

REPORT ON EXAMINATION
OF
COVENTRY HEALTH CARE OF KANSAS, INC.
9401 INDIAN CREEK PARKWAY, SUITE 1300
OVERLAND PARK, KANSAS 66210
AS OF
DECEMBER 31, 2018

FILED
JUN 22 2020
VICKI SCHMIDT
Commissioner of Insurance

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Overland Park, Kansas
April 14, 2020

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Road
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:

COVENTRY HEALTH CARE OF KANSAS, INC.

with its statutory home office at:

**8535 E. 21ST STREET N.
WICHITA, KANSAS 67206**

and main administrative office at:

**9401 INDIAN CREEK PARKWAY, STE. 1300
OVERLAND PARK, KANSAS 66210**

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

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of Coventry Health Care of Kansas, Inc., a Kansas domiciled health maintenance organization ("HMO"). The last examination covered the four-year period from January 1, 2010, through December 31, 2013. The current examination covers the five-year period from January 1, 2014, through December 31, 2018.

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 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 will be 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. The Department may have identified other items 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 KPMG LLP for the years ending December 31, 2014, through December 31, 2018. In each of the years under examination, the auditors concluded that the financial statements present fairly, in all

material respects, the admitted assets, liabilities and policyholders' surplus of the Company and the results of its operations and its cash flows for the years then ended 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; whereby significant reliance was placed on select work papers during the course of this examination.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the course of the examination.

COMPANY HISTORY

General

The Company, formerly known as Healthcare America Plans, Inc., incorporated on January 2, 1976, and received its certificate of authority on October 1, 1981. The Company is organized as a for-profit HMO in the state of Kansas pursuant to K.S.A. 40-3201. The certificate of authority provides for a perpetual existence.

Mergers and Acquisitions

On May 7, 2013, the Company's parent Coventry Health Care, Inc. ("CHC") was acquired by and merged into Aetna Inc. ("Aetna"), as a wholly owned subsidiary. On January 1, 2014, CHC merged into Aetna Health Holdings, Inc. ("AHH"), a wholly-owned subsidiary of Aetna, resulting in the elimination of CHC as a legal entity and AHH owning 100% of the Company's common stock. Aetna, through AHH's 100% ownership of the Company's common stock, became the ultimate controlling person ("UCP").

On November 28, 2018, CVS Health Corporation's ("CVS Health") wholly owned subsidiary CVS Pharmacy, Inc. ("CVS Pharmacy") acquired 100% of the common stock of Aetna. Aetna continues as the immediate parent of AHH, which remains the immediate

parent of the Company. Both Aetna and AHH are subsidiaries of CVS Pharmacy with CVS Health being the UCP.

Sale and Purchase Agreement

Effective June 1, 2016, the Company entered into a Sale and Purchase Agreement with Coventry Health Care of Missouri, Inc. ("CHC-MO"), indirectly a wholly-owned subsidiary of Aetna, whereby, the Company assigned, sold, transferred, and set over to CHC-MO all of their assets and liabilities arising out of or relating to the Company's operation of Medicare Advantage plans, whether arising before, on or after the date of the agreement. The Department approved this agreement on May 25, 2016.

Capital Stock

The Company's articles of incorporation authorize the issuance of 1,000 shares of common capital stock with a par value of \$5.00 per share. As of December 31, 2018, 1,000 shares had been issued and were outstanding, resulting in a total paid-up common capital stock amount of \$5,000. As of December 31, 2018, AHH owned 100% of the Company's stock.

Dividends to Stockholders

Pursuant to K.S.A. 40-3306 and K.A.R. 40-1-28, dividends of \$30.0 million, \$45.0 million, \$45.0 million, \$26.0 million and \$40.0 million were declared and paid to the sole stockholder, AHH, during 2014, 2015, 2016, 2017 and 2018, respectively. The Company requested, with permission granted by the Department, to pay these dividends out of earned surplus. All of these dividends were considered extraordinary dividends.

