

**EXAMINATION REPORT**  
**of**  
**Molina Healthcare of Virginia, LLC**  
**Richmond, Virginia**  
**as of**  
**December 31, 2021**

# 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 Molina Healthcare of Virginia, LLC as of December 31, 2021, 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 11<sup>th</sup> day of May 2023

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
March 17, 2023

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

**MOLINA HEALTHCARE OF VIRGINIA, LLC**

Richmond, Virginia

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

**SCOPE OF THE EXAMINATION**

The Company was last examined by representatives of the State Corporation Commission Bureau of Insurance ("Bureau") as of December 31, 2018. This examination covers the period from January 1, 2019 through December 31, 2021

This examination was conducted in accordance with the NAIC Financial Condition Examiners' Handbook ("Handbook"). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary

information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

### **HISTORY**

The Company was incorporated in Virginia as Magellan Complete Care of Virginia, Inc. effective May 29, 2015. Magellan Healthcare, Inc., a wholly owned subsidiary of Magellan Health, Inc. was the sole member of the Company. The Company was converted to a limited liability company on February 4, 2016 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 December 5, 2016.

On December 31, 2020, Molina Healthcare, Inc. ("MHI"), a multi-state managed care organization that arranges for the delivery of healthcare services to persons eligible for Medicaid, Medicare, Marketplace, and other government-sponsored health care programs, closed on the acquisition of 100% of the outstanding equity interests of the Magellan Complete Care line of business of Magellan Health, Inc., which included the Company. The required Form A was filed with the Bureau and the transaction was approved on September 11, 2020. The Company was officially renamed Molina Healthcare of Virginia, LLC on June 21, 2021.

### **CAPITAL AND SURPLUS**

At December 31, 2021, the Company's capital and surplus was \$157,717,385. Capital and surplus was comprised of Gross paid in and contributed surplus of \$117,000,361 and Unassigned funds of \$40,717,024.

### **CAPITAL AND SURPLUS REQUIREMENT**

Section 38.2-4302 of the Code of Virginia states that a HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-211-30 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Section 38.2-4307.1 C states that a statement of covered and uncovered expenses shall not be required for any HMO that reports capital and surplus of at least \$4,500,000 on its most recent annual or quarterly financial statement. At December 31, 2021, the Corporation reported capital and surplus greater than \$4,500,000 and was not required to file a statement of covered and uncovered expenses.

## MANAGEMENT AND CONTROL

As of December 31, 2021, the Operating Agreement of the Company provides that the business and affairs of the Company will be managed by the Board of Managers. MHI shall elect as many managers to the Board as it deems sufficient. MHI may appoint one or more officers of the Company as it determines to be necessary.

At December 31, 2021, the Board and Officers were as follows:

### Managers

### Principal Occupation

Fay M. Adams

Regional Controller  
Molina Healthcare, Inc.  
Long Beach, California

Christopher B. Greene

Vice President, Core Operations  
Molina Healthcare, Inc.  
Long Beach, California

Darrin D. Johnson

Senior Vice President, Health Plans  
Molina Healthcare, Inc.  
Long Beach, California

### Officers

Darrin D. Johnson

President

Michael D. Fotinos

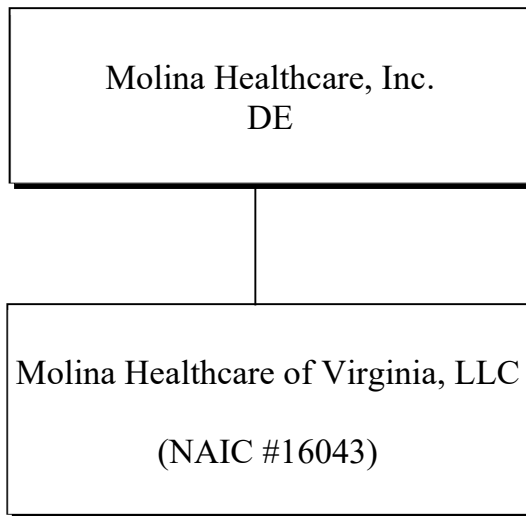
Chief Financial Officer

Jeffrey D. Barlow

Secretary

**AFFILIATED COMPANIES**

On December 31, 2020, MHI became the sole member of the Company. By virtue of this ownership, the Company is a member of an insurance holding company system as defined in Section 38.2-1322 of the Code of Virginia. The following chart summarizes the Company's relationship within the holding company system:



