



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

### ORDER ADOPTING REPORT OF EXAMINATION

I, Andrew N. Mais Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of Anthem Health Plans, Inc. (the "Company") as of December 31, 2017, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

#### TO WIT:

1. I, Andrew N. Mais, as the Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("CGS").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On May 9, 2019, the verified Report of the Company was filed with the Connecticut Insurance Department ("Insurance Department").
4. In accordance with Section 38a-14(e)(3) of the CGS, the Company was afforded a period of thirty (30) days within which to submit to the Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On May 15, 2019, the Company notified the Insurance Department of certain responses and comments on certain items contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Insurance Department.
2. That the Company shall comply with all of the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the CGS.
3. Section 38a-14(e)(4)(A) of the CGS requires that:

*“The secretary of the board of directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the commissioner, in writing, that a copy of the report or summary has been provided to each director.”*

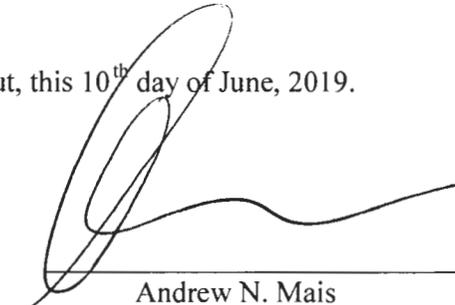
Please address the certification to the commissioner but send[ing] to the care/attention of *name*, Supervising Examiner, of the Financial Regulation Division.

4. Section 38a-14(e)(4)(B) of the CGS requires that:

*“Not later than one hundred twenty days after receiving the report or summary, the chief executive officer or the chief financial officer of the entity examined shall present the report or summary to the entity's board of directors or similar governing body at a regular or special meeting.”*

This will be verified by the Insurance Department either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 10<sup>th</sup> day of June, 2019.



Andrew N. Mais  
Insurance Commissioner

EXHIBIT A

**EXAMINATION REPORT**

**OF THE**

**ANTHEM HEALTH PLANS, INC.  
(NAIC # 60217)**

**AS OF**

**DECEMBER 31, 2017**

**BY THE CONNECTICUT INSURANCE DEPARTMENT**



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May 9, 2019

The Honorable Andrew N. Mais  
Insurance Commissioner  
State of Connecticut Insurance Department  
153 Market Street, 6<sup>th</sup> Floor  
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has conducted a financial examination of the conditions and affairs of:

ANTHEM HEALTH PLANS, INC.

(hereinafter referred to as the Company or AHP), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office and its main administrative office located at 108 Leigus Road, Wallingford, Connecticut. The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The previous examination of the Company was conducted by the Financial Regulation Division of the Connecticut Insurance Department (Department) as of December 31, 2012. The current examination covers the period from January 1, 2013 through December 31, 2017.

The current examination was conducted as part of a multi-state examination (the Coordinated Examination) of the Anthem, Inc. (Anthem) holding company, in which the Department served as a participating state and assisted the lead state, Indiana, in the simultaneous examination of forty (40) regulated entities domiciled in twenty-five (25) states (the Group). The Coordinated Examination not only provided information on each insurer individually but also provided a structure for regulators to understand and evaluate risks of the companies within the holding company as a whole.

As part of the examination planning procedures, the Department reviewed the following materials submitted by the Company from 2013 through 2018:

- statutory audit reports completed by the Company's independent certified public accountant, Ernst & Young, LLP (E&Y) ;
- Board of Director (Board) and other committee minutes (through the latest 2018 minutes);
- Management's Discussion and Analysis;
- Statements of Actuarial Opinion;

## ANTHEM HEALTH PLANS, INC.

- reports of the Company's Internal Audit Department;
- documentation supporting Section 404 of the Sarbanes Oxley Act of 2002 (SOX);
- 10-K reports filed with the Securities and Exchange Commission; and
- Annual statements filed with the Department.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department and reports from the National Association of Insurance Commissioners (NAIC) database, all of which indicated no material concerns with respect to financial condition or regulatory compliance.

Work papers prepared by E&Y were reviewed and relied upon to the extent deemed appropriate.

