

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF  
AMERIGROUP WASHINGTON, INC.  
SEATTLE, WASHINGTON

NAIC CODE 14073  
December 31, 2013

Order No. 15-144  
Amerigroup Washington, Inc.  
Exhibit A

**SALUTATION**

Seattle, Washington  
May 12, 2015

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building-Capitol Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, WA 98504

Dear Commissioner Kreidler:

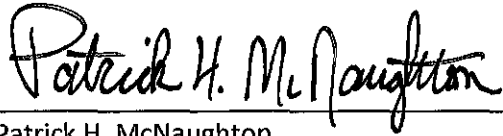
In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

**AMERIGROUP Washington, Inc.**  
**of**  
**Seattle, Washington**

hereinafter referred to as "AMGP-WA" or the "Company" at the main administrative office of its ultimate parent, WellPoint, Inc., located at 120 Monument Circle, Indianapolis, IN 46204. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2013.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of AMERIGROUP Washington, Inc., of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2013.



Patrick H. McNaughton  
Chief Examiner

6-30-15

Date

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## SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2012 through December 31, 2013 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination though the end of field work on May 12, 2015.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's Certified Public Accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2013 NAIC FCEH which requires the examiners to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

This examination was classified as a coordinated lead state examination. Indiana was designated the lead state of the coordinated examination. Examiners and consultants representing the states of Washington, Indiana, Texas, and Maryland participated in the examination and assessed the financial condition and corporate affairs of the Company.

## INSTRUCTIONS

The examiners reviewed the Company's filed NAIC Annual Statements as part of the statutory examination. This review was performed to determine if the Company completed its NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

### **1. Board of Directors (BOD) Annual Review and Approval of Investment Policy**

The Company's BOD's 2013 meeting minutes did not document the annual review and approval of the investment policy as required by RCW 48.13.051.

**The Company is instructed to comply with RCW 48.13.051 by having its BOD review and approve the Company's investment policy at least annually.**

## **2. Lack of Control Over Day-To-Day Investment Decisions**

AMGP-WA's investment management agreements (IMAs) with Wellington Management Company (WMC) and McDonnell Investment Management (MIM) let WMC and MIM, at their own discretion, to delegate any or all of their discretionary investment, advisory, and other rights, powers, functions and obligations to any qualified affiliate under their control or to any qualified unaffiliated third party without further consent of AMGP-WA. RCW 48.13.051(4) requires the Company to have written guidelines to address professional standards for individuals making day-to-day investment decisions, and to ensure investments are managed in an ethical and capable manner.

WMC's and MIM's ability to delegate their responsibilities to others does not allow AMGP-WA to exercise any control over the professional standards of individuals making day-to-day investment decisions or to ensure that investments are managed in an ethical and capable manner as required by RCW 48.13.051(4).

**The Company is instructed to comply with RCW 48.13.051(4) by revising its investment policy so that investments are required to be managed in an ethical and capable manner.**

## **3. Insufficient Analysis Provided in Management Discussion and Analysis (MD&A)**

The disclosures provided in the Company's Management Discussion & Analysis (MD&A) were insufficient for regulators to understand the reasons for, and drivers of, material account changes. WAC 284-07-050(2) requires the Company to file its NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions. The NAIC Annual Statement Instructions require a balanced and fully responsive discussion and analysis about all material changes and uncertainties.

**The Company is instructed pursuant to RCW 48.05.250 and with WAC 284-07-050(2), which requires adherence to the NAIC Annual Statement Instructions, by completing its MD&A with sufficient and adequate discussion of the reasons for, and drivers of, material account changes.**

## **4. Actuarial Memorandum**

The Company's actuarial memorandum did not include the elements of the technical component required by the NAIC Health Annual Statement Instructions, which require the technical component to show the analysis from the basic data, (e.g., claim lags) to the conclusions. WAC 284-07-050(2) requires the Company to comply with the NAIC Annual Statement Instructions. In addition, while the technical component did include a significant amount of information and exhibits, it was not indexed or organized in a way that could be followed from data to conclusions. It also did not include claim lag triangles.

