



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 14-48
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
ARCADIAN HEALTH PLAN, INC.)	AND ORDER ADOPTING REPORT
)	OF FINANCIAL EXAMINATION
)	

A Domestic Health Care Service Contractor.

BACKGROUND

An examination of the financial condition of **ARCADIAN HEALTH PLAN, INC.**, (the Company) as of December 31, 2012, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on January 27, 2014. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 15 of the report.



CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **ARCADIAN HEALTH PLAN, INC.**, and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions prior to the date of this order. The Instructions in the report are appropriate responses to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-3.

1. The Company is ordered to comply with RCW 48.43.097, WAC 284-07-050(5), and SSAP No. 3 and No. 101 by correctly reporting its income tax-related balances, and by obtaining prior approval from its domiciliary regulator prior to filing an amended NAIC Annual Statement. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.31C.050 and SSAP No. 25 and No. 70 by allocating shared services on a fair and reasonable basis and to the entity to which they belong. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.43.097, WAC 284-07-050(2), and SSAP No. 55(8) by estimating the cost of settling unpaid claims, using past experience adjusted for current trends, and any other factor that would modify past experience. Instruction 3, Examination Report, page 2.
4. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-060(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 4, Examination Report, page 3.
5. The Company is ordered to comply with RCW 48.31C.050(1)(d) by maintaining adequate accounts and records of all intercompany transactions. Instruction 5, Examination Report, page 3.

6. The Company is ordered to comply with RCW 48.13.051 by ensuring that the Board of Directors' (BOD) meeting minutes reflect review and approval of the Company's investment policy at least annually. Instruction 6, Examination Report, page 4.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 12th day of March, 2014.

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is fluid and cursive, with the first name "Mike" and last name "Kreidler" clearly distinguishable.

MIKE KREIDLER
Insurance Commissioner

Humana

February 17, 2014

William R. Michels
Deputy Insurance Commissioner
Company Supervision Division
State of Washington – Office of Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

RECEIVED

FEB 17 2014

INSURANCE COMMISSIONER
OFFICE OF INSURANCE COMMISSIONER

Dear Mr. Michels,

Enclosed are the responses in relation to the State of Washington's examination of Arcadian Health Plans for the period ending December 31, 2012.

Management of Arcadian are available at your convenience to further discuss the issues addressed herein.

Should you have any questions, please feel free to contact Ashley Heitzmann, Internal Audit Consultant, at 502.476.4515.

Sincerely,



Bruce D. Broussard
President and Chief Executive Officer

1. Income Tax Errors and Amended Annual Statement

- a) The Company did not calculate its income tax provision in accordance with SSAP No. 101, which caused several balances to be reported incorrectly in the 2012 NAIC Annual Statement. Specifically, the following balances were impacted and later adjusted (See Instruction No. 1(b)): Page 3 line 10.1 "Current federal and foreign income taxes payable and interest thereon," page 2 line 18.2: "Net deferred tax asset," Page 4 line 31: "Federal and foreign Income taxes incurred," and page 3 line 31: "unassigned funds (Surplus)." The net reduction to surplus was \$1,582,042. (See Examination Adjustment No. 1.)
- b) During the audit performed by the Company's external audit firm, the errors were identified and the Company filed an amendment to submit a corrected 2012 NAIC Annual Statement to the OIC. However, the Company did not obtain prior approval from the OIC as required by SSAP No. 3(10).

The Company is instructed to comply with RCW 48.43.097, WAC 284-07-050(5), and SSAP No. 3 and No. 101 by correctly reporting its income tax-related balances, and by obtaining prior approval from its domiciliary regulator prior to filing an amended NAIC Annual Statement.

Humana Response: Prior the OCI examination, the Company identified the SSAP 101 error and amended the annual statements accordingly. The Company will request prior approval for all future amendments,

2. Related Party Cost Allocations

Humana, Inc. did not allocate corporate shared services to the Company for the remainder of the first year after acquisition. The Company did not receive an expense allocation for services that Humana, Inc., performed on its behalf in 2012, such as actuarial, human resources, financial statement reporting, and investment services. RCW 48.31C.050 requires charges or fees for services performed to be fair and reasonable when transactions take place between a company subject to registration and another entity within the holding company system. Similarly, SSAP No. 25 and No. 70 require transactions involving services between related parties to be recorded at the amount charged, expenses that result from cost allocations to be allocated subject to fair and reasonable standards, and books and records of each party to disclose clearly and accurately the precise nature and details of the transactions.

The Company is instructed to comply with RCW 48.31C.050 and SSAP No. 25 and No. 70 by allocating shared services on a fair and reasonable basis and to the entity to which they belong.

Humana Response: Generally, Humana does not allocate corporate shared services to an entity in the year of acquisition. Given they are not integrated, a full expense allocation would be considered punitive. The Company received a full allocation in 2013 and will continue to do so into the future.

3. Unpaid Claim Adjustment Expenses

The Company's method for calculating the amounts for unpaid claims adjustment expenses (CAE) did not follow SSAP No. 55(8), which requires these expenses to be based on the estimated ultimate cost of settling claims using past experience adjusted for current trends, and any other factor that would modify past experience. RCW 48.43.097 requires adherence to the AP&P.

