ANNUAL STATEMENT

For the Year Ending December 31, 2008 OF THE CONDITION AND AFFAIRS OF THE

Volunteer State Health Plan, Inc.

	V	olunteer	State	Health P	ian, inc		
NAIC Group Code	0000 (Current Period)	0000 (Prior Period)	NAIC	Company Code		Employer's ID Number	62-1656610
Organized under the Laws o	f Tenn	essee		State of Domicil	le or Port of Entry	Te	nnessee
Country of Domicile	United State	s of America					
Licensed as business type:	Life, Accident & Health[] Dental Service Corporation[] Other[]	Vision	rty/Casualty[Service Corp O Federally C	1100 80000	Health M	Medical & Dental Service or Ir laintenance Organization[X]	ndemnity[]
Incorporated/Organized	07	7/11/1996		Commen	nced Business	11/01/19	96
Statutory Home Office	8	01 Pine Street		9	,,	Chattanooga, TN 37402	
Main Administrative Office	(S	treet and Number)		801 Pine	Street	(City or Town, State and Zip Co	de)
	Chattanoona	TN 37402		(Street and	Number)	(423)535-5600	
	Chattanooga, 1 (City or Town, State and					(Area Code) (Telephone No	umber)
Mail Address		01 Pine Street				Chattanooga, TN 37402	
Drimon, Langting of Dools of	A STATE OF THE PARTY OF THE PAR	ind Number or P.O. Box	()	0.0	1 Pine Street	(City or Town, State and Zip Co	ide)
Primary Location of Books a	ind Records				eet and Number)		
	Chattanooga, TN			50		(423)535-5600	
Internet Website Address	(City or Town, State and	d Zip Code) www.vshptn.com				(Area Code) (Telephone N	umber)
Statutory Statement Contac	t	Dana Elaine Hull (Name)			3 ,	(423)535-7919 (Area Code)(Telephone Number	(VEvtonsion)
	Dana_Hull@BCB	and the same of th				(423)535-8331)(Extension)
	(E-Mail Addres	is)				(Fax Number)	
			OFF	ICERS			
		Robert Stanley Albert Irving Ko Daniel Paul Tir Alaine Marie Z Shelia Dian Cl Katharine Ann	mblin lachary emons e Laurance	Chief Operating O Treasurer Assistant Treasur Secretary Assistant Secreta	er #		
State of Ten	Vicky Brown John Franci	n Gregg	CTORS	OR TRUSTE	Steven Lee Co	bulter MD	
	amilton ss						
were the absolute property of the contained, annexed or referred to deductions therefrom for the perion may differ; or, (2) that state rules Furthermore, the scope of this att	y being duly sworn, each depose and said reporting entity, free and clear from the statement of all the od ended, and have been completed in or regulations require differences in retestation by the described officers also statement. The electronic filing may be seen the statement of the statement of the statement.	om any liens or claims to assets and liabilities and accordance with the No eporting not related to a princludes the related co	thereon, except and of the condition NAIC Annual St accounting prace presponding el	t as herein stated, and the con and affairs of the said latement Instructions and toes and procedures, ac ectronic filling with the Na	at this statement, tog if reporting entity as of if Accounting Practice ecording to the best of AIC, when required, t	ether with related exhibits, schedule if the reporting period stated above, as and Procedures manual except to if their information, knowledge and b	es and explanations therein and of its income and the extent that: (1) state la- relief, respectively.
John t	ly / flor	She	ia De	an Clem	ens)		
Son	(Signature) / nya Kay Nelson			gnature) Iran Clemons		(Signature)	ol tomit
	Printed Name)	-		ted Name)		Robert Stanley De (Printed Name	The second secon
Pro	1. esident & CEO		0	2.		3.	25
FIE	(Title)	-		cretary (Title)		Chief Financial ((Title)	Officer
Georgia Discher (G. 10)	1000010 955 65 98			*12000*0		(1100)	
Subscribed and swor	Les 2009	b. If n	0.0	al filing? ste the amendment note filed mber of pages attach	AUTOGRAPH .	Yes[] No[X 2 02/12/2010 2	
(Notary Publi	ognature)	NOTA	RY	Malli			

My Commission Expires August 18, 2010



1 Cameron Hill Circle Chattanooga, TN 37402-2555 BCBST.com



Via FedEx USA Airbill # 8709 8295 1329

February 12, 2010

Ms. Lisa Jordan
Department of Commerce and Insurance
TennCareSM Division
500 James Robertson Parkway - Suite 750
Nashville, TN 37243-1169

RE: NAIC 4th Quarter 2008 Amended Statement for Volunteer State Health Plan, Inc. (VSHP) Amended 2008 Management Discussion and Analysis

Dear Ms. Jordan:

Enclosed is the NAIC 4th Quarter 2008 amended Statement for Volunteer State Health Plan, Inc. and Management Discussion and Analysis.

