>
Total	90.0	90.0
Less accumulated amortization	<u>(39.3)</u>	<u>(29.7)</u>
Net intangible assets	<u>\$ 50.7</u>	<u>\$ 60.3</u>

10. LIABILITIES FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Activity in the liabilities for unpaid claims and claim adjustment expenses, at December 31, 2010 and 2009, is summarized as follows:

	2010	2009
Balance of unpaid claims — January 1	\$ 2,476.7	\$ 2,506.9
Less reinsurance recoverable	<u>550.0</u>	<u>542.3</u>
Net balance — January 1	<u>1,926.7</u>	<u>1,964.6</u>
Incurred related to:		
Current year	8,614.8	9,065.8
Prior year	<u>11.2</u>	<u>2.8</u>
Total incurred	<u>8,626.0</u>	<u>9,068.6</u>
Paid related to:		
Current year	7,420.6	7,966.0
Prior year	<u>1,077.3</u>	<u>1,140.5</u>
Total paid	<u>8,497.9</u>	<u>9,106.5</u>
Balance of unpaid claims — December 31	2,054.8	1,926.7
Unpaid loss assumed under quota share reinsurance agreement	33.9	-
Liabilities subject to reinsurance recoverable	502.5	550.0
Liability for claim adjustment expenses	123.7	126.5
Liability for ASC claims	<u>896.4</u>	<u>1,095.1</u>
Total unpaid claims and claim adjustment expenses	<u>\$ 3,611.3</u>	<u>\$ 3,698.3</u>

Changes in actuarial estimates of unpaid claims reported as “incurred related to prior year” reflect revisions in estimates of loss development trends and changes in claims processing patterns.

11. REINSURANCE

In the ordinary course of business, Accident Fund enters into reinsurance contracts, also known as treaties, whereby Accident Fund and its subsidiaries assume and cede premiums and losses with other insurance companies. These arrangements serve to limit the maximum net loss on catastrophes. Accident Fund also participates as a reinsurer in various residual market workers’ compensation pools. Participation in these pools is mandatory in many states in which Accident Fund conducts business, and thus the pools are frequently referred to as involuntary pools. Involuntary pool underwriting results generally are distributed to companies writing workers’ compensation insurance in each state based upon each company’s market share of the total voluntary workers’ compensation market.

Reinsurance does not relieve Accident Fund of its primary obligations under its contracts of insurance. To the extent our reinsurers are unable or unwilling to honor their obligations under the reinsurance treaties; Accident Fund remains primarily liable to its policyholders. To manage this risk, Accident Fund periodically evaluates the financial condition of its reinsurers. When needed, Accident Fund establishes allowances for uncollectible reinsurance recoverables.

Liabilities for losses ceded to reinsurers are reported as reinsurance recoverables on unpaid losses and a portion of the premiums paid to reinsurers are reported as prepaid reinsurance, which is a component of other assets.

The effects of Accident Fund's reinsurance activities on premiums and losses for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Premiums written:		
Direct	\$ 745.5	\$ 798.3
Reinsurance assumed	20.8	23.6
Reinsurance ceded	<u>(39.8)</u>	<u>(42.8)</u>
Net premium written	<u>\$ 726.5</u>	<u>\$ 779.1</u>
Premium earned:		
Direct	\$ 768.5	\$ 800.4
Reinsurance assumed	21.5	25.0
Reinsurance ceded	<u>(39.9)</u>	<u>(44.0)</u>
Net premium earned	<u>\$ 750.1</u>	<u>\$ 781.4</u>
	2010	2009
Losses and loss adjustment expenses incurred:		
Direct	\$ 714.0	\$ 623.1
Reinsurance assumed	21.8	20.0
Reinsurance ceded	<u>(30.8)</u>	<u>(29.8)</u>
Net losses and loss adjustment expenses incurred	<u>\$ 705.0</u>	<u>\$ 613.3</u>

The reinsurance recoverables and prepaid reinsurance as of December 31, 2010 and 2009, consist of the following:

	2010	2009
Reinsurance recoverables:		
Unpaid losses recoverable on workers' compensation policies	\$ 174.5	\$ 175.5
Unpaid losses recoverable on disability policies	15.8	17.8
Accrued reinsurance premiums recoverable	0.4	1.0
Paid losses recoverable	<u>8.1</u>	<u>12.5</u>
Total	198.8	206.8
Total prepaid reinsurance	<u>7.6</u>	<u>12.5</u>
Total	<u>\$ 206.4</u>	<u>\$ 219.3</u>

LifeSecure cedes all its life insurance and annuity business, and all its accident and health business except long-term care, to Allstate under a 100% coinsurance reinsurance agreement. Under this agreement, Allstate receives 100% of the premiums and pays 100% of the claims, surrender benefits, and other expenses that are directly allocable to the reinsured business. Allstate administers the reinsured business and bears all administrative expenses. Allstate reimburses LifeSecure for any expenses it pays directly related to the reinsured business. LifeSecure remains obligated for amounts ceded in the event that the reinsurer does not meet its obligation.

LifeSecure has a reinsurance agreement with Blue Cross Blue Shield of Kansas (BCBSKS) where BCBSKS markets LifeSecure's long-term care policy under its brand name. LifeSecure assumes 100% of the premiums, claims, and expenses associated with these policies under a coinsurance agreement. In accordance with a separate administrative service agreement, LifeSecure performs most of the administrative functions for this business. BCBSKS receives a marketing allowance from LifeSecure to cover its sales and marketing costs.

LifeSecure has a purchase agreement with Florida Combined Life Insurance Company (FCL), whereby LifeSecure was assigned the rights and obligations associated with various reinsurance and administrative service contracts with Blue Cross and Blue Shield of Florida (BCBSFL) and Arkansas Blue Cross Blue Shield (ABCBS). BCBSFL and ABCBS own FCL. Under the assignment agreement, LifeSecure replaces FCL as the reinsurer of the existing long-term care business under various coinsurance agreements with BCBSFL and ABCBS and assumes the monthly premiums, claims, and other expenses on this block of business, in accordance with the percentages in the underlying reinsurance agreements. LifeSecure pays BCBSFL and ABCBS monthly commission and expense allowances on this block of business. Additionally, LifeSecure has a coinsurance agreement with USAble Life Insurance Company, an affiliate of FCL, whereby LifeSecure assumes 100% of the risk on its long term care business.

On July 1, 2009, the reinsurance agreement between LifeSecure and BCBSFL was amended to include reinsurance of the remaining portion of a block of policies that were previously ceded to Constitution Life Insurance Company and recaptured by BCBSFL. The statutory reserves and cash transferred to LifeSecure in accordance with this amendment were \$0.7.

