

Report on Examination

of

Sunshine State Health Plan, Inc.

Sunrise, Florida

as of

December 31, 2017



**FLORIDA OFFICE OF
INSURANCE REGULATION**



**FINANCIAL SERVICES
COMMISSION**

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OFFICE OF INSURANCE REGULATION

**DAVID ALTMAIER
COMMISSIONER**

David Altmaier, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399

Dear Sir:

In accordance with Section 624.316 and 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 Sunshine State Health Plan, Inc. as of December 31, 2017. Our report on the examination follows.

Florida Office of Insurance Regulation
April 22, 2019

Contents

Scope of Examination.....	1
Summary of Significant Findings.....	1
Company History.....	2
Corporate Records.....	2
Dividends and Capital Contributions.....	2
Management and Control.....	2
Affiliated and Other Agreements.....	5
Territory and Plan of Operations.....	8
Company Growth.....	8
Reinsurance.....	8
Accounts and Records.....	9
Surplus Notes.....	9
Statutory Deposits.....	9
Financial Statements.....	9
Comments on Financial Statements.....	14
Summary of Recommendations.....	14
Subsequent Events.....	14
Conclusion.....	15

SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2017 of Sunshine State Health Plan, Inc. (Company), a Florida Health Maintenance Organization (HMO). The examination covered the period of January 1, 2013 through December 31, 2017 and took place in Tallahassee, Florida and at the Company's Sunshine, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (Office) was as of December 31, 2012. Both examinations were conducted as a coordinated multi-state examination with Texas being the lead state.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook required that we plan and perform our examination to evaluate the financial condition and identify current and prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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.

SUMMARY OF SIGNIFICANT FINDINGS

There were no reportable findings as a result of this examination.

COMPANY HISTORY

The Company was incorporated in Florida on April 3, 2007 and licensed by the Office as a Health Maintenance Organization (HMO) on May 7, 2008. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S.

CORPORATE RECORDS

We reviewed the minutes of meetings held by the Board of Directors (Board), and by its Audit and Finance Committees. The Board's approval of Company transactions, including the authorization of its investments, was recorded in the minutes of its meetings as required by Section 641.35(7), F.S.

DIVIDENDS AND CAPITAL CONTRIBUTIONS

The Company distributed no dividends during the period examined.

The Company received contributed capital and surplus in the amounts of \$8.2 million, \$184.2 million and \$194 million in years 2013 through 2015, respectively.

MANAGEMENT AND CONTROL

The Company is wholly owned by Sunshine Health Holding LLC, a wholly owned subsidiary of Centene Corporation (Centene). With headquarters in Saint Louis, Missouri, Centene is a diversified, multi-line health care enterprise providing programs and services to government-sponsored health care programs and focusing on under-insured and uninsured individuals. Centene's common is stock traded on the New York Stock Exchange.

Its senior officers and directors were:

Senior Officers	
<u>Name</u>	<u>Title</u>
Chris Edward Patterson	President and Chief Executive Officer
Keith H. Williamson	Secretary
Jeffrey A. Schwaneke	Treasurer
Nathan Landsbaum	Chief Operating Officer
Tricia Lynn Dinkelman	Vice President of Tax
Alain Ferzli	Vice President
Jesse N. Hunter	Vice President
Mark W. Eggert	Vice President
Debra Smyers	Vice President

