

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

Re: Report on Examination – **AmeriHealth Caritas District of Columbia, Inc.**
as of December 31, 2021

ORDER

An Examination of **AmeriHealth Caritas District of Columbia, Inc.** as of December 31, 2021 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 27th day of June 2023, 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.



Philip Barlow
Associate Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF INSURANCE, SECURITIES AND
BANKING



DC DEPARTMENT OF
**INSURANCE, SECURITIES
AND BANKING**

REPORT ON EXAMINATION

AMERIHEALTH CARITAS DISTRICT OF COLUMBIA INC.

AS OF

DECEMBER 31, 2021

NAIC COMPANY CODE: 15088

NAIC GROUP CODE: 0936

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AmeriHealth Caritas District of Columbia, Inc.
Report on Examination
December 31, 2021

Washington, D.C.
May 17, 2023

The Honorable Karima M. Woods
Insurance Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, D.C. 20002

Dear Commissioner Woods:

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

AMERIHEALTH CARITAS DISTRICT OF COLUMBIA, INC.

hereinafter referred to as the “Company” or “ACDC”. ACDC’s statutory Home Office located at 1205 Good Hope Road, S.E., Suite 201, Washington, DC, 20020, and the following Report on Examination (“Report”) is respectfully submitted.

SCOPE OF EXAMINATION

ACDC was last examined by representatives of the District of Columbia, Department of Insurance, Securities and Banking (“DISB” or the “Department”) and covered the period from February 27, 2013, through December 31, 2016. The current full-scope risk-focused examination, covering the period from January 1, 2017 through December 31, 2021, and including any material transactions and/or events occurring subsequent to the examination date and noted during this examination, was conducted by examiners representing the Department.

The examination was conducted in accordance with examination policies and standards established by the DISB and procedures and guidelines prescribed by the *National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated, both currently and prospectively.

The examination of the Washington, D.C. domestic company ACDC, was called by the Department in accordance with the Handbook guidelines, through the NAIC’s Financial Examination Electronic Tracking System (“FEETS”). This examination was conducted as part of a multi-state risk-focused examination (the “Coordinated Examination”) of the Independence

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Health Group, Inc. group of insurance entities, in which the Pennsylvania Insurance Department served as the lead state on the examination. The Delaware, Florida, Louisiana, Michigan, New Hampshire, North Carolina, Ohio, and Texas Departments accepted the invitation to participate in the Coordinated Examination of the following insurance companies examined at the same time during the above examination:

| Company Name | NAIC | State of Domicile |
|--|-------|-------------------|
| Blue Cross Complete of Michigan* | 11557 | MI |
| CBHNP Services Inc. | 13630 | PA |
| AmeriHealth Caritas Louisiana, Inc. | 14143 | LA |
| AmeriHealth Caritas Florida, Inc. | 14378 | FL |
| AmeriHealth Caritas District of Columbia, Inc. | 15088 | DC |
| AmeriHealth Michigan, Inc. | 15104 | MI |
| AmeriHealth Caritas Texas, Inc. | 16451 | TX |
| AmeriHealth Caritas New Hampshire, Inc. | 16496 | NH |
| AmeriHealth Caritas North Carolina, Inc. | 16539 | NC |
| AmeriHealth Caritas Ohio Inc. | 16980 | OH |

*Does not fall under NAIC Group Code; however, the operations and management of the entity are managed by the AmeriHealth Caritas Family of Companies.

All accounts and activities of ACDC were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly. The examination does not attest to the fair presentation of the financial statement included herein. If during the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's Financial Statements.

In addition to the above, the examiners have reviewed work papers prepared by Deloitte, LLP ("Deloitte"), the Company's independent auditors, in their audit of the Company's accounts and records for the year ended December 31, 2021. Deloitte expressed unqualified opinions on the Company's financial statements for the calendar year ended December 31, 2021. A portion of the auditor's workpapers have been incorporated in the workpapers of the examiners and have been utilized in certain phases of the examination.

The examination Report includes significant findings of facts, as mentioned in Section 31-1402 of the District of Columbia Code, and general information about the Company 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 in the examination report but may be separately communicated to ACDC and/or other regulators.

