

REPORT ON EXAMINATION
OF
SUNFLOWER STATE HEALTH PLAN, INC.
8325 LENEXA DRIVE
LENEXA, KS 66214
AS OF
DECEMBER 31, 2019

FILED

JUN 25 2021

VICKI SCHMIDT
Commissioner of Insurance

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St. Louis, Missouri
May 26, 2021

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:

SUNFLOWER STATE HEALTH PLAN, INC.

with its statutory home office at:

**8325 LENEXA DRIVE
LENEXA, KANSAS 66214**

and main administrative office at:

**7700 FORSYTH BOULEVARD
SAINT LOUIS, MISSOURI 63105**

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

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of SSHP, a Kansas domiciled health insurance company. 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. This examination was performed as part of the multi-state coordinated examination of the Centene Group ("Centene" or "Group") of regulated entities wherein Texas was the lead 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 KPMG 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 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. Significant reliance was placed on select work papers during this examination.

Actuarial Review

The Department retained the services of Lewis & Ellis, Inc. ("L&E") to perform a review of the Company's actuarial practices and reserves as of December 31, 2019. L&E's review consisted of evaluating certain assumptions, methodologies, and calculations utilized by the Company in the reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the examination.

COMPANY HISTORY

General

The Company was incorporated in Kansas on September 15, 2011, as a health maintenance organization under the provisions of K.S.A. 40-3201 et seq.

The Company began operations on January 1, 2013, as a health maintenance organization under Article 32, Chapter 40 of the Kansas Statutes Annotated. The Company was organized as a for-profit corporation as set forth in its Articles of Incorporation with the nature of its business being:

1. To provide integrated healthcare services to Medicaid recipients in the State of Kansas; and

2. To engage in any other lawful act, activity or business for which corporations may be organized under the Kansas General Corporation Code, as amended from time to time.

Capital Stock

The Company's Articles of Incorporation authorize the issuance of 100 shares of common stock with no par value. On December 31, 2019, 100 shares were issued and held by Centene Corporation.

Dividends and Capital Contributions

The Company did not receive any capital contributions during the period under review. The Company paid extraordinary dividends of \$9,500,000 in 2017 and \$13,000,000 in 2016 to its parent, Centene Corporation. The Company received the Department's prior approval to pay the dividends.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed with no amendments being noted during the examination period.

MANAGEMENT AND CONTROL

Stockholders

Article 2, Section 2 of the Company's Bylaws provides, "Unless directors are elected by written consent in lieu of an annual meeting as provided in these Bylaws, an annual meeting of the stockholders will be held on the second Tuesday in May of each year, if not a legal holiday, and if a legal holiday, then on the next secular day following, at 10:00 a.m. (Central), or at such other date and time as may be designated from time to time by the Board and stated in the notice of the meeting or in a duly executed waiver of notice thereof. At the annual meeting, the stockholders entitled to vote will elect directors and may also transact such other business as may be desired, whether or not

the same was specified in the notice of the meeting, unless the consideration of such other business without its having been specified in the notice of the meeting as one of the purposes thereof is prohibited by law.”

Article 3, Section 1 of the Company’s Bylaws provides, in part, “The holders of a majority of the shares of stock of the Corporation entitled to vote, present in person or represented by proxy, will constitute a quorum (a ‘Quorum’) at all meetings of the stockholders for the transaction of any business, except as otherwise provided by law, the Articles or these Bylaws.

If a Quorum is not present at a meeting of the stockholders, the holders of a majority of the stock present in person or represented by proxy at such meeting will have the power successively to adjourn the meeting from time to time to a specified time and place, without notice to anyone other than an announcement at the meeting at which such adjournment is taken, until a Quorum is present.”

Article 3, Section 3(a) of the Company’s Bylaws provides, “Unless otherwise provided in the Articles, each stockholder entitled to vote will be entitled to one (1) vote for each share of stock held and registered in such stockholder's name on the books of the Corporation. If the Articles provide for more or less than one (1) vote for any share on any matter, then every reference in these Bylaws to a vote by a majority or other proportion of stock will refer to such majority or other proportion of the votes of such stock on such matters as provided in the Articles.”

Article 3, Section 3(b) of the Company’s Bylaws provides, “No person may vote any shares of Corporation stock that at that time belong to the Corporation, or that at that time belong to an entity controlled by the Corporation.”

Article 3, Section 3(e) of the Company's Bylaws provides, "Directors will be elected by a plurality of the shares present in person or by proxy at a meeting at which a Quorum is present and entitled to vote on the election of directors. No cumulative voting will be permitted in the election of directors."

