

Report on Examination
of
Better Health, Inc.
Miami, Florida
as of
December 31, 2015



**FLORIDA OFFICE OF
INSURANCE REGULATION**

David Altmaier, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

In accordance with Section 641.27, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Better Health, Inc. as of December 31, 2015. Our report on the examination follows.

Florida Office of Insurance Regulation
March 16, 2017

Contents

Scope of Examination	1
Company History	2
Corporate Records	2
Management and Control	3
Fidelity Bonds and Other Insurance	5
Pension, Stock Ownership and Insurance Plans	5
Territory and Plan of Operation	5
Company Growth	6
Reinsurance	7
Surplus Notes	7
Statutory Deposits	7
Financial Statements	8
Subsequent Events	13
Conclusion	14

SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2015 of Better Health, Inc. (the "Company"), which is a Florida health maintenance organization (HMO). The examination covered the period of January 30, 2015 (the date licensed by the State of Florida as a for-profit HMO) through December 31, 2015 and took place primarily in the Company's Miami, Florida office. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the 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. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statute (F.S.) 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 were separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was originally formed in 2006 as Better Health, LLC (a Limited Liability Company). Effective February 26, 2014, the Company filed a Certificate of Conversion with the State of Florida to change its corporate structure from a Florida Limited Liability Company to a Florida profit corporation. The Company was authorized by the State of Florida to operate as a for-profit HMO in accordance with Part I of Chapter 641, F.S. on January 30, 2015.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors, committees thereof, and the annual meetings of the sole shareholder from January 30, 2015, through the completion of fieldwork were reviewed. The minutes adequately reflected the ratification, confirmation and approval of the transactions and events undertaken by the Board of Directors and shareholder on behalf of the Company. The Board's approval of Company transactions was recorded in the minutes of its meetings. The Company had no investments as of 12/31/15 and therefore, there was no authorization of investments as required by Section 641.35(7), F.S.,

Dividends and Capital Contributions

The Company neither distributed dividends nor received capital contributions during the period examined.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Simply Healthcare Holdings, Inc. (the "Parent"), a Florida domiciled corporation. In 2014, the Parent entered into a Plan of Merger with Anthem, Inc., an Indiana health insurance holding corporation. All federal and state regulatory approvals were obtained and, the merger was finalized effective February 17, 2015. As a result of this merger, Anthem, Inc. became the ultimate controlling parent of the Company.

The Company's senior officers and directors as of December 31, 2015 were:

Senior Officers

<u>Name</u>	<u>Title</u>
Lourdes T. Rivas	Chief Executive Officer
Kathleen S. Kiefer	Secretary
R. David Kretschmer	Treasurer
Holly J. Prince	Chief Financial Officer

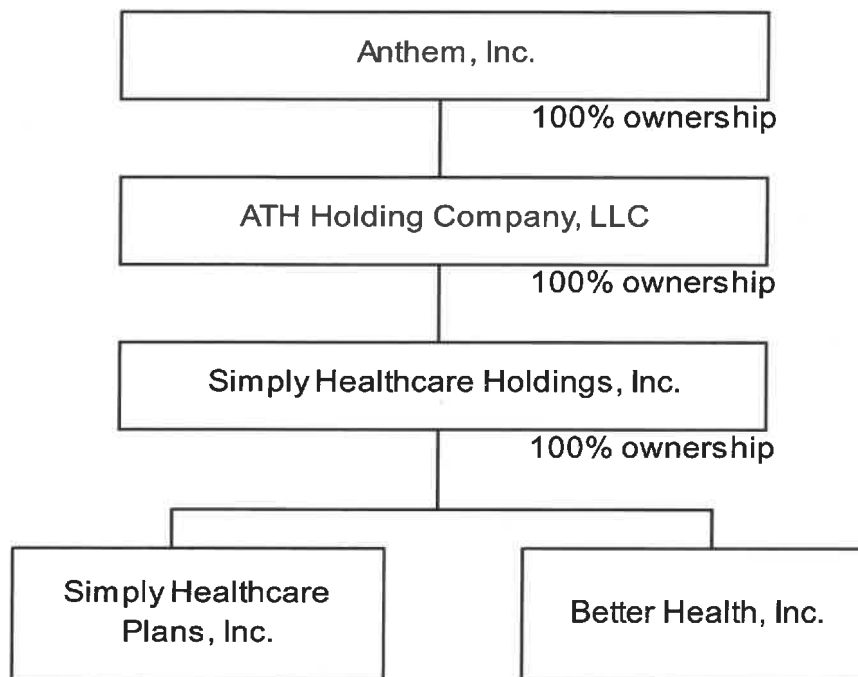
Board of Directors

<u>Name</u>	<u>Location</u>
Carter A. Beck	Manchester, New Hampshire
Catherine I. Kelaghan	Indianapolis, Indiana
Lourdes T. Rivas	Miami, Florida

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.), on March 31, 2016.

An abbreviated organizational chart reflecting the holding company system is shown below.