Merlinos & Associates, Inc. (Merlinos) was engaged by the Indiana Insurance Department to assist in the review of the Company's reserving and pricing/underwriting risks for the coordinated examination.

Noble Consulting (Noble) was engaged by the Indiana Insurance Department to assist in the review of the Company's Information Technology (IT) General Controls (ITGCs) for the coordinated examination.

Winthrop Capital Management (Winthrop) was engaged by the Indiana Insurance Department to assist in the review of the Company's investment risks for the coordinated examination.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with the NAIC Accounting Practices & Procedures Manual (Manual) and the NAIC Health Annual Statement Instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

HISTORY

The Company was issued a certificate of incorporation by the Secretary of the State of Connecticut on February 7, 1997, pursuant to Section 33-646 of the CGS. The Company was licensed as a life, accident and health insurer on June 20, 1997, and as a health care center on July 22, 1997.

The Company was formed as part of a larger transaction under which its predecessor, Blue Cross and Blue Shield of Connecticut, Inc. (BCBSCT) was merged with and into Anthem Insurance Companies, Inc. (AICI), an Indiana domiciled insurance company, on August 1, 1997. In accordance with an assumption reinsurance agreement, BCBSCT transferred all of its insurance, managed care, and health care center businesses, and all its assets and liabilities, except the stock of Anthem East, Inc. (AE), a Delaware holding company, to the Company immediately prior to the August 1, 1997, merger.

The Company was a wholly-owned subsidiary of AE, which in turn was a wholly-owned subsidiary of AICI, which in turn was a wholly-owned subsidiary of Anthem.

Anthem was formed in July 2001 in connection with the conversion of AICI from a mutual insurance company to a stock insurance company. The demutualization was effective on November 2, 2001, in accordance with Indiana demutualization law. The Department approved the exemption from acquisition of controlling interest on July 18, 2001.

On November 30, 2004, Anthem and WellPoint Health Networks, Inc. (WHN) completed a merger. WHN merged with and into Anthem Holding Corp. (Holding), a direct and wholly-owned subsidiary of Anthem, with Holding as the surviving entity in the merger. In connection with the merger, Anthem amended its articles of incorporation to change its name to WellPoint, Inc. (WellPoint).

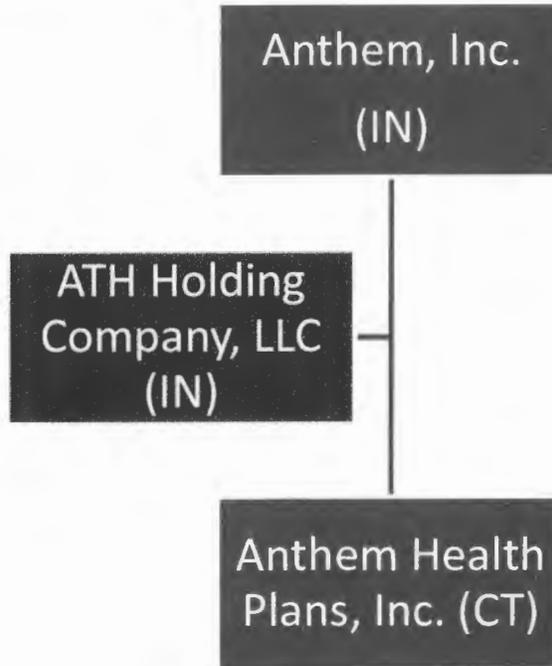
Effective October 3, 2005, AE was converted into a limited liability company under the name Anthem East, LLC (Anthem East). Effective December 28, 2006, Anthem East, the Company's former parent, Anthem Midwest, LLC and Anthem West, LLC merged with and into ATH Holding Company, LLC (ATH Holding), with ATH Holding as the surviving entity. As a result of the merger, the Company is now a direct subsidiary of ATH Holding, which is a wholly owned subsidiary of WellPoint, the ultimate controlling entity. An exemption in change of control was granted by the Department on November 22, 2006.

Effective December 2, 2014, the shareholders of WellPoint approved a proposal to amend its articles of incorporation to change its name back to Anthem, Inc. from WellPoint, Inc.

