

EXAMINATION REPORT
of
INNOVATION HEALTH PLAN, INC.
Falls Church, Virginia
as of
December 31, 2015

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
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, 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 Plan, Inc. 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
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

INNOVATION HEALTH PLAN, INC.

Falls Church, Virginia

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

SCOPE OF THE EXAMINATION

This is the first examination of the Corporation by representatives of the State Corporation Commission's Bureau of Insurance (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 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.

The coordinated examination of the Aetna Group, of which the Corporation 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 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.

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 Corporation.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia on August 1, 2012 and became licensed in Virginia as a health maintenance organization ("HMO") pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on April 3, 2013.

CAPITAL AND SURPLUS

At December 31, 2015, the Corporation's capital and surplus was \$17,645,367. According to the Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common capital stock without a par value per share. At December 31, 2015, 100 shares valued at \$1 were issued and outstanding with Gross paid in and contributed surplus of \$21,314,513, Aggregate write-ins for special surplus funds of \$1,260,000 and Unassigned funds of (\$4,929,147).

NET WORTH 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, 2015, 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 business and affairs of the Corporation shall be managed by the board of directors. The Corporation shall have eight directors who are the current members of the board of directors of the Corporation's sole shareholder, Innovation Health Insurance Company ("IHIC"). Each director shall hold office as long as he or she remains a director of IHIC.

The officers of the Corporation 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:

<u>Directors</u>	<u>Principal Occupation</u>
Daniel P. Finke	Senior Vice President, Network and Clinical Services Aetna, Inc. Hartford, Connecticut
Thomas J. Grote	Vice President, Market Coach Aetna, Inc. Hartford, Connecticut
Richard C. Magenheimer	Chief Financial Officer Inova Health System Foundation Falls Church, Virginia
Russell F. 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 Inova Health System Foundation Falls Church, Virginia
Mark S. Stauder	President and Chief Operating Officer Inova 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