Effective November 1, 2009, LifeSecure entered into a quota share reinsurance contract with American Fidelity Assurance Company (AFA) to reinsure an existing block of long-term care policies and the future long-term care business of AFA. The transaction closed on February 16, 2010, upon execution of a written guaranty by the Corporation for the benefit of AFA of LifeSecure's performance of certain obligations under the contract. Upon closing of the transaction, LifeSecure received \$38.3, which represent the statutory reserve balance on the assumed business as of the effective date, plus interest accrued at 5% per annum on the statutory reserve balances from the effective date to the closing date. At that time, LifeSecure paid \$4.3 in ceding commission for assuming the business. Subsequent to November 1, 2009, LifeSecure began assuming the monthly premiums, claims, and commission expense payments on the policies, and pays AFA a monthly expense allowance.

The effects of reinsurance activities of LifeSecure on premiums and losses for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Direct premiums earned	\$ 12.0	\$ 12.0
Reinsurance assumed	22.2	12.2
Reinsurance ceded	<u>(10.8)</u>	<u>(11.5)</u>
Net premiums earned	<u>\$ 23.4</u>	<u>\$ 12.7</u>
Direct benefits incurred	\$ 23.3	\$ 21.7
Reinsurance assumed	21.5	11.4
Reinsurance ceded	<u>(22.9)</u>	<u>(21.3)</u>
Net benefits incurred	<u>\$ 21.9</u>	<u>\$ 11.8</u>

The reinsurance recoverables at December 31, 2010 and 2009, consist of the following:

	2010	2009
Recoverable on life insurance and other policies	<u>\$ 312.2</u>	<u>\$ 356.7</u>

12. PREMIUM DEFICIENCY RESERVES

Premium deficiency reserves for the years ended December 31, 2010 and 2009, consist of the following:

	Balance January 1, 2010	Additional Reserve	Amortization	Balance December 31, 2010
MiChild	\$ 10.4	\$ 14.3	\$ 14.2	\$ 10.5
Individual	173.8	46.0	45.2	174.6
Medicare complementary	<u>423.8</u>	<u>151.5</u>	<u>143.5</u>	<u>431.8</u>
Total	<u>\$ 608.0</u>	<u>\$ 211.8</u>	<u>\$ 202.9</u>	<u>\$ 616.9</u>
	Balance January 1, 2009	Additional Reserve	Amortization	Balance December 31, 2009
MiChild	\$ 11.2	\$ 14.1	\$ 14.9	\$ 10.4
Individual	350.4	(72.8)	103.8	173.8
Medicare complementary	<u>182.4</u>	<u>303.8</u>	<u>62.4</u>	<u>423.8</u>
Total	<u>\$ 544.0</u>	<u>\$ 245.1</u>	<u>\$ 181.1</u>	<u>\$ 608.0</u>
			Medicare Comp	Total
Projected Loss by Year	MiChild	Individual		
2011	\$ 10.5	\$ 49.2	\$ 146.6	\$ 206.3
2012	-	70.8	122.1	192.9
2013	-	54.6	87.3	141.9
2014	-	-	53.8	53.8
2015	<u>-</u>	<u>-</u>	<u>22.0</u>	<u>22.0</u>
	<u>\$ 10.5</u>	<u>\$ 174.6</u>	<u>\$ 431.8</u>	<u>\$ 616.9</u>

The MiChild premium deficiency reserve (PDR) was established for the anticipated losses for the contract period in effect ending September 30, 2011 on the state sponsored insurance program, which provides health and dental benefits for uninsured children of Michigan's working families. The outstanding receivable balances for excess losses were \$26.0 and \$28.8 as of December 31, 2010 and 2009, respectively.

The premium deficiency reserve for the Corporation's individual business and the Medicare complementary business were established for anticipated losses primarily due to expected future premium rate increases approved by the Michigan Office of Financial and Insurance Regulation (OFIR) being insufficient to cover anticipated benefit trends. Insufficient premium rates in the Corporation's Medicare Complementary product are primarily the result of the Corporation's inability to fully recoup from other product lines a cost transfer subsidy provided under PA 350. The subsidy, which is factored into current premium rates for seniors cannot exceed 1 percent of underwritten and ASC premium equivalents. The subsidy amount incorporated into the current Medicare Complementary premium rate is approximately \$180 for 2010 and 2009 respectively. Management intends to file for future rate increases and reductions in the subsidy rating factor to eventually eliminate these losses.

Generally, the policies under both the Individual and Medicare Complementary programs are guaranteed to be renewed at the rates approved by OFIR. As the insurer of last resort, it is required to provide insurance to individuals regardless of their health status. The liability represents estimated losses until the program no longer incurs losses.

13. RETIREMENT INCOME PLANS

Defined Contribution Plan — All employees of the Corporation who have completed three months of continuous service are automatically enrolled in one of two employee savings plans, which are qualified under Section 401(k) of the IRC. For both non-represented and represented employees, the Corporation matches 50% of employee contributions up to 10% of biweekly adjusted W-2 wages for employees with one year of continuous service. The Internal Revenue Service (IRS) limit on elective employee deferrals was \$16,500 for 2010 and 2009, respectively (in dollars). The IRS also allows for catch-up contributions for employees who are age 50 or older as of December 31 in the amount of \$5,500 for 2010 and 2009, respectively (in dollars). The Corporation's expense for matching contributions during 2010 and 2009 totaled approximately \$15.5 and \$16.0, respectively.

Nonqualified Plans — Retirement benefits are provided for a group of key employees under nonqualified defined benefit pension plans. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitations contained in the IRC. Benefits under the plans are unfunded and paid out of the general assets of the Corporation. The accumulated benefit obligation for these plans at December 31, 2010 and 2009, was \$38.5 and \$33.6, respectively.

Defined Benefit Plans — The Corporation has two defined benefit pension plans as follows

Retirement Account Plan — Non-represented employees who meet age and service requirements participate in this plan. Pension benefits of participants in this plan become vested after three years of service. Participants have an account balance to which interest and earnings credits are added. Subject to an annual 4 percent minimum, interest is credited quarterly based on the rate announced by the Corporation for the plan year. Earnings credits are credited on a monthly basis as shown on the following table. Employees can elect to receive lump sum value of their vested account balance or monthly payments at retirement or termination.

	For Employees Hired	
	Prior to January 1, 2007	On or after January 1, 2007
Annual earnings credits	6%–10%	3%–5%
Annual transition credits through 2008	2%	2% through 12/31/2008; N/A thereafter

Represented Employees' Retirement Income Plan — Represented employees who meet age and service requirements participate in this plan. Pension benefits of participants in this plan become vested after three years of service if hired after January 1, 2009 and five years of service if hired prior January 1, 2009. The plan provides a benefit based on average monthly earnings and credited service years. Effective January 1, 2009 (January 1, 2010 for Accident Fund employees), the plan provides an account balance that grows through earnings and interest credits. Each month, the Corporation will credit 6.4 percent of the participants' monthly adjusted W-2 pay. Interest is credited quarterly and is based on prior August one-year Treasury bill rate. Employees can elect to receive the lump sum value of their vested account balance or monthly payments at retirement or termination.

