

# *CERTIFICATE*

I, KEN SELZER, Commissioner of Insurance of Kansas, do hereby certify that the following and hereto attached is a true copy of

REPORT OF EXAMINATION

OF

AMERIGROUP KANSAS, INC.

9225 INDIAN CREEK PARKWAY, SUITE 400

OVERLAND PARK, KS 66210

AS OF

DECEMBER 31, 2015

the original of which is now on file and a matter of record in this office.

*In Witness Whereof*, I, KEN SELZER, Commissioner of Insurance of Kansas, have hereto affixed by signature and the seal of the Commissioner of Insurance, in the city of Topeka, Kansas this 27<sup>TH</sup> day of July, 2017



\_\_\_\_\_  
*Commissioner of Insurance*

FILED  
JUL 27 2017  
KEN SELZER  
Commissioner of Insurance

**REPORT ON EXAMINATION  
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Topeka, Kansas  
April 28, 2017

Honorable Ken Selzer  
Commissioner of Insurance  
Kansas Insurance Department  
420 SW 9th Street  
Topeka, Kansas 66612-1678

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222 – *Examination of Condition of Company*, an examination has been conducted of the financial condition and business affairs of:

**AMERIGROUP KANSAS, INC.  
9225 INDIAN CREEK PARKWAY, SUITE 400  
OVERLAND PARK, KANSAS 66210**

hereinafter referred to as the “Company” or “AGPKS”. The following report on such examination is respectfully submitted.

**SCOPE OF EXAMINATION**

The examiners have performed a financial examination of AGPKS, a Kansas domiciled health maintenance organization. The organizational examination was conducted as of November 30, 2011. This examination covers the four-year period from January 1, 2012, through December 31, 2015.

The examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department (KID) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook requires the examiners 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.

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. 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, as mentioned in K.S.A. 40-222, *Examination of Condition of Company*, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

### **Independent Audit Reports**

Financial statements of the Company were exempt from being audited for the year ending December 31, 2012 but were audited by Ernst and Young, LLP for the years ending December 31, 2013, through December 31, 2015. The auditors concluded that the financial statements present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of the Company as of December

31, 2013, December 31, 2014, and December 31, 2015 and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the KID.

The independent auditor's work papers were reviewed and analyzed by the examiners; whereby significant reliance was placed on select work papers during the course of this examination.

### **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the course of the examination.

### **HISTORY**

#### **General**

The Company was incorporated in the State of Kansas on September 15, 2011 as a health maintenance organization under the provisions of K.S.A. 40-3201 et seq. - *Health Maintenance Organizations and Medicare Provider Organizations*.

The Company began operations on January 1, 2013 as a health maintenance organization under Article 32, Chapter 40 of the Kansas Statutes Annotated. The Company was organized as a for-profit corporation as set forth in its articles of incorporation with the nature of its business stated as "to engage in any lawful act or activity for which corporations may be organized under the Kansas General Corporation Code, including, without limitation, to operate a Health Maintenance Organization".

#### **Capital Stock**

The Company's articles of incorporation authorize the issuance of 1,000 shares of common stock at \$1.00 par value per share that are 100% held by Amerigroup Corporation. Amerigroup Corporation is indirectly owned by Anthem, Inc. The merger

of Amerigroup Corporation and WellPoint Merger Sub, Inc. occurred December 24, 2012.

**Dividends and Capital Contributions**

The Company received capital contributions of \$70,000,000 in 2014, \$117,000,000 in 2013, and \$7,706,035 in 2012. No dividends were paid by the Company during the examination period.

**Management**

The Company's bylaws consist of eleven articles that provide the framework for the operation, management and control of this domestic health maintenance organization. The Company is managed by a Board of Directors (Board).

