

**EXAMINATION REPORT
of
OPTIMA HEALTH PLAN
Virginia Beach, Virginia
as of
December 31, 2019**

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 Optima Health Plan as of December 31, 2019, 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 May 2021

Scott A. White
Commissioner of Insurance



TABLE OF CONTENTS

	<u>Page</u>
Scope of the Examination	1
History	2
Capital and Surplus	2
Net Worth Requirement.....	2
Management and Control.....	3
Affiliated Companies	5
Transactions with Affiliates	7
Territory and Plan of Operation.....	8
Provider Agreements.....	9
Contract Forms.....	9
Growth of the Plan	10
Excess Loss Insurance	12
Special Reserves and Deposits.....	12
Financial Statements	13
Acknowledgement	19

Richmond, Virginia
March 12, 2021

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

OPTIMA HEALTH PLAN
Virginia Beach, Virginia

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

SCOPE OF THE EXAMINATION

The last examination of the Plan was made by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2016. The current examination covers the three-year period from January 1, 2017 through December 31, 2019.

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 Plan's financial condition, assess corporate governance, identify current and prospective risks of the Plan 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 Plan 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 Plan.

HISTORY

The Plan became licensed in Virginia as a health maintenance organization ("HMO") pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on August 31, 1984. The Plan operates as a capitated and fee-for-service individual practice association HMO.

The Plan is a non-profit membership corporation without capital stock. The Plan was incorporated in the Commonwealth of Virginia on May 7, 1984. The initial member of the Plan was Alliance Health System (currently Sentara Healthcare), which provided initial funding through Alliance Health Foundation. The Plan commenced business on December 1, 1984 and became federally qualified as a HMO on May 30, 1985. Through additional funding of the Plan, Maryview Hospital ("MH"), Sentara Hampton General Hospital ("SHGH"), and Virginia Beach General Hospital became members of the Plan.

Effective April 30, 1990, SHGH transferred its membership rights in the Plan to Sentara Healthcare ("SHC"). On July 20, 1990, SHC purchased Virginia Beach General Hospital's membership rights in the Plan. On December 30, 2003, SHC purchased MH's membership rights in the Plan. At December 31, 2019, SHC is the sole member of the Plan.

CAPITAL AND SURPLUS

At December 31, 2019, the Plan's capital and surplus was \$277,918,858. Capital and surplus was comprised of Aggregate write-ins for special surplus funds of \$26,305,185, gross paid in and contributed surplus of \$13,000,000 and unassigned funds of \$238,613,673. Gross paid in and contributed surplus was provided to the Plan by SHC.

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 a HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 and September 30. Because the sum of the Plan's uncovered expenses for the three-month period ending December 31, 2019 was \$62,456,750, the Plan's minimum net worth requirement at December 31, 2019 was \$4,000,000.

MANAGEMENT AND CONTROL

The amended and restated bylaws provide that the property, affairs and business of the Plan shall be managed under the direction of the Board of Directors (the "Board"). The number of Directors shall not be less than three nor more than sixteen. The Directors shall be divided into three classes with each class to be as nearly equal in number as possible. Directors shall hold office for a three-year term and each director may be re-elected upon the expiration of the three-year term.

Officers of the Plan shall consist of a Chairman, a President, a Secretary and a Treasurer who shall be elected by SHC at its annual meeting and who shall hold office for such terms as the Board may prescribe. Other officers, including one or more Vice Presidents and assistant subordinate officers, may from time to time be elected by SHC. Officers shall hold their office until their successors are elected.

At December 31, 2019, the Board of Directors and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Robert C. Fort	Retired, Former Vice President of Norfolk Southern Corporation Norfolk, Virginia
J. Less Hall	Owner of Allfirst, LLC. Suffolk, Virginia
G. Wilkes Hubbard, M.D.	Surgeon, Norfolk Surgical Group Norfolk, Virginia
Howard P. Kern	President and CEO for Sentara HealthCare Norfolk, Virginia
Dennis A. Matheis	President of Optima Health and Executive Vice President of Sentara and Executive Vice President of Sentara Healthcare Norfolk, Virginia
Marc B. Sharp	Retired Corporate Executive, Consultant Williamsburg, Virginia

