



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 ConnectiCare Benefits, Inc. (the Company) as of December 31, 2018, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions.

TO WIT:

1. I, Andrew N. Mais, 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 ("C.G.S").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On December 2, 2019, the verified Report of the Company was filed with the Connecticut Insurance Department (the "Department").
4. In accordance with C.G.S. §38a-14(e)(3), the Company was afforded a period of thirty (30) days within which to submit to the Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On January 6, 2020, the Company filed a written submission indicating that they were in agreement with all of the recommendations contained in 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 Department.
2. That the Company shall comply with 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 C.G.S.
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 said certification to the care/attention of Mark Murphy, 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 of 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 9th day of January, 2020.



Andrew N. Mais
Insurance Commissioner

EXHIBIT A

EXAMINATION REPORT

OF

**CONNECTICARE BENEFITS, INC.
(NAIC # 14913)**

AS OF

DECEMBER 31, 2018

BY THE CONNECTICUT INSURANCE DEPARTMENT



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November 18, 2019

The Honorable Andrew N. Mais
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street, 6th 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:

CONNECTICARE BENEFITS, INC.

(hereinafter referred to as the Company or CBI), 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 175 Scott Swamp Road, Farmington, 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, 2014. The current examination covers the period from January 1, 2015 through December 31, 2018.

Concurrent examinations were conducted on ConnectiCare, Inc. (CCI) and ConnectiCare Insurance Company, Inc. (CICI), affiliated Connecticut domestic insurance companies, which are members of EmblemHealth Inc. (EmblemHealth), a not-for-profit, New York domiciled company. The State of Massachusetts' Division of Insurance also concurrently conducted a financial examination of ConnectiCare of Massachusetts, Inc. (CCM).

As part of the examination planning procedures, the Department reviewed the following materials submitted by the Company from 2015 through 2018:

- statutory audit reports completed by the Company's independent certified public accountant, Deloitte & Touche, LLP (D&T) ;
- Board of Director (Board) and other committee minutes (through the latest 2019 minutes);
- Management's Discussion and Analysis;
- Statements of Actuarial Opinion;

CONNECTICARE BENEFITS, INC.

- reports of the Company's Internal Audit Department; 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 D&T were reviewed and relied upon to the extent deemed appropriate.

Risk & Regulatory Consulting, LLC (RRC) was engaged by the Department to assist in the review of the Company's pricing/underwriting risks for the examination.

RRC was engaged by the Department to assist in the review of the Company's Information Technology (IT) General Controls (ITGCs) for the 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 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.

