

**EXAMINATION REPORT**  
**of**  
**OPTIMA HEALTH INSURANCE COMPANY**  
**Virginia Beach, Virginia**  
**as of**  
**December 31, 2019**

# 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 Insurance Company as of December 31, 2019, 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 19<sup>th</sup> day of May 2021

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

Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
March 12, 2021

Honorable Scott A. White  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Sir:

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.

**SCOPE OF THE EXAMINATION**

The last examination of the Company was made by representatives of the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2016. The current examination covers the three year period from January 1, 2017 through December 31, 2019.

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 Company'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 Company 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 Company.

### **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, 2019, the Board and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Robert C. Fort	Retired, Former Vice President of Norfolk Southern Corporation Norfolk, Virginia
J. Less Hall	Owner of Allfirst, LLC Suffolk, Virginia

<u>Directors</u>	<u>Principal Occupation</u>
George W. Hubbard, M.D.	Surgeon Norfolk, Virginia
Howard P. Kern	President and Chief Executive Officer Sentara Healthcare Norfolk, Virginia
Dennis A. Matheis	President of Optima Health and Executive Vice President of Sentara Healthcare Norfolk, Virginia
Marc B. Sharp	Retired Corporate Executive, Consultant Williamsburg, Virginia
Jeffrey O. Smith	Superintendent, Hampton City Schools Hampton, Virginia
Ronald A. Stine, M.D.	Physician Norfolk, Virginia
Cathie J. Vick	Chief Development and Government Affairs Officer Virginia Port Authority Newport News, Virginia

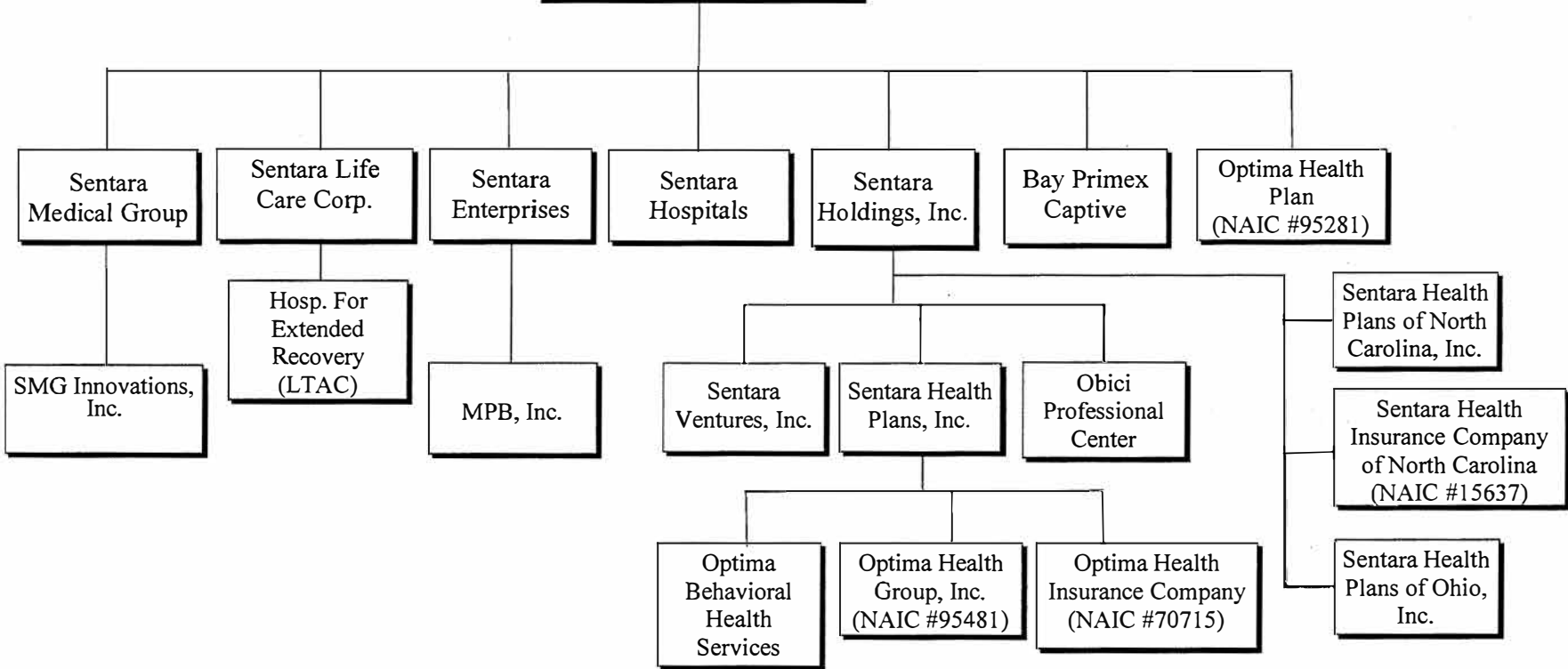
Officers

Robert C. Fort	Chairman
Dennis A. Matheis	President and Chief Executive Officer
Robert A. Broermann	Treasurer
Michael V. Gentry	Secretary
Samuel J. Hawley	Assistant Secretary
James A. Hilbert	Senior Vice President, Chief Financial Officer
Thomas G. Lundquist, M.D.	Senior Vice President, Chief Medical Officer
John E. DeGruttolla	Senior Vice President, Marketing and Sales
Patricia Darnley	Senior Vice President, Government Programs

The Company's authorized capital is 5,000 shares of common stock with a par value of \$1,000 per share. At December 31, 2019, 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 chart on the following page illustrates the Company's relationship with selected affiliated entities within the holding company system at December 31, 2019.