Pursuant to the bylaws, the number of Directors consists of no less than one (1) but not more than twelve (12) Directors. Each Director will hold office until a successor is elected and qualified, unless sooner displaced. Those elected Directors and their principal occupations are:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Laura Anne Hopkins	Chairperson Board of Directors, President, and Chief Executive Officer Amerigroup Kansas, Inc.
Carter Allen Beck	Vice President Anthem, Inc.
Catherine Irene Kelaghan	Vice President Anthem, Inc.

The bylaws direct the Board to elect at its annual meeting a Chairperson, a President, a Secretary, a Treasurer and such other officers as it determines to be necessary. One or more Vice Presidents may be elected as deemed necessary or

appropriate. The following officers were elected by the Board and serving in their respective position as of December 31, 2015.

<u>Name</u>	<u>Company Position</u>
Laura Anne Hopkins	Chairperson Board of Directors, President and Chief Executive Officer
Kathleen Susan Kiefer	Secretary
Jack Louis Young	Vice President and Assistant Secretary
Robert David Kretschmer	Treasurer
Eric Kenneth Noble	Assistant Treasurer
Francis Drury Clepper	Vice President and Chief Operating Officer
Mark Anthony Blessinger Jr.	Valuation Actuary

#### **Conflict of Interest**

All elected officers and Directors completed conflict of interest statements subsequent to their election to the Board. No conflicts were noted

#### **AFFILIATED COMPANIES**

K.S.A. 40-3301 et seq. - *Insurance Holding Companies*, requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Form "B" and "C" registration statements to the KID for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The exhibit below is an organizational chart as of December 31, 2015, indicating the identities and inter-company relationships having a direct bearing on the Company.



Anthem, Inc. (100%)  
     ATH Holding Company, LLC (100%)  
         Amerigroup Corporation (100%)  
             PHP Holdings, Inc. (FL)  
                 Amerigroup Florida, Inc. (FL)  
             Amerigroup Maryland, Inc. (MD)  
             Amerigroup New Jersey, Inc. (NJ)  
             Amerigroup Texas, Inc. (TX)  
             AMGP Georgia Managed Care Company, Inc. (GA)  
             Amerigroup Services, Inc. (VA)  
             Amerigroup Ohio, Inc. (OH)  
             Amerigroup Community Care of New Mexico, Inc. (NM)  
             Amerigroup Nevada, Inc. (NV)  
             Amerigroup Tennessee, Inc. (TN)  
             Amerigroup Washington, Inc. (WA)  
             Amerigroup Louisiana, Inc. (LA)  
             **Amerigroup Kansas, Inc. (KS)**  
             Amerigroup Iowa, Inc. (IA)  
             Amerigroup Insurance Company (TX)  
             HealthPlus HP, LLC. (NY)

**Administrative and Support Service Agreements**

The Company entered into an Administrative and Services Agreement with Amerigroup Corporation, whereby the Company is provided with administrative and support services necessary to fulfill its responsibilities under the terms of its contract with the Kansas Department of Health and Environment, Division of Health Care Finance. Those administrative and support services to be provided by Amerigroup Corporation cover the areas of:

Finance	Management Information Systems
Claim Administration	Legal Services
Regulatory	Treasury
Compliance	

In return for these services, the Company will reimburse its parent the sum of the following:

1. *Percent of Premium Revenue Fee*, equal to 3.2% of the Company's monthly net premium revenues, less any premium taxes.

2. *Per Member Per Month*, equal to \$5.07 for each Company member for the month.
3. *Additional Services Fee*, equal to 0.14% of net premium revenue if the Company provides pharmacy managed care services.
4. *Risk Margin Fee*, if applicable, equal to 10% of the sum of the above fees.

The Company paid \$34,462,058 in 2013 under this agreement which was superseded by Anthem's Master Administrative Services Agreement described below.