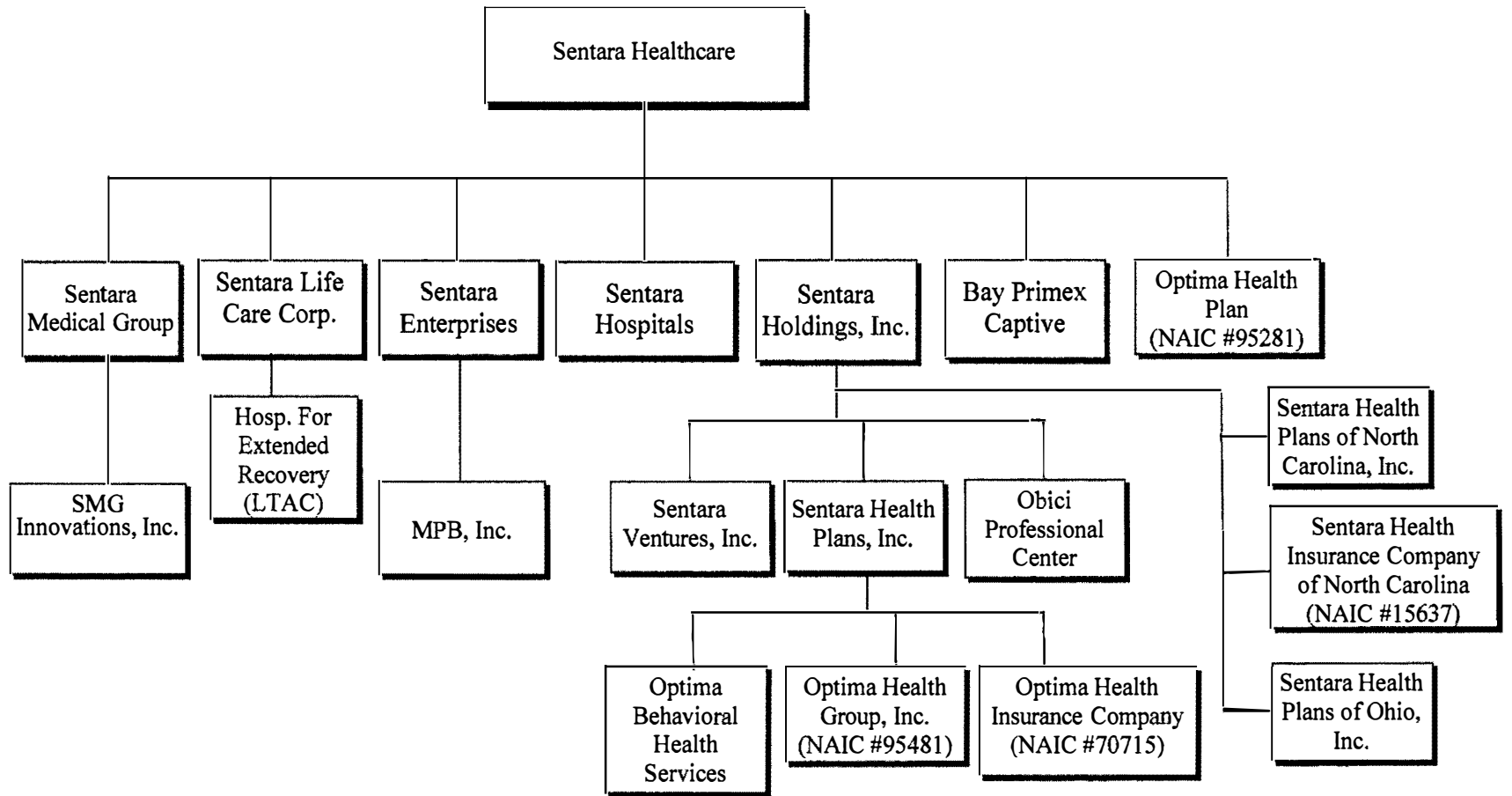
Jeffrey O. Smith, Ed.D.	Superintendent, Hampton City Schools Hampton, Virginia
Ronald A. Stine, M.D.	Cardiology physician Norfolk, Virginia
Cathie J. Vick	Chief Development and Government Affairs Officer for the Virginia Port Authority Norfolk, Virginia