The Company's workforce was significantly reduced in 2009 as employees took advantage of the Company sponsored retirement packages. Upon retirement, most non-represented employees elected to receive their accumulated pension benefits as a lump-sum payment. Given the large number of retirements and associated lump-sum pension settlements, accounting rules required that certain unrecognized pension expense attributable to the retirees be recognized as additional pension expense in 2009. The additional pension expense totaled \$45.1 in 2009 and was the result of immediate recognition of actuarial losses and past plan amendments.

Plan assets for both the nonunion and union employees pension plans are held in a Master Trust with State Street Bank. Each plan owns its allocable share of all Master Trust assets. Master Trust assets are for the exclusive benefit of participants and can only be used to pay plan benefits and administrative expenses. Plan assets in the Master Trust are currently managed by 11 external investment managers with assets allocated to equity, fixed-income securities, cash and alternative investments based on investment policies and objectives.

The Corporation has developed a pension asset investment policy based on its objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. This policy is long-term oriented, consistent with the Corporation's risk posture, and periodically reviewed by the Pension Advisory Committee. In November 2010, the Pension Advisory Committee changed the asset allocation under the pension investment policy. It is expected that the new pension asset allocation will reduce balance sheet and funding volatility for the Corporation while ensuring the continued maintenance of trust assets sufficient to cover plan benefits and expenses.

Under the new pension asset allocation policy, plan assets will ultimately move to 60% long duration fixed income securities and 40% return-seeking assets. Return-seeking assets are defined as any asset class other than long duration fixed income securities and will primarily include publicly traded equities, publicly traded high-yield fixed income securities, alternative assets and cash. Under the new policy, at least 95% of pension assets will be invested in publicly traded equities and fixed income securities and cash. The pension asset allocation adopted in November 2010 will occur over the next 5-7 years as the funded status of the pension improves and depending on market conditions.

Under the previous pension asset allocation policy, the Corporation used a mix of core and satellite managers to actively manage pension assets consistent within the investment manager guidelines, and target asset allocations described in the policy. The former pension asset policy included a target allocation summarized in the table below and a range of plus or minus 3% of the target established, and at least 95% of pension assets were normally invested in publicly traded stocks and fixed income securities.

The weighted-average target asset allocation and actual asset allocation in the pension master trust at December 31, 2010 and 2009, by asset category are as follows:

Asset Category	Target	2010	2009
Equity securities	70.0 %	71.0 %	66.0 %
Debt securities	25.0	24.0	26.0
Other	5.0	5.0	8.0

As of December 31, 2010, approximately 11% of the assets in the pension trust were invested in long duration fixed income securities, 88% were in various classes of returning seek assets and 1% were cash.

At December 31, 2010 and 2009, the following table sets forth the projected benefit obligation and funded status at the plan measurement date and the accrued (prepaid) pension expense:

	2010	2009
Accumulated benefit obligation	\$ 1,033.4	\$ 930.6
Effects of estimated future pay increases	<u>98.0</u>	<u>74.3</u>
Projected benefit obligation	1,131.4	1,004.9
Plan assets at fair market value	<u>(798.0)</u>	<u>(759.3)</u>
Funded status — underfunded	<u>\$ 333.4</u>	<u>\$ 245.6</u>
Pension liability included in accrued employee expenses	<u>\$ 333.4</u>	<u>\$ 245.6</u>
Information for pension plans with an accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	\$ 1,131.4	\$ 1,004.9
Accumulated benefit obligation	1,033.4	930.6
Fair value of plan assets	798.0	759.3

The discount rate used in determining the actuarial present value of the projected benefit obligation was 5.65% and 6.25% at December 31, 2010 and 2009, respectively, for the non-bargaining defined benefit plan and the non-qualified plans, and 5.85% and 7.0% for the defined benefit plan for union employees. The discount rate used in determining the net periodic pension cost was 6.25% and 6.9% at December 31, 2010 and 2009, respectively, and 7.00% and 6.35% for the bargaining plan. Assumed rates of increase in future compensation range from 3.0% to 6.5% for 2010 and 2009, depending on the ages of the participants. The expected long-term rate of return on assets for all plans was 9% for both 2010 and 2009. The expected long-term rate of return on plan assets is determined based on the weighted average of the expected long-term returns for active management of the various asset classes represented in the target allocation. The expected long-term rate of return is then reviewed for reasonableness with historical asset returns for the plans and against an asset return model which projects out over 20 years expected asset returns for the active management asset classes represented in plans.

The benefit costs, employer contributions, and benefits paid for the plans for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Service cost for benefits earned during the year	\$ 35.2	\$ 37.1
Interest cost	63.3	66.2
Expected return on assets	(79.8)	(82.1)
Amortization of net prior service cost	0.2	1.1
Amortization of net loss	<u>4.8</u>	<u>5.6</u>
Net periodic pension cost	23.7	27.9
Curtailment/settlement recognition	<u>-</u>	<u>45.1</u>
Total benefit expense for the year	<u>\$ 23.7</u>	<u>\$ 73.0</u>
Employer contributions	<u>\$ 7.9</u>	<u>\$ 75.0</u>
Benefits paid	<u>\$ 81.5</u>	<u>\$ 132.2</u>

At December 31, 2010, the following benefit payments which reflect expected future service are expected to be paid as follows:

Years Ending December 31	
2011	\$ 61.7
2012	53.9
2013	65.5
2014	73.2
2015	82.6
2016–2020	<u>492.4</u>
Total	<u>\$ 829.3</u>

The Corporation contributed \$7.9 and \$75.0 in 2010 and 2009, respectively, to its defined benefit pension plans. As of December 31, 2010, the Corporation expects to contribute \$80.0 to its defined benefit pension plans in 2011.

The amounts recognized in the balance sheet at December 31, 2010 and 2009, and the amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost are as follows:

Balance Sheet	2010	2009
Pension liabilities in accrued employee expenses	<u>\$ (333.4)</u>	<u>\$ (245.6)</u>
Accumulated Other Comprehensive Loss		
Net actuarial loss	\$ 374.2	\$ 298.9
Net prior service cost	5.6	5.8
Deferred income taxes	<u>(76.0)</u>	<u>(60.9)</u>
Total accumulated other comprehensive loss	<u>\$ 303.8</u>	<u>\$ 243.8</u>

Changes in the net actuarial loss and the accumulated other comprehensive loss at December 31, 2010 and 2009, are as follows:

