



**Government of the District of Columbia
Department of Insurance, Securities and Banking**

**Stephen C. Taylor
Commissioner**

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **Amerigroup District of Columbia, Inc.** as of December 31, 2017

ORDER

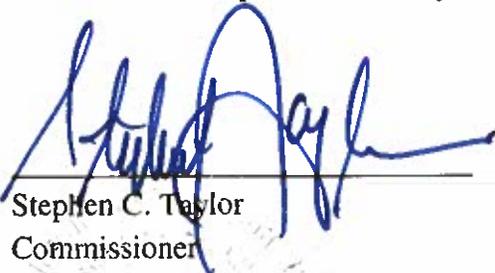
An Examination of **Amerigroup District of Columbia, Inc.** as of December 31, 2017, has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 18th day of July, 2019, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.



Stephen C. Taylor
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES, AND BANKING



REPORT ON EXAMINATION

Amerigroup District of Columbia, Inc.

AS OF

DECEMBER 31, 2017

NAIC COMPANY CODE: 16168

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Report on Examination
Examination as of December 31, 2017

Washington, D.C.
May 9, 2019

Honorable Stephen C. Taylor, Commissioner
Department of Insurance, Securities, and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, DC 20002

Dear Commissioner Taylor:

In accordance with Section 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of

Amerigroup District of Columbia, Inc.

Hereinafter referred to in this report as the “Company”. The examination was conducted at the Company’s main administrative office located at 220 Virginia Avenue, Indianapolis, Indiana. The Company’s statutory home office is located at 609 H Street NE, STE 200, Washington, DC 20002 and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

The current examination is the first full scope financial examination of the Company after the report on organization, which was completed as of April 25, 2017. This examination covered the period from January 1, 2017 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted by representatives of the District of Columbia Department of Insurance, Securities, and Banking (the “Department”). We conducted our examination by observing the guidelines and procedures in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”) and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the Department. 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, and assessing inherent risks within the Company, and evaluating 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

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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, an evaluation of the overall financial statement presentation, management's compliance with the Department's statutes and guidelines, and evaluating management's compliance with Statutory Accounting Principles ("SSAPs"), as adopted by the Department. 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 commented upon separately following the Company's financial statements that are contained in this report.

This examination report includes significant findings of fact, as mentioned in Section 31-1404 of the D.C. Official Code, 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 were separately communicated to other regulators and/or the Company.

The Company was audited in 2017 by the accounting firm Ernst and Young, LLP ("EY") and received an unmodified opinion. Certain audit work papers of EY relating to their audit for the year ended December 31, 2017, were reviewed and relied upon whenever possible and applicable to assist in the completion of examination procedures.

SUMMARY OF SIGNIFICANT FINDINGS

The examination did not disclose any material adverse findings or adjustments that impact the Company's reported capital and surplus.

COMPANY HISTORY

General

The Company was incorporated on October 7, 2016 to conduct business in the District of Columbia. The Company is a wholly-owned subsidiary of Anthem Partnership Holding Company, LLC ("APHC"), which is a wholly-owned subsidiary of Anthem, Inc. ("Anthem"), a publicly traded company. The Company participates in the District of Columbia Managed Care Program through its contract with the Department of Health Care Finance (DHCF). The program has three (3) populations covered by the Company: DC Healthy Families Program, Immigrant Children Population, and the Alliance Program. Covered services include physical and behavioral health as well as pharmacy, vision, and dental services in varying coverage plans across the three (3) populations. The Company began enrollment of members on October 1, 2017 with the start of a five-year (5) term, which includes one (1) base year and four (4)

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option years. The Company operates under a managed care organization contract entered with DHCF and license issued by the Department.

Capitalization

The Company's original Articles of Incorporation authorized the Company to issue one thousand (1,000) shares of common stock. The common stock shall have a par value of one-cent (\$.01) per share. The minimum amount of capital stock the health maintenance organization (HMO) must maintain is one thousand (1,000) shares. As of December 31, 2017, the Company has 1,000 shares of common capital stock with \$.01 par value authorized, issued and outstanding.

During the calendar year 2017, the Company's Parent contributed capital to the Company in the amounts of \$1,500,000 and \$15,000,000 on March 23 and September 28, respectively.