Please feel free to call me (423-535-7919) if you have any questions.

Sincerely,

Dana Hull

Dana Hull Manager, Subsidiary Accounting



For the Year Ending December 31, 2008 OF THE CONDITION AND AFFAIRS OF THE

Volunteer State Health Plan, Inc.

NAIC Group Code	0000 , (Current Period) (Pri	0000 for Period)	NAIC Company Code		Employer's ID Number	62-1656610
Organized under the Laws o	f Tenness	ee	State of Dom	nicile or Port of Entry	Ten	nessee
Country of Domicile	United States of	f America				
Licensed as business type:	Life, Accident & Health[] Dental Service Corporation[] Other[]		sualty[] ce Corporation[] erally Qualified? Yes[]!	Health Ma	Medical & Dental Service or Indiantenance Organization[X]	lemnity[]
Incorporated/Organized	07/11	/1996	Comm	nenced Business	11/01/199	6
Statutory Home Office	801	Pine Street			Chattanooga, TN 37402	
Main Administrative Office	(Street	and Number)	801 P	ine Street	(City or Town, State and Zip Code)
	Chattanooga, TN	37402	(Street a	and Number)	(423)535-5600	
Mail Addrosa	(City or Town, State and Zip				(Area Code) (Telephone Num Chattanooga, TN 37402	iber)
Mail Address	(Street and N	lumber or P.O. Box)			(City or Town, State and Zip Code	e)
Primary Location of Books a	nd Records			801 Pine Street Street and Number)		
	Chattanooga, TN 374 (City or Town, State and Zip			·	(423)535-5600 (Area Code) (Telephone Num	aher)
Internet Website Address	The state of the s	vw.vshptn.com			(Alea Code) (Telephone Num	iber)
Statutory Statement Contact	Da	na Elaine Hull			(423)535-7919	
	Dana_Hull@BCBST.c	(Name) com			(Area Code)(Telephone Number)(E (423)535-8331	Extension)
	(E-Mail Address)		OFFICERS		(Fax Number)	
		Name Vicky Brown Gregg Sonya Kay Nelson Steven Lee Coulter M Robert Stanley DeMe Albert Irving Koehler Daniel Paul Timblin Alaine Marie Zachary Shelia Dian Clemons Katharine Anne Laura	critt Chief Financial Chief Operating Treasurer Assistant Treasurer Secretary	tor Officer # Officer # # urer #		
			OTHERS			
	Vicky Brown Gr John Francis G	egg	RS OR TRUST	EES Steven Lee Cou	ulter MD	
	nessee					
County of Har	milton ss					
were the absolute property of the contained, annexed or referred to deductions therefrom for the perion may differ; or, (2) that state rules Furthermore, the scope of this attractions Furthermore, the scope of this attractions.	y being duly sworn, each depose and say said reporting entity, free and clear from a, is a full and true statement of all the ass ad ended, and have been completed in ac or regulations require differences in repor estation by the described officers also include the complete of the described officers. The electronic filing may be required.	any liens or claims thereor ets and liabilities and of the coordance with the NAIC A ting not related to account ludes the related correspo	n, except as herein stated, an ne condition and affairs of the nnual Statement Instructions ting practices and procedures anding electronic filing with the	d that this statement, tog said reporting entity as of and Accounting Practices, according to the best of e NAIC, when required, t	ether with related exhibits, schedule of the reporting period stated above, as and Procedures manual except to if their information, knowledge and b	s and explanations therein and of its income and the extent that: (1) state elief, respectively.
	(Signature)	~ Julia h	(Signature)		(Signature)	yanjano
	ya Kay Nelson rinted Name)	SI	nelia Dian Clemons (Printed Name)		Robert Stanley DeM (Printed Name)	lerritt
	1. sident & CEO		2. Secretary		3. Chief Financial Off	icor
-	(Title)		(Title)		(Title)	
Subscribed and sworn A H day of (Notary Public	Colline	b. If no,			Yes[] No[X] 1 02/12/2010 2	
		PUBLI				

