

**REPORT ON EXAMINATION**

**OF**

**Amerigroup Kansas, Inc.**

**9225 Indian Creek Parkway, Suite 400**

**Overland Park, KS 66210**

**AS OF**

**DECEMBER 31, 2019**

**FILED**

**JUN 25 2021**

**VICKI SCHMIDT**  
**Commissioner of Insurance**

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Overland Park, Kansas  
June 2, 2021

Honorable Vicki Schmidt  
Commissioner of Insurance  
Kansas Insurance Department  
1300 SW Arrowhead  
Topeka, Kansas 66604

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

**Amerigroup Kansas, Inc.**

with its statutory home office at:

**9225 Indian Creek Parkway, Suite 400**

**Overland Park, KS 66210**

and main administrative office at:

**9225 Indian Creek Parkway, Suite 400**

**Overland Park, KS 66210**

hereinafter referred to as the "Company" or "AGP-KS". The following report on such examination is respectfully submitted.

#### **SCOPE OF EXAMINATION**

The examiners have performed a financial examination of AGP-KS, a Kansas domiciled health maintenance organization. The last examination covered the four-year period from January 1, 2012, through December 31, 2015. This examination covers the four-year period from January 1, 2016, through December 31, 2019. The current examination was completed on a coordinated basis with the jurisdictions of Arkansas,

Florida, Kansas, and New York. The examination of the Companies was conducted through the coordinated efforts of the Indiana Department of Insurance (“INDOI”), serving as the lead and facilitating state. The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department (“Department”) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners 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 is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, 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.

### **Independent Audit Reports**

Financial statements of the Company were audited by Ernst and Young, LLP for the years ending December 31, 2016, through December 31, 2019. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company, the results of its operations, and its cash flows in accordance with the accounting practices prescribed or permitted by the Department.

The independent auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during this examination.

### **Actuarial Review**

Amerigroup Kansas, Inc. did not retain an actuary given the Company is in run-off and not currently writing any new business. However, the Florida actuarial specialists did review the "global reserving risks" for all entities being examined.

### **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the examination.

### **COMPANY HISTORY**

Amerigroup Kansas, Inc. is a Kansas domiciled stock insurance company that markets and underwrites accident and health coverage for individuals and group accounts. The Company is licensed to write business in Kansas as a health maintenance organization. The Company is wholly-owned subsidiary of AMERIGROUP Corporation, which is an indirect wholly-owned subsidiary of Anthem, Inc. ("Anthem" or the "Parent").

AGP-KS was under contract with the Kansas Department of Health and Environment (“KDHE”) to provide managed care for the Kansas Medicaid and CHIP Programs (“KanCare”). The initial contract began January 1, 2013, through December 31, 2015. The contract was renewed and extended through December 31, 2017, and then for an additional year, through December 31, 2018. However, in June 2018, the KDHE announced the Company was not awarded the new contract for 2019. The Company was decommissioned and ceased all local operations effective December 31, 2018.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

The Company is a Kansas domiciled stock insurance company and is a wholly owned subsidiary of AMERIGROUP Corporation, which is an indirect wholly owned subsidiary of Anthem, a publicly traded company.

### **Board of Directors**

The following is a listing of directors and their position(s) held as of December 31, 2019:

<b><u>Name</u></b>	<b><u>Position(s) Held</u></b>
Francis Drury Clepper	Chairperson, Director
Jack Louis Young	Director
Ronald William Penczek	Director

## **Officers**

The following is a listing of officers and their position(s) held as of December 31, 2019 (see Subsequent Events section for additional information):

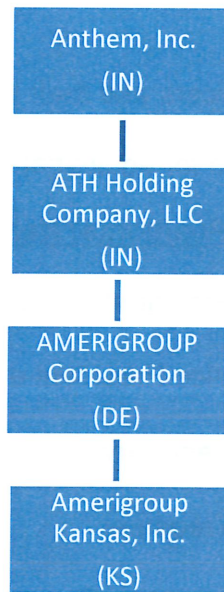
<b><u>Name</u></b>	<b><u>Position(s) Held</u></b>
Francis Drury Clepper	President and Chief Executive Officer
Jack Louis Young	Vice President and Assistant Secretary
Kathleen Susan Kiefer	Secretary
Vincent Edward Scher	Treasurer
Eric Kenneth Noble	Assistant Treasurer

## **INSURANCE HOLDING COMPANY SYSTEM**

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. Examiners noted the Company has submitted Form “B” and “C” registration statements to the Department for 2019. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The Board of Directors declared a return of capital distribution in the amount of \$150,000,000 on August 16, 2019. The Department approved this distribution. The Company paid the distribution to AMERIGROUP Corporation on December 24, 2019.

The organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2019.



#### **Intercompany/Cost Sharing Agreements**

The Company entered into an Amended and Restated Master Administrative Services Agreement with Anthem, Inc. and its subsidiaries to receive certain administrative, consulting, and other support services from time-to-time. This agreement became effective January 1, 2014.

FMV (Fair Market Value) Services Attachment to the Wellpoint, Inc. Amended and Restated Master Administrative Services Agreement: Effective July 1, 2018, Anthem entered into a FMV Services Agreement with the direct and indirect subsidiaries of Anthem and any future direct or indirect subsidiaries that execute a signature page to this attachment. As noted in Form B, the compensation to be paid by a party receiving certain specified services will be an amount up to, but no more than, fair market value of the services at the time such services are provided; and such amount will be fair and reasonable and shall not exceed what a party would pay for similar services from an unrelated third-party in an arm's length transaction. The Company paid \$57,141,552 and

\$2,257,662 in 2018 and 2019, respectively, relating to the Amended and Restated Master Administrative Services Agreement.

Consolidated Federal Income Tax Agreement: Effective January 1, 2013, Anthem entered into a Consolidated Federal Income Tax Agreement with Amerigroup Kansas, Inc.

The purpose of the Agreement is to establish a method for allocating the consolidated tax liability of the group among its members, for reimbursing Anthem, Inc. for payment of such tax liability, for compensating any party for use of its tax losses or tax credits, and to provide for the allocation and payment of any refund arising from a carryback of losses or tax credits for subsequent taxable years. By making the consolidation election, generally all subsidiaries taxable under the Internal Revenue Code that are owned 80% or more, directly or indirectly by the parent, will be included in the consolidated federal income tax return. The Company paid \$201,637 and (\$635,029) in 2018 and 2019, respectively, relating to this Agreement.

Amerigroup Royalty License Agreement: Effective April 30, 2012, AMERIGROUP Corporation and AGP-KS entered into a Royalty License Agreement. AGP-KS was granted non-exclusive right and license to use the Royalty Assets (i.e. the Marks, intellectual property and intangible assets) in connection with the conduct of their business. The Company paid \$0 in both 2018 and 2019 relating to this Agreement.

Intercompany Agreement: Effective June 22, 2015, AGP-KS and AMERIGROUP Corporation entered into this agreement to put measures in place to ensure the solvency of AGP-KS and its performance under the contract with KDHE. According to the agreement, after exhausting all resources available under the Parent Company Guarantee between Anthem, Inc. and KDHE, in the event that AGP-KS's financial is

insolvent, AMERIGROUP Corporation shall infuse the necessary capital into AGP-KS to bring reserves to acceptable levels. Furthermore, the financial resources of AMERIGROUP Corporation would need to be exhausted prior to AGP-KS becoming insolvent.

### **TERRITORY AND PLAN OF OPERATION**

Amerigroup Kansas, Inc. was under contract with the KDHE to provide managed care for the Kansas Medicaid and CHIP Programs. Services included in the contract were physical health services, behavioral health services, and long-term care, including nursing facility care, mental health nursing facility care for members age 21 and under and age 65 and older, and home and community based services (“HCBS”). These services were provided statewide and included Medicaid funded inpatient and outpatient mental health and substance use disorder services, including existing 1915 c HCBS Waiver programs for children with a Serious Emotional Disturbance.

The contract commenced beginning January 1, 2013, through December 31, 2015 (Initial Term). On April 7, 2015, the contract was renewed and extended for two years through December 31, 2017. Subsequently, KDHE renewed the contract for another year until December 31, 2018. However, on June 22, 2018, the KDHE announced the Company was not awarded the new contract for the 2019 KanCare Medicaid program. The Company was decommissioned and ceased all local operations effective December 31, 2018.

