

EXAMINATION REPORT
of
PIEDMONT COMMUNITY HEALTHCARE, INC.
Lynchburg, Virginia
as of
December 31, 2018

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 Piedmont Community Healthcare, Inc. as of December 31, 2018, 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 8th day of January 2020

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

Scott A. White
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

Scope of the Examination	1
History	2
Management and Control	2
Affiliated Companies	3
Transactions with Affiliates	5
Territory and Plan of Operation	7
Provider Agreements	7
Growth of the Corporation	8
Reinsurance	9
Special Reserves and Deposits	9
Financial Statements.....	10
Subsequent Events	16
Acknowledgement.....	16

Richmond, Virginia
October 23, 2019

Honorable Scott A. White
Commissioner of Insurance
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 records and affairs of

PIEDMONT COMMUNITY HEALTHCARE, INC.
Lynchburg, 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, 2015. This examination covers the three-year period from January 1, 2016 through December 31, 2018.

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 issued a certificate of incorporation by the Commission on September 26, 1997 and began operating as a health maintenance organization ("HMO") effective June 29, 1998. The Corporation operated as a HMO until December 19, 2007 when the Corporation received approval from the Bureau to convert to an accident and sickness insurer pursuant to Section 38.2-1016.1 of the Code of Virginia.

On January 1, 2015, Centra Health Inc. ("Centra Health"), through its wholly owned subsidiary, PCHP Holding, Inc., acquired Integrated HealthCare Inc.'s 50% ownership in Piedmont Community Health Plan, Inc. ("PCHP"). At December 31, 2018, the Corporation is a wholly owned subsidiary of PCHP.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the affairs of the Corporation shall be managed by a Board of Directors ("Board") which shall consist of not less than three members, nor more than fifteen members, who need not be stockholders. A majority of the Board shall constitute a quorum for the transaction of business.

The Board shall annually elect a Chairman, a Vice-Chairman, a President, and a Secretary. A Treasurer and such Vice Presidents and other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board. At December 31, 2018, the Board and Officers of the Corporation were as follows:

<u>Directors</u>	<u>Principal Business Affiliation</u>
David D. Adams	Senior Vice President Centra Health, Inc. Lynchburg, Virginia
Lewis C. Addison	Retired Lynchburg, Virginia
Michael V. Bradford	Vice President of Institutional Advancement Central Virginia Community College Lynchburg, Virginia
David R. Cannon, M.D.	Physician Lynchburg, Virginia

