

EXAMINATION REPORT
of
OPTIMA HEALTH INSURANCE COMPANY
Virginia Beach, Virginia
as of
December 31, 2013

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Optima Health Insurance Company as of December 31, 2013, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 23rd day of July, 2014

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
May 8, 2014

Honorable Julie M. McPeak
Secretary – Southeastern Zone
Tennessee Department of Commerce and Insurance
Nashville, Tennessee

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Dear Commissioners:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, an examination of the financial condition, records and affairs of

OPTIMA HEALTH INSURANCE COMPANY
Virginia Beach, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is hereby submitted for your consideration.

DESCRIPTION

The Company is a stock accident and sickness insurance company licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. The Company was last examined by representatives of the State Corporation Commission's ("Commission") Bureau of Insurance (the "Bureau") as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2013.

HISTORY

The Company was issued a certificate of incorporation on January 29, 1992, by the Commission. According to the Articles of Incorporation, the Company's purpose is as follows:

The Corporation shall have the power to act as an insurance company issuing life insurance, variable life insurance, annuities, variable annuities, credit life insurance, credit accident and sickness insurance, and accident and sickness insurance and to transact any business related or incidental to the insurance business.

The Company was formerly known as Sentara Health Insurance Company prior to its name change which was effective on May 22, 1998.

MANAGEMENT AND CONTROL

The amended and restated bylaws of the Company provide that the business and affairs of the Company shall be managed by a Board of Directors (the "Board") consisting of no less than three and no more than sixteen individuals who shall serve staggered three-year terms. Directors shall be elected at each annual meeting of shareholders. A majority of the Board shall constitute a quorum for the transaction of business.

The officers of the Company shall consist of a Chairman, a President, a Secretary, a Treasurer and such other officers as the Board of Directors may from time to time deem necessary. The Chairman shall be selected from among the directors of the Company.

At December 31, 2013, the Board and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
David L. Bernd	Chief Executive Officer Sentara Healthcare Norfolk, Virginia
Robert A. Broermann	Senior Vice President and Chief Financial Officer Sentara Healthcare Norfolk, Virginia
William K. Butler, II	Retired Virginia Beach, Virginia
Dian T. Calderone	Owner Hunt-Calderone, PC Newport News, Virginia