### **SELECT FINANCIAL INFORMATION**

The exhibit below shows the Company's financial results for the period of December 31, 2016, through December 31, 2019. The financial amounts were obtained from annual statements filed by the Company.

	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
<i>(in thousands)</i>				
Admitted Assets	303,279	313,386	289,272	33,534
Liabilities	120,024	137,192	115,653	21,249
Capital and Surplus	183,255	176,194	173,619	12,285
Net Underwriting Gain/(Loss)	17,977	(12,410)	(4,778)	(20,060)
Net Income	8,917	(6,457)	(4,307)	(7,110)
Net Premiums Written	1,042,695	1,008,858	1,067,719	(455)

### **REINSURANCE**

The Company does not assume or cede any business through reinsurance as noted in Schedule S-Part 6 of the 2019 Annual Statement.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. Any accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the Annual Statement and should be considered an integral part of the financial statements.

**AMERIGROUP KANSAS, INC.**  
**ASSETS**  
**AS OF DECEMBER 31, 2019**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 2,483,226	\$ -	\$ 2,483,226
Cash, cash equivalents and short-term investments	7,165,891	-	7,165,891
Securities lending reinvested collateral assets	258,750	-	258,750
Subtotals, cash and invested assets	9,907,867	-	9,907,867
Investment income due & accrued	22,013	-	22,013
Uncollected premiums and agents' balances in the course of collection	16,085,705	-	16,085,705
Current federal and foreign income tax recoverable and interest thereon	4,956,055	-	4,956,055
Net deferred tax asset	573,429	-	573,429
Furniture and equipment, including health care delivery assets	273,871	273,871	-
Receivables from parent, subsidiaries and affiliates	1,889,627	-	1,889,627
Health care and other amounts receivable	4,632,469	4,536,006	96,463
Aggregate write-ins for other than invested assets	164,083	161,390	2,694
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell	38,505,120	4,971,267	33,533,853
Totals	<u>\$ 38,505,120</u>	<u>\$ 4,971,267</u>	<u>\$ 33,533,853</u>

**AMERIGROUP KANSAS, INC.  
LIABILITIES, SURPLUS AND OTHER FUNDS  
AS OF DECEMBER 31, 2019**

Claims unpaid	\$ 1,082,810
Accrued medical incentive pool and bonus amounts	7,957
Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act	2,201,352
General expenses due or accrued	1,425,119
Remittances and items not allocated	4,034,771
Payable for securities lending	258,750
Aggregate write - ins for other liabilities	<u>12,238,138</u>
Total liabilities *	<u>\$ 21,248,896</u>
Common capital stock	100
Gross paid and contributed surplus	44,706,035
Unassigned funds (surplus)	<u>(32,421,178)</u>
Total capital and surplus	<u>\$ 12,284,957</u>
Total liabilities, capital and surplus *	<u><u>\$ 33,533,853</u></u>

\* Immaterial difference due to rounding.

**AMERIGROUP KANSAS, INC.**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

<u>Underwriting Income:</u>	
Net premium income	\$ (454,699)
Change in unearned premium reserves and reserve for rate credits	(27,141,556)
Total revenues	<u>(27,596,255)</u>
<u>Hospital and Medical:</u>	
Hospital/medical benefits	(1,034,117)
Other professional services	(4,308,953)
Emergency room and out-of-area	(814,362)
Prescription drugs	(1,987,877)
Incentive pool, withhold adjustments and bonus amounts	639,133
Total hospital and medical	<u>(7,506,176)</u>
Less:	
Claims adjustment expenses, including cost containment expenses	(537,554)
General administrative expenses	507,876
Total underwriting deductions	<u>\$ (7,535,854)</u>
Net Underwriting gain or (loss)	\$ (20,060,401)
<u>Investment Income:</u>	
Net investment income earned	4,609,187
Net realized capital gains or (losses) less capital gains tax	<u>2,738,080</u>
Net investment gain or (losses)*	\$ 7,347,266
Net income or (loss) after capital gains tax and before all other federal income taxes	(12,713,135)
Federal and foreign income taxes incurred	<u>(5,602,985)</u>
Net income	<u>\$ (7,110,150)</u>

\* Immaterial difference due to rounding.