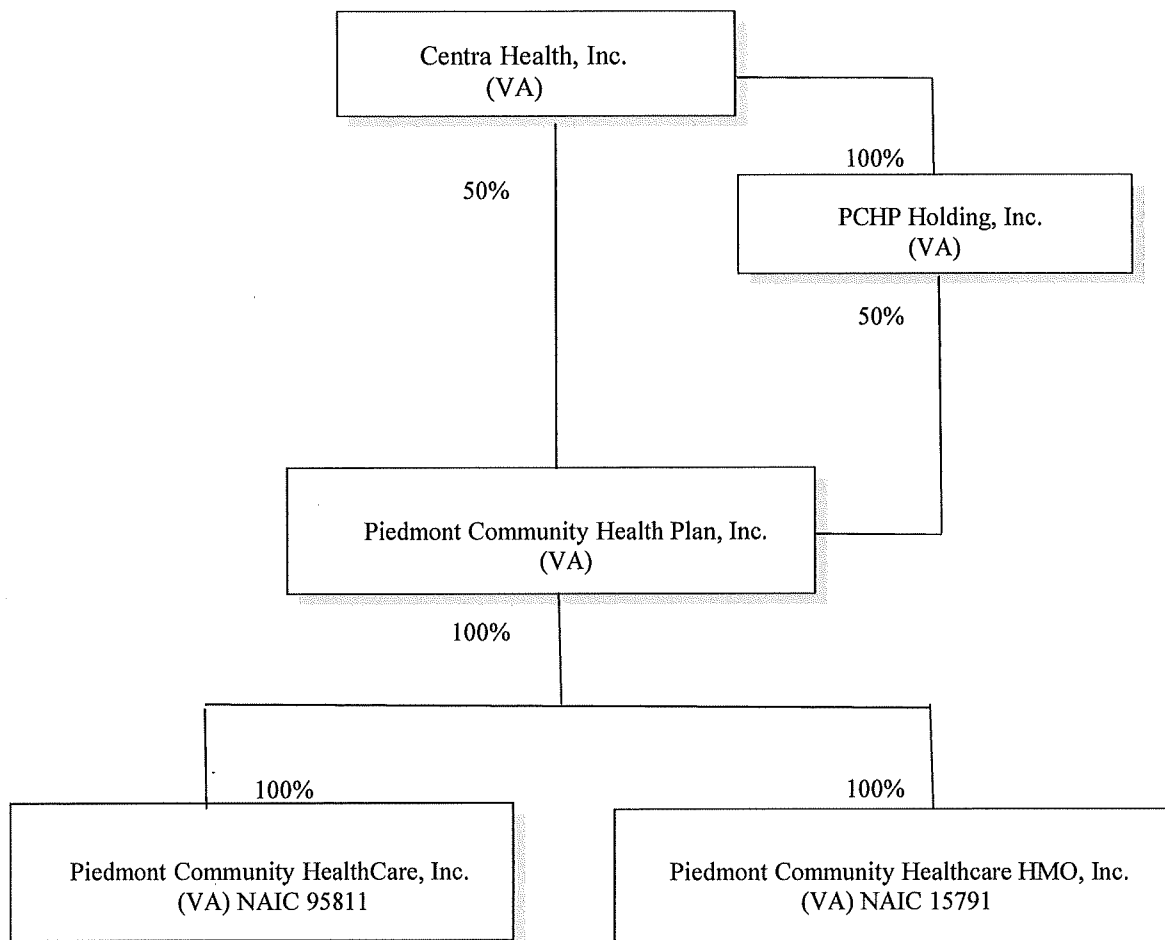
Lewis P. Dabney, M.D.	Physician Lynchburg, Virginia
Michael I. Elliott	Senior Vice President Centra Health, Inc. Lynchburg, Virginia
Hylan T. Hubbard, III	Retired Lynchburg, Virginia
Morris E. McCrary, III, M.D.	Physician Lynchburg, Virginia
Richard C. Morris, M.D.	Physician Lynchburg, Virginia
John R. Prahinski, M.D.	Physician Lynchburg, Virginia
George R. Zippel	Retired Lynchburg, Virginia

Officers

Lewis C. Addison	Chairman of the Board
Richard J. Tugman	President and Chief Executive Officer
David D. Adams	Vice-Chairman and Secretary
Ryan K. Ziemann	Treasurer

AFFILIATED COMPANIES

The Corporation is a wholly owned subsidiary of PCHP. PCHP is owned equally by PCHP Holding Inc., a holding company domiciled in Virginia, and Centra Health, a not-for-profit corporation consisting primarily of four acute care hospitals, a multi-specialty physician practice, a long-term care hospital, four nursing homes, a continuing care retirement community, and a residential adolescent psychiatric facility. Centra Health owns 100% of PCHP Holding, Inc. By virtue of this ownership, the Corporation is a member of an insurance company holding system as defined in Section 38.2-1322 of the Code of Virginia. The chart on the following page illustrates the organizational structure of the Corporation and its affiliated entities at December 31, 2018.



TRANSACTIONS WITH AFFILIATES

Management Services Agreement

Effective January 1, 2011, the Corporation entered into a Management Services Agreement with PCHP. According to the agreement, PCHP shall provide or arrange for all administrative and management services including, but not limited to, the following:

- a. Development of provider network agreements and implementation of a medical delivery system. Providing an annual report to the board of the results under the Credentialing Program.
- b. Development and implementation of utilization review and quality assurance programs.
- c. Development and filing of all forms, benefit plans, rates, contracts and other documents necessary to sell the Corporation's products.
- d. Management of the Corporation's assets and liabilities including cash disbursement authority and accounting and reporting of financial results.
- e. Providing data processing services and claims administration services including customer service, claims processing, member eligibility, reporting and related services.
- f. Marketing of the Corporation's products.
- g. Providing underwriting and actuarial services.
- h. Arranging for legal services as necessary.
- i. Provision of the following insurance coverages for the Corporation: professional liability, fidelity bond, errors and omissions and general liability insurance.
- j. Communicating with Centers for Medicare and Medicaid Services ("CMS") as required.
- k. Administering Appeals and Grievance Program in compliance with Virginia and Federal laws.
- l. Reporting to the board on administrative and management activities.

As compensation for administrative and management services, the Corporation shall pay PCHP 10% of premiums received, net of commissions, for commercial customers and 8% of premiums received, net of commissions, for Medicare Advantage customers, no later than 30 days after the end of each calendar quarter. In 2018, the Corporation paid \$6,512,022 in fees related to this agreement.