The Company entered into a Master Administrative Services Agreement with Anthem, Inc. and its subsidiaries to receive certain administrative, consulting and other support services from time-to-time. This agreement became effective January 1, 2014, replacing the previous Administrative and Services Agreement with Amerigroup Corporation. The agreement was approved by the KID on January 2, 2014. The Company paid The Anthem Companies, Inc. and Amerigroup Corporation \$43,035,962 in 2015 and \$41,620,606 in 2014 under this agreement. The Company also paid Anthem, Inc. \$7,602,647 and \$4,616,601 in 2015 and 2014, respectively, as well as other various affiliates in the amounts of \$2,460,343 and \$2,268,534 in 2015 and 2014, respectively, under this same agreement.

The Company is a party to a Royalty License Agreement with Amerigroup Corporation for the service marks, trademarks and other intellectual property owned by Amerigroup Corporation. The Company made no payments to Amerigroup Corporation under this agreement from December 31, 2012 through December 31, 2015.

The Company is a party to a Consolidated Federal Income Tax Agreement to file a consolidated federal tax return with Anthem, Inc. and its subsidiaries for the years 2015, 2014 and 2013. The agreements allowed the participants to receive or pay the amounts owed under a separate tax return allocation basis with credits for net losses

used on the consolidated basis. The amounts paid or (received) by the Company during the years of 2015, 2014 and 2013 were \$17,595,984, (\$14,322,118), and (\$1,047,673), respectively.

### **TERRITORY AND PLAN OF OPERATIONS**

In January 2013, the State of Kansas implemented the KanCare program to provide managed care for Medicaid in Kansas. Managed care services that will be provided include physical health services, dental and vision care, pharmacy, transportation, behavioral health services, and long term care, which includes nursing facility care and home and community based services (HCBS). Services include Medicaid funded inpatient and outpatient mental health and substance use disorder services, including 1915 c HCBS Waiver programs for children with a serious emotional disturbance.

The Kansas Department of Health and Environment (KDHE) and the Kansas Department for Aging and Disability Services (KDADS) administer the KanCare program. KDHE maintains financial management and contract oversight and KDADS administers the Medicaid waiver programs for disability services, mental health and substance abuse. KDHE has contracted with 3 health maintenance organizations that are licensed by the KID to transact health insurance business in Kansas.

The Company is only licensed in Kansas as a health maintenance organization and is only providing managed care services to the KanCare program. All members are enrolled through KDHE and are assigned membership in one of the three participating health maintenance organizations that can be changed during open enrollment by the member. This level of participation requires the Company to provide services

throughout Kansas. The premium rates and retrospective premium amounts are established and authorized for payment by KDHE to the health maintenance organizations.

### GROWTH OF COMPANY

The exhibit below shows [REDACTED] the Company's financial growth (in thousands) for the period of December 31, 2012, through December 31, 2015. The financial growth amounts were obtained from annual statements filed by the Company.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
[REDACTED]				
<i>(in thousands)</i>				
Admitted Assets	7,685	181,932	253,845	289,384
Liabilities	5,239	98,223	166,708	116,152
Capital and Surplus	2,446	83,709	87,137	173,232
Net Income	(3,485)	(34,209)	(68,532)	87,160
Net Premiums Written	-	720,598	900,893	966,019

### REINSURANCE

The Company does not assume or cede any business through reinsurance. The KID has allowed the company to self-fund its claim operations through a parental guarantee agreement with its parent, Amerigroup Corporation.

### FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the KID and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**AMERIGROUP KANSAS, INC.**  
**ANALYSIS OF ASSETS**  
**AS OF DECEMBER 31, 2015**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 336,896		\$ 336,896
Cash and short-term investments	114,634,870		114,634,870
Investment income due & accrued	6,563		6,563
Uncollected premiums and agents' balances in the course of collection	89,634,748		89,634,748
Accrued retrospective premiums	81,097,281		81,097,281
Net deferred tax asset	4,178,991	\$ 680,462	3,498,529
Electronic data processing equipment and software	14,431		14,431
Furniture and equipment, including health care delivery assets	1,760,914	1,760,914	-
Receivable from parent, subsidiary and affiliates	160,580		160,580
Health care and other amounts receivable	4,068,696	4,068,696	-
Aggregate write-ins for other than invested assets	76,914	76,914	-
<b>Totals</b>	<b>\$ 295,970,884</b>	<b>\$ 6,586,986</b>	<b>\$ 289,383,898</b>