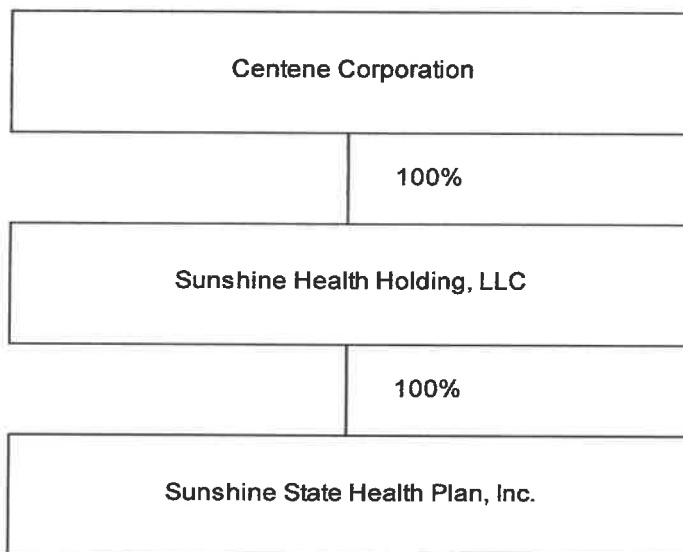
Board of Directors	
<u>Name</u>	<u>Location</u>
Nelson Adams, M.D.	Miami Shores, Florida
Glen Casel	Chuluota, Florida
Chris Edward Patterson	Parkland, Florida
Thomas Wise	Austin, Texas
Gwen Wurm, M.D.	Miami, Florida

All principal committees of the Company are appointed by the parent Company.

The Holding Company Registration Statement for 2017 was filed timely with the State of Florida as required by Section 628.801, F.S, and Rule 69O-143.046, Florida Administrative Code (F.A.C.).

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

**Abbreviated Organizational Chart
December 31, 2017**



AFFILIATED AND OTHER AGREEMENTS

Management Services Agreement

On January 1, 2014 the Company amended and restated the Management Services Agreement with Centene Management Company, LLC. (CMC) originally effective September 1, 2008. Under the agreement, CMC provided data, claims processing, case management, care coordination and general management services to the Company. Management fees for the years 2013 through 2017 were \$81,235,229, \$175,361,819, \$230,593,674, \$261,072,707 and \$272,380,016 respectively.

Tax Sharing Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of Centene. Income taxes were allocated to the Company in accordance with a tax sharing agreement. The allocation was primarily on a separate return basis using a percentage method to allocate a tax asset for any benefit derived by the consolidated group for the Company's losses or credits which offset consolidated taxable income.

Behavioral Health Services Agreement

Cenpatico Behavioral Health, LLC (Cenpatico) provided behavioral health services to the Company pursuant to an April 1, 2008 agreement with the Company. The Company reported a payable to Cenpatico in the amounts of \$538,617, \$1,644,081, \$10,709,739, \$487,440 and \$835,739 for services rendered in years 2013 through 2017, respectively.

U.S. Medical Management Services Agreement

On April 1, 2014, the Company entered into an agreement with U.S. Medical Management, LLC (USMM) to provide in-home health services. The Company did not report a payable to USMM in 2014. The Company reported a payable to USMM in the amounts of \$320,194, \$760,643 and \$1,229,709 in years 2015 through 2017, respectively.

Vision Services Agreement

Envolve Vision of Florida, Inc. (formally known as Ocucare Systems, Inc.) provided vision management services to the Company's members pursuant to a December 1, 2007 agreement with the Company. The Company reported a payable to Ocucare Systems, Inc. in the amounts of \$460, \$0 and \$1,199,455 in years 2013, 2014 and 2015, respectively. In 2016, Ocucare Systems, Inc. changed its name to Envolve Vision of Florida, Inc. The Company reported a payable to Envolve Vision of Florida, Inc. in the amounts of \$449,792 and \$1,428,355 for years 2016 and 2017, respectively.

Dental Services Agreement

On December 1, 2014 the Company entered an agreement with Dental Health and Wellness, Inc. to provide dental services to the Company's members. The Company reported a payable to Dental Health and Wellness, Inc. in the amount of \$2,582,758 for 2015. In 2016, Dental Health and Wellness, Inc. changed its name to Envolve Dental, Inc. The Company reported a payable to Envolve Dental, Inc. in the amounts of \$137,405 and \$285,217 for years 2016 and 2017, respectively.