**Better Health, Inc.
Abbreviated Organizational Chart
December 31, 2015**



The following agreements were in effect between the Company and affiliates:

Management Agreements

The Company entered into a management services agreement in 2010 with Simply Health Care Plans, Inc. (Simply) whereby Simply manages the daily operations of Better. The Company and its affiliate, Simply, entered into an agreement on April 11, 2013 to purchase and sell Medicaid members in different regions within the state of Florida.

Consolidated Tax Allocation Agreements

The Company is party to a Consolidated Federal Income Tax Agreement with Anthem, Inc. and substantially all of its subsidiary companies in which it directly or indirectly has an 80% or greater ownership interest. The purpose of the Tax Agreement is to establish a method for allocating the

consolidated tax liability of the group among its members, and to provide for the allocation and payment of any refund arising from a carryback of losses or tax credits for subsequent taxable years. The Tax Agreement is effective for the consolidated income tax return filed for the taxable year ending December 31, 2015 and subsequent years until terminated.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained general and professional liability insurance at acceptable levels and required providers to certify and maintain appropriate levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069, F.A.C. The policies provided for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was insured by a blanket fidelity bond issued by a licensed Florida carrier, as required by Section 641.22(7), F.S., in the amount of \$10,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered a 401(k) plan to all employees who attained the age of 18 and completed 90 days of service. Its contributions to this plan are discretionary and the Company had made no contributions as of December 31, 2015.

TERRITORY AND PLAN OF OPERATION

The Company was originally formed in 2006 as Better Health, LLC (a Limited Liability Company). The Company was operating as a Provider Service Network (PSN) when it was acquired by the Parent in 2010. In 2013 the Company was awarded by the State of Florida's Agency for Health Care Administration a five-year contract for the Statewide Medicaid Managed Care (SMMC) Managed Medical Assistance (MMA) program in two regions. The current Company's health care provider certificate issued by the Florida Agency for Health Care Administration expires on

January 21, 2017. Effective February 26, 2014 the Company filed a Certificate of Conversion to change its corporate structure from a Florida Limited Liability Company to a Florida profit corporation. The Company obtained its initial Health Care Provider Certificate effective January 22, 2015. The Company was authorized by the State of Florida to operate as a for-profit HMO in accordance with Part I of Chapter 641, F.S. January 30, 2015. As an individual Practice Association (IPA) Model HMO, the Company had 95,517 members at year-end 2015. The Company provides health care and related services to Medicaid members in Broward, Polk, Hillsborough, Manatee, Hardee, and Highlands counties.

COMPANY GROWTH

The Company reported the following for years 2014 through 2015:

Better Health, Inc.

(Dollars are in millions.)

	<u>2014</u>	<u>2015</u>
Member months	1,456,851	1,115,606
Year-end enrollment	88,104	95,517
Premiums	\$ 158.6	\$ 267.3
Revenues	\$ 158.6	\$ 267.3
Underwriting deductions	\$ 167.0	\$ 268.3
Net income	\$ (8.5)	\$ (0.2)
Shareholder dividends	\$ -	\$ -
Paid in surplus received	\$ -	\$ -
Admitted assets	\$ 61.9	\$ 50.7
Liabilities	\$ 46.1	\$ 35.5
Capital and surplus	\$ 15.8	\$ 15.2

REINSURANCE

The Company purchased stop loss reinsurance from various reinsurers to cover provider claims which exceed certain deductible amounts. Under the stop loss reinsurance treaties, the Company cedes amounts in excess of \$350,000 of claims for each Medicaid standard plan member.

SURPLUS NOTES

As of December 31, 2015, the Company was obligated for surplus notes to Parent totaling \$10,500,000 bearing an 8% interest. In accordance with Section 641.19(19), F.S., and Statement of Statutory Accounting Principles No. 41, the debt was included in the Company's surplus. The surplus notes are as follows:

Note	Date	Amount
# 1	12/20/2012	\$ 2,500,000
# 2	12/31/2012	\$ 2,500,000
# 3	02/25/2013	\$ 5,500,000

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$300,000 in accordance with Section 641.285, F.S. It also maintained a Rehabilitation Administrative Expenses Fund deposit of \$10,000 in accordance with Section 641.227, F.S.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment would be documented separately following the Company's financial statements. Financial Statements, as reported and filed by the Company with the Office, are reflected in the following pages:

Better Health, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Cash, cash equivalents and short-term investments	\$ 43,761,382	\$ -	\$ 43,761,382
	43,761,382	-	43,761,382
Investment income due and accrued	893	-	893
Uncollected premiums and agents' balances	1,638,392	-	1,638,392
Accrued retrospective premiums	2,378,748	-	2,378,748
Amounts recoverable from reinsurers	97,362	-	97,362
Federal and foreign income tax recoverable	1,962,380	-	1,962,380
Healthcare and other amounts receivable	834,919	-	834,919
Total admitted assets	\$ 50,674,076	\$ -	\$ 50,674,076
Liabilities			
Claims unpaid	\$ 29,012,287	\$ -	\$ 29,012,287
Accrued medical incentive pool and bonus amounts	4,884,467	-	4,884,467
Unpaid claims adjustment expenses	980,650	-	980,650
Aggregate health policy reserves	306,539	-	306,539
General expenses due or accrued	220,374	-	220,374
Payable to parent, subsidiaries, and affiliates	55,827	-	55,827
Total liabilities	35,460,144	-	35,460,144
Capital and Surplus			
Aggregate write-ins for special surplus	4,874,590	-	4,874,590
Common capital stock	10	-	10
Gross paid in and contributed surplus	995,001	-	995,001
Surplus Notes	10,500,000	-	10,500,000
Unassigned funds (deficit)	(1,155,669)	-	(1,155,669)
Total capital and surplus	15,213,932	-	15,213,932
Total liabilities, capital and surplus	\$ 50,674,076	\$ -	\$ 50,674,076

