

**EXAMINATION REPORT**  
**of**  
**INNOVATION HEALTH INSURANCE COMPANY**  
**Falls Church, Virginia**  
**as of**  
**December 31, 2020**

# 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 Innovation Health Insurance Company as of December 31, 2020, 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 8<sup>th</sup> day of June 2022

Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
April 28, 2022

Honorable Scott A. White  
Commissioner of Insurance  
Richmond, Virginia

Dear Sir:

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 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**

The last examination of the Company was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2015. This examination covers the five-year period from January 1, 2016 through December 31, 2020.

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 CVS/Aetna Group, of which the Company is a member, was led by the Connecticut Insurance Department. The Bureau and twenty-six other State Insurance Departments participated in the group examination. (Group exam #1-2019-1)

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.

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 Company.

### **HISTORY**

The Company was issued a certificate of incorporation on August 2, 2012. 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. On November 28, 2018, CVS Health Corporation (CVS Health) acquired Aetna Inc. and its subsidiaries, including its 50% ownership of the Company. The acquisition was approved by the Bureau on June 7, 2018.

### **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 six 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, 2020, the Board and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Michael J. Bucci	Vice President, Market President CVS Health Linthicum, Maryland

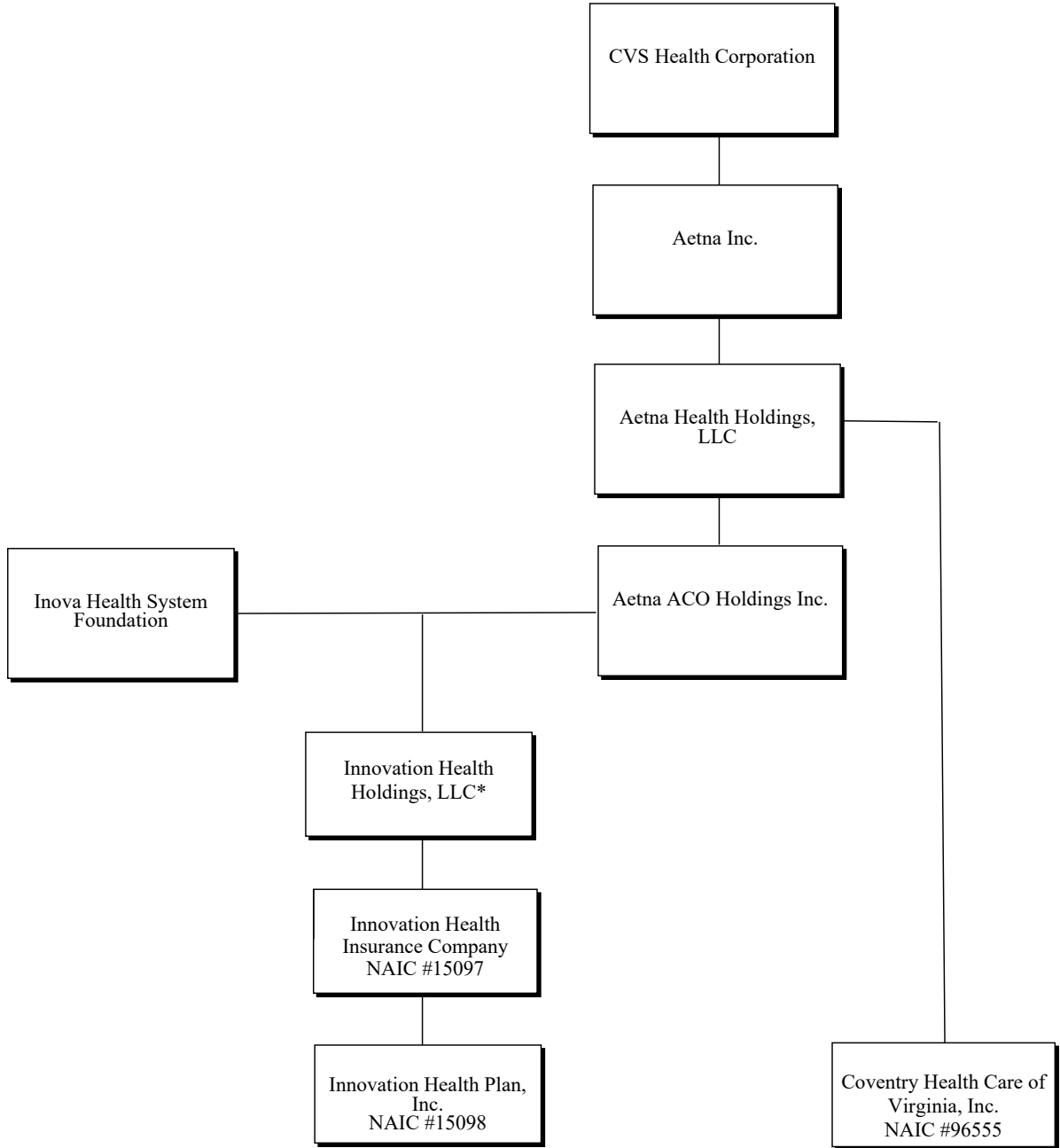
Brian K. Donovan	Vice President, Managed Care Contracting and Strategy Inova Health System Foundation Falls Church, Virginia
Daniel B. Knecht	Vice President, Health Strategy and Innovation CVS Health Hartford, Connecticut
Stephen J. Motew	Physician Executive Inova Health System Foundation Falls Church, Virginia
Brigitte J. Nettesheim	Vice President, National Accounts CVS Health Chicago, Illinois
Alice H. Pope	Chief Financial Officer Inova Health System Foundation Falls Church, Virginia

