

EXAMINATION REPORT OF
AMERIHEALTH CARITAS IOWA, INC.
DES MOINES, IOWA
AS OF DECEMBER 31, 2016

Des Moines, Iowa
January 9, 2018

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner Ommen:

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

AMERIHEALTH CARITAS IOWA, INC.

DES MOINES, IOWA

AS OF DECEMBER 31, 2016

with the Home Office located at Two Ruan Center, 601 Locust Street, Suite 900, Des Moines, Iowa.

INTRODUCTION

AmeriHealth Caritas Iowa, Inc., hereinafter the "Company", was incorporated in May 2015 and not subject to any prior financial examination. The examination reported herein was conducted solely on behalf of the Iowa Insurance Division.

SCOPE OF EXAMINATION

This is the regular comprehensive examination of the Company covering the period from May 5, 2015 to the close of business on December 31, 2016, including any material transactions and/or events occurring and noted subsequent to the examination period up to and including the date of this report.

The examination was conducted in accordance with the National Association of Insurance Commissioners 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 operational and 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 examined and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2016.

HISTORY

The Company was incorporated on May 5, 2015 as a health maintenance organization under the provisions of Iowa Code Chapters 490 and 514B. The Company's certificate of authority is limited to the Iowa High Quality Healthcare Initiative. On January 1, 2016, the Company contracted with the State of Iowa Department of Human Services to provide healthcare services including physical health, behavioral health and long-term services and supports for the State of Iowa's Medicaid program. The contract consists of services for Medicaid and the Children's Health Insurance Program (CHIP) for an initial term from January 1, 2016 through December 31, 2018, with a provision for two, one-year extensions at the State's option.

CAPITAL STOCK

Per the Articles of Incorporation, the Company is authorized to issue 100 shares of common stock, no par value. As of December 31, 2016, the Company had 50 shares of common capital stock issued and outstanding, with all shares held by the immediate parent, AmeriHealth Caritas Health Plan. Reported gross paid in and contributed surplus totaled \$473,000,000 with unassigned surplus funds of \$(332,940,455).

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

2015	\$ 41,000,000
2016	432,000,000

The 2016 capital contributions of \$432,000,000 included a \$280,000,000 capital contribution receivable at December 31, 2016 that was subsequently received on February 24, 2017.

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 AmeriHealth Caritas Health Plan (ACHP). ACHP is a wholly owned subsidiary of BMH, LLC (BMH), which is co-owned by IBC MH, LLC (61.26%) and Blue Cross Blue Shield of Michigan (38.74%). IBC MH, LLC is 95% owned by AmeriHealth, Inc., a direct wholly owned subsidiary of Independence Health Group, Inc. (IHG), and 5% owned by Keystone Health Plan East, Inc., an indirect wholly owned subsidiary of IHG.

MANAGEMENT AND CONTROL

SHAREHOLDERS

The Bylaws state that the annual meetings of the shareholders shall be held on such date and at such time as shall be designated from time to time by the President or the Board of Directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting at any place designated by the Board of Directors. If no designation is made, the place of meeting shall be the Company's registered office in the State of Iowa.

Special meetings of the shareholders for any purpose or purposes may be called by the President or by the Board of Directors, or by the President at the request of holders of not less than twenty percent of all of the outstanding shares of the Corporation entitled to vote at any such meeting. Notice of each annual or special meeting shall be given to each shareholder of record entitled to vote at such meeting in writing, unless oral notice is reasonable under the circumstances.

BOARD OF DIRECTORS

The Bylaws state that the business and affairs of the Company shall be directed by the Board of Directors.

The number of directors of the corporation shall be not less than three and not greater than nine. One third of the directors shall be individuals who are enrollees of the company and who are not providers or affiliates of providers. The directors shall be elected at each annual meeting of shareholders to serve until a successor is elected and qualified, or until the earlier death, resignation, removal, or disqualification of any such director.

