

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

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 Piedmont Community Healthcare HMO, 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)

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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 HMO, 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 is a stock corporation and was issued a certificate of incorporation by the Commission on February 18, 2015 and is licensed as a health maintenance organization ("HMO") and a Managed Care Health Insurance Plan. According to its Articles of Incorporation, the purposes for which the Corporation is organized are to arrange, manage, and furnish health care services through providers who are under contract with or employed by the Corporation in its capacity as a licensed health maintenance organization and to engage in the transaction of any and all lawful business.

CAPITAL AND SURPLUS

At December 31, 2018, the Corporation's capital and surplus was \$19,197,808. Capital and surplus was comprised of common capital stock of \$600,000, gross paid in and contributed surplus of \$18,110,000 and unassigned funds of \$487,808. Piedmont Community Health Plan, Inc. ("PCHP") provided the initial capitalization of the Corporation in the amount of \$600,000. Gross paid in and contributed surplus was provided to the Corporation by PCHP and Centra Health, Inc. ("Centra Health").

CAPITAL AND SURPLUS 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 an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Section 38.2-4307.1 C states that a statement of covered and uncovered expenses shall not be required for any HMO that reports capital and surplus of at least \$4,500,000 on its most recent annual or quarterly financial statement. At December 31, 2018, the Corporation reported capital and surplus greater than \$4,500,000 and was not required to file a statement of covered and uncovered expenses.

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 President and any Secretary, Treasurer and such Vice-Presidents and other officers and assistant officers as may be deemed necessary. Any two or more offices may be held by the same person.

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
Richard J. Tugman
David D. Adams
Ryan K. Ziemann

Chairman of the Board
President and Chief Executive Officer
Vice-Chairman and Secretary
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 July 29, 2015, 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 and pharmacy 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 management and quality improvement 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 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 non-Medicare 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 \$17,314,968 in fees related to this agreement.

Network Services Agreement

Effective July 29, 2015, 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 February 28, 2018, the Corporation entered into an amended and restated 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 or through PCHP, (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 as an HMO 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, 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

The Corporation received capital contributions of \$300,000 from PCHP and \$3,000,000 from Centra Health in February 2017 and February 2018, respectively. It received capital contributions from Centra Health of \$9,500,000 in May 2018 and \$1,410,000 from PCHP in November 2018.

TERRITORY AND PLAN OF OPERATION

At December 31, 2018, the Corporation's service area included the cities of Danville, Lynchburg, Staunton and Waynesboro and the counties of Augusta, Amherst, Appomattox, Bedford, Buckingham, Campbell, Charlotte, Cumberland, Halifax, Lunenburg, Mecklenburg, Nelson, Nottoway, Pittsylvania and Prince Edward.

The Corporation offers both HMO and point of service (POS) products. A member is required to select a primary care physician ("PCP") from a directory of the Corporation's primary providers under the HMO product. A member must receive a formal referral from a PCP, or where applicable, from the Corporation before treatment is received from non-participating providers. Failure to obtain the referral will result in the services not being covered. Under the POS product, a member is required to select a PCP. POS members can receive covered services from either participating or non-participating providers without a referral from a PCP; however, these services are subject to a reduced level of benefits.

Marketing of these products varies by line of business. For the employer-driven plans, the Corporation employs both direct sales efforts and the use of brokers. For consumer-driven plans, the Corporation utilizes independent brokers and communicates directly to current and potential members via a combination of advertising vehicles including television, print, website, and internet.

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.

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.

Professional Claims

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

BENEFITS

The general benefits available to the Corporation's members when provided by PCPs, specialist physicians and other professional providers and approved by the Corporation are as follows:

1. Ambulance Services
2. Diagnostic Services
3. Doctor Visits and Services
4. Durable Medical Equipment and Supplies
5. Emergency and Urgent Care Services
6. Hearing Services
7. Home Health Care
8. Hospice Services
9. Hospital Services
10. Maternity Care
11. Mental/Behavioral Health Services
12. Radiation Therapy
13. Rehabilitative Services
14. Skilled Nursing Facilities
15. Vision Services

Exclusions generally include experimental medical and surgical procedures; private duty nurses; cosmetic surgery or procedures; dental services; acupuncture; infertility services; family planning; weight loss or weight control services; smoking cessation; supplies and devices for comfort and convenience; and custodial care. The above are general summaries of coverages and exclusions and are not intended to be all inclusive.