Chief Executive Officer

Nannette G. Henderson

Chief Financial Officer

Amy K. Turner

Chief Operating Officer

Elaine R. Cofrancesco

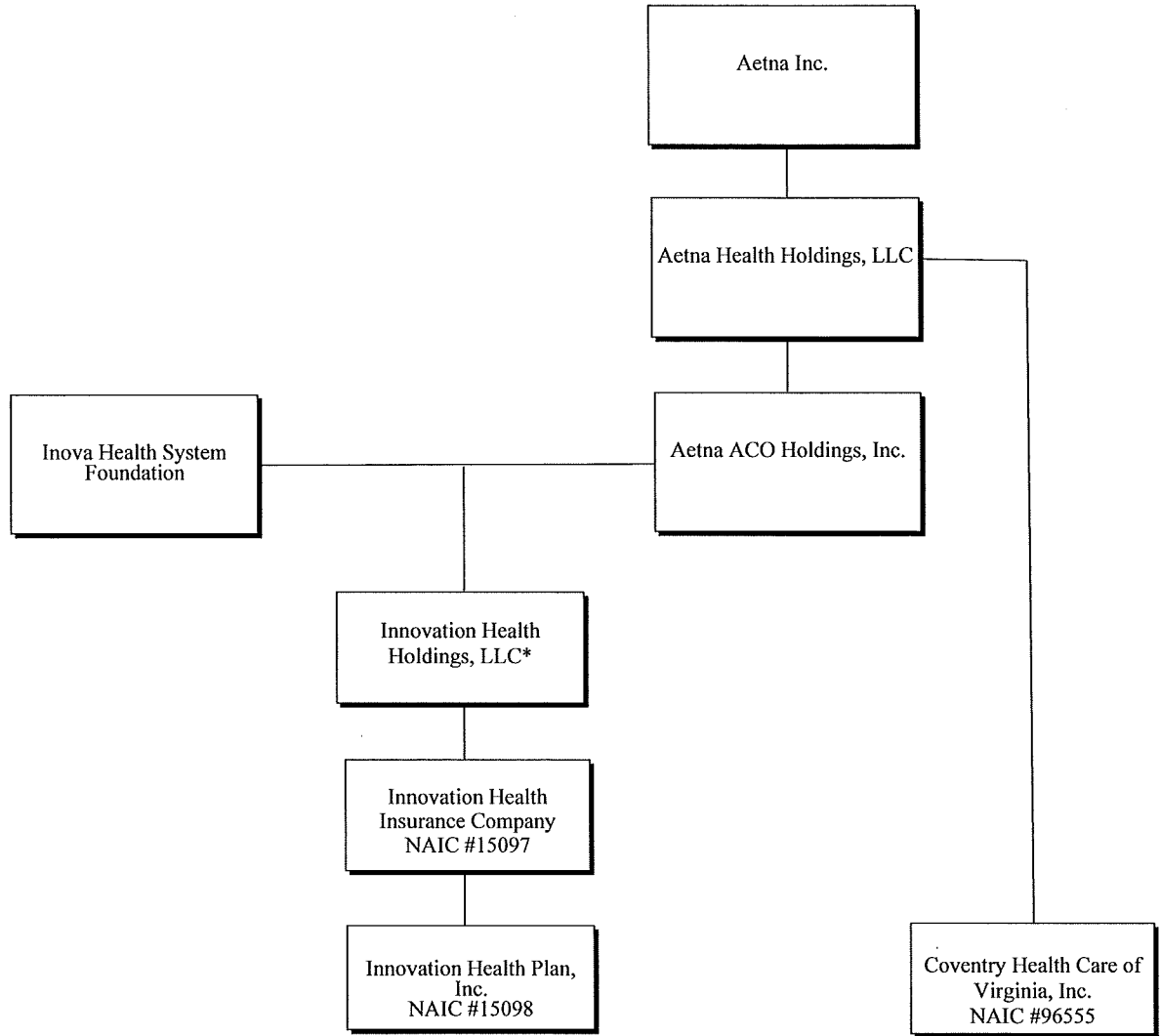
Vice President and Treasurer

Edward C. Lee

Vice President and Secretary

AFFILIATED COMPANIES

The Company is a wholly owned subsidiary of IHIC, which is ultimately owned by Innovation Health Holdings, LLC, ("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 as defined in Section 38.2-1322 of the Code of Virginia. The following chart summarizes the Corporation's relationship 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 Corporation 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 Corporation shall pay a per member per month administrative fee. The Corporation incurred \$8,763,928 and \$4,526,713 in fees related to this agreement in 2015 and 2014, respectively.

Effective February 15, 2013, the Corporation 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 Corporation shall pay fees based on services provided. The Corporation incurred no fees related to this agreement in 2015 or 2014.

Employee Lease Agreement

Effective March 1, 2013, the Corporation entered into an Employee Lease Agreement with IHH. According to the agreement, the Corporation will lease certain employees from IHH to perform core management functions not included in the Management Service Agreements with AHM and Inova. The Corporation shall reimburse IHH the aggregate cost to IHH of providing the employees. The Corporation incurred \$398,769 and \$366,572 in fees related to this agreement in 2015 and 2014, respectively.

Network Access Agreement

Effective April 5, 2013, the Corporation 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 Corporation's covered members. As compensation, the Corporation shall pay a monthly access fee per member. The Corporation incurred \$227,129 and \$94,845 in fees related to this agreement in 2015 and 2014, respectively.

Delegated Credentialing Agreement

Effective April 3, 2013, the Corporation 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 Corporation'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.

Stop Loss Agreement

Effective March 14, 2013, the Corporation entered into Stop Loss Agreement with Aetna Health Insurance Company ("AHIC"). Pursuant to the agreement, the deductible is \$2,000,000 per member per contract year and, once the deductible has been reached, AHIC will reimburse the Corporation 100% of losses paid for each member during the contract year. In 2015, the Corporation incurred \$125,456 in premiums and recovered \$0 in claims pursuant to the agreement.

