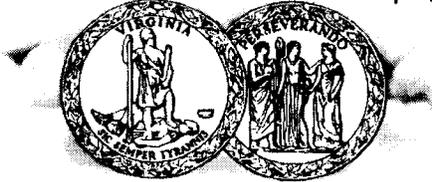


**EXAMINATION REPORT
of
VIRGINIA PREMIER HEALTH PLAN, INC.
Richmond, Virginia
as of
December 31, 2013**

COMMONWEALTH OF VIRGINIA

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



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RICHMOND, VIRGINIA 23218
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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 Virginia Premier Health Plan, Inc. 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 26th day of March, 2015

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

	<u>Page</u>
Description	1
History	1
Capital and Surplus	2
Net Worth Requirement	2
Management and Control	2
Affiliated Companies	4
Transactions with Affiliates	6
Conflict of Interest	6
Fidelity Bond and Other Insurance	6
Territory and Plan of Operation	7
Department of Medical Assistance Services Agreements	7
Provider Agreements	8
Benefits	8
Growth of the Corporation	10
Excess Loss Insurance	11
Special Reserves and Deposits	11
Scope	12
Financial Statements	13
Subsequent Events	19
Conclusion	19

Richmond, Virginia
November 6, 2014

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

VIRGINIA PREMIER HEALTH PLAN, INC.

Richmond, Virginia

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

DESCRIPTION

The Corporation became licensed in Virginia as a health maintenance organization ("HMO") pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on August 2, 1995. The Corporation was last examined by representatives from the State Corporation Commission's (the "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 Corporation was incorporated in the Commonwealth of Virginia on January 31, 1994. The Corporation was organized as a wholly-owned subsidiary of PHP Healthcare Corporation ("PHP"). On January 31, 1996, PHP sold a 30% interest in the Corporation to University Health Services Managed Care, Inc. ("UHSMC"), an affiliate of the Virginia Commonwealth University Health System Authority ("VCUHSA"), formerly Medical College of Virginia Hospitals Authority. On December 22, 1998, UHSMC purchased PHP's remaining shares in the Corporation and UHSMC became the 100% owner of the Corporation. On December 15, 2000, the Corporation changed its name from Virginia Chartered Health Plan, Inc. to Virginia Premier Health Plan, Inc.

Effective July 1, 2010, UHSMC and the Corporation merged with the Corporation remaining as the surviving entity. At the effective date of the merger, each issued and outstanding share of common stock and each issued and outstanding share of convertible preferred stock of the Corporation owned by UHSMC were cancelled and retired. 1,000 shares of no par, common stock were issued to University Health Services, Inc. ("UHS") which, in turn, transferred these shares to VCUHSA. As a result, VCUHSA became the sole shareholder of the Corporation.

In August 2013, the Internal Revenue Service approved the Corporation's application for tax exempt status effective July 1, 2010.

CAPITAL AND SURPLUS

At December 31, 2013, the Corporation's capital and surplus was \$99,802,996. According to the restated Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of no par, common stock. At December 31, 2013, 1,000 shares of common stock valued at \$10,000 were issued and outstanding with gross paid in and contributed surplus of \$9,261,977 and unassigned funds (surplus) of \$90,531,019.

On June 4, 2009 and April 1, 2010, VCUHSA issued subordinated surplus notes to the Corporation in the amount of \$9,000,000 and \$5,000,000, respectively. On July 18, 2011, the Bureau granted approval for the Corporation to repay \$14,000,000 in principal on these subordinated surplus notes. This amount was paid to VCUHSA on July 29, 2011.

NET WORTH REQUIREMENT

Section 38.2-4302 of the Code of Virginia states that a HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-210-60 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Corporation's uncovered expenses for the three-month period ending December 31, 2013 was \$24,055,662, the Corporation's minimum net worth requirement at December 31, 2013 was \$4,000,000.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the Board of Directors shall be responsible for the business and affairs of the Corporation. The Board shall consist of seven Directors. The Directors shall be elected each year at the annual meeting of the

shareholders. A majority of the Board of Directors shall constitute a quorum for the transaction of business.