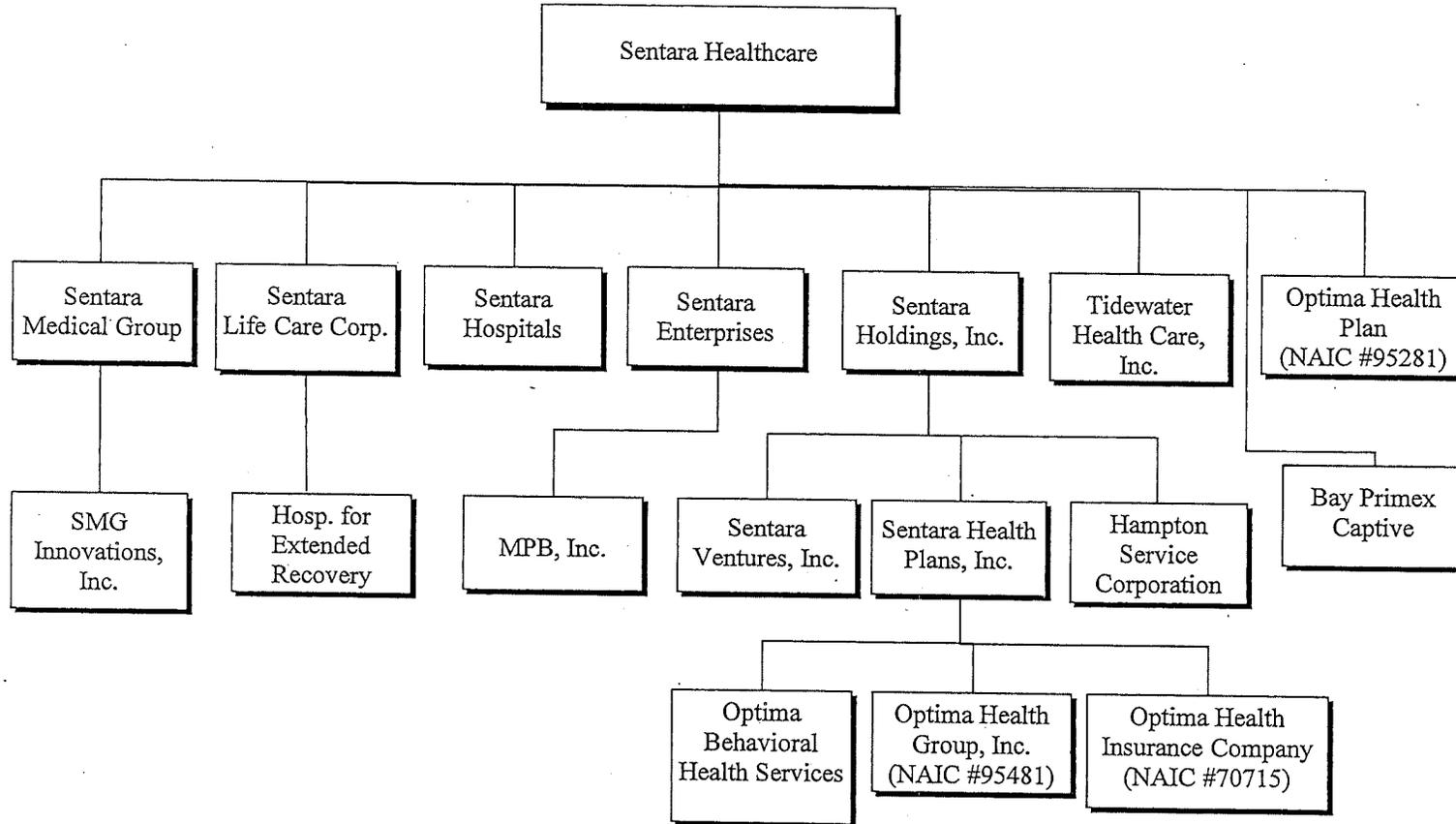
<u>Directors</u>	<u>Principal Occupation</u>
Michael M. Dudley	System Vice President Sentara Healthcare Norfolk, Virginia
Terry M. Gilliland, M.D.	Senior Vice President and Chief Medical Officer Sentara Healthcare Norfolk, Virginia
Vicky G. Gray	Vice President, System Development Sentara Healthcare Norfolk, Virginia
George W. Hubbard, M.D.	Surgeon Norfolk, Virginia
John T. Kalafsky, M.D.	Physician Norfolk, Virginia
Howard P. Kern	President and Chief Operating Officer Sentara Healthcare Norfolk, Virginia
Darleen A. Mastin	Senior Vice President and Chief Operating Officer Sentara Health Plans, Inc. Norfolk, Virginia
Meredith B. Rose, M.D.	Physician Virginia Beach, Virginia
Ronald A. Stine, M.D.	Physician Norfolk, Virginia

Officers

David L. Bernd	Chairman of the Board
Michael M. Dudley	President
Howard P. Kern	Secretary/Treasurer
Robert A. Broermann	Assistant Treasurer
Daniel D. Santos	Assistant Secretary
James A. Hilbert	Senior Vice President, Chief Financial Officer
Darleen A. Mastin	Senior Vice President, Operations
John E. DeGruttolla	Senior Vice President, Marketing

The Company's authorized capital is 5,000 shares of common stock with a par value of \$1,000 per share. At December 31, 2013, there were 1,040 shares issued and outstanding.

The Company is a wholly owned subsidiary of Sentara Health Plans, Inc. ("SHP"). The ultimate controlling person is Sentara Healthcare ("Sentara"), a non-stock, not-for-profit, tax-exempt Virginia corporation. By virtue of this ownership, the Company is a member of an insurance holding company system as defined in Section 38.2-1322 of the Code of Virginia. The following chart summarizes the Company's relationship within the holding company system:



TRANSACTIONS WITH AFFILIATES

Administrative Services and Marketing Agreement

At December 31, 2013 the Company has an Administrative Services and Marketing Agreement with SHP. According to the provisions of the agreement, SHP shall perform, or arrange for the performance of the administrative services necessary with respect to the Company's policies. The services include but are not limited to the following:

- Underwriting Services
- Enrollment Services
- Claims Administrative Services
- Information Systems Services
- Premium Billing and Collecting
- Inquiries and Requests
- Administrative Material
- Investment Services
- Medical Care Management
- Provider Relations
- Marketing Services

As compensation for these services, the Company shall pay SHP a monthly administrative fee. The administrative fee shall equal the actual costs incurred by SHP in providing the services and shall include the direct costs as well as the allocable portion of costs incurred by SHP in connection with providing such services. SHP will develop and periodically revise a cost allocation model to allocate appropriate administrative costs among the SHP companies. The Company paid SHP \$18,987,057 in 2013, \$17,417,743 in 2012 and \$22,818,137 in 2011 for services pursuant to this agreement.

