BEFORE ALLAN L. MCVEY, INSURANCE COMMISSIONER
OF THE STATE OF WEST VIRGINIA

In the Matter of:

COVENTRY HEALTH CARE OF WEST VIRGINIA, INC. (NAIC #95408)

ADMINISTRATIVE PROCEEDING NO. 22-IC-02154

ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION

NOW COMES, Allan L. McVey, Insurance Commissioner of the State of West Virginia (hereinafter, "Commissioner"), who, after consideration of the Report of Financial Examination (hereinafter, the "Examination Report") of Coventry Health Care of West Virginia, Inc. (hereinafter referred to as "Company" or "CHCWV"), as of December 31, 2020, made the following findings of fact, conclusions of law and order.

FINDINGS OF FACT

1. The Company was incorporated on August 11, 1994, as a non-profit, non-stock health maintenance organization in the State of West Virginia in accordance with *West Virginia Code* §33-25A-1 et seq. CHCWV commenced business on January 2, 1995. The Company is authorized to transact business as a health maintenance organization under the provisions of Article 25A of Chapter 33 of the *West Virginia Code*. The Company is licensed in all 55 counties in West Virginia, primarily serving Medicaid eligible participants. The Company also offers Medicare Advantage and Dual Special Needs Plans. In 2020, membership increased due to growth related to COVID-19 and the introduction of Medicaid Foster Care coverage.

2. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2016, and ending December 31, 2020, was conducted in accordance with *West Virginia Code* §33-2-9(c) by the Insurance Commissioner. The examination

was performed as part of a multi-state, coordinated examination of the CVS Health / Aetna Inc. group, with the State of Connecticut serving as the lead state. Concurrent and coordinated financial examinations were conducted for legal entities from the participating states of Arizona, Florida, Georgia, Illinois, Iowa, Kansas, Louisiana, Maine, Michigan, Minnesota, Missouri, Nebraska, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Vermont, Virginia, and Washington.

3. On January 26, 2022, the examiner filed a Report of Financial Examination with the Insurance Commissioner pursuant to *West Virginia Code* §33-2-9(j)(2). A copy of the Report of Financial Examination is attached hereto as Exhibit A and incorporated herein as if set forth in full.

4. On April 28, 2022, a true and accurate copy of the Report of Financial Examination was mailed to Todd Richard White. A copy of the Letter dated April 28, 2022, is attached hereto as Exhibit B.

5. Pursuant to *West Virginia Code* §33-2-9(j)(2), the Company, by letter dated April 28, 2022, Exhibit B, was notified and afforded a period of ten (10) days, after receipt of the Report of Financial Examination, to make a submission, rebuttal, or objection concerning any matter contained in the Report.

6. By email dated May 3, 2022, Stephanie Ebinger, acknowledged that she had reviewed the Report of Financial Examination and did not materially dispute the findings of the examination. A copy of the Company's email of May 3, 2022, is attached hereto as Exhibit C.

CONCLUSIONS OF LAW

1. The Insurance Commissioner is charged with the duty of administering and enforcing the provisions of Chapter 33, of the West Virginia Code of 1931, as amended.

2. The Company is organized pursuant to provisions of Article 25A, Chapter 33 of the *West Virginia Code*.

3. *West Virginia Code* § 33-2-9(j)(2) provides that no later than sixty (60) days following completion of the examination, the examiner in charge shall file with the Insurance Commissioner a verified, written Report of Financial Examination under oath, and, upon receipt of the verified report, the Insurance Commissioner shall transmit the Report of Financial Examination to the Company with a notice that shall afford the Company a reasonable opportunity, of not more than thirty (30) days, to make a written submission or rebuttal.

4. *West Virginia Code* § 33-2-9(j)(3) provides that within thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals the Insurance Commissioner shall fully consider and review the Report of Financial Examination, together with any written submissions or rebuttals, and shall enter an ORDER adopting the Report of Financial Examination as filed, or with modifications or corrections, enter an ORDER rejecting the Report of Financial Examination with directions to the examiners to reopen the examination or call for an investigatory hearing.

ORDER

It is therefore **ORDERED** as follows:

1. The Report of Financial Examination of the Company, attached hereto as Exhibit A, is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner.

