

Report on Examination
of
Simply Healthcare Plans, 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 Simply Healthcare Plans, Inc. as of December 31, 2015. Our report on the examination follows.

Florida Office of Insurance Regulation
March 16, 2017

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2015 of Simply Healthcare Plans, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2015 through December 31, 2015 and took place primarily in the Company's Miami, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2014.

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 incorporated in Florida on September 10, 2009 and was licensed by the Office as a for-profit HMO on January 7, 2010. It was authorized by the State of Florida to operate as a for-profit HMO in accordance with Part I of Chapter 641, F.S.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors, committees thereof, and the annual meetings of the sole shareholder from January 1, 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, including the authorization of its investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

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

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

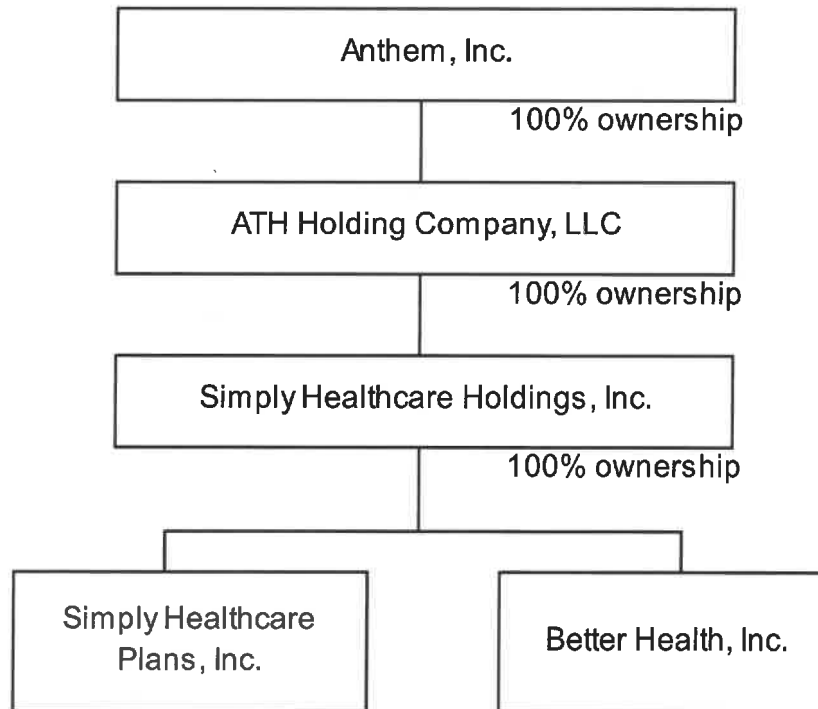
Board of Directors

Name	Location
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.

**Simply Healthcare Plans, 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 Agreement with the Parent whereby the Parent provided management functions in the field of managed health care. The agreement was entered on October 29, 2009 and amended on September 11, 2014 to be effective January 7, 2010.

The Company entered into a Management Services Agreement with Better Health, Inc. (Better) in 2010 whereby the Company manages the daily operations of Better. The Company and its affiliate, Better, 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.

Service Agreements

In March 2012 the Company entered a service agreement with a related party through common ownership in which a celebrity would provide certain marketing and communications services regarding the Company's managed care services. The agreement established monthly reoccurring installments until the expiration in March 2017. The Company can terminate the agreement under certain conditions specified in the agreement.

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 provides healthcare and related services to Medicaid, Medicare and HIV/AIDS members in Florida. 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. The Company obtained its initial Health Care Provider Certificate effective December 17, 2009 in accordance with Part III of Chapter 641, F.S. and Chapter 59A-12 F.A.C., with subsequent renewals in December 2011, December 2013 and December 2015. The Company's current healthcare provider certificate issued by the Florida Agency for Health Care Administration expires December 16, 2017. As an Individual Practice Association (IPA) Model HMO, the Company had 116,224 members at year-end 2015.

In August 2011, the Company entered into a contract with Centers for Medicaid and Medicare (CMS) as a Medicare Advantage Provider effective January 1, 2012. The Company, under its d/b/a Clear Health Alliance (Clear), entered into a contract with the State of Florida in February 2012 to provide Medicaid benefits to members with HIV/AIDS. In 2013, the Company was awarded a five-year contract by the State of Florida's Agency for Health Care Administration for the Statewide Medicaid Managed Care (SMMC) Managed Medical Assistance (MMA) program in ten regions under its d/b/a Clear and one region for the Simply name. In 2013, the Company received approval from the Office to add the commercial line of business to its products and also received authority to operate as a Third Party Administrator.

The Company was authorized to provide Medicaid and Medicare Services in the following Florida Counties: Miami-Dade, Osceola, Seminole, Orange and Polk. The Company was authorized to provide Medicaid-only services in the following Florida counties: Alachua, Bay, Bradford, Brevard, Broward, Calhoun, Charlotte, Citrus, Collier, Columbia, DeSoto, Dixie, Escambia, Franklin, Gadsden, Gilchrist, Glades, Gulf, Hamilton, Hardee, Hendry, Hernando, Highlands, Hillsborough, Holmes, Indian River, Jackson, Jefferson, Lafayette, Lake, Lee, Leon, Levy, Liberty, Madison, Manatee, Marion, Martin, Monroe, Okaloosa, Okeechobee, Palm Beach, Pasco, Pinellas, Putnam, Saint Lucie, Santa Rosa, Sarasota, Sumter, Suwannee, Taylor, Union, Wakulla, Walton, and Washington.