Network Services Agreement

Effective April 1, 2016, the Corporation entered into a Network Services Agreement with PCHP whereby PCHP will provide the Corporation access to its provider network in exchange for including these providers in the Corporation's network of participating

providers. The network provided by PCHP includes participating physicians, hospitals and other health professionals and facilities. Participating providers are compensated on a fee-for-service basis based on the lesser of billed charges or established fee schedules minus any applicable copayments.

Capital Maintenance Agreement

Effective January 1, 2016, the Corporation entered into a Capital Maintenance Agreement with Centra Health. During the term of this agreement, Centra Health agrees to maintain the capital level of the Corporation in an amount greater than three hundred percent of the Authorized Control Level RBC subject to the following terms: (i) the capital contributions required by this agreement may be made by Centra Health directly to the Corporation, (ii) the capital contributions required by this agreement shall be made at least quarterly based on the financial results for the Corporation in the preceding quarter, or more frequently if necessary to comply with statutory, regulatory or accounting requirements; and (iii) if the RBC report for the Corporation prepared at the end of any year during the term of this agreement indicates a capital level less than or equal to the 300% of RBC, then Centra Health, before the Corporation's annual statement date, shall make a capital contribution to the Corporation in an amount sufficient to increase the capital in the Corporation to an amount greater than the 300% of RBC.

This agreement shall terminate with the termination of the Corporation's operation as an insurance company and the satisfaction of all fixed or contingent policy obligations or the mutual agreement of the Corporation and Centra Health and the prior written consent of the Bureau.

Tax Sharing Agreement

Effective January 1, 2017, the Corporation entered into an amended and restated Tax Sharing Agreement with PCHP and Piedmont Community Healthcare HMO, Inc. ("PCHC"). Pursuant to the agreement, the Corporation, PCHP and PCHC are members of an affiliated group in order to file a consolidated federal tax return for any taxable period for which the affiliated group is permitted or required to file such a return. Each member of the affiliated group agrees to pay the amount, if any, of the consolidated federal income tax liability attributable to the member. Any amounts owed to the affiliated group shall be paid no later than thirty days after the filing of the consolidated federal tax return.

Capital Contributions

Pursuant to SSAP No. 72, capital contribution receivables approved by the Bureau and satisfied by receipt of cash prior to the filing of the statutory financial statements shall be treated as Type I subsequent event and shall be considered admitted assets and reported as paid-in capital in the filed financial statements.

The Corporation received a capital contribution of \$3,200,000 in February 2016 that was reported as an admitted asset and paid-in capital at December 31, 2015 pursuant to SSAP No. 72. The Corporation received a capital contribution of \$4,475,000 in February 2017 that was reported as an admitted asset and paid-in capital at December 31, 2016 pursuant to SSAP No. 72. In addition, the Corporation received capital contributions of \$974,194 in February 2017, \$325,000 in May 2017 and \$3,800,000 in November 2017. The Corporation received a capital contribution of \$3,500,000 in February 2018 that was reported as an admitted asset and paid-in capital at December 31, 2017 pursuant to SSAP No. 72. In addition, the Corporation received capital contributions of \$3,000,000 in August 2018 and \$1,200,000 in November 2018. All capital contributions were from PCHP.

TERRITORY AND PLAN OF OPERATION

At December 31, 2018, the Corporation was authorized to transact the business of accident and sickness insurance in the Commonwealth of Virginia and is an approved Managed Care Health Insurance Plan.

The Corporation markets preferred provider organization ("PPO") products for which members receive covered services from either participating or non-participating providers. Members are not required to select a primary care physician. A member who receives covered services from non-participating providers is subject to a reduced level of benefits.

Marketing of these products is directed toward employer groups that qualify for large group insurance coverage. The PPO products are also offered under the Corporation's Medicare Advantage contract with The Centers for Medicare & Medicaid Services ("CMS"). The Corporation's marketing effort is primarily accomplished through the use of independent agents.

PROVIDER AGREEMENTS

The Corporation contracts with PCHP via the Network Services Agreement to receive access to contractual discounted rates with health care providers. Through this agreement all providers are reimbursed on a discounted fee for service basis.

Commercial Hospital Care

Most claims are paid on a percent of charge discount, with a small number of services reimbursed at per-diem or case rates.