2. A copy of this *Order Adopting Report of Financial Examination* and the Report of Financial Examination shall be mailed to the Company via certified mail, return receipt requested, upon entry by the Insurance Commissioner.

3. The Company shall file with the Insurance Commissioner, within thirty (30) days

they have received a copy of the Report of Financial Examination and a copy of this *Order Adopting Report of Financial Examination* in accordance with *West Virginia Code* §33-2-9(j)(4).

4. The Company take whatever actions are required to comply with the recommendations set forth in the Report of Financial Examination, if any, and shall demonstrate compliance to the satisfaction of the Insurance Commissioner, if necessary.

5. Pursuant to *West Virginia Code* §33-2-9(l) the content of the examination report is private and confidential information for a period of ninety days following the entry of this Order. Thereafter, the examination report is open the report for public.

6. Inasmuch as orders entered by the Insurance Commissioner are subject to judicial review as set forth in *West Virginia Code* §33-2-14, any person aggrieved by any this order may, within 30 days after the order has been mailed or delivered to the persons entitled to receive the same, file an appeal in and with the Circuit Court of Kanawha County, West Virginia.

Entered this 5th day of May, 2022.

Allan L. McVey

Allan L. McVey
CPCU, ARM, AAI, AAM, AIS
Insurance Commissioner

REPORT OF EXAMINATION

OF

COVENTRY HEALTH CARE OF WEST VIRGINIA, INC.

CHARLESTON, WV

NAIC #95408

AS OF DECEMBER 31, 2020

TABLE OF CONTENTS

SALUTATION

April 28, 2022
Charleston, West Virginia

The Honorable Allan L. McVey
West Virginia Insurance Commissioner
900 Pennsylvania Ave.
Charleston, West Virginia 25302

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner ("WVOIC"), as well as rules, regulations and procedures promulgated by the National Association of Insurance Commissioners ("NAIC"), an examination has been made of the administrative affairs, books, records, and financial condition of:

Coventry Health Care of West Virginia, Inc.
500 Virginia Street East, Suite 400
Charleston, WV 25301

hereinafter referred to as the "Company" or ("CHC WV"). The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a single-state financial examination of the Company. The last examination covered the three-year period from January 1, 2013 through December 31, 2015. The examination commenced on April 8, 2021 pursuant to W.Va. Code §33-2-9(a), as amended, and covers the five-year period from January 1, 2016 through December 31, 2020.

The purpose of this examination is to assess the financial condition of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

The general procedures of the examination followed rules and standards as set forth in the NAIC Financial Condition Examiners Handbook ("Handbook") and West Virginia Laws, Regulations, and Directives of the WVOIC. The examination was conducted to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company and evaluating system controls and procedures used to mitigate those risks. In addition, the principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statements of Statutory Accounting Principles ("SSAP") and annual statement instructions were assessed.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Accordingly, planning materiality and tolerable error thresholds were based on professional judgment after considering the nature of the business written by the Company, operating results, and the Company's financial position as of December 31, 2020.

The report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were discussed with responsible Company officials during the course of the examination.

This examination was performed as part of a multi-state, coordinated examination of the CVS Health / Aetna Inc. group, with the State of Connecticut serving as the lead state. Concurrent and coordinated financial examinations were conducted for legal entities from the participating states of Arizona, Florida, Georgia, Illinois, Iowa, Kansas, Louisiana, Maine, Michigan, Minnesota, Missouri, Nebraska, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Vermont, Virginia, and Washington.

SUMMARY OF SIGNIFICANT FINDINGS

There are no significant findings, as a result of this examination.

HISTORY

The Company was organized as a for-profit, stock health maintenance organization (HMO) in the State of West Virginia in accordance with W. Va. Code §33-25A, on August 11, 1994 and commenced business on January 2, 1995. The Company was originally incorporated under the name of Charleston Area Health Plan, Inc., which was changed to Carelink Health Plans, Inc. ("Carelink") on September 5, 1997. The plan became a federally qualified HMO on April 28, 1998.

