

EXAMINATION REPORT OF
MERIDIAN HEALTH PLAN OF IOWA, INC.
DES MOINES, IOWA
AS OF DECEMBER 31, 2014

Des Moines, Iowa
April 12, 2016

HONORABLE NICK GERHART
Commissioner of Insurance
Des Moines, Iowa

Commissioner Gerhart:

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

MERIDIAN HEALTH PLAN OF IOWA, INC.

DES MOINES, IOWA

AS OF DECEMBER 31, 2014

at the Home Office located at 666 Grand Avenue, 14th Floor, Des Moines, Iowa.

INTRODUCTION

Meridian Health Plan of Iowa, Inc., hereinafter the "Company", was previously examined as of December 31, 2011. The Company is a participant of a holding company group with the ultimate parent being Caidan Enterprises, Inc. The examination reported herein was conducted by the Michigan Department of Insurance and Financial Services with the Iowa Insurance Division placing reliance on their work and in addition, examining compliance with Iowa laws and statutes.

SCOPE OF EXAMINATION

This is the regular comprehensive examination of the Company covering the intervening period from January 1, 2012 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 procedures recommended by the Financial Condition (E) Committee of the N.A.I.C., and other generally accepted insurance examination standards. A general review and survey was made of the Company's operations and business transactions conducted during the stated period. Accounting methods, internal control procedures, records and other supporting evidences were examined or tested by appropriate methods to the extent deemed necessary. 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 licensed in 2011 as an Iowa Medicaid health plan that began providing health services to enrollees in March 2012. The Company entered into a contract with the Iowa Department of Healthcare and Family Services effective March 1, 2012 providing Medicaid benefits to its subscribers. On January 1, 2014, the Company commenced operation of a Medicare Advantage Dual-Eligible Special Needs Plan to provide medical services to dual eligible members and a Medicare Advantage Prescription Drug Plan.

CAPITAL STOCK AND DIVIDENDS

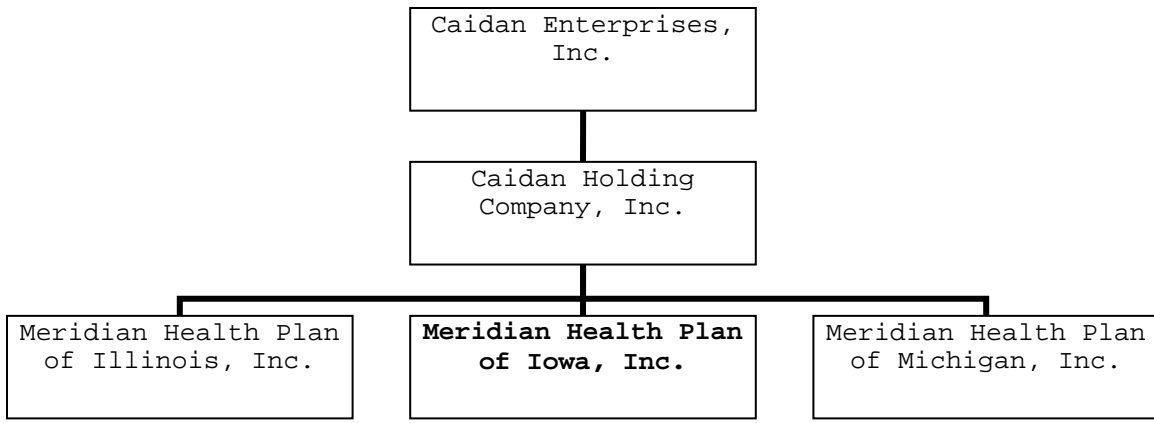
Per the Articles of Incorporation, the Company is authorized to issue 100,000 shares of common stock, no par value. As of December 31, 2014, the Company had 100,000 shares of common stock authorized and 1,000 shares issued and outstanding with a stated value of \$1.00 each. The Company has not issued any preferred stock.