Mental Health Services Agreement

At December 31, 2013 the Company contracts with Optima Behavioral Health Services ("OBHS"), a subsidiary of SHP, to provide mental health services to its subscribers. Pursuant to the terms of the capitated agreement, the Company pays OBHS a fixed rate per member per month to cover the costs of these services. The Company paid OBHS \$2,303,405 in 2013, \$2,218,877 in 2012 and \$3,338,180 in 2011 in capitation expenses pursuant to this agreement.

Tax Allocation Agreement

At December 31, 2013, the Company participates in a tax allocation agreement with its affiliates. Pursuant to this agreement a consolidated federal income tax return is filed. The provisions from the tax allocation agreement met the requirements from the NAIC Examiners Handbook, including, but not limited to a) having a written agreement approved by the board of directors, b) balances are settled within a reasonable time and c) the agreement complies with IRS regulations.

Provider Agreements

The Company contracts with several subsidiaries of Sentara Healthcare to provide hospital, physician services and other medical services to its members.

Capital Contributions

On May 6, 2011, the Company submitted a Form D filing to the Bureau requesting approval of a capital contribution of \$15,000,000 from its parent, SHP. On May 31, 2011, the Bureau approved this transaction and on June 14, 2011, the funds were infused into the Company.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2013, the Company maintained fidelity coverage of \$4,000,000, subject to a \$250,000 deductible, to insure against losses arising from the dishonest acts of its officers and employees. Additionally, the Company was listed as a named insured on a professional/commercial general liability policy, a commercial property insurance policy, a directors and officers liability policy, a workers compensation and employers liability policy and other coverages usual and customary to the nature of its business.

TERRITORY AND PLAN OF OPERATION

On October 26, 1992, the Company was issued a license to transact the business of accident and sickness insurance in the Commonwealth of Virginia. The Company became licensed in North Carolina during 2008, however, as of December 31, 2013, it does not write any business in North Carolina. The Company was formed to provide the insurance component of existing and proposed group health coverage products of SHP. The Company has no immediate plans to offer life insurance.

Sentara owns or operates a significant number of health facilities. Optimum utilization of these facilities is a prime factor in cost containment. The Company's strategy is to offer products which will encourage utilization of Sentara facilities.

At December 31, 2013, the Company administers commercial preferred provider organization (PPO) products to both groups and individuals. Marketing of these products is accomplished through the SHP marketing division and independent brokers. The Company discontinued its Medicare Advange PPO product effective December 31, 2011.

CONFLICT OF INTEREST

The Company has adopted a conflict of interest policy. The objective of this policy is to ensure that each director, officer, and employee faithfully serves the Company and refrains from doing anything which is adverse or prejudicial to the Company's interest. To ensure compliance with the policy, the Company has established procedures which require directors, officers and members of a committee with Board designated powers to sign a conflict of interest disclosure form annually.

GROWTH OF THE COMPANY

The following data represents the growth of the Company for the ten-year period ending December 31, 2013. The data is compiled from the Company's filed Annual Statements, previous examination reports, and the current examination report.

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Unassigned Funds</u>	<u>Premiums</u>	<u>Net Income/ (Loss)</u>
2004	\$25,162,854	\$10,876,267	\$27,000,000	(\$12,713,413)	\$ 59,220,570	\$ 3,145,950
2005	29,907,926	10,090,913	27,000,000	(7,182,987)	50,574,003	280,905
2006	33,866,521	11,808,717	27,000,000	(4,942,196)	75,778,449	(260,668)
2007	37,930,667	13,466,546	27,000,000	(2,535,879)	89,830,090	2,751,489
2008	43,699,624	21,413,966	27,000,000	(4,714,342)	119,888,870	383,809
2009	46,241,299	23,213,873	27,000,000	(3,972,574)	155,142,411	1,412,602
2010	58,920,319	33,407,573	42,000,000	(16,487,254)	185,568,455	(12,356,775)
2011	65,352,346	38,231,862	57,000,000	(29,879,516)	215,574,677	(14,910,912)
2012	41,258,190	15,988,434	57,000,000	(31,730,244)	93,632,444	(4,488,158)
2013	36,016,155	17,810,534	57,000,000	(38,794,379)	113,443,307	(6,003,728)