**AMERIGROUP KANSAS, INC.**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**AS OF DECEMBER 31, 2015**

Claims unpaid	\$ 73,599,753
Accrued medical incentive pool and bonus amounts	2,553,239
Aggregate health claim reserves	69,105
General expenses due or accrued	33,378,664
Current federal and foreign income tax payable and interest thereon	510,576
Remittances and line items not allocated	2,664,766
Amounts due to parent, subsidiaries and affiliates	3,076,039
Aggregate write-ins for other liabilities	299,928
Total liabilities	<u>116,152,069</u>
Aggregate write-ins for special surplus funds	11,368,342
Common capital stock	100
Gross Paid in and contributed surplus	194,706,035
Unassigned funds	<u>(32,842,648)</u>
Surplus as regards policyholders	<u>173,231,829</u>
Totals	<u><u>\$ 289,383,898</u></u>

**AMERIGROUP KANSAS, INC.**  
**STATEMENT OF INCOME**  
**CAPITAL AND SURPLUS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Net premium income	\$ 966,018,706
Change in unearned premium reserve and reserve for rate credits	38,860,221
Total revenues	<u>1,004,878,927</u>
Hospital/medical benefits	563,671,532
Other professional services	38,857,054
Emergency room and out-of-area	20,513,800
Prescription drugs	123,722,056
Aggregate write-ins for other hospital and medical	101,501,774
Subtotal	<u>848,266,216</u>
Total hospital and medical	848,266,216
Claims adjustment expenses	41,627,583
General administrative expenses	61,585,236
Increase reserve for life and accident and health contracts	<u>(55,474,368)</u>
Total underwriting deductions	<u>896,004,667</u>
Net underwriting gain or (loss)	<u>108,874,260</u>
Net investment income earned	1,391,427
Net realized capital gains (losses)	<u>300,747</u>
Net investment gains (losses)	1,692,174
Net income or (loss) after capital gains tax and before all other federal income taxes	110,566,434
Federal and foreign income taxes incurred	<u>23,406,383</u>
Net income	<u>\$ 87,160,051</u>

**CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders, December 31, 2014	\$ 87,137,081
Net income	87,160,051
Change in net unrealized capital gains (losses)	(1,235,857)
Change in net deferred income tax	3,513,529
Change in non admitted assets	(3,342,975)
Change in surplus as regards policyholders for the year	<u>86,094,748</u>
Surplus as regards policyholders, December 31, 2015	<u>\$ 173,231,829</u>

**AMERIGROUP KANSAS, INC.**  
**CAPITAL AND SURPLUS ACCOUNT**  
**RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2011			\$ <u>          -</u>
Net income	2012	(3,484,764)	
	2013	(34,209,343)	
	2014	(68,532,258)	
	2015	<u>87,160,051</u>	(19,066,314)
Change in net unrealized capital gains or (losses)	2012	-	
	2013	197,841	
	2014	1,038,016	
	2015	<u>(1,235,857)</u>	-
Change in net deferred income tax	2012	1,809,935	
	2013	(1,703,402)	
	2014	558,932	
	2015	<u>3,513,529</u>	4,178,994
Change in nonadmitted assets	2012	(3,585,560)	
	2013	(21,972)	
	2014	363,521	
	2015	<u>(3,342,975)</u>	(6,586,986)
Capital Changes paid in	2012	<u>100</u>	100
Surplus adjustments paid in	2012	7,706,035	
	2013	117,000,000	
	2014	70,000,000	
	2015	<u>-</u>	<u>194,706,035</u>
Surplus as regards policyholders, December 31, 2015			<u>\$ 173,231,829</u>



## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company, as of December 31, 2015, was \$173,231,829, which was the same amount, reported by the Company in its 2015 filed Annual Statement.

