

**EXAMINATION REPORT**  
**of**  
**OPTIMA HEALTH PLAN**  
**Virginia Beach, Virginia**  
**as of**  
**December 31, 2016**

# COMMONWEALTH OF VIRGINIA

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



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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Optima Health Plan 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 16<sup>th</sup> day of March 2018

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Scott A. White  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
December 8, 2017

Honorable Scott A. White  
Commissioner of Insurance  
Richmond, Virginia

Dear Sir:

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

**OPTIMA HEALTH PLAN**  
Virginia Beach, Virginia

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

**SCOPE OF THE EXAMINATION**

The last examination of the Plan was made by representatives of the State Corporation Commission's 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 Plan's financial condition, assess corporate governance, identify current and prospective risks of the Plan 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 Plan 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 Plan.

### **HISTORY**

The Plan 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 31, 1984. The Plan operates as a capitated and fee-for-service individual practice association HMO.

The Plan is a non-profit membership corporation without capital stock. The Plan was incorporated in the Commonwealth of Virginia on May 7, 1984. The initial member of the Plan was Alliance Health System (currently Sentara Healthcare and formerly Sentara Health System), which provided initial funding through Alliance Health Foundation. The Plan commenced business on December 1, 1984 and became federally qualified as an HMO on May 30, 1985. Through additional funding of the Plan, Maryview Hospital ("MH"), Sentara Hampton General Hospital ("SHGH"), and Virginia Beach General Hospital became members of the Plan.

Effective April 30, 1990, SHGH transferred its membership rights in the Plan to Sentara Healthcare ("SHC"). On July 20, 1990, SHC purchased Virginia Beach General Hospital's membership rights in the Plan. On December 30, 2003, SHC purchased MH's membership rights in the Plan. At December 31, 2016, SHC is the sole member of the Plan.

### **CAPITAL AND SURPLUS**

At December 31, 2016, the Plan's capital and surplus was \$222,565,488. Capital and surplus was comprised of gross paid in and contributed surplus of \$13,000,000 and unassigned funds of \$209,565,488. Gross paid in and contributed surplus was provided to the Plan by SHC.

### **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 a 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 Plan's uncovered expenses for the three-month period ending December 31, 2016 was

\$39,620,878, the Plan's minimum net worth requirement at December 31, 2016 was \$4,000,000.

### MANAGEMENT AND CONTROL

The amended and restated bylaws provide that the property, affairs and business of the Plan shall be managed under the direction of the Board of Directors (the "Board"). The number of Directors shall not be less than three nor more than sixteen. The Directors shall be divided into three classes with each class to be as nearly equal in number as possible. Directors shall hold office for a three-year term and each director may be re-elected upon the expiration of the three-year term.

Officers of the Plan shall consist of a Chairman, a President, a Secretary and a Treasurer who shall be elected by SHC at its annual meeting and who shall hold office for such terms as the Board may prescribe. Other officers, including one or more Vice Presidents and assistant subordinate officers, may from time to time be elected by SHC. Officers shall hold their office until their successors are elected.

At December 31, 2016, the Board and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
David L. Bernd	Retired, Former Chief Executive Officer of Sentara Healthcare Norfolk, Virginia
Robert A. Broermann	Senior Vice President and Chief Financial Officer Sentara Healthcare Norfolk, Virginia
Robert L. Cramer	Retired, Part-time Management Consultant Norfolk, Va
Michael M. Dudley	Senior Vice President and Health Plans President Sentara Healthcare Norfolk, Virginia
Michael V. Gentry	Senior Vice-President and Chief Operating Officer 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 Executive Officer Sentara Healthcare Norfolk, Virginia
Meredith B. Rose, M.D.	Physician Virginia Beach, Virginia
Marc B. Sharp	Retired Corporate Executive, Consultant Williamsburg, Virginia
Ronald A. Stine, M.D.	Physician Norfolk, Virginia

#### Officers

Howard P. Kern	Chairman
Michael M. Dudley	President and Chief Executive Officer
Robert A. Broermann	Treasurer
Michael V. Gentry	Secretary
Daniel D. Santos	Assistant Treasurer/Assistant Secretary
James A. Hilbert	Senior Vice President, Chief Financial Officer
Thomas G. Lundquist, M.D.	Senior Vice President, Chief Medical Director
John E. DeGruttolla	Senior Vice President, Marketing and Sales

**AFFILIATED COMPANIES**

As of December 31, 2016, the amended and restated articles of incorporation provide that SHC shall be the sole member. The chart on the following page illustrates the organizational structure of the Plan and selected affiliated entities at December 31, 2016.



Sentara Healthcare

Sentara  
Medical Group

Sentara Life  
Care Corp.

Sentara  
Enterprises

Sentara  
Hospitals

Sentara  
Holdings, Inc.