My Commission Expires August 18, 2010

Notes to Financial Statement

- 10. Information Concerning Parent, Subsidiaries and Affiliates
 - C. The Company paid \$43,837,831 and \$73,627,933 in 2008 and 2007 respectively, to the Parent for services performed under the administrative services agreements. Payments are net of reimbursements to the Parent for Cover Tennessee and MedAdvantage operations. The Company provides support services to its Parent for the State's Cover Tennessee programs, which are a separate non-Medicaid line of products enacted and implemented by the State and consist of both at-risk and ASO products. The Parent is the direct contractor for the Cover Tennessee programs (CoverKids, CoverTN, and AccessTN). The Parent subcontracts with the Company to provide certain services under the contracts. These services include, but are not limited to, claims processing, customer service, contract administration, medical management and membership services. The Company's subcontracting responsibilities are documented through a series of Administrative Service Agreements for each of the aforementioned Cover Tennessee products and are on file with the Tennessee Department of Commerce and Insurance. The cost of services performed by the Company under the Administrative Service Agreements is fully reimbursed by the Parent. The Company also provides support services to its Parent for MedAdvantage operations including, but not limited to, medical director review of appeals and denials. The cost of services performed by the Company is fully reimbursed by the Parent.

SCHEDULE Y (Continued) PART 2 - SUMMARY OF INSURER'S TRANSACTIONS WITH ANY AFFILIATES

1	2	3	4	5	6	7	8	9	10	11	12	13
					Purchases, Sales	Income/(Disburse-				Any Other		Reinsurance
					or Exchanges of	ments) Incurred in				Material Activity		Recoverable/
					Loans, Securities,	Connection with	Management	Income/		not in the		(Payable)
					Real Estate,	Guarantees or	Agreements	(Disbursements)		Ordinary		on Losses
NAIC	Federal				Mortgage	Undertakings	and	Incurred Under		Course of		and/or Reserve
Company	ID	Names of Insurers and Parent,	Shareholder	Capital	Loans or Other	for the Benefit	Service	Reinsurance		the Insurer's		Credit Taken/
Code	Number	Subsidiaries or Affiliates	Dividends	Contributions	Investments	of any Affiliate(s)	Contracts	Agreements	*	Business	Totals	(Liability)
54518	. 62-0427913	BlueCross BlueShield of Tennessee, Inc. (BCBST)	200000000000000000000000000000000000000	(44,200,000)			63,871,502				19,671,502	
54518	62-0427913 .	BCBST - Other				*******************	(1,539)	**************			(1,539)	
54518	02-042/913.	BCBST - IVIEGAGVANTAGE		*************			(355,961)			********	(355,961)	
54518	62-042/913	BCBS1 - CoverIN	************		111111111111111	+1+*1+17111111111111111111	(5,625,725)	***********	13+11311	*******	(5,625,725)	
00000	62-1656610 .	Volunteer State Health Plan, Inc. (VSHP)		44,200,000		**************	(57,888,277)		****		(13,688,277)	
9999999 Tot	als		**********				********		XXX		***********	**********

Schedule Y Part 2 Explanation:



> Introduction

Volunteer State Health Plan (VSHP or the Company), a wholly owned subsidiary of BlueCross BlueShield of Tennessee (BCBST), began operations on November 1, 1996. The Company is a licensed Health Maintenance Organization organized for the purpose of participating as a Managed Care Organization (MCO) in the TennCareSM program by contract with the State of Tennessee (the State). The Company primarily provides services for TennCare members, with services offered under its "BlueCare" trade name.

The Company currently has two administrative services only (ASO) contracts with the State. The first contract is known as the Stabilization Plan and is effective through December 31, 2008. The second ASO contract, known as TennCare Select, is statewide and is effective through June 30, 2009. Under TennCare Select, VSHP provides services for several groups of TennCareSM members including: children in state custody, children receiving social security income benefits, out-of-state members, and non-responsive members. Additional TennCare members were added to TennCare Select through the transfer of enrollment from MCOs with terminated contracts. These enrollees remain in TennCare Select until the Bureau of TennCare determines the remaining contracted TennCare MCOs are able to accept additional enrollees.