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COMPANY HISTORY

General

ACDC was incorporated as AmeriHealth District of Columbia, Inc., under the laws of the District of Columbia (District) on November 30, 2012. On May 1, 2013, the Company acquired certain tangible and intangible assets from DC Chartered Health Plan (DC Chartered) and assumed responsibility for medical coverage of the acquired Medicaid membership on that date. The Company filed Articles of Amendment with the District changing its name to AmeriHealth Caritas District of Columbia, Inc. (ACDC) with an approved effective date of June 1, 2015. The primary purpose for which the Company was formed is to operate a health maintenance organization (HMO) to arrange for and coordinate the delivery of health care services.

Effective July 1, 2017, ACDC became a wholly owned subsidiary of AMHP Holdings Corp. (AMHP) through a stock transfer. AMHP is a wholly owned subsidiary of AmeriHealth Caritas Health Plan (ACHP). ACHP is a Pennsylvania general partnership owned through subsidiaries by BMH LLC (BMH). BMH is owned 61.26% by IBC MH, LLC and 38.74% by Blue Cross Blue Shield of Michigan. The stock transfer was approved by the Department on May 11, 2017. The organization chart (see “Holding Company System” section of this Report) identifies the holding company system members as of December 31, 2021.

The Company operates under a managed care organization contract entered with the District of Columbia Department of Health Care Financing (DHCF) and a license issued by the Department.

Dividends

The Company paid an extraordinary dividend in the amount of \$34,000,000 to ACHP during 2017 and an ordinary dividend in the amount of \$5,400,000 to AMHP during 2018. No other dividends were paid in 2019 through 2021.

Capital Stock

The Company’s Articles of Incorporation authorize the Company to issue 100 shares of common capital stock with a \$1.00 par value. As of December 31, 2021, the Company has issued 100 of its authorized shares to AMHP.

MANAGEMENT AND CONTROL

The Articles of Incorporation and Bylaws vest the management and control of Company’s business affairs with the Board of Directors. At December 31, 2021, the members of the Board of Directors were as follows:

Board of Directors

Name and Residence

Principal Business Affiliation

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| | |
|--|--|
| Stephen H. Bohner (a) Garnet Valley, PA | Executive Vice President, Health Markets AmeriHealth Caritas Family of Companies |
| Michael J. Burgoyne (a) Rockville, MD | Senior Vice President, Chief Financial Officer Subsidiary Operations AmeriHealth Caritas Family of Companies |
| Marilyn L. Eckley Boalsburg, PA | Executive Vice President, Health Services AmeriHealth Caritas Family of Companies |

(a) Effective December 31, 2021, Steven H. Bohner and Michael J. Burgoyne resigned as members of the Board. Effective January 1, 2022, Rebecca J. Engelman and Robert Kolodgy were elected to replace Steven H. Bohner and Michael J. Burgoyne as members of the Board. Effective October 19, 2022, David Finkel has replaced Marilyn L. Eckley as a member of the Board.

Officers

The Principal Officers elected by the Board of Directors and holding office at December 31, 2021 were as follow:

| <u>Name</u> | <u>Title</u> |
|---------------------------|--------------|
| Karen M. Dale | President |
| Michael J. Burgoyne | Treasurer |
| Robert E. Tootle, Esquire | Secretary |

Committees

The Company's Bylaws allow for the designation of one or more committees of the Board by resolution adopted by a majority of the directors in office. At December 31, 2021, the Board did not have any Committees at the entity level. Pursuant to D.C. Official Code § 31-311.01, the Audit and Compliance Committee of BMH, LLC serves as the Audit Committee for the Company.

Conflicts of Interest

Directors and Officers of the Company have completed conflict of interest questionnaires. Our review of the questionnaires disclosed no reported conflicts. Furthermore, our examination did not disclose any conflicts of interest that would adversely affect the Company.