**The Company is instructed to comply with WAC 284-07-050(2) and the NAIC Annual Statement Instructions by including all elements required in the technical component of the actuarial memorandum. Specifically, the Company should include the analysis from the basic data, (e.g., claim lags) to the conclusions; include an exhibit which ties to the NAIC Annual Statement and compares the actuary's conclusions to the carried amounts; and organize the technical appendices in a manner such that the analysis can be followed from the data to the conclusions.**

## COMMENTS AND RECOMMENDATIONS

None

## COMPANY PROFILE

### **Company History**

AMERIGROUP Washington, Inc., (AMGP-WA) was incorporated on September 13, 2010, and commenced business on July 1, 2012 to provide healthcare coverage to eligible Medicaid recipients through a contract with the Washington State Health Care Authority (HCA). AMGP-WA is a wholly-owned subsidiary of AMERIGROUP Corporation. On December 24, 2012, WellPoint, Inc., completed the acquisition of all of AMERIGROUP Corporation's outstanding shares. As a result of this acquisition, AMGP-WA became a wholly-owned indirect subsidiary of WellPoint, Inc.

AMERIGROUP Washington, Inc., is a state of Washington domiciled stock corporation organized under Chapter 24.03 RCW, and is registered as a health care service contractor pursuant to Chapter 48.44 RCW.

### **Capitalization**

The Company met the minimum capital requirements of RCW 48.44.037 with \$35,710,722 of capital and surplus as of December 31, 2013.

### **Territory and Plan of Operation**

AMGP-WA serves individuals enrolled in publicly-sponsored healthcare programs in Washington State such as Healthy Options and Basic Health Plan (Medicaid plans). In addition, other subsidiaries of WellPoint, Inc., operate in all 50 states. AMERIGROUP Corporation healthcare companies operate in the states of Florida, Georgia, Kansas, Louisiana, Maryland, Nevada, New Jersey, New Mexico, New York, Tennessee, and Texas.

### **Growth of Company**

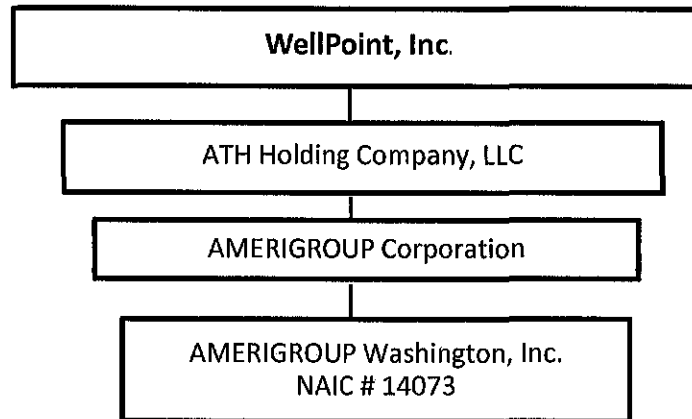
The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the two year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	
2013	\$105,107,716	\$69,396,994	\$35,710,722	
2012	65,753,048	35,555,814	30,197,234	
<u>Year</u>	<u>Total Revenues</u>	<u>Underwriting Gain (Loss)</u>	<u>Investment Gain (Loss)</u>	<u>Net Income</u>
2013	\$133,925,603	\$3,993,921	\$891,054	\$2,512,131
2012	45,513,649	(4,900,936)	18,225	(4,882,711)

### **Affiliated Companies**

AMERIGROUP Washington, Inc., is a wholly-owned subsidiary of AMERIGROUP Corporation, which is a wholly-owned subsidiary of WellPoint, Inc.

The following is an abbreviated organization chart as of December 31, 2013. It only includes entities that have ownership of, and service agreements with, AMGP-WA.



**WellPoint, Inc.**

WellPoint, Inc., is an Indiana domiciled publicly traded company. WellPoint, Inc., through its subsidiaries and downstream holding companies, owns and manages insurance and healthcare benefit companies that provide healthcare to approximately 36 million members.

**ATH Holding Company, LLC**

ATH Holding Company, LLC, is a wholly-owned subsidiary of WellPoint, Inc. ATH Holding Company, LLC, owns 100 percent of AMERIGROUP Corporation and, through its subsidiaries, provides health insurance plans and pension benefit plans.