## **TRANSACTIONS WITH AFFILIATES**

### **Services Agreement**

Effective January 1, 2021, the Company entered into a Services Agreement with MHI. Pursuant to the provisions of the agreement, MHI shall provide, itself or through one or more of its affiliates, administrative services to the Company. These services include, but are not limited to, accounting and financial services, actuarial and underwriting, appeals and grievances, claims processing and administration, compliance, contract development and negotiations, enrollee and provider contact centers, enrollment materials and services, facilities management, fraud, waste, and abuse prevention, government relations, human resources, information technology, insurance, legal services, marketing, premium collection, print and fulfillment, privacy, security, and confidentiality, provider contract development and credentialing, quality assurance, training, utilization review, and other services, as more completely set forth in the Agreement.

As compensation for these services, the Company shall agree to pay to MHI, on a monthly basis, an amount reflecting the value of the services, assistance, consultation, materials, supplies, capital access, etc. As per the Agreement, the invoiced charges or fees for services performed must be fair and reasonable and expenses incurred and payment received must be allocated to the Company in conformity with customary statutory accounting practices consistently applied. Expenses incurred relating to this agreement amounted to \$32,006,305 for the year ended December 31, 2021.

### **Tax Allocation Agreement**

Effective January 1, 2021, the Company entered into a Tax Sharing Agreement with MHI which sets forth the standards pursuant to which MHI and the Company will file consolidated federal tax returns and how such tax will be allocated. The Company's federal income tax liability or refund is determined as if it was filing its own separate federal income tax return. The Tax Sharing Agreement also includes provisions for settling and reconciliation, right to offset, and tax preparation. Each party to the Tax Sharing Agreement bears its own expenses in connection with preparation of tax returns, tax contests, and other matters related to income taxes covered by the Tax Sharing Agreement.

### **Extraordinary Distribution**

On September 23, 2021, the Company received approval from the Bureau for a \$40,000,000 extraordinary distribution to MHI. On September 30, 2021, the Company completed the distribution, which was shown as a reduction in the amount of Gross paid in and contributed surplus in the Company's financial statements.



## **TERRITORY AND PLAN OF OPERATION**

At December 31 2021, the Company's service area included the entire Commonwealth of Virginia. Physician services are provided by physicians in independent practice in the Company's service area. Each member selects a Primary Care Physician ("PCP") from the list of the Company's primary providers. The PCP is the coordinator for all of the member's health care needs. All specialty services, hospital admissions and outpatient surgery require a prior written referral (except in emergencies) from a PCP.

## **HEALTH CARE SERVICES AGREEMENTS**

On August 1, 2017, the Company entered into a contract with the Virginia Department of Medical Assistance Services ("DMAS") to provide services under the Commonwealth Coordinated Care Plus Program ("CCC Plus"). The program pays capitated fees to the Company to provide managed care services to Virginia residents who are eligible for both Medicare and Medicaid services. The CCC Plus contract renews on an annual basis.

On August 1, 2018, the Company entered into a Medallion 4.0 Contract with DMAS to provide managed care services for Medicaid and Family Access to Medical Security Insurance ("FAMIS"). Pursuant to the contract, the Company is responsible for directly providing, arranging, purchasing, or otherwise making available the full scope of services to which enrollees are entitled under the respective programs. As compensation for these services, DMAS pays the Company a monthly capitation fee based on the number, age, and sex of the enrollees. The Medallion 4.0 contract renews on an annual basis.

## **PROVIDER AGREEMENTS**

### Medical Services

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

### Hospital Care

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

### Other Health Care Services

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

### **CONTRACT FORMS**

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

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

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

### GROWTH OF THE COMPANY

The following data is representative of the growth of the Company for the six-year period ending December 31, 2021. The data is compiled from the Company's filed Annual Statements and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Total Capital &amp; Surplus</u>		
2016	\$4,401,682	\$2,825	\$4,398,857		
2017	47,634,316	34,750,949	12,883,367		
2018	149,892,292	88,666,141	61,226,151		
2019	235,729,624	131,679,144	104,050,480		
2020	305,356,933	164,923,136	140,433,797		
2021	378,212,963	220,495,578	157,717,385		

