

EXAMINATION REPORT OF
MAGELLAN BEHAVIORAL CARE OF IOWA, INC.
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2014

West Des Moines, Iowa
May 16, 2016

HONORABLE NICK GERHART
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner Gerhart:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

MAGELLAN BEHAVIORAL CARE OF IOWA, INC.

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2014

with the Home Office located at 2600 Westown Parkway, Suite 200, West Des Moines, Iowa.

INTRODUCTION

Magellan Behavioral Care of Iowa, Inc., hereinafter the "Company", was previously examined as of December 31, 2009. The examination reported herein was conducted solely by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This is the regular comprehensive examination of the Company covering the intervening period from January 1, 2010 to the close of business on December 31, 2014, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires the examination to be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company; including corporate governance, identifying and assessing inherent risks within the organization, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, as well as applicable domestic state regulations.

All accounts and activities of the organization were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2014.

HISTORY

The Company was incorporated in November 1995. Since March 1, 1995, the Company has contracted with the State of Iowa Department of Human Services to provide managed mental health and substance abuse services for the State of Iowa's Medicaid program. The Company has been awarded with several contract extensions since the initial contract

term. Effective with the contract award beginning on January 1, 1999, the contract was expanded to include the Non-Medicaid and State Payment Programs. The Company became licensed as a limited services organization on December 31, 2001.

In 2009, the Company was awarded the current contract with the State of Iowa's Department of Human Services and the Department of Public Health to provide managed mental health and substance abuse services to Iowa Plan enrollees. The Contract consists of the Medicaid, Non-Medicaid, and State Payment Programs and was for an initial term from January 1, 2010 through June 30, 2012, with a provision for three, one-year extensions at the State's option. The contract was extended through and terminates December 31, 2015.

CAPITAL STOCK AND DIVIDENDS

Per the Articles of Incorporation, the Company is authorized to issue 1,000 shares of common stock, no par value. As of December 31, 2014, the Company had 1,000 shares of common capital stock issued and outstanding, with all shares held by the immediate parent, Merit Behavioral Care Corporation. Reported gross paid in and contributed surplus totaled \$59,438,133 with unassigned surplus funds of \$12,129,978.

The Company received additional paid in capital contributions during the examination period as follows:

2010	\$ 5,650,000
2011	11,600,000
2012	-0-
2013	25,775,040
2014	16,393,093

Cash dividends paid during the examination period under review were as follows:

2010	\$ -0-
2011	2,000,000
2012	615,826
2013	765,888
2014	978,952

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The Company is a wholly owned subsidiary of Merit Behavioral Care Corporation (Merit). Merit is a wholly owned subsidiary of Magellan Healthcare, Inc. (MHC), which is a wholly owned subsidiary of Magellan Health, Inc. ("Magellan"), the ultimate parent.

MANAGEMENT AND CONTROL

SHAREHOLDERS

The Bylaws state that the annual meetings of shareholders shall be held on such date and time as shall be designated from time to time by the board of directors or by the shareholders at the executive office of the corporation or at any other place which may be designated by the board of directors or by the shareholders.

Special meetings of the shareholders for the purpose of taking any action which is within the powers of the shareholders, may be called at any time by the chairman of the board or the president or by the board of directors, or by the holders of the

shares entitled to cast not less than ten percent of the votes at the meeting. Written notice of each meeting of shareholders, whether annual or special shall be given to each shareholder entitled to vote.

BOARD OF DIRECTORS

The Bylaws state that the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

The number of directors of the corporation shall be fixed. So long as the Company maintains a license as a limited service organization, at least thirty percent of the directors of the corporation shall be enrollees under a coverage agreement or health benefits contract issued or entered into by the Company who are not providers or not associated with a provider. The directors shall be elected at each annual meeting of shareholders, but if any such annual meeting is not held or the directors are not elected at any annual meeting, the directors may be elected at any special meeting of shareholders held for that purpose, or at the next annual meeting of shareholders held thereafter. Each director shall hold office at the pleasure of the shareholders until the next annual meeting of shareholders and until his successor has been elected and qualified or until his earlier resignation or removal or his office has been declared vacant.

Enrollee Directors shall be appointed in the following manner. Not less than sixty days prior to such date, the Company shall mail notices to all adult enrollees seeking nominations for Enrollee Directors. Upon receipt of any such nominations, the Company shall review the background and qualifications of the nominee and the nominee's willingness and ability to serve as an Enrollee Director. The Enrollee Directors shall be appointed by the existing directors then in office from among the nominations received. If no nominations are received, the Enrollee Directors shall be appointed by the then existing members of the board of directors.

Immediately following each annual shareholder meeting, the board of directors shall hold a regular meeting to elect officers and transact other business.

A majority of authorized number of directors shall constitute a quorum of the board for the transaction of business. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present is the act of the board of directors.