**AMERIGROUP Corporation**

AMERIGROUP Corporation was founded in 1994 to meet the needs of families enrolled in publicly funded healthcare programs. Its subsidiaries provide healthcare coverage to approximately 2.8 million members in 12 states including Washington State.

**Intercompany Agreements**

The Company had the following intercompany agreements in force:

**Administrative and Support Services Agreement (ASSA)**

AMGP-WA and AMERIGROUP Corporation were parties to the ASSA under which AMGP-WA delegated certain administrative and support services to AMERIGROUP Corporation. The agreement was in effect until December 31, 2013. On January 1, 2014, the Company became a party to the Amended and Restated Master Administrative Services Agreement (MASA) with WellPoint, Inc., and certain subsidiaries. The MASA covers administrative, consulting, and other services.



Tax Allocation Agreement

AMGP-WA was a party to the Tax Allocation Agreement with AMERIGROUP Corporation for the tax year 2012. Effective with the 2013 taxable year, AMGP-WA was a party to the Consolidated Federal Income Tax Agreement with WellPoint, Inc., and most of its subsidiary companies.

**MANAGEMENT AND CONTROL**

**Board of Directors (BOD)**

Directors as of December 31, 2013:

Aileen McCormick                      Chairperson  
Carter Beck  
Daryl Edmonds  
Catherine Kelaghan

**Officers**

Officers as of December 31, 2013:

Aileen McCormick                      Chairperson  
Daryl Edmonds                          President/CEO  
Jack Young                              Vice President/Assistant Secretary  
Kathleen Kiefer                        Secretary  
Robert Kretschmer                      Treasurer  
Eric Noble                                Assistant Treasurer  
Timothy Deno                            Valuation Actuary

**Conflict of Interest (COI)**

The Company requires all directors, officers, and key employees to complete a COI statement annually. The purpose of the statement is to detect any activities or participation that could possibly be interpreted as a conflict of interest. No exceptions were noted during our review.

**Fidelity Bond and Other Insurance**

The Company was a named insured on a financial institution fidelity bond purchased by WellPoint, Inc. The aggregate amount of coverage meets the minimum amounts recommended by the NAIC FCEH guidelines.

**Officers', Employees', and Agents' Welfare and Pension Plans**

AMGP-WA participated in a defined contribution plan, sponsored by AMERIGROUP Corporation, covering all employees. AMERIGROUP Corporation allocates a share of the total accumulated costs of its plan to the Company based on the number of allocated employees. During 2013 and 2012, these costs totaled \$117,992 and \$56,192, respectively. The Company has no legal obligation for benefits under these plans.

### CORPORATE RECORDS

The Articles of Incorporation, Bylaws, Certificate of Registration, and minutes of the BOD and committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. Other than the lack of review and approval of the investment policy in 2013 by the BOD, no exceptions were noted in the review of BOD minutes. (See Instruction No. 1.)

### ACTUARIAL REVIEW

The firm of Merlinos & Associates Inc. was engaged to perform the actuarial review for Amerigroup Washington, Inc. as part of the coordinated financial examination. The Merlinos actuaries determined that Company's reserves were in compliance with statutory requirements, and except for the findings as noted in Instruction No. 4, the methods, assumptions, and methodologies used by the Company were appropriate. Reserves for AMGP-WA were determined to be within a reasonable range.

### REINSURANCE

AMGP-WA had an excess reinsurance agreement with RGA Reinsurance Company for the period of July 1, 2012 to June 30, 2013. The Company did not have any recoverables under the policy. The reinsurance specialist for the INDOI reviewed the appropriateness/adequacy of the reinsurance programs, and there were no exceptions noted during the review.

### INDEMNITY DEPOSITS

AMGP-WA maintained the following statutory deposit as of December 31, 2013:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Washington	Other	\$1,993,703	\$2,001,971

### ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company's 2013 statutory basis financial statements were audited by Ernst & Young LLP, and its 2012 statutory basis financial statements were audited by KPMG LLP. The Company received an unqualified opinion for both years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

The firm of Noble Consulting was engaged to perform the Information Technology (IT) review for AMERIGROUP Washington, Inc. as part of the coordinated financial examination.

