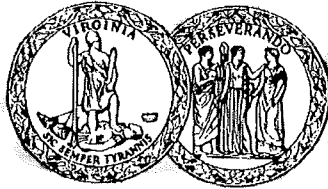


**EXAMINATION REPORT**  
**of**  
**Magellan Complete Care of Virginia, LLC**  
**Maryland Heights, Missouri**  
**as of**  
**December 31, 2018**

# 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](http://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 Magellan Complete Care of Virginia, LLC 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 13<sup>th</sup> day of September 2019

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**

**Capital and Surplus ..... 2**

**Capital and Surplus Requirement..... 2**

**Management and Control ..... 2**

**Affiliated Companies ..... 3**

**Transactions with Affiliates ..... 5**

**Territory and Plan of Operation ..... 6**

**Health Care Services Agreements ..... 6**

**Provider Agreements ..... 6**

**Benefits ..... 7**

**Growth of the Company ..... 7**

**Excess Loss Insurance ..... 8**

**Special Reserves and Deposits ..... 8**

**Financial Statements..... 9**

**Subsequent Event..... 15**

**Acknowledgement ..... 15**

Richmond, Virginia  
June 21, 2019

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

**MAGELLAN COMPLETE CARE OF VIRGINIA, LLC**

Maryland Heights, Missouri

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

**SCOPE OF THE EXAMINATION**

This is the first examination of the Company by representatives of the State Corporation Commission's Bureau of Insurance (Bureau). This examination covers the period from the date of initial licensing 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 Company's financial condition, assess corporate governance, identify current and prospective risks of the Company 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.

The 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 incorporated in the Commonwealth of Virginia as Magellan Complete Care of Virginia, Inc. effective May 29, 2015. It was converted to a limited liability company, Magellan Complete Care of Virginia, LLC, on February 4, 2016 and became licensed as a health maintenance organization (HMO) pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on December 5, 2016. At December 31, 2018, Magellan Healthcare, Inc. (Magellan Healthcare) is the sole member of the Company and Magellan Healthcare is a wholly owned subsidiary of Magellan Health, Inc. (Magellan), a publicly traded company.

### **CAPITAL AND SURPLUS**

At December 31, 2018, the Company's capital and surplus was \$61,226,151. Capital and surplus was comprised of Gross paid in and contributed surplus of \$115,000,361 and Unassigned funds of (\$53,774,210). Gross paid in and contributed surplus was provided to the Company by Magellan Healthcare.

### **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**

As of December 31, 2018, the Operating Agreement of the Company provides that Magellan Healthcare shall be the sole member and that the business and affairs of the Company will be managed by the Board of Managers (the Board). Magellan Healthcare shall elect as many managers to the Board as it deems sufficient. Magellan Healthcare may appoint one or more officers of the Company as it determines to be necessary.

At December 31, 2018, the Board and Officers were as follows:

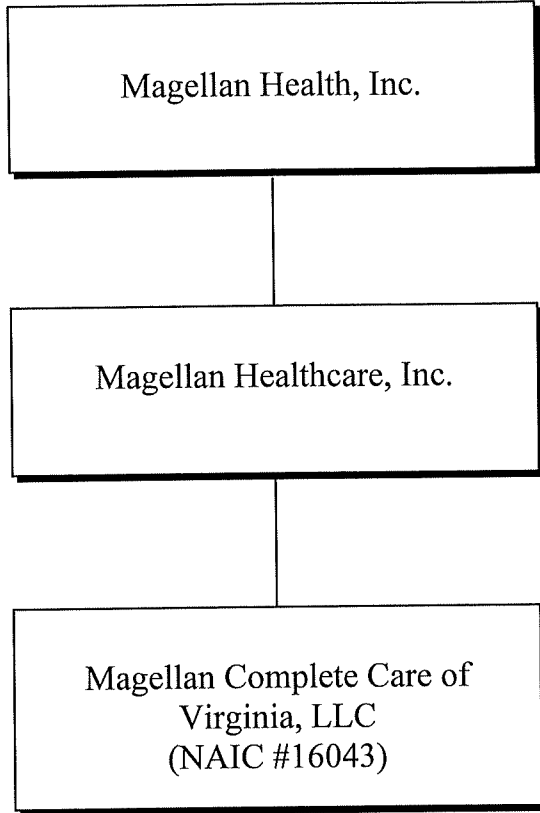
<u>Managers</u>	<u>Principal Occupation</u>
Brian D. Frey	Vice President, Treasury Magellan Health, Inc. Scottsdale, Arizona
Daniel N. Gregoire	General Counsel Magellan Health, Inc. Scottsdale, Arizona
Brandin Hay	Senior Legal Counsel Magellan Health, Inc. Scottsdale, Arizona
Jonathan N. Rubin	Chief Financial Officer Magellan Health, Inc. Scottsdale, Arizona
Jeffrey N. West	Senior Vice President, Controller Magellan Health, Inc. Scottsdale, Arizona