LifeShare Management Services Agreement

On December 1, 2016, the Company entered into an agreement with LifeShare Management Group, LLC (LifeShare) to provide member engagement services. The Company reported a payable to LifeShare in the amounts of \$182,094 and \$502,476 for years 2016 and 2017, respectively.

Master Services Agreement

Envolve PeopleCare, Inc. (formally NurseWise, LP) provided triage and outbound calling services to the Company's members pursuant to an agreement with the Company effective September 1, 2008. The Company did not report a payable to NurseWise, LP for years 2013 or 2014. The Company reported a payable to NurseWise, LP in the amount of \$7,593 for year 2015. In 2016, NurseWise, LP changed its name to Envolve PeopleCare, Inc. and combined with Nurtur Health,

Inc. The Company reported a total payable to Envolve PeopleCare, Inc. in the amounts of \$42,633 and \$321,992 for years 2016 and 2017, respectively.

Disease Management Services Agreement

Envolve PeopleCare, Inc. (formally Nurtur Health, Inc.) provided disease management services to the Company's members pursuant to an agreement with the Company effective August 18, 2009. The Company reported a payable to Nurtur Health, Inc. in the amounts of \$0, \$9,963 and \$40,085 for years 2013, 2014 and 2015, respectively. In 2016, Nurtur Health, Inc. changed its name to Envolve PeopleCare, Inc. and combined with Nurse Wise, LP. The Company reported a total payable to Envolve PeopleCare, Inc. in the amounts of \$42,633 and \$321,992 for years 2016 and 2017, respectively.

Marketplace Services Agreement

On January 1, 2014 the Company entered into an agreement with Nurse Response, Inc. to provide triage services and outbound calling services to the Company's Marketplace business. In 2014 and 2015, the Company did not report a payable to Nurse Response, Inc. This agreement was for the Marketplace business which moved from Sunshine State Health Plan to the Celtic business unit on January 1, 2016; therefore, terminating this agreement effective January 1, 2016.

Pharmacy Benefit Management Agreements

U.S. Script, Inc. provided pharmacy claims administration services to the Company and pharmacy benefits to the Company's Medicaid members pursuant to an agreement with the Company effective December 1, 2007. In 2013, the Company reported a payable to U.S. Script, Inc. in the amount of \$3,278,925. On January 1, 2014 the Company entered into another pharmacy benefit management agreement with U.S. Script, Inc. to include the Marketplace business line. The Company reported a total payable to U.S. Script, Inc. in the amounts of \$1,510,688 and \$1,100,094 for years 2014 and 2015, respectively. In 2016, the Company transitioned from U.S. Script to Envolve Pharmacy Solutions, Inc. continuing the pharmacy benefit management services. Expenses for the year ending December 31, 2017 and 2016 were \$333,992,533 and \$320,750,473, respectively. As of December 31, 2017 and 2016, the Company reported no amounts payable to Envolve Pharmacy Solutions, Inc.

TERRITORY AND PLAN OF OPERATIONS

The Company provided managed health care benefits and services to Medicaid and long-term care members pursuant to agreements with the Florida Agency for Health Care Administration (AHCA) and the Florida Department of Elder Affairs. It provided products under the Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), and Nursing Home Diversion programs, as well as the State Children's Health Insurance Program (CHIP). As of 2015, the Company no longer covered marketplace business.

The Company held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, F.S., valid until April 21, 2020. As an Independent Practice Association (IPA) model HMO, the Company had 576,914 members as of December 31, 2017, of which 90% were Medicaid members.

COMPANY GROWTH

The Company reported the following for years 2013 through 2017.