MANAGEMENT AND CONTROL

Shareholders

Article II, Section 1 of the Company's bylaws provides that: "The annual meeting of the shareholders shall be held during the first six months of each year, at the time stated in the notice of such meeting, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday, such meeting shall be held on the next succeeding business day. If the election of directors shall not be held on the day designated herein for any annual meeting of the shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as conveniently may be. In the event that an annual meeting is not held on the date designated herein, a meeting on a subsequent date may be held in lieu thereof and any business transacted or elections held at such meeting shall be valid as if transacted and held at the annual meeting."

Board of Directors

Article III, Section 1 of the Company's bylaws provides that: "The business and the affairs of the Company shall be managed under the direction of its Board of Directors. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Company, and such authority may be general or confined to specific instances."

Article III, Section 2 of the Company's bylaws provides that: "The number of directors of the Company shall be no fewer than 1 and no more than 15, the number to be determined from time to time by a majority of the entire Board of Directors. The directors shall be chosen by election by a majority of votes cast at such election by or on

behalf of any shareholder present or represented at the annual meeting. Each Director shall hold office until the next annual meeting of the shareholders or until a successor shall have been duly elected and qualified or until his or her earlier death, resignation or removal. Directors need not be residents of the state of Kansas or shareholders of the Company.” The Board of Directors was comprised of three directors throughout the period of examination.

The following is a listing of directors and their position held as of December 31, 2018:

<u>Director</u>	<u>Position Held</u>
Gregory S. Martino	Vice President, Government Relations Aetna Inc.
Angela R. Meoli	Senior Vice President Aetna Inc.
Keith I. Wisdom	President Coventry Health Care of Kansas, Inc.

Officers

Article IV, Section 1 of the Company’s bylaws provides that: “The officers of the Company shall be a President, a Secretary, a Treasurer and such other officers, assistant officers and acting officers as may be deemed necessary. Any two or more offices may be held by the same person.”

Article IV, Section 2 of the Company’s bylaws provides that: “The following officers of the Company shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders: the President, the Treasurer, and the Corporate Secretary. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. The remaining officers of the Company shall be elected either by the Board of Directors

in the manner described above or by a Management Resources Committee and approved by the Board of Directors at its first meeting held after each annual meeting of the shareholders. Each officer shall hold office until a successor shall have been duly elected and shall have qualified or until the officer's death, resignation or removal in the manner hereinafter provided."

The following is a listing of officers and their position held as of December 31, 2018:

<u>Officer</u>	<u>Position Held</u>
Keith I. Wisdom	President
Edward C. Lee	Vice President and Secretary
John P. Maroney	Vice President and Treasurer
Keith J. Casey	Senior Investment Officer
Frank F. Chronister III	Corporate Controller
Davin H. Reinecke	Chief Financial Officer
Linda R. Ladesich	Senior Medical Director

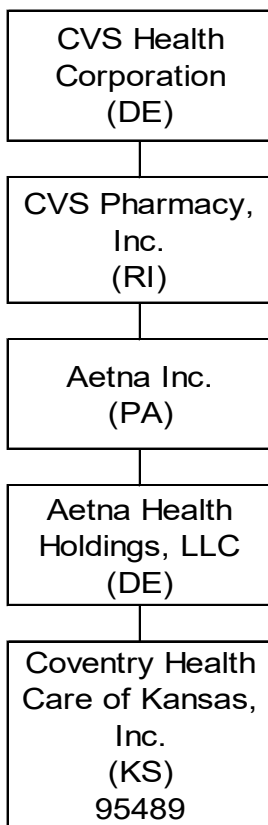
Audit Committee

The Company does not have an Audit Committee of its own. The Audit Committee of the Company's immediate parent, AHH, is designated to act as the Company's Audit Committee. Pursuant to K.A.R. 40-1-37, the Department received notification of the designation on March 5, 2015. The Department did not object to the designation.