Reinsurance Agreement

Effective May 1, 2013, the Corporation entered into an Assignment, Novation and Amendment Agreement ("Assignment Agreement") with Aetna Health, Inc., a Pennsylvania corporation ("AHI"), and InovaCap, LLC, a Vermont limited liability company ("InovaCap"). InovaCap and AHI entered into a reinsurance agreement covering commercial employer groups in Virginia effective as of January 1, 2013, pursuant to which AHI cedes to InovaCap, on an indemnity coinsurance basis, a 50% quota share participation in certain liabilities arising under policies issued by AHI. Under the Assignment Agreement, InovaCap assigned the reinsurance agreement to the Corporation and the reinsurance agreement was amended to give effect to the novation of the reinsurance agreement whereby the Corporation 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 AHI will cede a 100% quota share participation in the ceded business to the Corporation. AHI will remain as the ceding insurer. In 2015, the Corporation assumed \$260,212 in premiums and \$354,820 in claims from AHI.

Tax Sharing Agreement

Effective April 3, 2013, the Corporation entered into a Tax Sharing Agreement with IHIC. Pursuant to the agreement, IHIC and the Corporation 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. The Corporation will pay IHIC an amount equal to the regular federal tax liability that the Corporation 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 IHIC in preparing the consolidated federal tax return. IHIC will pay to the Corporation an amount equal to the tax benefit of the Corporation's tax assets (i.e. losses or credits) to the extent such tax assets are utilized.

Capital Contributions

The Corporation received capital contributions from IHIC 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 Corporation's service area, as reported in its 2015 Annual Statement, included the Virginia cities of Alexandria, Fairfax, Falls Church, Fredericksburg, Hopewell, Manassas, Manassas Park, Petersburg, and Richmond. In addition, the service area included the Virginia counties of Amelia, Arlington, Buckingham, Caroline, Charles City, Charlotte, Chesterfield, Colonial Heights, Cumberland, Dinwiddie, Fairfax, Fauquier, Goochland, Hanover, Henrico, King George, King William, Loudoun, Lunenburg, New Kent, Nottoway, Powhatan, Prince Edward, Prince George, Prince William, Spotsylvania, Stafford, Surry, Sussex, and Westmoreland. The Corporation's service area also includes the Maryland city of Baltimore and the Maryland counties of Anne Arundel, Baltimore, Calvert, Carroll, Cecil, Charles, Frederick, Hardford, Howard, Kent, Montgomery, Prince George's, Queen Anne's, Saint Mary's, Talbot, Washington, and Wilcomico and the District of Columbia.

Medical services are provided by physicians in independent practice within the Corporation's service area. For HMO plans, each member selects a primary care physician ("PCP") from a directory of the Corporation's primary providers. Members can go to participating specialist physicians and providers for eligible services without a referral from a PCP for Open Access plans. The specialist physician or provider must be a participating provider in order for services to be covered. Members must receive prior authorization for inpatient hospital admissions and selected outpatient procedures. For other Open HMO plans, PCP selection and referrals to specialists are not required.

PROVIDER AGREEMENTS

Medical Services

The Corporation 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 Corporation compensates participating physicians on capitated and fee-for-service arrangements as set forth in each agreement.

Hospital Care

The Corporation has entered into agreements with a number of hospitals in its service area to provide covered hospital services to its members. The Corporation compensates participating hospitals on either a discounted fee-for-service basis, a case rate basis or a per diem rate basis in accordance with compensation schedules attached to each individual agreement.

Other Health Care Services

The Corporation has entered into various ancillary service agreements. These agreements provide services such as home health care, physical therapy, laboratory, transportation and other related covered health care services. Compensation is based on arrangements set forth in each agreement.

