



**STATE OF UTAH INSURANCE DEPARTMENT**

**REPORT OF FINANCIAL EXAMINATION**

of

**HUMANA MEDICAL PLAN OF UTAH, INC.**

of

Sandy, Utah

as of

December 31, 2020



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April 1, 2022

Honorable Jonathan T. Pike, Commissioner  
Utah Insurance Department  
4315 S. 2700 West, Ste. 2300  
Taylorsville, Utah 84129

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, an examination, as of December 31, 2020, has been made of the financial condition and business affairs of:

HUMANA MEDICAL PLAN OF UTAH, INC.  
Sandy, Utah

hereinafter referred to in this report as “the Company” and the following report of examination is respectfully submitted.

## SCOPE OF EXAMINATION

### Period Covered by Examination

Representatives of the Utah Insurance Department (Department) have performed a full scope examination of the Company. This examination covers the period of January 1, 2016, through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to assess the financial condition of the Company and its holding company system. This was a coordinated group examination led by representatives from Wisconsin Office of the Commissioner of Insurance. Representatives from the states of Arkansas, Florida, Georgia, Illinois, Louisiana, Michigan, Ohio, Pennsylvania, Tennessee, Texas, and Washington also participated in this coordinated exam.

### Examination Procedures Employed

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we 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, however, 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 Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204 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 insurance regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

There were no significant findings for inclusion in this examination report.

## **COMPANY HISTORY**

### **General**

The Company was incorporated under the laws of the state of Utah on February 7, 2007. On March 2, 2007, the Department issued the Company a Certificate of Authority as a health maintenance organization to provide a Title XVIII Medicare, and comprehensive health plans. The Company is a wholly owned subsidiary of Humana, Inc. (Humana), a publicly traded company headquartered in Louisville, Kentucky.

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

### **Mergers and Acquisitions**

At the end of the last examination, Humana entered into an Agreement and Plan of Merger with Aetna, Inc. (Aetna). In January 2017, the transaction was disapproved by the U.S District Court for the District of Columbia, which resulted in the parties mutually ended the merger deal, and Aetna agreed to pay \$1B termination fees to Humana.

No other mergers or acquisitions took place since then.

**Dividends and Capital Contributions**

There were no dividends that were declared or paid to Humana during the examination period. No capital contributions were received by the Company from Humana during the examination period.

The Company paid returns of prior capital contribution to Humana in the amounts of \$10M, \$7.5M, and \$1.7M in 2018, 2019, and 2020, respectively. The Department was notified prior to the payment of these returns of capital.

**MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

**Board of Directors**

The members of the Board of Directors are elected until the next annual stockholders meeting or until others are elected and qualified in their stead. Individuals serving at December 31, 2020, were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Bruce D. Broussard Prospect, Kentucky	President and Chief Executive Officer, Humana Inc.
T. Alan Wheatley Louisville, Kentucky	Segment President, Retail, Humana, Inc.
Brian A. Kane * Louisville, Kentucky	Chief Financial Officer, Humana Inc.

\* Joseph M. Ruschell replaced Brian A. Kane effective June 1, 2021.

**Committees**

Individuals appointed and serving on the Board Committees as of December 31, 2020, were:

<b>Audit Committee</b>	<b>Investment Committee</b>	<b>Executive Committee</b>
Frank A. D’Amelio (Chair)	John W. Garratt (Chair)	Bruce D. Broussard (Chair)
Raquel C. Bono, M.D.	James J. O’Brien	Kurt J. Hilzinger
John W. Garratt	William J. McDonald	David A. Jones, Jr.
William J. McDonald	Marissa T. Peterson	

<b>Nominating, Governance &amp; Sustainability Committee</b>	<b>Organization &amp; Compensation Committee</b>
David A. Jones, Jr. (Chair)	James J. O'Brien (Chair)
Frank A. D'Amelio	Wayne A. I. Frederick, M.D.
Karen W. Katz	Jorge S. Mesquita
	David A. Jones, Jr.

<b>Technology Committee</b>	<b>Finance Committee</b>
Marissa T. Peterson (Chair)	Alan J. Bailey (Chair)
Raquel C. Bono, M.D.	W. Mark Preston
Karen W. Katz	J. Dennis Humble
Wayne A.I. Frederick, M.D.	
Marcy S. Klevorn	

Humana developed and authorized a Quality Improvement Program whereby certain areas of Humana's operations relating to quality management are reviewed on an ongoing basis by the Quality Improvement Committee, and a Quality Improvement Program Legal Entity Report is provided on a quarterly basis to the Board of Directors of each subsidiary of the actions of the committee. There are no individuals appointed by the Board to the Quality Improvement Committee, members of the committee are comprised of various areas within Humana's operations which work together as a whole to achieve program goals and objectives.