Cash dividends paid, including extraordinary dividends approved by the Iowa Insurance Division, during the examination period under review were as follows:

2012	0
2013	0
2014	0

In 2014, the Company received capital contributions from Caidan Holding Company, Inc. in the amount of \$10,000,000.

INSURANCE HOLDING COMPANY SYSTEM



The Company is a member of a Holding Company as defined by Chapter 521A, Code of Iowa. The Company is a wholly owned subsidiary of Caidan Holding Company, Inc. (CHC) which is a wholly owned subsidiary of Caidan Enterprises, Inc. (CEI). Caidan Holding Company, Inc. also owns Meridian Health Plan of Illinois, Inc., Meridian Health Plan of Iowa, Inc., Meridian Health Plan of Michigan, Inc., and Granite Care - Meridian Health Plan of New Hampshire, Inc..

MANAGEMENT AND CONTROL

SHAREHOLDERS

The Bylaws state that the annual meeting of shareholders shall be held on the 15th day of December of each year or at such date and time as the Board of Directors may designate for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday, such meeting shall be held on the next succeeding business day.

Special meetings of the shareholders may be called either by the President, by the Board of Directors or by the holders of not less than ten percent (10%) of all the outstanding shares of the corporation entitled to vote on the matter for which the meetings is called, only for the purpose or purposes stated in the call of the meeting. A written demand for a special meeting may be revoked by a writing to that

effect received by the corporation prior to the receipt by the corporation of demands sufficient in number to require the holding of a special meeting.

BOARD OF DIRECTORS

The Bylaws state that the business of the corporation shall be managed by or under the direction of its Board of Directors. A majority of the Board of Directors may, by resolution, establish reasonable compensation for their services and the services of officers, irrespective of any personal interest.

The number of directors constituting the Board shall initially be no less than five (5) and no more than twenty-one (21). Each director shall hold office until the next annual meeting of shareholders or until his or her successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall have the effect of shortening the term of any incumbent director. As required by Iowa Administrative Code Chapter 40, the Board of Directors shall include reasonable representation by enrollees in an amount of not less than thirty percent (30%) who are not providers and/or are not associated with a provider. Such individuals shall be given the opportunity to nominate said enrollee representative(s). The corporation shall seek a waiver of the representation by enrollees on the Board of Directors for a period of not more than three (3) years from the date that the corporation commences delivery of services to enrollees.

A regular meeting of the Board of Directors shall be held without other notice than these By-Laws, immediately after the annual meeting of shareholders, at the same place where such annual meeting shall have been held or at such other place as shall be determined by the Board of Directors. Special meetings of the Board of Directors may be called at any time by the President, or by a Vice President, when acting as President.

A majority of the number of directors fixed by these By-Laws shall constitute a quorum for transaction of business at any meeting of the Board of Directors, provided that if less than a majority of such number of directors are present at said meeting, a majority of the directors present may adjourn the meeting at any time without further notice.

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

<u>Name and Address</u>	<u>Principal Business Affiliation</u>
David Cotton Detroit, MI	Director Meridian Health Plan of Michigan
Jon Cotton Detroit, MI	President/Chief Executive Officer Meridian Health Plan of Michigan
Michael Cotton Detroit, MI	Vice President of Operations Meridian Health Plan of Michigan
Sean Cotton Detroit, MI	Vice President/General Counsel/Compliance Officer/Director, Human Resources Meridian Health Plan of Michigan
Thomas Lauzon Detroit, MI	Executive Vice President/Chief Information Officer Meridian Health Plan of Michigan

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

COMMITTEES

The Bylaws provide that a majority of the directors may create one or more committees and appoint one or more members of the Board to serve on the committee or committees at the pleasure of the Board. Unless the appointment by the Board of Directors requires a greater number, a majority of any committee shall constitute a quorum and a majority of a quorum is necessary for committee action.

OFFICERS

The officers of the corporation shall be a President, one or more Vice Presidents, a Treasurer, a Secretary, and such other officers as may be elected or appointed by the Board of Directors in its discretion. 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>
David Cotton	President
Jon Cotton	Assistant Treasurer
Sean Cotton	Secretary
Janice Torosian	Treasurer

CONFLICT OF INTEREST

The Company has a conflicts of interest policy as part of the Code of Business Conduct and Ethics for its directors, officers, employees, and FDRs. The Company has a policy requiring its officers and directors sign a conflict of interest statement on an annual basis. Not all conflict of interest statements were dated and several had signatures that were illegible.

CORPORATE RECORDS

The recorded minutes of the Shareholders, Board of Directors and committee meetings were read and noted. The Articles and Bylaws were not amended during the examination period.

RELATED PARTY AGREEMENTS

Administrative Services Agreement

The Company has an Administrative Services Agreement with Caidan Management Company, a third party administrator related through common ownership, effective March 1, 2012.

Tax Allocation Agreement

The Company has a Tax Allocation Agreement with Caidan Holding Company whereby the parent company will file a consolidated Federal Corporate Income Tax Return, effective January 1, 2012.

Pharmacy Benefit Management Services Agreement

The Company has a Pharmacy Benefit Management Services Agreement with MeridianRx, a third-party administrator related through common ownership, effective October 1, 2013.

FIDELITY BOND AND OTHER INSURANCE

The Company and its parent and affiliates are protected by fidelity coverage up to \$5,000,000. 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 employees. All services are provided by a related party, per an Administrative Service Agreement.

REINSURANCE

The Company maintains a non-cancelable reinsurance policy with a non-affiliated reinsurer to provide coverage on an annual per member basis after a \$300,000 deductible for eligible services is reached. The maximum annual reinsurance coverage payable under the agreement is \$1,000,000 per member. The Company reported premiums net of reinsurance ceded of \$638,591 and losses recovered by the Company totaled approximately \$893,278 as of December 31, 2014.

STATUTORY DEPOSIT

As of December 31, 2014, the book/adjusted carrying value of special deposits held in trust by the Iowa Insurance Commissioner, for the benefit of all policyholders, totaled \$200,000.

TERRITORY AND PLAN OF OPERATION

Meridian Health Plan of Iowa, Inc. is a limited services organization authorized to transact business in the state of Iowa. The Company operates as a state-licensed Medicaid (HMO). On January 1, 2014, the Company commenced operation of a Medicare Advantage Dual-Eligible Special Needs Plan to provide medical services to dual eligible members and a Medicare Advantage Prescription Drug Plan. The Company contracts directly with physician/physician groups and hospitals for the provision of medical care, and compensates the providers on a fee for service basis.

GROWTH OF COMPANY

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

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Membership</u>
2012	\$ 3,839,416	\$ 2,392,300	\$ 1,447,116	12,400
2013	20,072,870	9,795,197	10,277,673	40,026
2014	41,048,833	27,614,027	13,434,806	68,238

ACCOUNTS AND RECORDS

The figures contained in the Company's annual statement for the years 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

On January 1, 2015, the Company was subject to an annual fee under section 9010 of the Affordable Care Act (ACA). This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. As of December 31, 2014, the Company has written health insurance subject to the ACA assessment and estimates their portion of the annual health insurance industry fee to be \$2,882,800. This amount is reflected in special surplus.

Effective December 31, 2015, the Company will no longer be a participating managed care organization with Iowa Medicaid, but will continue to coordinate services for enrolled members through December 31, 2015. Claims for services through December 31, 2015 must be received prior to June 30, 2016 to be eligible for payment.

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>
Cash, cash equivalents and short-term investments	\$27,152,576	\$	\$27,152,576
Accrued retrospective premiums	3,565,406		3,565,406
Amounts recoverable from reinsurers	259,845		259,845
Healthcare and other amounts receivable	<u>10,073,130</u>	<u>2,124</u>	<u>10,071,006</u>
 Total Assets	 \$41,050,957	 \$ 2,124	 \$41,048,833

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$26,710,876	\$	\$26,710,876
Accrued medical incentive pool and bonus amounts	469,091		469,091
Unpaid claims adjustment expenses	255,000		255,000
Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act	64,000		64,000
General expenses due or accrued	98,295		98,295
Amounts due to parent, subsidiaries and affiliates	509		509
Liability for amounts held under uninsured plans	<u>16,256</u>		<u>16,256</u>
 Total Liabilities	 \$27,614,027		 \$27,614,027
 Write in: 2015 ACA health insurer fee			 \$ 2,882,800
Common capital stock			1,000
Gross paid in and contributed surplus			24,699,000
Unassigned funds (surplus)			(14,147,994)
 Total Capital and Surplus			 \$13,434,806
 Total Liabilities, Capital and Surplus			 \$41,048,833

STATEMENT OF REVENUE, EXPENSES AND CAPITAL AND SURPLUS

<u>Member months</u>	<u>694,644</u>
<u>Revenues</u>	
Net premium income	\$144,210,029
Write-in: 2014 ACA health insurer fee	<u>817,306</u>
Total Revenue	<u>\$145,027,335</u>
<u>Hospital and Medical</u>	
Hospital/medical expenses	\$129,426,326
Other professional services	1,170,339
Outside referrals	3,174,904
Emergency room and out-of-area	2,873,890
Prescription drugs	333,226
Write in: Hearing/speech devices	18,444
Incentive pool, withhold adjustments and bonus amounts	1,646,178
Net reinsurance recoveries	<u>(893,278)</u>
Total Hospital and Medical	<u>\$137,750,029</u>
<u>Administration</u>	
Claims adjustment expenses	784,385
General administrative expenses	<u>13,332,439</u>
Total underwriting deductions	<u>\$151,866,853</u>
Net underwriting gain (loss)	\$ (6,839,518)
Net income (loss) before federal income taxes	\$ (6,839,518)
Federal and foreign income taxes incurred	<u>1,225</u>
Net Income (loss)	<u>\$ (6,840,743)</u>
<u>Capital and Surplus</u>	
Capital and surplus, December 31, 2013	<u>\$ 10,277,673</u>
<u>Gains and losses to capital and surplus</u>	
Net income (loss)	\$ (6,840,743)
Change in nonadmitted assets	(2,124)
Surplus adjustments: paid in	<u>10,000,000</u>
Net change in capital and surplus	<u>\$ 3,157,133</u>
Capital and surplus, December 31, 2014	<u>\$ 13,434,806</u>

CASH FLOW

Cash from operations

Premiums collected net of reinsurance	\$131,510,690	
Miscellaneous income	<u>817,306</u>	
Total		\$132,327,996
Benefits and loss related payments	\$120,422,294	
Commissions and expenses paid	13,844,271	
Federal and foreign income taxes paid	<u>(117,103)</u>	
Total		<u>134,149,462</u>
Net cash from operations		\$ (1,821,466)

Cash from Financing and Miscellaneous Sources

Cash provided:		
Capital and paid in surplus, less treasury stock		10,000,000
Other cash provided		<u>508</u>
Net cash from financing and miscellaneous sources		\$ <u>10,000,508</u>

Reconciliation of Cash, Cash Equivalents and Short-Term Investments

Net change in cash and short-term investments		\$ 8,179,042
Cash and short-term investments:		
Beginning of year		<u>18,973,534</u>
End of year		<u>\$ 27,152,576</u>

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company and the Michigan Insurance Department during the course of this examination is hereby acknowledged.

Respectfully submitted,

 /s/ Amanda Buseman
Amanda Buseman, CFE, MCM
Insurance Company Examiner Specialist
Iowa Insurance Division