The Company's IT environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and related Technology (COBIT) Framework domains:

- Align, Plan and Organize
- Build, Acquire and Implement
- Deliver, Service and Support
- Monitor, Evaluate and Assess

The IT systems and controls were evaluated to gain an understanding of the IT general control risks and assess the effectiveness of these controls to determine if appropriate mitigating and internal controls have been implemented. The IT Specialist concluded that the IT General Controls were generally considered effective and provided a basis for reliance. The Company has an effective Business Continuity Plan and Disaster Recovery Plan, which has been tested on a regular basis and includes the availability of an alternate site.

### **SUBSEQUENT EVENTS**

#### **1. WellPoint, Inc., Name Change**

WellPoint, Inc., changed its name to Anthem, Inc., effective December 2, 2014.

#### **2. IT Breach at the Parent Company Level**

Anthem, Inc., disclosed a breach of its information system in February, 2015. The data breach is believed to have affected numerous subsidiaries of Anthem, Inc., including AMGP-WA. The potential financial impact to AMGP-WA can not be determined at this time. A separate, multi-state examination was initiated specifically to review the cybersecurity incident and the financial impact to Anthem, Inc., and its subsidiaries.

### **FINANCIAL STATEMENTS**

The following financial statements show the financial condition of AMGP-WA as of December 31, 2013:

Assets, Liabilities, Capital and Surplus  
Statement of Revenue and Expenses  
Two Year Reconciliation of Surplus

**AMERIGROUP Washington, Inc.**  
**Assets, Liabilities, Capital and Surplus**  
**December 31, 2013**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
<b>ASSETS</b>			
Bonds	\$58,486,782	\$0	\$58,486,782
Stocks:			
Common stocks	10,228,391		10,228,391
Cash, cash equivalents, and short term investments	29,984,410		29,984,410
Investment income due and accrued	416,627		416,627
Securities lending reinvested collateral assets	311,999		311,999
Premiums and considerations:			
Uncollected premium and agents' balances in the course	1,259,452		1,259,452
Current federal and foreign income tax recoverable and	1,635,239		1,635,239
Net deferred tax asset	2,771,959		2,771,959
Electronic data processing equipment and software	12,857		12,857
<b>Total assets</b>	<b><u>\$105,107,716</u></b>	<b><u>\$0</u></b>	<b><u>\$105,107,716</u></b>
<b>LIABILITIES, CAPITAL AND SURPLUS</b>			
Claims unpaid	\$23,045,417	\$0	\$23,045,417
Accrued medical incentive pool and bonus amounts	495,832		495,832
Unpaid claim adjustment expenses	797,320		797,320
Aggregate health policy reserves	14,786,818		14,786,818
Aggregate health claim reserves	396,881		396,881
Premium received in advance	25,300,548		25,300,548
General expenses due or accrued	2,525,778		2,525,778
Remittances and items not allocated	7,077		7,077
Payable for securities lending	311,999		311,999
Amounts due to parent, subsidiaries and affiliates	918,973		918,973
Aggregate write-ins for other liabilities	810,351		810,351
<b>Total liabilities</b>	<b><u>69,396,994</u></b>	<b><u>0</u></b>	<b><u>69,396,994</u></b>
Common capital stock	10,000		10,000
Gross paid in and contributed surplus	36,545,771		36,545,771
Unassigned fund (surplus)	(845,049)		(845,049)
<b>Total capital and surplus</b>	<b><u>35,710,722</u></b>	<b><u>0</u></b>	<b><u>35,710,722</u></b>
<b>Total liabilities, capital and surplus</b>	<b><u>\$105,107,716</u></b>	<b><u>\$0</u></b>	<b><u>\$105,107,716</u></b>

