

**EXAMINATION REPORT**  
**of**  
**OPTIMA HEALTH GROUP, INC.**  
**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 Group 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

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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 38.2-4315 of the Code of Virginia, an examination of the financial condition, records and affairs of

**OPTIMA HEALTH GROUP, INC.**

Virginia Beach, 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, 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 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 August 26, 1988. Effective September 1, 1988, the Corporation entered into an Agreement of Sale with the Receiver of Maxicare Virginia, L.P. The Agreement sold, conveyed, transferred, and delivered to the Corporation all rights, title, and interest in and to the assets of Maxicare, unless specifically excluded in the Agreement. The Corporation also assumed the future payments and performances of Maxicare's specified liabilities as of the effective date of the Agreement.

Effective April 19, 2004, the Corporation changed its name from Sentara Health Plans, Inc. to Optima Health Group, Inc.

### **CAPITAL AND SURPLUS**

At December 31, 2019, the Corporation's capital and surplus was \$2,440,793. According to the amended and restated Articles of Incorporation, the Corporation has the authority to issue 5,000 shares of common stock with no par value and a stated value of \$2 per share. As of December 31, 2019, 5,000 shares were outstanding, with gross paid in and contributed surplus of \$25,390,000 and unassigned funds of (\$22,959,207).

### **NET WORTH REQUIREMENT**

Section 38.2-4302 of the Code of Virginia states that an 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 three-month period ending December 31, 2019 was \$1,235, the Corporation's minimum net worth requirement at December 31, 2019 was \$600,000.

## MANAGEMENT AND CONTROL

The amended and restated bylaws of the Corporation provide that the affairs, property and funds of the Corporation shall be managed by the Board of Directors (the "Board"). The number of Directors shall not be less than three nor more than sixteen. Each Director may be re-elected upon expiration of their term. The bylaws state that one third of the Directors shall be elected by the shareholders at the annual meeting of the Corporation each year. Each group of electors shall be elected in the succeeding years over a three-year period.

The bylaws also provide for the creation of an Advisory Panel to advise the Board and officers of the Corporation on matters affecting members. The Advisory Panel shall consist of not less than five members with the number of members to be set by the Board. The President shall appoint the members to serve on the Advisory Panel. Members shall serve on the panel until they retire or are removed by the President. At least two of the members selected by the President shall advise the Board with respect to grievances filed by members.

The officers of the Corporation shall consist of a Chairman, a President, a Secretary, a Treasurer and such other officers with such duties as may be authorized and determined by the Board. Any person may hold more than one office, except for the offices of the President and the Secretary. The Chairman shall be selected from among the Board members. Each officer shall serve a one-year term or until their successors are duly elected and qualified. The officers of the Corporation shall be elected by the shareholders at its annual meeting.

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. Les Hall	Owner of Allfirst, LLC Suffolk, Virginia
George W. Hubbard,	Surgeon Norfolk, Virginia
M.D. Howard P. Kern	President and Chief Executive Office Sentra Healthcare Norfolk, Virginia

Dennis A. Matheis	President of Optima Health Norfolk, Virginia
Marc B. Sharp	Retired Corporate Executive/Consultant Sentara Healthcare Norfolk, Virginia
Jeffery O. Smith, EdD	Superintendent of Hampton City Schools Norfolk, Virginia
Ronald A. Stine, M.D.	Physician Norfolk, Virginia
Cathie J. Vick	Chief Development and GAO for the Virginia Port Authority Newport News, Virginia