Commercial Professional Claims

Providers are reimbursed almost exclusively based off a fee schedule with a lesser of billed or scheduled charges.

Medicare Advantage All Claims

Providers are reimbursed at 100% of the Medicare Advantage allowable amount.

GROWTH OF THE CORPORATION

The following data represents the growth of the Corporation for the ten-year period ending December 31, 2018. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Total Capital and Surplus</u>
2009	\$17,187,686	\$11,155,020	\$6,032,666
2010	13,881,038	7,634,060	6,246,978
2011	14,054,510	7,785,049	6,269,461
2012	15,422,871	9,065,970	6,356,901
2013	16,613,525	9,141,050	7,472,475
2014	18,723,733	10,874,394	7,849,339
2015	26,676,653	15,948,029	10,728,624
2016	24,149,401	12,616,385	11,533,016
2017	25,062,813	12,427,043	12,635,770
2018	24,765,101	13,662,198	11,102,903

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Medical & Hospital Expenses *</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2009	\$46,621,403	\$29,751	\$40,321,197	\$6,327,052	\$2,905
2010	46,320,484	14,489	40,000,025	6,346,962	(12,014)
2011	44,779,458	8,607	38,787,678	5,976,864	23,523
2012	47,886,778	5,768	41,588,728	6,186,232	117,586
2013	57,768,773	5,825	50,484,665	6,952,939	336,994
2014	64,742,411	3,069	55,807,998	8,393,257	544,225
2015	84,654,883	9,031	73,607,783	11,855,305	(799,174)
2016	94,295,208	24,823	86,089,930	13,029,383	(4,799,282)
2017	94,398,626	99,827	89,546,353	11,193,007	(6,240,907)
2018	77,464,465	235,748	77,121,482	8,654,845	(8,076,114)

* Increase/ (decrease) in reserves were included in this category

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

<u>Year</u>	<u>Enrollment</u>
2009	13,161
2010	11,502
2011	10,536
2012	10,270
2013	11,395
2014	12,179
2015	14,701
2016	14,227
2017	12,355
2018	8,997

REINSURANCE

Effective September 1, 2018, the Corporation entered into a Reinsurance Agreement with Odyssey Reinsurance Company ("Odyssey"). For eligible services, the deductible is \$450,000 per member for each policy year. Once the deductible has been reached in a policy year, Odyssey will reimburse the Corporation 100% of all eligible expenses. The contract year maximum under this agreement shall not exceed \$5,000,000. The agreement includes a continuation of coverage endorsement in the event of the Corporation's insolvency.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2018, the Bureau required the Corporation to maintain a minimum deposit of \$300,000 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, 2018. No examination adjustments were made to the statutory financial statements filed by the Corporation with the Bureau for the period ending December 31, 2018.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Cash and short-term investments	\$17,154,856		\$17,154,856
Investment income due and accrued	56,935		56,935
Uncollected premiums and agents' balances in the course of collection	571,591	123,251	448,340
Accrued retrospective premiums	1,866,274		1,866,274
Amounts recoverable from reinsurers	24,718		24,718
Amounts receivable relating to uninsured plans	1,160,000		1,160,000
Guaranty funds receivable or on deposit	1,020,414		1,020,414
Health care and other amounts receivable	3,417,706	2,594,142	823,564
Capital contribution receivable	<u>2,210,000</u>		<u>2,210,000</u>
Total assets	<u>\$27,482,494</u>	<u>\$2,717,393</u>	<u>\$24,765,101</u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$8,275,295	\$666,526	\$8,941,821
Aggregate health policy reserves	1,600,000		1,600,000
Premiums received in advance	544,996		544,996
General expenses due or accrued		121,642	121,642
Amounts due to parent, subsidiaries and affiliates	<u>2,453,739</u>		<u>2,453,739</u>
 Total liabilities	 <u>\$12,874,030</u>	 <u>\$788,168</u>	 <u>\$13,662,198</u>
 Common capital stock			\$1,000,000
Gross paid in and contributed surplus			29,204,240
Unassigned funds (surplus)			<u>(19,101,337)</u>
 Total capital and surplus			 <u>\$11,102,903</u>
 Total liabilities, capital and surplus			 <u><u>\$24,765,101</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$77,464,465
Total revenues	XXX	\$77,464,465
Hospital and Medical		
Hospital/medical benefits	\$2,401,683	\$29,399,567
Other professional services	2,242,894	33,084,526
Emergency room and out-of-area	214,743	2,706,445
Prescription drugs		11,953,130
Subtotal	\$4,859,320	\$77,143,668
Less:		
Net reinsurance recoveries		422,186
Total hospital and medical	\$4,859,320	\$76,721,482
General administrative expenses	8,654,845	8,654,845
Increase in reserves for life and accident and health contracts		400,000
Total underwriting deductions	\$13,514,165	\$85,776,327
Net underwriting loss	XXX	(\$8,311,862)
Net investment income earned		\$235,748
Net investment gains		\$235,748
Net loss	XXX	(\$8,076,114)