Corporate Records

The Company's Board of Directors held regular meetings during the examination period. A review of the meeting minutes did not clearly discuss and comprehensively document its meetings and approval of Company transactions and events. The review showed several areas that could be improved upon, including actions were not performed in accordance with the D.C. Code and the

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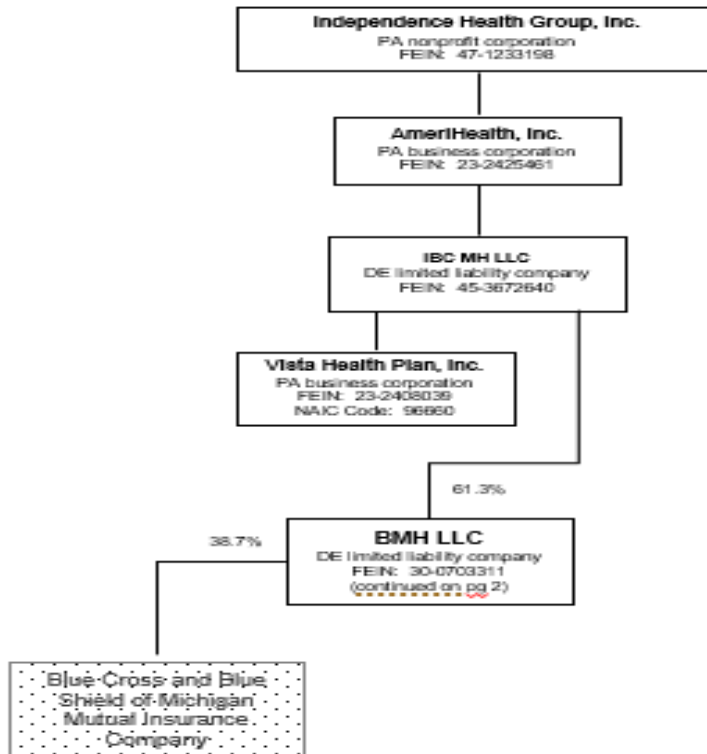
Company’s bylaws. These items are discussed in the Department’s confidential management letter issued to ACDC’s Management and Board of Directors. Subsequent to the examination period, corrective action plans were implemented to achieve compliance.

HOLDING COMPANY SYSTEM

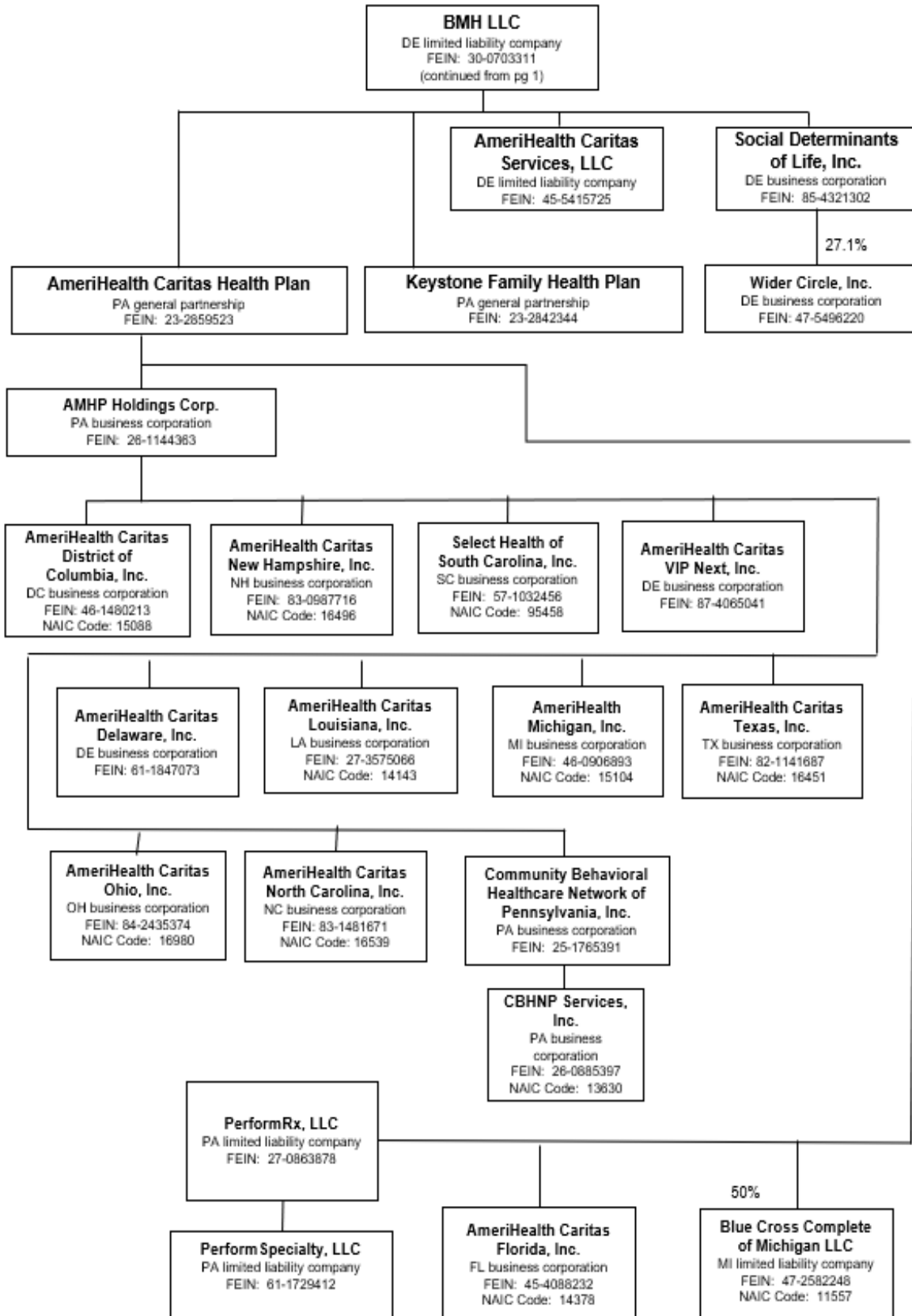
The Company is a member of an insurance holding company system and a wholly owned, second tier subsidiary of AmeriHealth Caritas Health Plan (“ACHP”), a Pennsylvania general partnership. The year-end December 31, 2021 holding company registration statement was filed with the District of Columbia on April 26, 2023.