Change in Net Actuarial Loss	2010	2009
Net actuarial loss at the beginning of the year	\$ 298.9	\$ 480.0
Amortization cost for the year	(4.8)	(5.6)
Liability loss (gain)	112.1	(27.9)
Asset gain	(32.0)	(108.6)
Curtailment/settlement recognition	<u>-</u>	<u>(39.0)</u>
Net actuarial loss at the end of the year	<u>\$ 374.2</u>	<u>\$ 298.9</u>
Change in Accumulated Other Comprehensive Loss		
Accumulated other comprehensive loss in prior year	\$ 243.8	\$ 398.0
Recognized during the year:		
Net prior service cost	(0.2)	(1.1)
Net actuarial loss	(4.8)	(5.6)
Occurring during the year:		
Net prior service cost	-	0.1
Net actuarial loss (gain)	80.1	(136.4)
Curtailment/settlement recognition	-	(39.5)
Deferred tax	<u>(15.1)</u>	<u>28.3</u>
Total accumulated other comprehensive loss at the end of the year	<u>\$ 303.8</u>	<u>\$ 243.8</u>

The Corporation expects to recognize the following as components of the net periodic benefit cost in 2011:

Net loss	\$ 15.5
Prior service cost	<u>0.6</u>
Total	<u>\$ 16.1</u>

The fair values of the Corporation's pension plan assets by asset category for 2010 and 2009 are as follows:

Fair Value Measurements at December 31, 2010				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents	\$ 26.5	\$ 1.9	\$ -	\$ 28.4
Commingled Pension Trust (A)	-	241.9	-	241.9
Insurance annuity contract	-	-	0.7	0.7
Limited partnerships	-	-	27.7	27.7
Equity securities — U.S. companies	319.5	6.8	-	326.3
U.S. Treasury securities	34.2	-	-	34.2
Corporate bonds (B)	-	133.5	-	133.5
Mortgage-backed securities	-	5.3	-	5.3
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 380.2</u>	<u>\$ 389.4</u>	<u>\$ 28.4</u>	<u>\$ 798.0</u>

(A) Includes pension master trust's interest in PIMCO Stock Plus Limited Partnership, a commingled fund representing the pension core equity allocation and bench marked against the S&P 500 (\$163.8) and master trust's holding in Capital Guardian Non-U.S. Equity Fund, a commingled trust representing the pension's international equity allocation (\$78.1).

(B) Corporate bonds include fixed income securities in separately managed portfolios. The diversified fixed income mandate is targeted at 11.2% of pension assets and is managed by Western. Loomis Sayles manages a high-yield fixed income portfolio targeted at 13.1% of pension assets.

Fair Value Measurements at December 31, 2009

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents	\$ 50.4	\$ -	\$ -	\$ 50.4
Commingled Pension Trust (A)	-	220.6	-	220.6
Insurance annuity contract	0.8	-	-	0.8
Limited partnerships	-	-	18.8	18.8
Equity securities — U.S. companies	276.8	0.6	-	277.4
U.S. Treasury securities	-	12.3	-	12.3
Corporate bonds (B)	0.8	129.2	6.6	136.6
Mortgage-backed securities	-	42.4	-	42.4
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 328.8</u>	<u>\$ 405.1</u>	<u>\$ 25.4</u>	<u>\$ 759.3</u>

(A) Includes pension master trust's interest in PIMCO Stock Plus Limited Partnership, a commingled fund representing the pension core equity allocation and bench marked against the S&P 500 (\$151.4) and master trust's holding in Capital Guardian Non-U.S. Equity Fund, a commingled trust representing the pension's international equity allocation (\$69.2).

(B) Corporate bonds include fixed income securities in separately managed portfolios. The diversified fixed income mandate is targeted at 12.5% of pension assets and is managed by Western. Loomis Sayles manages a high-yield fixed income portfolio targeted at 12.5% of pension assets.

The Corporation and its investment managers determine fair values by applying the following guidelines. If available, the Corporation uses market prices in active markets for identical assets and classifies these assets as Level 1. When market prices for similar financial instruments in an active market are not available, the Corporation estimates fair value based on pricing models using matrix pricing or price discovery and classifies these assets as Level 2. In situations where there is little or no market activity for same or similar financial instruments, the Corporation estimates fair value using its own assumptions about future cash flows and appropriate risk-adjusted discount rates and classifies these assets as Level 3. Based on market conditions that resulted in the absence of quoted prices in active markets for our auction rated securities and collateralized debt obligations, we changed our valuation methodology for the securities to a discounted cash flow analysis during the fourth quarter 2009. The discounted cash flow analysis consisted of using the market yield for a similar rate security to discount the expected cash flow of the bond. The fair value of the bond is the net present value of the discounted cash flow. Accordingly, during 2009 these securities changed from Level 2 to Level 3 within the fair value hierarchy. The following tables present our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for 2010 and 2009:

**Fair Value Measurements Using
Significant Unobservable
Inputs (Level 3) at December 31, 2010**

	Limited			Total
	Equities	Partnerships	Bonds	
Beginning balance — January 1, 2010	\$ -	\$ 18.8	\$ 6.6	\$ 25.4
Actual return on plan assets — relating to assets still held at the reporting date	-	1.9	-	1.9
Relating to assets sold during the period	-	-	0.6	0.6
Purchases, sales, and settlements	-	7.0	(3.0)	4.0
Transfers in and/or out of Level 3	<u>0.7</u>	<u>-</u>	<u>(4.2)</u>	<u>(3.5)</u>
Ending balance — December 31, 2010	<u>\$ 0.7</u>	<u>\$ 27.7</u>	<u>\$ -</u>	<u>\$ 28.4</u>

**Fair Value Measurements Using
Significant Unobservable
Inputs (Level 3) at December 31, 2009**

	Limited			Total
	Equities	Partnerships	Bonds	
Beginning balance — January 1, 2009	\$ 0.3	\$ 16.9	\$ 9.3	\$ 26.5
Actual return on plan assets — relating to assets still held at the reporting date	0.9	(2.0)	7.4	6.3
Relating to assets sold during the period	(0.8)	-	(2.6)	(3.4)
Purchases, sales, and settlements	(0.1)	3.9	(1.5)	2.3
Transfers in and/or out of Level 3	<u>(0.3)</u>	<u>-</u>	<u>(6.0)</u>	<u>(6.3)</u>
Ending balance — December 31, 2009	<u>\$ -</u>	<u>\$ 18.8</u>	<u>\$ 6.6</u>	<u>\$ 25.4</u>

14. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Corporation provides certain health care and selected other benefits to all employees and dependents of employees who retire from active employment or who become disabled and meet the following benefit and service eligibility requirements:

Nonrepresented Employees Hired	Prior to April 1, 2004	After April 1, 2004 but Before January 1, 2007	On or After January 1, 2007
Years of service requirement	10 after age 45	15 after age 45	15 after age 45
Participant's benefit cost responsibility	N/A	N/A	100 %
Cap on annual increase in health care costs paid by the Corporation if not retired by January 1, 2010 (a)	4 %	4 %	N/A

(a) This revision took effect January 1, 2009. Any annual increase in cost above 4% must be paid by the plan participant.

Represented Employees Eligible to Retire	Prior to December 31, 2016	After December 31, 2016
Years of service requirement	10 after age 45	15 after age 45
Premium sharing	No	Yes

Effective January 1, 2009, all participants in the non-represented plan and the represented plan will be required to enroll in the Medicare Advantage program upon reaching age 65.