**AMERIGROUP Washington, Inc.**  
**Statement of Revenue and Expenses**  
**For the Year Ended December 31, 2013**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	354,131		354,131
Net premium income	\$143,031,340	\$0	\$143,031,340
Change in unearned premium reserves and reserve for rate credits	(9,105,737)		(9,105,737)
Total revenues	<u>133,925,603</u>	<u>0</u>	<u>133,925,603</u>
<b>Hospital and Medical:</b>			
Hospital/medical benefits	69,631,126		69,631,126
Other professional services	2,150,814		2,150,814
Aggregate write-ins for other hospital and medical	1,490,742		1,490,742
Emergency room and out-of-area	14,027,875		14,027,875
Prescription drugs	21,988,362		21,988,362
Incentive pool, withhold adjustments and bonus amounts	689,265		689,265
Subtotal	<u>109,978,184</u>	<u>0</u>	<u>109,978,184</u>
<b>Less:</b>			
Total hospital and medical	109,978,184		109,978,184
Claims adjustment expenses	9,092,063		9,092,063
General administrative expenses	10,861,435		10,861,435
Total underwriting deductions	<u>129,931,682</u>	<u>0</u>	<u>129,931,682</u>
Net underwriting gain or (loss)	<u>3,993,921</u>	<u>0</u>	<u>3,993,921</u>
Net Investment Income earned	969,264		969,264
Net realized capital gains (losses) less capital gains tax	(78,210)		(78,210)
Net investment gains (losses)	<u>891,054</u>	<u>0</u>	<u>891,054</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	4,884,975		4,884,975
Federal and foreign income taxes incurred	2,372,844		2,372,844
Net income or (loss)	<u>\$2,512,131</u>	<u>\$0</u>	<u>\$2,512,131</u>
<b><u>CAPITAL AND SURPLUS ACCOUNT</u></b>			
Capital and surplus prior reporting year	<u>\$30,197,234</u>	<u>\$0</u>	<u>\$30,197,234</u>
Net income or (loss)	2,512,131		2,512,131
Change in net unrealized capital gains (losses)	120,408		120,408
Change in net deferred income tax	711,188		711,188
Change in nonadmitted assets	2,169,761		2,169,761
Net change in capital & surplus	<u>5,513,488</u>	<u>0</u>	<u>5,513,488</u>
Capital and surplus end of reporting period	<u>\$35,710,722</u>	<u>\$0</u>	<u>\$35,710,722</u>

**AMERIGROUP Washington, Inc.**  
**Two Year Reconciliation of Surplus**  
**For the Years Ended December 31**

	<u>2013</u>	<u>2012</u>
<b>Capital and surplus prior reporting year</b>	<b>30,197,234</b>	<b>3,051,115</b>
Net income or (loss)	2,512,131	(4,882,711)
Change in net unrealized capital gains (losses)	120,408	0
Change in net deferred income tax	711,188	2,629,373
Change in nonadmitted assets	2,169,761	(4,102,314)
Surplus adjustments:		
Paid in	0	33,501,771
<b>Net change in capital &amp; surplus</b>	<b>5,513,488</b>	<b>27,146,119</b>
<b>Capital and surplus end of reporting year</b>	<b>35,710,722</b>	<b>30,197,234</b>

**NOTES TO THE FINANCIAL STATEMENTS**

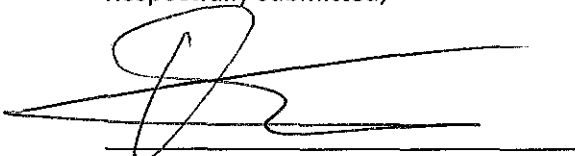
The Company has no special consents or permitted practices in the state of Washington.

## ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of AMERIGROUP Washington, Inc., and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Adrienne Sulaiman, CPA, CFE, FLMI, MHP, Health Field Supervising Examiner; Timothy F. Hays, CPA, JD, Investment Specialist; Terry Gates, CPA, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report. Representing the state of Indiana: Bill Newton, CFE, Examinations Manager; Consultants from Noble Consulting Services, Inc.: Mike Dinius, CPA, CFE, Coordinator; Kara Thome, CFE, Examiner-in-Charge; Dan McBay, CPA, CFE, Examiner-in-Charge; Kelly Wensing, CFE, Assistant Coordinator; Reika Wilson, Examiner; David Mckauley, CFE, Examiner. Representing state of Texas: Lisa Fontenot, CPA, CFE, and Examiner-in-Charge; Carl Richard, Examiner; and representing state of Maryland: Chineta Alford, CFE, Assistant Chief Examiner; Yohaness Negash, CFE, Examiner-in-Charge.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Friday P. Enoye', is written over a horizontal line. The signature is stylized and somewhat cursive.

Friday P. Enoye, CFE  
Examiner-in-Charge  
State of Washington