Board of Directors

Article 4, Section 1 of the Company's Bylaws provides, "Unless and until changed by the Board as hereinafter provided, the number of directors to constitute the Board will be not less than one (1) and no more than twelve (12). The initial Board shall consist of three (3) directors. The number of directors constituting the Board may be changed from time to time and at any time by a resolution adopted by a majority of the whole Board. Directors, each of whom must be a natural person, need not be stockholders. Each director will hold office until a successor is elected and qualified or until such director's earlier resignation or removal."

Article 4, Section 2 of the Company's Bylaws provides, in part, "The business and affairs of the Corporation will be managed by and under the direction of the Board."

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

<u>Name</u>	<u>Position(s) Held</u>
Denise R. Cyzman	Chief Executive Officer Community Care Network of Kansas
Scott G. Ellsworth	Regional Vice President Centene Corporation
Megan R. Flaskamper	Staff Vice President-Legal Affairs Centene Corporation
David E. Johnson	Administrator Lutheran Family Services of Nebraska

Mark S. Siegmund

Chief Clinical/Operations Officer
KidsTLC

Michael R. Stephens

President and Chief Executive Officer
Sunflower State Health Plan, Inc.

Committees

The Company's Bylaws indicate that the Board may designate one or more committees of the Board. The Board has not appointed any committees over the examination period. All committees of the Board operate at the Centene Corporation level.

Officers

Article 5, Section 1(a) of the Company's Bylaws provides, "The Corporation will have a President and a Secretary and may also have the following officers: a Chairman of the Board, one or more Vice Presidents, a Treasurer, one or more Assistant Secretaries and one or more Assistant Treasurers, each with such duties as are stated in this **Article 5** or by resolution of the Board which is not inconsistent with these Bylaws. The Board will elect a President and a Secretary at its annual meeting. The Board then, or from time to time, may elect one or more of the other officers as it may deem advisable, and may further identify or describe the duties of any one or more of the officers of the Corporation."

Article 5, Section 1(b) of the Company's Bylaws provides, "Officers of the Corporation need not be members of the Board. Any number of offices may be held by the same person." The following is a listing of officers and their position(s) held as of December 31, 2019:

<u>Name</u>	<u>Position(s) Held</u>
Michael R. Stephens	President & CEO
Jeffrey A. Schwaneke	Treasurer
Keith H. Williamson	Secretary
Tricia L. Dinkelman	Vice President of Tax
Scott G. Ellsworth	Vice President

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 has 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 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.

Centene Corporation (Delaware)
 Superior HealthPlan, Inc. (Texas)
Sunflower State Health Plan, Inc. (Kansas)
 SilverSummit Healthplan, Inc. (Nevada)
 Pennsylvania Health & Wellness, Inc. (Pennsylvania)
 Superior HealthPlan Community Solutions, Inc. (Texas)
 Sunshine Health Community Solutions, Inc. (Florida)
 Arkansas Health & Wellness Health Plan, Inc. (Arkansas)
 Arkansas Total Care Holding Company, LLC (49%) (Delaware)
 Arkansas Total Care, Inc. (Arkansas)
 Centene Management Company LLC (Wisconsin)
 CCTX Holdings, LLC (Delaware)
 Centene Company of Texas, LP (1%) (Texas)
 Centene Holdings, LLC (Delaware)
 Centene Company of Texas, LP (99%) (Texas)

Envolve Holdings, LLC (Delaware)
Envolve PeopleCare, Inc. (Delaware)
Envolve Benefits Options, Inc. (Delaware)
Envolve Vision Benefits, Inc. (Delaware)
Envolve Vision of Texas, Inc. (Texas)
Envolve Vision, Inc.
Envolve Dental, Inc. (Delaware)
Envolve Dental of Texas, Inc. (Texas)
Envolve Pharmacy Solutions, Inc. (Delaware)
QCA Healthplan, Inc. (Arkansas)
Qualchoice Life and Health Insurance Company (Arkansas)

Intercompany/Cost Sharing Agreements

The Company is party to a Management Agreement with Centene Management Company, LLC (“CMC”), whereby the Company is provided with administrative and support services necessary to fulfill its responsibilities under the terms of its contract with the Kansas Department of Health and Environment (“KDHE”), Division of Health Care Finance. The administrative and support services provided under this agreement include: finance, claims administration, regulatory and compliance services, management information systems, legal services, and treasury services.

In return for these services, the Company will reimburse CMC for a sliding scale percentage of revenue, based on volume and type of business written. For long-term care members, the scale ranges from 4.5%-5.5%, for TANF/CHIP/ABD members, the scale ranges from 10.0%-12.0%, and for Marketplace/Commercial members, the scale ranges from 13.0%-15.0%. These percentages will increase or decrease driven by projected revenue increases or decreases, respectively, and is subject to a final accounting based upon the annual revenue confirmed by a certified public accountant. The amount paid under this agreement was \$129,829,422 during 2019.