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and surplus prior reporting year	<u>\$10,728,624</u>	<u>\$11,533,016</u>	<u>\$12,635,770</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income (loss)	(\$4,799,282)	(\$6,240,907)	(\$8,076,114)
Change in net deferred income tax	(266,653)	0	0
Change in nonadmitted assets	(1,014,887)	(1,255,533)	133,247
Surplus adjustments:			
Paid in	4,475,000	8,599,194	6,410,000
Aggregate write-ins for gains or (losses) in surplus	<u>2,410,214</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>\$804,392</u>	<u>\$1,102,754</u>	<u>(\$1,532,867)</u>
Capital and surplus end of reporting year	<u><u>\$11,533,016</u></u>	<u><u>\$12,635,770</u></u>	<u><u>\$11,102,903</u></u>

CASH FLOW**CASH FROM OPERATIONS**

Premiums collected net of reinsurance	\$81,810,448
Net investment income	192,278
Total	<u>\$82,002,726</u>
Benefit and loss related payments	\$74,406,147
Commissions, expenses paid and aggregate write-ins for deductions	12,532,220
Total	<u>\$86,938,367</u>
Net cash from operations	<u>(\$4,935,641)</u>

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided (applied):	
Capital and paid in surplus, less treasury stock	\$7,700,000
Other cash provided	1,539,876
Net cash from financing and miscellaneous sources	<u>\$9,239,876</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$4,304,235
Cash and short-term investments:	
Beginning of the year	12,850,621
End of the year	<u>\$17,154,856</u>

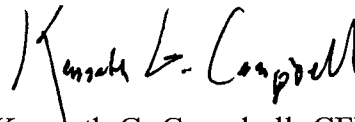
SUBSEQUENT EVENTS

1. The Corporation received a capital contribution of \$2,210,000 in February 2019 that was reported as an admitted asset and paid-in capital at December 31, 2018 pursuant to SSAP No. 72. In addition, the Corporation received capital contributions of \$2,600,000 in May 2019 and \$1,600,000 in August 2019. All capital contributions were from PCHP.
2. Effective October 1, 2019, the Corporation entered into Novation Agreement with United HealthCare Insurance Company of the River Valley (UHRV), an Illinois Company, whereby the Corporation agreed to sell its Medicare Advantage business to UHRV. The novation was approved by CMS effective October 1, 2019. Between October 1, 2019 and December 31, 2019, the Corporation will continue to operate the Medicare Advantage plan, on behalf of and as a service provider to UHRV. During January 2020, most operations will transition to UHRV.

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, Gerald Hicks and Ben MacKercher, AFE, participated in the work of the examination.

Respectfully submitted,



Kenneth G. Campbell, CFE
Assistant Chief Examiner



PIEDMONT COMMUNITY HEALTH PLAN

2316 Atherholt Road, Lynchburg, VA 24501

(434) 947-4463 1-800-400-PCHP

Fax (434) 947-3670

STATE CORP COMMISSION
BUREAU OF INSURANCE

19 DEC 9 AM 9:40

December 4, 2019

David H. Smith, CFE, CPA, CPCU
Chief Examiner
Bureau of Insurance
1300 E. Main Street
Richmond, VA 23219

Re: Piedmont Community Healthcare HMO, Inc.
Piedmont Community HealthCare, Inc.
Examination Reports as of December 31, 2018

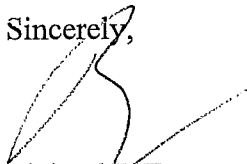
Dear Mr. Smith:

Thank you for your letter dated November 21, 2019 regarding Piedmont Community Healthcare HMO, Inc.'s and Piedmont Community HealthCare, Inc.'s Examination Reports as of December 31, 2018.

This is acknowledgement of receipt of the Examination Report for review. We request five (5) copies of the final report for each Corporation.

Should you have any questions, please do not hesitate to contact me.

Sincerely,



Richard J. Tugman
President