

EXAMINATION REPORT
of
OPTIMA HEALTH INSURANCE COMPANY
Virginia Beach, 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
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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, 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 16th day of March 2018

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
December 8, 2017

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

Dear Commissioner:

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, 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 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, 2016, the Board and Officers were as follows:

Directors

Principal Occupation

David L. Bernd

Retired, Former Chief Executive Officer of
Sentara Healthcare
Norfolk, Virginia

<u>Directors</u>	<u>Principal Occupation</u>
Robert A. Broermann	Senior Vice President and Chief Financial Officer Sentara Healthcare Norfolk, Virginia
Robert L. Cramer	Retired, Part-time Management Consultant Norfolk, Virginia
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

Directors

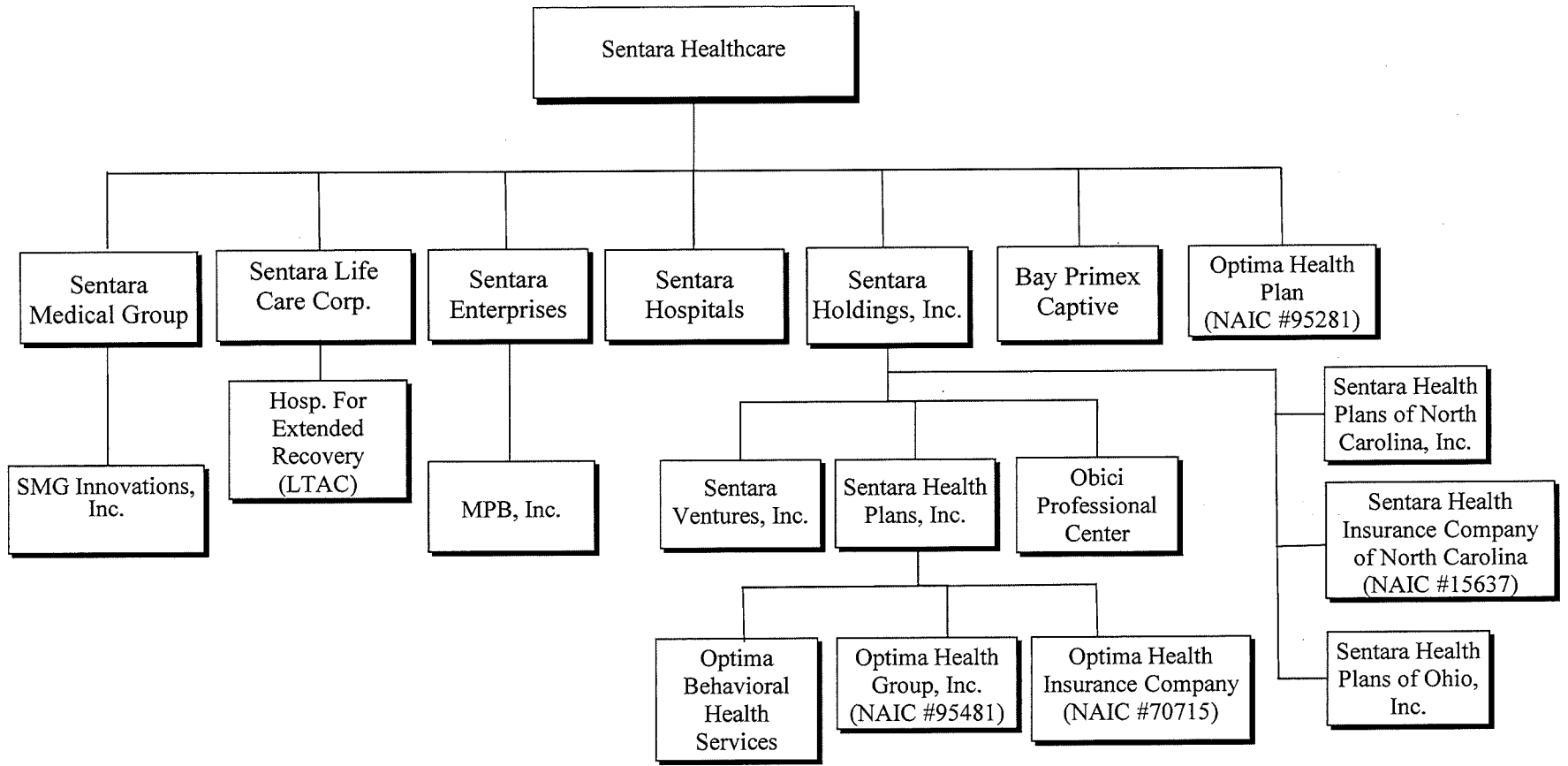
Ronald A. Stine, M.D.