Dividends to Stockholder

The Company did not declare or pay any dividends during the examination period.

MANAGEMENT AND CONTROL

The Company's Bylaws provide that the authorized number of Directors which shall constitute the whole Board of Directors ("Board") shall be fixed from time to time by resolution of the Board or Shareholders, but shall not be less than three (3) nor more than twelve (12). The Bylaws provide that the officers of the Company shall consist of a President, a Secretary, a Treasurer, and such other officers as may from time to time be elected or appointed by the Board. The Board shall appoint the officers of the Company upon death, resignation, or removal.

The Company's Directors and their principal business affiliations as of December 31, 2017, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Tunde S. Sotunde Roswell, Georgia	President Medicaid The Anthem Companies, Inc.
Vincent M. Ancona Columbia, Maryland	President, Medicaid Health Plan - Maryland The Anthem Companies, Inc.
Carter A. Beck Manchester, New Hampshire	Senior Vice President and Counsel The Anthem Companies, Inc.
Catherine I. Kelaghan Carmel, Indiana	Vice President and Counsel The Anthem Companies, Inc.

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The D.C. Official Code § 31-706(c)(3) requires 1/3 of the directors of domestic insurer and not less than 1/3 of the members of each committee of the board of directors of any domestic insurer shall be persons who are not officers or employees of the insurer or any entity controlling, controlled by or under common control with the Company, and who are not beneficial owners of a controlling interest in the voting stock of the insurer or such an entity. D.C. Official Code § 31-706(c)(5) allows an exception to the aforementioned statute if the parent has a board of directors and committees that meet the requirements of paragraphs (3) and (4) of this subsection. The parent company’s board and committees is in compliance with D.C. Official Code § 31-706(c)(5).

A change to the Board of Directors subsequent to the examination period was noted. As of December 31, 2018, Carter A. Beck is no longer a Director of the Company and Linda D. Elam and Jack L. Young have been elected as Directors. Tunde S. Sotunde was elected as the Chairperson. Contrary to the requirements of D.C. Official Code Section 31-705 (a)(1)(c), the company failed to provide proper notification to the Department regarding the resignation and elections of the aforementioned board members. See “Summary of Recommendations” section of this report on page 15.

Officers

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

<u>Name</u>	<u>Title</u>
Kathleen S. Kiefer	Secretary
Robert D. Kretschmer	Treasurer
Eric K. Noble	Assistant Treasurer
Tunde S. Sotunde	President
Jack L. Young	Assistant Secretary

The following changes to the officers were noted subsequent to the examination period:

- Vincent E. Scher replaced Robert D. Kretschmer as Treasurer
- Linda D. Elam replaced Tunde Sotayo Sotunde as President

Contrary to the requirements of D.C. Official Code Section 31-705 (a)(1)(c), the company failed to provide proper notification to the Department regarding the resignation and appointment of the aforementioned officers. See “Summary of Recommendations” section of this report on page 15.

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Committees

The Company's Bylaws allow for the designation of one (1) or more committees of the Board. As of December 31, 2017, the Company did not have any standing committees, but had elected to utilize the Audit Committee of Anthem. Section 31-302(d) of the D.C. Official Code requires that an insurer required to file an annual audited financial report establish an audit committee. If the insurer is controlled by a controlling person or entity, the audit committee of the controlling entity, in compliance with Section 31-311.01(e), may serve as the audit committee for the purposes of this chapter. Section 31-311.01(e) further requires that prior to exercising the election of designating an audit committee pursuant to this chapter, the ultimate controlling person shall provide written notice to the Mayor. The written notice shall be made timely prior to the issuance of the statutory audit report and include a description of the basis for the election. Accordingly, pursuant to a letter dated November 30, 2017, the Company notified the Department that it has elected to designate the Audit Committee of Anthem, Inc. as the Audit Committee of the Company.