The officers of the Corporation shall consist of a President, a Chief Executive Officer, a Secretary, a Treasurer, and such other officers as the Board of Directors may from time to time elect. Each such officer shall hold office at the pleasure of the Board of Directors and until their successors are elected.

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

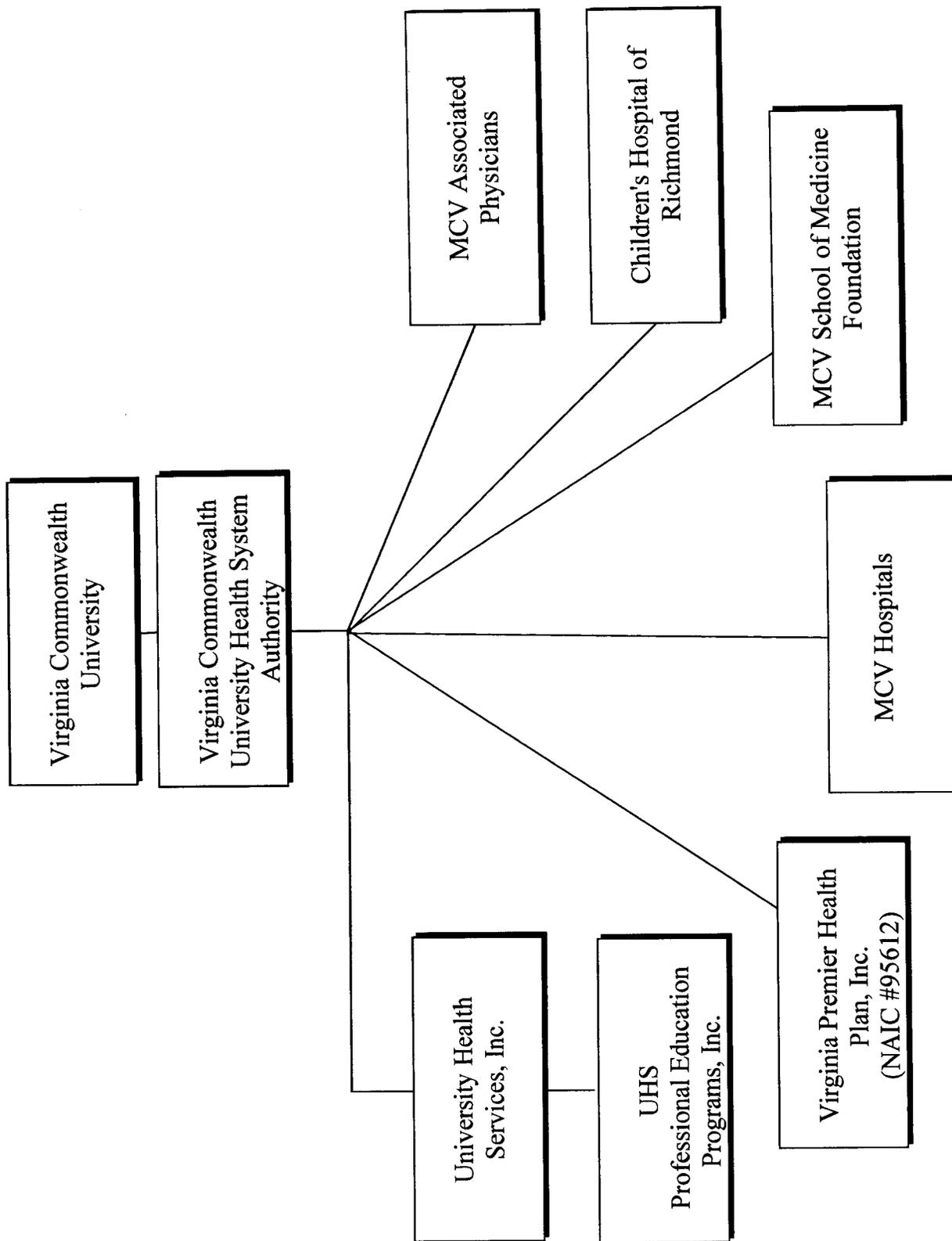
<u>Directors</u>	<u>Principal Occupation</u>
Dr. Arline D. Bohannon	Internal Medicine Physician VCU Medical Center Richmond, Virginia
Dr. Leonard L. Edloe	Retired Pharmacist Richmond, Virginia
Jane N. Kuskak	Executive Director Council on Virginia's Future Richmond, Virginia
Jennifer L. McCellan	Assistant General Counsel Mid-Atlantic South at Verizon Richmond, VA
Dr. Renee D. Reid	Emergency Medicine Physician VCU Medical Center Richmond, Virginia
Dr. Sheldon M. Retchin	Chief Executive Officer VCU Health System Authority Richmond, Virginia
Dr. Donald R. Stern	Director Richmond City Health District Richmond, Virginia