ANTHEM HEALTH PLANS, INC.

ORGANIZATIONAL CHART

The following is the Company's abbreviated organizational chart as of December 31, 2017:



MANAGEMENT AND CONTROL

The bylaws state that annual meetings of shareholders of the Company, for the election of directors and for the transaction of any other proper business, shall be held before the end of May each year, at such time and at such place within or outside the State of Connecticut as specified in the meeting notice. With respect to the vote required for a specified action, except as otherwise provided by law, by the Certificate of Incorporation or by the bylaws, at any meeting of shareholders, the holders of a majority of the outstanding stock entitled to vote at such meeting, either present or represented by proxy, shall constitute a quorum for the transaction of any business.

Special meetings of the shareholders of the Company may be called at any time by the Board, president, or shareholders holding not less than twenty-five percent (25%) of all shares of all classes outstanding and entitled to vote at the meeting.

In accordance with the bylaws, the business of the Company shall be managed by a Board whose number of directors shall be fixed by the Board from time to time. Directors shall be elected at the annual meeting for one year and shall hold office until their respective successors have been elected and qualified.

## ANTHEM HEALTH PLANS, INC.

The Board shall meet without notice immediately following the annual meeting of the shareholders. Additional meetings may be set by resolution of the Board on an annual basis. A majority of the Board shall constitute a quorum for the transaction of business. The vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board.

A special meeting of the Board shall be held whenever called by the Chairman, if any, or by any two members of the Board, at such time and place as shall be specified in the notice or waiver thereof.

### Directors

At December 31, 2017, directors of the Company were as follows:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
Jill Rubin Hummel	Chairperson and President Anthem Health Plans, Inc.
Catherine Irene Kelaghan	Vice President and Counsel Anthem, Inc.
Ronald William Penczek	Chief Accounting Officer Anthem, Inc.

### Officers

At December 31, 2017, the officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Jill Rubin Hummel	President and Chairperson
Robert David Kretschmer	Treasurer
Kathleen Susan Kiefer	Secretary
Alfred Raymond Jarvis	Assistant Secretary

## RELATED PARTY TRANSACTIONS

### Consolidated Federal Tax Allocation Agreement

The Company's federal income tax return is filed on a consolidated basis with its ultimate parent company, Anthem. Allocation of federal income taxes with affiliates subject to the tax sharing agreement is based upon separate income tax return calculations with credit for net losses that can be used on a consolidated basis. Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future losses, which it may incur, or to recoup its net loss, carried forward as an offset to future net income subject to federal income taxes.

### Administrative and Management Agreement

AHP is a party to the Anthem Amended and Restated Master Administrative Services Agreement (MSA), with Anthem and its subsidiaries, to provide or receive various administrative, management and support services. The expenses related to these administrative management support services are allocated to or by the Company in an

## ANTHEM HEALTH PLANS, INC.

amount equal to the direct and indirect costs and expenses incurred in furnishing these services.

During the review of the MSA, it was noted that the MSA did not include:

- specific counterparty providing or receiving services;
- specific services being provided;
- specific compensation (methodology/rates) associated with those services being provided; and
- appropriate signature and date of execution for each required signee.

It is recommended that the Company amend the MSA to include the elements identified above; and file a Form D for with the Department.

### Cash Concentration Agreement

The Company entered into the Anthem Cash Concentration Agreement, which the Department approved on July 29, 2010. Under this agreement, any of the Company's affiliates may be designated as a cash manager to handle the collection and/or payment of funds on behalf of the Company. Conversely, the Company may be designated as a cash manager to handle the collection and/or payment of funds on behalf of its affiliates. Cash-related services covered under this agreement include collection of premiums and other revenue, collection of benefit and administrative expense reimbursements, and disbursement of policy benefits, payroll expense, general and administrative expense, and accounts payable.

### Receivables Sales Agreement

Effective December 20, 2017, the Company entered into the Receivables Sales Agreement whereby Blue Cross of California, an affiliate, agreed to purchase pharmaceutical rebates receivables without recourse, at face value, less a discount fee. During 2017, the Company sold \$34,556,445, of pharmaceutical receivables to Blue Cross of California.

