

EXAMINATION REPORT
of
INNOVATION HEALTH INSURANCE COMPANY
Falls Church, Virginia
as of
December 31, 2015

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Innovation Health Insurance Company as of December 31, 2015, 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 19th day of June, 2017

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 7, 2017

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Dear Commissioner:

Pursuant to your instructions and by the authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

INNOVATION HEALTH INSURANCE COMPANY

Falls Church, Virginia

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 (the "Commission") Bureau of Insurance (the "Bureau"). This examination covers the period from initial licensure on April 3, 2013 through December 31, 2015.

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.

The coordinated examination of the Aetna Group, of which the Company is a member, was led by the Connecticut Insurance Department. The Bureau and sixteen other State Insurance Departments participated in the group examination. (Group exam #1-2015-1)

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 issued a certificate of incorporation on August 2, 2012, by the Commission. The Company is a stock accident and sickness insurance company licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia.

MANAGEMENT AND CONTROL

The bylaws of the Company provide that the business and affairs of the Company shall be managed by the board of directors. The Company shall have eight directors who are the current members of the board of directors of the Company's sole shareholder, Innovation Health Holdings, LLC ("IHH"). Each director shall hold office as long as he or she remains a director of IHH.

The officers of the Company shall consist of a Chief Executive Officer, one or more Vice-Presidents, a Secretary and a Treasurer. Additional officers may be appointed by the Chief Executive Officer. Any two or more offices may be held by the same individual. At December 31, 2015, the Board and Officers were as follows:

Directors

Principal Occupation

Daniel P. Finke

Senior Vice President, Network and Clinical Services
Aetna, Inc.
Hartford, Connecticut

Thomas J. Crote

Vice President, Market Coach
Aenta, Inc.
Hartford Connecticut

DirectorsPrincipal Occupation

Richard C. Magenheimer

Chief Financial Officer
Inova Health System Foundation
Falls Church, Virginia

Russell Mohawk

Senior Vice President and Chief Executive Officer
Inova Health Plans and Population Health Services
Falls Church, Virginia

James J. Santry

Executive Vice President of Premium, Retail and
Corporate Services
Innova Health System Foundation
Falls Church, Virginia

Mark S. Strauder

President and Chief Operating Officer
Innova Health System Foundation
Falls Church, Virginia

Gary J. Thomas

President, Joint Venture Markets
Aetna, Inc.
Hartford, Connecticut

Jack L. Wade

Vice President, Chief Financial Officer, Local
Regional Business
Aetna, Inc.
Hartford, Connecticut