Officers

Dr. Sheldon M. Retchin	President
James S. Parrot	Chief Executive Officer
Sheryl L. Garland	Secretary
Dominic J. Puleo	Treasurer

AFFILIATED COMPANIES

At December 31, 2013, the Corporation is a wholly owned subsidiary of VCUHSA. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2013.



TRANSACTIONS WITH AFFILIATES

Administrative Service Agreement

Effective January 1, 2002, the Corporation entered into an Administrative Service Agreement with VCUHSA. Pursuant to the agreement, the Corporation and VCUHSA shall perform certain administrative services for each other to include executive management reporting, treasury management services, information system services and regulatory and financial management. For these services, the Corporation and VCUHSA shall reimburse each other all direct costs and indirect allocable costs incurred. The agreement shall remain in effect unless terminated for cause by the Corporation with immediate effect or until terminated by either party upon thirty days written notice. The Corporation and VCUHSA charged \$339,000 and \$4,785,000 in fees, respectively, related to this agreement during 2013.

Provider Agreements

The Corporation contracts with several subsidiaries of VCUHSA to provide hospital, physician and other medical services to its members.

CONFLICT OF INTEREST

The Corporation has adopted a conflict of interest policy. The objective of this policy is to ensure that each director, officer, and employee faithfully serve the Corporation and refrain from doing anything which is adverse or prejudicial to the Corporation's interest. To ensure compliance with the policies, the Corporation has established procedures which require directors, officers and certain employees to sign a conflict of interest disclosure form annually.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2013, the Corporation was listed as a named insured on a commercial crime policy with a \$10,000,000 limit of liability, subject to a \$100,000 deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Corporation was listed as a named insured on a managed care policy, an executive risk policy, a commercial general liability policy, a commercial business automobile policy, and an umbrella liability policy.

TERRITORY AND PLAN OF OPERATION

At December 31, 2013, the Corporation's service area, as reported in its 2013 Annual Statement, included the Virginia counties and cities of Accomack, Albemarle, Alexandria, Allegheny, Amelia, Amherst, Appomattox, Arlington, Augusta, Bath, Bedford, Bland, Botetourt, Bristol, Brunswick, Buchanan, Buckingham, Buena Vista, Campbell, Carroll, Charles City, Charlotte, Charlottesville, Chesapeake, Clarke, Clifton Forge, Colonial Heights, Covington, Craig, Cumberland, Danville, Dickenson, Dinwiddie, Emporia, Essex, Fairfax, Falls Church, Fauquier, Floyd, Fluvanna, Franklin, Frederick, Fredericksburg, Galax, Giles, Gloucester, Goochland, Grayson, Greene, Greensville, Halifax, Hampton, Hanover, Harrisonburg, Henrico, Henry, Highland, Hopewell, Isle of Wight, James City, King and Queen, King George, King William, Lancaster, Lee, Lexington, Loudoun, Louisa, Lunenburg, Lynchburg, Manassas, Manassas Park, Martinsville, Mathew, Mecklenberg, Middlesex, Montgomery, Nelson, New Kent, Newport News, Norfolk, Northampton, Northumberland, Norton, Nottoway, Page, Patrick, Petersburg, Pittsylvania, Poquoson, Portsmouth, Powhatan, Prince Edward, Prince George, Prince William, Pulaski, Radford, Richmond, Richmond County, Roanoke, Roanoke County, Rockbridge, Rockingham, Russell, Salem, Scott, Shenandoah, Smyth, South Boston, Southhampton, Spotsylvania, Stafford, Staunton, Suffolk, Surry, Sussex, Tazewell, Virginia Beach, Washington, Waynesboro, Westmoreland, Williamsburg, Winchester, Wise, and Wythe.