Pursuant to the Form A filing of July 31, 1999, Coventry Health Care, Inc. ("Coventry") acquired Carelink in a transaction that included the merger of Coventry Health Plan of West Virginia (doing business as HealthAssurance HMO) with and into Carelink. Carelink was the surviving entity. On September 4, 2012, Carelink changed its name to Coventry Health Care of West Virginia, Inc.

On August 19, 2012, Coventry entered into an Agreement with Aetna Inc. ("Aetna"), pursuant to which, Coventry would become a wholly-owned subsidiary of Aetna. Coventry's stockholders approved the merger on November 21, 2012, and the merger was completed on May 7, 2013. Coventry was merged with and into Aetna's wholly-owned subsidiary, Aetna Health Holdings, LLC ("Aetna Holdings"), which became the sole shareholder of the Company.

On November 28, 2018, a subsidiary of CVS Health Corporation ("CVS Health") acquired Aetna and on that date CVS Health became the Company's ultimate parent.

Capitalization

As of December 31, 2020, the Company's reported total capitalization was $136,080,786, consisting of 1,000 shares of issued and outstanding common stock with a par value of $1,000, $84,840,983 in gross paid in and contributed surplus, and $50,239,803 in unassigned funds (surplus).

According to W. Va. Code § 33-25A-4(c)ii (B) & (C), the Company must maintain a minimum of $1,000,000 in capital and $1,000,000 in surplus to engage in the business for which they are licensed. The Company has met this requirement throughout the examination period.

Dividends to Stockholders

The Company paid extraordinary dividends to Aetna Holdings totaling $15,000,000 and $15,000,000 in 2016 and 2017 during the period covered by the examination.

Significant Changes in Key Trends

The following amounts represent growth of the Company and key financial data for the year ended December 31, 2020, and for the period under examination:

Year	Admitted Assets	Liabilities	Capital and Surplus	Total Revenues	Net Income	Member Months
2016	$170,962,283	$98,447,797	$72,514,486	$546,372,054	$22,588,586	1,533,715
2017	148,747,189	80,593,153	68,154,036	555,932,327	12,624,381	1,607,649
2018	208,263,171	118,517,717	89,745,454	632,782,626	22,549,951	1,551,527
2019	241,414,275	147,551,917	93,862,358	604,656,890	3,805,232	1,613,497
2020	339,001,254	202,920,468	136,080,786	870,195,218	40,559,949	2,051,956

The Company experienced growth during the examination period, reporting positive income in all years and maintaining a strong capital position.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The corporate powers of the Company are vested in the Board of Directors ("Board") consisting of no fewer than three (3) nor more than eleven (11) members, in accordance with Article 3.2 of the Company's Bylaws. The individuals serving as members of the Board on December 31, 2020 were as follows:

Name and Address	Business Affiliation	Board Member Since
Jonathan Edward Copley Crestwood, Kentucky	Vice President, Products and Proposals CVS Health	2020

Name and Address	Business Affiliation	Board Member Since
Kelli Kathleen Smith	Chief Financial Officer, CHC WV	2020
Phoenix, Arizona	Executive Director, Medicaid, CVS Health	
Todd Richard White	CEO and President, CHC WV	2020
Winfield, West Virginia	Vice President, Southeast Market President, CVS Health	

Effective March 1, 2021, Kelli Kathleen Smith was removed as a Director of the Company and replaced by Bryan Sheppard Nazworth.

Effective October 4, 2021, Jonathan Edward Copley was removed as a Director of the Company and replaced by Sonya Kay Nelson.

OFFICERS

Principal officers shall be appointed at the first meeting of the Board following the annual meeting of the shareholders to include a President, Treasurer, and Secretary and such other officers as may be designated by the Board, in accordance with Article 5 of the Company's Bylaws. Officers elected by the Board, and serving as of December 31, 2020, were as follows:

Name	Title
Todd Richard White	Chief Executive Officer and President
Kelli Kathleen Smith	Chief Financial Officer
Robert Mark Kessler	Vice President and Secretary
Tracy Louise Smith	Vice President and Treasurer