This benefit is subject to revision at the discretion of Corporation's chief executive officer for non-represented employees and for represented employees, is subject to collective bargaining agreements.

The Corporation's postretirement health care plan is unfunded. The accumulated obligation for employee postretirement benefits attributable to active and retired employees at the measurement date and other relevant information at December 31, 2010 and 2009, is as follows:

	2010	2009
Service cost for benefits earned during the year	\$ 17.8	\$ 18.6
Interest cost	38.5	37.2
Amortization of net prior service credit	(16.2)	(16.4)
Amortization of net loss	<u>2.8</u>	<u>5.3</u>
Net periodic postretirement cost	42.9	44.7
Curtailment settlement recognition	<u>-</u>	<u>0.4</u>
Total postretirement benefit costs for the year	<u>\$ 42.9</u>	<u>\$ 45.1</u>
Accumulated postretirement obligation	<u>\$ 771.5</u>	<u>\$ 574.4</u>
Accrued postretirement expense included in accrued employee expenses	<u>\$ 771.5</u>	<u>\$ 574.4</u>
Benefits paid	<u>\$ 26.7</u>	<u>\$ 23.9</u>

For 2010 measurement purposes, the health care trend rate on covered benefits is assumed to be:

	Pre 65	Post 65 Non MA	Post 65 MA
Trend Rate in 2010	9 %	8 %	15 %
Grading down to in 2020 and beyond	5	5	5

For 2009 measurement purposes, the health care trend rate on covered benefits is assumed to be 6.96% for 2010, ratably downgrading to 5.00% by 2015 and all years thereafter.

The discount rate used in determining the actuarial present value of the accumulated postretirement obligation was 6.00% and 6.70% for the non-bargaining unit plan, and 5.95% and 6.70% for the bargaining unit plan, at December 31, 2010 and 2009, respectively. Increasing the assumed health care cost trend by 1% for all future years result in increases of approximately \$8.1 in annual service and interest costs and increases of approximately \$165.4 in the accumulated post-retirement benefit obligations.

At December 31, 2010, the gross benefit payments expected to be paid and Medicare Part D subsidies anticipated to be received are as follows:

Years Ending December 31	Future Benefit Payments	Anticipated Future Subsidies
2011	\$ 42.2	\$ 1.9
2012	42.0	2.3
2013	44.6	2.6
2014	47.4	3.0
2015	50.1	3.4
2016–2020	<u>289.9</u>	<u>24.3</u>
Total	<u>\$ 516.2</u>	<u>\$ 37.5</u>

Under the Medicare Modernization Act of 2003, the government provides tax-exempt federal subsidies to employers that provide prescription drug coverage to retirees that are actuarially equivalent to the benefits available under the Medicare Part D program. As a component of the Patient Protection and Affordable Care Act, this subsidy will no longer be tax exempt effective for tax years beginning after December 31, 2010. Employers receiving the subsidies will no longer be able to deduct the full amount paid for coverage provided to retirees while receiving the subsidy; but instead, only the net cost will be deducted. Although the changes don't go into effect until 2011, the Corporation recorded in 2010 a \$4.9 charge to tax expense to reflect the loss of the future deferred tax asset.

The amounts recognized in the consolidated balance sheets at December 31, 2010 and 2009, and the amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost are as follows:

Balance Sheet	2010	2009
Postretirement liabilities in accrued employee expenses	<u>\$ (771.5)</u>	<u>\$ (574.4)</u>
Total	<u>\$ (771.5)</u>	<u>\$ (574.4)</u>
Accumulated Other Comprehensive Income		
Net actuarial loss	\$ 228.3	\$ 63.3
Net prior-service credit	(78.1)	(93.9)
Deferred income taxes	<u>(30.0)</u>	<u>6.1</u>
Total	<u>\$ 120.2</u>	<u>\$ (24.5)</u>

Changes in the net actuarial loss and the accumulated other comprehensive loss at December 31, 2010 and 2009, are as follows:

	2010	2009
Change in Net Actuarial Loss		
Net actuarial loss at the beginning of the year	\$ 63.4	\$ 57.2
Amortization cost for the year	(2.8)	(5.3)
Liability loss	<u>167.8</u>	<u>11.5</u>
Net actuarial loss at the end of the year	<u>\$ 228.4</u>	<u>\$ 63.4</u>
Change in Accumulated Other Comprehensive Loss (Income)		
Accumulated other comprehensive income in prior year	\$ (24.5)	\$ (43.1)
Amortized during the year:		
Net prior service credit	16.2	16.4
Net actuarial loss	(2.8)	(5.3)
Occurring during the year:		
Net prior service credit	(0.4)	(0.9)
Net actuarial loss	167.8	11.5
Curtailed/settlement recognition	-	1.5
Deferred tax	<u>(36.1)</u>	<u>(4.6)</u>
Total accumulated other comprehensive loss (income) at the end of the year	<u>\$ 120.2</u>	<u>\$ (24.5)</u>

The Corporation expects to recognize the following as components of the net periodic benefit cost in 2011:

Net loss	\$ 15.8
Prior service credit	<u>(16.2)</u>
Total	<u>\$ (0.4)</u>

15. DEBT

The carrying value of the Corporation's outstanding debt as of December 31, 2010 and 2009, is as follows:

	2010	2009
RBS Asset Finance Inc. (RBS Asset) — 4.73% sale-leaseback, due 2013	\$ 29.2	\$ 39.0
RBS Asset — 3.46% sale-leaseback, due 2013	16.1	21.2
RBS Asset — 4.65% sale-leaseback, due 2014	19.4	24.0
Banc of America Leasing & Capital, LLC — 4.75% sale-leaseback, due 2013	47.1	61.4
Banc of America Leasing & Capital, LLC — 4.75% sale-leaseback, due 2014	7.8	9.6
Banc of America BK Leumi — 4.79% sale-leaseback, due 2015	7.8	-
Banc of America MB Bank — 4.86% sale-leaseback, due 2015	8.8	-
Banc of America BK Leumi — 4.86% sale-leaseback, sale-leaseback, due 2015	3.0	-
Banc of America Leasing & Capital, LLC — 3.60% sale-leaseback, due 2013	5.3	-
Fifth Third Bank — 5.15% sale-leaseback, due 2014	14.4	17.8
Siemens Financial, Inc. — 5.95% sale-leaseback, due 2014	11.7	14.3
Fifth Third Bank — 5.30% AFHI sale-leaseback, due 2014	7.4	9.3
Fifth Third Bank — 5.87% AFHI sale-leaseback, due 2014	6.3	7.5
Fifth Third Bank — 2.97% AFHI sale-leaseback, due 2015	2.6	-
Federal Home Loan Bank of Indianapolis (FHLBI), 0.18%, due 2016	46.0	46.0
FHLBI, 4.14%, due 2012	-	150.0
FHLBI, 3.4%, due 2015	150.0	-
FHLBI, 2.91%, due 2013	50.0	50.0
FHLBI, 2.59%, due 2014	48.0	62.5
FHLBI, 0.40%, due 2010	-	200.0
FHLBI, 0.81%, due 2010	-	200.0
FHLBI, 0.80%, due 2011	200.0	-
FHLBI, 2.20%, due 2017	200.0	-
FHLBI, AFHI, 4.81%, due 2028	22.1	23.8
FHLBI, AFHI, 5.53%, due 2028	22.2	23.8
FHLBI, AFHI, 2.67%, due 2014	47.4	62.0
Economic Development Corp of City of Lansing debt, 4% due 2032	31.0	-
CompWest junior subordinated debt, 9.045%, due 2036	20.6	20.6
	<u>\$ 1,024.2</u>	<u>\$ 1,042.8</u>
Total		