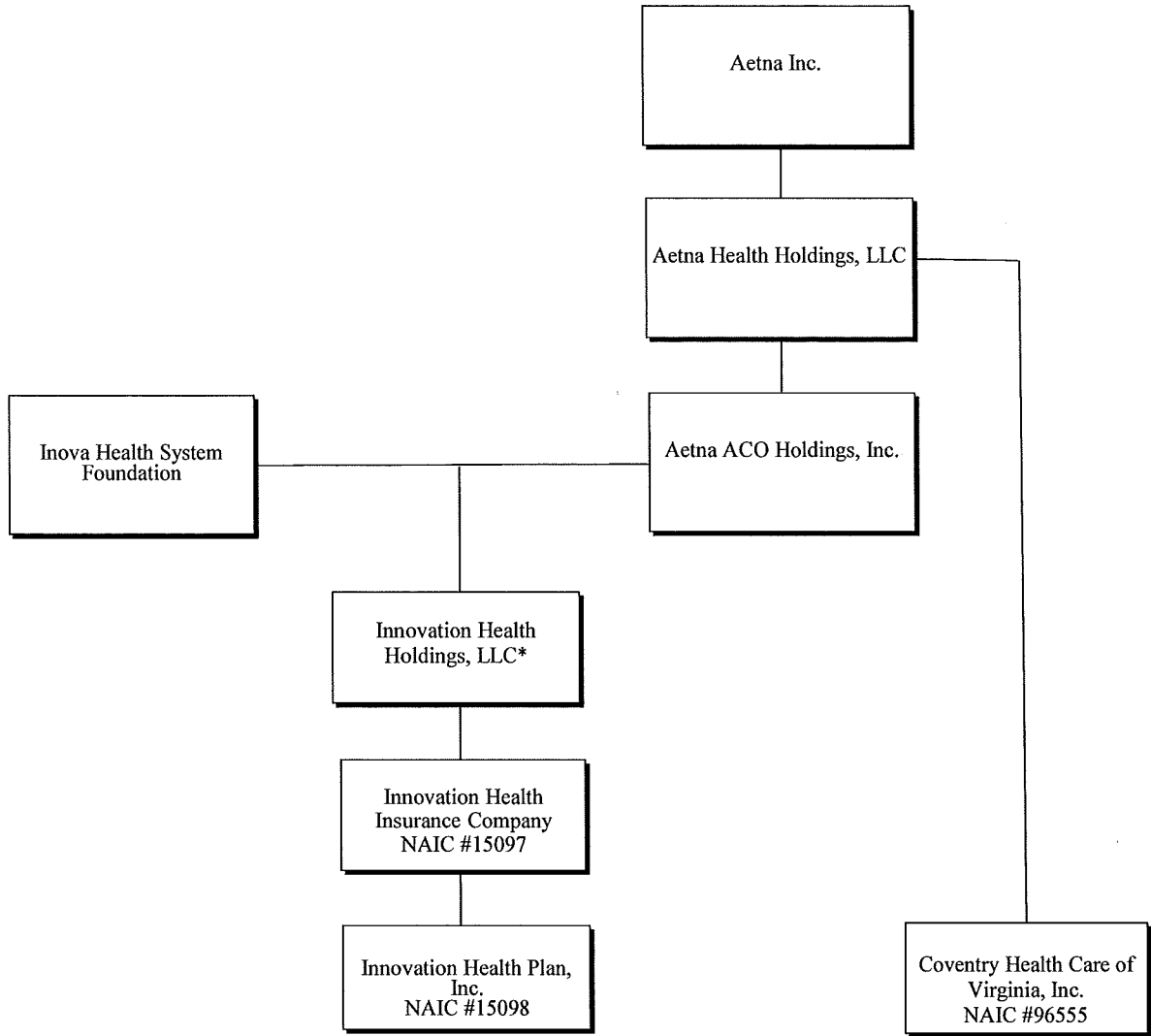
Officers

David Notari
Nannette G. Henderson
Amy K. Turner
Elaine R. Cofrancesco
Edward C. Lee

Chief Executive Officer
Chief Financial Officer
Chief Operating Officer
Vice President and Treasurer
Vice President and Secretary

AFFILIATED COMPANIES

The Company has the authority to issue 1,000 shares of common stock without par value. At December 31, 2015, 100 shares of common stock, in consideration of \$1,000,000, were issued and outstanding and held by IHH, a joint venture between Aetna ACO Holdings, Inc., a Delaware corporation and Inova Health System Foundation ("Inova"), a Virginia not-for-profit corporation. By virtue of this ownership, the Company is a member of an insurance holding company system pursuant to Section 38.2-1322 of the Code of Virginia. The following chart summarizes the Company's relationship with selected entities within the holding company system:



*Innovation Health Holdings, LLC is 50% owned by Aetna ACO Holdings, Inc. and 50% owned by Inova Health System Foundation

TRANSACTIONS WITH AFFILIATES

Management Services Agreements

Effective February 15, 2013, the Company entered into a Management Services Agreement with Aetna Health Management, LLC ("AHM"). According to the agreement, AHM shall provide support services, including accounting services, investment services, actuarial services, marketing services, underwriting services, claims services, data processing services, premium billing and collection, provider payments, broker commission payments, records maintenance and other administrative functions. As compensation, the Company shall pay a per member per month administrative fee. The Company incurred \$40,932,815 and \$26,299,705 in fees related to this agreement in 2015 and 2014, respectively.

Effective February 15, 2013, the Company entered into a Management Services Agreement with Inova. According to the agreement, Inova shall provide medical management services as well as certain marketing and sales activities. As compensation, the Company shall pay fees based on services provided. The Company incurred no fees related to this agreement in 2015 or 2014.