Physician services are provided by physicians in independent practice in the Corporation's service area. Each member selects a Primary Care Physician ("PCP") from the list of the Corporation's primary providers. The PCP is the coordinator for all of the member's health care needs. All specialty services and all hospital admissions and outpatient surgery require a prior written referral (except in emergencies) from a PCP.

DEPARTMENT OF MEDICAL ASSISTANCE SERVICES AGREEMENTS

At December 31, 2013, the Corporation had entered into a Medallion II Medicaid Managed Care Agreement and a Family Access to Medical Security Insurance ("FAMIS") Agreement with the Virginia Department of Medical Assistance Services ("DMAS"). Pursuant to these agreements, the Corporation is responsible for directly providing, arranging, purchasing, or otherwise making available the full scope of services to which enrollees are entitled under the respective programs. As compensation for these services, DMAS pays the Corporation a monthly capitation fee based on each enrollees number, age, and sex. These agreements with DMAS represent 100% of the Corporation's enrollment and premium revenue in 2013.

PROVIDER AGREEMENTS

Medical Services

The Corporation has entered into agreements with numerous PCPs and specialist physicians to render, provide or arrange for the provision of covered health care services to members. The Corporation compensates physicians either on a capitated basis or a fee-for-service arrangement. Specialist physicians are compensated on a fee-for-service basis in accordance with the Corporation's fee schedule for the particular covered service.

Hospital Care

The Corporation has entered into agreements with a number of hospitals in its service area to provide covered hospital services to its members. Charges for services rendered are in accordance with compensation schedules attached to each individual agreement.

Other Health Care Services

The Corporation has entered into various ancillary service agreements. These agreements provide home health care services, pharmacy services, laboratory services, durable medical equipment and other related covered health care services. Compensation is based on arrangements set forth in each agreement.

BENEFITS

The general benefits available to the Corporation's Medicaid enrollees when provided by PCPs, specialist physicians and other professional providers and approved by the Corporation are as follows:

1. Inpatient Hospital Services
2. Outpatient Medical Care
3. Physician Services
4. Maternity Care
5. Maternal and Infant Care Coordination
6. Women's Wellness Program
7. Well Child Program
8. Rehabilitation Services
9. Home Health Services
10. Family Planning
11. Vision Care
12. Mental Health Services
13. Disease Management

14. Prescription Drugs
15. Durable Medical and Prosthetic Devices
16. Transportation Services
17. Health Education Programs

Exclusions generally consist of services obtained without prior written referral by the member's PCP; inpatient care in a long-term care institution; chiropractic services; experimental or investigational procedures; private duty nursing; and substance abuse services. The above are general summaries of coverages and exclusions and are not intended to be all inclusive.

GROWTH OF THE CORPORATION

The following data represents the growth of the Corporation since its inception. The data is compiled from the Corporation's filed Annual Statements, the previous examination report, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital And Surplus</u>
2004	\$60,358,072	\$35,505,496	\$24,852,576
2005	68,732,830	35,297,476	33,435,354
2006	83,460,175	36,799,205	46,660,970
2007	88,059,190	48,318,193	39,740,997
2008	79,160,360	47,144,108	32,016,252
2009	90,674,621	53,292,879	37,381,742
2010	131,958,119	70,123,890	61,834,229
2011	133,759,098	71,907,740	61,851,358
2012	167,454,950	93,520,641	73,934,309
2013	183,628,676	83,825,680	99,802,996

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gain</u>	<u>Medical & Hospital Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2004	\$249,100,548	\$818,888	\$217,366,476	\$18,496,022	\$14,056,938
2005	292,714,722	1,925,201	249,047,012	26,725,755	18,867,156
2006	335,171,662	3,759,365	282,246,391	33,446,306	23,238,330
2007	363,010,712	4,197,989	339,584,097	32,063,197	(4,438,593)
2008	413,542,130	1,776,387	403,149,883	28,318,572	(16,149,938)
2009	471,897,175	648,720	443,209,664	33,427,936	(4,091,705)
2010	531,288,281	339,769	457,657,514	46,781,033	27,189,503
2011	524,691,209	694,771	453,656,691	50,012,695	21,716,594
2012	586,064,368	182,337	526,514,034	44,998,074	14,734,597
2013	714,904,228	2,385,728	656,274,001	51,734,670	9,281,285