Under agreements with Envolve PeopleCare, Inc. (“EPC”), EPC provides nurse advice line, triage services, and disease management services to SSHP. Fees are based

upon a set amount per enrollee/participant per month as dictated by the type of business and services provided in accordance with the agreed upon schedule of fees. The amount paid under this agreement was \$1,578,784 during 2019.

The Company is party to an agreement with Envolve Pharmacy Solutions, Inc. ("EPS"), whereby EPS provides pharmacy benefit management services based upon actual invoiced claim settlements and an administration fee amount per claim. The amount paid under this agreement was \$188,258,121 during 2019.

The Company is party to an agreement with Envolve Vision, Inc. ("EVI"), whereby EVI provides vision benefit management services based upon a set amount per member per month as dictated by the type of business. The amount paid under this agreement was \$9,733,731 during 2019.

The Company is party to an agreement with Envolve Dental, Inc. ("EDI"), whereby EDI provides dental services based upon a capitated per member per month fee, as dictated by the type of business. The amount paid under this agreement was \$27,735,875 during 2019.

The Company is party to an agreement with U.S. Medical Management, LLC to provide home health services in exchange for contractually agreed upon rates driven by service category. The amount paid under this agreement was \$647,880 during 2019.

The Company is party to an agreement with Celtic Insurance Company, whereby Celtic provides network access services. The amount paid under this agreement was \$0 during 2019.

The Company is a party to the Centene Corporation's Tax Allocation Agreement, which requires all subsidiaries reimburse or recover their portion of the income taxes as calculated on a separate company basis for settlement under the consolidated federal

income tax return. For all years under examination, the Company filed a consolidated federal income tax return with Centene Corporation and its subsidiaries.

TERRITORY AND PLAN OF OPERATION

The Company began operations in 2013 by providing managed care to Medicaid recipients through its contract with KDHE. As of December 31, 2019, SSHP has approximately 130,000 members in four service areas (JO, NE, SE, and SG) that cover all of the 105 counties in Kansas. There are two other Medicaid managed care organizations (“MCOs”) in the state, and SSHP has approximately 33% market share statewide.

On January 1, 2018, the Company entered into a contract with Centers for Medicaid & Medicare Services (“CMS”) to sell a Medicare Advantage product in Kansas. As of December 31, 2019, SSHP had deployed this product to approximately 1,000 members in 7 counties. Additionally, on January 1, 2018, SSHP entered into a contract with CMS to sell Health Insurance Marketplace products in Kansas. As of December 31, 2019, SSHP had deployed this product to approximately 17,000 members in 4 counties.

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

<i>(in thousands)</i>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Admitted Assets	336,366	284,482	257,382	254,019
Liabilities	204,533	140,701	122,659	120,722
Capital and Surplus	131,833	143,780	134,723	133,296
Net Income	(10,148)	9,823	12,109	9,677
Net Revenues	1,537,340	1,355,466	1,114,050	1,106,722

REINSURANCE

The Company purchases patient reinsurance to mitigate its risk related to high-dollar cases. This reinsurance is negotiated and purchased on a Group basis led by Centene Corporation with PartnerRe America Insurance Company. For 2019 Medicaid and Medicare members, on a per member per calendar year basis (for inpatient costs), SSHP retained risk up to \$1,250,000. Beyond the threshold, SSHP is at-risk for 10% co-insurance. The deductible includes an average daily maximum (ADM or per diem) of \$15,000 for included costs.

The Company's Health Insurance Marketplace members are covered under the combined Centene Exchange reinsurance agreement. This reinsurance is negotiated and purchased on a group basis led by Centene Corporation with PartnerRe America Insurance Company. For 2019, on a per member per calendar year basis (for inpatient costs), SSHP retained risk up to \$600,000. Beyond the threshold, SSHP is at-risk for 10% co-insurance. The deductible includes an ADM of \$15,000 for included costs. Specific

members were excluded from this coverage for SSHP, as listed in the agreement. SSHP retains the risk for those members.

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.

SUNFLOWER STATE HEALTH PLAN, INC.
ASSETS
AS OF DECEMBER 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 67,400,591	\$ -	\$ 67,400,591
Cash and short-term investments	95,217,138		95,217,138
Investment income due & accrued	641,659		641,659
Uncollected premiums and agents' balances in the course of collection	121,300,581		121,300,581
Accrued retrospective premiums and contracts subject to redetermination	35,031,218		35,031,218
Amounts recoverable from reinsurers	4,686,666		4,686,666
Amounts receivable relating to uninsured plans	1,258,735		1,258,735
Current federal and foreign income tax recoverable	3,353,280		3,353,280
Net deferred tax asset	1,816,369		1,816,369
Healthcare and other amounts receivable	7,218,541	4,400,633	2,817,908
Aggregate write-ins for other than invested assets	2,850,540	8,750	2,841,790
Totals	<u>\$ 340,775,318</u>	<u>\$ 4,409,383</u>	<u>\$ 336,365,935</u>