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. The Company submitted Form "B" and "C" registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The following is an abridged organizational chart showing the direct line of ownership at December 31, 2018. All subsidiaries listed below are wholly-owned unless otherwise noted. Additional information on the full insurance company holding system can be found in the Company's Annual Statement.



Intercompany/Cost Sharing Agreements

The Company entered into a Management Services Agreement with Coventry Health and Life Insurance Company ("CHL") effective April 1, 2000. The agreement is for the provision of administrative services provided by the Company to CHL for a predetermined per member per month fee for PPO, Individual and Medicare Advantage lines of business. The Company will provide CHL, throughout the term of the agreement with certain administrative services, including sales and marketing services, financial

services, medical management services, provider relations services, and facilities and occupancy services. CHL paid \$0 to the Company during 2018.

The Company entered into a Management Services and Global Capitation Network Agreement with CHC, MHNet Specialty Services, LLC (“MHNet”) and multiple subsidiaries, including the Company and CHL effective June 1, 2008. MHNet administers and funds the mental health benefits for the commercial, ASO, and Medicare lines of the Company’s business in the states of Oklahoma, Arkansas, Kansas and Missouri. The compensation in the agreement is based on a fixed fee (per member per month). The Company paid \$108,975 to MHNet during 2018.

The Company entered into a Management Services and Global Capitation Network Agreement with Group Dental Service of Maryland, Inc. (“GDS-MD”) effective January 1, 2009. GDS-MD administers and funds the dental benefits for specific self-funded ASO clients, Medicare Advantage and Federal Employee Benefit plans for the Company. The compensation in the agreement is based on either a fixed fee (per employee per month) or a percent of administrative fees collected. The Company paid \$0 to GDS-MD during 2018.

The Company entered into a Management Services and Global Capitation Network Agreement with Group Dental Service, Inc. (“GDS”) effective January 1, 2009. GDS administers and funds the dental benefits for specific self-funded ASO clients, Medicare Advantage and Federal Employee Benefit plans for the Company. The compensation in the agreement is based on either a fixed fee (per employee per month) or a percent of administrative fees collected. The Company paid \$0 to GDS during 2018.

The Company entered into an Administrative Services Agreement with Aetna Health Management, LLC (“AHM”) effective January 1, 2014. Under the agreement, AHM

agrees to provide certain administrative services and, to the extent requested, pharmacy benefit management services and pharmacy rebate services. The administrative fees are based on a percentage of premium and subject to an annual true-up to actual costs. The Company paid \$899,941 to AHM during 2018.

The Company entered into an Insolvency Agreement with Aetna Health Insurance Company (“AHIC”), effective June 1, 2016. Under this agreement, in the event the Company ceases operations or becomes insolvent, AHIC agrees to continue plan benefits for members until the end of the contract period for which premiums have been paid to the Company by the members.

The Company was included in the consolidated federal income tax return of its parent company, Aetna and Aetna’s other wholly-owned subsidiaries through November 27, 2018 pursuant to the terms of a tax sharing agreement. For the tax period ending December 31, 2018, Aetna and its wholly-owned subsidiaries were included in the consolidated federal income tax return of its parent, CVS Health, pursuant to the terms of a tax sharing agreement (and a Supplemental Tax Sharing Agreement where applicable) between CVS Health and the Company. Effective January 1, 2019, the Company entered into a written tax sharing agreement with CVS Health. In accordance with this agreement, the Company’s current federal income tax liability is generally computed as if the Company were 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. Pursuant to this agreement, the Company has the enforceable right to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company is authorized to transact business in the states of Arkansas, Kansas, Missouri, and Oklahoma. In 2018, the Company only had premium income in Kansas. The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

The Company primarily wrote group commercial health and Medicare Advantage up until 2016. In 2016, the Company sold their Medicare Advantage business to CHC-MO (See "Sale and Purchase Agreement" on Pg. 4) and began migrating their group commercial products to Aetna Health, Inc., an affiliated entity. The migration of the group commercial business was completed by the end of 2018.