Employee Lease Agreement

Effective March 1, 2013, the Company entered into an Employee Lease Agreement with IHH. According to the agreement, the Company will lease certain employees from IHH to perform core management functions not included in the Management Service Agreements with AHM and Inova. The Company shall reimburse IHH the aggregate cost to IHH of providing the employees. The Company incurred \$971,581 and \$893,126 in fees related to this agreement in 2015 and 2014, respectively.

Network Access Agreement

Effective April 5, 2013, the Company entered into a Network Access Agreement with Signature Partners in Health, LLC ("SPH"). According to the agreement, SPH will provide access to its network of hospitals, physicians and ancillary providers for the Company's covered members. As compensation, the Company shall pay a monthly access fee per member. The Company incurred \$2,280,088 and \$1,816,215 in fees related to this agreement in 2015 and 2014, respectively.

Delegated Credentialing Agreement

Effective April 3, 2013, the Company entered into a Delegated Credentialing Agreement with AHM. According to the agreement, AHM shall provide credentialing and recredentialing services through the evaluation and verification of provider qualifications and competence to provide health care services to the Company's members. No additional compensation shall be paid to AHM for services provided by this agreement over and above the compensation paid to AHM pursuant to the Management Services Agreement described above.

Reinsurance Agreement

Effective May 1, 2013, the Company entered into an Assignment, Novation and Amendment Agreement ("Assignment Agreement") with Aetna Life Insurance Company, a Connecticut corporation ("ALIC"), and InovaCap, LLC, a Vermont limited liability company ("InovaCap"). InovaCap and ALIC entered into a reinsurance agreement covering commercial employer groups in Virginia effective as of January 1, 2013, pursuant to which ALIC cedes to InovaCap, on an indemnity coinsurance basis, a 50% quota share participation in certain liabilities arising under policies issued by ALIC. Under the Assignment Agreement, InovaCap assigned the reinsurance agreement to the Company and the reinsurance agreement was amended to give effect to the novation of the reinsurance agreement whereby the Company was substituted for InovaCap and deemed the reinsurer under the reinsurance agreement. In addition, the reinsurance agreement was amended contemporaneously with the assignment and novation to provide that ALIC will cede a 100% quota share participation in the ceded business to the Company. ALIC will remain as the ceding insurer. In 2015, the Company assumed \$375,130 in premiums and \$139,022 in claims from ALIC.

Tax Sharing Agreement

Effective April 3, 2013, the Company entered into a Tax Sharing Agreement with Innovation Health Plan, Inc. ("IHP"). Pursuant to the agreement, the Company and IHP are members of an affiliated group which expects to file a consolidated federal tax return for each taxable year during which the companies are includible corporations qualified to so file. For each taxable year, IHP will pay the Company an amount equal to the regular federal tax liability that IHP would pay on its own taxable income if it were filing a separate unconsolidated return. Tax computations shall reflect the positions, elections and accounting methods used by the Company in preparing the consolidated federal tax return. The Company will pay to IHP an amount equal to the tax benefit of IHP's tax assets (i.e. losses or credits) to the extent such tax assets are utilized.

Capital Contributions

The Company received capital contributions from IHH of \$12,600,000, \$27,000,000 and \$45,500,000 in 2015, 2014 and 2013, respectively.

The Company made capital contributions to IHP of \$1,200,000, \$4,500,000 and \$15,614,512 in 2015, 2014 and 2013, respectively.

TERRITORY AND PLAN OF OPERATION

At December 31, 2015, the Company was licensed to transact the business of insurance in the District of Columbia, Maryland and Virginia. In the Commonwealth of Virginia, the Company is authorized to write accident and sickness and managed care health insurance. The Company has authority to write one or more of these lines in the other two states.

The Company's products are marketed to employers for the benefit of employees and their dependents and to individuals. These products consist of medical, pharmacy management and dental and vision riders offered on both an insured basis (where the Company assumes all or a majority of the financial risk for health care costs) and an employer-funded basis (where the employer or other plan sponsor under an administrative services only (ASO) contract, and not the Company, assumes all or the majority of the risk). The Company's medical plans include preferred provider organizations (PPO) and indemnity benefit plans.

GROWTH OF THE COMPANY

The following data represents the growth of the Company since its inception. The data is compiled from the Company's filed Annual Statements and the current examination report.