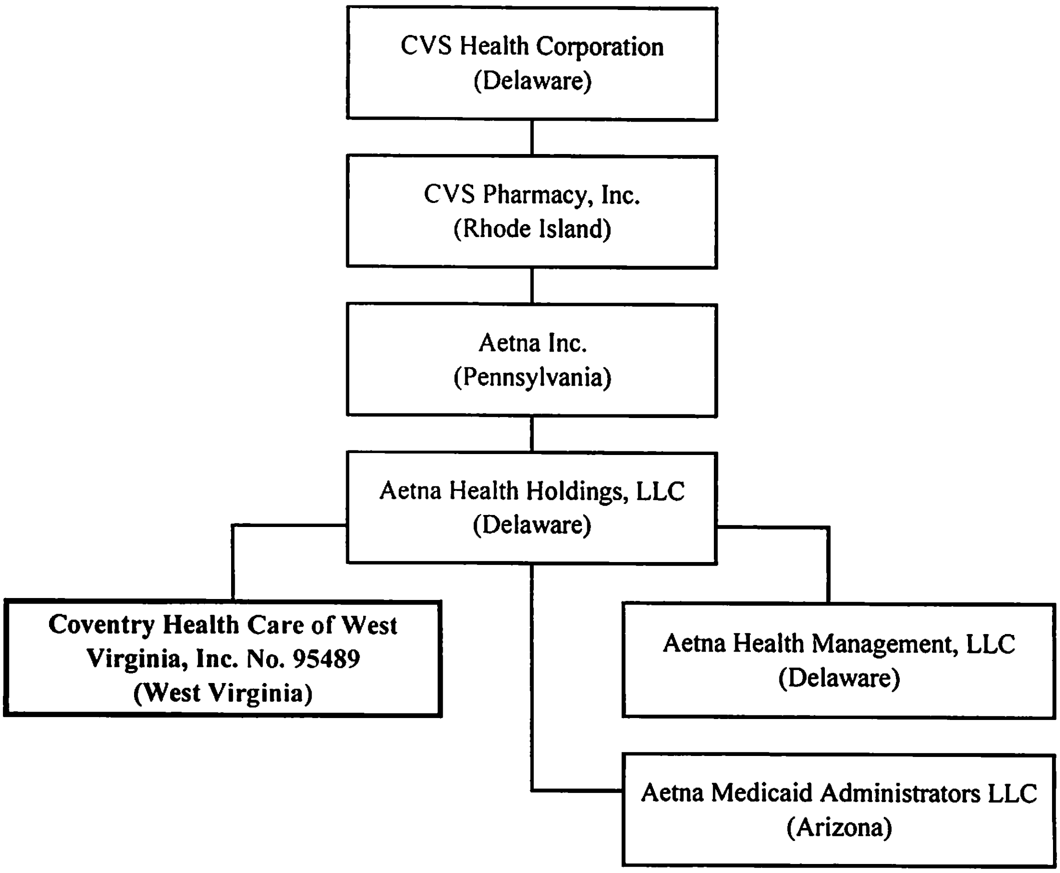
Effective March 1, 2021, Kelli Kathleen Smith was removed as Chief Financial Officer of the Company and replaced by Bryan Sheppard Nazworth.

COMMITTEES

The Company's Board did not have any established committees during the examination period. However, an audit committee established by Aetna Holdings has been deemed as the Company's audit committee, in compliance with W. Va. Code § 33-33-3(d).

ORGANIZATIONAL CHART

An abbreviated organizational chart for the Company and its affiliates at December 31, 2020, is as follows:



AGREEMENTS

<u>Administrative Services Agreement</u>

The Company entered into an Administrative Services Agreement with Aetna Health Management, LLC ("Aetna Health"), effective January 1, 2014, whereby Aetna Health provides certain administrative services and, to the extent requested, pharmacy benefit management services and pharmacy rebate services. Fees are based on a percentage of premium and subject to an annual true-up to actual costs. The agreement was amended three times during the exam period as follows: to add a required Regulatory Compliance Addendum; to allow Aetna Health to arrange for other Aetna affiliates to provide services to members of the Company and to clearly specify which services will be performed by Aetna affiliates and the fees that will be charged for those services; and to update and replace the Aetna affiliates services and fees exhibit and business associate addendum exhibit.

