

Report of Examination of

**Buckeye Community Health Plan, Inc.**  
Columbus, Ohio

As of December 31, 2010

## Table of Contents

<b>Subject</b>	<b>Page</b>
Salutation.....	1
Description of Company .....	1
Scope of Examination .....	1
Management and Control:	
Board of Directors .....	2
Officers .....	2
Insurance Holding Company System .....	3
Territory and Plan of Operations.....	3
Reinsurance .....	3
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus.....	4
Statement of Revenue and Expenses .....	5
Statement of Changes in the Capital and Surplus Account.....	6
Notes to Financial Statements:	
Investments.....	6
Claims Unpaid and Unpaid Claims Adjustment Expenses .....	6
Conclusion.....	7
Subsequent Events.....	7
Acknowledgement.....	7

Columbus, Ohio  
April 1, 2012

Honorable Mary Taylor  
Lt. Governor/Director  
Ohio Department of Insurance  
50 West Town Street, Suite 300  
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**Buckeye Community Health Plan, Inc.**

an Ohio domiciled, health insuring corporation, hereinafter referred to as the “Company.”

A report of this examination is hereby respectfully submitted.

**Scope of Examination**

The Department last examined the Company as of December 31, 2006. The Department’s current full scope examination covers the period of January 1, 2007 through and including December 31, 2010.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate 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’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

For all years under examination, the Certified Public Accounting Firm of KPMG LLP (“KPMG”) provided an unqualified opinion on the financial statements based on statutory accounting principles. The KPMG audit reports were reviewed during the examination.

## **Management and Control**

### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<b>Name</b>	<b>Principal Occupation</b>
Kathy C. Bradley-Wells	Vice President – Legal Affairs, Centene Corporation
Mark W. Eggert	Executive Vice President – Health Plan Business Unit, Centene Corporation
Owen E. Johnson, M.D.	Retired
Stephen F. Loeb, Ph.D.	Professor Emeritus – College of Public Health, The Ohio State University
William N. Scheffel	Executive Vice President, Chief Financial Officer & Treasurer Centene Corporation
Steven A. White	President and Chief Executive Officer, The Company

### **Officers**

As of the examination date, the following officers were serving in the designated position.

<b>Name</b>	<b>Title</b>
Steven A. White	President and Chief Executive Officer
William N. Scheffel	Treasurer
Keith H. Williamson	Secretary
David B. Amerine	Vice President-Compliance and Regulatory Affairs
Christopher D. Bowers	Senior Vice President-Health Plan Business
Kathy C. Bradley-Wells	Assistant Secretary
Ronald A. Charles, M.D.	Vice President-Medical Affairs
Tricia L. Dinkelman	Director of Tax-Centene Corporation
Mark W. Eggert	Executive Vice President
Holly L. Mayer-Howell	Vice President-Finance
Darren C. Meyer	Assistant Treasurer-Centene Corporation

Lori J. Mulichak  
John C. Wiley

Vice President-Medical Management  
Vice President-Network Management and Contracting

### **Insurance Holding Company System**

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32 and is a wholly-owned subsidiary of Centene Corporation (Centene). Centene is a publically traded company and operates locally-based health plans in several states and also provides specialty services such as behavioral health, life and health management, managed vision, telehealth, pharmacy benefits management, and medication adherence.

### **Territory and Plan of Operations**

The Company is licensed in Ohio and operates as a Medicaid Managed Care Plan that has contracted with the Ohio Department of Job and Family Services (“ODJFS”). The Company serves Covered Families and Children (CFC) members in the East Central and Northwest regions of the state and serves Aged, Blind, and Disabled (ABD) members in the East Central, Northeast, and Southwest regions.

### **Reinsurance**

#### **Assumed**

The Company does not assume any reinsurance.

#### **Ceded**

The Company cedes reinsurance under an excess loss reinsurance agreement with Bankers Reserve Life Insurance Company of Wisconsin, an affiliated company, effective January 1, 2010 through December 31, 2010. The agreement covers hospital inpatient services provided to Medicaid members. The Company retains the first \$150,000 of losses per member per agreement period and is reimbursed 90% of eligible losses (50% for non-approved transplants) in excess of the retention. The maximum amount reimbursable per member is \$2,000,000 per agreement period.

The Company cedes reinsurance under an excess loss reinsurance agreement with Ace American Insurance Company effective January 1, 2010 through December 31, 2010. The agreement covers hospital inpatient services provided to Medicare dual eligible members. The Company retains the first \$1,000,000 of losses per member per agreement period and is reimbursed 90% of eligible losses (80% for non-compliant claims) in excess of the retention. The maximum amount reimbursable per member is \$2,000,000 per agreement period.