EXCESS LOSS INSURANCE

At December 31, 2013, the Company has a Medical Excess Reinsurance Agreement in effect with RGA Reinsurance Company ("RGA"). For eligible expenses, the deductible is \$1,400,000 per member for each contract year. Once the deductible has been reached in a contract year, RGA will reimburse the Company 90% of all eligible expenses up to a maximum of \$5,000,000 per member per contract year. The agreement includes a continuation of coverage endorsement in the event of the Company's insolvency. Additionally, the Company has a Specific and Aggregate Medical Stop Loss Quota Share Reinsurance Agreement with Sirius America Insurance Company ("Sirius"). This agreement covers self-insured business underwritten, issued and administered on behalf of the Company by Medical Risk Managers, Inc. As respect to the specific medical excess of loss business covered by this agreement there are two layers of coverage. For the first layer Sirius shall be responsible for 75% quota share of all eligible expenses up to \$2,000,000 (inclusive of the specific self-insured retention which cannot be less than \$20,000 unless approved by Sirius) per covered person per policy year. For the second layer, Sirius shall be responsible for 100% of all eligible expenses in excess of \$2,000,000 with no maximum limit. The Company currently retains 100% of the risk in excess of the aggregate self-insured retention so the agreement does not currently provide any aggregate stop loss coverage.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period January 1, 2011 through December 31, 2013. Assets were verified and liabilities were established at December 31, 2013.