Amended and Restated Administrative Services Agreement

The Company entered into an Amended and Restated Administrative Services Agreement with Aetna Medicaid Administrators, LLC ("Aetna Medicaid"), effective April 1, 2018, replacing a similar Administrative Services Agreement entered into with Aetna Medicaid, effective January 1, 2017. Under the agreement, Aetna Medicaid and certain of its affiliates provide administrative services, including cash management and accounting and processing of premiums and claims. In return, the Company remits a percentage of its earned premium, as applicable, to Aetna Medicaid.

Consolidated Tax Allocation Agreement

The Company is party to a consolidated tax allocation agreement, whereby CVS Health and its wholly-owned subsidiaries, including the Company, file a consolidated tax return. In accordance with the agreement, the Company's current federal income tax liability is generally computed as if the Company was filing a separate federal income tax return; current income tax benefits, including those resulting from net operating losses, are recognized to the extent realized in the consolidated return. The agreement replaced a similar consolidated tax agreement entered into with Aetna.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in all 55 counties in West Virginia, primarily serving Medicaid eligible participants. The Company also offers Medicare Advantage and Dual Special Needs Plans. In 2020, membership increased due to growth related to COVID-19 and the introduction of Medicaid Foster Care coverage.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the period under examination.

Ceded

Effective March 1, 2016, the Company was added as a reinsured member to a quota share reinsurance agreement entered into April 1, 2014 between Aetna Health and its insurance affiliates and Fresenius Medical Care Reinsurance Company (Cayman) Ltd ("Fresenius"). Under the terms of the agreement, Fresenius reinsures 100% of eligible expenses incurred per program participant per agreement year under Aetna Health and affiliates' Medicare Advantage End Stage Renal Disease Management Program and capitation arrangement.

Effective July 1, 2016, and annually thereafter, the Company entered into an HMO specific excess loss reinsurance agreement with PartnerRe America Insurance Company ("PartnerRe") covering specific expenses for its Medicaid members. Under the terms of the agreement, PartnerRe reinsures a portion of risk in excess of $350,000 per covered person per agreement term, up to a maximum payable per covered person per agreement term of $5,000,000.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the WVOIC and present the financial condition of the Company for the period ending December 31, 2020.

ASSETS
DECEMBER 31, 2020

	Assets	Non-Admitted Assets	Admitted Assets
Bonds	$151,347,821		$151,347,821
Cash and cash equivalents	101,965,363		101,965,363
Other invested assets	1,669,427		1,669,427
Receivables for securities	410		410
Subtotals, cash and invested assets	$254,983,021		$254,983,021
Investment income due and accrued	1,318,850		1,318,850
Uncollected premiums and agents' balances in the course of collection	75,638,412	17,643	75,620,769
Accrued retrospective premiums and contracts subject to redetermination	2,348,808		2,348,808
Amounts receivable relating to uninsured plans	930,315		930,315
Net deferred tax asset	2,533,783	19,199	2,514,584
Health care and other amounts receivable	3,160,836	1,875,929	1,284,907
Total Assets	$340,914,025	$1,912,771	$339,001,254

LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2020

Claims unpaid	$155,693,575
Accrued medical incentive pool and bonus amounts	519,405
Unpaid claims adjustments expenses	3,109,825
Aggregate health policy reserves	5,240,856
Premiums received in advance	4,847
General expenses due or accrued	8,323,899
Current federal and foreign income tax payable and interest thereon	10,526,085
Remittances and items not allocated	524,936
Amounts due to parent, subsidiaries and affiliates	16,564,044
Funds held under reinsurance treaties	181,664
Liability for amounts held under uninsured plans	40,437
Aggregate write-ins for other liabilities:	
Abandoned property liability	298,101
Capitation payable	1,892,794
Total Liabilities	$202,920,468
Common capital stock	1,000,000
Gross paid in and contributed surplus	84,840,983
Unassigned funds (surplus)	50,239,803
Total capital and surplus	$136,080,786
TOTAL	$339,001,254