Better Health, Inc.
Statement of Revenue and Expenses
Year Ended December 31, 2015

Net premium income	\$ 267,338,684
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Total Revenues	267,338,684
Hospital and medical benefits	119,165,008
Other professional services	64,641,127
Prescription drugs	51,433,149
Incentive pool, withhold adjustments, bonus amounts	3,056,009
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	238,295,293
Net reinsurance recoveries	103,104
<hr/>	
Total hospital and medical	238,192,189
Claims adjustment expenses	6,341,286
General administrative expenses	23,717,325
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Total underwriting deductions	268,250,800
Net underwriting gain	(912,116)
Net investment gains	10,272
Net realized capital gains	0
Aggregate wrt-ins for other income or expenses	(124,300)
<hr/>	
Income before federal income tax	(1,026,144)
Federal income tax	(834,476)
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Net income	\$ (191,668)
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Better Health, Inc.
Statement of Changes in Capital and Surplus
Year Ended December 31, 2015

Capital and surplus - December 31, 2014	\$ 15,817,890
Net income	(191,668)
Change in nonadmitted assets	(412,290)
	<hr/> 15,213,932
Examination adjustments	-
Capital and surplus - December 31, 2015	<hr/> <u>\$ 15,213,932</u>

Better Health, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2015

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2015 - per annual statement				\$ 15,213,932
	Per	Per	Increase	
	Company	Examination	(Decrease)	
	<u> </u>	<u> </u>	In Capital	
	& Surplus		& Surplus	
Total assets	\$50,674,076	\$50,674,076	\$ -	
Total liabilities	\$ 35,460,144	\$ 35,460,144	\$ -	-
Capital and surplus, December 31, 2015 - per examination				\$ 15,213,932

SUBSEQUENT EVENTS

Effective January 1, 2016 the Company entered into an administrative services agreement with its affiliated companies. Pursuant to this agreement, various administrative, management and support services are provided to or provided by the Company. The costs and expenses related to these administrative management and support services are allocated to or allocated by the Company in an amount equal to the direct and indirect costs and expenses incurred in providing these services. Costs include expenses such as salaries, employee benefits, communications, advertising, consulting services, billing, accounting, underwriting and product development, which support the Company's operations. These costs are allocated based on various utilization statistics.

In 2016, the Company decided not to renew the existing reinsurance contracts and utilize a self-funding reinsurance model, consistent with Anthem's policy. A feasibility study was conducted to support the position that the plans are capable of self-funding the catastrophic level claims that were covered under reinsurance policies.

On July 24, 2015, Anthem and Cigna Corporation, or Cigna, announced that the companies had entered into an Agreement and Plan of Merger as of July 23, 2015, pursuant to which Anthem would acquire all outstanding shares of Cigna. In July 2016, the Department of Justice (DOJ), along with certain State Attorneys General, filed a civil antitrust lawsuit in the District Court seeking to block the Acquisition. On February 8, 2017, the District Court ruled in favor of the DOJ. As of the date of this report, Anthem's appeal of the denial was still pending.

In February 2015, Anthem was the target of a sophisticated external cyber attack. The attackers gained unauthorized access to certain information technology systems and obtained personal

information related to many individuals and employees. Actions have been filed in various federal and state courts and other claims have been or may be asserted against Anthem on behalf of current or former members, current or former employees, other individuals, shareholders or others seeking damages or other related relief, allegedly arising out of the cyber attack.

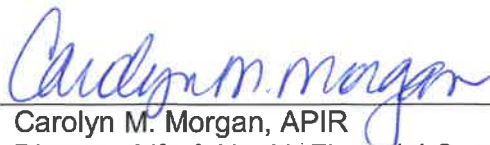
CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Better Health, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2015, the Company's capital and surplus was \$15,213,932 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, the following individuals participated in the examination: Eric Free, CFE, ALMI, Jean Adams-Harris, CFE, CPA, CISA, AES, MCM, Uso Sayers, CISA, IT Specialist and Alexander Pirie, CPA, CMA, Participating Examiners of Johnson Lambert LLP. We also recognize Margaret M. McCrary, CPA, CGMA, Financial Examiner/Analyst Supervisor; Shantia Simmons, Financial Specialist; Marshay Spencer, Financial Specialist; Lisa Parker, ASA, MAA, Actuary; and Shawn Steinly, ASA, Actuary, participating in the examination.

Respectfully submitted,



Carolyn M. Morgan, APIR
Director, Life & Health Financial Oversight
Florida Office of Insurance Regulation