The Company used the past experience of other Humana, Inc. entities to estimate AHP's unpaid claim adjustment expenses (CAE). Because AHP used its own claims system, processes and claims personnel to adjudicate claims incurred through December 31, 2012, using the past experience of other Humana, Inc. entities to estimate AHP's unpaid CAE did not follow SSAP 55(8).

The Company's actual claim adjustment experience for the last three years, excluding expenses that do not require adjudication was 2.81 percent. The Company used an estimated percentage based on past experience of Humana, Inc.'s other entities of 0.87 percent. The Company should have used a percentage based on historical actual CAE of 2.81 percent. An examination adjustment to increase unpaid CAE in the amount of \$711,324 was made to accurately reflect the true cost. (See Examination Adjustment No. 2.)

The Company is instructed to comply with RCW 48.43.097, WAC 284-07-050(2), and SSAP No. 55(8) by estimating the cost of settling unpaid claims, using past experience adjusted for current trends, and any other factor that would modify past experience.

Humana Response: The Company respectfully disagrees with this finding.

The accrual for Other Claims Adjustment (OCAE) are those expenses incurred to adjudicate claims post balance sheet date. This is intended to represent the allocated share of Humana's claims processing department and other relevant costs.

Given the full integration into Humana's expense methodology as of 1/1/13, consistent with all other Humana entities, we used a global Humana CAE rate for all Arcadian entities to accrue this liability. Previous expense allocation methodologies under the Arcadian management were no longer relevant. Our accrual was validated by the AHP actual YTD 2013 OCAE allocation

As such, Humana believes the accrual for OCAE for all Arcadian entities is accurate and sufficient as of 12/31/12.

4. Annual Statement Errors

- a) **Schedule D, Part 2:** Arcadian Health Plan, Inc., reported 3,000 shares of Arkansas Community Care, Inc., (ACC), an affiliate, on Schedule D, Part 2, Section 2. The correct amount was three shares. Since only three shares were issued, the information reported

- on Schedule D, Part 2 is incorrect for both 2011 and 2012. Due to immateriality, no examination adjustment was necessary.
- b) **Schedule D, Part 1:** The Company reported incorrect acquisition dates and actual cost for several securities reported on Schedule D, Part 1. Due to immateriality, no examination adjustment was necessary.
 - c) **Underwriting and Investment Exhibit (U&I), Part 3:** The Company categorized all expenses on the U&I, Part 3 as general and administrative expenses for the last three quarters of 2012. SSAP No. 70(5) and (6) require expenses to be categorized as general administrative expenses, investment expenses, or investment expenses on the U&I, Part 3. The error did not affect surplus.

The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-060(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

Humana Response: The company agrees to report all prospective filings in accordance with NAIC and the state of Washington guidelines.

5. Adequate Accounts and Records

The Company could not provide support for amounts reported in Notes To The Financial Statements No. 10 as paid to parent or affiliates (prior to its acquisition by Humana, Inc.) between Arcadian Management Services, Inc., (AMS) and the Company relating to the Administrative Services Agreement.

RCW 48.31C.050(1)(d) requires the books, accounts, and records of each party to be maintained so they clearly and accurately disclose the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties.

The Company is instructed to comply with RCW 48.31C.050(1)(d) by maintaining adequate accounts and records of all intercompany transactions.

Humana Response: The Company will ensure all support is available for future examinations.

6. Board of Director (BOD) Review and Approval of Investment Policy

The Arcadian Health Plan, Inc. BOD meeting minutes do not show annual review and approval of the investment policy as required by RCW 48.13.051. Washington law does not allow this function to be delegated.

The Company is instructed to comply with RCW 48.13.051 by ensuring that the BOD minutes reflect review and approval of the company's investment policy at least annually.

Humana Response: We agree to comply and understand the nuances of RCW 48.13.051. We are attaching a red-lined version of the proposed changes to the BOD minutes. Please review

Arcadian Health Plans
Response to State of Washington, Office of Insurance Commissioner
Examination Dated December 31, 2012

and respond back with changes or acceptance of revision. The intent is to eliminate delegation and show review and approval of policy and updates by the BOD.

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Appendix A

WHEREAS, the Investment Committee of the Board of Directors of Humana Inc. ("Investment Committee") reviews and approves the investment policy guidelines under the Investment Portfolio Guidelines for the subsidiaries of Humana Inc., previously adopted beginning with March 12, 1992, and as subsequently amended from time to time, including certain designated exceptions (the "Guidelines");

NOW, THEREFORE, BE IT RESOLVED, that the Corporation has reviewed such Guidelines and, based upon the recommendation of the Investment Committee and its review, the Board of Directors of the Corporation hereby approves and adopts these Guidelines for the Corporation (defined for each subsidiary); and

FURTHER RESOLVED, that such Guidelines shall be in full force and effect until any subsequent procedures have been adopted by the Corporation Board of Directors; and