Officers

Kate Massey	Chief Executive Officer
John E. Littel	President
Michael D. Fotinos	Chief Financial Officer
Daniel N. Gregoire	Secretary
Jeffrey N. West	Treasurer

**AFFILIATED COMPANIES**

At December 31, 2018, Magellan Healthcare is the sole member of the Company. 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 following chart summarizes the Company's relationship within the holding company system:



## TRANSACTIONS WITH AFFILIATES

### Master Services Agreement

Effective January 1, 2017, the Company entered into a Master Services Agreement with Magellan. Pursuant to the provisions of the agreement, Magellan shall provide, itself or through one or more of its affiliates, administrative services to the Company. These services include accounting and financial services, compliance and appeals, claims management, enrollment and member services, facilities management, government relations, human resources, internal audit, information technology and infrastructure, legal, marketing, medical informatics and utilization management, regulatory compliance, provider network management and credentialing, and quality improvement and monitoring. As compensation for these services, the Company shall pay Magellan 5% of all capitation received by the Company. The Company incurred \$14,633,803 and \$3,687,904 in fees related to this agreement in 2018 and 2017, respectively.

### Tax Allocation Agreement

Effective January 1, 2017, the Company entered into a Tax Allocation Agreement with Magellan. The agreement establishes methods for allocating the consolidated federal income tax liability of the consolidated group among its members. The Company's federal income tax liability or refund is determined as if it was filing its own separate federal income tax return. If, at the end of any taxable year, the Company would have been entitled to a refund on a separate company basis then Magellan shall pay the amount of the refund to the Company. Conversely, if the Company has incurred a tax liability on a separate company basis it must pay Magellan the amount of such liability. Final settlement for a tax year shall be paid within 30 days after the execution of documents by Magellan representing a final agreement on such liabilities or refunds.

### Capital Contributions

The Company received a capital contribution from Magellan Healthcare of \$4,400,000 in October 2016. It received capital contributions from Magellan Healthcare of \$10,000,000 in September 2017 and \$9,596,033 in December 2017. The Company received capital contributions of \$25,000,000, \$23,000,000, \$9,500,000 and \$33,504,327 in March 2018, June 2018, September 2018 and December 2018, respectively, from Magellan Healthcare.



## **TERRITORY AND PLAN OF OPERATION**

At December 31, 2018, the Company's service area included the entire state of Virginia. Physician services are provided by physicians in independent practice in the Corporation's service area. Each member selects a Primary Care Physician (PCP) from the list of the Company's primary providers. The PCP is the coordinator for all of the member's health care needs. All specialty services, hospital admissions and outpatient surgery require a prior written referral (except in emergencies) from a PCP.

## **HEALTH CARE SERVICES AGREEMENTS**

At December 31, 2018, the Company had entered into a Medallion 4.0 Contract to provide managed care services for Medicaid and Family Access to Medical Security Insurance ("FAMIS") with the Virginia Department of Medical Assistance Services ("DMAS"). Pursuant to the contract, the Company is responsible for directly providing, arranging, purchasing, or otherwise making available the full scope of services to which enrollees are entitled under the respective programs. As compensation for these services, DMAS pays the Company a monthly capitation fee based on each enrollees number, age, and sex.

Additionally, at December 31, 2018, the Company had entered into a contract with DMAS to provide services under the Commonwealth Coordinated Care Plus Program established by the Commonwealth of Virginia. The program pays capitated fees to the Company to provide managed care services to Virginia residents who are eligible for both Medicare and Medicaid services.

## **PROVIDER AGREEMENTS**

### **Medical Services**

The Company has entered into agreements with numerous PCPs and specialist physicians to render, provide or arrange for the provision of covered health care services to members. The Company compensates physicians either on a capitated basis or a fee-for-service arrangement. Specialist physicians are compensated on a fee-for-service basis in accordance with the Company's fee schedule for the particular covered service.