#### Officers

Sunil S. Budhrani	Chief Executive Officer and Chief Medical Officer
Nannette G. Henderson	Chief Financial Officer
Sarah H. Grantham	Chief Operating Officer
Tracy L. Smith	Vice President and Treasurer
Edward C. Lee	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, 2020, 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. (Aetna ACO), a Delaware corporation and Inova Health System Foundation (Inova), a Virginia not-for-profit corporation. CVS Health is Aetna ACO's ultimate parent. 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 \$27,533,240 and \$24,928,766 in fees related to this agreement in 2020 and 2019, 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 2020 or 2019.

### 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 \$2,564,238 and \$2,449,186 in fees related to this agreement in 2020 and 2019, 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 \$2,327,589 and \$2,775,995 in fees related to this agreement in 2020 and 2019, 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.

### 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.

### 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 2020 and 2019, there were no transactions under these agreements.

### Medicare Advantage Reinsurance Agreement

Effective January 1, 2018, the Company entered into a Medicare Advantage Reinsurance Agreement with ALIC. Pursuant to the agreement, ALIC will cede to the Corporation, on an indemnity coinsurance basis, a 100% quota share participation in certain liabilities, obligations, premiums and reserves arising under individual and group Medicare Advantage policies issued by ALIC. Premiums assumed from ALIC by the Company were \$114,665,252 and \$96,878,391 in 2020 and 2019, respectively. Claims assumed from ALIC by the Company were \$91,628,932 and \$81,358,542 in 2020 and 2019, respectively.

### Stop Loss Agreement

Effective January 1, 2020, the Company and IHP entered into a 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 Company 100% of losses paid for each member during the contract year. In 2020, premiums ceded were \$82,474 pursuant to the agreement.

### Capital Contributions

The Company received capital contributions from IHH of \$46,000,000 and \$10,000,000 in 2017 and 2016, respectively.

The Company made capital contributions to IHP of \$3,000,000 and \$5,399,000 in 2017 and 2016, respectively.

## **TERRITORY AND PLAN OF OPERATION**

At December 31, 2020, 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.

In 2018, the Company began operating as a Medicare Advantage Prescription Drug Plan Program offering PPO plans pursuant to its contract with the Centers for Medicare and Medicaid (CMS).

### **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>Year</u>	Total Admitted Assets	Total Liabilities	Total Capital & Surplus
2013	\$15,819,467	\$3,221,956	\$12,597,511
2014	76,241,730	35,168,360	41,073,370
2015	120,441,142	57,234,277	63,206,865
2016	157,362,948	113,185,299	44,177,649
2017	198,741,791	136,289,318	62,452,473
2018	119,307,781	36,578,934	82,728,847
2019	131,755,846	31,641,336	100,114,510
2020	188,237,682	43,047,618	145,190,064

<u>Year</u>	Total Revenue	Net Investment Gain	Medical & Hospital Expenses	Administrative Expenses	Pre-Tax Income
2013	\$4,283,961	\$1,230	\$4,905,501	\$5,541,556	(\$6,161,866)
2014	129,523,068	3,761	95,401,410	35,308,026	(1,182,607)
2015	204,634,972	627,900	157,811,323	42,711,748	4,739,801
2016	243,992,252	1,321,852	213,793,052	59,670,082	(28,149,030)
2017	315,757,552	2,071,512	285,006,075	63,293,445	(30,470,456)
2018	163,176,042	1,098,757	127,475,821	26,046,605	10,752,373
2019	162,801,297	1,476,270	131,246,456	16,917,957	16,113,154
2020	212,019,482	1,051,274	141,769,482	18,211,064	53,090,210