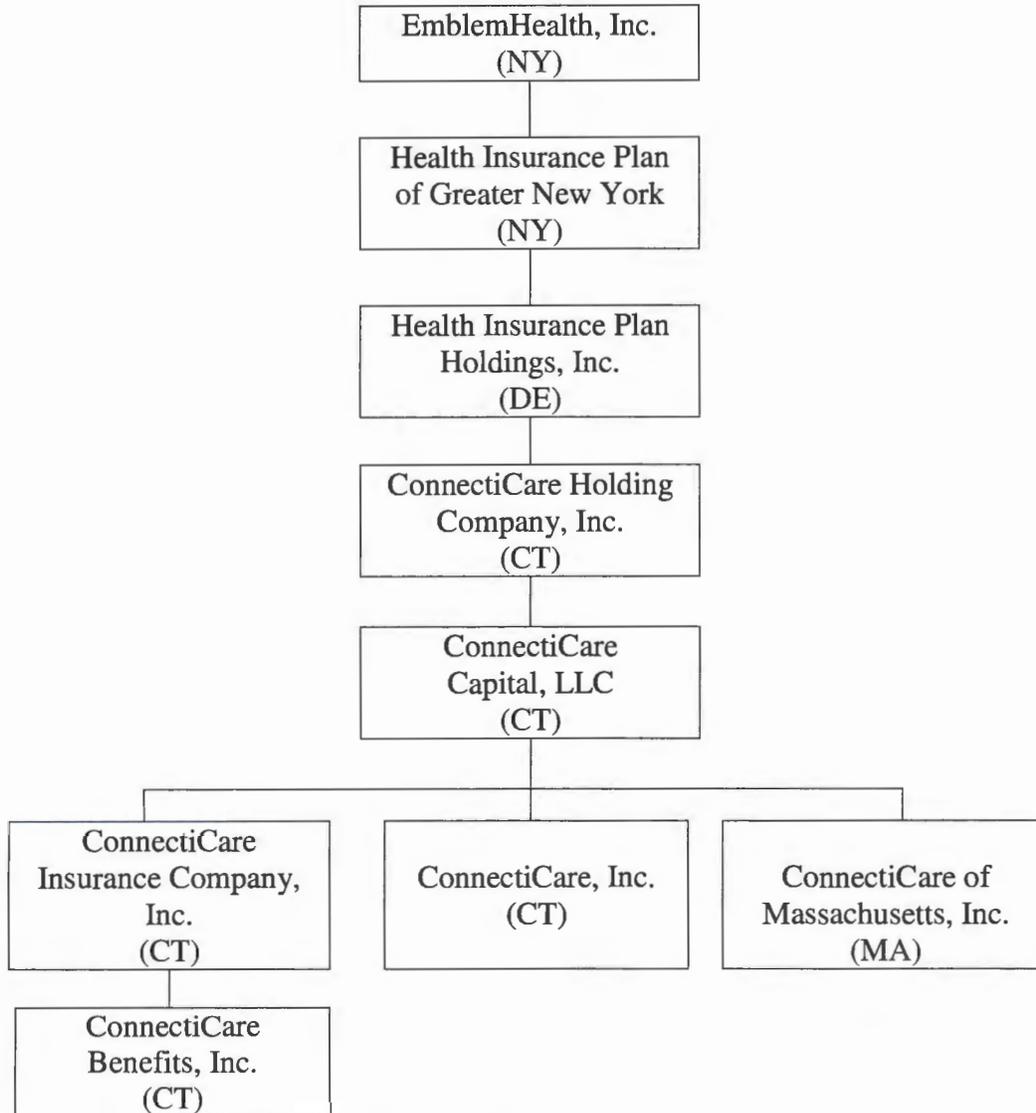
HISTORY

The Company was issued a Certificate of Incorporation by the Connecticut Secretary of State on August 22, 2012, licensed effective January 2, 2013, and commenced operations on January 1, 2014. CBI was formed to offer health care insurance (point of service product) on the Connecticut Health Insurance Exchange. CBI uses the existing provider network utilized by its Connecticut affiliates. The Company is wholly owned by CICI, which is wholly owned by ConnectiCare Capital, LLC (ConnectiCare Capital). The ultimate parent is EmblemHealth.

CONNECTICARE BENEFITS, INC.

ORGANIZATIONAL CHART

The following is the Company's abbreviated organizational chart as of December 31, 2018:



MANAGEMENT AND CONTROL

The bylaws of the Company require all meetings of the shareholders to be held at any location as the directors may determine. The annual meeting of the shareholders shall be held in the fourth quarter each year and at such time and date as the Board shall determine by resolution and set forth in the notice of the meeting. The business conducted at the annual meeting shall include the election of directors and any other business that may be brought before the meeting. Any annual meeting of the shareholders is not required to be held in any year in which Directors have been elected by written consent in lieu of the annual meeting.

CONNECTICARE BENEFITS, INC.

Special meetings of the shareholders may be called by the president or by the Board, and shall be called by the secretary of the corporation upon receipt of one or more written demands for a special meeting by the holders of the requisite percentage of votes. The presence at any meeting of the majority of votes entitled to be cast on a matter shall constitute a quorum for action on that matter.

The bylaws provide that all corporate powers shall be exercised by or under the authority of, and the business affairs of the Corporation shall be managed under the direction of the Board, subject to any limitations set forth in the Certificate of Authority. The number of directors shall consist of a minimum of one and a maximum of seven members, as determined by resolution of the Shareholders or the Board.