### **Hospital Care**

The Company has entered into agreements with a number of hospitals in its service area to provide covered hospital services to its members. Charges for services rendered are in accordance with compensation schedules attached to each individual agreement.

### Other Health Care Services

The Company has entered into various ancillary service agreements. These agreements provide home health care services, pharmacy services, laboratory services, durable medical equipment and other related covered health care services. Compensation is based on arrangements set forth in each agreement.

### BENEFITS

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

1. Physician Services
2. Preventive Care
3. Inpatient/Outpatient Hospital Services
4. Diagnostic, Imaging and Lab Services
5. Vision and Hearing Services
6. Skilled Nursing Facility Services
7. Rehabilitation Services
8. Transportation Services
9. Emergency Services
10. Mental Health Services
11. Addiction, Recovery and Treatment Services
12. Family Planning Services
13. Home Health Services
14. Pharmacy Services
15. Hospice Services
16. Durable Medical Equipment and Supplies

Exclusions generally include any services considered not medically necessary; experimental or investigational procedures, drugs not proven effective; cosmetic treatment or surgery; daycare; dentures; acupuncture; and care outside of the United States. The above are general summaries of coverages and exclusions and are not intended to be all inclusive.

### GROWTH OF THE COMPANY

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

<u>Year</u>	Total Admitted <u>Assets</u>	Total <u>Liabilities</u>	Total Capital & <u>Surplus</u>
2016	\$4,401,682	\$2,825	\$4,398,857
2017	45,501,620	32,597,700	12,903,920
2018	149,892,292	88,666,141	61,226,151

<u>Year</u>	Total <u>Revenue</u>	Net Investment <u>Gains</u>	Medical & Hospital <u>Expenses</u>	Administrative <u>Expenses</u>	Pre-Tax Income <u>(Loss)</u>
2016	\$0	\$1,067	\$0	\$2,825	(\$1,758)
2017	73,758,086	47,703	74,632,128	13,205,312	(14,031,651)
2018	473,183,893	1,270,193	477,161,412	48,986,791	(51,694,117)

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

<u>Year</u>	<u>Number of Members</u>
2016	0
2017	13,705
2018	53,754

### **EXCESS LOSS INSURANCE**

Effective August 1, 2018, the Company entered into a Managed Care Excess Loss Insurance Policy with PartnerRe America Insurance Company (PartnerRe). For eligible expenses in each agreement year, the deductible is \$1,100,000 per member. Once the deductible has been reached in the agreement year, PartnerRe will reimburse the Company 90% of eligible expenses if the claim is received by PartnerRe by May 1, 2020. If the claim is received after October 1, 2018 PartnerRe will reimburse the Company 50% of eligible expenses up to a maximum of \$3,000,000 per member per agreement year.

### **SPECIAL RESERVES AND DEPOSITS**

At December 31, 2018, the Bureau required the Company to maintain a minimum deposit of \$575,000 with the Treasurer of Virginia.

**FINANCIAL STATEMENTS**

The following financial statements present the financial condition of the Company for the period ending December 31, 2018. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2018.

**ASSETS**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$13,722,679		\$13,722,679
Cash, cash equivalents and short-term investments	<u>88,624,091</u>	<u>                    </u>	<u>88,624,091</u>
Subtotals, cash and invested assets	\$102,346,770	\$0	\$102,346,770
Investment income due and accrued	234,005		234,005
Uncollected premiums and agents' balances in the course of collection	45,440,090		45,440,090
Current federal income tax recoverable	416,145		416,145
Aggregate write-ins for other than invested assets	<u>2,775,846</u>	<u>1,320,564</u>	<u>1,455,282</u>
Total assets	<u><u>\$151,212,856</u></u>	<u><u>\$1,320,564</u></u>	<u><u>\$149,892,292</u></u>

**LIABILITIES, CAPITAL AND SURPLUS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$77,050,235	\$0	\$77,050,235
Unpaid claims adjustment expenses	520,186		520,186
General expenses due or accrued	<u>                    </u>	<u>11,095,720</u>	<u>11,095,720</u>
Total liabilities	<u>\$77,570,421</u>	<u>\$11,095,720</u>	<u>\$88,666,141</u>
Gross paid in and contributed surplus			\$115,000,361
Unassigned funds (surplus)			<u>(53,774,210)</u>
Total capital and surplus			<u>\$61,226,151</u>
Total liabilities, capital and surplus			<u><u>\$149,892,292</u></u>