CONTRACT FORMS

Group Contracts

Group contracts generally cover the following services provided by PCPs, participating specialists and other participating providers:

1. Physician Services
2. Inpatient Hospital Services
3. Outpatient Medical Care
4. Maternity Services
5. Women's Health Care Services
6. Rehabilitation Services
7. Home Health Care Services
8. Physical and Occupational Therapy
9. Prescription Drugs
10. Durable Medical Equipment
11. Transportation Services
12. Laboratory and X-ray Services

Exclusions generally include any service or supply that is not medically necessary or any service or supply that is not a covered service, cosmetic and plastic surgery, experimental medical, surgical or other health care procedures, services or supplies, hospice services and programs for weight reduction or smoking cessation. The above are general summaries of coverages and exclusions and are not intended to be all inclusive.

GROWTH OF THE CORPORATION

The following data represents the growth of the Corporation since its inception. The data is compiled from the Corporation'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>
2013	\$9,923,311	\$4,077,377	\$5,845,934
2014	20,792,208	8,652,579	12,139,629
2015	30,703,958	13,058,591	17,645,367

<u>Year</u>	Total <u>Revenue</u>	Net Investment <u>Gain</u>	Medical & Hospital <u>Expenses</u>	Administrative <u>Expenses</u>	Pre-Tax <u>Income</u>
2013	\$8,832,350	\$5,722	\$6,329,268	\$4,771,667	\$(2,262,863)
2014	51,309,234	12,494	37,654,314	12,442,602	1,224,812
2015	79,593,241	178,995	58,202,627	15,628,552	5,941,057

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

<u>Year</u>	Number of <u>Members</u>
2013	3,945
2014	18,580
2015	22,874

EXCESS RISK INSURANCE

At December 31, 2015, the Corporation has a Stop Loss Agreement with AHIC. The specific terms of the contract are discussed in the Transactions with Affiliates section of the examination report.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2015, the Bureau required the Corporation to maintain a minimum deposit of \$2,367,619 with the Treasurer of Virginia.

FINANCIAL STATEMENTS

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

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$12,749,365		\$12,749,365
Cash, cash equivalents and short-term investments	<u>15,228,879</u>	<u> </u>	<u>15,228,879</u>
Subtotals, cash and invested assets	\$27,978,244	\$0	\$27,978,244
Investment income due and accrued	116,048		116,048
Uncollected premiums and agents' balances in the course of collection	1,588,383	63,601	1,524,782
Net deferred tax asset	74,660	22,375	52,285
Receivable from parent, subsidiaries and affiliates	845,172		845,172
Health care and other amounts receivable	187,427		187,427
Aggregate write-ins for other than invested assets	<u>5,701,759</u>	<u>5,701,759</u>	<u>0</u>
Total assets	<u><u>\$36,491,693</u></u>	<u><u>\$5,787,735</u></u>	<u><u>\$30,703,958</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$4,171,322	\$2,347,145	\$6,518,467
Unpaid claims adjustment expenses	116,936		116,936
Aggregate health policy reserves	5,379,330		5,379,330
Aggregate health claim reserves	64,760		64,760
General expenses due and accrued	450,707		450,707
Current federal income taxes payable	411,596		411,596
Ceded reinsurance premiums payable	48,618		48,618
Amounts withheld or retained for the account of others	<u>68,177</u>		<u>68,177</u>
Total liabilities	<u>\$10,711,446</u>	<u>\$2,347,145</u>	<u>\$13,058,591</u>
Aggregate write-ins for special surplus funds			\$1,260,000
Common capital stock			1
Gross paid in and contributed surplus			21,314,513
Unassigned funds (surplus)			<u>(4,929,147)</u>
Total capital and surplus			<u>\$17,645,367</u>
Total liabilities, capital and surplus			<u><u>\$30,703,958</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$80,593,538
Change in unearned premium reserves and reserve for rate credits	XXX	(1,000,297)
Total revenues	XXX	\$79,593,241
Hospital and Medical		
Hospital/medical benefits		\$38,983,702
Emergency room and out-of-area		3,852,537
Prescription drugs		15,833,539
Incentive pool, withhold adjustments and bonus amounts		55,939
Subtotal		\$58,725,717
Less:		
Net reinsurance recoveries		523,090
Total hospital and medical		\$58,202,627
Claims adjustment expenses	1,307,262	1,307,262
General administrative expenses	13,534,834	13,534,834
Total underwriting deductions	\$14,842,096	\$73,044,723
Net underwriting gain	XXX	\$6,548,518
Net investment income earned		\$182,615
Net realized capital losses		(3,620)
Net investment gains		\$178,995
Aggregate write-ins for other income or expenses		(\$786,456)
Net income before federal income taxes	XXX	\$5,941,057
Federal income taxes incurred	XXX	2,502,398
Net income	XXX	\$3,438,659