Duly elected and qualified directors serving at December 31, 2014 were:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>
Andrew Cummings Cos Cob, CT	Senior Vice President, Associate General Counsel Magellan Health, Inc.
Angela Desmidt-Kimber Des Moines, IA	Outside Consumer Director
Maria Montanaro Des Moines, IA	General Manager Magellan Health, Inc.
Jon Grate Davenport, IA	Outside Consumer Director

Anne McCabe
Saratoga Springs, NY

Senior Vice President, Public Solutions
Magellan Health, Inc.

Jonathan Rubin
West Simsbury, CT

Executive Vice President and Chief Financial Officer,
Magellan Health, Inc.

The Company does not pay any director fees for being on the board.

COMMITTEES

The Bylaws provide that the board of directors, at its discretion, by resolution may designate one or more directors, to serve on a committee at the pleasure of the board. However, at December 31, 2014 the Company had not formed any committees.

OFFICERS

The officers of the corporation shall be a chairman of the board, or a president, or both, a secretary and a chief financial officer. The corporation may also have, at the discretion of the board of directors, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers and such other officers as may be appointed in accordance to the provisions in the Bylaws. Any two or more offices may be held by the same person.

Elected officers serving at December 31, 2014 are as follows:

<u>Name</u>	<u>Title</u>
Anne McCabe	President
Andrew Cummings	Senior Vice President and Secretary
William Grimm	Chief Financial Officer
Dennis Lazaroff**	Vice President
Brian Frey	Treasurer
Maria Montanaro*	General Manager

*Maria Montanaro, General Manager was replaced with Dennis Petersen during the first quarter of 2015.

**Dennis Lazaroff, Vice President was replaced with Margie Smith during the second quarter of 2015.

The Company's officers are also employees of MHC with salary related expenses allocated through the Administrative Services Agreement.

CONFLICT OF INTEREST

The Company has an established procedure for the disclosure to its Board of Directors of any material interest or affiliation on the part of directors, officers and key employees, which is in, or likely to, conflict with the official duties of such person. As of December 31, 2014 all Board of Directors and Officers have signed conflict of interest disclosures.

CORPORATE RECORDS

No amendments were made to the Articles of Incorporation nor Bylaws during the examination period. The recorded minutes of the meetings of the shareholders and the Board of Directors were read and noted. The minutes were silent regarding the prior examination report as of December 31, 2009.

AGREEMENTS

The Company has an Administrative Services Agreement with Magellan Healthcare, Inc. (MHC) originally effective January 1, 2002 with subsequent amendments. MHC, or one or more of its affiliates, shall provide the following services to the Company:

1. Development and maintenance of the Company's network of providers and facilities, including recruiting, credentialing, interviewing and evaluating. They will also develop provider rate schedules, and negotiate contracts with providers.
2. Claims payment.
3. Design, implement and maintain an MIS system for gathering, synthesis, storage and retrieval of data.
4. Design and implementation of a communications system to enable the covered members to contact the Company for inquiries regarding the Plan.
5. Legal services including review and preparation of contracts, maintenance of corporate legal books and records, and advice concerning risk management.
6. Cash or Asset Management Services. Such services may include collection of receipts, assistance with establishing and maintaining bank accounts and other asset accounts, assistance with investment decisions and record keeping.
7. Maintain a Fidelity bond, or similar insurance coverage.
8. Other Administrative services.
9. MHC leases employees to the Company. From the service fee payable by the Company, MHC shall be responsible for all payroll and payroll related functions and costs with respect to the leased employees.

The Company has a Tax Allocation Agreement with Magellan Health, Inc. effective January 1, 2005 where Magellan files state and federal income tax returns for itself and its subsidiaries, including the Company, on a consolidated basis.

FIDELITY BOND AND OTHER INSURANCE

The Company and its parent and affiliates are protected by fidelity coverage up to \$10,000,000. The other interests of the Company are adequately protected through coverages with its parent and affiliates with policies in force with admitted insurers.

EMPLOYEE WELFARE

The Company has no direct employees. All personnel services are provided in accordance with the Administrative Services Agreement.

CONTRACTUAL DEPOSIT

The Company held restricted assets, with a book value of \$81,733,538, in accordance with insolvency protection provisions of the State of Iowa contracts.

TERRITORY AND PLAN OF OPERATION

Magellan Behavioral Care of Iowa, Inc. is a limited services organization authorized to transact business in the state of Iowa. The Company manages behavioral health-care programs for payers across various segments of the health care industry. During the examination period, business was written only under the State of Iowa contracts.

GROWTH OF COMPANY

The Following comparative data reflects the growth of the Company during the last five-year period based on the Company's filed annual statements:

	<u>Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Total Revenues</u>	<u>Membership</u>
2010	\$ 71,845,294	\$18,502,746	\$141,827,031	392,271
2011	104,449,897	28,718,572	183,195,752	405,383
2012	116,697,543	28,868,634	233,501,214	416,974
2013	162,784,495	54,856,737	323,912,130	420,920
2014	166,277,093	71,568,111	464,026,875	536,344

ACCOUNTS AND RECORDS

The figures contained in the Company's annual statement for the years 2010, 2011, 2012, 2013, and 2014 were found to be in agreement with or reconciled to those recorded in the general ledger for assets, liabilities, income, and disbursement accounts.