The Company receives administrative fees from the State for administration of the Stabilization Plan and TennCare Select ASO programs. Claims are submitted to the Company for processing and payment, and the State reimburses the Company as claims are paid.

The Company was awarded an at-risk contract with TennCare for the West Grand Region effective November 1, 2008. The Company receives capitated premium payments from the State to cover medical services provided to members and for administrative costs. This contract includes approximately 175,000 TennCare participants in the West Grand Region. VSHP was also awarded an at-risk contract with TennCare for the East Grand Region with an implementation date of January 2009. This contract includes approximately 232,000 TennCare participants in the East Grand Region.

The Company provides supporting services to its Parent, BCBST, for the State's Cover Tennessee programs, which is a separate non-Medicaid line of products enacted and implemented by the State and consists of both at-risk and ASO products. BCBST is the direct contractor for the Cover Tennessee programs (CoverKids, CoverTN, and AccessTN). BCBST subcontracts with the Company to provide certain services under the contracts. These services include, but are not limited to, claims processing, customer service, contract administration, medical management and membership services. The Company's subcontracting responsibilities are documented through a series of Administrative Service Agreements for each of the aforementioned Cover Tennessee products and are on file with the Tennessee Department of Commerce and Insurance. The cost of services performed by the Company under the Administrative Service Agreements is fully reimbursed by BCBST.

The Company also provides supporting services to its Parent, BCBST, for certain other lines of business, including Medicare Advantage, which is a separate non-Medicaid product line. BCBST is the direct provider for these other lines of business. BCBST subcontracts with the Company to provide certain services, such as medical management, for these other lines of business. The cost of services performed by the Company is fully reimbursed by BCBST.

Results of Operations

The following schedule summarizes the Company's Results of Operations for 2008 and 2007 as presented in the December 31, 2008 Statutory Annual Statement.

Stated in Millions \$				
	2008	2007	Variance	
Revenues	\$ 77.9	\$ 8.4	(A) \$ 69.5	
Claims	76.1	(1.0)	(A) 77.1	
Administrative Expenses	29.7	10.4	(B) 19.3	
Premium Deficiency Reserve	42.7	-	(C) 42.7	
Investment Gains	1.5	1.9	(.4)	
Income Taxes	(7.3)	.3	(7.6)	
Net Gain (Loss)	\$(61.8)	\$ 0.6	\$ (62.4)	

Variance Explanations:

- (A) Revenues and Claims increased in 2008 primarily due to the addition of the TennCare West Grand Region at-risk contract in November 2008.
- (B) Administrative Expenses increased in 2008 primarily due to ramp up costs for the TennCare West Grand Region at-risk contract, costs to administer the TennCare West Grand Region at-risk contract, and the presentation of administrative fees in 2007. In 2007 and prior years, administrative fees from the State were paid to BCBST pursuant to the administrative services agreement (ASA) between the Company and BCBST. Beginning January 1, 2008, VSHP retains the administrative fees and incurs direct costs and allocated cost from BCBST for services provided.
- (C) A Premium Deficiency Reserve (PDR) of \$42.7 million was recorded in 2008 to establish a reserve for 2009 estimated net losses on the two at-risk contracts with the State. Statutory accounting principles require estimated future losses to be recorded in the current year for long duration contracts. Under these rules, the Company recorded a PDR based on management projections. Establishment of this PDR ensures that VSHP remains financially strong and well positioned to meet the needs of its members in the at-risk arrangements.

Prospective Information

This report may contain certain forward-looking statements, which are any statements that are not historical in nature. Based on information available to the Company at the time of this report, the Company believes the assumptions upon which it based these forward-looking statements are reasonable. However, any forward-looking statements involve risks and uncertainties, many of which are outside the Company's control, and any of which could materially affect whether the forward-looking statements ultimately prove to be correct. Actual results could differ materially from those suggested or implied by forward-looking statements.