Officers

Robert C. Fort	Chairman
Dennis A. Matheis	President and CEO
Michael V. Gentry	Secretary
Robert A. Broermann	Treasurer
Samuel J. Hawley	Assistant Secretary/Assistant Treasurer
John E. DeGruttola	Senior Vice President of Sales and Marketing
James A. Hilbert	Senior Vice President and Chief Financial Officer
Thomas G. Lundquist, M.D.	Senior Vice President and Chief Medical Officer
Patricia Darnley	Senior Vice President of Government Programs

AFFILIATED COMPANIES

As of December 31, 2019, the amended and restated articles of incorporation provide that SHC shall be the sole member. The chart on the following page illustrates the organizational structure of the Plan and selected affiliated entities at December 31, 2019.



TRANSACTIONS WITH AFFILIATES

Administrative Services and Marketing Agreement

Effective April 1, 2005, the Plan entered into an Administrative Services and Marketing Agreement with Sentara Health Plans, Inc. ("SHP"). According to the provisions of the agreement, SHP shall perform, or arrange for the performance of the administrative services necessary to fulfill the Plan's obligations under its Evidences of Coverage. The services include the following:

- Underwriting Services
- Enrollment Services
- Claims Administration Services
- Information Systems Services
- Premium Billing and Collecting
- Inquiries and Requests
- Administrative Material
- Investment Services
- Medical Care Management
- Provider Relations
- Marketing Services

As compensation for these services, the Plan shall pay SHP a monthly administrative fee. The administrative fee shall equal the actual costs incurred by SHP in providing the services and shall include the direct costs as well as the allocable portion of costs incurred by SHP in connection with providing such services. SHP will develop and periodically revise a cost allocation model to allocate appropriate administrative costs among the SHP companies. The Plan paid approximately \$195,036,000 in 2019, \$191,364,000 in 2018 and \$115,789,000 in 2017 in administrative fees related to this agreement.

Mental Health Services Agreement

At December 31, 2019, the Plan contracts with Optima Behavioral Health Services ("OBHS"), a subsidiary of SHP, to provide mental health services to its subscribers. Pursuant to the terms of the amended capitated agreement, the Plan pays OBHS a fixed rate of 55 cents per member per month for administrative costs and network utilization. The Plan paid OBHS \$3,367,000 in 2019, \$3,158,000 in 2018 and \$2,376,000 in 2017 in expenses pursuant to this agreement.

Dividends

On November 5, 2018, the Plan filed a request with the Bureau to pay an extraordinary cash dividend of \$60,000,000 to SHC. The Bureau approved the Plan's request on November 8, 2018 and the dividend was paid on December 4, 2018.

TERRITORY AND PLAN OF OPERATION

At December 31, 2019, the Plan's service area, as reported in its 2019 Annual Statement, included the cities of Bedford, Bristol, Buena Vista, Charlottesville, Chesapeake, Colonial Heights, Covington, Danville, Emporia, Franklin, Fredericksburg, Galax, Hampton, Harrisonburg, Hopewell, Lexington, Lynchburg, Martinsville, Newport News, Norfolk, Norton, Petersburg, Poquoson, Portsmouth, Radford, Richmond, Roanoke, Salem, Staunton, Suffolk, Virginia Beach, Waynesboro, Williamsburg and Winchester.

In addition, the service area included the counties of Accomack, Albemarle, Alleghany, Amelia, Amherst, Appomattox, Augusta, Bath, Bedford, Bland, Botetourt, Brunswick, Buchanan, Buckingham, Campbell, Caroline, Carroll, Charles City, Charlotte, Chesterfield, Clarke, Craig, Culpepper, Cumberland, Dickenson, Dinwiddie, Essex, Fauquier, Floyd, Fluvanna, Franklin, Frederick, Giles, Gloucester, Goochland, Grayson, Greene, Greensville, Halifax, Hanover, Henrico, Henry, Highland, Isle of Wight, James City, King and Queen, King George, King William, Lancaster, Lee, Loudoun, Louisa, Lunenburg, Madison, Mathews, Mecklenburg, Middlesex, Montgomery, Nelson, New Kent, Northampton, Northumberland, Nottoway, Orange, Page, Patrick, Pittsylvania, Powhatan, Prince Edward, Prince George, Pulaski, Rappahannock, Richmond, Roanoke, Rockbridge, Rockingham, Russell, Scott, Shenandoah, Smyth, Southampton, Spotsylvania, Surry, Sussex, Tazewell, Warren, Washington, Westmoreland, Wise, Wythe and York.