## **COMMENTS ON FINANCIAL STATEMENTS**

There were no significant or material findings resulting from the examination that warranted inclusion in the report on examination.

## **SUBSEQUENT EVENTS**

In March 2016, Anthem, Inc. filed a lawsuit against Express Scripts, Inc. its pharmacy benefit manager in the U.S. District court for Southern District of New York. Anthem, Inc. seeks the difference between the current pricing that exceeds the competitive benchmark pricing required under the agreement, as well as damages associated with operational breaches incurred to date. In April 2016, Express Scripts, Inc. filed an answer to the lawsuit disputing the contractual claims made by Anthem, Inc. and alleging various defenses and counter claims. Anthem, Inc. has filed a motion to dismiss the counter claims, which is still pending and intends to vigorously defend this suit; however, the ultimate outcome of the suit cannot be determined at this time.

In June 2016, Anthem, Inc. and Express Scripts, Inc. were both named in a class action lawsuit filed in the U.S. District court for Southern District of New York brought by persons on behalf of the participants or beneficiaries of any ERISA or Non-ERISA health plan from December 1, 2009 to present in which Anthem, Inc. provided any prescription drug benefits through Express Scripts, Inc. The lawsuit seeks the amount

of co-insurance paid based upon the percentage of the prescription drug benefits that were allegedly overstated, as well as attorney fees and interest. Anthem, Inc. has filed a motion to dismiss all claims brought against it, which is still pending and intends to vigorously defend this suit; however, the ultimate outcome of the suit cannot be determined at this time.

In February 2015, Anthem, Inc. reported that it was the target of a cybersecurity attack and it took immediate action to remediate by hiring a cybersecurity firm to evaluate its systems and identify solutions, as well as other actions, which continue to incur costs that will be recognized during the period incurred in the future. The federal and state agencies have launched investigations into this attack and Anthem, Inc. is cooperating in the investigations. In December 2016, the NAIC's multistate targeted market conduct and financial examinations concluded with no fines or penalties issued; however, as part of the resolution to the attack, Anthem, Inc. agreed to provide customized credit protection functionally equivalent to a credit freeze to minors under the age of 18 as of January 27, 2015. Anthem, Inc. still faces civil action under 2 state court cases and a multidistrict litigation filed in the U.S. District court for Northern District of California. Fact discovery in the multidistrict litigation was completed in December 2016. The outcome of these civil actions cannot be determined at this time.

## **SUMMARY OF RECOMMENDATIONS**

### **Management Letter**

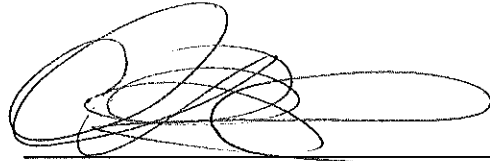
There were several immaterial findings resulting from the examination that did not warrant inclusion in this report. However, these concerns were noted in a

management letter that was issued to the Company's board of directors for review, resolution and response back to the KID.

**CONCLUSION**

The assistance and cooperation by the officers during the course of this examination is hereby acknowledged and appreciated.

Respectfully submitted,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

Christopher W. Buchanan, CPA, CFE  
Senior Insurance Examiner  
Examiner-In-Charge

**EXHIBIT 5**  
**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND**  
**PROCEDURES USED IN AN EXAMINATION**

State of Kansas

County of Shawnee

Christopher W. Buchanan being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Amerigroup Kansas, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Amerigroup Kansas, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.



Examiner's Signature

Subscribed and sworn before me by Christopher W. Buchanan

on this 16<sup>th</sup> day of June, 2017.

(SEAL)



Vicki L. Roy

Notary Public

My commission expires October 13, 2019  
(date)