Sentara Healthcare



COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



## TRANSACTIONS WITH AFFILIATES

### Administrative Services and Marketing Agreement

At December 31, 2019, 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 \$4,786,977 in 2019, \$4,528,070 in 2018 and \$4,003,886 in 2017 for services pursuant to this agreement.

### Mental Health Services Agreement

At December 31, 2019, 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 Company pays OBHS a fixed rate of 69 cents per member per month for administrative costs and network utilization. All medical costs are paid directly to the provider by the Company. The Company paid OBHS \$128,720 in 2019, \$75,773 in 2018 and \$84,865 in 2017 in capitation expenses pursuant to this agreement.

### Tax Allocation Agreement

At December 31, 2019, 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 a number of subsidiaries of Sentara Healthcare to provide hospital, physician services and other medical services to its members.

## **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 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. The Company became licensed in North Carolina during 2008 but never wrote any business in North Carolina. It voluntarily withdrew its license from North Carolina effective April 24, 2015.

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, 2019, 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.

## GROWTH OF THE COMPANY

The following data represents the growth of the Company for the ten-year period ending December 31, 2019. 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 &amp; Surplus</u>	<u>Unassigned Funds</u>	<u>Premiums</u>	<u>Net Income/ (Loss)</u>
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)
2014	31,436,172	16,415,082	69,696,094	(54,675,004)	110,465,018	(14,483,580)
2015	28,717,431	11,329,635	72,786,284	(55,398,488)	70,996,940	(1,471,478)
2016	28,780,657	12,651,898	77,608,472	(61,479,713)	51,478,396	(1,487,203)
2017	27,921,340	13,369,443	79,158,601	(64,606,704)	47,283,437	(1,826,861)
2018	30,103,678	15,759,714	77,636,350	(63,292,386)	44,317,203	296,547
2019	21,953,851	15,899,247	78,542,488	(72,487,884)	38,580,074	(7,764,534)

## EXCESS LOSS INSURANCE

At December 31, 2019, the Company has both a PPO Excess Risk Agreement and an Excess Medical Reinsurance Agreement in effect with RGA Reinsurance Company ("RGA"). The PPO Excess Risk Agreement covers the commercial PPO business and the Excess Medical Reinsurance Agreement covers self-funded small groups. For eligible expenses, the deductible is \$1,500,000 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. Expenses incurred at Sentara-owned facilities are excluded from these agreements. Additionally, the Company has a Specific Medical Stop Loss Quota Share Reinsurance Agreement with RGA. 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, RGA 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 RGA) per covered person per policy year. For the second layer, RGA shall be responsible for 100% of all eligible expenses in excess of \$1,500,000 with no maximum limit. The agreement currently has no provision for aggregate stop loss coverage.

**FINANCIAL STATEMENTS**

The following financial statements present the financial condition of the Company for the period ending December 31, 2019. No examination adjustments were made to the statutory financial statement filed by the Company with the Bureau for the period ending December 31, 2019.

**ASSETS**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$10,891,758		\$10,891,758
Common stocks	1,542,323		1,542,323
Cash and short-term investments	899,833		899,833
	<hr/>	<hr/>	<hr/>
Subtotals, cash and invested assets	\$13,333,914	\$0	\$13,333,914
Investment income due and accrued	66,711		66,711
Uncollected premiums and agents' balances in the course of collection	472,568		472,568
Accrued retrospective premiums	1,132,495		1,132,495
Guaranty funds	3,883,869		3,883,869
Electronic data processing equipment and software	10,416		10,416
Furniture and equipment, including health care delivery assets	51,275	51,275	0
Receivables from parents, subsidiaries and affiliates	1,613,053		1,613,053
Health care and other receivables	1,026,277	232,789	793,488
Aggregate write-ins for other than invested assets	684,537	37,200	647,337
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$22,275,115</u>	<u>\$321,264</u>	<u>\$21,953,851</u>

**LIABILITIES, CAPITAL AND SURPLUS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$ 9,356,718	\$ 145,671	\$ 9,502,389
Accrued medical incentive pool and bonus amounts	87,679		87,679
Unpaid claim adjustment expenses		70,220	70,220
Aggregate health claim reserves	121,448	1,891	123,339
Premiums received in advance	740,388		740,388
Amounts due to parent, subsidiaries and affiliates	1,133,620		1,133,620
Aggregate write-ins for other liabilities	<u>4,241,612</u>		<u>4,241,612</u>
Total liabilities	<u>\$ 15,681,465</u>	<u>\$ 217,782</u>	<u>\$ 15,899,247</u>
Aggregate write-ins for special surplus funds			\$ 828,338
Common capital stock			1,040,000
Gross paid in and contributed surplus			78,960,000
Aggregate write-ins for other than special surplus funds			(2,285,850)
Unassigned funds (surplus)			<u>(72,487,884)</u>
Total capital and surplus			<u>\$ 6,054,604</u>
Total liabilities, capital and surplus			<u><u>\$ 21,953,851</u></u>