It was noted that the Company failed to complete a Form D filing requesting pre-approval for the sale of these assets to an affiliate in accordance with Section 38(a)-136(b)(1)(A) of the CGS and Connecticut Insurance Department Bulletin (Bulletin) No. FS-30, despite meeting the threshold that required filing. The Company has since made the required filings to the Department.

It is recommended that for future sales of assets, the Company file a Form D filing when the threshold identified in CGS and Bulletin FS-30 is met.

## ANTHEM HEALTH PLANS, INC.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed in the State of Connecticut and markets and underwrites hospitalization, surgical and medical, major medical, prescription drugs, vision, and dental insurance to individuals and groups. The Company also provides administrative services for certain employers and government agencies.

The Company also writes Medicare Advantage and Medicare Supplement plans in Connecticut.

As a Blue Cross Blue Shield Association licensee, the Company participates in the Federal Employee Health Benefits Program (FEP) and BlueCard program. FEP is a nationwide contract to provide health benefit coverage to federal employees and their dependents. BlueCard is a nationwide program that enables members who need health care services while traveling or living in other Plans' services area to access their benefits through local Plans' providers.

### REINSURANCE

During the examination period, the Company participated in the Connecticut Small Employer Health Reinsurance Pool (CSEHRP), a mandatory pool incorporated under Section 38a-569 of the CGS. This statute requires that each insurer issuing health insurance in this state on and after July 1, 1990, be a member of the pool. The Company retains \$5,000 on each individual cession.

During the examination period the Company participated in The Patient Protection and Affordable Care Act (ACA) Transitional Reinsurance Program. This program ended as of December 31, 2016.

### INFORMATION TECHNOLOGY CONTROLS

Noble performed a risk-based assessment and review of the Group's ITGCs in accordance with NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Group's ITGCs was derived from Exhibit C Part 1 – Information Technology Planning Questionnaire (ITPQ) and Exhibit C Part 2 – Information Technology Work Program (collectively, Exhibit C). The Group's responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly.

Noble's objectives were to obtain reasonable assurance about whether:

- the Group has a process in place to effectively identify, mitigate and manage its IT risks;
- the Group's control structure policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C; and
- the Group's policies and procedures were in place during the examination period.

## ANTHEM HEALTH PLANS, INC.

The objectives above were achieved through a combination of reviewing the Group's policies and procedures, testing in key areas related to the Exhibit C, interviewing the Group's IT senior management, reviewing IT risk assessment processes, and leveraging relevant risk assessment procedures performed by E&Y.

In accordance with the Handbook, specific areas of review included:

- IT governance and organization structure;
- strategic planning, systems architecture and project oversight;
- IT risk management;
- vendor management;
- development and maintenance of policies;
- physical and logical security;
- business continuity and disaster recovery planning;
- end user or business developed applications; and
- cybersecurity and incident response.

Based upon the risk-based assessment and review, the Group's ITGCs were determined to be effective.

### MEDICAL LOSS RATIO (MLR)

The Department performed a review of the Group's MLR processes and controls designed to mitigate specific risks associated with the accuracy, payment and reporting of rebates.

As of December 31, 2017, the Company reported \$0 for its statutory MLR rebate within the "aggregate health policy reserves" liability.

For the 2015 and 2016 federal MLR Annual Reporting Form, for the large group market, the Company reported Premium Stabilization Reserves (PSR) within the experience rating refund reserves, which are reported within incurred claims. Section 158.110 of Title 45 of the Code of Federal Regulations (CFR), and the 2015 and 2016 MLR Annual Reporting Form Filing Instructions states that PSR are to be excluded from experience rating refund reserves for MLR reporting purposes. This error did not result in a change in rebates owed.

It is recommended the Company continue to ensure it completes the MLR Annual Reporting Form in accordance with the CFR and the MLR Annual Reporting Form Filing Instructions.