Medical services are provided by physicians in independent practice within the Plan's service area. Each member chooses a primary care physician ("PCP") from a list of the Plan's primary providers. All hospital admissions must be arranged by an attending physician and approved in advance by the Plan.

At December 31, 2019, the HMO writes the following lines of business: Comprehensive; Federal Employees Health Benefit Plan; Medicare; and Medicaid business.

PROVIDER AGREEMENTS

Medical Services

The Plan has entered into agreements with numerous PCPs and specialist physicians to provide covered services to members. PCPs and specialist physicians are compensated on a fee for service basis at the lesser of billed charges or established fee schedules minus any applicable copayments.

Hospital Care

The Plan has entered into agreements with a number of hospitals in its service area to provide covered hospital services to members. The Plan compensates participating hospitals on either a discounted fee for service, a fixed per-diem, or a per case basis. The amounts paid to each hospital are based on terms disclosed in each individual agreement.

Other Health Care Services

The Plan provides other health care services to members through various ancillary agreements. These services include ambulance services, skilled nursing care, home health care, physical, occupational and speech therapy, laboratory and pharmaceutical services. Compensation is based on arrangements set forth in each agreement.

CONTRACT FORMS

The group contract agreement generally covers the following services provided by PCPs, participating specialists and other professional providers:

1. Physician Services
2. Allergy Care
3. Hospital Services
4. Maternity Services
5. Family Planning/Infertility Services
6. Home Health Care Skilled Services
7. Morbid Obesity Treatment
8. Orthopedic and Prosthetic Appliances
9. Ambulance Service
10. Emergency Services
11. Behavioral Health and Substance Abuse Services
12. Durable Medical Equipment

Exclusions generally include any services or supplies that were not authorized or arranged by the member's PCP or the Plan; any service, supply, or treatment not

specifically covered in the Evidence of Coverage; personal comfort items; private duty nursing; cosmetic surgery; costs of services covered by a group insurance mechanism or governmental program; eye surgery such as Radial Keratotomy, PRK or LASIK, school health services rendered in a school setting; physical examinations for employment or insurance; and investigation or experimental medications and consultations or office visits for obtaining cosmetic or experimental procedures. Other exclusions include immunizations related to foreign travel or employment and hearing aids.

The above are abbreviated descriptions of the coverages and exclusions and each individual contract may vary.

GROWTH OF THE PLAN

The following data is representative of the growth of the Plan for the ten-year period ending December 31, 2019. The data is compiled from the Plan's filed Annual Statements, the previous examination reports and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Total Capital & Surplus</u>
2010	\$310,152,525	\$127,133,529	\$183,018,996
2011	336,892,680	137,258,299	199,634,381
2012	315,997,878	145,816,510	170,181,368
2013	349,450,693	152,851,371	196,599,322
2014	329,591,603	131,940,821	197,650,782
2015	352,286,259	139,867,700	212,418,559
2016	372,889,573	150,324,085	222,565,488
2017	476,697,809	232,458,050	244,239,759
2018	791,861,884	476,249,047	315,612,837
2019	688,565,808	410,646,950	277,918,858