**STATEMENT OF REVENUE AND EXPENSES**

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$38,580,074
Total revenues	<u>XXX</u>	<u>\$38,580,074</u>
<b>Hospital and Medical:</b>		
Hospital/medical benefits	\$596,569	\$32,779,913
Emergency room and out-of-area	9,965	1,040,569
Prescription drugs		4,663,180
Aggregate write-ins for other hospital and medical		188,320
Incentive pool, withhold adjustments and bonus amounts		<u>893,405</u>
Total hospital and medical	<u>\$606,534</u>	<u>\$39,565,387</u>
Claims adjustment expenses	922,391	922,391
General administrative expenses	<u>7,975,923</u>	<u>7,999,484</u>
Total underwriting deductions	<u>\$9,504,848</u>	<u>\$48,487,262</u>
Net underwriting (loss)	<u>XXX</u>	<u>(\$9,907,188)</u>
Net investment income earned		\$423,223
Net realized capital gains		<u>37,364</u>
Net investment gains		<u>\$460,587</u>
Net income before federal income taxes	XXX	(\$9,446,601)
Federal income taxes incurred	<u>XXX</u>	<u>(1,682,067)</u>
Net (loss)	<u>XXX</u>	<u>(\$7,764,534)</u>

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and surplus prior reporting year	<u>\$16,128,759</u>	<u>\$14,551,897</u>	<u>\$14,343,964</u>
Net income or (loss)	(\$1,826,861)	\$296,547	(\$7,764,534)
Change in net unrealized capital gains (losses)	(32,336)	(69,910)	263,555
Change in net deferred income tax	(161,000)	(19,000)	70,000
Change in nonadmitted assets	9,451	116,759	(214,001)
Paid in			
Transferred from capital			
Aggregate write-ins for gains or (losses) in surplus	<u>433,884</u>	<u>(532,329)</u>	<u>(644,380)</u>
Net change in capital and surplus	<u>(\$1,576,862)</u>	<u>(\$207,933)</u>	<u>(\$8,289,360)</u>
Capital and surplus end of reporting year	<u><u>\$14,551,897</u></u>	<u><u>\$14,343,964</u></u>	<u><u>\$6,054,604</u></u>



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

Premiums collected net of reinsurance	\$39,563,777
Net investment income	434,739
Total	<u>\$39,998,516</u>
Benefit and loss related payments	\$38,705,776
Commissions, expenses paid and aggregate write-ins for deductions	9,299,856
Federal income taxes (recovered)	(1,742,877)
Total	<u>\$46,262,755</u>
Net cash from operations	<u>(\$6,264,239)</u>

**Cash from Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$11,959,974
Miscellaneous proceeds	14,207
Total investment proceeds	<u>\$11,974,181</u>
Cost of investments acquired (long-term only):	
Bonds	\$10,470,596
Stocks	43,113
Miscellaneous applications	79,148
Total investments acquired	<u>\$10,592,857</u>
Net cash from investments	<u>\$1,381,324</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash applied	<u>(\$843,657)</u>
Net cash from financing and miscellaneous sources	<u>(\$843,657)</u>

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

Net change in cash and short-term investments	(\$5,726,572)
Cash and short-term investments:	
Beginning of the year	<u>6,626,405</u>
End of the year	<u><u>\$899,833</u></u>

**SUBSEQUENT EVENTS**

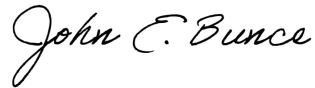
1. On January 27, 2020, the Company received a capital contribution from its parent, SHP, in the amount of \$5,000,000. This capital contribution was subsequently approved by the Bureau on April 18, 2020.
2. On November 10, 2020, the Bureau approved a capital contribution from SHP, the Company's parent, in the amount of \$10,000,000. The capital contribution was received from SHP on November 19, 2020.

**ACKNOWLEDGEMENT**

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, 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 E. Bunce".

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



Finance Department  
4417 Corporation Lane  
Virginia Beach, VA 23462  
757. 252.8000 (phone)  
757. 252.8030 (fax)

April 28, 2021

David H. Smith  
Chief Examiner  
Virginia Bureau of Insurance  
1300 East Main Street  
Richmond, VA 23219

David,

We acknowledge receipt of the draft report. We wish to express our appreciation to you and your staff for conducting an efficient and well-coordinated examination.

In terms of copies, if possible, we would like to receive 5 copies.

Thank You,

A handwritten signature in blue ink, appearing to read "Dennis Matheis".

Dennis Matheis  
President, Optima Health Insurance Company