Principal OccupationPhysician
Norfolk, VirginiaOfficers

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

The Company's authorized capital is 5,000 shares of common stock with a par value of \$1,000 per share. At December 31, 2016, 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, 2016.



TRANSACTIONS WITH AFFILIATES

Administrative Services and Marketing Agreement

At December 31, 2016 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 \$6,873,347 in 2016, \$11,655,348 in 2015 and \$19,266,184 in 2014 for services pursuant 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 Company 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 Company paid OBHS \$62,217 in 2016. Prior to 2016, the Company paid OBHS a higher fixed rate per member per month to cover both the administrative costs and medical costs. The Company paid OBHS \$1,000,509 in 2015 and \$1,943,754 in 2014 in capitation expenses pursuant to this agreement.

Tax Allocation Agreement

At December 31, 2016, the Company participates in a tax allocation agreement with its affiliates. Pursuant to this agreement a consolidated federal income tax return is filed. The provisions from the tax allocation agreement met the requirements from the NAIC Examiners Handbook, including, but not limited to a) having a written agreement approved by the board of directors, b) balances are settled within a reasonable time and c) the agreement complies with IRS regulations.

Provider Agreements

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

Capital Contributions

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

On February 24, 2015, the Company submitted a Form D filing to the Bureau requesting approval of a capital contribution of \$5,000,000 from its parent, SHP. On March 4, 2015, the Bureau approved this transaction and the funds were infused into the Company.

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, 2016, 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, 2016. The data is compiled from the Company's filed Annual Statements, previous examination reports, and the current examination report.

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Unassigned Funds</u>	<u>Premiums</u>	<u>Net Income/ (Loss)</u>
2007	\$37,930,667	\$13,466,546	\$27,000,000	(\$2,535,879)	\$ 89,830,090	\$ 2,751,489
2008	43,699,624	21,413,966	27,000,000	(4,714,342)	119,888,870	383,809
2009	46,241,299	23,213,873	27,000,000	(3,972,574)	155,142,411	1,412,602
2010	58,920,319	33,407,573	42,000,000	(16,487,254)	185,568,455	(12,356,775)
2011	65,352,346	38,231,862	57,000,000	(29,879,516)	215,574,677	(14,910,912)
2012	41,258,190	15,988,434	57,000,000	(31,730,244)	93,632,444	(4,488,158)
2013	36,016,155	17,810,534	57,000,000	(38,794,379)	113,443,307	(6,003,728)
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)

EXCESS LOSS INSURANCE

At December 31, 2016, 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 and Aggregate Medical Stop Loss Quota Share Reinsurance Agreement with Navigators Insurance Company ("Navigators"). 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 Navigators 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 Navigators) per covered person per policy year. For the second layer, Navigators shall be responsible for 100% of all eligible expenses in excess of \$2,000,000 with no maximum limit. The Company currently retains 100% of the risk in excess of the aggregate self-insured retention so the agreement does not currently provide any aggregate stop loss coverage.