**AMERIGROUP KANSAS, INC.**  
**CAPITAL AND SURPLUS ACCOUNT**  
**RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2015			<u>\$ 173,231,829</u>
Net income	2016	8,916,966	
	2017	(6,456,936)	
	2018	(4,306,909)	
	2019	<u>(7,110,150)</u>	(8,957,029)
Change in net unrealized capital gains or (losses)	2016	(2,728)	
	2017	(3,040)	
	2018	5,768	
	2019	<u>-</u>	-
Change in net deferred income tax	2016	(675,351)	
	2017	(1,113,327)	
	2018	491,550	
	2019	<u>(2,308,434)</u>	(3,605,562)
Change in nonadmitted assets	2016	1,784,344	
	2017	512,408	
	2018	1,234,442	
	2019	<u>(1,915,476)</u>	1,615,718
Surplus adjustments: Paid In	2016	-	
	2017	-	
	2018	-	
	2019	<u>(150,000,000)</u>	(150,000,000)
Net change in capital and surplus	2016	10,023,231	
	2017	(7,060,896)	
	2018	(2,575,148)	
	2019	<u>(161,334,058)</u>	<u>(160,946,871)</u>
Capital and surplus as regards policyholders, December 31, 2019*			<u>\$ 12,284,957</u>

\* Immaterial difference due to rounding.

### **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2019, was \$12,284,957.

### **COMMENTS ON FINANCIAL STATEMENTS**

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

### **SUBSEQUENT EVENTS**

Effective June 1, 2021, AGP-KS transferred its stock previously held 100% by the Amerigroup Corporation to Anthem Partnership Holding Company, LLC. Both the current and previous owners of AGP-KS are subsidiaries of Anthem, Inc. The Commissioner of the Kansas Insurance Department granted AGP-KS a Form A Statement Filing exemption on April 13, 2021.

Francis Clepper resigned his position effective May 19, 2020. He was replaced by Dr. Patrick Fox on the same date.

In March 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus ("COVID-19") a global health pandemic. At the onset of the pandemic, to prevent its spread, most states issued shelter-in-place or stay-at-home orders, which generally required the businesses not considered essential to close their physical offices. While these orders were largely lifted during the second quarter of 2020, many states and local authorities continued to impose certain restrictions on the conduct of businesses and individuals.

The COVID-19 pandemic continues to evolve, and the virus and mitigation efforts have continued to impact the global economy, cause market instability, increase unemployment and put pressure on the healthcare system. The COVID-19 pandemic has impacted and will continue to impact.

Anthem companies' membership and benefit expense and has influenced and will likely continue to influence member behavior, impacting how members access healthcare services. The Department continues to closely monitor the impact of the pandemic on AGP-KS and will take necessary action if a solvency concern arises.

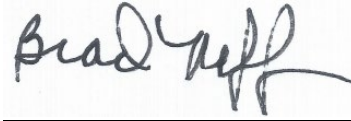
### **SUMMARY OF RECOMMENDATIONS**

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

### **CONCLUSION**

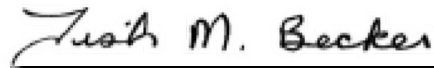
In addition to the undersigned, Jim Hattaway, CFE, Examination Supervisor and Chelle Atkins, Staff Examiner representing the Department, as well as Stefan Obereichholz-Bangert, AES, CISA, CISM, CDPSE, an Information Systems Examiner representing the INDOL, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Brad Neff". The signature is fluid and cursive, with the first name "Brad" and last name "Neff" clearly distinguishable.

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Brad Neff, CFE  
Examiner-in-Charge  
Noble Consulting Services, Inc.,  
representing the  
Kansas Insurance Department

A handwritten signature in black ink that reads "Tish M. Becker". The signature is written in a cursive style, with the first name "Tish" and last name "Becker" clearly distinguishable.

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Tish Becker  
Department Designee  
Director of Financial Surveillance  
Kansas Insurance Department