Enrollee Directors shall be appointed in the following manner. By no later than the third annual meeting of the shareholders, the Company shall provide notice to its enrollees of their opportunity to nominate individual enrollees to serve as Enrollee Directors. The Enrollee Directors shall be elected by the shareholders. The Enrollee Directors shall appoint two individuals who are enrollees of the Company who shall serve as Standby Enrollee Directors. The Enrollee Directors shall designate each Standby Enrollee Director as First Standby Enrollee Director or Second Standby Enrollee Director. If a director vacancy involves an Enrollee Director position, the directors shall appoint the First Standby Enrollee Director to fill the vacancy for the remainder of such term. If the First Standby Enrollee Director is unable or unwilling to serve for any reason, then the directors shall appoint the Second Standby Enrollee Director to fill the vacancy for the remainder of the term.

A regular meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of the shareholders. Special meetings of the board of directors may be called by or at the request of the president or any director. Notice shall be given to each director with respect to any special meeting of the board of directors at least two days prior to the special meeting and shall be in writing unless oral notice is reasonable under the circumstances.

A majority of the duly elected and qualified directors shall constitute a quorum for the transaction of business. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

Duly elected and qualified directors serving at December 31, 2016 were:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>
Steven Harvey Bohner Garnet Valley, PA	Chief Financial Officer AmeriHealth Caritas Family of Companies
Eileen Mary Coggins Philadelphia, PA	General Counsel AmeriHealth Caritas Family of Companies
Russell Raymond Gianforcaro Broomall, PA	Regional President AmeriHealth Caritas Family of Companies

The Board of Directors, by unanimous vote, shall have the authority to establish reasonable compensation of all directors for services to the corporation as directors and may be paid their reasonable expenses of attendance at each meeting of the board.

COMMITTEES

The Bylaws provide that the Board of Directors by resolution may establish committees which shall have the authority of the directors in the management of the business of the Company to the extent consistent with the Bylaws. However, at December 31, 2016 the Company had not formed any committees.

OFFICERS

The officers of the Company shall be a president, a secretary, and a treasurer and such other officers as the board shall determine including, but not limited to, one or more vice president(s), assistant officers and acting officers. Any two or more offices may be held by the same person.

Elected officers serving at December 31, 2016 are as follows:

<u>Name</u>	<u>Title</u>
Russell Raymond Gianforcaro	President
Robert Edward Tootle, Esquire	Secretary
Steven Harvey Bohner	Treasurer

The Company's officers are also employees of AmeriHealth Caritas Services, LLC (ACS) with salary related expenses allocated through the Management and 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, 2016, all directors and officers have signed conflict of interest disclosures.

CORPORATE RECORDS

No amendments were made to the Articles of Incorporation or Bylaws during the examination period. The recorded minutes of the meetings of the shareholders and the board of directors were read and noted.

AGREEMENTS

The Company maintains a Management and Administrative Services Agreement with AmeriHealth Caritas Services, LLC (ACS), an affiliated company.

PerformRx, a wholly owned subsidiary of ACHP, provides pharmacy benefit management services under a Pharmacy Benefit Management Services Agreement to the Company. Among other services, PerformRx is responsible for engaging a network of participating pharmacies to furnish pharmacy drugs to enrollees of the Company's managed care plan.

PerformSpecialty, LLC, a wholly owned subsidiary of PerformRx, supplies specialty pharmacy drugs under a participating provider agreement with PerformRx.

FIDELITY BOND AND OTHER INSURANCE

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

EMPLOYEE WELFARE

All employees are part of the Management and Administrative Services Agreement with ACS. However, costs associated with fully dedicated employees are paid by ACS and then directly charged to the plans. Corporate personnel are allocated as part of the management fee.

CONTRACTUAL DEPOSIT

The Company held no restricted assets at December 31, 2016.

TERRITORY AND PLAN OF OPERATION

AmeriHealth Caritas Iowa is licensed as a health maintenance organization by the Iowa Insurance Division and has an existing contract with the Iowa Department of Human Services. AmeriHealth Caritas Iowa provides a private, voluntary managed care alternative to families receiving Medicaid benefits, including dual-eligible members and those enrolled with Medicaid for Long Term Care. AmeriHealth Caritas Iowa has been approved by the Iowa Department of Human Services for member enrollment in all ninety-nine (99) counties in Iowa.

The National Committee for Quality Assurance (NCQA) awarded AmeriHealth Caritas Iowa with the accreditation status of "Interim" on February 7, 2017. This accreditation certificate expires on August 7, 2018.

GROWTH OF COMPANY

The following comparative data reflects the growth of the Company during the previous two-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>
2015	\$ 41,242,859	\$ 8,220,378	\$ -0-	-0-
2016	453,594,479	140,060,545	1,397,985,528	222,977

ACCOUNTS AND RECORDS

The figures contained in the Company's annual statement for the years 2015 and 2016 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

At December 31, 2016, the Company recorded a \$280,000,000 capital contribution receivable as approved by the Iowa Insurance Division on February 21, 2017. On February 24, 2017, the \$280,000,000 was received in cash by the Company from their direct parent ACHP.

On July 1, 2017, the Company's direct parent, ACHP, contributed its ownership interest in the Company to AMHP Holdings Corporation, a wholly owned subsidiary of ACHP.

On August 10, 2017, the Company received an additional \$90,000,000 capital contribution from their parent and on November 15, 2017, the Company received an additional \$80,000,000 capital contribution from their parent.

On November 30, 2017, the Company exited their contract with the State of Iowa due to failed rate negotiations for the 2018 fiscal year. All of the Company's members were transferred to other managed care organizations in coordination with the State of Iowa. The Company will discontinue its managed care operations as of this date.

In December 2017, AmeriHealth, Inc. formed two new subsidiaries, AHI SubCo 1, Inc. and AHI SubCo 2, Inc. AHI SubCo 1, Inc. is wholly-owned by AmeriHealth, Inc. and AHI SubCo 2, Inc. is wholly-owned by AHI SubCo 1, Inc. Following this formation, AmeriHealth, Inc. contributed its ownership interest in IBC MH LLC to AHI SubCo 1, Inc., which in turn contributed the interest to AHI SubCo 2, Inc. Also in December 2017, KHPE formed a new wholly-owned subsidiary, KHPE SubCo Inc., and then contributed its ownership interest in IBC MH LLC to KHPE SubCo, Inc. As a result of the transactions described above, the ownership interests in IBC MH LLC are held 95% by AHI SubCo 2, Inc. and 5% by KHPE SubCo, Inc. as of December 31, 2017.

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, 2016 and the assets and liabilities as of that date.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Assets</u>	<u>Not Admitted</u>	<u>Admitted</u>
Cash, cash equivalents and short-term investments	\$ 99,340,426	\$	\$ 99,340,426
Uncollected premiums and agents' balances in the course of collection	61,506,922		61,506,922
Amounts recoverable from reinsurers	438,454		438,454
Electronic data processing equipment and software	447,219		447,219
Furniture and equipment, including health care delivery assets	599,057	599,057	-0-
Receivables from parent, subsidiaries and affiliates	280,000,000		280,000,000
Health care and other amounts receivable	15,545,350	3,683,892	11,861,458
Aggregate write-ins for other than invested assets:			
Write-in: Prepaid expenses	413,367	413,367	-0-
Write-in: Leasehold improvements	2,109,404	2,109,404	-0-
Total assets	<u>\$460,400,199</u>	<u>\$6,805,720</u>	<u>\$453,594,479</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid			\$221,550,647
Unpaid claims adjustment expenses			2,879,807
Aggregate health policy reserves			77,199,548
General expenses due or accrued			1,941,605
Amounts withheld or retained for the account of others			938,440
Amounts due to parent, subsidiaries and affiliates			7,686,245
Write-in: Stale dated checks			<u>1,337,642</u>
Total liabilities			<u>\$313,533,934</u>
Common capital stock			\$ 1,000
Gross paid in and contributed surplus			473,000,000
Unassigned funds			<u>(332,940,455)</u>
Total capital and surplus			<u>\$140,060,545</u>
Total liabilities, capital and surplus			<u>\$453,594,479</u>