**EXCESS RISK INSURANCE**

Effective April 1, 2014, ALIC entered into a Quota Share Reinsurance Agreement with Fresenius Medical Care Reinsurance Company (Fresenius). The Company is party to the agreement as an affiliate of ALIC. Pursuant to the agreement, Fresenius shall pay 100% of eligible expenses for Medicare Advantage members participating in an End Stage Renal Disease Management Program. As compensation, the Company pays Fresenius a capitated amount per participating program member per month. In 2020 and 2019, the Company incurred \$50,586 and \$0 in premiums pursuant to the agreement, respectively.

**FINANCIAL STATEMENTS**

The following financial statements present the financial condition of the Company for the period ending December 31, 2020. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2020.

**ASSETS**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$105,617,028		\$105,617,028
Common stocks	28,920,263		28,920,263
Cash and cash equivalents	<u>21,453,396</u>		<u>21,453,396</u>
Subtotals, cash and invested assets	\$155,990,687	\$0	\$155,990,687
Investment income due and accrued	684,173		684,173
Uncollected premiums and agents' balances in the course of collection	1,050,790	170,104	880,686
Accrued retrospective premiums	840,088		840,088
Funds held by or deposited with reinsured companies	8,151,206		8,151,206
Other amounts receivable under reinsurance contracts	19,134,142		19,134,142
Amounts receivable relating to uninsured plans	2,000,431		2,000,431
Current federal income tax recoverable	484,996	484,996	0
Net deferred tax asset	431,918	350,687	81,231
Receivables from parent, subsidiaries and affiliates	22,963		22,963
Health care and other amounts receivable	267,582		267,582
Aggregate write-ins for other than invested assets	<u>4,655,379</u>	<u>4,470,886</u>	<u>184,493</u>
Total assets	<u><u>\$193,714,355</u></u>	<u><u>\$5,476,673</u></u>	<u><u>\$188,237,682</u></u>

**LIABILITIES, CAPITAL AND SURPLUS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$21,175,029	\$70,956	\$21,245,985
Accrued medical incentive pool and bonus amounts	136,857		136,857
Unpaid claims adjustment expenses	88,629		88,629
Aggregate health policy reserves	1,902,185		1,902,185
Aggregate health claim reserves	44,867		44,867
Premiums received in advance	19,913		19,913
General expenses due or accrued	2,374,464		2,374,464
Current federal income taxes payable	3,722,913		3,722,913
Ceded reinsurance premiums payable	6,799		6,799
Amounts withheld or retained for the account of others	120,199		120,199
Amounts due to parent, subsidiaries and affiliates	3,133,236		3,133,236
Payable for securities	1,914,115		1,914,115
Funds held under reinsurance treaties	6,301		6,301
Liability for amounts held under uninsured plans	310,438		310,438
Aggregate write-ins for other liabilities	8,020,717		8,020,717
<b>Total liabilities</b>	<b><u>\$42,976,662</u></b>	<b><u>\$70,956</u></b>	<b><u>\$43,047,618</u></b>
Common capital stock			\$1,000,000
Gross paid in and contributed surplus			141,100,000
Unassigned funds (surplus)			<u>3,090,064</u>
<b>Total capital and surplus</b>			<b><u>\$145,190,064</u></b>
<b>Total liabilities, capital and surplus</b>			<b><u><u>\$188,237,682</u></u></b>

**STATEMENT OF REVENUE AND EXPENSES**

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$212,906,971
Change in unearned premium reserves and reserve for rate credits	XXX	(1,108,597)
Aggregate write-ins for other health care related revenues	XXX	221,108
Total revenues	XXX	\$212,019,482
<b>Hospital and Medical</b>		
Hospital/medical benefits	\$246,153	\$5,237,289
Other professional services	1,436,633	30,566,649
Outside referrals		
Emergency room and out-of-area	10,176	216,514
Prescription drugs		11,333,259
Incentive pool, withhold adjustments and bonus amounts		616,655
Subtotal	\$1,692,962	\$47,970,366
<b>Less:</b>		
Net reinsurance recoveries		(93,799,116)
Total hospital and medical	\$1,692,962	\$141,769,482
Claims adjustment expenses	4,793,681	4,793,681
General administrative expenses	11,736,323	11,736,323
Total underwriting deductions	\$18,222,966	\$158,299,486
Net underwriting gain	XXX	\$53,719,996
Net investment income earned	\$1,664,128	\$1,664,128
Net realized capital (losses)	(612,854)	(612,854)
Net investment gains	\$1,051,274	\$1,051,274
Aggregate write-ins for other income or expenses	(\$1,681,060)	(\$1,681,060)
Net income before federal income taxes	XXX	\$53,090,210
Federal income taxes incurred	XXX	11,786,606
Net income	XXX	\$41,303,604

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and surplus prior reporting year	<u>\$63,206,865</u>	<u>\$44,177,649</u>	<u>\$62,452,473</u>	<u>\$82,728,847</u>	<u>\$100,114,510</u>
<b>GAINS AND LOSSES TO CAPITAL AND SURPLUS</b>					
Net income (loss)	(\$26,032,352)	(\$30,024,553)	\$12,407,592	\$16,229,996	\$41,303,604
Change in net unrealized capital gains (losses)	(4,617,732)	1,096,030	4,390,425	79,683	1,866,961
Change in net deferred income tax	(751,268)	50,195	4,043,199	(3,850,227)	172,928
Change in nonadmitted assets	2,776,248	1,153,152	(705,073)	5,196,735	1,732,061
Surplus adjustments:					
Paid in	10,000,000	46,000,000	0	0	0
Aggregate write-ins for gains or (losses) in surplus	<u>(404,112)</u>	<u>0</u>	<u>140,231</u>	<u>(270,524)</u>	<u>0</u>
Net change in capital and surplus	<u>(\$19,029,216)</u>	<u>\$18,274,824</u>	<u>\$20,276,374</u>	<u>\$17,385,663</u>	<u>\$45,075,554</u>
Capital and surplus end of reporting year	<u><u>\$44,177,649</u></u>	<u><u>\$62,452,473</u></u>	<u><u>\$82,728,847</u></u>	<u><u>\$100,114,510</u></u>	<u><u>\$145,190,064</u></u>



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

Premiums collected net of reinsurance	\$207,316,445
Net investment income	1,894,828
Miscellaneous income	221,108
Total	<u>\$209,432,381</u>
Benefit and loss related payments	\$136,814,575
Commissions, expenses paid and aggregate write-ins for deductions	10,159,782
Federal and foreign income taxes paid	5,825,165
Total	<u>\$152,799,522</u>
Net cash from operations	<u>\$56,632,859</u>

**Cash from Investments**

Proceeds from investments sold, matured or repaid	
Bonds	\$9,590,618
Net (losses) on cash and cash equivalents	(20)
Miscellaneous proceeds	1,914,115
Total investment proceeds	<u>\$11,504,713</u>
Cost of investments acquired (long-term only)	
Bonds	\$65,623,749
Total investment acquired	<u>\$65,623,749</u>
Net cash from investments	<u>(\$54,119,036)</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash provided	<u>\$5,161,741</u>
Net cash from financing and miscellaneous sources	<u>\$5,161,741</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Net change in cash and cash equivalents	\$7,675,564
Cash and cash equivalents:	
Beginning of the year	<u>13,777,832</u>
End of the year	<u>\$21,453,396</u>

**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, Ken Campbell, CFE, Chris Collins, CFE, Gerald Hicks, AFE, and Kevin Knight, CFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script, reading "Benjamin B. MacKercher".

Benjamin B. MacKercher, CFE  
Senior Financial Examiner



June 6, 2022

Mr. David H. Smith, CFE, CPCU  
Chief Examiner  
Commonwealth of Virginia  
State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218  
RESPONSE MADE VIA EMAIL TO: David Smith <David.Smith@scc.virginia.gov>

**RE: Innovation Health Insurance Company  
Draft Financial Examination Report as of December 31, 2020 ("the Report")**

Dear Mr. Smith:

This letter is to acknowledge receipt of the draft exam Report of Innovation Health Insurance Company for the five-year period ending December 31, 2020. We appreciate the opportunity to review the Report. As noted in your letter dated May 11, 2022, the Report contains no recommendations for corrective action.

When the report is certified as final, please confirm that the financial examination team, with whom your examiners have been communicating during the course of this examination, will receive the final report via email so they can continue to ensure all necessary communications are met timely.

As the final exam report is expected to be received electronically, we only need the electronic version and thus your request for the number of hard copies would be none as the electronic version is sufficient.

Sincerely,

A handwritten signature in black ink, appearing to read "London B. Lomax".

London B. Lomax  
Chief Executive Officer  
Innovation Health Insurance Company