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Hospital & Medical Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-tax Income</u>
2010	\$1,091,460,148	\$4,080,635	\$949,437,357	\$74,939,986	\$71,163,440
2011	1,136,749,877	4,443,651	978,637,670	77,571,665	84,984,193
2012	1,238,443,306	4,710,610	1,125,939,946	87,048,277	30,165,693
2013	1,302,441,118	3,207,064	1,166,137,253	92,338,836	47,172,093
2014	1,382,125,432	8,291,073	1,226,177,676	115,744,636	48,494,193
2015	1,357,312,287	2,785,817	1,224,259,130	121,841,166	13,997,808
2016	1,423,634,722	5,221,991	1,299,259,640	120,502,261	9,094,812
2017	1,502,645,071	3,426,883	1,353,370,032	137,955,840	14,746,082
2018	2,375,958,262	9,458,618	2,017,789,516	228,743,212	138,884,152
2019	2,437,663,888	19,739,851	2,257,845,737	235,144,997	(35,586,995)

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

<u>Year</u>	<u>Number of Members</u>
2010	294,114
2011	298,183
2012	321,378
2013	320,048
2014	314,913
2015	292,937
2016	294,873
2017	303,867
2018	347,283
2019	360,355

EXCESS LOSS INSURANCE

As of December 31, 2019, the Plan has two HMO Excess Risk Agreements in effect with RGA Reinsurance Company ("RGA"). The first agreement covers the Plan's Commercial HMO and POS; Medicaid Medallion 4 and CCC+; Commercial Exchange; and Medicare Advantage members. The second agreement covers Federal Employees. For Commercial HMO and POS, Commercial Exchange and Medicare Advantage, the deductible is \$1,500,000 per member for each contract year. For Medicaid Medallion 4 and CCC+, the deductible is \$1,700,000 per member for each contract year. The deductible for Federal Employees is \$150,000. Once the deductible has been reached in the contract year, RGA will reimburse the Plan 90% of all eligible expenses up to a maximum of \$5,000,000 per member per contract year. The first agreement is for the 12-month period beginning on October 1, 2019 and ending on September 30, 2020 but can be renewed annually at the option of the Plan. The second agreement which covers Federal Employees is for the 12-month period beginning on January 1, 2019 and ending on December 31, 2019 but can be renewed annually at the option of the Plan. Both agreements have an experience refund provision.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2019, the Bureau required the Plan to maintain a minimum deposit of \$2,700,000 with the Treasurer of Virginia.

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Plan for the period ending December 31, 2019. No examination adjustments were made to the statutory financial statement filed by the Plan with the Bureau for the period ending December 31, 2019.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$241,220,078		\$241,220,078
Common stocks	42,350,037		42,350,037
Cash and short-term investments	<u>142,714,603</u>		<u>142,714,603</u>
Subtotals, cash and invested assets	\$426,284,718	\$0	\$426,284,718
Investment income due and accrued	1,158,209		1,158,209
Uncollected premiums	169,262,341	3,455,642	165,806,699
Accrued retrospective premiums	69,292,310		69,292,310
Amounts recoverable from reinsurers	343,129		343,129
Electronic data processing equipment and software	1,305,202		1,305,202
Furniture and equipment, including healthcare delivery assets	2,898,028	2,898,028	0
Receivables from parent, subsidiaries and affiliates	1,192,396		1,192,396
Health care and other amounts receivable	21,827,535	7,503,250	14,324,285
Aggregate write-ins for other than invested assets	<u>11,320,996</u>	<u>2,462,136</u>	<u>8,858,860</u>
Total assets	<u><u>\$704,884,864</u></u>	<u><u>\$16,319,056</u></u>	<u><u>\$688,565,808</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$216,538,491	\$4,118,990	\$220,657,481
Accrued medical incentive pool and bonus amounts	9,143,148		9,143,148
Unpaid claims adjustment expenses		3,355,825	3,355,825
Aggregate health policy reserves	99,100,000		99,100,000
Aggregate health claim reserves	6,427,260	122,259	6,549,519
Premiums received in advance	10,885,548		10,885,548
Amounts due to parent, subsidiaries and affiliates		20,224,200	20,224,200
Payable for securities	15,244,491		15,244,491
Aggregate write-ins for other liabilities	<u>25,486,738</u>		<u>25,486,738</u>
Total liabilities	<u>\$382,825,676</u>	<u>\$27,821,274</u>	<u>\$410,646,950</u>
Aggregate write-ins for special surplus funds			\$26,305,185
Gross paid in and contributed surplus			13,000,000
Unassigned funds (surplus)			<u>238,613,673</u>
Total capital and surplus			<u>\$277,918,858</u>
Total liabilities, capital and surplus			<u><u>\$688,565,808</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$2,437,500,928
Aggregate write-ins for other health care related revenues	XXX	162,960
Total revenues	XXX	\$2,437,663,888
Hospital and Medical:		
Hospital/medical benefits	\$38,343,965	\$1,715,887,044
Outside referrals	2,315,767	2,315,767
Emergency room and out-of-area	1,487,241	73,731,866
Prescription drugs		396,632,623
Aggregate write-ins for other hospital and medical		45,800,608
Incentive pool, withhold adjustments and bonus amounts		24,107,522
Subtotal	\$42,146,973	\$2,258,475,430
Less:		
Net reinsurance recoveries		629,693
Total hospital and medical	\$42,146,973	\$2,257,845,737
Claims adjustment expenses	18,717,458	18,717,458
General administrative expenses	212,458,044	216,427,539
Total underwriting deductions	\$273,322,475	\$2,492,990,734
Net underwriting gain	XXX	(\$55,326,846)
Net investment income earned		\$11,089,790
Net realized capital gains		8,650,061
Net investment gains		\$19,739,851
Net income before federal income taxes	XXX	(\$35,586,995)
Federal income taxes incurred	XXX	(635,747)
Net income	XXX	(\$34,951,248)