SUBSEQUENT EVENTS

The current contract with the State of Iowa terminated on December 31, 2015. Subsequently, the Company was not awarded with another contract and is now in run-off with final settlements with the contract holders scheduled for January 2, 2017.

During 2015, the Company reduced grossed paid in and contributed surplus by \$12,000,000. A portion of this reduction was offset by an increase in amounts withheld or retained for accounts of others.

F I N A N C I A L S T A T E M E N T S

A N D C O M M E N T S T H E R E O N

Note: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2014 and the assets and liabilities as of that date.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Assets</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 57,396,289	\$	\$ 57,396,289
Cash, cash equivalents and short-term investments	69,053,605		69,053,605
Investment income due and accrued	454,619		454,619
Uncollected premiums	31,552,396		31,552,396
Write-in: Performance-based receivable	908,335		908,335
Write-in: ASO receivable	6,907,649		6,907,649
Write-in: Other receivable	4,200	<u> </u>	<u>4,200</u>
 Total assets	 <u>\$166,277,093</u>	 <u> </u>	 <u>\$166,277,093</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid		\$ 60,357,197
Unpaid claims adjustment expenses		390,417
Aggregate health policy reserves		12,401,126
Premiums received in advance		8,693,358
General expenses due or accrued		1,080,289
Current federal and foreign income tax payable		2,794,618
Amounts withheld or retained for the account of others		8,702,757
Amounts due to parent, subsidiaries and affiliates		261,505
Write-in: Unclaimed property		<u>27,715</u>
 Total liabilities		 <u>\$ 94,708,982</u>
 Gross paid in and contributed surplus		 <u>\$ 59,438,133</u>
Unassigned funds		<u>12,129,978</u>
 Total capital and surplus		 <u>\$ 71,568,111</u>
 Total liabilities, capital and surplus		 <u>\$166,277,093</u>

STATEMENT OF REVENUE AND EXPENSES

<u>Member months</u>			<u>6,185,710</u>
<u>Revenues</u>			
Net premium income	\$463,095,006		
Change in unearned premium reserves	(113,714)		
Write-in: Other revenue	137,250		
Write-in: Performance-based revenue	<u>908,333</u>		
Total revenues			<u>\$464,026,875</u>
<u>Hospital and Medical</u>			
Hospital/medical benefits	\$103,112,814		
Other professional services	295,525,855		
Change in community reinvestment reserve account	<u>(113,714)</u>		
Total hospital and medical			<u>\$398,524,955</u>
<u>Administration</u>			
Claims adjustment expenses		1,102,415	
General administrative expenses		<u>60,756,473</u>	
Total underwriting deductions			<u>460,383,843</u>
Net underwriting gain			<u>\$ 3,643,032</u>
<u>Investment Income</u>			
Net investment income earned	\$ 441,721		
Net realized capital gains	<u>7,098</u>		
Net investment gains			<u>448,819</u>
Net income before federal income taxes			<u>\$ 4,091,851</u>
Federal and foreign income taxes incurred			<u>2,794,618</u>
Net income			<u>\$ 1,297,233</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>			
Capital and surplus, December 31, 2013			<u>\$ 54,856,737</u>
<u>Gains and losses to capital and surplus</u>			
Net income		\$ 1,297,233	
Surplus paid in		16,393,093	
Dividends to stockholders		<u>(978,952)</u>	
Net change in capital and surplus			<u>\$ 16,711,374</u>
Capital and surplus, December 31, 2014			<u>\$ 71,568,111</u>

CASH FLOW

Cash from operations

Premiums collected net of reinsurance	\$448,083,906	
Net investment income	1,281,045	
Miscellaneous income	<u>1,137,250</u>	
Total		\$450,502,201
Benefits and loss related payments	\$394,045,154	
Commissions and expenses paid	87,336,093	
Federal and foreign income taxes paid	<u>527,127</u>	
Total		<u>481,908,374</u>
Net cash from operations		<u>\$(31,406,173)</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	<u>\$ 14,565,420</u>	
Cost of investments acquired (long-term only):		
Bonds	<u>\$ 35,043,635</u>	
Net cash from investments		<u>\$(20,478,215)</u>

Cash from Financing and Miscellaneous Sources

Cash provided:		
Capital and paid in surplus, less treasury stock	\$ 16,393,093	
Dividends to stockholders	(765,888)	
Other cash provided	<u>2,032,881</u>	
Net cash from financing and miscellaneous sources		<u>\$ 17,660,086</u>

Reconciliation of Cash, Cash Equivalents and Short-Term Investments

Net change in cash and short-term investments		\$(34,224,302)
Cash and short-term investments:		
Beginning of year		<u>103,277,907</u>
End of year		<u>\$ 69,053,605</u>