Bay Primex  
Captive

Optima Health  
Plan  
(NAIC #95281)

SMG Innovations,  
Inc.

Hosp. For  
Extended  
Recovery  
(LTAC)

MPB, Inc.

Sentara  
Ventures, Inc.

Sentara Health  
Plans, Inc.

Obici  
Professional  
Center

Optima  
Behavioral  
Health  
Services

Optima Health  
Group, Inc.  
(NAIC #95481)

Optima Health  
Insurance Company  
(NAIC #70715)

Sentara Health  
Plans of North  
Carolina, Inc.

Sentara Health  
Insurance Company  
of North Carolina  
(NAIC #15637)

Sentara Health  
Plans of Ohio,  
Inc.

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

## TRANSACTIONS WITH AFFILIATES

### Administrative Services and Marketing Agreement

Effective April 1, 2005, the Plan entered into an Administrative Services and Marketing Agreement with Sentara Health Plans, Inc. ("SHP"). According to the provisions of the agreement, SHP shall perform, or arrange for the performance of the administrative services necessary to fulfill the Plan's obligations under its Evidences of Coverage. The services include the following:

- Underwriting Services
- Enrollment Services
- Claims Administration 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 Plan 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 Plan paid approximately \$100,851,000 in 2016, \$98,932,000 in 2015 and \$94,677,000 in 2014 in administrative fees related to this agreement.

### Mental Health Services Agreement

At December 31, 2016, 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 amended capitated agreement, the Plan pays OBHS a fixed rate of 55 cents per member per month for administrative costs and network utilization. All medical costs are now paid directly to the provider by the Company. The Plan paid OBHS \$1,939,856 in 2016. Prior to 2016, the Plan paid OBHS a higher fixed rate per member per month to cover both the administrative costs and medical costs. The Plan paid OBHS \$35,080,830 in 2015 and \$33,234,607 in 2014 in capitation expenses pursuant to this agreement.

## Dividends

On May 8, 2014, the Plan filed a request with the Bureau to pay an extraordinary cash dividend of \$48,000,000 to SHC. The Bureau approved the Plan's request on June 3, 2014 and the dividend was paid on June 16, 2014.

## **TERRITORY AND PLAN OF OPERATION**

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

Medical services are provided by physicians in independent practice within the Plan's service area. Each member chooses a primary care physician ("PCP") from a list of the Plan's primary providers. All hospital admissions must be arranged by an attending physician and approved in advance by the Plan.

At December 31, 2016, the Plan had a contract with the Virginia Department of Medical Assistance Services to administer coverage to Medicaid enrollees which comprised 54% of its premium revenue in 2016. The Plan also participated in the Individual Affordable Care Act exchange market which comprised 15% of its premium revenue in 2016.

## **PROVIDER AGREEMENTS**

### **Medical Services**

The Plan has entered into agreements with numerous PCPs and specialist physicians to provide covered services to members. PCPs and specialist physicians are compensated on a fee for service basis at the lesser of billed charges or established fee schedules minus any applicable copayments.

### **Hospital Care**

The Plan has entered into agreements with a number of hospitals in its service area to provide covered hospital services to members. The Plan compensates participating hospitals on either a discounted fee for service, a fixed per-diem, or a per case basis. The amounts paid to each hospital are based on terms disclosed in each individual agreement.

### **Other Health Care Services**

The Plan provides other health care services to members through various ancillary agreements. These services include ambulance services, skilled nursing care, home health care, physical, occupational and speech therapy, laboratory and pharmaceutical services. Compensation is based on arrangements set forth in each agreement.

## **CONTRACT FORMS**

The group contract agreement generally covers the following services provided by PCPs, participating specialists and other professional providers:

1. Physician Services
2. Allergy Care
3. Hospital Services
4. Maternity Services
5. Family Planning/Infertility Services
6. Home Health Care Skilled Services
7. Morbid Obesity Treatment
8. Orthopedic and Prosthetic Appliances
9. Ambulance Service
10. Emergency Services
11. Behavioral Health and Substance Abuse Services
12. Durable Medical Equipment

Exclusions generally include any services or supplies that were not authorized or arranged by the member's PCP or the Plan; any service, supply, or treatment not specifically covered in the Evidence of Coverage; personal comfort items; private duty nursing; cosmetic surgery; costs of services covered by a group insurance mechanism or governmental program; eye surgery such as Radial Keratotomy, PRK or LASIK, school health services rendered in a school setting; physical examinations for employment or insurance; and investigation or experimental medications and consultations or office visits for obtaining cosmetic or experimental procedures. Other exclusions include: immunizations related to foreign travel or employment and hearing aids.

The above are abbreviated descriptions of the coverages and exclusions and each individual contract may vary.