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Capital and surplus prior reporting year	<u>(\$220,680)</u>	<u>\$5,845,932</u>	<u>\$12,139,629</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income (loss)	(\$2,262,863)	\$1,088,809	\$3,438,659
Change in net deferred income tax	(77,238)	(22,542)	97,202
Change in nonadmitted assets	(7,207,799)	727,430	769,877
Surplus adjustments:			
Paid in	<u>15,614,512</u>	<u>4,500,000</u>	<u>1,200,000</u>
Net change in capital and surplus	<u>\$6,066,612</u>	<u>\$6,293,697</u>	<u>\$5,505,738</u>
Capital and surplus end of reporting year	<u><u>\$5,845,932</u></u>	<u><u>\$12,139,629</u></u>	<u><u>\$17,645,367</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$80,566,453
Net investment income	153,459
Total	<u>\$80,719,912</u>
Benefit and loss related payments	\$56,551,022
Commissions, expenses paid and aggregate write-ins for deductions	16,383,593
Federal income taxes paid	2,228,513
Total	<u>\$75,163,128</u>
Net cash from operations	<u>\$5,556,784</u>

Cash from Investments

Proceeds from investments sold, matured or repaid	
Bonds	\$3,448,056
Total investment proceeds	<u>\$3,448,056</u>
Cost of investments acquired (long-term only)	
Bonds	\$13,732,688
Total investment acquired	<u>\$13,732,688</u>
Net cash from investments	<u>(\$10,284,632)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus, less treasury stock	\$1,200,000
Other cash provided	4,515,802
Net cash from financing and miscellaneous sources	<u>\$5,715,802</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$987,954
Cash, cash equivalents and short-term investments:	
Beginning of the year	<u>14,240,925</u>
End of the year	<u>\$15,228,879</u>

SUBSEQUENT EVENTS

The Corporation 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 Corporation estimated the amount of the ACA fee payable on September 30, 2016 to be \$1,260,000. Therefore, total capital and surplus at December 31, 2015, as reported in the examination report, was decreased from \$17,645,367 to \$16,385,367 on January 1, 2016. The Corporation's authorized control risk-based capital ratio decreased from 607.6% at December 31, 2015 to 564.2% at January 1, 2016. A review of the Corporation's records indicated that it paid \$1,243,032 for its portion of the ACA fee during 2016.

On December 14, 2016, the Bureau approved a \$10,000,000 cash capital contribution from IHH to IHIC and a simultaneous \$5,400,000 cash capital contribution from IHIC to the Corporation.

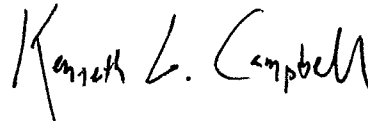
On March 10, 2017, the Bureau approved a \$26,000,000 cash capital contribution from IHH to IHIC and a simultaneous \$3,000,000 cash capital contribution from IHIC to the Corporation.

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

Respectfully submitted,



Kenneth G. Campbell, CFE
Assistant Chief Examiner



Stephenie Ebinger
Director
Financial Reporting, Analysis & Policy
1425 Union Meeting Road, U11S
Blue Bell, PA 19422
Phone: 860-900-6163
ebingers@aetna.com

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 Plan, Inc. (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 courteousness 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 Plan, Inc.