In addition, Section 31-706(c)(4) of the D.C. Official Code requires that the Board of a domestic insurer shall establish one (1) or more committees comprised solely of Directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with the insurer, and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have responsibilities of nominating candidates for Director for election by Shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer, and recommending to the Board the selection and compensation of the principal officers. Section 31-706(c)(5) of the D.C. Official Code allows for the exemption of this requirement if the person controlling the insurer is an insurer that has a Board and committees that meet the requirements of paragraphs (3) and (4) of this subsection. Accordingly, pursuant to D.C. Official Code Sections 31-706(c)(3) – 31.706(c)(5), the ultimate controlling entity, Anthem, Inc. has an established Governance Committee, consisting of independent Directors that are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with the insurer. Anthem's Governance Committee has the responsibility to assist the Anthem Board of Directors ("Anthem Board") in discharging its responsibilities relating to (a) identifying and recommending individuals to the Anthem Board for nomination as members of the Anthem Board, (b) developing and recommending to the Anthem Board a set of corporate governance guidelines, and (c) determining the compensation of the non-employee members of the Board. Additionally, all members of Anthem's Audit Committee, Compensation Committee, and Governance Committee are independent Directors.

Finally, the Company is also overseen by Anthem's Compensation Committee. The purpose of the Compensation Committee is to assist the Anthem Board in discharging its responsibilities relating to compensation and benefits provided by Anthem to its executive officers (which are to be determined by the Compensation Committee in its sole discretion) and other employees. This committee consists of four (4) members, all of whom are considered independent.

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Conflict of Interest

Directors, officers, and responsible employees of the Company completed Conflict of Interest questionnaires annually during the examination period, with one exception. The Company was unable to provide a signed Conflict of Interest statement for the Valuation Actuary, Evan Hagenaars, who was elected by the Board. In our review of the responses to the questionnaires provided for the examination period disclosed no material conflicts that would adversely affect the Company. For further discussion, see the “Summary of Recommendations” section of this report.

Corporate Records

The recorded minutes of the Shareholder(s), Board, and certain internal committees were reviewed for the period under examination as well as for the subsequent period through the date of the report. The recorded minutes of the Board and Shareholder meetings clearly documented its meetings and approval of company transactions and events, including the designation of the independent auditor, appointment of the valuation actuary, and the election of Directors and officers.

Pension and Stock Ownership Plans

The Company participates in a deferred compensation plan sponsored by Anthem, Inc., which covers certain employees. The deferred amounts are payable according to the terms and subject to the conditions of said deferred compensation agreements. Anthem, Inc. allocates a share of the total accumulated costs of this plan to the Company based on the number of allocated employees subject to the deferred compensation agreements. The Company has no legal obligation for benefits under this plan.

The Company participates in the Anthem, Inc. 401(k) Retirement Savings Plan, a defined contribution plan, sponsored by ATH Holding Company, LLC (ATH Holding) and covering substantially all employees. Voluntary employee contributions are matched by ATH Holding subject to certain limitations. ATH Holding allocates a share of the total accumulated costs of this plan to the Company based on the number of allocated employees. The Company has no legal obligation for benefits under this plan.