STATEMENT OF REVENUE AND EXPENSES

<u>Member months</u>		<u>1,956,658</u>
<u>Revenues</u>		
Net premium income	\$1,397,985,528	
Total revenues		<u>\$1,397,985,528</u>
<u>Hospital and Medical</u>		
Hospital/medical benefits	\$ 962,322,096	
Other professional services	374,308,794	
Emergency room and out-of-area	21,107,722	
Prescription drugs	154,608,809	
Write-in: Durable medical equipment	7,176,158	
Write-in: Alternative medical costs	1,783,865	
Write-in: Provider pass-through expenses	22,529,824	
Write-in: Other	520,849	
Less: Net insurance recoveries	<u>(542,705)</u>	
Total hospital and medical		\$1,543,815,412
<u>Administration</u>		
Claims adjustment expenses		35,857,959
General administrative expenses		59,469,227
Increase in reserves for life and accident and health contracts		52,048,863
Total underwriting deductions		1,691,191,461
Net underwriting gain		\$ (293,205,933)
<u>Investment Income</u>		
Net investment income earned	<u>\$ 98,082</u>	
Net investment gains		<u>98,082</u>
Net income before federal income taxes		\$ (293,107,851)
Federal and foreign income taxes incurred		<u>-0-</u>
Net income		<u>\$ (293,107,851)</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>		
Capital and surplus, December 31, 2015		<u>\$ 8,220,378</u>
<u>Gains and losses to capital and surplus</u>		
Net loss		\$ (293,107,851)
Change in net deferred income tax		(11,225,146)
Change in nonadmitted assets		4,173,164
Paid in surplus		<u>432,000,000</u>
Net change in capital and surplus		<u>\$ 131,840,167</u>
Capital and surplus, December 31, 2016		<u>\$ 140,060,545</u>

CASH FLOW

Cash from operations

Premiums collected net of reinsurance	\$1,336,478,606	
Net investment income	<u>98,082</u>	
Total		\$1,336,576,688
Benefits and loss related payments	\$1,338,248,569	
Commissions and expenses paid	<u>89,979,622</u>	
Total		<u>1,428,228,191</u>
Net cash from operations		\$ (91,651,503)

Cash from Investments

Net cash from investments \$ -0-

Cash from Financing and Miscellaneous Sources

Cash provided:

Capital and paid in surplus, less treasury stock	\$ 152,000,000
Dividends to stockholders	
Other cash provided (applied)	<u>(2,004,669)</u>

Net cash from financing and miscellaneous sources \$ 149,995,331

Reconciliation of Cash, Cash Equivalents and Short-Term Investments

Net change in cash and short-term investments	\$ 58,343,828
Cash and short-term investments:	
Beginning of year	<u>40,996,598</u>
End of year	<u>\$ 99,340,426</u>

CONCLUSION

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

In addition to the undersigned, Beren Armstrong, of INS Regulatory Insurance Services, Inc. representing the Iowa Insurance Division, participated in the examination and the preparation of this report. Additionally, Margaret R. Hermann, FSA, MAAA, of INS Consultants, Inc. participated in the actuarial portion of the examination.

Respectfully submitted,

 /s/ William M. Fedak
William M. Fedak, CFE
Examiner in Charge
INS Regulatory Insurance Services, Inc.
Representing the Iowa Insurance Division

 /s/ Daniel Mathis
Daniel Mathis, CFE
Supervisor and Assistant Chief Examiner
Iowa Insurance Division