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and surplus prior reporting year	<u>\$222,565,488</u>	<u>\$244,239,759</u>	<u>\$315,612,837</u>
Net income	\$15,658,596	\$139,305,813	(\$34,951,248)
Change in net unrealized capital gains (losses)	3,360,962	(5,914,093)	8,615,393
Change in nonadmitted assets	2,773,963	(2,176,503)	(11,698,536)
Dividends to stockholders		(60,000,000)	
Aggregate write-ins for gains in surplus	<u>(119,250)</u>	<u>157,861</u>	<u>340,412</u>
Net change in capital and surplus	<u>\$21,674,271</u>	<u>\$71,373,078</u>	<u>(\$37,693,979)</u>
Capital and surplus end of reporting year	<u><u>\$244,239,759</u></u>	<u><u>\$315,612,837</u></u>	<u><u>\$277,918,858</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$2,426,774,665
Net investment income	11,230,466
Miscellaneous income	162,961
Total	<u>\$2,438,168,092</u>
Benefit and loss related payments	\$2,305,874,087
Commissions, expenses paid and aggregate write-ins for deductions	236,746,210
Federal income taxes paid	(635,747)
Total	<u>\$2,541,984,550</u>
Net cash from operations	<u>(\$103,816,458)</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$562,071,232
Stocks	24,164,427
Miscellaneous proceeds	8,471,542
Total investment proceeds	<u>\$594,707,201</u>
Cost of investments acquired (long-term only):	
Bonds	\$490,700,007
Stocks	19,799,771
Total investment acquired	<u>\$510,499,778</u>
Net cash from investments	<u>\$84,207,423</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	<u>\$895,528</u>
Net cash from financing and miscellaneous sources	<u>\$895,528</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	(\$18,713,507)
Cash and short-term investments:	
Beginning of the year	<u>161,428,110</u>
End of the year	<u><u>\$142,714,603</u></u>

ACKNOWLEDGEMENT

The courteous cooperation extended by the Plan's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, John Bunce, CFE, Chris Collins, CFE, Craig Chupp, FSA, MAAA, Hai Nguyen and Michael Peterson participated in the work of the examination.

Respectfully submitted,

William Kevin Knight

William Knight, CFE
Principal Insurance Financial Analyst



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April 28, 2021

David H. Smith
Chief Examiner
Virginia Bureau of Insurance
1300 East Main Street
Richmond, VA 23219

David,

We acknowledge receipt of the draft report. We wish to express our appreciation to you and your staff for conducting an efficient and well-coordinated examination.

In terms of copies, if possible, we would like to receive 5 copies.

Thank You,

A handwritten signature in blue ink, appearing to read "Dennis Matheis".

Dennis Matheis
President, Optima Health Plan