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

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition of the Company at December 31, 2013; a statement of revenue and expenses for the year ending December 31, 2013; a reconciliation of capital and surplus for the period under review; and a statement of cash flows for the year ending December 31, 2013. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$30,031,927		\$30,031,927
Common stocks	3,361,161		3,361,161
Cash and short-term investments	<u>2,154,852</u>		<u>2,154,852</u>
Subtotals, cash and invested assets	\$35,547,940	\$0	\$35,547,940
Investment income due and accrued	135,726		135,726
Electronic data processing equipment and software	121,708		121,708
Furniture and equipment, including health care delivery assets	41,574	41,574	0
Receivables from parent, subsidiaries and affiliates	62,051		62,051
Health care and other receivables	694,337	545,607	148,730
Aggregate write-ins for other than invested assets	<u>48,596</u>	<u>48,596</u>	<u>0</u>
Total assets	<u><u>\$36,651,932</u></u>	<u><u>\$635,777</u></u>	<u><u>\$36,016,155</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$10,923,163	\$315,550	\$11,238,713
Accrued medical incentive pool and bonus amounts	306,266		306,266
Unpaid claim adjustment expenses		113,106	113,106
Aggregate health policy reserves	2,724		2,724
Aggregate health claim reserves	363,026	10,487	373,513
Premiums received in advance	2,021,430		2,021,430
Amounts due to parent, subsidiaries and affiliates	80,459	2,466,144	2,546,603
Aggregate write-ins for other liabilities	<u>1,208,179</u>		<u>1,208,179</u>
Total liabilities	<u>\$14,905,247</u>	<u>\$2,905,287</u>	<u>\$17,810,534</u>
Aggregate write-ins for special surplus funds			\$ 2,272,500
Common capital stock			1,040,000
Gross paid in and contributed surplus			55,960,000
Aggregate write-ins for other than special surplus funds			(1,124,835)
Unassigned funds (surplus)			<u>(39,942,044)</u>
Total capital and surplus			<u>\$18,205,621</u>
Total liabilities, capital and surplus			<u><u>\$36,016,155</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$113,443,307
Change in unearned premium reserves and reserve for rate credits	XXX	(1,304)
Aggregate write-ins for other health care related revenues	XXX	160,932
Total revenues	<u>XXX</u>	<u>\$113,602,935</u>
Hospital and Medical:		
Hospital/medical benefits	\$2,576,418	\$86,296,785
Outside referrals	151,966	151,966
Emergency room and out-of-area	219,716	3,123,193
Prescription drugs		14,798,621
Aggregate write-ins for other hospital and medical		419,230
Incentive pool, withhold adjustments and bonus amounts		210,533
Subtotal	<u>\$2,948,100</u>	<u>\$105,000,328</u>
Net reinsurance recoveries		2,050,000
Total hospital and medical	<u>\$2,948,100</u>	<u>\$102,950,328</u>
Claims adjustment expenses	1,198,416	1,198,416
General administrative expenses	17,708,642	17,788,642
Total underwriting deductions	<u>\$21,855,158</u>	<u>\$121,937,386</u>
Net underwriting (loss)	<u>XXX</u>	<u>(\$8,334,451)</u>
Net investment income earned		\$344,219
Net realized capital gains		912,573
Net investment gains		<u>\$1,256,792</u>
Net income before federal income taxes	XXX	(\$7,077,659)
Federal income taxes incurred	XXX	(1,073,931)
Net (loss)	<u>XXX</u>	<u>(\$6,003,728)</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus prior reporting year	<u>\$25,512,746</u>	<u>\$27,120,484</u>	<u>\$25,269,756</u>
Net income or (loss)	(\$14,910,912)	(\$4,488,158)	(\$6,003,728)
Change in net unrealized capital gains	81,749	233,356	100,449
Change in net deferred income tax	(245,000)	(143,000)	(1,092,000)
Change in nonadmitted assets	(969,525)	2,790,941	209,016
Paid in	15,000,000		
Aggregate write-ins for gains or (losses) in surplus	<u>2,651,426</u>	<u>(243,867)</u>	<u>(277,872)</u>
Net change in capital and surplus	<u>\$1,607,738</u>	<u>(\$1,850,728)</u>	<u>(\$7,064,135)</u>
Capital and surplus end of reporting year	<u><u>\$27,120,484</u></u>	<u><u>\$25,269,756</u></u>	<u><u>\$18,205,621</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$113,019,179
Net investment income	672,799
Miscellaneous income	160,932
Total	<u>\$113,852,910</u>
Benefit and loss related payments	\$100,943,581
Commissions, expenses paid and aggregate write-ins for deductions	18,987,058
Federal income taxes (recovered)	(1,228,380)
Total	<u>\$118,702,259</u>
Net cash from operations	<u>(\$4,849,349)</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$27,418,663
Stocks	2,521,037
Total investment proceeds	<u>\$29,939,700</u>
Cost of investments acquired (long-term only):	
Bonds	\$25,112,313
Stocks	1,045,383
Miscellaneous applications	215,705
Total investments acquired	<u>\$26,373,401</u>
Net cash from investments	<u>\$3,566,299</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	<u>\$712,630</u>
Net cash from financing and miscellaneous sources	<u>\$712,630</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	(\$570,420)
Cash and short-term investments:	
Beginning of the year	<u>2,725,272</u>
End of the year	<u><u>\$2,154,852</u></u>

SUBSEQUENT EVENTS

On May 8, 2014, the Company submitted a Form D filing to the Bureau requesting approval of a capital contribution of \$12,000,000 from its parent, SHP. On May 13, 2014, the Bureau approved this transaction and on June 16, 2014, the funds were infused into the Company.

On May 8, 2014, the Company submitted a Material Change filing to the Bureau requesting approval to offer its self-funded groups a reinsurance product effective September 1, 2014. On June 9, 2014, the Bureau approved this transaction.

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Bryan Almond, Darrin Bailey, CFE, Ken Campbell, CFE, Craig Chupp, FSA, MAAA, Jack Drean, CFE, Kevin Knight, CFE, and Michael Peterson participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'John E. Bunce', with a long horizontal flourish extending to the right.

John E. Bunce, CFE
Assistant Chief Examiner
Commonwealth of Virginia



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July 9, 2014

Mr. David Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, Virginia 23218

Re: Optima Health Insurance Company
Examination Report as of December 31, 2013

Dear Mr. Smith:

I am acknowledging receipt of the examination report as of December 31, 2013 for Optima Health Insurance Company.

Please send me two copies of the final report.

Sincerely,

A handwritten signature in cursive script, appearing to read "M. Dudley".

Michael M. Dudley
President

c: Andrew Palmer