The Corporation's enrollment data at year-end is illustrated as follows:

<u>Year</u>	<u>Number of Members</u>
2004	89,515
2005	102,926
2006	109,603
2007	122,727
2008	133,767
2009	144,933
2010	155,575
2011	143,029
2012	171,821
2013	175,491

EXCESS LOSS INSURANCE

At December 31, 2013, the Corporation had an Excess Loss Insurance Policy in force with HM Life Insurance Company ("HM"). Under the terms of the agreement, the deductible is \$375,000 per member per policy year. Once the deductible has been reached, HM will indemnify the Corporation 90% of the lesser of billed charges or amount paid by the Corporation for inpatient hospital services, transplant services, operating room services, outpatient health services, and professional services. The maximum insurance coverage payable under the policy for each member during any policy year shall be \$5,000,000.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2013, the Bureau required that the Corporation maintain a \$586,190 minimum deposit with the Treasurer of Virginia.

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 from January 1, 2011 through December 31, 2013. Assets were verified and liabilities 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 Corporation, assess corporate governance, identify and assess inherent risks within the Corporation, 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 Corporation were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of 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 flow 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	\$2,782,298		\$2,782,298
Common stocks	11,920,568		11,920,568
Properties held for the production of income	303,075		303,075
Cash and short-term investments	90,757,057		90,757,057
Other invested assets	10,087,854		10,087,854
Aggregate write-ins for invested assets	<u>1,201,227</u>	<u>1,133,971</u>	<u>67,256</u>
Subtotals, cash and invested assets	\$117,052,079	\$1,133,971	\$115,918,108
Investment income due and accrued	517,784		517,784
Uncollected premiums and agents' balances in the course of collection	62,813,357		62,813,357
Amounts recoverable from reinsurers	618,357		618,357
Current federal income tax recoverable and interest thereon	12,673		12,673
Electronic data processing equipment and software	814,346	228,273	586,073
Furniture and equipment, including health care delivery assets	1,793,482	1,793,482	0
Receivables from parent, subsidiaries and affiliates	87,780		87,780
Health care and other amounts receivable	<u>3,619,249</u>	<u>544,705</u>	<u>3,074,544</u>
Total assets	<u>\$187,329,107</u>	<u>\$3,700,431</u>	<u>\$183,628,676</u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$59,943,035	\$6,660,337	\$66,603,372
Unpaid claims adjustment expenses	1,410,339	156,704	1,567,043
General expenses due or accrued		9,636,363	9,636,363
Amounts due to parent, subsidiaries and affiliates		1,221,095	1,221,095
Aggregate write-ins for other liabilities	<u>4,797,807</u>		<u>4,797,807</u>
 Total liabilities	 <u>\$66,151,181</u>	 <u>\$17,674,499</u>	 <u>\$83,825,680</u>
 Common capital stock			\$10,000
Gross paid in and contributed surplus			9,261,977
Unassigned funds (surplus)			<u>90,531,019</u>
 Total capital and surplus			 <u>\$99,802,996</u>
 Total liabilities, capital and surplus			 <u><u>\$183,628,676</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$707,324,135
Aggregate write-ins for other health care related revenues	<u>XXX</u>	<u>7,580,093</u>
Total revenues	<u>XXX</u>	<u>\$714,904,228</u>
Hospital and Medical		
Hospital/medical benefits	\$11,064,319	\$325,983,539
Other professional services	6,304,257	119,198,472
Outside referrals	23,054,968	23,054,968
Emergency room and out-of-area	565,480	37,632,904
Prescription drugs		<u>154,894,623</u>
Subtotal	<u>\$40,989,024</u>	<u>\$660,764,506</u>
Less:		
Net reinsurance recoveries		<u>4,490,505</u>
Total hospital and medical	<u>\$40,989,024</u>	<u>\$656,274,001</u>
Claims adjustment expenses	12,864,847	12,864,847
General administrative expenses	<u>38,869,823</u>	<u>38,869,823</u>
Total underwriting deductions	<u>\$92,723,694</u>	<u>\$708,008,671</u>
Net underwriting gain	<u>XXX</u>	<u>\$6,895,557</u>
Net investment income earned		\$1,648,175
Net realized capital gains		<u>737,553</u>
Net investment gains		<u>\$2,385,728</u>
Net income before federal income taxes	XXX	\$9,281,285
Federal income taxes incurred	<u>XXX</u>	<u>(18,553,210)</u>
Net income	<u>XXX</u>	<u>\$27,834,495</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus prior reporting year	<u>\$61,834,229</u>	<u>\$61,851,358</u>	<u>\$73,934,309</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income	\$13,690,567	\$9,957,975	\$27,834,495
Change in net unrealized capital gains		333,955	1,872,468
Change in net deferred income tax	(202,238)	1,168,296	(2,517,393)
Change in nonadmitted assets	528,800	622,725	(1,320,883)
Change in surplus notes	<u>(14,000,000)</u>		
Net change in capital and surplus	<u>\$17,129</u>	<u>\$12,082,951</u>	<u>\$25,868,687</u>
Capital and surplus end of reporting year	<u><u>\$61,851,358</u></u>	<u><u>\$73,934,309</u></u>	<u><u>\$99,802,996</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$700,897,877
Net investment income	1,829,359
Miscellaneous income	7,239,316
Total	<u>\$709,966,552</u>
Benefit and loss related payments	\$650,768,443
Commissions, expenses paid and aggregate write-ins for deductions	51,796,272
Federal income taxes paid	375,000
Total	<u>\$702,939,715</u>
Net cash from operations	<u>\$7,026,837</u>