### GROWTH OF THE PLAN

The following data is representative of the growth of the Plan for the ten-year period ending December 31, 2016. The data is compiled from the Plan's filed Annual Statements, the previous examination reports and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Total Capital &amp; Surplus</u>
2007	\$264,820,340	\$83,040,432	\$181,779,908
2008	256,297,895	102,919,943	153,377,952
2009	247,387,830	116,605,200	130,782,630
2010	310,152,525	127,133,529	183,018,996
2011	336,892,680	137,258,299	199,634,381
2012	315,997,878	145,816,510	170,181,368
2013	349,450,693	152,851,371	196,599,322
2014	329,591,603	131,940,821	197,650,782
2015	352,286,259	139,867,700	212,418,559
2016	372,889,573	150,324,085	222,565,488

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Medical &amp; Hospital Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-tax Income</u>
2007	\$791,620,394	\$12,527,076	\$662,428,044	\$73,444,808	\$68,274,618
2008	865,689,555	5,566,936	750,584,799	76,045,304	44,626,388
2009	985,089,183	3,281,486	891,949,599	77,374,917	19,046,153
2010	1,091,460,148	4,080,635	949,437,357	74,939,986	71,163,440
2011	1,136,749,877	4,443,651	978,637,670	77,571,665	84,984,193
2012	1,238,443,306	4,710,610	1,125,939,946	87,048,277	30,165,693
2013	1,302,441,118	3,207,064	1,166,137,253	92,338,836	47,172,093
2014	1,382,125,432	8,291,073	1,226,177,676	115,744,636	48,494,193
2015	1,357,312,287	2,785,817	1,224,259,130	121,841,166	13,997,808
2016	1,423,634,722	5,221,991	1,299,259,640	120,502,261	9,094,812

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

<u>Year</u>	<u>Number of Members</u>
2007	246,393
2008	267,154
2009	288,559
2010	294,114
2011	298,183
2012	321,378
2013	320,048
2014	314,913
2015	292,937
2016	294,873

**EXCESS LOSS INSURANCE**

Effective June 1, 2016, the Plan entered into an Excess Risk Reinsurance Agreement with RGA Reinsurance Company ("RGA"). For eligible expenses in each contract year, the deductible is \$1,500,000 per member for commercial, Medicaid, Exchange and Medicare Advantage members. Once the deductible has been reached in a contract year, RGA will reimburse the Plan 90% of all eligible expenses for these members up to a maximum of \$5,000,000 per member. Expenses incurred at Sentara-owned facilities are excluded from this agreement.

**SPECIAL RESERVES AND DEPOSITS**

At December 31, 2016, the Bureau required the Plan to maintain a minimum deposit of \$2,700,000 with the Treasurer of Virginia.

**FINANCIAL STATEMENTS**

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



**ASSETS**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$118,204,110		\$118,204,110
Common stocks	20,637,733		20,637,733
Cash and short-term investments	<u>57,899,394</u>		<u>57,899,394</u>
Subtotals, cash and invested assets	\$196,741,237	\$0	\$196,741,237
Investment income due and accrued	607,322		607,322
Uncollected premiums	88,946,939	432,833	88,514,106
Amounts recoverable from reinsurers	12,214,410		12,214,410
Electronic data processing equipment and software	772,046		772,046
Furniture and equipment, including healthcare delivery assets	1,186,505	1,186,505	0
Receivables from parent, subsidiaries and affiliates	4,699,739		4,699,739
Health care and other receivables	13,648,678	2,544,906	11,103,772
Aggregate write-ins for other than invested assets	<u>59,290,680</u>	<u>1,053,739</u>	<u>58,236,941</u>
Total assets	<u><u>\$378,107,556</u></u>	<u><u>\$5,217,983</u></u>	<u><u>\$372,889,573</u></u>

**LIABILITIES, CAPITAL AND SURPLUS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$115,558,597	\$2,957,392	\$118,515,989
Accrued medical incentive pool and bonus amounts	1,178,629		1,178,629
Unpaid claims adjustment expenses		1,129,041	1,129,041
Aggregate health claim reserves	3,963,157	101,425	4,064,582
Premiums received in advance	8,718,750		8,718,750
Amounts due to parent, subsidiaries and affiliates		5,145,003	5,145,003
Payable for securities		7,965,840	7,965,840
Aggregate write-ins for other liabilities	<u>3,606,251</u>		<u>3,606,251</u>
Total liabilities	<u>\$133,025,384</u>	<u>\$17,298,701</u>	<u>\$150,324,085</u>
Gross paid in and contributed surplus			\$13,000,000
Unassigned funds (surplus)			<u>209,565,488</u>
Total capital and surplus			<u>\$222,565,488</u>
Total liabilities, capital and surplus			<u><u>\$372,889,573</u></u>