**SUNFLOWER STATE HEALTH PLAN, INC.
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2019**

Claims unpaid	\$ 154,609,657
Accrued medical incentive pool	520,477
Unpaid claims adjustment expenses	2,024,000
Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act	22,045,159
Premiums received in advance	11,776,269
General expenses due or accrued	9,892,589
Ceded reinsurance premiums payable	379,345
Amounts due to parent, subsidiaries and affiliates	3,285,903
Total liabilities	<u>\$ 204,533,399</u>
Aggregate write-ins for special surplus funds	\$ 19,927,517
Gross paid in and contributed surplus	245,000,000
Unassigned funds	(133,094,981)
Surplus as regards policyholders	<u>\$ 131,832,536</u>
Totals	<u><u>\$ 336,365,935</u></u>

SUNFLOWER STATE HEALTH PLAN, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

Member months	1,886,480
Net premium income	\$ 1,537,340,016
Total revenues	<u>\$ 1,537,340,016</u>
<u>Hospital and Medical:</u>	
Hospital/medical benefits	\$ 1,071,306,176
Other professional services	48,059,673
Emergency room and out-of-area	26,736,603
Prescription drugs	179,618,078
Incentive pool, withhold adjustment and bonus amounts	892,270
Subtotal	<u>\$ 1,326,612,800</u>
<u>Less:</u>	
Net reinsurance recoveries	4,805,226
Total hospital and medical	<u>\$ 1,321,807,574</u>
Claims adjustment expenses	21,790,111
General and administrative expenses	211,707,564
Increase in reserves for life and A&H contracts	(291,850)
Total underwriting deductions	<u>\$ 1,555,013,399</u>
Net underwriting loss	\$ (17,673,383)
Net investment income earned	\$ 3,761,287
Net realized capital losses	(3,554)
Net investment gains (losses)	<u>\$ 3,757,733</u>
Net gain (loss) from agents' or premium balances charged off	(118,468)
Net income (loss) after capital gains tax, before fed income tax	<u>\$ (14,034,118)</u>
Federal income taxes incurred	(3,886,615)
Net income (loss)	<u><u>\$ (10,147,503)</u></u>

CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

Surplus as regards policyholders, December 31, 2015			<u>\$ 134,788,841</u>
Net income	2016	9,677,302	
	2017	12,108,779	
	2018	9,822,906	
	2019	<u>(10,147,503)</u>	21,461,484
Change in net unrealized capital gains or (losses)	2016	(154)	
	2017	116	
	2018	-	
	2019	<u>(1,504)</u>	(1,542)
Change in net deferred income tax	2016	1,900,122	
	2017	(634,701)	
	2018	1,176,676	
	2019	<u>(625,728)</u>	1,816,369
Change in nonadmitted assets	2016	(69,964)	
	2017	(547,378)	
	2018	(1,942,203)	
	2019	<u>(1,173,073)</u>	(3,732,618)
Dividends to stockholders	2016	(13,000,000)	
	2017	(9,500,000)	
	2018	-	
	2019	<u>-</u>	(22,500,000)
Surplus as regards policyholders, December 31, 2019			<u>\$ 131,832,534</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, 2019, was \$131,832,534, which was the same amount reported by the Company in its 2019 filed Annual Statement.

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

As of December 31, 2019, the Company reported approximately \$18,000,000 in Medicaid Risk Corridor Receivables stemming from the 2017 plan year. These balances were the subject of review and negotiations between the Company and KDHE given differences in interpretations of contract language which led to differences in the calculation methodology deployed by the Company when compared to KDHE. In April 2021, the Company agreed to settle these receivables for approximately \$6,300,000. As a result, SSHP recorded a net decrease of approximately \$11,700,000 in Capital & Surplus as of the March 31, 2021 Quarterly Statement. Approximately \$7,500,000 of this adjustment was reflected in the 2020 Annual Statement. The remaining \$4,200,000 adjustment was reflected in the March 31, 2021 Quarterly Statement. As of the date of this Examination Report, the \$6,300,000 has not been collected.

SUMMARY OF RECOMMENDATIONS

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

CONCLUSION

In addition to the undersigned, David Palmer, CFE, Exam Manager and Karen Elsom, FSA, MAAA, Consulting Exam Actuary, both representing the Department, participated in this examination.

Respectfully submitted,

Lindsey Pittman

Lindsey Pittman, CFE
Examiner-in-Charge
Lewis & Ellis, Inc. representing the
Kansas Insurance Department

Tamara House

Tamara House, CFE
Department Designee
Senior Financial Examiner
Kansas Insurance Department