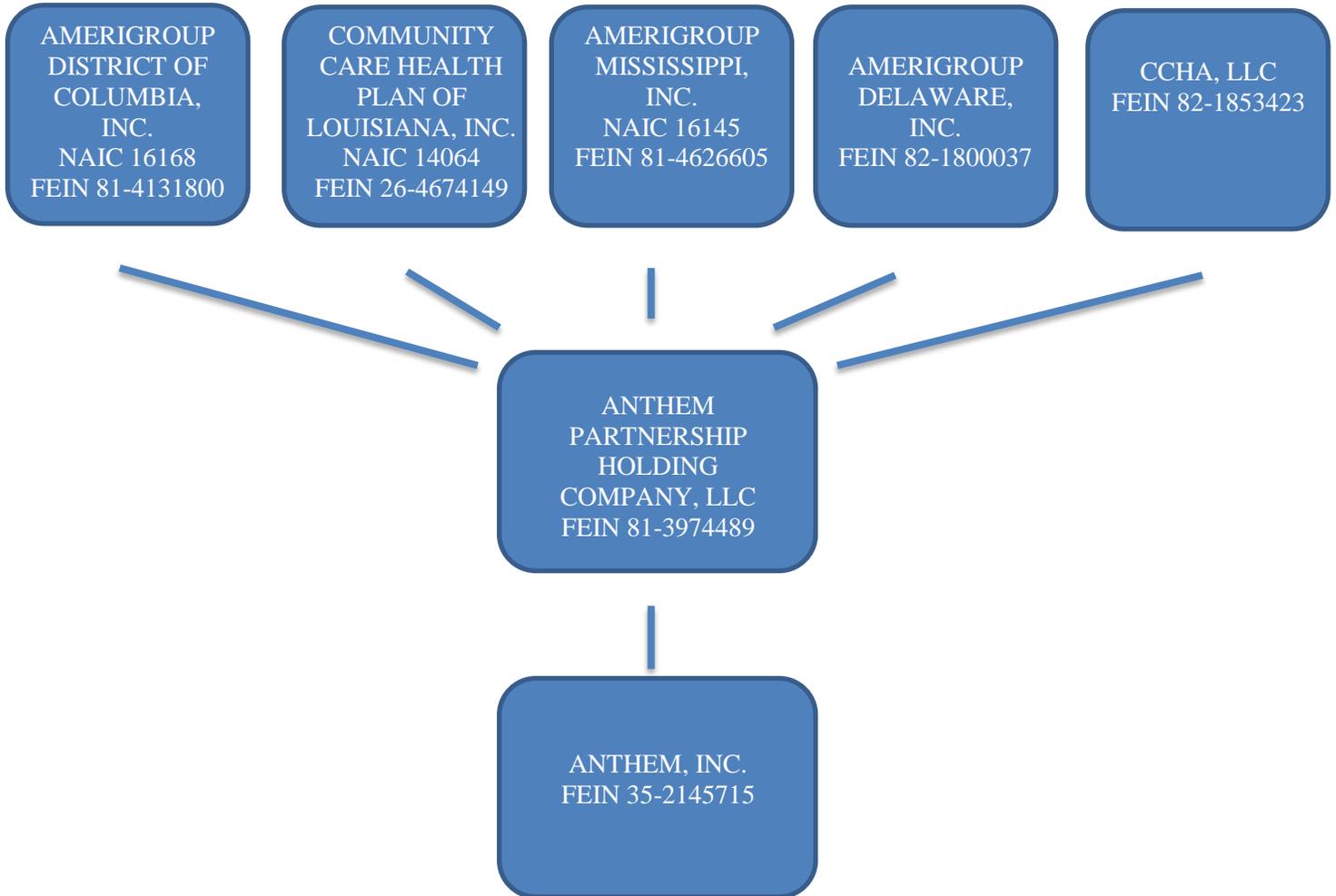
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HOLDING COMPANY SYSTEM

As of December 31, 2017, the Company was a member of an insurance holding company system and is subject to the registration requirements of Section 31-705 of the D.C. Official Code. As of the examination date, there were numerous companies within the holding company system, which we did not include in the following organizational chart:



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AGREEMENTS AND TRANSACTIONS WITH AFFILIATES

The Company is a party to various intercompany agreements. Listed below are the most significant affiliated transactions and agreements in place as of December 31, 2017:

Management and Administrative Services Agreement:

The Company is a party to a Master Administrative Services Agreement whereby Anthem subsidiaries may provide certain administrative, consulting, and other support services to one another from time-to-time. These services are intended to enhance the organizational and administrative capacity and augment the abilities of one (1) another. The agreement provides that services are to be set forth in attachments to the agreement as may be executed from time-to-time and that each attachment shall be deemed to be part of the master agreement with respect to the entities that are parties to the attachment. This agreement was submitted for the Department's review and approval as part of the Company's application package and organizational examination. During the year ended December 31, 2017, the Company paid \$5,543,541 related to this agreement.

Tax Sharing Agreement:

The Company is a party to a Consolidated Federal Income Tax Agreement among Anthem and substantially all of its subsidiary companies in which it directly or indirectly has an 80% or greater ownership interest. The purpose of the agreement is to establish a method for allocating the consolidated tax liability of the group among its members, for reimbursing Anthem for payment of such tax liability, for compensating any party for use of its tax losses or tax credits, and to provide for the allocation and payment of any refund arising from a carryback of losses or tax credits for subsequent taxable years. The agreement was submitted for the Department's review and approval as part of the Company's application package and organizational examination. During the year ended December 31, 2017 the Company paid \$764 related to this agreement.

These agreements were filed with this Department pursuant to Section 31-706(a)2(D) of the D.C. Official Code.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2017, the Company was covered under Anthem's Financial Institution Bond, which includes fidelity coverage. Pursuant to the Section 31-3405(b) of the D.C. Official Code, the Company, along with its Parent was included as a named insured in the Parent's blanket fidelity insurance policy. The amount of the fidelity insurance coverage was \$10,000,000 per occurrence with a \$20,000,000 annual aggregate limit.

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In addition to the coverage provided under the fidelity bond, the Company, through its Parent, carries several insurance policies to cover the hazards to which it is exposed including automobile liability, commercial property, cyber liability, Directors and officers, fiduciary liability, general liability, umbrella liability, and workers compensation coverages.

STATUTORY DEPOSIT

Pursuant to Section 31-3412(b) of the D.C. Official Code, the Company maintained a deposit of at least \$300,000 in trust for the subscribers and creditors of the Company, for the purposes of paying the obligations related to the Company in the District.

TERRITORY AND PLAN OF OPERATION

The Company is a Health Maintenance Organization licensed by the Department and operates exclusively within the District of Columbia providing a managed care delivery system by arranging and coordinating the delivery of health care services to Medicaid recipients in the District through a contract with DHCF. DHCF is the District agency that is responsible for administering the District of Columbia's Healthy Family Program (DCHFP) and its DC Health Care Alliance Program (Alliance). This program has three (3) populations covered by the Company: DC Healthy Families Program, Immigrant Children Population, and the Alliance Program. Covered services include physical and behavioral health as well as pharmacy, vision, and dental services in varying coverage plans across the three (3) populations.

The contract requires the Company to provide comprehensive health care services to the residents of the District who qualify under the Medicaid or Alliance programs operated by the District. Furthermore, the contract is also subject to annual reviews by the Center for Medicare and Medicaid Services (CMS), a federal agency that provides approximately 70% of the funding for the program

As mentioned in the History section above, the Company began operations on October 1, 2017 in the District and began enrollment of members on October 1, 2017 with the start of a five-year (5) term, which includes one (1) base year and four (4) option years. As of December 31, 2017, the Company had 52,075 members enrolled. Members are assigned as participants by the DHCF. The Company receives per-member-per-month (PMPM) payments from DHCF based on certain factors such as, enrollment, as well as performance-based incentives and non-financial performance-based incentives. The Company's original contract with DHCF ended on September 30, 2018 and renewed for another term.

REINSURANCE

The Company did not assume or cede reinsurance and was not a party to any reinsurance agreement during the examination period.

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ACCOUNTS AND RECORDS

The Company's statutory home office is located at 609 H Street NE, Suite 200, Washington, D.C., and the Company's main administrative office is located at 4425 Corporation Lane, Virginia Beach, Virginia. The Virginia office serves as the primary physical location of the Company's books and records, although the books and records are stored electronically and can be accessed remotely. Section 31-3431 of the D.C. Official Code requires that a domestic HMO maintain its principal office within the District and shall keep its books, records, and files therein, and shall not remove from the District either its principal office or its books, records, or files without the permission of the Commissioner. The Company made a request and received permission from the Department to have the books and records held at an alternate location.

The Company's general accounting records consisted of enterprise-wide general ledger, accounts payable, accounts receivable, and billing systems maintained by Anthem, Inc. and housed in Richmond, Virginia. Consistent with Anthem's other Government Business Division (GBD) subsidiaries, the Company's premiums and claims are processed on GBD Facets which is housed in Virginia Beach, Virginia.

An examination Information Technology (IT) Specialist performed a review of the Company's IT systems, and controls for purposes of reliance by examiners.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition and results of operations of the Company for the period ending December 31, 2017:

Admitted Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Statement of Changes in Capital and Surplus
Comparative Analysis of Changes in Capital and Surplus
Comments on Financial Statement Items

Financial statements are the responsibility of the Company's management. The accompanying "Comments on Financial Statement Items" (if any) should be considered an integral part of the financial statements.

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Admitted Assets, Liabilities, Capital and Surplus**December 31, 2017**

Admitted Assets	Per Company	Examination	Per
		Adjustments	Examination
Bonds	\$ 317,485	\$ -	\$ 317,485
Cash, cash equivalents and short-term investments	49,662,173	-	49,662,173
Subtotal cash and invested assets	\$ 49,979,658	\$ -	\$ 49,979,658
Investment income due and accrued	4,500	-	4,500
Uncollected premiums and agents' balances	2,566,482	-	2,566,482
Current federal and foreign income tax recoverable and interest thereon	173,337	-	173,337
Health care and other amounts receivable	195,161	-	195,161
Total admitted assets	\$ 52,919,138	\$ -	\$ 52,919,138
Liabilities			
Claims unpaid	\$ 30,549,240	\$ -	\$ 30,549,240
Unpaid claims adjustment expenses	962,670	-	962,670
Aggregate health policy reserves	3,158,345	-	3,158,345
Aggregate health claim reserves	29,702	-	29,702
Premiums received in advance	481,135	-	481,135
General expenses due or accrued	1,203,820	-	1,203,820
Amounts withheld or retained for the account of others	97	-	97
Amounts due to parent, subsidiaries and affiliates	4,778,657	-	4,778,657
Aggregate write-ins for other liabilities	987	-	987
Total liabilities	\$ 41,164,653	\$ -	\$ 41,164,653
Capital and Surplus			
Aggregate write-ins for special surplus funds	\$ 5,293,341	\$ -	\$ 5,293,341
Common capital stock	10	-	10
Gross paid in and contributed surplus	16,499,990	-	16,499,990
Unassigned funds (surplus)	(10,038,856)	-	(10,038,856)
Total capital and surplus	\$ 11,754,485	\$ -	\$ 11,754,485
Total liabilities, capital and surplus	\$ 52,919,138	\$ -	\$ 52,919,138

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Statement of Revenue and Expenses

(As reported by the Company)

Year Ended December 31, 2017

Member Months	165,328
Net premium income	\$ 63,219,412
Hospital and medical benefits	\$ 27,646,601
Other professional services	4,132,958
Emergency room and out-of-area	19,364,748
Prescription drugs	5,061,586
Subtotal hospital and medical expenses	\$ 56,205,893
Claims adjustment expenses	1,477,314
General administrative expenses	7,378,099
Increase in reserves for life and accident and health contracts	3,158,345
Total underwriting deductions	\$ 68,219,651
Net underwriting gain (loss)	\$ (5,000,239)
Net investment income earned	(5,267)
Net investment gains (losses)	(5,267)
Net income before federal income tax	\$ (5,005,506)
Federal income tax	(525,718)
Net income	\$ (4,479,788)

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Statement of Changes in Capital and Surplus

Year Ended December 31, 2017

Capital and surplus - December 31, 2016	\$	-
Net income		(4,479,788)
Change in nonadmitted assets		(265,727)
Paid in Capital		10
Paid in Surplus		16,499,990
Capital and surplus - December 31, 2017	\$	11,754,485
Examination adjustments		-
Capital and surplus - December 31, 2017	\$	11,754,485

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Comparative Analysis of Changes in Capital and Surplus

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2017 – per Annual Statement				\$ 11,754,485
	Per Company	Per Examination	Increase (Decrease) In Capital and Surplus	
Total assets	\$ 52,919,138	\$ 52,919,138	\$ -	
Total liabilities	\$ 41,164,653	\$ 41,164,653	\$ -	
Capital and surplus, December 31, 2017 – per examination				\$ 11,754,485

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no adverse findings effecting the financial statements, or material changes to the financial statements were identified. The Company’s capital and surplus in the amount of \$11,754,485 significantly exceeded the authorized control level risk-based capital of \$3,330,415 as of December 31, 2017.