The organizational charts below depict the direct and indirect ownership of companies within IHG’s holding company system as of December 31, 2021. The organizational chart does not depict all entities contained within the holding company system due to the size and complexity of the business operations within the holding company system. The holding company system consists of various insurance and non-insurance entities.

Organizational Chart



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AGREEMENTS AND TRANSACTIONS WITH AFFILIATES

The Company has entered into numerous agreements and cost sharing arrangements with affiliated companies. We performed a review and the significant agreements are described below:

Management and Administrative Services Agreements

The Company is a party to an Administrative Services Agreement (ASA) with its affiliate, AmeriHealth Caritas Services, LLC (ACS) in which ACS provides certain corporate and operational administrative support services.

The ASA was originally entered into with its parent AmeriHealth Caritas Health Plan (ACHP). Effective December 1, 2017, pursuant to an Assumption and Assignment Amendment to the Administrative Services Agreement, ACHP assigned its obligations under the ASA to affiliate ACS. ACS functions as the service company for AmeriHealth Caritas, and is the accounting vehicle through which enterprise-wide services are procured and through which the associated charges are incurred on behalf of the members of AmeriHealth Caritas. The purpose of the Assignment Amendment was to improve efficiencies by reducing and/or eliminating administrative redundancy across the AmeriHealth Caritas enterprise, and streamlining the financial processes associated with billing expenses for services and resources that are shared by multiple members of AmeriHealth Caritas.

Pharmacy Benefit Management Services Agreement

The Company is a party to a Pharmacy Benefit Management Services Agreement (PBM) by and between its affiliated company, PerformRx, LLC (PerformRx). Under the terms of the PBM Agreement, PerformRx, LLC arranges or provides certain pharmacy benefit management services for and on behalf of the health plan administered by the Company.

PerformSpecialty, a wholly owned subsidiary of Perform Rx, supplies specialty pharmacy drugs to the Company.

Staffing Services Agreement

The Company entered into a Staffing Services Agreement with AmeriHealth Caritas Services, LLC (ACS) for an initial term of five years, with an automatic annual renewal thereafter unless terminated by either party. Pursuant to the agreement, ACS furnishes employees necessary to carry out the business operations of the Company.