In 2018, the Company decided to add Medicare expansion business in Kansas. The Company began writing this business in 2019.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2014, through December 31, 2018. The financial results were obtained from annual statements filed by the Company.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Members At Year-End	80,715	60,164	7,192	2,349	1,186
Total Member Months	995,228	809,244	265,590	32,234	18,158
<i>(in thousands)</i>					
Admitted Assets	\$230,164	\$211,349	\$115,954	\$61,893	\$21,723
Liabilities	120,802	118,227	42,135	10,070	8,022
Capital and Surplus	109,362	93,122	73,819	51,823	13,701
Net Premium Income	627,743	576,390	371,446	13,676	7,580
Net Underwriting Gain/(Loss)	30,707	33,836	27,993	2,360	(188)
Net Income	24,477	28,186	25,695	4,960	2,971

REINSURANCE

As of December 31, 2018, the Company did not utilize reinsurance.

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, 2018. The accompanying comments on 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.

COVENTRY HEALTH CARE OF KANSAS, INC.
ASSETS
AS OF DECEMBER 31, 2018

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 11,057,359	\$ -	\$ 11,057,359
Common stocks	481,408	-	481,408
Cash, cash equivalents and short-term investments	7,227,175	-	7,227,175
Investment income due & accrued	126,069	-	126,069
Uncollected premiums and agents' balances in the course of collection	61,522	35,116	26,406
Accrued retrospective premiums and contracts subject to redetermination	5,104	-	5,104
Amounts recoverable from reinsurers	2,985	-	2,985
Current federal and foreign income tax recoverable	526,821	-	526,821
Net deferred tax asset	5,740,215	4,006,194	1,734,021
Furniture and equipment	2,278,372	2,278,372	-
Receivables from parent, subsidiaries and affiliates	54	-	54
Health care and other amounts receivables	537	537	-
Aggregate write-ins for other than invested assets	535,748	-	535,748
Totals	<u>\$ 28,043,369</u>	<u>\$6,320,219</u>	<u>\$ 21,723,150</u>

**COVENTRY HEALTH CARE OF KANSAS, INC.
LIABILITIES, CAPITAL AND SURPLUS
AS OF DECEMBER 31, 2018**

Claims unpaid	\$ 598,338
Accrued medical incentive pool and bonus amounts	49,423
Unpaid claims adjustment expenses	11,713
Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act	3,792,432
Aggregate health claim reserves	8,330
Premiums received in advance	33,335
General expenses due or accrued	529,089
Remittances and items not allocated	157,055
Amounts due to parent, subsidiaries and affiliates	2,530,731
Liability for amounts held under uninsured plans	30,368
Aggregate write-ins for other liabilities	281,292
Total liabilities	<u>\$ 8,022,106</u>
Common capital stock	\$ 5,000
Gross paid in and contributed surplus	132,771,800
Unassigned funds (surplus)	<u>(119,075,756)</u>
Total capital and surplus	<u>\$ 13,701,044</u>
Total liabilities, capital and surplus	<u><u>\$ 21,723,150</u></u>