The Board shall meet each year immediately following the annual meeting of shareholders, or as soon thereafter as appropriate, for the purpose of organization, election of officers and consideration of such other business as the Board considers relevant to the management of the Corporation. Regular meetings of the Board shall be held as determined by the Board. Special meetings shall be held at the call of the president or by at least two Directors. A majority of the members of the Board shall constitute a quorum for the transaction of business.

At December 31, 2018, directors of the Company were as follows:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
Karen Marie Ignagni	President and Chief Executive Officer EmblemHealth, Inc.
Eric Bart Galvin	President ConnectiCare

Officers

Pursuant to the bylaws, the elected officers shall consist of a president, vice presidents, a secretary and a treasurer. All shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

At December 31, 2018, the officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Eric Bart Galvin	President
Mark Otis Porter	Vice President and Chief Financial Officer
Jeffrey D. Chansler Esq.	Assistant Secretary
Cheryl Hutchinson	Senior Vice President
Frank Anthony Scalise	Vice President and Treasurer
Robert Anthony Kosior	Senior Vice President and Chief Operating Officer
Roberta Doris Wachtelhausen	Senior Vice President

CONNECTICARE BENEFITS, INC.

RELATED PARTY TRANSACTIONS

Tax Sharing Agreement

The Company is a party to a Tax Sharing Agreement with Health Insurance Plan Holdings, Inc. (HIP Holdings), whereby HIP Holdings files a consolidated federal income tax return for all affiliated companies. The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate tax return liabilities of all affiliates that are members of the consolidated group.

Shared Services Agreement

The Company is party to an amended and restated shared services agreement with and among the ConnectiCare affiliated companies, effective as of January 26, 2015. The agreement provides the ConnectiCare affiliated companies the exchange of services and use of certain personnel, facilities, equipment, personal property, licenses and contracts owned, leased or maintained by each other. Charges are allocated to the various companies based on their pro-rata share of costs incurred on its behalf.

Administrative Services Agreement

The Company is a party to an amended and restated administrative services agreement with EmblemHealth affiliated companies, including EmblemHealth Services Company LLC (EHS), as of October 15, 2015. The agreement provides the EmblemHealth affiliated companies the exchange of services and use of certain personnel, facilities, equipment, personal property, licenses and contracts owned, leased or maintained by each other. Charges are allocated to the various companies based on their pro-rata share of costs incurred on its behalf.

TERRITORY AND PLAN OF OPERATION

The Company, a for-profit Qualified Health Plan licensed to write business only in the State of Connecticut, currently offers health insurance on the Connecticut-run exchange known as Access Health CT. The Company offers fully-insured individual and managed indemnity point of service products.

REINSURANCE

During the examination period, the Company's ceded reinsurance arrangement, effective January 1, 2018, primarily consisted of a coinsurance agreement with RGA Reinsurance Company (RGA). The reinsurance coverage provided claim loss recovery of 40% of claims in excess of the Company's \$1,500,000 retention up to \$4,000,000 for 2018. This agreement, under the same retention and coinsurance percentages, was renewed on January 1, 2019.

Additionally, for business subject to the Affordable Care Act regulations, the Company was eligible for reimbursement under the Federal High Cost Risk Pool, whereby the reinsurance coverage provided claim loss recovery of 60% of claims in excess of the Company's \$1,000,000 retention during 2018.

CONNECTICARE BENEFITS, INC.

The Company was mandated to participate in the Connecticut Small Employer Health Reinsurance Pool, which was established for groups with covered lives less than 50 and was administered by Pool Administrators, Inc. The reinsurance coverage provided claim loss recovery of 50% of claims in excess of the Company's \$350,000 retention up to \$1,000,000 during 2018.

INFORMATION TECHNOLOGY CONTROLS

RRC performed a risk-based assessment and review of the Company's ITGCs in accordance with NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Company'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 Company'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.

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

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

The objectives above were achieved through a combination of reviewing the Company's policies and procedures, testing in key areas related to Exhibit C, interviewing the Company's IT senior management and reviewing IT risk assessment processes.

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 Company's ITGCs were determined to be effective.

CONNECTICARE BENEFITS, INC.