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Premiums</u>	<u>Net Income/ (Loss)</u>
2013	\$15,819,467	\$ 3,221,956	\$12,597,511	\$ 4,301,913	(\$6,161,866)
2014	76,241,730	35,168,360	41,073,370	129,576,404	(1,046,604)
2015	120,441,142	57,234,277	63,206,865	204,643,334	3,111,954

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Company for the period ending December 31, 2015. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2015.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$56,078,807		\$56,078,807
Common stocks	17,645,368		17,645,368
Cash, cash equivalents and short-term investments	14,212,119		14,212,119
Receivables for securities	843,419		843,419
	<hr/>		<hr/>
Subtotals, cash and invested assets	\$88,779,713	\$0	\$88,779,713
Investment income due and accrued	482,577		482,577
Uncollected premiums and agents' balances in the course of collection	2,104,884	1,716,403	388,481
Accrued retrospective premiums	7,550		7,550
Amounts recoverable from reinsurers	9,161,180		9,161,180
Other amounts receivable under reinsurance contracts	268,372		268,372
Amounts receivable relating to uninsured plans	443,884		443,884
Current federal income tax recoverable	579,048		579,048
Net deferred tax asset	751,267	40,151	711,116
Receivable from parent, subsidiaries and affiliates	19,212,383		19,212,383
Health care and other amounts receivable	264,334		264,334
Aggregate write-ins for other than invested assets	14,015,745	13,873,241	142,504
	<hr/>		<hr/>
Total assets	<u>\$136,070,937</u>	<u>\$15,629,795</u>	<u>\$120,441,142</u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$19,767,165		\$19,767,165
Unpaid claims adjustment expenses	319,268		319,268
Aggregate health policy reserves	14,633,347		14,633,347
Aggregate health claim reserves	257,554		257,554
General expenses due and accrued	5,936,593		5,936,593
Amounts withheld or retained for others	53,260		53,260
Remittances and items not allocated	57,132		57,132
Amounts due to parent, subsidiaries and affiliates	2,579,731		2,579,731
Aggregate write-ins for other liabilities	<u>13,630,227</u>		<u>13,630,227</u>
Total liabilities	<u>\$57,234,277</u>	<u>\$0</u>	<u>\$57,234,277</u>
Aggregate write-ins for special surplus funds			\$3,250,000
Common capital stock			1,000,000
Gross paid in and contributed surplus			85,100,000
Unassigned funds (surplus)			<u>(26,143,135)</u>
Total capital and surplus			<u>\$63,206,865</u>
Total liabilities, capital and surplus			<u><u>\$120,441,142</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$204,643,334
Change in unearned premium reserves and reserve for rate credits	XXX	<u>(8,362)</u>
Total revenues	<u>XXX</u>	<u>\$204,634,972</u>
Hospital and Medical		
Hospital/medical benefits		\$128,049,443
Prescription drugs		<u>42,032,208</u>
Subtotal		\$170,081,651
Less:		
Net reinsurance recoveries		<u>12,270,328</u>
Total hospital and medical		\$157,811,323
Claims adjustment expenses	5,956,681	5,956,681
General administrative expenses	<u>34,841,523</u>	<u>34,841,523</u>
Total underwriting deductions	<u>\$40,798,204</u>	<u>\$198,609,527</u>
Net underwriting gain	<u>XXX</u>	<u>\$6,025,445</u>
Net investment income earned		\$731,467
Net realized capital (losses)		<u>(103,567)</u>
Net investment gains		<u>\$627,900</u>
Aggregate write-ins for other income or expenses		<u>(\$1,913,544)</u>
Net income before federal income taxes	XXX	\$4,739,801
Federal income taxes incurred	<u>XXX</u>	<u>1,627,847</u>
Net income	<u>XXX</u>	<u>\$3,111,954</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Capital and surplus prior reporting year	<u>(\$248,948)</u>	<u>\$12,597,511</u>	<u>\$41,073,370</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income (loss)	(\$6,161,866)	(\$1,046,604)	\$3,111,954
Change in net unrealized capital gain	(9,768,578)	1,793,695	4,305,740
Change in net deferred income tax	(87,132)		751,267
Change in nonadmitted assets	(17,635,965)	728,768	1,364,534
Capital changes:			
Paid in	1,000,000		
Surplus adjustments:			
Paid in	<u>45,500,000</u>	<u>27,000,000</u>	<u>12,600,000</u>
Net change in capital and surplus	<u>\$12,846,459</u>	<u>\$28,475,859</u>	<u>\$22,133,495</u>
Capital and surplus end of reporting year	<u><u>\$12,597,511</u></u>	<u><u>\$41,073,370</u></u>	<u><u>\$63,206,865</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$206,023,517
Net investment income	146,272
Total	<u>\$206,169,789</u>
Benefit and loss related payments	\$154,038,735
Commissions, expenses paid and aggregate write-ins for deductions	41,288,733
Federal income taxes paid	2,071,487
Total	<u>\$197,398,955</u>
Net cash from operations	<u>\$8,770,834</u>