COMPANY GROWTH

The Company reported the following for years 2014 through 2015:

Simply Healthcare Plans, Inc.

(Dollars are in millions.)

	<u>2014</u>	<u>2015</u>
Member months	1,103,246	1,366,614
Year-end enrollment	116,166	116,224
Premiums	\$ 834.6	\$ 985.3
Revenues	\$ 834.6	\$ 986.2
Underwriting deductions	\$ 812.2	\$ 944.4
Net income	\$ 11.9	\$ 21.8
Shareholder dividends	\$ -	\$ -
Paid in surplus received	\$ -	\$ -
Admitted assets	\$ 199.9	\$ 183.3
Liabilities	\$ 172.5	\$ 137.2
Capital and surplus	\$ 27.3	\$ 46.1

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 Medicare and Medicaid standard plan member. For the Medicaid specialty plan by Clear, the Company cedes amounts in excess of \$250,000.

SURPLUS NOTES

As of December 31, 2015, the Company was obligated for surplus notes to Parent totaling \$20,559,808 bearing an 8% interest rate. The notes were filed with the Office and complied with the requirements of Rule 69O-191.088, F.A.C. 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:

<u>Note</u>	<u>Date</u>	<u>Amount</u>
# 1	05/04/2010	\$ 7,559,808
# 2	09/02/2010	\$ 4,967,102
# 3	09/17/2010	\$ 2,032,898
# 4	12/20/2012	\$ 2,500,000
# 5	12/31/2012	\$ 2,500,000
# 6	12/31/2013	\$ 1,000,000

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., and 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:

Simply Healthcare Plans, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2015

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 64,559,757	\$ -	\$ 64,559,757
Cash, cash equivalents and short-term investments	92,585,051	-	92,585,051
	157,144,808	-	157,144,808
Investment income due and accrued	697,751	-	697,751
Uncollected premiums and agents' balances	10,759,189	-	10,759,189
Accrued retrospective premiums	6,642,793	-	6,642,793
Amounts recoverable from reinsurers	252,686	-	252,686
Amounts receivable from relating to uninsured plans	432,708	-	432,708
Net deferred tax asset	3,523,223	-	3,523,223
Electronic data processing equipment and software	1,223,472	-	1,223,472
Healthcare and other amounts receivable	2,629,425	-	2,629,425
Aggregate write-ins for other than invested assets	10,000	-	10,000
Total admitted assets	\$ 183,316,055	\$ -	\$ 183,316,055
Liabilities			
Claims unpaid	\$ 83,129,310	\$ -	\$ 83,129,310
Accrued medical incentive pool and bonus amounts	17,426,184	-	17,426,184
Unpaid claims adjustment expenses	2,777,079	-	2,777,079
Aggregate health policy reserves	3,011,007	-	3,011,007
General expenses due or accrued	10,706,031	-	10,706,031
Current federal and foreign income tax payable	4,558,726	-	4,558,726
Payable to parent, subsidiaries, and affiliates	2,974,679	-	2,974,679
Liability for amounts held under uninsured plans	6,212,617	-	6,212,617
Aggregate write-ins for other liabilities	6,403,204	-	6,403,204
Total liabilities	137,198,837	-	137,198,837
Capital and Surplus			
Aggregate write-ins for special surplus	20,013,754	-	20,013,754
Common capital stock	57	-	57
Gross paid in and contributed surplus	5,714,050	-	5,714,050
Surplus Notes	20,559,808	-	20,559,808
Unassigned funds (deficit)	(170,451)	-	(170,451)
Total capital and surplus	46,117,218	-	46,117,218
Total liabilities, capital and surplus	\$ 183,316,055	\$ -	\$ 183,316,055

Simply Healthcare Plans, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2015

Net premium income	\$ 985,291,150
Change in unearned premium reserves	913,509
Total Revenues	986,204,659
Hospital and medical benefits	289,246,910
Other professional services	196,317,298
Prescription drugs	294,950,327
Incentive pool, withhold adjustments, bonus amounts	52,849,209
	833,363,744
Net reinsurance recoveries	321,986
Total hospital and medical	833,041,758
Claims adjustment expenses	25,588,128
General administrative expenses	85,788,144
Total underwriting deductions	944,418,030
Net underwriting gain	41,786,629
Net investment gains	742,319
Net realized capital gains	6,242
Net loss from agents' or premium balances charged off	(422,334)
Income before federal income tax	42,112,856
Federal income tax	20,301,937
Net income	\$ 21,810,919

Simply Healthcare Plans, Inc.
Statement of Changes in Capital and Surplus
Year Ending December 31, 2015

Capital and surplus - December 31, 2014	\$ 27,319,293
Net income	21,810,919
Change in net unrealized capital gains	-
Change in net deferred income tax	5,967,785
Change in nonadmitted assets	(8,980,779)
	<hr/> 46,117,218
Examination adjustments	-
Capital and surplus - December 31, 2015	<hr/> <hr/> \$ 46,117,218

Simply Healthcare Plans, 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.

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Capital and surplus, December 31, 2015 - per annual statement				\$ 46,117,218
Total assets	\$ 183,316,055	\$ 183,316,055	\$ -	
Total liabilities	\$ 137,198,837	\$ 137,198,837	\$ -	-
Capital and surplus, December 31, 2015 - per examination				<u>\$ 46,117,218</u>

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 Simply Healthcare Plans, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2015, the Company's capital and surplus was \$46,117,218 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