

EXAMINATION REPORT
of
VIRGINIA PREMIER HEALTH PLAN, INC.
Richmond, Virginia
as of
December 31, 2016

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

I, Scott A. White, 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, 2016, 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 17th day of January 2018

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
October 6, 2017

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.

SCOPE OF THE EXAMINATION

The last examination of the Corporation was made by representatives of the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2013. The current examination covers the three year period from January 1, 2014 through December 31, 2016.

This examination was conducted in accordance with the NAIC Financial Condition Examiners' Handbook (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Corporation's financial condition, assess corporate governance, identify current and prospective risks of the Corporation and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination, that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Corporation.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia on January 31, 1994 and 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 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"). On December 22, 1998, UHSMC purchased the remaining shares in the Corporation and 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. As part of this transaction, 1,000 shares of no par, common stock were issued to University Health Services, Inc. which, in turn, transferred t 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, 2016, the Corporation's capital and surplus was \$199,828,259. 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, 2016, 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, surplus notes of \$75,000,000 and unassigned funds (surplus) of \$115,556,282.

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. At December 31, 2016, the accrued interest on the subordinated promissory note is \$8,532,000. Repayment of principal and/or interest requires prior written approval of the Bureau.

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 5-211-30 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, 2016 was \$161,360,930, the Corporation's minimum net worth requirement at December 31, 2016 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. Directors are elected for three-year staggered terms at the annual meeting of the shareholders. On December 9, 2015, the Board approved a decrease in the number of Directors from nine to seven. The phase in of this decrease will be complete at the end of the three-year term of the then elected Directors. 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, 2016, the Board of Directors and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Arline D. Bohannon, M.D.	Internal Medicine Physician VCU Medical Center Richmond, Virginia
Leonard L. Edloe, PharmD	Retired Pharmacist Richmond, Virginia
Jane N. Kusiak	Executive Director Council on Virginia's Future Richmond, Virginia

DirectorsPrincipal Occupation

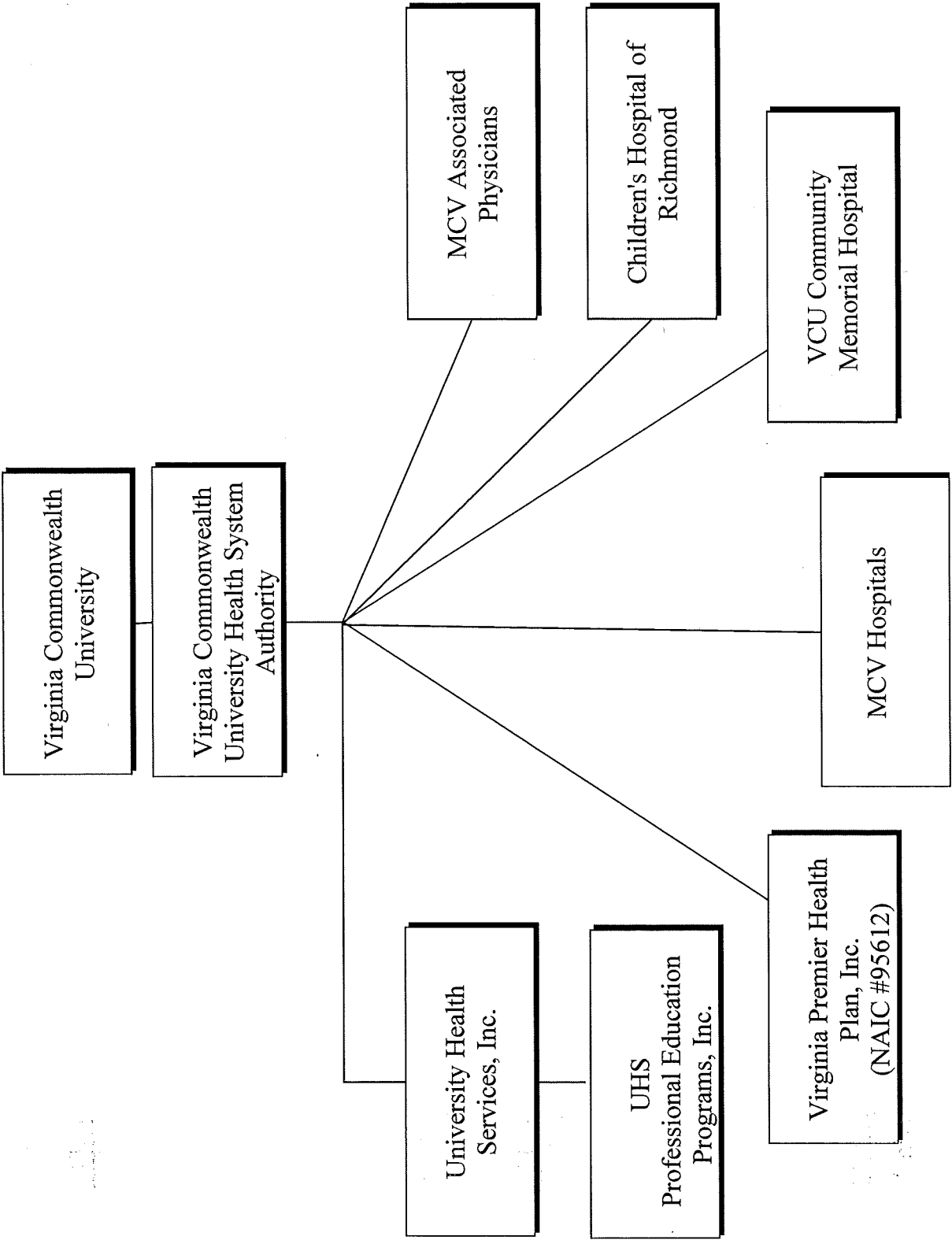
Jennifer L. McClellan	Assistant General Counsel Mid-Atlantic South at Verizon Richmond, VA
Marsha D. Rappley, M.D.	VCU – Vice President for Health Services VCU Health System Authority – Chief Executive Officer Richmond, Virginia
Nadine Marsh-Carter	Chief Executive Officer Children's Home Society of Virginia Richmond, Virginia
Donald R. Stern, M.D.	Director Richmond City Health District Richmond, Virginia
Joseph M. Teefey	Retired Director Department of Medical Assistance Services Richmond, Virginia
Steve L. Worley	Former President and Chief Executive Office Louisiana Children's Medical Center New Orleans, Louisiana

Officers

Marsha D. Rappley, M.D.	Chair
Carl F. Gattuso	Vice Chair/President
Linda Hines	Chief Executive Officer
Paul Neimeyer	Secretary
Tim Carpenter	Chief Financial Officer and Treasurer

AFFILIATED COMPANIES

At December 31, 2016, 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, 2016.



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 \$343,000 and \$6,360,000 in fees, respectively, related to this agreement during 2016.

Provider Agreements

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

TERRITORY AND PLAN OF OPERATION

At December 31, 2016, the Corporation's service area, as reported in its 2016 Annual Statement, included the Virginia cities of Alexandria, Arlington, Bristol, Buena Vista, Charlottesville, Chesapeake, Colonial Heights, Covington, Danville, Emporia, Fairfax, Falls Church, Fredericksburg, Galax, Hampton, Harrisonburg, Hopewell, Lexington, Lynchburg, Manassas, Manassas Park, Martinsville, Newport News, Norfolk, Norton, Petersburg, Poquoson, Portsmouth, Radford, Richmond, Roanoke, Salem, Staunton, Suffolk, Virginia Beach, Waynesboro, Williamsburg and Winchester and the Virginia counties of Accomack, Albemarle, Allegheny, Amelia, Amherst, Appomattox, Augusta, Bath, Bedford, Bland, Botetourt, Brunswick, Buchanan, Buckingham, Campbell, Carroll, Charles City, Charlotte, Clarke, Clifton Forge, Craig, Cumberland, Dickenson, Dinwiddie, Essex, Fauquier, Floyd, Fluvanna, Franklin, Frederick, Giles, Gloucester, Goochland, Grayson, Greene, Greensville, Halifax, Hanover, Henrico, Henry, Highland, Isle of Wright, James City, King and Queen, King George, King William, Lancaster, Lee, Loudoun, Louisa, Lunenburg, Matthew, Mecklenburg, Middlesex, Montgomery, Nelson, New Kent, Northampton, Northumberland, Nottoway, Page, Patrick, Pittsylvania, Powhatan, Prince Edward, Prince George, Prince William, Pulaski, Richmond, Roanoke, Rockbridge, Rockingham, Russell, Scott, Shenandoah, Smyth, South Boston, Southampton, Spotsylvania, Stafford, Surry, Sussex, Tazewell, Washington, Westmoreland, 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.

HEALTH CARE SERVICES AGREEMENTS

At December 31, 2016, 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.

Additionally, at December 31, 2016, the Corporation had an agreement with the Centers for Medicare and Medicaid Services and DMAS to provide services under the Commonwealth Coordinated Care Program established by the Commonwealth 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. These aforementioned agreements represent 100% of the Corporation's enrollment and premium revenue in 2016.

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>
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
2014	282,292,367	124,554,682	157,737,685
2015	281,926,696	113,646,408	168,280,288
2016	302,790,662	102,962,403	199,828,259

<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>
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
2014	825,069,219	1,517,781	756,910,163	71,458,352	(1,781,515)
2015	1,024,582,569	1,073,856	923,904,360	84,723,322	17,028,743
2016	1,070,388,753	(541,122)	941,859,447	97,086,946	30,901,238

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

<u>Year</u>	<u>Number of Members</u>
2007	122,727
2008	133,767
2009	144,933
2010	155,575
2011	143,029
2012	171,821
2013	175,491
2014	190,106
2015	193,594
2016	195,467

EXCESS LOSS INSURANCE

At December 31, 2016, 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 \$400,000 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, 2016, the Bureau required that the Corporation maintain a \$586,190 minimum deposit with the Treasurer of Virginia.

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Corporation for the period ending December 31, 2016. No examination adjustments were made to the statutory financial statements filed by the Corporation with the Bureau for the period ending December 31, 2016.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$44,626,908		\$44,626,908
Common stocks	41,104,636		41,104,636
Properties held for the production of income	303,075		303,075
Cash and short-term investments	59,310,488		59,310,488
Other invested assets	61,893,539		61,893,539
Aggregate write-ins for invested assets	<u>5,445,905</u>	<u>5,303,918</u>	<u>141,987</u>
Subtotals, cash and invested assets	\$212,684,551	\$5,303,918	\$207,380,633
Investment income due and accrued	289,324		289,324
Uncollected premiums and agents' balances in the course of collection	84,408,707		84,408,707
Amounts recoverable from reinsurers	1,359,425		1,359,425
Electronic data processing equipment and software	11,754,412	11,610,141	144,271
Furniture and equipment, including health care delivery assets	3,854,745	3,854,745	0
Receivables from parent, subsidiaries and affiliates	8,629,876		8,629,876
Health care and other amounts receivable	<u>4,546,620</u>	<u>3,968,194</u>	<u>578,426</u>
Total assets	<u><u>\$327,527,660</u></u>	<u><u>\$24,736,998</u></u>	<u><u>\$302,790,662</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$75,300,695	\$5,568,605	\$80,869,300
Unpaid claims adjustment expenses	1,944,734	146,378	2,091,112
Premiums received in advance	17,099		17,099
General expenses due or accrued		13,633,178	13,633,178
Aggregate write-ins for other liabilities	<u>6,351,714</u>		<u>6,351,714</u>
Total liabilities	<u>\$83,614,242</u>	<u>\$19,348,161</u>	<u>\$102,962,403</u>
Common capital stock			\$10,000
Gross paid in and contributed surplus			9,261,977
Surplus notes			75,000,000
Unassigned funds (surplus)			<u>115,556,282</u>
Total capital and surplus			<u>\$199,828,259</u>
Total liabilities, capital and surplus			<u><u>\$302,790,662</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$1,064,416,634
Aggregate write-ins for other health care related revenues	XXX	5,972,119
Total revenues	XXX	<u>\$1,070,388,753</u>
Hospital and Medical		
Hospital/medical benefits	\$18,983,689	\$407,395,183
Other professional services	13,686,145	216,749,572
Outside referrals	29,635,449	29,635,450
Emergency room and out-of-area	601,560	51,445,107
Prescription drugs		245,327,088
Incentive pool, withhold adjustments and bonus amounts		1,317,803
Subtotal	<u>\$62,906,843</u>	<u>\$951,870,203</u>
Less:		
Net reinsurance recoveries		10,010,756
Total hospital and medical	\$62,906,843	\$941,859,447
Claims adjustment expenses	18,542,926	18,542,926
General administrative expenses	78,544,020	78,544,020
Total underwriting deductions	<u>\$159,993,789</u>	<u>\$1,038,946,393</u>
Net underwriting gain	<u>XXX</u>	<u>\$31,442,360</u>
Net investment income earned		\$2,161,613
Net realized capital gains		<u>(2,702,735)</u>
Net investment gains		<u>(\$541,122)</u>
Net income before federal income taxes	XXX	\$30,901,238
Federal income taxes incurred	XXX	223,164
Net income	<u>XXX</u>	<u>\$30,678,074</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital and surplus prior reporting year	<u>\$99,802,996</u>	<u>\$157,737,685</u>	<u>\$168,280,288</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income (loss)	(\$2,156,443)	\$16,349,642	\$30,678,074
Change in net unrealized capital gains	1,127,697	(3,777,610)	3,967,769
Change in nonadmitted assets	(16,036,565)	(2,029,429)	(3,097,872)
Change in surplus notes	<u>75,000,000</u>		
Net change in capital and surplus	<u>\$57,934,689</u>	<u>\$10,542,603</u>	<u>\$31,547,971</u>
Capital and surplus end of reporting year	<u><u>\$157,737,685</u></u>	<u><u>\$168,280,288</u></u>	<u><u>\$199,828,259</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$1,063,286,236
Net investment (loss)	(643,277)
Miscellaneous income	5,962,930
Total	<u>\$1,068,605,889</u>
Benefit and loss related payments	\$949,875,193
Commissions, expenses paid and aggregate write-ins for deductions	96,778,263
Federal income taxes paid	223,163
Total	<u>\$1,046,876,619</u>
Net cash from operations	<u>\$21,729,270</u>