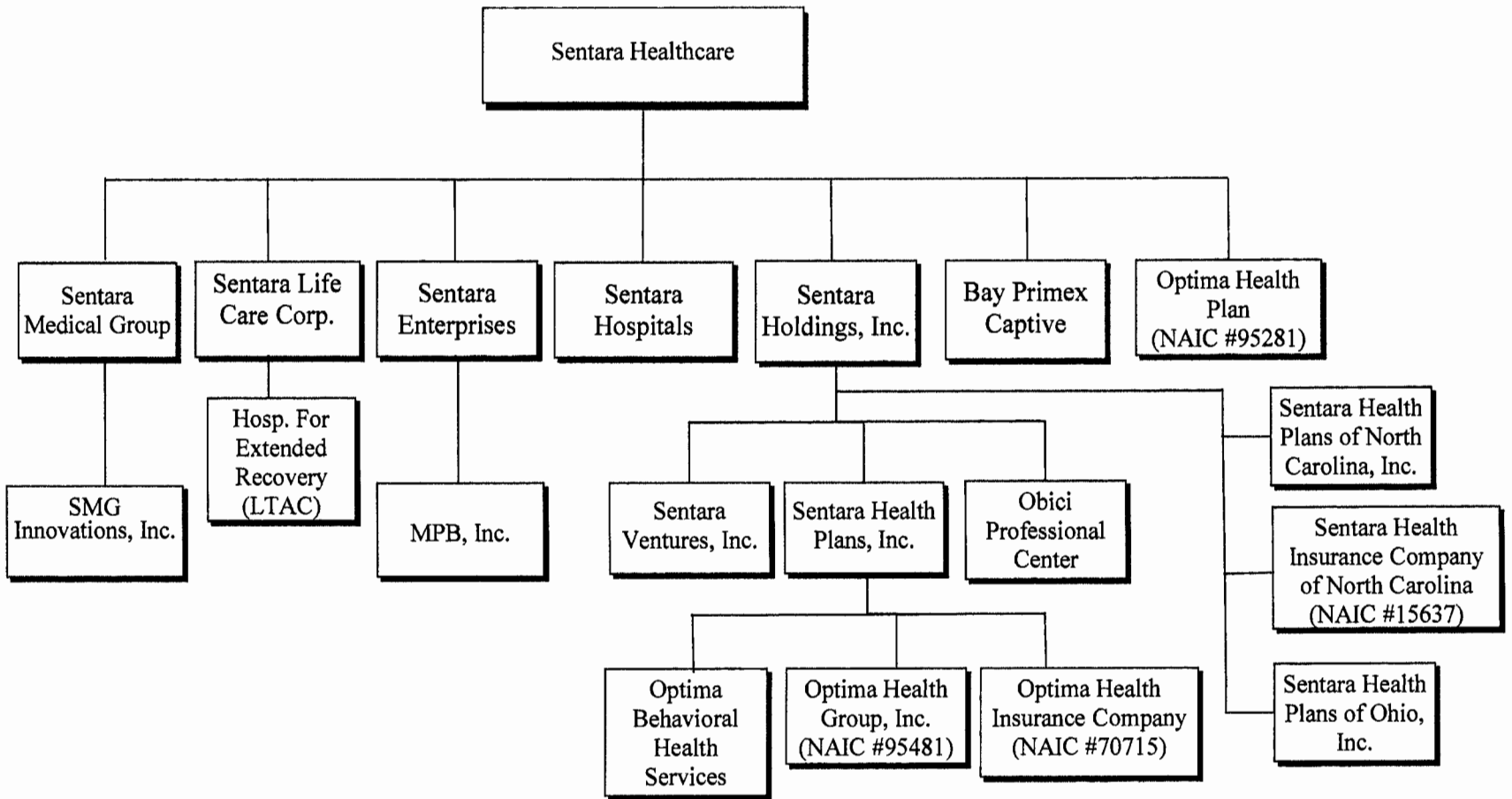
Officers

Robert C. Fort	Chairman of the Board
Dennis A. Matheis	President, CEO
Michael V. Genty	Secretary
Robert A. Broermann	Treasurer
Samuel J. Hawley	Assistant Secretary/Assistant Treasurer
John E. DeGruttola	Senior Vice President, Sales and Marketing
James A. Hilbert	Senior Vice President, CFO
Thomas G. Lundquist	Senior Vice President, CMO

**AFFILIATED COMPANIES**

As of December 31, 2019, the amended and restated Articles of Incorporation stated that the Corporation has the authority to issue 5,000 shares of common stock. As of December 31, 2019, the 5,000 issued shares are owned by Sentara Health Plans, Inc. ("SHP"), which is a wholly owned subsidiary of Sentara Holdings, Inc. ("SHI") which is a wholly owned subsidiary of Sentara Healthcare. ("SHC"). The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2019.