During 2010, the Corporation entered into several new sale-leaseback transactions. The borrowing under these financing arrangements totaled \$28.8 for BCBSM and \$2.6 for Accident Fund.

The \$46.0 FHLBI loan is subject to floating interest rate provisions that are reset every three months based on the FHLBI's cost of funds. The CompWest junior subordinated debt fixed rate of 9.045% is in effect through June 2011 and will adjust based on the three-month LIBOR, plus 3.6% for each subsequent period thereafter. All other borrowings have fixed interest rates.

The Corporation has a facility limit of \$1,775 with FHLBI. The outstanding borrowing with FHLBI totals \$785.7 and \$818.1 as of December 31, 2010 and 2009, respectively. For all sale-leaseback agreements, the Corporation is required to maintain letters of credit to collateralize the debt. The letters of credit are all issued by FHLBI. The table below summarizes outstanding letters of credit related to the sale-leasebacks. There were no outstanding borrowing against any letters of credit at December 31, 2010 and 2009.

LOC Commitment	Expiration Date	% of Financed Amount	Outstanding Amount
Banc of America Leasing & Capital, LLC	2013	105	\$ 63.6
RBS Asset	2014	100	51.4
RBS Asset	2014	100	21.6
Fifth Third Bank	2014	110	15.8
Siemens Financial, Inc.	2014	110	12.8
Fifth Third Bank-AFHI	2014	110	10.4
Bank of Leumi	2014	100	3.0
MB Bank	2014	100	5.8
Fifth Third Bank-AFHI	2015	110	10.0
Bank of Leumi	2015	105	12.1
MB Bank	2015	105	9.8
Fifth Third Bank-AFHI	2016	110	2.9

Capitalized financing costs were \$0.6 and \$0.3 at December 31, 2010 and 2009, respectively.

All Company debt is collateralized by government securities at 105%-110% of the outstanding loan balance. The weighted-average borrowing rate is 2.0% and 1.7% at December 31, 2010 and 2009, respectively. The AFHI loans are collateralized by \$173.0 of available-for-sale bond held in a segregated trust account at FHLBI.

The total interest paid and accrued by the Corporation as of December 31, 2010 and 2009, was \$28.3 and \$25.9, respectively.

As of December 31, 2010 and 2009, the carrying value of the outstanding debt approximates fair value.

At December 31, 2010, future minimum payments required for outstanding debt are as follows:

Years Ending December 31	
2011	\$ 315.0
2012	114.1
2013	159.1
2014	41.3
2015	170.0
2016	58.5
2017 and thereafter	<u>328.0</u>
Total minimum payments	1,185.9
Less amount representing imputed interest	<u>(161.7)</u>
Total debt	<u>\$ 1,024.2</u>

16. FEDERAL INCOME TAXES

Significant components of net deferred tax assets at December 31, 2010 and 2009, are summarized as follows:

	2010	2009
Deferred tax assets:		
Alternative Minimum Tax (AMT) credit carryforward	\$ 418.5	\$ 451.8
Accrued expenses associated with postretirement and pension benefits	354.2	268.9
Amounts accrued to groups	0.0	0.9
Amount accrued for premium deficiency	215.9	212.8
Accrued expenses and bad debts	27.0	26.5
Net operating loss carryover	15.9	9.1
Unrealized losses on investments	-	8.2
Discount of claim liabilities as required for tax purposes	<u>95.8</u>	<u>108.6</u>
Total deferred tax assets	<u>1,127.3</u>	<u>1,086.8</u>
Deferred tax liabilities:		
Depreciation — amortization and other	(69.2)	(72.7)
Deferred ASC revenue	(187.9)	-
Unrealized gains on investments	<u>(87.5)</u>	<u>-</u>
Total deferred tax liabilities	<u>(344.6)</u>	<u>(72.7)</u>
Valuation allowance	<u>(575.3)</u>	<u>(692.4)</u>
Net deferred tax assets	<u>\$ 207.4</u>	<u>\$ 321.7</u>

The Company and its taxable subsidiaries file a consolidated federal income tax return. Further, the Corporation has tax-sharing agreements with its taxable subsidiaries to provide that each taxable subsidiary is responsible for its own federal tax liability.

Under current tax law, the Company is subject to a 20% AMT rate. Given the preference items afforded Blue Cross and Blue Shield organizations, management believes it is likely to remain an AMT taxpayer. The deferred tax assets are recorded at the regular corporate tax rate of 35% and a valuation allowance has been established for the difference between the value of the asset at the regular tax rate and its likely value at the AMT rate. In addition, the AMT credit carryforward has been fully reserved in the valuation allowance. The valuation allowance decreased by \$117.1 and \$82.3 in 2010 and 2009, respectively. The decrease in the net deferred tax assets is primarily due to change in tax treatment of ASC revenue which was approved by the IRS and unrealized capital gains resulting from favorable investment markets.

The effective tax rate differs from the expected AMT rate of 20% primarily because of the tax-exempt status of BCN; the recording of tax adjustments that are attributable to prior years; and permanent items.

The Corporation's tax returns have been audited and settled through 2005. The Corporation's tax returns for 2006 were subject to a limited scope audit that resulted in no findings. In February 2011, the IRS began the audit of the Corporation's tax returns for the periods 2006-2008.

Components of the provision for federal income taxes for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Current (benefit) expense	\$ (93.1)	\$ 0.3
Deferred expense	<u>146.1</u>	<u>41.7</u>
Total	<u>\$ 53.0</u>	<u>\$ 42.0</u>

Effective for tax years beginning in 2009, under ASC 740 the Corporation is required to evaluate all tax positions as to their relative uncertainty/certainty. On examination of all relevant facts and circumstances for the Corporation's tax issues, it was determined that no liability for the Corporation's tax issues was warranted for the years ended December 31, 2010 and 2009 and the Corporation believes that the ASC 740 liability balance for uncertain tax positions will not significantly increase or decrease within the next twelve months.