GROWTH OF THE CORPORATION

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

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Total Capital & Surplus</u>		
2015	\$4,614,099	\$112,705	\$4,501,394		
2016	4,627,214	1,441,303	3,185,911		
2017	8,815,045	5,108,400	3,706,645		
2018	36,258,845	17,061,037	19,197,808		

<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>
2015	\$0	\$1,490	\$0	\$96	\$1,394
2016	10,660,898	10,087	10,664,067	1,605,181	(1,598,263)
2017	17,731,332	21,486	16,965,059	2,717,975	(1,930,216)
2018	181,318,864	382,283	148,852,477	25,867,491	6,981,179

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

<u>Year</u>	<u>Number of Members</u>
2015	0
2016	2,401
2017	3,883
2018	19,917

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 \$1,500,000 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	\$27,217,232	\$0	\$27,217,232
Investment income due and accrued	67,291		67,291
Uncollected premiums and agents' balances in the course of collection	556,082	71,723	484,359
Accrued retrospective premiums	6,978,540		6,978,540
Amounts recoverable from reinsurers	68,622		68,622
Receivable from parent, subsidiaries and affiliates	69,558		69,558
Healthcare and other amounts receivable	<u>4,267,806</u>	<u>2,894,563</u>	<u>1,373,243</u>
Total assets	<u><u>\$39,225,131</u></u>	<u><u>\$2,966,286</u></u>	<u><u>\$36,258,845</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$14,976,751	\$545,148	\$15,521,899
Premiums received in advance	1,305,397		1,305,397
General expenses due and accrued	<u> </u>	<u>233,741</u>	<u>233,741</u>
Total liabilities	<u>\$16,282,148</u>	<u>\$778,889</u>	<u>\$17,061,037</u>
Common capital stock			\$600,000
Gross paid in and contributed surplus			18,110,000
Unassigned funds (surplus)			<u>487,808</u>
Total capital and surplus			<u>\$19,197,808</u>
Total liabilities, capital and surplus			<u><u>\$36,258,845</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	<u>XXX</u>	<u>\$181,318,864</u>
Total revenue	<u>XXX</u>	<u>\$181,318,864</u>
Hospital and Medical:		
Hospital/medical benefits	\$1,304,052	\$46,721,351
Other professional services	2,095,753	70,838,807
Emergency room and out-of-area	997,638	7,647,525
Prescription drugs	-	25,579,326
Subtotal	<u>\$4,397,443</u>	<u>\$150,787,009</u>
Less:		
Net reinsurance recoveries		<u>1,934,532</u>
Total hospital and medical	<u>\$4,397,443</u>	<u>\$148,852,477</u>
General administrative expenses	<u>25,867,491</u>	<u>25,867,491</u>
Total underwriting deductions	<u>\$30,264,934</u>	<u>\$174,719,968</u>
Net underwriting gain	<u>XXX</u>	<u>\$6,598,896</u>
Net investment income earned		<u>\$382,283</u>
Net investment gains		<u>\$382,283</u>
Net income	<u>XXX</u>	<u>\$6,981,179</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and surplus prior reporting year	<u>\$4,501,394</u>	<u>\$3,185,911</u>	<u>\$3,706,645</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net Income (loss)	(\$1,598,263)	(\$1,930,216)	\$6,981,179
Change in nonadmitted assets	(17,220)	(549,050)	(2,400,016)
Surplus adjustments:			
Paid in	<u>300,000</u>	<u>3,000,000</u>	<u>10,910,000</u>
Net change in capital and surplus	<u>(\$1,315,483)</u>	<u>\$520,734</u>	<u>\$15,491,163</u>
Capital and surplus end of reporting year	<u><u>\$3,185,911</u></u>	<u><u>\$3,706,645</u></u>	<u><u>\$19,197,808</u></u>

CASH FLOW**CASH FROM OPERATIONS**

Premiums collected net of reinsurance	\$171,928,278
Net investment income	316,709
Total	<u>\$172,244,987</u>
Benefit and loss related payments	\$138,377,947
Commissions, expenses paid and aggregate write-ins for deductions	25,118,050
Total	<u>\$163,495,997</u>
Net cash from operations	<u>\$8,748,990</u>

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided (applied):	
Capital and paid in surplus, less treasury stock	\$13,910,000
Other cash provided (applied)	4,060
Net cash from financing and miscellaneous sources	<u>\$13,914,060</u>

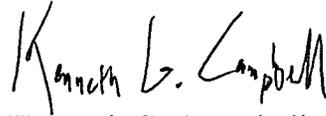
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$22,663,050
Cash and short-term investments:	
Beginning of the year	4,554,182
End of the year	<u><u>\$27,217,232</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, Gerald Hicks and Ben MacKercher, AFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial 'K'.

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

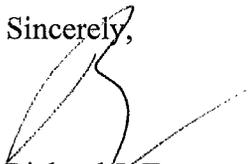
Dear Mr. Smith:

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