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	\$18,456,112		\$18,456,112
Common stocks	1,720,683		1,720,683
Cash and short-term investments	<u>4,881,482</u>		<u>4,881,482</u>
Subtotals, cash and invested assets	\$25,058,277	\$0	\$25,058,277
Investment income due and accrued	76,865		76,865
Uncollected premiums and agents' balances in the course of collection	1,480,114		1,480,114
Electronic data processing equipment and software	34,390		34,390
Furniture and equipment, including health care delivery assets	66,806	66,806	0
Receivables from parents, subsidiaries and affiliates	508,296		508,296
Health care and other receivables	347,113	94,777	252,336
Aggregate write-ins for other than invested assets	<u>1,442,269</u>	<u>71,890</u>	<u>1,370,379</u>
Total assets	<u><u>\$29,014,130</u></u>	<u><u>\$233,473</u></u>	<u><u>\$28,780,657</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$5,666,690	\$112,038	\$5,778,728
Accrued medical incentive pool and bonus amounts			0
Unpaid claim adjustment expenses		37,176	37,176
Aggregate health claim reserves	91,363	1,806	93,169
Premiums received in advance	1,555,155		1,555,155
Amounts due to parent, subsidiaries and affiliates	1,601,902		1,601,902
Payable for securities	1,136,117		1,136,117
Aggregate write-ins for other liabilities	<u>2,449,651</u>		<u>2,449,651</u>
 Total liabilities	 <u>\$12,500,878</u>	 <u>\$151,020</u>	 <u>\$12,651,898</u>
 Common capital stock			 \$1,040,000
Gross paid in and contributed surplus			78,960,000
Aggregate write-ins for other than special surplus funds			(2,391,528)
Unassigned funds (surplus)			<u>(61,479,713)</u>
 Total capital and surplus			 <u>\$16,128,759</u>
 Total liabilities, capital and surplus			 <u><u>\$28,780,657</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$51,478,396
Aggregate write-ins for other health care related revenues	<u>XXX</u>	<u>169,381</u>
Total revenues	<u>XXX</u>	<u>\$51,647,777</u>
Hospital and Medical:		
Hospital/medical benefits	\$824,639	\$37,124,887
Emergency room and out-of-area	47,906	1,389,652
Prescription drugs		5,972,559
Aggregate write-ins for other hospital and medical		404,994
Incentive pool, withhold adjustments and bonus amounts		<u>112,221</u>
Total hospital and medical	<u>\$872,545</u>	<u>\$45,004,313</u>
Claims adjustment expenses	684,362	684,362
General administrative expenses	<u>7,651,921</u>	<u>7,707,396</u>
Total underwriting deductions	<u>\$9,208,828</u>	<u>\$53,396,071</u>
Net underwriting (loss)	<u>XXX</u>	<u>(\$1,748,294)</u>
Net investment income earned		\$231,470
Net realized capital gains		<u>18,027</u>
Net investment gains		<u>\$249,497</u>
Net income before federal income taxes	XXX	(\$1,498,797)
Federal income taxes incurred	<u>XXX</u>	<u>(11,594)</u>
Net (loss)	<u>XXX</u>	<u>(\$1,487,203)</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital and surplus prior reporting year	<u>\$18,205,621</u>	<u>\$15,021,091</u>	<u>\$17,387,796</u>
Net income or (loss)	(\$14,483,580)	(\$1,471,478)	(\$1,487,203)
Change in net unrealized capital gains (losses)	(400,694)	(9,938)	96,302
Change in net deferred income tax	(217,000)	(5,000)	53,000
Change in nonadmitted assets	204,505	175,815	21,984
Paid in	12,000,000	5,000,000	6,000,000
Transferred from capital			(6,000,000)
Aggregate write-ins for gains or (losses) in surplus	<u>(287,762)</u>	<u>(1,322,694)</u>	<u>56,880</u>
Net change in capital and surplus	<u>(\$3,184,531)</u>	<u>\$2,366,705</u>	<u>(\$1,259,037)</u>
Capital and surplus end of reporting year	<u><u>\$15,021,091</u></u>	<u><u>\$17,387,796</u></u>	<u><u>\$16,128,759</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$50,902,854
Net investment income	362,289
Miscellaneous income	169,381
Total	<u>\$51,434,524</u>
Benefit and loss related payments	\$45,531,970
Commissions, expenses paid and aggregate write-ins for deductions	8,403,553
Federal income taxes (recovered)	(64,594)
Total	<u>\$53,870,929</u>
Net cash from operations	<u>(\$2,436,405)</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$23,764,729
Miscellaneous proceeds	1,136,117
Total investment proceeds	<u>\$24,900,846</u>
Cost of investments acquired (long-term only):	
Bonds	\$24,354,206
Stocks	35,079
Miscellaneous applications	61,361
Total investments acquired	<u>\$24,450,646</u>
Net cash from investments	<u>\$450,198</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	<u>\$177,264</u>
Net cash from financing and miscellaneous sources	<u>\$177,264</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

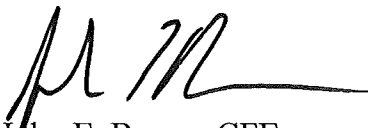
Net change in cash and short-term investments	(\$1,808,943)
Cash and short-term investments:	
Beginning of the year	<u>6,690,425</u>
End of the year	<u><u>\$4,881,482</u></u>

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, Jack Drean, CFE, Kevin Knight, CFE, Hai Nguyen and Michael Peterson participated in the work of the examination.

Respectfully submitted,

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

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

February 20, 2018

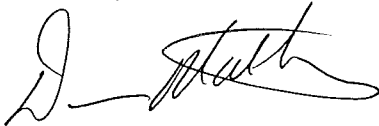
Mr. David Smith
Chief Examiner
Virginia Bureau of Insurance
P. O. Box 1157
Richmond, Virginia 23218

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