MEDICAL LOSS RATIO (MLR)

As of December 31, 2018, the Company reported \$0 for its statutory MLR rebate within the "aggregate health policy reserves" liability.

The Department performed a review of the Company's MLR processes and controls designed to mitigate specific risks associated with the accuracy, payment and reporting of rebates. There were no material issues identified as a result of this review.

ACCOUNTS AND RECORDS

The Company utilized the PeopleSoft system for its general ledger and accounts payable reporting. The PeopleSoft accounting system produced a monthly trial balance based upon generally accepted accounting principles, which was then adjusted quarterly for statutory accounting and reporting requirements. During the fourth quarter of 2018, PeopleSoft was replaced by Oracle ERP financial management system. The Company utilized Booke Seminars, "The Complete Package" for preparation of the Annual Statement.

CONNECTICARE BENEFITS, INC.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2018. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Non Admitted Assets	Net Admitted Assets
Bonds	\$124,223,442		\$124,223,442
Cash	701,801		701,801
Cash equivalents	16,003,790		16,003,790
Investment income due and accrued	744,563		744,563
Uncollected premiums and agents' balances in the course of collection	936,731	\$331,583	605,148
Amounts recoverable from reinsurers	126,997		126,997
Current federal and foreign income tax recoverable and interest thereon	179,972		179,972
Net deferred tax asset	823,163		823,163
Guaranty funds receivable or on deposit	1,073,903		1,073,903
Receivables from parent, subsidiaries and affiliates	16,174,136		16,174,136
Health care (\$6,681,014) and other amounts receivable	7,700,003	1,018,989	6,681,014
Aggregate write-ins for other than invested assets	6,394,493	26,279	6,368,214
Totals	<u>\$175,082,994</u>	<u>\$1,376,851</u>	<u>\$173,706,143</u>

CONNECTICARE BENEFITS, INC.

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid	\$38,714,571	\$1,285,482	\$40,000,053
Accrued medical incentive pool and bonus	2,994,167		2,994,167
Unpaid claims adjustment expenses	712,719		712,719
Aggregate health policy reserves; including the liability of \$0 for medical loss ratio rebate per the Public Health Service Act	16,587,131		16,587,131
Premiums received in advance	7,288,172		7,288,172
General expenses due or accrued	9,318,684		9,318,684
Ceded reinsurance premiums payable	55,737		55,737
Amounts due to parent; subsidiaries and affiliates	42,379,803		42,379,803
Aggregate write-ins for other liabilities (including \$7,674,799 current)	7,674,799		7,674,799
Total liabilities	<u>\$125,725,783</u>	<u>\$1,285,482</u>	<u>\$127,011,265</u>
CAPITAL AND SURPLUS	Covered	Uncovered	Total
Common capital stock	XXX		\$500,000
Gross paid in and contributed surplus	XXX		42,414,867
Unassigned funds (surplus)	XXX		3,780,011
Total capital and surplus	XXX		46,694,878
Total liabilities, capital and surplus	XXX		<u>\$173,706,143</u>

CONNECTICARE BENEFITS, INC.

STATEMENT OF REVENUE AND EXPENSES

STATEMENT OF REVENUE AND EXPENSES	Uncovered	Total
Member months	XXX	878,174
Net premium income	XXX	\$566,388,559
Total revenues	XXX	566,388,559
Hospital and Medical:		
Hospital/medical benefits	\$10,567,822	328,836,409
Other professional services		562,422
Prescription drugs		76,563,059
Incentive pool, withhold adjustments and bonus amounts		2,690,822
Subtotal	10,567,822	408,652,712
Less:		
Net reinsurance recoveries		746,431
Total hospital and medical	10,567,822	407,906,281
Claims adjustment expenses, including \$5,738,842 cost containment expenses		11,304,684
General administrative expenses		77,396,553
Total underwriting deductions	10,567,822	496,607,518
Net underwriting gain or (loss)	XXX	69,781,041
Net investment income earned		3,434,013
Net realized capital gains or (losses) less capital gains tax of \$2,931		11,026
Net investment gains (losses)		3,445,039
Aggregate write-ins for other income or expenses		653,269
Net income or (loss); after capital gains tax and before all other federal income taxes		73,879,349
Federal and foreign income taxes incurred		17,262,020
Net income (loss)	XXX	<u>\$56,617,329</u>
CAPITAL AND SURPLUS ACCOUNT		
Capital and surplus, December 31, prior year		\$40,473,938
Net income		56,617,329
Change in net deferred income tax		372,163
Change in nonadmitted assets		(768,552)
Surplus adjustments: Paid in		(1,085,133)
Dividends to stockholders		(48,914,867)
Net change in capital and surplus for the year		6,220,940
Capital and surplus; December 31, current year		<u>\$46,694,878</u>