17. INDUSTRY CONCENTRATION

The Corporation primarily conducts business within the State of Michigan. A significant portion of the Corporation's customer base is concentrated in companies that are part of the automobile manufacturing industry. Receivables from the significant customers in this industry are \$76.0 and \$104.4 at December 31, 2010 and 2009, respectively. These receivables primarily represent reimbursable claims and administrative fees for services provided to them as part of their ASC arrangements with the Corporation. The Corporation held cash advances from these customers of \$8.3 and \$20.7 at December 31, 2010 and 2009, respectively, to partially offset these receivables. Under an ASC arrangement, the group sponsor retains the primary financial responsibility for the underwriting risk of their employees. The Corporation retains an element of credit risk to providers in the event reimbursement is not received from the plan sponsor, accordingly, the Corporation has recorded a liability for IBNR and a related receivable in the amount of \$331.6 and \$387.6 at December 31, 2010 and 2009, respectively. In addition, the Corporation holds investments in these customers' equity securities, corporate bonds, commercial paper, and medium-term notes with a total fair value of \$10.7 and \$14.3 at December 31, 2010 and 2009, respectively.

18. OPERATING LEASES

The Corporation leases certain computer equipment and office space under various noncancelable operating leases. Rental expense was \$18.1 and \$16.1 for 2010 and 2009, respectively. At December 31, 2010, future minimum lease payments are as follows:

Years Ending December 31	
2011	\$ 15.0
2012	16.4
2013	16.2
2014	14.4
2015	11.7
2016 and thereafter	<u>69.5</u>
Total	<u>\$ 143.2</u>

19. UNCONDITIONAL PURCHASE OBLIGATIONS

The Corporation has entered into certain non-cancelable, long-term computer maintenance and license contracts. Payments recognized under such contracts totaled \$20.2 and \$18.5 for the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010, future payments are as follows:

Years Ending December 31	
2011	\$ 19.9
2012	13.1
2013	7.4
2014	<u>1.0</u>
Total	<u>\$ 41.4</u>

20. OTHER LIABILITIES

Other liabilities at December 31, 2010 and 2009, consist of the following:

	2010	2009
Accrued administrative expenses	\$ 227.7	\$ 215.3
Advance deposits from ASC groups	180.8	183.2
Administrative cash overdrafts	96.4	115.6
Accrued taxes, assessments, and fees	21.8	40.2
Physician Incentive Liability	48.1	39.7
Policyholder dividends	33.2	39.3
Reinsurance liabilities	19.4	17.2
Board of Escheats	13.6	11.7
Other	72.7	89.0
	<u>72.7</u>	<u>89.0</u>
Total	<u>\$ 713.7</u>	<u>\$ 751.2</u>

21. CONTINGENCIES

Hospital Contracts — On October 18, 2010 the U.S. Department of Justice filed a lawsuit against the Corporation seeking to restrict its ability to provide the most deeply discounted rates from Michigan hospitals alleging that the use of most favored nation provisions in hospital contracts restricts marketplace competition. The Department of Justice is seeking injunctive relief that would prevent the Corporation from using similar language in any of our current or future contracts with providers. The lawsuit is not seeking financial damages. Four civil class action lawsuits alleging the same legal arguments as the U.S. Department of Justice lawsuit have also been filed seeking injunctive and monetary relief. At this time, the amount of damages being sought in the civil matters is unknown. The Corporation believes that these lawsuits are without merit and will vigorously defend its ability to negotiate the deepest possible discounts for its members and customers with Michigan hospitals. As these lawsuits are in the early stages of development, it is not yet possible to make an assessment regarding probability of an adverse outcome, nor estimate a range of potential loss.

Customer Disputes — The Corporation is currently involved in two types of legal issues with self-funded customers. The first involves lawsuits filed by several local government groups that allege the Corporation charged the groups provider network and other fees without their knowledge. The groups allege breach of contract and fiduciary duty. In the fourth quarter of 2010, two adverse jury verdicts were issued on this matter finding that the Corporation breached its contract with the groups. The Corporation believes it has meritorious defenses and has appealed these decisions. In light of the recent decisions the Corporation has established an appropriate accrual for further potential adverse outcomes. Due to the specific facts of each lawsuit, it is reasonably possible that the risk of loss could exceed the amount accrued. The second matter involves a potential class action dispute regarding whether the Corporation breached its fiduciary duty when it charged self-funded groups a subsidy that benefits the Corporation's senior citizens. The status of the class action is pending a decision at the 6th Circuit Court of Appeals. The probability of an adverse outcome on this matter is unknown and the Corporation is unable to quantify a range of loss on this matter.

Accident Fund — In 2007 the Company made a \$125 capital contribution to the Accident Fund to ensure that the subsidiary maintained its financial rating and competitive position in the marketplace. The Michigan Attorney General filed a lawsuit that the capital contribution violated PA 350 which prohibits the Company from subsidizing the Accident Fund. The trial court deferred this issue to the

Michigan Insurance Commissioner who ruled that the capital contribution was permissible, but in December 2010, the Michigan Court of Appeals ruled that the Commissioner lacked the authority to rule on this issue and remanded the matter back to the trial court where the matter is pending a decision. The Company believes it has meritorious defenses in this matter and has determined that the risk of an adverse outcome in the matter is reasonably possible. In the event of an adverse outcome on this matter, management has at its disposal, other available financing vehicles to restructure this transaction.

The Corporation is a defendant in numerous other lawsuits and involved in other matters arising in the normal course of business primarily related to subscribers' benefits, breach of contracts, provider reimbursement issues and provider participation arrangements. The Corporation vigorously defends these matters and while the ultimate outcome of these lawsuits are not final the Corporation's management as of December 31, 2010, estimates that these matters will be resolved without a material adverse effect on the Corporation's consolidated financial position or results of operations.

22. NATIONAL HEALTH CARE REFORM

In March 2010, the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation of 2010 was enacted. The new law which will take effect over a four-year period, includes: prohibiting health insurers from denying coverage or refusing claims based on pre-existing conditions, expanding Medicaid eligibility, subsidizing insurance premiums, providing incentives for businesses to provide health care benefits, establishing health insurance exchanges, and support for medical research.

The new law encompasses certain new taxes and fees, including an excise tax on high premium insurance policies, limitations on the amount of compensation that is tax deductible and new fees on companies in the industry which are not be deductible for income tax purposes. The PPACA also imposes guaranteed coverage requirements, prohibitions on some annual and all lifetime limits, increased restrictions on rescinding coverage, establishment of minimum medical loss ratio (MLR) requirement, the establishment of state insurance exchanges and essential benefit packages. Additionally, the legislation reduces the reimbursement levels for health plans participating in the Medicare Advantage program over time.

The following health related provisions of the PPACA became effective in 2010. These changes did not have a significant impact to the Corporation consolidated financial position or results of operations for period ending December 31, 2010.