Cash from Investments

Proceeds from investments sold, matured or repaid	
Bonds	\$66,033,175
Stocks	41,643,722
Other invested assets	14,877,704
Miscellaneous proceeds	649,535
Total investment proceeds	<u>123,204,136</u>
Cost of investments acquired (long-term only)	
Bonds	60,045,780
Stocks	36,549,792
Other invested assets	20,323,467
Miscellaneous applications	1,000,175
Total investment acquired	<u>\$117,919,214</u>
Net cash from investments	<u>\$5,284,922</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	<u>(\$12,016,112)</u>
Net cash from financing and miscellaneous sources	<u>(\$12,016,112)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$14,998,080
Cash and short-term investments:	
Beginning of the year	<u>44,312,408</u>
End of the year	<u>\$59,310,488</u>

RECOMMENDATION FOR CORRECTIVE ACTION**Management and Control**

1. Section 38.2-1330 of the Code of Virginia entitled, "Standards for transactions within an insurance holding company system; adequacy of surplus" outlines standards to which an insurer within a holding company system must adhere. Certain transactions may not be entered into unless the insurer has notified the Commission in writing of its intention to enter into the transaction at least 30 days prior thereto. Furthermore, Section 38.2-1330 B.6 requires an insurer to notify the Commission of any direct or indirect acquisitions or investments in a person that controls the insurer or in an affiliate of the insurer in an amount that, together with its present holdings in such investments, exceeds two and one-half percent of the insurer's surplus to policyholders. It was revealed that during the fourth quarter of 2016 the Corporation began investing, in amounts exceeding the aforementioned threshold, in a limited partnership through an affiliated company without providing prior notice to the Commission. It is recommended that the Corporation immediately file a Form D Material Transaction with the Commission that outlines this arrangement and adhere to Section 38.2-1330 of the Code of Virginia going forward.

SUBSEQUENT EVENT

On March 23, 2017, the Bureau granted approval for the Corporation to pay back a portion of the outstanding subordinated surplus note in the amount of \$26,250,000 and accrued interest on the subordinated surplus note as of December 31, 2016 in the amount of \$8,532,000.

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, Chris Collins, CFE, Jack Dreaan, CFE and Kevin Knight, CFE, participated in the work of the examination.

Respectfully submitted,



John E. Bunce, 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

January 4, 2018

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

Also pursuant to the recommendation on page 17 of the report, we filed a Form D on October 31st, 2017 and received approval from the BOI on December 4th, 2017. In the future we will file a Form D for all investments in affiliates that exceed the 2.5% threshold per 38.2 – 1330 of the Code of Virginia.

Thank you

A handwritten signature in black ink that reads 'Tim Carpenter'.

Tim Carpenter

CFO

Virginia Premier Health Plan, Inc.

P.O. Box 5307 | Richmond, VA 23220-0307 | (800) 727-7536 | f (804) 819-5187 | www.vapremier.com