**COVENTRY HEALTH CARE OF KANSAS, INC.
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Member months	18,158
Net premium income	\$ 7,579,840
Change in unearned premium reserves and reserve for rate credits	(1,536,346)
Aggregate write-ins for other health care related revenues	120
Total revenues	<u>\$ 6,043,614</u>
<u>Hospital and Medical:</u>	
Hospital/medical benefits	\$ 2,762,739
Other professional services	206,351
Outside referrals	478,337
Emergency room and out-of-area	244,795
Prescription drugs	831,514
Incentive pool, withhold adjustments and bonus amounts	(3,482)
Subtotal	<u>\$ 4,520,254</u>
Less:	
Net reinsurance recoveries	-
Total hospital and medical	<u>\$ 4,520,254</u>
Claims adjustment expenses	133,706
General administrative expenses	1,577,769
Total underwriting deductions	<u>\$ 6,231,729</u>
Net underwriting loss	\$ (188,115)
Net investment income earned	\$ 1,724,634
Net realized capital gains	545,684
Net investment gains	<u>\$ 2,270,318</u>
Net gain or (loss) from agents' or premium balances charged off	-
Aggregate write-ins for other income or expenses	-
Net income after capital gains for tax and before all other federal income taxes	<u>\$ 2,082,203</u>
Federal and foreign income taxes incurred	\$ (888,298)
Net income	<u><u>\$ 2,970,501</u></u>

COVENTRY HEALTH CARE OF KANSAS, INC.
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

Surplus as regards policyholders, December 31, 2013			<u>\$ 115,507,439</u>
Net income	2014	24,476,702	
	2015	28,186,329	
	2016	25,694,844	
	2017	4,959,970	
	2018	<u>2,970,501</u>	86,288,346
Change in net unrealized capital gains or (losses)	2014	(145,393)	
	2015	(498,576)	
	2016	837,218	
	2017	5,279	
	2018	<u>(188,784)</u>	9,744
Change in net deferred income tax	2014	(2,064,417)	
	2015	(2,168,876)	
	2016	(3,697,493)	
	2017	(10,512,354)	
	2018	<u>2,349,271</u>	(16,093,869)
Change in nonadmitted assets	2014	1,540,407	
	2015	3,065,876	
	2016	2,862,073	
	2017	9,551,418	
	2018	<u>(3,252,939)</u>	13,766,835
Surplus paid in	2014	47,197	
	2015		
	2016		
	2017		
	2018	<u>(40,000,000)</u>	(39,952,803)
Dividends to stockholders	2014	(30,000,000)	
	2015	(45,000,000)	
	2016	(45,000,000)	
	2017	(26,000,000)	
	2018	<u>(146,000,000)</u>	
Aggregate write-ins for gains and losses in surplus	2014		
	2015	175,352	
	2016		
	2017		
	2018	<u>175,352</u>	
Surplus as regards policyholders, December 31, 2018			<u><u>\$ 13,701,044</u></u>

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, 2018, was \$13,701,044, which was the same amount reported by the Company in its 2018 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

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

SUBSEQUENT EVENTS

Coronavirus Disease 2019 (“COVID-19”) was declared as a pandemic in March of 2020. The Company noted that they continue to actively monitor the current international and domestic impacts of and responses to COVID-19 and its related risks and to prepare accordingly. At this time, the Company is not able to predict the impact COVID-19 may have on its results of operations, cash flows or financial condition, however, it is reasonably possible the outcome may be material.

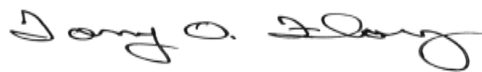
SUMMARY OF RECOMMENDATIONS

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

CONCLUSION

The assistance and cooperation by the officers of the Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Mr. Shane Mead, CISA, CISM, CRISC, an Information Systems Examiner representing the Department, participated in this examination.

Respectfully submitted,



Tony O. Florez, CFE
Examiner-in-Charge
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Kansas

County of Shawnee

Tony O. Florez being duly sworn, states as follows:

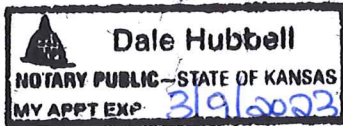
1. I have authority to represent the Kansas Insurance Department in the examination of Coventry Health Care of Kansas, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Coventry Health Care of Kansas, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Tony O. Florez
Examiner's Signature

Subscribed and sworn before me by Tony Florez on this
2 day of June, 2020.

(SEAL)



Dale Hubbell
Notary Public

My commission expires 3/9/2023
(date)