- Adults with pre-existing condition will be eligible to join a temporary high-risk pool, which will be superseded by the health care exchange in 2014.
- Prohibition of insurance companies from imposing lifetime dollar limits on essential benefits, like hospital stay in new policies issued.
- Permission for dependent children to remain on their parents' insurance plan until their 26th birthday, regardless of status.
- Prohibition of insurers from excluding pre-existing medical conditions (except in grandfathered individual health insurance plans) for children under the age of 19.

Many of the details of the new legislation, including but not limited to, the medical loss ratio requirements, are still subject to additional guidance and specificity by the Department of Health and Human Services (HHS) and the National Association of Insurance Commissioners (NAIC). The

establishment of minimum MLR, which could have a significant impact to the Corporation's results of operations, will take effect for certain business segments beginning in January 2011. The Corporation is required to calculate MLR and meet certain threshold standards. Failure to meet established thresholds will require the Corporation to pay customer rebates and/or lose its privileges associated with preferential tax status as a nonprofit Blue Cross plan.

Other significant changes, including the annual fees on health insurance companies, the excise tax on premium insurance policies, the guaranteed coverage requirements and the requirement that individuals obtain coverage, do not become effective until 2014 or later. These changes could have a material adverse effect on the Corporation's business, cash flows, financial condition and results of operations.

23. SUBSCRIBERS' RESERVES

Under the provisions of P.A. 350, the Company must maintain adequate subscribers' reserves to comply with Section 403 of the Michigan Insurance Code, which requires authorized insurers to be safe, reliable, and entitled to public confidence. As a result, the Company is required to file with the Office of Financial and Insurance Regulation (OFIR), on an annual basis, its risk-based capital (RBC) calculation based on the National Association of Insurance Commissioners model. P.A. 350 requires the Company to maintain a RBC ratio of at least 200%, but not to exceed 1,000% of subscribers' reserves. At December 31, 2010 and 2009, the Company was in compliance with the RBC requirement.

BCNM's Articles of Incorporation state that no dividends shall be directly paid on any shares nor shall the shareholder be entitled to any portion of the earnings derived through increment of value upon its property or otherwise incidentally made. BCNM's statutory capital and surplus as of December 31, 2010 and 2009, is \$530.6 and \$416.6, respectively. BCNM is required by OFIR to comply with certain RBC requirements. At December 31, 2010 and 2009, BCNM was in compliance with the RBC requirement.

Accident Fund is subject to state regulatory restrictions that limit the maximum amount of annual dividends or other distributions, including loans or cash advances, available to the parent without prior approval of the State of Michigan's Commissioner of Financial and Insurance Regulation. As of December 31, 2010, the maximum amount of dividends and other distributions that may be made by Accident Fund during 2011 without prior approval is \$64.8. Accident Fund's statutory capital and surplus as of December 31, 2010 and 2009, is \$648.2 and \$689.9, respectively. Accident Fund is required by OFIR to comply with certain RBC requirements. At December 31, 2010 and 2009, Accident Fund was in compliance with the RBC requirement.

At December 31, 2010, \$195.6 of cash and \$2,902.1 of investments are held at the Corporation's subsidiaries, which are subject to the aforementioned dividend limitations.

24. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) at December 31, 2010 and 2009 consists of the following:

	2010	2009
Unrealized gains and losses arising on available-for-sale securities	\$ 253.0	\$ 259.4
Reclassification adjustment for investment (gains) losses included in net income	<u>(153.3)</u>	<u>(103.1)</u>
Net unrealized gains and losses on available-for-sale securities	99.7	156.3
Change in unrecognized pension and postretirement liabilities	(255.9)	158.6
Income tax benefit (expense) related to items of other comprehensive income	<u>31.0</u>	<u>(51.3)</u>
Other comprehensive (loss) income — net of tax	<u>\$ (125.2)</u>	<u>\$ 263.6</u>

The accumulated other comprehensive income (loss) at December 31, 2010 and 2009, is as follows:

	2010	2009
Unrealized gains (losses) on available-for-sale securities	\$ 131.4	\$ 51.9
Unrecognized pension and postretirement liabilities	<u>(424.0)</u>	<u>(219.3)</u>
Total	<u>\$ (292.6)</u>	<u>\$ (167.4)</u>

25. STATUTORY BASIS ACCOUNTING INFORMATION

Statutory basis financial statements are filed with the OFIR. GAAP differs from the statutory basis accounting practices prescribed or permitted by OFIR. A reconciliation of GAAP net income to statutory basis net income at December 31, 2010 and 2009 is as follows:

	2010	2009
GAAP addition to subscribers' reserves in the accompanying statements	\$ 222.2	\$ 233.1
Add (deduct) adjustments in accordance with statutory basis accounting principles:		
Sale-leaseback adjustments — net	(6.4)	(5.8)
Statutory PDR changes — adjustment required to record 2-year PDR	(33.8)	51.9
Gain difference due to prior period impairment of securities	17.1	29.8
Nonvested retiree pension expense	(4.2)	7.3
Affiliates' earnings recorded as unrealized gain	(56.1)	(143.6)
Goodwill and intangible asset write-offs	2.1	(21.3)
Changes in unrealized gain or losses for trading securities	(72.4)	(163.8)
Deferred tax expense recorded in SAP subscribers' reserve	<u>136.7</u>	<u>24.9</u>
Statutory basis net income as prescribed by OFIR	<u>\$ 205.2</u>	<u>\$ 12.5</u>

A reconciliation of the Corporation's GAAP subscribers' reserves to SAP subscribers' reserves is shown below for December 31, 2010 and 2009, respectively:

	2010	2009
GAAP Subscribers' Reserves	\$ 2,920.1	\$ 2,823.1
Add (deduct):		
Sale-leaseback adjustments — net	38.3	43.4
Bonds and preferred stocks	(90.8)	(65.8)
Investment in subsidiaries	(342.7)	(322.9)
Furniture, equipment, and automobiles	(2.7)	(2.3)
Computer and software equipment not included in the sale-leaseback	(100.2)	(100.3)
Retiree health obligation	152.6	154.9
Retiree pension additional minimum liability	(345.9)	(271.4)
Premium and other receivables	(41.5)	(36.7)
Deferred tax assets	0.0	(51.9)
Prepaid expenses and other assets	(23.4)	(25.8)
Premium deficiency reserve adjustment	171.7	198.7
Reversal of GAAP pension and postretirement adjustment	<u>424.0</u>	<u>219.2</u>
	<u>(160.6)</u>	<u>(260.9)</u>
SAP Subscribers' Reserves as prescribed by OFIR	<u>\$ 2,759.5</u>	<u>\$ 2,562.2</u>

26. SUBSEQUENT EVENTS

Management has evaluated all events subsequent to the balance sheet date of December 31, 2010, through the date of issuance of these consolidated financial statements, March 10, 2011, and has determined that there are no subsequent events that require disclosure under FASB ASC 855, *Subsequent Events*.

* * * * *