STATEMENT OF REVENUE AND EXPENSES
DECEMBER 31, 2020

Member months	2,051,956
Net premium income	$873,899,657
Change in unearned premium reserves and reserve for rate credits	(3,704,439)
Total Revenues	870,195,218
Hospital and Medical:	
Hospital/medical benefits	479,500,367
Other professional services	169,824,414
Outside referrals	19,329,406
Emergency room and out-of-area	47,476,619
Prescription drugs	18,895,472
Incentive pool, withhold adjustments and bonus amounts	1,084,926
Subtotal	736,111,204
Less:	
Net reinsurance recoveries	3,161,788
Total Hospital and Medical	732,949,416
Claims adjustment expenses	29,350,269
General administrative expenses	59,605,526
Increase in reserves for life and accident and health contracts	(1,266,564)
Total Underwriting Deductions	820,638,647
Net Underwriting Gain	49,556,571
Net investment income earned	4,944,139
Net realized capital gains (losses) less capital gains tax	(495,155)
Net Investment Gain	4,448,984
Regulatory fines	(7,000)
Net income after capital gains tax and before all other federal income taxes	53,998,555
Federal and foreign income taxes incurred	13,438,606
Net Income	$40,559,949

RECONCILIATION OF CAPITAL AND SURPLUS
DECEMBER 31, 2020

Capital and Surplus at December 31, 2015	$64,512,295
Net income	22,588,586
Change in net unrealized capital gains (losses)	162,116
Change in net deferred income tax	502,502
Change in nonadmitted assets	(239,597)
Change in unauthorized and certified reinsurance	(11,416)
Dividends to stockholders	(15,000,000)
Net change in capital and surplus	8,002,191
Capital and Surplus at December 31, 2016	$72,514,486
Net income	12,624,381
Change in net unrealized capital gains (losses)	14,544
Change in net deferred income tax	(517,009)
Change in nonadmitted assets	(1,455,014)
Change in unauthorized and certified reinsurance	(27,352)
Dividends to stockholders	(15,000,000)
Net change in capital and surplus	(4,360,450)
Capital and Surplus at December 31, 2017	$68,154,036
Net income	22,549,951
Change in net unrealized capital gains (losses)	(861,396)
Change in net deferred income tax	436,597
Change in nonadmitted assets	(572,502)
Change in unauthorized and certified reinsurance	38,768
Net change in capital and surplus	21,591,418
Capital and Surplus at December 31, 2018	$89,745,454
Net income	3,805,232
Change in net unrealized capital gains (losses)	752,428
Change in net deferred income tax	(122,555)
Change in nonadmitted assets	(318,201)
Net change in capital and surplus	4,116,904
Capital and Surplus at December 31, 2019	$93,862,358
Net income	40,559,949
Change in net unrealized capital gains (losses)	(5,857)
Change in net deferred income tax	645,373
Change in nonadmitted assets	1,018,963
Net change in capital and surplus	42,218,428
Capital and Surplus at December 31, 2020	$136,080,786

SUMMARY OF EXAMINATION CHANGES

No adjustments were made to the Company's financial statements as a result of this examination.

SUBSEQUENT EVENTS

On May 11, 2021, the Company paid an ordinary cash dividend of $13,500,000 to its parent.

SUMMARY OF EXAMINATION RECOMMENDATIONS

There were no findings or recommendations as a result of the examination.

ACKNOWLEDGEMENT AND SIGNATURE

This is to certify that the undersigned is a duly qualified Examiner appointed by the West Virginia Offices of the Insurance Commissioner. In addition to the undersigned, Jan Moenck, CFE, CIA, CFSA, CISA, CIRD Examination Partner and Supervisor, of Risk & Regulatory Consulting, LLC, participated in the examination.

The examination was performed in accordance with those procedures authorized by the NAIC Financial Condition Examiner's Handbook and other procedures appropriate for this examination. The attached report of examination is a true and complete report of the financial condition of Coventry Health Care of West Virginia, Inc. as of December 31, 2020, as determined by this examination.

Respectfully Submitted,

Andy Jennings, CFE, ARM
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the WV Offices of the Insurance Commissioner

Jamie Taylor, CFE, PIR, MCM
Director / Chief Financial Examiner
Company Analysis and Examination Division
Financial Conditions
WV Offices of the Insurance Commissioner