Tax Allocation Agreement

The Company is a party to a Tax Allocation Agreement in which the Company will be included in the filing of a consolidated tax return with several other affiliates in the holding company system.

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Effective for the taxable year beginning January 1, 2019, the Agreement was amended and restated to account for BMH's change in classification for federal income purposes and any corresponding state and local taxes from a partnership to an association taxable as a corporation.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2021, the Company was insured under a crime (fidelity) policy that provides coverage in the amount of \$10,000,000 with a deductible of \$100,000. Pursuant to Section §31-3405(b) of the D.C. Official Code, the Company, along with its Parent, was included as a named insured in the blanket crime insurance coverage. The limits of the crime (fidelity) coverage satisfy the amount recommended by the National Association of Insurance Commissioners.

In addition to the coverage provided under the crime (fidelity) coverage, the Company carries several insurance policies to cover 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 D.C. Code §31-3412(b), the Company is required to maintain a minimum deposit of \$300,000 with the District of Columbia's Insurance Commissioner, as trustee, in trust for the subscribers and creditors of the Company, for the purposes of paying the obligations related to the Company in the District of Columbia. The Company has established a custodial account pursuant to the D.C. Code §31-3412(b). The deposit in the amount of \$300,000 of uninvested cash was confirmed by the Company's independent CPA's from the records of PNC Institutional Asset Management.

TERRITORY AND PLAN OF OPERATION

The Company is a Health Maintenance Organization ("HMO") licensed by the Department. It operates exclusively in 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 responsible for administering the District of Columbia's Healthy Families Program (DCHFP) and its District of Columbia Healthcare Alliance Program (Alliance). This program has three (3) populations covered by the Company: the District of Columbia Healthy Families Program, the Immigrant Children's Program (ICP), and the District of Columbia 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 Centers for Medicare and Medicaid Services (CMS), a federal agency that provides approximately 70% of the funding for the program.

At December 31, 2021, the Company facilitated healthcare services to approximately 112,300

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members enrolled in the Medicaid program and approximately 11,952 members enrolled in the Alliance program. DHCF makes capitation payments to the Company on a per-member-per-month (“PMPM”) basis, based on negotiated rates determined to be actuarially sound by an independent actuary contracted with DHCF. The capitation payments by DHCF are insurance premiums paid to a health insurance company for insuring Medicaid and Alliance members. In that same year, the Company’s premiums from the DHCF contract was approximately \$740.9 million.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. A review of the Company’s Information Technology General Controls (ITGC) and General Application Controls (GAC) was also performed as required by the Handbook. Based on the scope of the Information Technology (IT) examination, certain items were noted and discussed with the Company. However, the review did not disclose any significant deficiencies in these records.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition and results of operations as reported by the Company for the period ending December 31, 2021. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment was identified, the impact of such adjustment would be documented separately following the Company’s financial statements.

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STATEMENT OF ASSETS AND LIABILITIES

Assets

| | |
|---|------------------------------|
| Bonds | 258,544 |
| Cash, cash equivalents and short-term investments | 203,622,320 |
| | <u>203,880,864</u> |
| Investment income due and accrued | 2,078 |
| Uncollected premiums and agents' balances | 54,492,570 |
| Current federal and foreign income tax recoverable and interest | - |
| Net deferred tax asset | 3,664,749 |
| Electronic data processing equipment and software | 1 |
| Health care and other amounts receivable | 842,151 |
| Aggregate write-ins for other than invested assets | (362,942) |
| Total assets | <u><u>\$ 262,519,471</u></u> |

Liabilities, Capital and Surplus

| | |
|---|------------------------------|
| Claims unpaid | \$ 120,178,998 |
| Unpaid claims adjustment expenses | 723,900 |
| Aggregate health policy reserves | 10,529,537 |
| General expenses due or accrued | 2,151,058 |
| Current federal and foreign income tax payable and interest thereon | 2,450,935 |
| Amounts due to parent, subsidiaries and affiliates | 5,669,493 |
| Aggregate write-ins for other liabilities | 15,066,982 |
| Total liabilities | <u><u>156,770,903</u></u> |
| Common capital stock | 100 |
| Gross paid in and contributed surplus | 121,999,900 |
| Unassigned funds (surplus) | (16,251,432) |
| Total surplus and other funds | <u><u>105,748,568</u></u> |
| Total liabilities, surplus and other funds | <u><u>\$ 262,519,471</u></u> |

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SUMMARY OF OPERATIONS
(As reported by the Company)
For The Year Ended December 31, 2021

| | |
|--|-----------------------------|
| Member months | 1,399,922 |
| Net Premium Income | <u>\$740,872,905</u> |
| Total revenues | <u>740,872,905</u> |
| Hospital/Medical benefits | 319,768,277 |
| Other professional services | 174,160,995 |
| Outside referrals | - |
| Emergency room and out-of-area | 37,802,713 |
| Prescription drugs | 91,132,426 |
| Aggregate write-ins for other hospital and medical | <u>10,177,519</u> |
| Total hospital and medical | <u>633,041,930</u> |
| Claims adjustment expense including \$17,116,124 cost containment expenses | 21,415,752 |
| General administrative expenses | 66,180,800 |
| Increase in reserves for life and accident and health contracts | <u>(2,278,377)</u> |
| Total underwriting deductions | <u>718,360,105</u> |
| Net underwriting gain | 22,512,800 |
| Net investment income earned | 184,558 |
| Net realized capital gains (losses) less capital gains tax | <u>1,758</u> |
| Net investment gains (losses) | <u>186,316</u> |
| Net income after capital gains tax and before all other federal income taxes | 22,699,116 |
| Federal and foreign income taxes incurred | <u>4,243,503</u> |
| Net income | <u><u>\$ 18,455,613</u></u> |

COMPARATIVE ANALYSIS OF CHANGES IN CAPITAL & SURPLUS
December 31, 2021

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

Capital & surplus, December 31, 2021 - per annual statement \$ 105,748,568

| | Per Company | Per Examination | Increase (Decrease) In Capital & Surplus |
|---|------------------------|----------------------------|---|
| Total Assets | \$262,519,471 | \$262,519,471 | \$ - |
| Total Liabilities | \$156,770,903 | \$156,770,903 | \$ - |
| Capital & surplus, December 31, 2021 - per examination | | | <u><u>\$ 105,748,568</u></u> |

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SUBSEQUENT EVENTS

The Company's contract extension period ended on March 31, 2023. However, subsequent to the examination period, the D.C. Managed Care Organization (MCO) Medicaid Contract was extended indefinitely as court cases proceed. On October 18, 2022, the District of Columbia (DC) City Council voted to approve the MCO contract awards to MedStar Family Choice, AmeriHealth Caritas, and Elevance Health/Amerigroup. The contracts have an aggregate maximum value of \$8.8 billion for the period from February 1, 2023, through January 31, 2028. The MCOs will serve about 250,000 beneficiaries. The contract covers the following managed care programs: DC Healthy Families Program (DCHFP), including adults with special health care needs; the District of Columbia Healthcare Alliance Program (Alliance); and the Immigrant Children's Program (ICP).

COMMENTS AND RECOMMENDATIONS

There were no recommended adjustments to the financial statements as of December 31, 2021, or significant adverse findings that warranted disclosure in this examination Report.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **AmeriHealth Caritas District of Columbia, Inc.** as of December 31, 2021, consistent with the insurance laws of the District of Columbia. Such procedures performed on this examination do not constitute an audit made following generally accepted auditing standards, and no audit opinion is expressed on the financial statements contained in this Report. No material adjustments were identified during the examination.

Chapters 20 ("Risk-Based Capital") and 34 ("Health Maintenance Organizations") of Title 31 ("Insurance and Securities") of the District of Columbia Official Code specify the level of capital and surplus required for the Company. We concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

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SIGNATURES

In addition to the undersigned, Joel Bengo, CFE, participating Examiner of The INS Companies, representing the Department also participated in the examination.

Respectfully submitted,

Joseph F. Evans

Joseph F. Evans, CFE, MCM
Examiner-In-Charge (EIC)
The INS Companies.

Yohanness T. Negash

Yohanness Negash, CIA, CFE, CFE (Fraud), PIR, CISA
Examination Manager
District of Columbia, Department of Insurance, Securities and Banking