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Medical &amp; Hospital Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2016	\$0	\$1,067	\$0	\$2,825	(\$1,758)
2017	73,758,086	47,703	74,632,128	13,205,312	(14,031,651)
2018	473,183,893	1,270,193	477,161,412	48,986,791	(51,694,117)
2019	842,378,835	3,634,763	764,523,033	78,253,630	3,236,935
2020	1,022,065,496	1,872,663	872,257,465	104,685,641	46,995,053
2021	1,015,395,253	967,021	831,920,636	113,880,838	70,560,800

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

<u>Year</u>	<u>Number of Members</u>
2016	0
2017	39,342
2018	53,754
2019	86,802
2020	109,278
2021	126,386

**EXCESS LOSS INSURANCE**

Effective August 1, 2020 to August 1, 2021, the Company entered into a Managed Care Excess Loss Insurance Policy with PartnerRe America Insurance Company ("PartnerRe"). For eligible expenses in each agreement year, the deductible is \$1,200,000 per member. Once the deductible has been reached in the agreement year, PartnerRe will reimburse the Company 90% of eligible expenses if the claim is received by PartnerRe by May 1, 2022 and 50% of eligible expenses if not received by May 1, 2022, up to a maximum of \$3,000,000 per member per agreement year.

**SPECIAL RESERVES AND DEPOSITS**

At December 31, 2021, the Bureau required the Company to maintain a minimum deposit of \$575,000 with the Treasurer of Virginia.

**FINANCIAL STATEMENTS**

The following financial statements present the financial condition of the Company for the period ending December 31, 2021. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2021.

**ASSETS**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$175,269,978		\$175,269,978
Cash and short-term investments	82,609,756		82,609,756
Investment income due and accrued	785,833		785,833
Uncollected premiums and agents' balances in the course of collection	108,790,274		108,790,274
Accrued retrospective premiums	90,695		90,695
Amounts receivable related to uninsured plans	43,720		43,720
Current federal income tax recoverable and interest thereon	1,516,637		1,516,637
Net deferred tax asset	28,887,045	20,567,417	8,319,628
Furniture and equipment	42,479	42,479	
Healthcare and other amounts receivable	8,393,782	8,116,498	277,284
Aggregate write-ins for other than invested assets	2,093,926	1,584,768	509,158
Totals	<u>\$408,524,125</u>	<u>\$30,311,162</u>	<u>\$378,212,963</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$92,009,788	\$23,743,102	\$115,752,890
Accrued medical incentive pool and bonus amounts	878,500		878,500
Unpaid claims adjustment expenses		953,474	953,474
Aggregate health policy reserves	79,677,295		79,677,295
General expenses due or accrued		13,336,306	13,336,306
Amounts due to parent, subsidiaries and affiliates	2,742,286		2,742,286
Aggregate write ins for other liabilities uninsured plans	<u>7,154,827</u>		<u>7,154,827</u>
Total liabilities	<u>\$182,462,696</u>	<u>\$38,032,882</u>	<u>\$220,495,578</u>
Gross paid in and contributed surplus			117,000,361
Unassigned funds (surplus)			<u>40,717,024</u>
Total capital and surplus			<u>\$157,717,385</u>
Total liabilities, capital and surplus			<u><u>\$378,212,963</u></u>

**STATEMENT OF REVENUE AND EXPENSES**

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$1,063,272,829
Change in unearned premium reserves and reserve for rate credits	XXX	(48,796,497)
Aggregate write-ins for other non-health revenues	XXX	918,921
	<hr/>	<hr/>
Total revenues	XXX	\$1,015,395,253
	<hr/>	<hr/>
<b>Hospital and Medical</b>		
Hospital/medical benefits	\$130,734,986	\$649,453,483
Other professional services	7,254,981	36,040,641
Prescription drugs	37,752,370	145,649,574
Incentive pool , withhold adjustments and bonus amounts		776,938
	<hr/>	<hr/>
Total hospital and medical	\$175,742,337	\$831,920,636
Claims adjustment expenses	33,963,733	33,963,733
General administrative expenses	79,917,105	79,917,105
	<hr/>	<hr/>
Total underwriting deductions	\$289,623,175	\$945,801,474
	<hr/>	<hr/>
Net underwriting gain	XXX	\$69,593,779
	<hr/>	<hr/>
Net investment income earned		\$975,047
Net realized capital losses		(8,026)
		<hr/>
Net investment gains		\$967,021
		<hr/>
Net income before federal income taxes	XXX	\$70,560,800
Federal income taxes incurred	XXX	13,625,497
	<hr/>	<hr/>
Net income	XXX	\$56,935,303
	<hr/> <hr/>	<hr/> <hr/>