CONNECTICARE BENEFITS, INC.

<u>CLAIMS UNPAID</u>	<u>\$40,000,053</u>
<u>ACCRUED MEDICAL INCENTIVE POOL AND BONUS</u>	<u>\$2,994,167</u>
<u>UNPAID CLAIMS ADJUSTMENT EXPENSES</u>	<u>\$712,719</u>
<u>AGGREGATE HEALTH POLICY RESERVES</u>	<u>\$16,587,131</u>

The Department's actuaries performed a review of reserving risk and RRC performed a review of pricing/underwriting risk. No material issues were noted during the review of reserving and pricing/underwriting risks.

<u>CAPITAL AND SURPLUS</u>	<u>\$46,694,878</u>
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The following is a reconciliation of capital and surplus for the period under examination:

Beginning of the Examination Period, January 1, 2015	\$29,656,280
Net income	53,970,053
Change in net deferred income tax	(347,491)
Change in non-admitted assets	(583,964)
Surplus adjustments: paid in	25,914,867
Dividends to stockholders	(61,914,867)
Net Change in Capital and Surplus for the Examination Period	17,038,598
Capital and Surplus, December 31, 2018	<u>\$46,694,878</u>

<u>COMMON CAPITAL STOCK</u>	<u>\$500,000</u>
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The Company has 20,000 shares authorized, with 100 shares issued and outstanding with a \$5,000 par value. There was no change to this account during the examination period.

<u>GROSS PAID-IN AND CONTRIBUTED SURPLUS</u>	<u>\$42,414,867</u>
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The following changes were noted during the examination:

Year	2015	2016	2017	2018
Capital Contribution	\$0	\$15,000,000	\$12,000,000	\$0
Return of Capital	\$0	\$0	\$0	\$(1,085,133)

All capital contributions were received by the Company from CICI. Return of capital was made by the Company to CICI.

<u>DIVIDENDS TO STOCKHOLDERS</u>	<u>\$61,914,867</u>
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Year	2015	2016	2017	2018
Amount	\$0	\$13,000,000	\$0	\$48,914,867

All dividends were paid by the Company to CICI.

CONNECTICARE BENEFITS, INC.

SUBSEQUENT EVENT

Effective June 19, 2019, Bruce Jarvie was named the Chief Financial Officer and Treasurer of the Company, replacing Mark Porter and Frank Scalise.

CONCLUSION

The results of this examination disclosed that as of December 31, 2018, the Company had admitted assets of \$173,706,143, liabilities of \$127,011,265, and capital and surplus of \$46,694,878. During the period under examination, admitted assets increased \$114,201,971, liabilities increased \$97,163,373, and surplus as regards policyholders increased \$17,038,598.

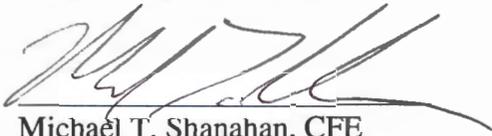
CONNECTICARE BENEFITS, INC.

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: Mark Murphy, CFE; Michael Daniels, CFE; Cecilia Arnold, CFE; Joseph Marcantonio, AFE, AES, CISA; Ken Roulier, AFE, AES, CISA; Wanchin Chou, FCAS, MAAA; Andrew Greenhalgh, FSA, MAAA, PhD; and the professional services firm of RRC.

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, 2018, 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 2nd day of December, 2019.

Nancy M. Mercier
Notary Public

My Commission Expires 6/30/2020