

Report of Examination of

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

As of December 31, 2012

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Columbus, Ohio  
March 10, 2014

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, 2010. The Department’s current full scope examination covers the period of January 1, 2011 through and including December 31, 2012.

Representatives of the Texas Department of Insurance, as the coordinating state regulator of the insurance company affiliates of the Centene Corporation (“Centene”) led the multi-state coordinated examination that included representatives from the States of Florida, Mississippi, Ohio and Wisconsin. 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
Mark W. Eggert	Executive Vice President – Health Plan Business Unit, Centene
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
Jimmy V. Stewart	President, Ohio Gas Association
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
Tracy M. Cloud	Vice President-Operational Services
Tricia L. Dinkelman	Director of Tax-Centene
Holly L. Mayer-Howell	Vice President-Finance
Lori J. Mulichak	Vice President-Medical Management
Barry A. Smith	Assistant Treasurer-Centene
John C. Wiley	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. 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 Health Insuring Corporation under ORC 1751 and participates in the Ohio Covered Families and Children and Aged, Blind or Disabled Risk Based Managed Care programs under a contract with the Ohio Department of Medicaid (“ODM”). The Company also contracts with the Centers for Medicare and Medicaid Services (“CMS”) as a Medicare Advantage Special Needs Plan.

### **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, 2012 through December 31, 2012. The agreement covers hospital inpatient services provided to Medicaid members. The Company retains the first \$200,000 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, 2012 through December 31, 2012. The agreement covers hospital inpatient services provided to Medicare dual eligible members. The Company retains the first \$1,150,000 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, 2012

Bonds	\$ 98,305,123
Cash, cash equivalents, and short-term investments	39,024,674
Other invested assets	1,299,177
Receivables for securities	<u>35,000</u>
Subtotal, cash and invested assets	138,663,974
Investment income due and accrued	1,039,068
Uncollected premiums and agents' balances	10,657,839
Amounts recoverable from reinsurers	618,571
Net deferred tax asset	2,170,152
Receivables from parent, subsidiaries and affiliates	352,837
Health care and other amounts receivable	153,061
Goodwill, net	<u>7,476,256</u>
Total admitted assets	<u>\$ 161,131,758</u>
Claims unpaid	\$ 48,644,618
Unpaid claims adjustment expenses	948,000
General expenses due or accrued	14,314,137
Current federal and foreign income tax payable	5,173,291
State income taxes payable	327,701
Reserve for at-risk revenue	<u>988,835</u>
Total liabilities	70,396,582
Common capital stock	1,000,000
Gross paid in and contributed surplus	68,250,000
Unassigned funds	<u>21,485,176</u>
Total capital and surplus	<u>90,735,176</u>
Total liabilities, capital and surplus	<u>\$ 161,131,758</u>

**Statement of Revenue and Expenses  
As of December 31, 2012**

Net premium income	\$ <u>728,263,308</u>
Total revenues	728,263,308
Hospital/medical benefits	373,891,255
Other professional services	31,888,502
Emergency room and out-of-area	53,221,125
Prescription drugs	<u>114,701,580</u>
Subtotal	573,702,462
Net reinsurance recoveries	<u>5,013,729</u>
Total hospital and medical	568,688,733
Claims adjustment expenses	21,559,482
General administrative expenses	<u>119,965,884</u>
Total underwriting deductions	<u>710,214,099</u>
Net underwriting gain	<u>18,049,209</u>
Net investment income earned	2,006,598
Net realized capital gains	<u>113</u>
Net investment gains	2,006,711
Net income before federal income taxes	20,055,920
Federal income taxes incurred	<u>7,057,703</u>
Net income	<u>\$ 12,998,217</u>

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

	2012	2011
Capital & surplus, December 31, prior year	<u>\$ 85,497</u>	<u>\$ 80,384</u>
Net income	12,998	15,561
Net unrealized capital gains (losses)	(92)	(59)
Change in net deferred income tax	(276)	(1,239)
Change in nonadmitted assets	2,158	5,850
Cumulative effect of changes in accounting principles	450	0
Surplus adjustments paid in	0	(15,000)
Dividends to stockholders	<u>(10,000)</u>	<u>0</u>
Net change in capital and surplus	<u>5,238</u>	<u>5,113</u>
Capital & surplus, December 31, current year	<u>\$ 90,735</u>	<u>\$ 85,497</u>

**Notes to Financial Statements**

**Investments**

The Company's investments in BlackRock Cash Funds: Prime and Western Asset Institutional Cash Reserve money market mutual funds exceeded the investment limitations set forth in ORC Section 3925.08(D)(2). In 2013, the Company sold these investments and incurred no gain or loss. As a result of these sales, no adjustment was made to the Company's financial statements.

**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, 2012.

Thomas S. Botsko, ACAS, MAAA, Actuary with the Office of Product Regulation and Actuarial Services of the Department, reviewed the report by the Company's appointed actuary and based on the results presented in the Company's 2012 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, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$161,131,758</u>
Liabilities	\$ 70,396,582
Capital and Surplus	<u>90,735,176</u>
Total Liabilities, Capital and Surplus	<u>\$ 161,131,758</u>

### Subsequent Events

On September 27, 2013, the Company announced that it had received approval from the Department and the CMS to participate as Qualified Health Plan issuer in the Ohio Health Insurance Marketplace, where it is offering a line of health insurance products branded as Ambetter.

## Acknowledgement

In addition to the aforementioned and undersigned, David T. Finkler, CPA, CFE, CISA, AES; and Louis F. Radecky, CPA (inactive), CFE of the Department participated in this examination.

Respectfully,



Nicholas J. Kostoff, 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, 2012.

Nicholas J. Kostoff      3/20/14      g - Cook      3/20/14  
Examiner-In-Charge      Date      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 20 day of March, 2014.

Elizabeth Chase  
ATTN: LEGAL SVCS  
OHIO DEPARTMENT OF INSURANCE  
50 WEST TOWN ST.  
3RD FLOOR, SUITE 300  
COLUMBUS, OH 43215  
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 20 day of March, 2014.

Elizabeth Chase  
Notary Public  
ATTN: LEGAL SVCS  
OHIO DEPARTMENT OF INSURANCE  
50 WEST TOWN ST.  
3RD FLOOR, SUITE 300  
COLUMBUS, OH 43215  
My Commission Expires