## Financial Statements

The financial condition and the results of its operations for the period under examination, as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus  
Statement of Revenue and Expenses  
Statement of Changes in the Capital and Surplus Account

### Statement of Assets, Liabilities, Capital and Surplus December 31, 2010

Bonds	\$ 108,254,354
Cash, cash equivalents, and short-term investments	11,743,154
Other invested assets	<u>570,590</u>
Subtotal, cash and invested assets	120,568,098
Investment income due and accrued	1,242,515
Uncollected premiums and agents' balances	3,923,456
Amounts recoverable from reinsurers	521,565
Current federal and foreign income tax recoverable	1,575,848
Net deferred tax asset	1,227,900
Health care and other amounts receivable	7,386
Goodwill, net	<u>7,852,289</u>
Total admitted assets	<u>\$ 136,919,057</u>
Claims unpaid	\$ 42,609,153
Accrued medical incentive pool and bonus amounts	47,000
Unpaid claims adjustment expenses	961,000
General expenses due or accrued	9,624,543
Amounts due to parent, subsidiaries and affiliates	241,433
Current state income taxes accrued	58,763
Reserve for at-risk revenue	<u>2,993,286</u>
Total liabilities	56,535,178
Common capital stock	1,000,000
Gross paid in and contributed surplus	83,250,000
Unassigned funds	<u>(3,866,121)</u>
Total capital and surplus	<u>80,383,879</u>
Total liabilities, capital and surplus	<u>\$ 136,919,057</u>

**Statement of Revenue and Expenses  
As of December 31, 2010**

Net premium income	\$ 546,816,027
Total revenues	<u>546,816,027</u>
Hospital/medical benefits	326,674,706
Other professional services	30,998,480
Emergency room and out-of-area	50,565,155
Prescription drugs	8,152,842
Incentive pool, withhold adjustments and bonus amounts	<u>45,279</u>
Subtotal	<u>416,436,462</u>
Net reinsurance recoveries	<u>4,079,696</u>
Total hospital and medical	412,356,766
Claims adjustment expenses	16,609,419
General administrative expenses	99,915,952
Increase in reserves for life and accident and health contracts	<u>(2,947,867)</u>
Total underwriting deductions	<u>525,934,270</u>
Net underwriting gain	<u>20,881,757</u>
Net investment income earned	2,704,978
Net realized capital gains	<u>879,433</u>
Net investment gains	3,584,411
Net income before federal income taxes	24,466,168
Federal income taxes incurred	<u>3,437,555</u>
Net income	<u>\$ 21,028,613</u>

**Statement of Changes in the Capital and Surplus Account**  
(in thousands)

	2010	2009	2008	2007	2006
Capital & surplus, December 31, prior year	<u>\$ 71,100</u>	<u>\$ 61,024</u>	<u>\$ 49,751</u>	<u>\$ 20,164</u>	<u>\$ 15,001</u>
Net income (loss)	21,029	3,515	(17,293)	(28,393)	(6,933)
Net unrealized capital gains (losses)	(71)	0	0	0	0
Change in net deferred income tax	2,139	(7,872)	(3,738)	2,330	2,532
Change in nonadmitted assets	1,187	17,433	7,804	2,917	220
Capital changes	0	0	0	1,000	0
Surplus adjustments paid in	(15,000)	(3,000)	24,500	51,750	9,400
Dividends to stockholders	0	0	0	0	(56)
Agg. write-ins for G/(L) in surplus	<u>0</u>	<u>0</u>	<u>0</u>	<u>(17)</u>	<u>0</u>
Net change in capital and surplus	<u>9,284</u>	<u>10,076</u>	<u>11,273</u>	<u>29,587</u>	<u>5,163</u>
Capital & surplus, December 31, current year	<u>\$ 80,384</u>	<u>\$ 71,100</u>	<u>\$ 61,024</u>	<u>\$ 49,751</u>	<u>\$ 20,164</u>

**Notes to Financial Statements**

**Investments**

The Company's investment portfolio consists primarily of investment grade bonds, short-term investments, and cash. The investments were in compliance with ORC Section 1751.25 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

**Claims Unpaid and Unpaid Claims Adjustment Expenses**

Arthur L. Baldwin, III, FSA, MAAA, Principal & Consulting Actuary with Milliman, Inc., analyzed the reserves of the Company and provided an actuarial opinion on the Company's reserves for the year ended December 31, 2010.

Thomas S. Botsko, ACAS, MAAA, Actuary with the Office of Product Regulation and Actuarial Services of the Ohio Department of Insurance, reviewed the report by the Company's appointed actuary and based on the results presented in the Company's 2010 Annual Statement determined that the reserves are good and sufficient and that any adverse development is highly unlikely.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Admitted Assets	<u>\$ 136,919,057</u>
Liabilities	\$ 56,535,178
Capital and Surplus	<u>80,383,879</u>
Total Liabilities, Capital and Surplus	<u>\$ 136,919,057</u>

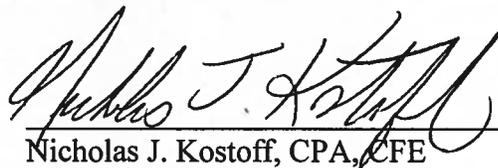
### Subsequent Events

On April 9, 2012, Centene issued a press release that it had been notified by the ODJFS that Buckeye Community Health Plan, Inc., Centene's Ohio subsidiary, was one of four incumbent health plans that was not awarded a contract to continue serving Medicaid members in Ohio, effective January 2013. Buckeye Community Health Plan, Inc. filed a formal protest of the selections on April 16, 2012, within the required seven-day notice period.

### Acknowledgement

In addition to the undersigned, Thomas S. Botsko, ACAS, MAAA; Jeffrey J. Ferris, CFE, CISA, AES; David T. Finkler, CPA, CFE; Louis F. Radecky, CPA (inactive), CFE; and Bradley Schroer of the Department participated in this examination.

Respectfully,



Nicholas J. Kostoff, CPA, CFE  
Examiner-In-Charge  
Office of Risk Assessment  
Ohio Department of Insurance



David A. Cook, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2010.

Nicholas J. Kostoff 5/7/12  
Examiner-In-Charge Date

[Signature] 5/7/12  
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 7 day of May, 2012.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 7 day of May, 2012.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires