Examination Warrant Number 18-00901-11524-R1

# Report of Examination of

# Bravo Health Pennsylvania, Inc.
# Philadelphia, Pennsylvania

# As of December 31, 2018

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Harrisburg, Pennsylvania
May 1, 2020

Honorable Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 18-00901-11524-R1, dated August 14, 2018, an examination was made of

**Bravo Health Pennsylvania, Inc., NAIC Code: 11524**

a Pennsylvania domiciled multi-state Health Maintenance Organization ("HMO"), hereinafter referred to as the "Company." The examination was conducted at the Company's office located at 1600 Chestnut Street, Two Liberty Plaza, Philadelphia, Pennsylvania 19103.

A report of this examination is hereby respectfully submitted.

## SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and 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 and evaluating management's compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. Statements were prepared by management and are therefore the responsibility of management. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), 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 within the examination report but separately communicated to other regulators and/or the Company.

For each year during the period under examination, the certified public accounting firm ("CPA") of PricewaterhouseCoopers, LLP has provided an unmodified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

This examination was performed concurrently and in coordination with the coordinated financial examination of the Cigna Insurance Group ("Group") conducted by the Lead State of Connecticut. For examination efficiency, the Group was separated into the following eight (8) subgroups: Subgroup#1–HealthSprings/Bravo, Subgroup#2–Dental HMOs, Subgroup#3–HMOs, Subgroup#4–Connecticut companies, Subgroup#5–Supplemental, Subgroup#6–LINA, Subgroup#7–Delaware company, and Subgroup#8–Montana company. Pennsylvania served as the Facilitating State of Subgroup#1–HealthSprings/Bravo. Ohio served as the Facilitating State of Subgroup#2–Dental HMOs and Subgroup#5–Supplemental.

Concurrent and coordinated financial examinations were conducted for each of the subgroups by the Lead State of Connecticut, and in coordination with the Facilitating States of Pennsylvania and Ohio, and Participating States of Arizona, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Maryland, Missouri, Montana, North Carolina, New Jersey, Ohio, Pennsylvania, South Carolina, Tennessee, Texas and Virginia.

The following companies were examined in Subgroup#1–HealthSprings/Bravo during the coordinated examination:

| Company | Abbreviation | State of Domicile | NAIC Code |
|---|---|---|---|
| Bravo Health Pennsylvania, Inc. | ("BHPA") | PA | 11524 |
| Bravo Health Mid-Atlantic, Inc. | ("BHMA") | MD | 10095 |
| HealthSpring of Florida, Inc. | ("HSFL") | FL | 11532 |

## HISTORY

The Company was incorporated as Elder Health Pennsylvania HMO, Inc. on October 3, 2001. The Company was granted a certificate of authority to operate as an HMO by the Department on November 25, 2002 and commenced business on December 1, 2002. Effective September 1, 2005, the Company changed its name to Elder Health Pennsylvania, Inc. Effective August 1, 2007, the Company changed its name to Bravo Health Pennsylvania, Inc.

The Company is a wholly-owned subsidiary of Bravo Health, LLC ("Bravo Health"), a Delaware corporation. Effective November 30, 2010, HealthSpring, Inc. ("HealthSpring"), acquired Bravo Health and became the ultimate controlling parent of the Company. Effective January 31, 2012, Cigna Corporation, acquired HealthSpring and became the ultimate controlling parent of the Company. Effective February 4, 2015, Bravo Health changed its name to NewQuest Management Northeast, LLC, which is wholly-owned by NewQuest, LLC, which is wholly-owned by HealthSpring, Inc. HealthSpring, Inc. is wholly-owned by Connecticut

General Corporation, which is wholly-owned by Cigna Holdings, Inc., which is wholly-owned by Cigna Holding Company, and which is wholly-owned by Cigna Corporation.

The Company is currently authorized to transact business as an HMO as described in 40 P.S. § 1554.

## MANAGEMENT AND CONTROL

### CAPITALIZATION

As of the examination date, December 31, 2018, the Company's total capital and surplus was $100,671,236, consisting of one hundred capital shares of issued and outstanding common capital stock with a par value of $0.01 per share, amounting to $1.00, $90,254,721 in gross paid in and contributed surplus, and $10,416,514 in unassigned funds (surplus).

As an HMO, the Company is required to maintain a minimum net worth equal to the greater of $1,000,000 or an amount equal to the sum of three months of uncovered health care expenditures for Pennsylvania enrollees as reported on the most recent financial statement filed with the Department, as per 31 Pa. Code § 301.121(b)(2). The Company has met these requirements throughout the examination period.

### STOCKHOLDER

All of the issued and outstanding shares of common capital stock of the Company are directly owned by NewQuest Management Northeast, LLC, which is an indirect wholly-owned subsidiary of Cigna Corporation.

During the examination period, the Company paid a total of $65,000,000 in extraordinary dividends to its sole-stockholder. The extraordinary dividend was approved by the Board of Directors on June 25, 2018 and approved by the Department on November 21, 2018. The extraordinary dividend was paid as of December 31, 2018.

The Company reported all dividends to the Department in compliance with 40 P.S. § 991.1404(e). There were no ordinary dividends paid by the Company during the examination period. The Department approved all extraordinary dividends in compliance with 40 P.S. § 991.1405(b).

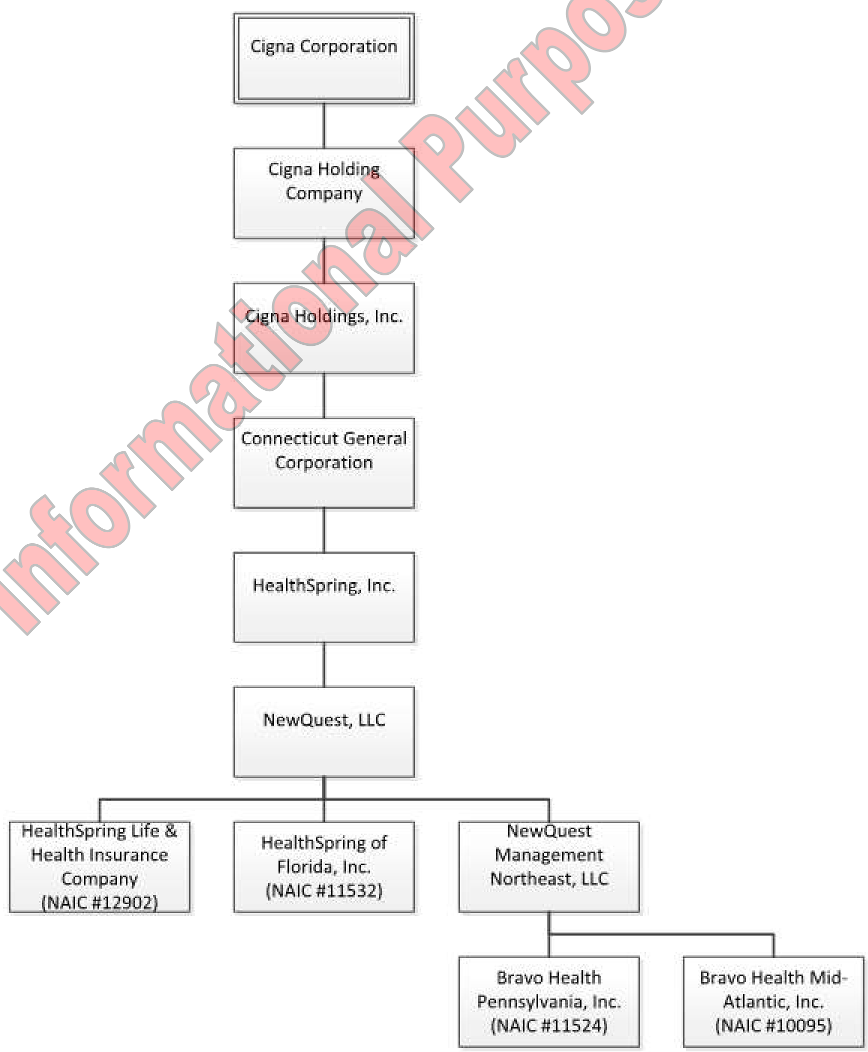
During the examination period, the Company received a total of $10,000,000 in capital contributions from its sole-stockholder. This transaction was filed with the Department on February 20, 2014 and approved by the Department on March 3, 2014 in compliance with 40 P.S. § 991.1405. The capital contribution was received as of March 31, 2014.

## INSURANCE HOLDING COMPANY SYSTEM

The Company meets the requirements for filing an insurance holding company system annual registration statement ("Annual Registration Statement"), in compliance with 40 P.S. § 991.1404. For each year of the examination period, the Company has filed the Annual Registration Statement with the Department.

Cigna Corporation is named as the ultimate controlling entity of the holding company system. Cigna Corporation is a Connecticut corporation that is publicly traded on the stock market and is subject to Sarbanes-Oxley requirements. Members of the holding company system include life and health insurance companies, managed care organizations, pharmacy benefit managers, and other healthcare industry non-insurance companies.

The simplified organizational chart below depicts the Company's direct ownership with its holding company system as of December 31, 2018. 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.



## BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2018:

| Name and Address | Principal Occupation |
|---|---|
| Thomas J. Kowalczyk<br>Sewell, New Jersey | Operations Senior Director<br>Cigna Corporation |
| Donald J. Mazzagatti<br>Philadelphia, Pennsylvania | Retired<br>Subscriber Member |
| Ryan B. McGroarty<br>Franklin, Tennessee | General Manager<br>Cigna Corporation |
| Dorothy Rex<br>Philadelphia, Pennsylvania | Retired<br>Subscriber Member |
| Brent J. Sanders<br>Fort Washington, Pennsylvania | Business Financial Officer<br>Cigna Corporation |
| Sheffield H. Young<br>Birmingham, Alabama | Operating Managing Director<br>Cigna Corporation |

In accordance with the By-Laws of the Company, members of the Board are elected by the sole-stockholder at any special meeting called for such purpose, to serve as directors until successors are duly elected and qualified.

The By-Laws state that at least one-third of the members of the Board shall be individuals who are subscribers of the corporation in compliance with 40 P.S. § 1557. The By-Laws state that the Board shall consist of not less than three and not more than seven members as may be determined from time to time by the Board.

## COMMITTEES

The Board of the Company has delegated certain responsibilities for governance to Committees of the Board. As of December 31, 2018, the Company relies on the Committees appointed by its ultimate parent, Cigna Corporation, to act on its behalf, including the Audit Committee, Finance Committee, Corporate Governance Committee, People Resources Committee, and Executive Committee.

As of the examination date, December 31, 2018, the following key committees were appointed by the Company's Board and serving in accordance with the By-Laws:

**Audit Committee**
Roman Martinez IV, Chair
William J. DeLaney
Mark B. McClellan
John M. Partridge

**Finance Committee**
John M. Partridge, Chair
Roman Martinez IV
Kathleen M. Mazzarella
William L. Roper
Eric C. Wiseman

**Corporate Governance Committee**
Donna F. Zarcone, Chair
William J. DeLaney
Eric J. Foss
Mark B. McClellan
William D. Zollers

**Executive Committee**
Isaiah Harris, Jr., Chair
David M. Cordani
Roman Martinez IV
John M. Partridge
Donna F. Zarcone
William D. Zollers

**People Resources Committee**
William D. Zollers, Chair
Kathleen M. Mazzarella
Eric C. Wiseman

The Company achieves compliance with the Board committee membership requirements of 40 P.S. §§ 991.1405(c)(3)(ii), (4) and (4.1) through 40 P.S. § 991.1405(c)(5), which states: "The provisions of paragraphs (3), (4) and (4.1) shall not apply to a domestic insurer if the person controlling such insurer is an insurer, an attorney in fact for a reciprocal exchange, a mutual insurance holding company or a publicly held corporation having a board of directors and committees thereof, which already meet the requirements of paragraphs (3), (4) and (4.1)".

The ultimate controlling entity of the Company, Cigna Corporation, is a public insurance holding company, and a review of its Board and Committee structures reflects compliance with the independence requirements of 40 P.S. §§ 1405(c)(3), (4) and (4.1). Consistent with 40 P.S. § 991.1405(c)(5), the Company is considered to be in compliance with the overall dictates of Pennsylvania's laws as they relate to the existence, composition, and independence of the Board and committees thereof.

During the examination, it was determined all committees were operating in compliance with the committee charters.

## OFFICERS

As of the examination date, December 31, 2018, the following Officers were appointed and serving in accordance with the Company's By-Laws:

| Name | Title |
|---|---|
| Thomas J. Kowalczyk | President |
| Ryan B. McGroarty | Chief Financial Officer |
| Brent J. Sanders | Vice President |
| Rhiannon A. Bernier | Assistant Secretary |
| Anna Krishtul | Corporate Secretary |
| Scott R. Lambert | Vice President & Treasurer |
| Gregory N. Malone | Appointed Actuary |
| Maureen H. Ryan | Vice President & Assistant Treasurer |
| Jumana N. Siddiqui | Assistant Treasurer |
| Dirk O. Wales MD | Corporate Medical Director |
| Sheffield H. Young | Divisional President |

## CORPORATE RECORDS

### MINUTES

A compliance review of corporate minutes revealed the following:

- The meetings of the sole-stockholder were held in compliance with the By-Laws.
- The sole-stockholder elected Directors at such meetings in compliance with the By-Laws.
- The sole-stockholder ratified the actions of the Officers and Directors.
- Quorums were present at the majority of Directors' meetings.
- The Company's investment transactions are approved for each quarter by the Board.
- All Directors attended Board meetings regularly.

### ARTICLES OF INCORPORATION

There were no amendments to the Company's Articles of Incorporation during the period under examination.

### BY-LAWS

There were no amendments to the Company's By-Laws during the period under examination.

## SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements, including several intercompany and related-party agreements. The inter-company agreements described below meet the fair and reasonable standards set forth in 40 P.S. § 991.1405(a)(1)(i). The following significant agreements were in place during the examination period:

**Administrative Services Agreement**

Effective December 1, 2010, the Company entered into Amended and Restated Administrative Services Agreement with NewQuest Management Northeast, LLC f/k/a Bravo Health, LLC, f/k/a Bravo Health, Inc., whereby NewQuest Management Northeast, LLC provides accounting, information technology and certain other administrative functions for the Company. Effective November 20, 2012, the First Amendment added HealthSpring, Inc. as a party, added payroll services, and added provisions for apportioning shared expenses. The Company provides a management fee to NewQuest Management Northeast, LLC of up to 15% of all operating revenue for the calendar year on a cumulative basis related to the Medicare Advantage business, and up to 10% of all operating revenue for the calendar year on a cumulative basis related to prescription coverage of the Medicare Advantage Part D business. This agreement continues until terminated by either party with at least thirty days prior written notice.

**Intercompany Service Agreement**

Effective January 1, 2001, an Intercompany Service Agreement was entered into by Connecticut General Life Insurance Company ("CGLIC") and Cigna Health Corporation ("CHC") on behalf of its subsidiaries, and International Rehabilitation Associates Inc., d/b/a Intracorp ("Intracorp"). Intracorp provides utilization management, case management, demand management, disease management, care management, and other consultative services in conjunction with the administration of participating health plans. The agreement was amended on multiple occasions to add new affiliates or add clarification of terms. Effective January 1, 2014, the Third Amendment added the Company to the agreement along with additional terms for Medicare Advantage business.

**Agreement for Provision of Mental Health and/or Substance Abuse Services**

Effective January 1, 1990, a Mental Health and Substance Abuse Services agreement was entered into between Cigna Behavioral Health ("CBH") f/k/a MCC Behavioral Care, Inc. and CHC, f/k/a Cigna Healthplan, Inc., which provides mental health and substance abuse services to enrollees. The agreement was amended on multiple occasions for name changes of parties, and to add clarification of provided services and terms. Compensation is based on amounts agreed upon between CBH and the covered health plan for each covered enrollee. Effective October 1, 2014, Amendment Nine added NewQuest, LLC to the agreement on behalf of its insurance subsidiaries, including the Company.

**Network Access Agreement**

Effective June 12, 2001, a Network Access Agreement was entered into between Cigna Corporation, CGLIC, and certain healthplan subsidiaries. CGLIC and each of the healthplans utilize the networks of participating providers and receive from other participants certain administrative services associated with network access. Compensation for network access is based on amounts agreed upon by the parties. Effective May 22, 2014, an Amendment added the Company and other Medicare Advantage plans to the agreement.

**Participating Mail Order Pharmacy Agreement**

Effective January 1, 2005, a Participating Mail Order Pharmacy Agreement was entered between Tel-Drug, Inc., Tel-Drug of Pennsylvania, LLC, and CHC on behalf of its healthplan subsidiaries, in which Tel-Drug provides mail order pharmaceutical services. Compensation for fully insured business is based on the lesser of the pharmacy's usual and customary costs, or the ingredient cost plus dispensing fee less copayment, coinsurance and deductibles.

**Fee Sharing Agreement**

Effective August 27, 2014, the Company entered into a Fee Sharing Agreement with Cigna Corporation and its subsidiaries. This agreement pertains to Section 9010 of the Patient Protection and Affordable Care Act, and Public Law 111-148, as modified by Section 10905 of this Act, which imposes an Annual Fee on each covered entity engage in the business of providing health insurance for any United States health risk. The U.S. Treasury Department requires this Annual Fee to be remitted in the form of a single payment by a "designated entity" on behalf of all affiliated covered entities. Under this agreement, Cigna Corporation is identified as the "designated entity" and pays the Fee to the U.S. Treasury Department, and then allocates the Fee among the affiliated parties in proportion to premium estimates for that Fee Year. There is a rider to comply with Pennsylvania requirements pursuant to 31 Pa. Code § 25.21(d)(2)(iii-viii). On December 15, 2014, the Amendment One delegated authority to Cigna Health and Life Insurance Company ("CHLIC") to act as "designated entity". There are no handling fees due under this agreement.

**Line of Credit Agreement**

Effective November 2, 2012, the Company entered into a Line of Credit Agreement with Cigna Corporation, under which the Company agrees to loan up to $30,000,000. Cigna Corporation must pay the aggregate of unpaid principal and interest for any loans to the Company on demand. This agreement may be terminated by either party with thirty days prior written notice. The Company did not loan any funds to Cigna Corporation during the examination period.

Effective November 2, 2012, the Company entered into a Line of Credit Agreement with Cigna Holdings, Inc. under which the Company may borrow up to $30,000,000. The Company must pay the aggregate of unpaid principal and interest for any loans to Cigna Holdings, Inc. on demand. This agreement may be terminated by either party with thirty days prior written notice. The Company did not borrow any funds from Cigna Holdings, Inc. during the examination period.

**Investment Advisory Agreement**

Effective November 2, 2012, the Company entered into an Investment Advisory Agreement with Cigna Investments, Inc. ("CII"). CII will provide investment management services to the Company that includes decisions related to acquisitions, holdings, and disposition of securities. CII has the authority to place orders for the Company through brokers and other brokerage services. Fees paid to CII are based upon the Company's proportion of activities and expenses that CII incurred providing advisory services to all clients.

**Tax Allocation Agreement**

Effective January 31, 2012, the Company joined the Amended and Restated Consolidated Federal Income Tax Agreement between Cigna Corporation and each of its subsidiaries. Cigna Corporation files a consolidated federal income tax return for the affiliated group. Tax payments are paid to Cigna Corporation based on taxable income of the individual entity on a standalone basis. Tax payments are due on March 15th, June 15th, September 15th and December 15th of each tax year. In the case of a taxable loss, Cigna Corporation will pay the refund to each entity based on its standalone taxable loss, to the extent that Cigna Corporation is able to utilize the loss on the consolidated tax return.

## REINSURANCE

The Company's reinsurance program as of December 31, 2018 is summarized as follows:

## CEDED

**RGA Reinsurance Company**

The Company entered into a HMO Excess Risk Reinsurance Agreement with RGA Reinsurance Company, with an effective date of December 1, 2018 and expiration date of November 30, 2019. The agreement will automatically terminate at the end of the agreement period unless renewed at least sixty calendar days prior to the end of the agreement period. The agreement provides 100.0% coinsurance for eligible expenses in excess of the plan deductible of $1,000,000 per member per agreement period, up the reinsurance limit of $4,000,000 per member per agreement period.

The Company's retention and the reinsurance limits are as follows:

| Company's Retention | Reinsurance Limits | Type of business Covered |
|---|---|---|
| $1,000,000 | $4,000,000 | Medicare & Medicare Dual Eligible |

The reinsurance contract contains appropriate insolvency, entire contract, arbitration, and intermediary clauses. The reinsurance contract contains the elements of risk transfer as required by Statements of Statutory Accounting Principles ("SSAP") No. 61R.

The Company obtained this coverage through a reinsurance intermediary, Willis Re, Inc. As of December 31, 2018, it was determined that Willis Re, Inc. is licensed by the Department as required by 40 P.S. § 321.2(a).

## ASSUMED

The Company assumed no business during the examination period.

## TERRITORY AND PLAN OF OPERATIONS

As of December 31, 2018, the Company was licensed in New Jersey and Pennsylvania. The Company has operated exclusively in Pennsylvania since 2014. As a subsequent event, the Company intends to provide coverage to residents of New Jersey for the 2020 plan year.

The Company operates as an approved Medicare Advantage plan through contracts with the Centers for Medicare & Medicaid Services. Medicare Advantage is a federal insurance program primarily for U.S. Citizens age 65 and over, qualifying disabled persons, and persons suffering from end stage renal disease.

The following chart summarizes the Company's direct and assumed, ceded and net written premiums by line of business as of December 31, 2018:

| Line of Business | Direct and Assumed Premium | Ceded Premium | Net Premium | Percentage of Total |
|---|---|---|---|---|
| **December 31, 2018** | | | | |
| Title XVIII - Medicare | 623,093,674 | 171,090 | 622,922,584 | 100.0 % |
| Health subtotal | 623,093,674 | 171,090 | 622,922,584 | 100.0 % |
| Totals | $ 623,093,674 | $ 171,090 | $ 622,922,584 | 100.0 % |

## SIGNIFICANT OPERATING TRENDS

The following table indicates the changes in key financial ratios and trends of the Company during the period covered by this examination:

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Admitted Assets | $ 186,273,677 | $ 236,931,747 | $ 246,695,457 | $ 244,331,243 | $ 236,286,420 |
| Liabilities | $ 85,602,441 | $ 87,146,861 | $ 103,282,299 | $ 95,209,849 | $ 105,044,498 |
| Capital and Surplus Funds | $ 100,671,236 | $ 149,784,886 | $ 143,413,158 | $ 149,121,394 | $ 131,241,922 |
| Net Premium Income | $ 622,922,584 | $ 596,690,689 | $ 721,702,102 | $ 776,157,252 | $ 904,422,804 |
| Benefits to Members | $ 503,370,355 | $ 514,715,940 | $ 630,328,551 | $ 637,086,253 | $ 766,421,515 |
| Net Investment Income | $ 6,402,974 | $ 4,986,539 | $ 4,468,851 | $ 4,734,280 | $ 5,351,748 |
| Net Income | $ 24,395,867 | $ 9,796,949 | $ (4,813,962) | $ 20,773,694 | $ 16,802,969 |

## PENDING LITIGATION

The Company and Cigna Corporation are subject to litigation and arbitration arising in and out of the normal course of business. The Company is not party to any current or pending litigation that might have a material, adverse impact on their financial position through the date of this examination report.

## FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2018, and the results of operations for the five-year period under examination, are reflected in the following statements*:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
Comparative Statement of Income;
Comparative Statement of Capital and Surplus; and
Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

# Comparative Statement of Assets, Liabilities, Surplus and Other Funds
# As of December 31,

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Bonds | $ 121,060,749 | $ 134,103,904 | $ 132,758,960 | $ 121,722,129 | $ 172,070,772 |
| Cash, cash equivalents and short-term investments | (2,473,994) | 51,786,739 | 36,150,165 | 19,043,165 | (14,327,305) |
| Subtotal, cash and invested assets | 118,586,755 | 185,890,643 | 168,909,125 | 140,765,294 | 157,743,467 |
| Investment income due and accrued | 1,105,062 | 1,172,576 | 1,181,011 | 1,129,692 | 1,559,997 |
| Premiums and considerations | 19,955,981 | 5,259,543 | 22,772,039 | 35,451,715 | 29,703,810 |
| Amounts receivable relating to uninsured plans | 2,647,422 | 0 | 0 | 22,662,187 | 14,094,390 |
| Current federal and foreign income tax recoverable and interest thereon | 0 | 5,185,190 | 6,866,274 | 0 | 0 |
| Net deferred tax asset | 9,093,054 | 6,938,742 | 11,367,364 | 10,396,334 | 11,974,987 |
| Receivable from parent, subsidiaries and affiliates | 8,745,080 | 7,051,289 | 8,348,778 | 9,046,858 | 4,589,697 |
| Health care and other amounts receivable | 24,292,360 | 20,055,996 | 21,883,445 | 24,138,747 | 12,935,495 |
| Aggregate write-ins for other than invested assets | 1,847,963 | 5,377,768 | 5,367,421 | 740,416 | 3,684,577 |
| Total | $ 186,273,677 | $ 236,931,747 | $ 246,695,457 | $ 244,331,243 | $ 236,286,420 |
| | | | | | |
| Claims unpaid | $ 73,400,201 | $ 68,860,953 | $ 80,432,484 | $ 74,095,262 | $ 78,209,334 |
| Accrued medical incentive pool and bonus amounts | 2,845,479 | 2,308,069 | 2,354,015 | 5,613,072 | 4,525,676 |
| Unpaid claims adjustment expenses | 1,022,910 | 871,754 | 1,219,857 | 1,200,532 | 1,260,633 |
| Aggregate health policy reserves | 0 | 139,431 | 3,919,776 | 2,082,035 | 8,048,326 |
| General expenses due or accrued | 136,758 | 68,702 | 577,399 | 1,804,251 | 1,020,667 |
| Current federal and foreign income tax payable and interest thereon | 811,984 | 0 | 0 | 430,310 | 1,181,195 |
| Amounts withheld or retained for the account of others | 0 | 0 | 0 | 1,456,509 | 821,011 |
| Amounts due to parent, subsidiaries and affiliates | 6,335,236 | 6,226,920 | 6,500,512 | 8,527,878 | 9,863,044 |
| Liability for amounts held under uninsured plans | 0 | 7,745,789 | 6,724,636 | 0 | 0 |
| Aggregate write-ins for other liabilities | 1,049,873 | 925,243 | 1,553,620 | 0 | 114,612 |
| Total liabilities | 85,602,441 | 87,146,861 | 103,282,299 | 95,209,849 | 105,044,498 |
| Aggregate write-ins for special surplus funds | 0 | 11,727,048 | 0 | 12,056,848 | 12,808,187 |
| Common capital stock | 1 | 1 | 1 | 1 | 1 |
| Gross paid in and contributed surplus | 90,254,721 | 90,254,721 | 90,254,721 | 90,254,721 | 90,254,721 |
| Unassigned funds (surplus) | 10,416,514 | 47,803,116 | 53,158,436 | 46,809,824 | 28,179,013 |
| Total capital and surplus | 100,671,236 | 149,784,886 | 143,413,158 | 149,121,394 | 131,241,922 |
| Totals | $ 186,273,677 | $ 236,931,747 | $ 246,695,457 | $ 244,331,243 | $ 236,286,420 |

# Comparative Statement of Revenue and Expenses
# For the Year Ended December 31,

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Net premium income | $ 622,922,584 | $ 596,690,689 | $ 721,702,102 | $ 776,157,252 | $ 904,422,804 |
| Aggregate write-ins for other non-health revenues | (2,245) | 20,739 | 0 | 0 | 0 |
| Total revenues | 622,920,339 | 596,711,428 | 721,702,102 | 776,157,252 | 904,422,804 |
| Hospital/medical benefits | 453,715,598 | 456,838,824 | 566,950,103 | 562,303,782 | 656,428,971 |
| Other professional services | 10,107,267 | 7,256,125 | 8,451,845 | 11,688,850 | 15,313,559 |
| Emergency room and out-of-area | 21,741,581 | 28,903,811 | 22,659,021 | 21,520,179 | 24,316,831 |
| Prescription drugs | 28,695,742 | 29,436,603 | 43,157,877 | 44,994,027 | 62,399,335 |
| Incentive pool, withhold adjustments and bonus amounts | (10,889,833) | (7,719,423) | (10,890,295) | (3,420,585) | 7,962,819 |
| Subtotal (hospital and medical) | 503,370,355 | 514,715,940 | 630,328,551 | 637,086,253 | 766,421,515 |
| Total hospital and medical | 503,370,355 | 514,715,940 | 630,328,551 | 637,086,253 | 766,421,515 |
| Claims adjustment expenses, including cost containment expenses | 40,634,629 | 32,160,824 | 30,155,906 | 26,352,233 | 28,204,356 |
| General administrative expenses | 52,881,139 | 41,995,666 | 71,350,328 | 87,251,074 | 102,247,828 |
| Increase in reserves for life accident and health contracts | 0 | 0 | 0 | (3,020,830) | (8,491,545) |
| Total underwriting deductions | 596,886,123 | 588,872,430 | 731,834,785 | 747,668,730 | 888,382,154 |
| Net underwriting gain or (loss) | 26,034,216 | 7,838,998 | (10,132,683) | 28,488,522 | 16,040,650 |
| Net investment income earned | 6,402,974 | 4,986,539 | 4,468,851 | 4,734,280 | 5,351,748 |
| Net realized capital gains or (losses) | (464,541) | (28,906) | (45,841) | 251,215 | 520,145 |
| Net investment gains or (losses) | 5,938,433 | 4,957,633 | 4,423,010 | 4,985,495 | 5,871,893 |
| Net gain or (loss) from agents' or premium balances charged off | (1,010,312) | (2,521,699) | 0 | (2,269,866) | (1,105,921) |
| Aggregate write-ins for other income or expenses | 0 | 0 | (36,396) | 0 | (3,537) |
| Net income or (loss) before federal income taxes | 30,962,336 | 10,274,932 | (5,746,069) | 31,204,151 | 20,803,085 |
| Federal income taxes incurred | 6,566,469 | 477,983 | (932,107) | 10,430,457 | 4,000,116 |
| Net income (loss) | $ 24,395,867 | $ 9,796,949 | $ (4,813,962) | $ 20,773,694 | $ 16,802,969 |

# Comparative Statement of Capital and Surplus
# For the Year Ended December 31,

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Capital and surplus, December 31, previous year | $ 149,784,886 | $ 143,413,158 | $ 149,121,394 | $ 131,241,922 | $ 101,612,630 |
| Net income or (loss) | 24,395,867 | 9,796,949 | (4,813,962) | 20,773,694 | 16,802,969 |
| Change in net unrealized capital gains and (losses) | (75,425) | 153,345 | 253,396 | (530,122) | 0 |
| Change in net deferred income tax | (37,862) | (10,176,198) | (2,388,583) | (4,833,241) | (7,726,128) |
| Change in nonadmitted assets | (8,396,230) | 6,597,632 | 703,421 | 2,469,141 | 10,552,451 |
| Surplus adjustments: | | | | | |
| Paid in | 0 | 0 | 0 | 0 | 10,000,000 |
| Dividends to stockholders | (65,000,000) | 0 | 0 | 0 | 0 |
| Aggregate write-ins for gains or (losses) in surplus | 0 | 0 | 537,492 | 0 | 0 |
| Net change in capital and surplus | (49,113,650) | 6,371,728 | (5,708,236) | 17,879,472 | 29,629,292 |
| Capital and surplus, December 31, current year | $ 100,671,236 | $ 149,784,886 | $ 143,413,158 | $ 149,121,394 | $ 131,241,922 |

# Comparative Statement of Cash Flow
# For the Year Ended December 31,

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Cash from Operations** | | | | | |
| Premiums collected net of reinsurance | $ 607,222,571 | $ 609,217,396 | $ 734,716,714 | $ 768,885,724 | $ 900,125,554 |
| Net investment income | 6,751,672 | 5,550,723 | 5,174,524 | 5,952,550 | 6,723,209 |
| Miscellaneous Income | (2,245) | 20,739 | 0 | 0 | 0 |
| Total | 613,971,998 | 614,788,858 | 739,891,238 | 774,838,274 | 906,848,763 |
| Benefit and loss related payments | 513,997,009 | 525,152,310 | 625,007,006 | 651,316,181 | 803,521,311 |
| Commissions, expenses paid and aggregate write-ins for deductions | 100,119,368 | 73,983,517 | 78,730,755 | 122,809,777 | 151,394,910 |
| Federal and foreign income taxes paid (recovered) | 488,730 | (1,210,008) | 6,436,253 | 11,376,190 | 2,982,482 |
| Total deductions | 614,605,107 | 597,925,819 | 710,174,014 | 785,502,148 | 957,898,703 |
| Net cash from operations | (633,109) | 16,863,039 | 29,717,224 | (10,663,874) | (51,049,940) |
| **Cash from Investments** | | | | | |
| Proceeds from investments sold, matured or repaid: | | | | | |
| Bonds | 54,428,856 | 11,681,348 | 13,440,137 | 60,446,038 | 55,273,213 |
| Net gain or (loss) on cash, cash equivalents and short term investments | 0 | (1,260) | (1,825) | (825) | 929 |
| Miscellaneous proceeds | 614 | 0 | 0 | 0 | 1,172,105 |
| Total investment proceeds | 54,429,470 | 11,680,088 | 13,438,312 | 60,445,213 | 56,446,247 |
| Cost of investments acquired (long-term only): | | | | | |
| Bonds | 42,308,074 | 13,380,680 | 24,816,360 | 11,254,038 | 44,267,713 |
| Total investments acquired | 42,308,074 | 13,380,680 | 24,816,360 | 11,254,038 | 44,267,713 |
| Net cash from investments | 12,121,396 | (1,700,592) | (11,378,048) | 49,191,175 | 12,178,534 |
| **Cash from Financing and Miscellaneous Sources** | | | | | |
| Cash provided (applied): | | | | | |
| Capital and paid in surplus, less treasury stock | 0 | 0 | 0 | 0 | 10,000,000 |
| Dividends to stockholders | 65,000,000 | 0 | 0 | 0 | 0 |
| Other cash provided or (applied) | (749,018) | 474,126 | (1,232,176) | (5,156,831) | (4,032,576) |
| Net cash from financing and miscellaneous sources | (65,749,018) | 474,126 | (1,232,176) | (5,156,831) | 5,967,424 |
| **Reconciliation of cash and short-term investments:** | | | | | |
| Net change in cash and short-term investments | (54,260,731) | 15,636,573 | 17,107,000 | 33,370,470 | (32,903,982) |
| Cash and short-term investments: | | | | | |
| Beginning of the year | 51,786,738 | 36,150,165 | 19,043,165 | (14,327,305) | 18,576,677 |
| End of the year | $ (2,473,993) | $ 51,786,738 | $ 36,150,165 | $ 19,043,165 | $ (14,327,305) |

## SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

## NOTES TO FINANCIAL STATEMENTS

## ASSETS

## INVESTMENTS

As of December 31, 2018, the Company's invested assets were distributed as follows:

| | Amount | Percentage |
|---|---|---|
| Bonds | $ 121,060,749 | 102.1 % |
| Cash | (2,473,994) | (2.1)% |
| Totals | $ 118,586,755 | 100.0 % |

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

| NAIC Designation | Amount | Percentage |
|---|---|---|
| 1 - highest quality | $ 35,321,112 | 29.20 % |
| 2 - high quality | 81,475,609 | 67.30 % |
| 3 - medium quality | 2,763,750 | 2.30 % |
| 4 - low quality | 1,500,277 | 1.20 % |
| Totals | $ 121,060,749 | 100.00 % |

| Years to Maturity | Amount | Percentage |
|---|---|---|
| 1 year or less | $ 4,529,856 | 3.74 % |
| 2 to 5 years | 22,754,349 | 18.80 % |
| 6 to 10 years | 93,736,816 | 77.43 % |
| 11 to 20 years | 36,395 | 0.03 % |
| over 20 years | 3,332 | 0.00 % |
| Totals | $ 121,060,749 | 100.00 % |



As depicted above, the Company's investment portfolio is primarily comprised of bonds and cash. The Company maintained 96.5% of its bonds in NAIC-1 (highest quality) and NAIC-2 (high quality) securities as rated by the NAIC SVO office. The Company holds bonds with various maturity dates, with 99.97% having a maturity of 10 years or less.

The Company has a written investment policy as required by 40 P.S. § 504.1(c). The Company was following its investment policy at December 31, 2018. The Board of Directors of the Company updated the investment policy on an annual basis in 2017 and 2018 in compliance with 40 P.S. § 504.1(c) during the period under examination, and subsequently in 2019.

The Company maintained a custodial and liquidity services agreement with The Bank of New York Mellon. This agreement was subsequently terminated on July 1, 2019.

The Company maintained a domestic custodial agreement with JP Morgan Chase Bank, National Association ("JP Morgan"). As of December 31, 2018, the custodial agreement did not comply with all requirements for custodial agreements pursuant to 31 Pa. Code § 148a.

***It is recommended that the Company amend its custodial agreement with JP Morgan Chase, to include all required provisions to be in compliance with all requirements of 31 Pa. Code § 148a.***

## PREMIUM RECEIVABLE

The Company reported its Medicare Risk Adjustment Receivables on Page 2, Line 15.1 - Uncollected Premiums in the 2018 Annual Statement. This amount should be reported on Page 2, Line 15.3 - Premiums for contracts subject to redetermination pursuant to the NAIC *Annual Statement Instructions*. This does not result in an adjustment to surplus. Subsequently, the Company has correctly reported the Medicare Risk Adjustment Receivables on Page 2, Line 15.3 in the 2019 Annual Statement.

## LIABILITIES

## POLICYHOLDER AND CLAIM RESERVES

The following depicts the reported reserves for the Company on the December 31, 2018, Annual Statement.

| Reserves | 12/31/2018 |
|---|---|
| Claims unpaid | $ 73,400,201 |
| Accrued medical incentive pool and bonus amounts | $ 2,845,479 |
| Unpaid claims adjustment expenses | $ 1,022,910 |
| Aggregate health policy reserves | $ 0 |
| Aggregate health claim reserves | $ 0 |
| Accrued retrospective premiums | $170,026 |
| Healthcare receivables | $24,292,360 |

Gregory N. Malone, FSA, MAAA, Actuarial Managing Director, Corporate Actuarial Services of Cigna Corporation has been the appointed actuary for the Company for the years ending 2015 through 2018. Previously, David L. Terry Jr., FSA, MAAA, Chief Actuary, Corporate Actuarial Services of HealthSpring served as the appointed actuary for the year ending 2014. The Department received the appropriate notification letters with this change in actuary.

At December 31, 2018, the appointed actuary issued Statement of Actuarial Opinion for the Company concluding that the reserves "make a good and sufficient provision for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements; are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end; and include provision for all actuarial reserves and related statement items which ought to be established."

In order for the examination team to gain an adequate comfort level with reserve estimates for the Company, the Department utilized actuarial staff from Lewis & Ellis, Inc. contracted by the Lead State of Connecticut for the coordinated examination, to assist in performing a risk-focused review of the Company's pricing and reserving process, assumptions, methodologies, and calculations. Based upon procedures performed and results obtained, the actuarial and examination staff obtained evidence to support the conclusion that the policyholder and claim reserves for the Company are reasonably stated as of December 31, 2018.

## SUBSEQUENT EVENTS

**Custodial Agreement**

Effective July 1, 2019, the Company terminated the Custodial Agreement with the Bank of New York Mellon and closed the account.

**Ordinary Dividends**

Effective October 15, 2019, the Board of Directors approved an ordinary dividend of $21,000,000 to the sole-stockholder, NewQuest Management Northeast, LLC. The dividend was filed with the Department and accepted with no objections on November 22, 2019. As of December 31, 2019, the Company paid $21,000,000 in ordinary dividends its sole-stockholder.

**Officers and Directors**

Effective September 13, 2019, Sheffield H. Young, Director and Divisional President, resigned from his position as an officer and director of the Company.

Effective December 31, 2019, Rhiannon A. Bernier, Assistant Secretary, was removed from the Annual Statement jurat page but remains an employee of the Company.

Effective December 31, 2019, Jumana N. Siddiqui, Assistant Treasurer, was removed from the Annual Statement jurat page but remains an employee of the Company.

Effective March 31, 2020, Maureen H. Ryan, Vice President & Assistant Treasurer, resigned from Cigna. A replacement will be elected at a future date.

Effective March 31, 2020, Anna Krishtul resigned as Corporate Secretary and assumed a new role at Cigna. A new Corporate Secretary will be elected at a future date.

**Express Scripts, Inc.**

Effective December 20, 2018, Express Scripts Holding Company ("Express Scripts") was acquired by and merged with the Cigna Corporation holding company system.

Effective January 1, 2019, the Company is a party to the Rebate Services Agreement with Express Scripts, Inc. ("ESI"), under which ESI provides pharmacy benefit management services as the pharmacy benefit manager. ESI is an indirect subsidiary of Cigna Corporation.

Effective June 17, 2019, the Amended and Restated Consolidated Federal Income Tax Agreement with Cigna Corporation and its subsidiaries was amended to reflect the merger with Express Scripts.

Effective December 31, 2019, Cigna Corporation terminated the Pharmacy Benefit Management Agreement with OptumRx which processed pharmacy claims for multiple subsidiaries of Cigna Corporation, including the Company.

**COVID-19 Impact**

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Company. As such, the Department will continue to monitor and share information about the Company as appropriate related to COVID-19 developments.

## RECOMMENDATIONS

### PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It was recommended that the Company, through the actions of its Board of Directors, ensure that its designated audit committee meets the requirements of 40 P.S. § 991.1405.

   ***The Company has complied with this recommendation.***

2. It was recommended that the Company comply with its By-Laws and 40 P.S. § 1557 by changing the composition of the Board to include at least one-third Subscriber Directors.

   ***The Company has complied with this recommendation.***

3. It was recommended that the Company amend its Administrative Services Agreement payment exhibit to comply with 40 P.S. § 991.1405(a)(l)(i-iii) and provide the Department with documentation for fairness and reasonableness of its terms.

   ***The Company has complied with this recommendation.***

4. It was recommended that the Board of Directors review and update the Investment Policy on at least an annual basis to ensure compliance with 40 P.S. § 504.l(c).

   ***The Company has complied with this recommendation during 2017 and 2018, and subsequently in 2019.***

5. It was recommended that the Company amend the custodial agreement to include all the required provisions to comply with 31 Pa. Code § 148a.3.

   ***The Company has not complied with this recommendation. See "Recommendations - Current Examination" below.***

### CURRENT EXAMINATION

As a result of the current examination, the following recommendation is being made:

1. ***It is recommended that the Company amend its custodial agreement with JP Morgan Chase, to include all required provisions to be in compliance with all requirements of 31 Pa. Code § 148a***. (See "Investments", page 18).

## CONCLUSION

As a result of this examination, the financial condition of Bravo Health Pennsylvania, Inc., as of December 31, 2018, was determined to be as follows:

| | Amount | Percentage |
|---|---|---|
| Admitted assets | $ 186,273,677 | 100.0 % |
| Liabilities | $ 85,602,441 | 46.0 % |
| Capital and Surplus | 100,671,236 | 54.0 % |
| Total liabilities, capital and surplus | $ 186,273,677 | 100.0 % |

Since the previous examination, made as of December 31, 2013, the Company's admitted assets decreased by $77,053,006, its liabilities decreased by $76,111,612, and its surplus decreased by $941,394.

This examination was conducted by examining actuaries from Lewis & Ellis, Inc.; IT examiners from Noble Consulting Services, Inc.; financial examiners from the Department Matthew Counsil, CFE and David Jia, CFE; financial examiners from Johnson Lambert LLP Richard Nelson, CFE, CIE, Megan Hubbuch, AFE, CPA, CPCU, AIAF, Abigail Frary, CPA, and Joanne Smith, CFE, MCM, with the latter in charge.

Respectfully,

Melissa L. Greiner

Melissa L. Greiner
Director
Bureau of Financial Examinations

David Evans

David R. Evans, CFE
Examination Manager

Joanne R. Smith

Joanne R. Smith (May 8, 2020)

Joanne R. Smith, CFE, MCM
Examiner-in-Charge



The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However, the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.