## **TRANSACTIONS WITH AFFILIATES**

### **Administrative Services and Marketing Agreement**

Effective April 1, 2005, the Corporation entered into 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 to fulfill the Corporation'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 Corporation 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. During 2019, the Corporation paid \$0 in administrative fees related to this agreement.

### **Tax Allocation Agreement**

Effective January 1, 2009, the Corporation entered into a Tax Allocation Agreement with and among SHI and its subsidiaries. The agreement establishes methods for allocating consolidated Federal income tax liability among the affiliates and for sharing the benefits that may be derived from filing a consolidated Federal income tax return. Under the terms of the agreement, the affiliates shall pay to SHI the amount of its tax cost or will receive from SHI the amount of its tax benefit to the extent that it reduces the group taxable income.

## Provider Agreements

The Corporation contracts with several subsidiaries of Sentara Healthcare to provide hospital, mental health physician services and other medical services to members.

### **TERRITORY AND PLAN OF OPERATION**

At December 31, 2019, the Corporation's service area, as reported in its 2019 Annual Statement, includes the cities of Norfolk, Virginia Beach, Portsmouth, Hampton, Suffolk, Newport News, Poquoson, Gloucester, Williamsburg, and Chesapeake and the counties of James City, Isle of Wight, York, Charles City, King William, Mathews, New Kent and Surry.

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

On February 6, 2007, the State Corporation Commission issued a consent order in which the Corporation agreed to not issue any new business in Virginia until further order of the Commission. The Corporation also agreed to continue to comply with the Bureau's financial and reporting requirements.

### **PROVIDER AGREEMENTS**

#### Medical Services

The Corporation 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 less any applicable copayments.

#### Hospital Care

The Corporation has entered into agreements with a number of hospitals in its service area to provide covered hospital services to members. The Corporation compensates participating hospitals on 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 Corporation 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, vision, and dental care. 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. Professional Services
2. Allergy Care
3. Hospital Services
4. Maternity Services
5. Family Planning and Infertility Services
6. Skilled Nursing Facility Care
7. Home Health Care Skilled Services
8. Orthopedic and Prosthetic Appliances
9. Ambulance Service
10. Emergency Services
11. Mental Health Services
12. Durable Medical Equipment

Exclusions generally include services or supplies that were not authorized or arranged by the member's PCP or the Corporation; 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 to correct refraction errors; school physicals; physical examinations for employment or insurance; and experimental medical, surgical or mental health care procedures or services. Other exclusions include treatment or drugs for smoking cessation; services and drugs in connection with obesity; routine foot care and foot orthotics; immunizations related to foreign travel or employment; coverage for a newborn or other child of a dependent child; hearing aids; eyeglasses or contact lenses or the fitting thereof and prescription drugs unless covered under a rider.

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

### GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2019. 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>Total Capital and Surplus</u>
2010	2,511,070	2,375	2,508,695
2011	2,139,722	248	2,139,474
2012	2,528,920	820	2,528,100
2013	2,531,452	1,219	2,530,233
2014	2,534,832	915	2,533,917
2015	2,210,855	823	2,210,032
2016	2,213,743	5,285	2,208,458
2017	2,224,599	4,337	2,220,262
2018	2,424,705	7,042	2,417,663
2019	2,452,650	11,857	2,440,793

<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 (Loss)</u>
2010	0	13,696	(18)	14,268	(554)
2011	0	7,680	(5,471)	9,285	3,866
2012	0	2,633	(46)	1,019	1,660
2013	0	5,257	0	1,411	3,846
2014	0	5,332	0	376	4,956
2015	0	4,462	0	231	4,231
2016	0	10,813	0	1,016	9,797
2017	0	15,854	0	(655)	16,509
2018	0	32,473	0	1,489	30,984
2019	0	46,221	0	2,823	43,398

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

<u>Year</u>	<u>Number of Members</u>
2010	0
2011	0
2012	0
2013	0
2014	0
2015	0
2016	0
2017	0
2018	0
2019	0

#### **SPECIAL RESERVES AND DEPOSITS**

At December 31, 2019, the Bureau required the Corporation to maintain a \$300,000 minimum deposit with the Treasurer of Virginia.

**FINANCIAL STATEMENTS**

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

**ASSETS**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Cash and short-term investments	<u>\$2,452,107</u>	<u>                    </u>	<u>\$2,452,107</u>
Subtotals, cash and invested assets	\$2,452,107	\$0	\$2,452,107
Investment income due and accrued	<u>543</u>	<u>                    </u>	<u>543</u>
Total assets	<u><u>\$2,452,650</u></u>	<u><u>\$0</u></u>	<u><u>\$2,452,650</u></u>



**LIABILITIES, CAPITAL AND SURPLUS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Amounts due to parent, subsidiaries and affiliates	<u>\$0</u>	<u>\$11,857</u>	<u>\$11,857</u>
Total liabilities	<u>\$0</u>	<u>\$11,857</u>	<u>\$11,857</u>
Common capital stock			\$10,000
Gross paid in and contributed surplus			25,390,000
Unassigned funds (surplus)			<u>(22,959,207)</u>
Total capital and surplus			<u>\$2,440,793</u>
Total liabilities, capital and surplus			<u><u>\$2,452,650</u></u>

**STATEMENT OF REVENUE AND EXPENSES**

	<u>Uncovered</u>	<u>Total</u>
Net premium income	<u>XXX</u>	<u>\$0</u>
Total revenues	<u>XXX</u>	<u>\$0</u>
General administrative expenses	<u>\$2,823</u>	<u>\$2,823</u>
Total underwriting deductions	<u>\$2,823</u>	<u>\$2,823</u>
Net underwriting loss	<u>XXX</u>	<u>(\$2,823)</u>
Net investment income earned		<u>\$46,221</u>
Net investment gains		<u>\$46,221</u>
Net income before federal income taxes	XXX	\$43,398
Federal income taxes incurred	<u>XXX</u>	<u>9,034</u>
Net income	<u>XXX</u>	<u>\$34,364</u>

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and surplus prior reporting year	<u>\$2,208,458</u>	<u>\$2,220,262</u>	<u>\$2,417,663</u>
<b>GAINS AND LOSSES TO CAPITAL AND SURPLUS</b>			
Net income or (loss)	\$11,517	\$25,431	\$34,364
Change in new deferred income tax	(2,000)		(2,000)
Change in nonadmitted assets	2,000	1,000	1,000
Aggregate write-ins for gains or (losses) in surplus	<u>287</u>	<u>170,970</u>	<u>(10,234)</u>
Net change in capital and surplus	<u>\$11,804</u>	<u>\$197,401</u>	<u>\$23,130</u>
Capital and surplus end of reporting year	<u><u>\$2,220,262</u></u>	<u><u>\$2,417,663</u></u>	<u><u>\$2,440,793</u></u>

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

Net investment income	\$46,234
Total	<u>\$46,234</u>
Commissions, expenses paid and aggregate write-ins for deductions	\$2,823
Federal income taxes paid	9,034
Total	<u>\$11,857</u>
Net cash from operations	<u>\$34,377</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash provided	<u>(\$5,419)</u>
Net cash from financing and miscellaneous sources	<u>(\$5,419)</u>

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

Net change in cash and short-term investments	\$28,958
Cash and short-term investments:	
Beginning of the year	<u>2,423,146</u>
End of the year	<u><u>\$2,452,104</u></u>

**ACKNOWLEDGEMENT**

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, John Bunce, 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, appearing to read "C. Collins".

Chris Collins, CFE  
Senior Insurance Financial Analyst



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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 Group