**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR PERIOD UNDER REVIEW**

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Capital and surplus prior reporting year	<u>\$61,226,151</u>	<u>\$104,050,480</u>	<u>\$140,433,797</u>
<b>GAINS AND LOSSES TO CAPITAL AND SURPLUS</b>			
Net income	\$1,387,427	\$36,272,056	\$56,935,303
Change in net deferred income tax			28,887,045
Change in nonadmitted assets	(563,098)	111,261	(28,538,760)
Surplus adjustments: paid in	<u>42,000,000</u>	<u>                    </u>	<u>(40,000,000)</u>
Net change in capital and surplus	<u>\$42,824,329</u>	<u>\$36,383,317</u>	<u>\$17,283,588</u>
Capital and surplus end of reporting year	<u><u>\$104,050,480</u></u>	<u><u>\$140,433,797</u></u>	<u><u>\$157,717,385</u></u>

**CASH FLOW****Cash From Operations**

Premiums collected net of reinsurance	\$1,020,960,285
Net investment income	2,192,648
Miscellaneous income	918,921
Total	<u>\$1,024,071,854</u>
Benefit and loss related payments	\$824,213,407
Commissions, expenses paid and aggregate write-ins for deductions	107,489,280
Federal and foreign income taxes paid	16,826,282
Total	<u>\$948,528,969</u>
Net cash from operations	<u>\$75,542,885</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$15,007,586
Net gain on cash, cash equivalents, and short-term investments	(10,160)
Total investment proceeds	<u>\$14,997,426</u>
Cost of investments acquired (long-term only):	
Bonds	\$186,993,391
Total investments acquired	<u>\$186,993,391</u>
Net cash from investments	<u>(\$171,995,965)</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Capital and paid in surplus	(\$40,000,000)
Other cash provided	24,500,112
Net cash from financing and miscellaneous sources	<u>(\$15,499,888)</u>
Net change in cash and short-term investments	<u>(\$111,952,968)</u>

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

Cash and short-term investments:	
Beginning of year	\$194,562,724
End of year	82,609,756
Net change in cash and short-term investments	<u>(\$111,952,968)</u>

**SUBSEQUENT EVENTS**

1. The Company entered into a reinsurance agreement for the year 2022 with Oceangate Reinsurance, Inc. ("Oceangate"), a Utah corporation, which is an affiliate of the Company and a wholly owned subsidiary of MHI. The Reinsurance Agreement is effective as of January 1, 2022, for the period ending December 31, 2022.
2. On April 26, 2022, the Bureau approved an extraordinary cash dividend of \$30 million payable to MHI. On December 14, 2022, the Bureau approved an ordinary dividend of \$25 million payable to MHI.
3. On June 22, 2022, the Company established a Regulatory Compliance Committee, approved the Charter, and appointed a Chairperson and two additional members to the Committee.
4. Darrin Johnson resigned as Chief Executive Officer, Chairman of the Board, and as a manager of the Company on October 10, 2022. On October 10, 2022, James Johnson was appointed as Chief Executive Officer, Chairman of the Board, and as a manager of the Company.

**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, Chris J. Collins, CFE and Chamelle C. Macon participated in the work of the examination.

Respectfully submitted,

*William K. Knight*

William K. Knight, CFE  
Assistant Chief Examiner



May 4, 2023

David H. Smith, CFE, CPCU  
Chief Examiner

Dear Mr. Smith:

On behalf of Molina Healthcare of Virginia, LLC (the "Company"), please consider this the Company's acknowledgement to your April 26, 2023 email enclosing the Draft Report of Examination of Molina Healthcare of Virginia LLC (the "Report") as of December 31, 2021.

The Company has received and reviewed the Report and there are no objections to the factual material presented.

Please feel free to contact me should you have any questions or concerns.

Sincerely,

*James P. Johnson*

James Johnson  
President  
Molina Healthcare of Virginia, LLC