### ACCOUNTS AND RECORDS

The Company uses PeopleSoft for its automated general ledger, accounts receivable and accounts payable processing. Additionally, Anthem Consolidated East System provides a suite of integrated applications supporting the Company's various business functions and is the primary membership/billing and claims processing platform. The PeopleSoft accounting system produces a monthly trial balance based upon generally accepted accounting principles, which is then adjusted quarterly for statutory accounting and reporting

ANTHEM HEALTH PLANS, INC.

requirements. The Company uses the Wings annual statement filing software to produce its statutory financial statements.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2017. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Non Admitted Assets	Net Admitted Assets
Bonds	\$149,275,383		\$149,275,383
Common stocks	7,638,620		7,638,620
Cash	(39,066,555)		(39,066,555)
Cash equivalents	6,918,075		6,918,075
Other invested assets	159,208,925		159,208,925
Securities lending reinvested collateral assets	1,064,542		1,064,542
Investment income due and accrued	2,172,172		2,172,172
Uncollected premiums and agents' balances in the course of collection	24,454,519	\$4,200,382	20,254,137
Deferred premiums, agents' balances and installments booked but deferred and not yet due	28,137,419		28,137,419
Accrued retrospective premiums	20,516,062		20,516,062
Amounts recoverable from reinsurers	3,477,208		3,477,208
Amounts receivable relating to uninsured plans	240,297,946	11,628,324	228,669,622
Current federal and foreign income tax recoverable and interest thereon	8,741,293		8,741,293
Net deferred tax asset	9,424,359		9,424,359
Guaranty funds receivable or on deposit	13,087,099		13,087,099
Furniture and equipment, including health care delivery assets	9,222,818	9,222,818	0
Health care (\$86,218,879) and other amounts receivable	100,270,790	14,051,911	86,218,879
Aggregate write-ins for other than invested assets	71,069,559	11,020,900	60,048,659
Totals	<u>\$815,910,234</u>	<u>\$50,124,335</u>	<u>\$765,785,899</u>

ANTHEM HEALTH PLANS, INC.

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid	\$218,783,618		\$218,783,618
Accrued medical incentive pool and bonus	3,924,251		3,924,251
Unpaid claims adjustment expenses	5,535,333		5,535,333
Aggregate health policy reserves; including the liability of \$0 for medical loss ratio rebate per the Public Health Service Act	39,588,317		39,588,317
Aggregate health claim reserves	95,347		95,347
Premiums received in advance	34,143,483		34,143,483
General expenses due or accrued	44,551,690		44,551,690
Amounts withheld or retained for the account of others	1,143,753		1,143,753
Remittances and items not allocated	8,894,811		8,894,811
Amounts due to parent; subsidiaries and affiliates	48,883,545		48,883,545
Payable for securities lending	1,064,542		1,064,542
Liability for amounts held under uninsured plans	39,832,506		39,832,506
Aggregate write-ins for other liabilities (including \$17,439,595 current)	25,637,604		25,637,604
<b>Total liabilities</b>	<b><u>\$472,078,800</u></b>		<b><u>\$472,078,800</u></b>
<b>CAPITAL AND SURPLUS</b>			
	Covered	Uncovered	Total
Aggregate write-ins for special surplus funds	XXX		\$39,859,275
Common capital stock	XXX		500,000
Gross paid in and contributed surplus	XXX		2,025,180
Unassigned funds (surplus)	XXX		251,322,644
<b>Total capital and surplus</b>	<b>XXX</b>		<b>293,707,099</b>
<b>Total liabilities, capital and surplus</b>	<b>XXX</b>		<b><u>\$765,785,899</u></b>

ANTHEM HEALTH PLANS, INC.