**STATEMENT OF REVENUE AND EXPENSES**

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$1,395,696,663
Aggregate write-ins for other health care related revenues	<u>XXX</u>	<u>27,938,059</u>
Total revenues	<u>XXX</u>	<u>\$1,423,634,722</u>
<b>Hospital and Medical:</b>		
Hospital/medical benefits	\$60,822,190	\$921,613,280
Outside referrals	1,274,007	1,274,007
Emergency room and out-of-area	6,870,745	65,677,119
Prescription drugs		290,153,303
Aggregate write-ins for other hospital and medical		20,918,041
Incentive pool, withhold adjustments and bonus amounts		<u>11,057,858</u>
Subtotal	<u>\$68,966,942</u>	<u>\$1,310,693,608</u>
<b>Less:</b>		
Net reinsurance recoveries		<u>11,433,968</u>
Total hospital and medical	<u>\$68,966,942</u>	<u>\$1,299,259,640</u>
Claims adjustment expenses	12,477,970	12,477,970
General administrative expenses	<u>106,880,687</u>	<u>108,024,291</u>
Total underwriting deductions	<u>\$188,325,599</u>	<u>\$1,419,761,901</u>
Net underwriting gain	<u>XXX</u>	<u>\$3,872,821</u>
Net investment income earned		\$1,311,594
Net realized capital gains		<u>3,910,397</u>
Net investment gains		<u>\$5,221,991</u>
Net income before federal income taxes	XXX	\$9,094,812
Federal income taxes incurred	<u>XXX</u>	<u>(533,660)</u>
Net income	<u>XXX</u>	<u>\$9,628,472</u>

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital and surplus prior reporting year	<u>\$196,599,322</u>	<u>\$197,650,782</u>	<u>\$212,418,559</u>
Net income	\$51,477,534	\$15,486,346	\$9,628,472
Change in net unrealized capital gains (losses)	(1,349,510)	(838,940)	267,641
Change in nonadmitted assets	(1,266,537)	(255,554)	61,578
Dividends to stockholders	(48,000,000)		
Aggregate write-ins for gains in surplus	<u>189,973</u>	<u>375,925</u>	<u>189,238</u>
Net change in capital and surplus	<u>\$1,051,460</u>	<u>\$14,767,777</u>	<u>\$10,146,929</u>
Capital and surplus end of reporting year	<u><u>\$197,650,782</u></u>	<u><u>\$212,418,559</u></u>	<u><u>\$222,565,488</u></u>

**CASH FLOW****Cash from Operations**

Premiums collected net of reinsurance	\$1,386,458,257
Net investment income	1,855,965
Miscellaneous income	27,938,060
Total	<u>\$1,416,252,282</u>
Benefit and loss related payments	\$1,286,203,122
Commissions, expenses paid and aggregate write-ins for deductions	120,607,623
Federal income taxes paid	(533,660)
Total	<u>\$1,406,277,085</u>
Net cash from operations	<u>\$9,975,197</u>

**Cash from Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$217,023,784
Stocks	6,510,912
Miscellaneous proceeds	2,267,969
Total investment proceeds	<u>\$225,802,665</u>
Cost of investments acquired (long-term only):	
Bonds	\$206,287,963
Stocks	602,066
Total investment acquired	<u>\$206,890,029</u>
Net cash from investments	<u>\$18,912,636</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash applied	<u>(\$17,137,592)</u>
Net cash from financing and miscellaneous sources	<u>(\$17,137,592)</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

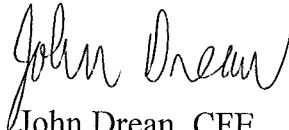
Net change in cash and short-term investments	\$11,750,241
Cash and short-term investments:	
Beginning of the year	<u>46,149,153</u>
End of the year	<u>\$57,899,394</u>

**ACKNOWLEDGEMENT**

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

In addition to the undersigned, John Bunce, CFE, Chris Collins, CFE, Craig Chupp, FSA, MAAA, Kevin Knight, CFE, Hai Nguyen and Michael Peterson participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "John Drean".

John Drean, CFE

Principal Insurance Financial Analyst

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February 20, 2018

Mr. David Smith  
Chief Examiner  
Virginia Bureau of Insurance  
P. O. Box 1157  
Richmond, Virginia 23218

Dear Mr. Smith:

This letter is to acknowledge receipt of the Examination Reports as of December 31, 2016 for Optima Health Plan, Optima Health Insurance Company and Optima Health Group, Inc. We have no objections to the reports.

We would like to request five (5) copies of each of the reports. Thank you for the efforts of you and your team in the completion of the audits.

Sincerely,



Dennis Matheis  
President & CEO  
Optima Health Plan  
Optima Health Insurance Company  
Optima Health Group, Inc.

DM:sc