Cash from Investments

Proceeds from investments sold, matured or repaid	
Bonds	\$5,303,602
Net gains on cash, cash equivalents and short-term investments	93
Total investment proceeds	<u>\$5,303,695</u>
Cost of investments acquired (long-term only)	
Bonds	\$61,312,051
Stocks	1,200,000
Miscellaneous applications	843,419
Total investments acquired	<u>\$63,355,470</u>
Net cash from investments	<u>(\$58,051,775)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus	\$12,600,000
Other cash provided	8,855,434
Net cash from financing and miscellaneous sources	<u>\$21,455,434</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	(\$27,825,507)
Cash, cash equivalents and short-term investments:	
Beginning of the year	<u>42,037,626</u>
End of the year	<u>\$14,212,119</u>

SUBSEQUENT EVENTS

At December 31, 2015, the Company recorded an accrued capital contribution of \$12,600,000 from its parent IHH. The Commission approved this capital contribution on December 22, 2015. The capital contribution was received by the Company on February 26, 2016.

The Company is subject to an annual fee under Section 9010 of the Affordable Care Act ("ACA"). The annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premium written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. SSAP No. 106 does not require an accrual for this known liability until January 1 of the payment year. At year-end 2015, the Company estimated the amount of the ACA fee payable on September 30, 2016 to be \$3,250,000. Therefore, total capital and surplus at December 31, 2015, as reported in the examination report, was decreased from \$63,206,865 to \$59,956,865 on January 1, 2016. The Company's authorized control risk-based capital ratio decreased from 593.8% at December 31, 2015 to 563.3% at January 1, 2016. A review of the Company's records indicated that it paid \$3,198,828 for its portion of the ACA fee during 2016.

On December 13, 2016, the Bureau approved a \$10,000,000 cash capital contribution from IHH to the Company and a simultaneous \$5,400,000 cash capital contribution from the Company to IHP.

On March 10, 2017, the Bureau approved a \$26,000,000 cash capital contribution from IHH to the Company and a simultaneous \$3,000,000 cash capital contribution from the Company to IHP.

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, Ken Campbell, CFE, Chris Collins, CFE, Jack Drear, CFE, and Kevin Knight, CFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'John E. Bunce', written in a cursive style.

John E. Bunce, CFE
Assistant Chief Examiner



Stephenie Ebinger
Director
Financial Reporting, Analysis & Policy
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Blue Bell, PA 19422
Phone: 860-900-6163
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June 14, 2017

VIA email to [David.Smith@scc.virginia.gov]

David Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
Financial Regulation Division
PO Box 1157
Richmond, VA 23218

**RE: Innovation Health Insurance Company (the "Company")
Examination Report as of December 31, 2015**

Dear Mr. Smith:

This letter is to acknowledge receipt of the Company's examination report as of December 31, 2015 received via your letter dated May 24, 2017 addressed to David Notari, President. As noted, the examination report contains no recommendations for corrective action.

Could you please email a final version of the adopted report to our email addresses below so we can save for the Company records. Also, could you please inform us as to the date the examination report becomes a public document so we can properly disclose the date in the Company's General Interrogatorie

We greatly appreciate the professionalism and courtesousness extended by your exam team during the course of the exam fieldwork and the coordination with the CT Insurance Department.

Please email me at ebingerS@aetna.com and copy my colleague, Teresa Molitoris at molitorisT@aetna.com if you have any further inquiries. My telephone number is also included.

Sincerely,

Stephenie Ebinger
Financial Reporting

cc: Wendy Cianci, Aetna
David Notari, President, Innovation Health Insurance Comany