STATEMENT OF REVENUE AND EXPENSES

STATEMENT OF REVENUE AND EXPENSES	Uncovered	Total
Member months	XXX	8,172,391
Net premium income	XXX	\$1,989,526,631
Change in unearned premium reserves and reserve for rate credits	XXX	(10,449,588)
Total revenues	XXX	1,979,077,043
<b>Hospital and Medical:</b>		
Hospital/medical benefits		1,369,208,694
Other professional services		27,763,782
Emergency room and out-of-area		15,858,112
Prescription drugs		296,332,506
Incentive pool, withhold adjustments and bonus amounts		13,466,663
Subtotal		1,722,629,758
<b>Less:</b>		
Net reinsurance recoveries		3,697,563
Total hospital and medical		1,718,932,195
Claims adjustment expenses, including \$28,239,822 cost containment expenses		43,661,565
General administrative expenses		169,401,859
Increase in reserves for life and accident and health contracts		2,622,758
Total underwriting deductions		1,934,618,377
Net underwriting gain or (loss)	XXX	44,458,666
Net investment income earned		6,665,571
Net realized capital gains or (losses) less capital gains tax of \$1,669,452		3,716,159
Net investment gains (losses)		10,381,730
Net gain or (loss) from agents' or premium balances charged off (amount charged off of \$71,221)		(71,221)
Aggregate write-ins for other income or expenses		1,906,454
Net income or (loss); after capital gains tax and before all other federal income taxes		56,675,630
Federal and foreign income taxes incurred		14,298,970
Net income (loss)	XXX	<u>\$42,376,660</u>
<b>CAPITAL AND SURPLUS ACCOUNT</b>		
Capital and surplus, December 31, prior year		\$232,222,134
Net income		42,376,660
Change in net unrealized gains (losses) less capital gains tax of \$1,624,918		17,646,751
Change in net deferred income tax		(20,342,889)
Change in non-admitted assets		21,804,444
Net change in capital and surplus for the year		61,484,966
Capital and surplus; December 31, current year		<u>\$293,707,099</u>

ANTHEM HEALTH PLANS, INC.

AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS \$60,048,659

Within the captioned account, the Company reported \$25.7 million in “transferable state tax credits”. During a review of the 2017 film tax credit roll-forward documentation, it was noted that the Company recorded the purchases at face value. SSAP No. 94R of the Manual requires “transferable and non-transferable states tax credits to be realized are initially recorded at cost”.

It is recommended that the Company record tax credits at cost, in accordance with SSAP No. 94R of the Manual.

CAPITAL AND SURPLUS \$293,707,099

The following is a reconciliation of capital and surplus for the period under examination:

Beginning of the Examination Period, January 1, 2013	\$328,910,075
Net income	383,001,468
Change in net unrealized capital gains or (losses) less capital gains tax	28,764,576
Change in net deferred income tax	(12,004,781)
Change in non-admitted assets	12,935,762
Dividends to stockholders	(447,900,000)
Net Change in Capital and Surplus for the Examination Period	(35,202,975)
Capital and Surplus, December 31, 2017	<u>\$293,707,099</u>

COMMON CAPITAL STOCK \$500,000

No change during this examination period.

GROSS PAID-IN AND CONTRIBUTED SURPLUS \$2,025,180

No change during this examination period.

Dividends to Stockholders \$902,800,000

Year	2013	2014	2015	2016	2017
Amount	\$132,000,000	\$117,200,000	\$106,900,000	\$91,800,000	\$0

All dividends were paid by the Company to ATH Holding.

RECOMMENDATIONS

Page

5 RELATED PARTY TRANSACTIONS

- It is recommended that the Company amend the MSA to include the elements identified above; and file a Form D for with the Department.
- It is recommended that for future sales of assets, the Company file a Form D filing when the threshold identified in CGS and Bulletin FS-30 is met.

8 MEDICAL LOSS RATIO

It is recommended the Company continue to ensure it completes the MLR Annual Reporting Form in accordance with CFR and the MLR Annual Reporting Form Filing Instructions.

12 AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS

It is recommended that the Company record tax credits at cost, in accordance with SSAP No. 94R of the Manual.

13 SUBSEQUENT EVENTS

It is recommended that the Company comply with Bulletin No. FS-2 for all future custody agreements.

SUBSEQUENT EVENTS

- During 2018, the Company entered into a new custody agreement with JP Morgan Chase Bank, N.A.. The new agreement was not in compliance with the requirements set forth in Bulletin No. FS-2, in that the Company failed to:

- (1) include all the required criteria as stipulated by FS-2 within the contract; and
- (2) obtain approval before execution.