Cash from Investments

Proceeds from investments sold, matured or repaid	
Bonds	\$2,683,659
Stocks	13,023,222
Miscellaneous proceeds	39,305
Total investment proceeds	<u>15,746,186</u>
Cost of investments acquired (long-term only)	
Bonds	1,640,360
Stocks	11,391,828
Other invested assets	9,726,362
Miscellaneous applications	1,100,302
Total investment acquired	<u>\$23,858,852</u>
Net cash from investments	<u>(\$8,112,666)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Surplus notes, capital notes	\$0
Other cash applied	(1,342,959)
Net cash from financing and miscellaneous sources	<u>(\$1,342,959)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	(\$2,428,788)
Cash and short-term investments:	
Beginning of the year	<u>93,185,845</u>
End of the year	<u>\$90,757,057</u>

SUBSEQUENT EVENTS

On June 1, 2014, VCUHSA issued a \$75,000,000 subordinated promissory note to the Corporation. Interest on the subordinated promissory note bears a rate between 4.67% and 4.88% per annum.

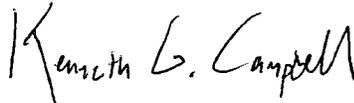
On June 3, 2014, the Bureau approved a material change filing pursuant to Chapter 58 of the Code of Virginia. The purpose of the filing was to seek approval to enter into a contract with the Centers for Medicare and Medicaid Services and the Virginia Department of Medical Assistance Services to provide services under the Commonwealth Coordinated Care Program established by the state of Virginia. The program pays capitated fees to the Corporation to provide managed care services to Virginia residents who are eligible for both Medicare and Medicaid services. The Corporation began enrolling members pursuant to the program during the third quarter 2014.

CONCLUSION

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

In addition to the undersigned, Darrin Bailey, CFE, participated in the work of the examination.

Respectfully submitted,



Kenneth G. Campbell, CFE
Assistant Chief Examiner



Tim Carpenter
Virginia Premier Health Plan, Inc.
600 E. Broad St., Suite 400
Richmond, VA 23219

David Smith, CFE, CPA, CPCU
Chief Examiner
Financial Regulation Division
(804) 371-9061

February 2, 2015

We are in receipt of your financial examination results and pursuant to Code of Virginia are acknowledging receipt of the report.

Thank you

A handwritten signature in black ink that reads 'Timothy E. Carpenter'.

Tim Carpenter

CFO