**STATEMENT OF REVENUE AND EXPENSES**

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$443,910,975
Aggregate write-ins for other health care related revenues	XXX	29,272,918
	<hr/>	<hr/>
Total revenues	XXX	\$473,183,893
	<hr/>	<hr/>
<b>Hospital and Medical</b>		
Hospital/medical benefits		\$241,900,947
Other professional services		190,301,983
Prescription drugs		44,958,482
		<hr/>
Total hospital and medical		\$477,161,412
Claims adjustment expenses	2,062,725	2,062,725
General administrative expenses	46,924,066	46,924,066
	<hr/>	<hr/>
Total underwriting deductions	\$48,986,791	\$526,148,203
	<hr/>	<hr/>
Net underwriting loss	XXX	(\$52,964,310)
	<hr/>	<hr/>
Net investment income earned		\$1,269,402
Net realized capital gains		791
		<hr/>
Net investment gains		\$1,270,193
		<hr/>
Net loss before federal income taxes	XXX	(\$51,694,117)
Federal income taxes incurred	XXX	(9,296,612)
	<hr/>	<hr/>
Net loss	XXX	(\$42,397,505)
	<hr/>	<hr/>

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and surplus prior reporting year	<u>\$0</u>	<u>\$4,398,857</u>	<u>\$12,903,920</u>
<b>GAINS AND LOSSES TO CAPITAL AND SURPLUS</b>			
Net income (loss)	(\$1,143)	(\$10,054,998)	(\$42,397,505)
Change in net deferred income tax			
Change in nonadmitted assets		(1,035,972)	(284,591)
Surplus adjustments:			
Paid in	<u>4,400,000</u>	<u>19,596,033</u>	<u>91,004,327</u>
Net change in capital and surplus	<u>\$4,398,857</u>	<u>\$8,505,063</u>	<u>\$48,322,231</u>
Capital and surplus end of reporting year	<u><u>\$4,398,857</u></u>	<u><u>\$12,903,920</u></u>	<u><u>\$61,226,151</u></u>



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

Premiums collected net of reinsurance	\$425,957,357
Net investment income	1,074,526
Miscellaneous income	30,557,205
Total	<u>\$457,589,088</u>
Benefit and loss related payments	\$431,996,227
Commissions, expenses paid and aggregate write-ins for deductions	38,368,126
Federal income taxes paid	(11,986,396)
Total	<u>\$458,377,957</u>
Net cash from operations	<u>(\$788,869)</u>

**Cash from Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$600,000
Net losses on cash, cash equivalents and short-term investments	(228,314,720)
Miscellaneous proceeds	228,315,511
Total investment proceeds	<u>\$600,791</u>
Cost of investments acquired:	
Bonds	\$6,205,231
Total investments acquired	<u>\$6,205,231</u>
Net cash from investments	<u>(\$5,604,440)</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided:	
Capital and paid in surplus	<u>\$91,004,327</u>
Net cash from financing and miscellaneous sources	<u>\$91,004,327</u>

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

Net change in cash and short-term investments	\$84,611,018
Cash, cash equivalents and short-term investments:	
Beginning of the year	<u>4,013,073</u>
End of the year	<u>\$88,624,091</u>

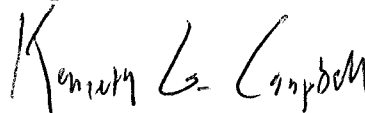
**SUBSEQUENT EVENT**

The Company received a capital contribution from Magellan Healthcare of \$11,000,000 in March 2019.

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

Respectfully submitted,

Handwritten signature of Kenneth G. Campbell in black ink.

Kenneth G. Campbell, CFE  
Assistant Chief Examiner

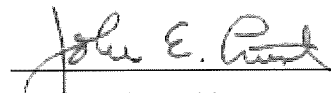


August 14, 2019

Kenneth G. Campbell  
Bureau of Insurance  
State Corporation Commission  
Post Office Box 1157  
Richmond, VA 23218  
Magellan Complete Care of Virginia, LLC

Magellan Complete Care of Virginia, LLC has received the Examination Report from the Virginia Commissioner of Insurance. We have no objections to the contents of this report.

Magellan Complete Care of Virginia, LLC

  
\_\_\_\_\_  
John Littel, President

08/21/2019

Date