(in millions except for Member months and Year-end enrollment)

	2013	2014	2015	2016	2017
Member months	2,593,130	4,047,925	5,975,624	6,654,993	6,885,553
Year-end enrollment	221,326	445,312	528,927	569,257	576,914
Premiums	771.3	2,268.5	3,125.4	3,627.5	3,761.9
Revenues	771.3	2,268.5	3,125.4	3,627.5	3,761.9
Underwriting deductions	762.5	2,423.4	3,103.1	3,576.8	3,753.5
Net income	5.9	(119.3)	27.1	23.0	5.9
Shareholder dividends	-	-	-	-	-
Paid in surplus received	99.7	284.0	478.0	478.0	478.0
Admitted assets	195.9	541.5	692.8	676.5	735.6
Liabilities	140.1	425.3	361.8	318.6	367.1
Capital and surplus	55.8	116.2	330.9	357.9	368.5

REINSURANCE

The Company maintained reinsurance with Bankers Reserve Life for years 2013 through 2016. In 2017, the Company terminated the Bankers Reserve Life (affiliate) stop-loss reinsurance agreement and began reinsuring with PartnerRe America Insurance Company. Effective January 1, 2017, the reinsurance covered specified health care services in excess of \$1,250,000 per covered person with a maximum payable of \$3,000,000 per covered person.

ACCOUNTS AND RECORDS

There were no examination findings related to the Company's accounts and records.

SURPLUS NOTES

The Company had no surplus note obligations during the period covered by this financial examination.

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.

In addition, the Company held \$66,391,845 and is included in bonds, receivable for securities and cash, cash equivalents and short-term investments in money market mutual funds for the benefit of AHCA.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included. 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:

Sunshine State Health Plan, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$410,214,523	\$ -	\$ 410,214,523
Cash, cash equivalents and short-term investments	276,512,612	-	276,512,612
Receivables for securities	3,500,000	-	3,500,000
Investment income due and accrued	2,687,797	-	2,687,797
Uncollected premiums and agents' balances	12,832,571	-	12,832,571
Accrued retrospective premiums	78,921	-	78,921
Amounts recoverable from reinsurers	125,891	-	125,891
Amounts receivable relating to uninsured plans	332,781	-	332,781
Current income tax recoverable	19,237,874	-	19,237,874
Net deferred tax asset	6,099,849	-	6,099,849
Healthcare and other amounts receivable	2,294,453	-	2,294,453
Aggregate write-ins for other than invested assets	1,672,354	-	1,672,354
Total admitted assets	\$735,589,626	\$ -	\$ 735,589,626

Liabilities			
Claims unpaid	\$ 345,496,223	\$ -	\$ 345,496,223
Accrued medical incentive pool and bonus amounts	10,606,311	-	10,606,311
Unpaid claims adjustment expenses	5,928,000	-	5,928,000
Aggregate health policy reserves	983,886	-	983,886
General expenses due or accrued	4,043,169	-	4,043,169
Total liabilities	\$ 367,057,589	\$ -	\$ 367,057,589

Capital and Surplus			
Aggregate write-ins for special surplus funds	\$ 37,239,987	\$ -	\$ 37,239,987
Common capital stock	10	-	10
Gross paid in and contributed surplus	477,969,945	-	477,969,945
Unassigned funds (deficit)	(146,677,905)	-	(146,677,905)
Total capital and surplus	368,532,037	-	368,532,037
Total liabilities, capital and surplus	\$ 735,589,626	\$ -	\$ 735,589,626

Sunshine State Health Plan, Inc.
Statement of Revenue and Expenses
Year Ended December 31, 2017

Net premium income	\$ 3,761,884,472
Hospital and medical benefits	2,772,145,417
Other professional services	296,910,064
Emergency room and out-of-area	115,960,125
Prescription drugs	328,426,947
Incentive pool, withhold adjustments and bonus amounts	15,748,664
	<u>3,529,191,217</u>
Net reinsurance recoveries	2,341,808
Total hospital and medical	<u>3,526,849,409</u>
Claims adjustment expenses	54,106,809
General administrative expenses	171,553,989
Increase in reserves for life and accident and health contracts	983,886
Total underwriting deductions	<u>3,753,494,093</u>
Net underwriting gain	8,390,379
Net investment income earned	10,030,806
Net realized capital gains (losses)	23,555
Net investment gains (losses)	10,054,361
Net gain (loss) from agents or premium balances charged	(179,392)
Aggregate write-ins for other income and expenses	<u>(5,479,188)</u>
Income before federal income tax	12,786,160
Federal income tax	6,893,606
Net income	<u><u>\$ 5,892,554</u></u>