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SUMMARY OF RECOMMENDATIONS

Conflict of Interest:

The Company was unable to provide a signed Conflict of Interest statement for the Valuation Actuary, Evan Hagenars, who was elected by the Board. **It is recommended that the Company put in place a process to ensure all required employees sign conflict of interest statements annually and ensure that completed and signed statements for all directors, officers and responsible employees are maintained and are readily available for convenient inspection by examiners.**

Election, appointment and/or resignation of officers and board members:

Per D.C. Official Code Section 31-705 (a)(1)(c), “Each registered insurer shall keep current the information required to be disclosed in its Registration Statement by reporting all material changes or additions within 15 days after the end of the month in which it learns of each change or addition.” As of the date of this Report, there had been significant changes to the composition of the Board of Directors and officers of the Company as noted on page 4, under the caption “Management and Control”. However, contrary to the requirements stated above, the company failed to provide proper notification to the Department regarding noted changes. **It is recommended that the Company institute proper policies and procedures to ensure compliance with the requirements of the aforementioned regulation.**

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SUBSEQUENT EVENTS

During the course of fieldwork and subsequent to the examination date, December 31, 2017, the following significant subsequent events were noted:

- On March 30, 2018, the Company received a \$20,000,000 capital contribution from Anthem Partnership Holding Company, Inc. that was authorized on March 29, 2018.
- On November 30, 2017, the District's administrative law judge ruled that the District's government mishandled how it awarded contracts to manage care for DC Medicaid beneficiaries. The judge stated that the District must reevaluate every company that bid for the District's three (3) Medicaid contracts and select the top three (3) bidders. Due to the timing of this unscheduled request for proposal, and to prevent any disruption of services to members, DHCF placed an emergency contract with the Company on October 1, 2018 with an option to extend 30 days at a time. This emergency contract was extended through April 28, 2019.
- Effective April 29, 2019, DHCF has awarded the Company a new Managed Care Organization contract covering an initial term of one (1) year and four (4) optional one (1) year renewal terms through September 30, 2024.
- The Company's ultimate parent, Anthem, Inc., (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, Inc. 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. At that same time, Anthem announced that it entered into a five-year agreement with CVS Health Corporation to

Amerigroup District of Columbia, Inc.

Report on Examination

Examination as of December 31, 2017

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.

- The Company is subject to an annual health insurer fee ("HIF") under Section 9010 of the Affordable Care Act ("ACA"). The annual fee is based on the ratio of the amount of the Company's net premium written during the preceding calendar year to the total amount of health insurance for any U.S. health risk that was written during the preceding calendar year. The Company's portion of HIF became payable once it provides health insurance for any U.S. risk for each calendar year beginning on or after January 1 of the year the HIF is due. The Company has written health insurance subject to HIF as of December 31, 2017, and continues to write health insurance subject to the HIF in 2018.

However, the Consolidated Appropriations Act of 2016, Title II, § 201, Moratorium on Annual Fee on Health Insurance Providers, suspended collection of the health insurance provider fee for the 2017 calendar year. Thus, the Company was not required to pay these fees for 2017. Furthermore, enacted on January 22, 2018, along with continuing resolution legislation, H.R. 195, Division D – Suspension of Certain Health-Related Taxes, suspends collection of the fee for the 2019 calendar year only. Accordingly, the Company paid 2018 ACA HIF of approximately \$5,293,341 and has estimated the amount to be paid in 2020 for the ACA Health Insurer Fee to be \$5,366,767.

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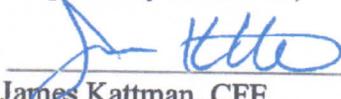
CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Amerigroup District of Columbia, Inc., consistent with the insurance laws of the District of Columbia.

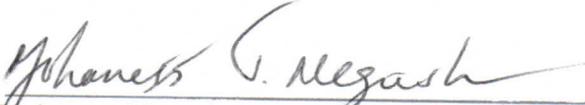
In addition to the undersigned, Daniel Schoettle, CPA, and Shelby Lambert, of Noble Consulting Services, Inc. also participated in the examination. The Information Technology review portion of this examination was completed by and under the supervision of Carol Riley, CISA, AES, of Noble Consulting Services, Inc. The actuarial portion of this examination was completed by Kirk Braunius, ASA, MAAA, and Michael Berman, FSA, MAAA of Merlinos and Associates, Inc.

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and contract employees during the course of the examination.

Respectfully submitted,



James Kattman, CFE
Examiner-In-Charge (EIC)
Noble Consulting Services, Inc.



Yohannes Negash, CFE
Examination Manager
District of Columbia, Department of
Insurance, Securities, and Banking