The Company was awarded the TennCare East Grand Region at-risk contract with an implementation date of January 1, 2009. Projections of financial performance for the East Grand Region as well as the West Grand Region were previously sent to the Department of TennCare. These projections reflect conservative estimates of future results and management is diligently working to optimize performance.

Material Changes

There were several material balance sheet variances from 2007 to 2008. Most of the variances are related to the TennCare West Grand Region at-risk contract the Company was awarded in 2008.

The following schedule summarizes the changes in assets, liabilities, and surplus from the prior year.

Stated in Millions \$:			
	2008	2007	Variance
Cash and Cash Equivalents	\$ 66.7	\$ 9.5	(A) \$ 57.2
Uncollected Premiums	5.9	_	(B) 5.9
Deferred Federal Income Tax	13.1	-	(C) 13.1
Receivable from Parent/Subsidiaries/Affiliates	32.8	-	(D) 32.8
Healthcare Receivable	1.9	-	(E) 1.9
All Other Assets	31.2	34.2	(3.0)
Total Assets	\$151.6	\$ 43.7	\$107.9
Claims Unpaid	\$ 62.2	\$ -	(A) \$ 62.2
Premium Deficiency Reserve	42.7	-	(F) 42.7
Unpaid Claims Adjustment Expenses	8.8	-	(G) 8.8
Payable to Parent/Affiliates	-	7.3	(D) (7.3)
Surplus	26.8	31.4	(4.6)
All Other Liabilities	11.1	5.0	6.1
Total Liabilities and Surplus	\$ 151.6	\$ 43.7	\$107.9

Variance Explanations:

- (A) Cash and Cash Equivalents increased in 2008 primarily due to premium payments received from the State to cover administrative expenses and claims for the TennCare West Grand Region at-risk contract. Timing differences between when funds are received from the State and when claims are paid resulted in an increase in cash balances and the liability for unpaid claims at the end of 2008.
- (B) Uncollected Premiums represent 10% of premiums withheld by the State for the TennCare West Grand Region. The 10% of premiums withheld is paid the following month after deduction of performance penalties, if applicable.
- (C) Approximately, \$11.5 million of the Deferred Federal Income Tax represents future tax benefits from losses related to the Premium Deficiency Reserve. The remaining \$1.6 million of Deferred Federal Income Tax is related to discounting of the liability for Claims Unpaid on the TennCare West Grand Region at-risk contract.
- (D) BCBST invested \$44.2 million in the Company to meet the legally required reserves balance. At December 31, 2008, \$40 million was accrued as an intercompany receivable that was paid by BCBST in February 2009. The receivable is net of payables that the Company owed BCBST.
- (E) The Healthcare Receivable balance in 2008 represents amounts advanced to providers in the fourth quarter of 2008 related to new contractual provider network arrangements for the TennCare West Grand Region at-risk contract.

- **(F)** As discussed in the Results of Operations variance explanations, a Premium Deficiency Reserve of \$42.7 million was recorded in 2008 to establish a reserve for 2009 estimated net losses.
- (G) A liability for Unpaid Claims Adjustment Expense was recorded in 2008 for the costs of processing run-out claims in the event a contract is terminated. In prior years, this accrual was reflected on BCBST's financial statements consistent with the terms of the ASA.

Liquidity, Asset/Liability Matching and Capital Resources

The Company currently uses and will continue to use funds billed to and received from the State to cover expenses for the Stabilization Plan and TennCare Select ASO programs. Premiums for the at-risk TennCare East and West Grand Regions are received in advance of the majority of claims payments. Cash reserves are used for the payment of claims and administrative expenses. Management does not anticipate problems regarding the ongoing collection of reimbursements, administrative fees, and premiums from the State.

As of December 31, 2008, the Company had not entered into any material commitments for capital expenditures, nor are any material commitments for capital expenditures projected for the future.

Off-Balance Sheet Arrangements

As of December 31, 2008, the Company had no off-balance sheet arrangements as described in the NAIC's instructions for the Management Discussion and Analysis.

Participation in High Yield Financings, Highly Leveraged Transactions or Non-Investment Grade Loans and Investments

The Company does not participate in high yield financings, highly leveraged transactions, or non-investment grade loans and investments.

Preliminary Mergers/Acquisitions Negotiations

The Company has no merger or acquisition negotiations underway.