Sunshine State Health Plan, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2017

Capital and surplus - December 31, 2012	\$	40,842,032
Net income		5,864,527
Change in net deferred income tax		2,565,534
Change in nonadmitted assets		(1,794,365)
Surplus Adjustments Paid In		8,275,000
Aggregate write-ins for gains or (losses)		-
Capital and surplus - December 31, 2013	\$	55,752,728
Net income		(119,274,558)
Change in net deferred income tax		811,548
Change in nonadmitted assets		(5,298,892)
Surplus Adjustments Paid In		184,250,000
Aggregate write-ins for gains or (losses)		-
Capital and surplus - December 31, 2014	\$	116,240,826
Net income		27,075,542
Change in net deferred income tax		(3,377,085)
Change in nonadmitted assets		(3,004,103)
Surplus Adjustments Paid In		194,000,000
Aggregate write-ins for gains or (losses)		-
Capital and surplus - December 31, 2015	\$	330,935,180
Net income		22,983,851
Change in net deferred income tax		10,245,583
Change in nonadmitted assets		(6,305,603)
Surplus Adjustments Paid In		-
Aggregate write-ins for gains or (losses)		-
Capital and surplus - December 31, 2016		357,859,011
Net income		5,892,554
Change in net unrealized capital gains(loss) less capital gains tax of \$686		5,879
Change in net deferred income tax		(4,145,734)
Change in nonadmitted assets		8,920,327
Surplus Adjustments Paid In		-
		368,532,037
Examination adjustments		-
Capital and surplus - December 31, 2017	\$	368,532,037

Sunshine State Health Plan, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2017

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>	Increase (Decrease) In Capital & Surplus	
Capital and surplus, December 31, 2017 - per Annual Statement				\$ 368,532,037
Total assets	\$ 735,589,626	\$ 735,589,626	\$ -	
Total liabilities	\$ 367,057,589	\$ 367,057,589	\$ -	
Capital and surplus, December 31, 2017 - per examination				<u><u>\$ 368,532,037</u></u>

COMMENTS ON FINANCIAL STATEMENTS

The examination actuaries concluded that the assumptions and methodologies used by the Company to develop the Claims Unpaid liabilities were reasonable.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

SUBSEQUENT EVENTS

The examination also considered notable subsequent events occurring after the December 31, 2017 examination date:

Chris Edward Patterson resigned as President/CEO on July 13, 2018. Donald Chris Coffey was appointed as President/CEO on September 20, 2018.

Nathan Landsbaum term ended as Chief Operating Officer on February 15, 2018.

Alain Ferzli resigned as Vice President on June 15, 2018.

Monica Navarro was appointed as Plan Chief Financial Officer September 20, 2018.

CONCLUSION

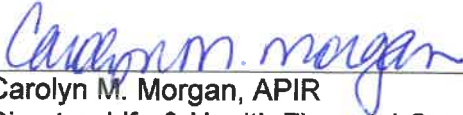
The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Sunshine State Health Plan, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2017, the Company's capital and surplus was \$368,532,037 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

The following individuals participated in the examination: Tracy D. Gates, CFE, CISA, Examiner-in-Charge; Sheri Kenney, CFE, Participating Examiner; Travis Harrison, Participating Examiner; Lori Jester, Participating Examiner of Highland Clark, LLC as well as Kirk Braunis, ASA, MAAA, Examination Actuary and Brett Miller, FCAS, MAAA, ARM, Examination Actuary of Merlinos & Associates, Inc.

The following individuals from the Florida Office of Insurance Regulation also participated in the examination: Marshay L. Spencer, APIR, Financial Examiner/ Analyst Supervisor and Shantia Simmons, APIR, Reinsurance/Financial Examiner.

Respectfully submitted,



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