The Company has subsequently amended the agreement to contain the required criteria and obtained Department approval.

It is recommended that the Company comply with Bulletin No. FS-2 for all future custody agreements.

## ANTHEM HEALTH PLANS, INC.

- On August 16, 2018, the Board declared an ordinary dividend in the amount of \$42,300,000. The Company paid the dividend to its parent, ATH Holdings, on September 4, 2018.
- The Company's ultimate parent, Anthem and Cigna Corporation (Cigna) entered into an "Agreement and Plan of Merger" dated July 23, 2015. On July 21, 2016, the U.S. Department of Justice (DOJ) filed a civil antitrust lawsuit in U.S. District Court seeking to block the acquisition. The court ruled in favor of the DOJ and Anthem promptly filed notice that they would appeal the ruling. On February 14, 2017, Cigna purported to terminate the Agreement and commenced litigation against Anthem seeking damages and declaratory judgment. Anthem promptly initiated litigation and received a temporary restraining order enjoining Cigna from terminating the Agreement. The motion was ultimately denied, and on May 12, 2017, Anthem delivered a notice to Cigna terminating the Agreement. The litigation in Delaware is ongoing. Trial commenced in late February 2019 and concluded in March 2019. The Delaware Court has set closing arguments for September 11, 2019 with post trial briefing due before then.
- In March 2016, Anthem filed a lawsuit against Express Scripts, Inc. (ESI), their vendor for pharmacy benefit management (PBM) services, in the U.S. District Court for the Southern District of New York. The lawsuit seeks to recover damages for pharmacy pricing that is higher than competitive benchmark pricing under the agreement between the parties, and damages related to operational breaches, as well as various declarations. ESI has disputed the contractual claims and is seeking declaratory judgments, including, among others, that it has no obligation to ensure that Anthem receive any specific level of pricing, that Anthem has no contractual right to any change in pricing under the ESI PBM Agreement and that its sole obligation is to negotiate proposed pricing terms in good faith; and that Anthem does not have the right to terminate the ESI PBM Agreement. In the alternative, Express Scripts claims that Anthem has been unjustly enriched by its payment of \$4.7 billion at the time of the ESI PBM Agreement. In March 2017, the court granted Anthem's motion to dismiss Express Scripts' counterclaims for (i) breach of the implied covenant of good faith and fair dealing, and (ii) unjust enrichment with prejudice. The only remaining claims are for breach of contract and declaratory relief.
- In October 2017, Anthem announced the establishment of IngenioRx, their new PBM. In addition, at that same time, Anthem announced that it entered into a five-year agreement with CVS Health Corporation to begin offering a full suite of PBM solutions starting on January 1, 2020, which coincides with the conclusion of Anthem's current PBM agreement with ESI. In January 2019, Anthem announced the acceleration of the launch of IngenioRx. The ESI PBM Agreement terminated on March 1, 2019, and the twelve-month transition period provided for in the ESI PBM Agreement to migrate the services began on March 2, 2019.

ANTHEM HEALTH PLANS, INC.

CONCLUSION

The results of this examination disclosed that as of December 31, 2017, the Company had admitted assets of \$765,785,899, liabilities of \$472,078,800, and capital and surplus of \$293,707,099. During the period under examination, admitted assets increased \$45,045,116, liabilities increased \$80,248,092, and surplus as regards policyholders decreased \$35,202,976.

ANTHEM HEALTH PLANS, INC.

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: William Arfanis, CFE; Michael Estabrook, CFE; Dawn Cormier, CPA; and the professional services firms of Noble, Winthrop and Merlino.

I, Michael T. Shanahan, CFE, solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2017, to the best of my information, knowledge and belief.

Respectfully submitted,



Michael T. Shanahan, CFE  
Examiner-In-Charge  
State of Connecticut  
Insurance Department

State of Connecticut

ss. Hartford

County of Hartford

Subscribed and sworn to before me, Nancy M. Mercier  
Notary Public on this 9<sup>th</sup> day of May, 2019.

Nancy M. Mercier  
Notary Public

My Commission Expires June 30, 2020