#### Officers

The following persons served as officers of the Company as of December 31, 2020:

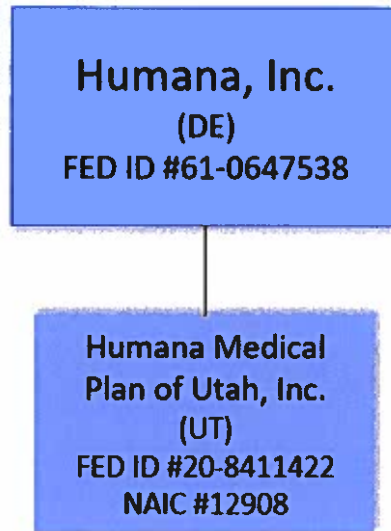
<u>Officer</u>	<u>Office</u>
Bruce D. Broussard	President & CEO
Brian A. Kane (a)	Chief Financial Officer
T. Alan Wheatley	Segment President, Retail
Christopher H. Hunter (b)	Segment President, Group & Military Business
Sean J. O'Reilly	Senior Vice President, Enterprise Compliance & Chief Compliance Officer
Vanessa M. Olsen	Senior Vice President, Chief Actuary
Richard D. Remmers, Jr. (c)	Senior Vice President, Employer Group Sales
D. Hank Robinson	Senior Vice President, Tax
Susan D. Schick	Senior Vice President, Employer Group
Ellen R. Sexton	Senior Vice President, Specialty
Cynthia H. Zipperle	Senior Vice President, Chief Accounting Officer & Controller

Jeffrey C. Fernandez	Senior Vice President, Medicare West and MarketPOINT
Steven E. McCulley	Senior Vice President, Medicare
Catherine E. Field	Senior Vice President, Medicare Divisional Leader
Daniel A. Tufto	Senior Vice President, Medicare Divisional Leader
Alan J. Bailey	Vice President and Treasurer
W. Mark Preston	Vice President, Investments
Ralph M. Wilson	Vice President
Joseph M. Ruschell	Associate Vice President, Assistant General Counsel & Corporate Secretary
Andrew J. Besendorf III (d)	Appointed Actuary
Courtney D. Durall	Assistant Corporate Secretary & Legal Advisor

- a) Effective June 1, 2021, Brian A. Kane, Director and Chief Financial Officer, retired and Susan M. Diamond was appointed as Interim Chief Financial Officer. Effective June 28, 2021, Susan M. Diamond was elected as Chief Financial Officer.
- b) Effective September 1, 2021, Susan D. Schick was elected as President to fill vacancy left by resignation of Christopher H. Hunter effective August 31, 2021.
- c) Effective December 31, 2020, Richard Donald Remmers, Jr., Senior Vice President, Employer Group Sales, retired.
- d) Appointed Vanessa M. Olsen as Appointed Actuary effective December 15, 2021, to fill vacancy left by resignation of Andrew J. Besendorf III effective December 15, 2021.
- e) Effective September 15, 2021, Jeremy L. Gaskill, was elected as Vice President, Employer Group Regional President and Michael P. Tilton, was elected as Vice President, Employer Group Regional President.

#### Holding Company

The Company is part of a holding company system as defined in Utah Code § 31A-16. As of December 31, 2020, Humana owned 100% of the Company's common capital stock. There are numerous companies within the holding company system, however only direct ownership of the Company is shown below:



**Transactions and Agreements with Affiliates**

The Company has several service agreements in place with its parent company, Humana, where by the Company is provided with the following services and support:

- Corporate Service Agreement – Management, IT, financial, legal, HR, sales/distribution, benefit/payroll, wellness admin, and data analytics.
- Service Center Agreement – Claims Processing, Customer Service, Front End Operations, Billing and Enrollment, Utilization Review, Other Support (senior leadership, education and development, financial management, systems admin, and other admin functions).
- Medicare Risk Marketing Agreement – Marketing services (staff, systems, and support) for Medicare Risk products.

In exchange for these services, the Company paid a maximum of 15% of premium plus a maximum of \$26 per member per month. Payments are not be subject to interest accrual. Settlement of current month's costs usually occur during the same month based on an estimate, prepared by Humana's Treasury Department based on average monthly activity plus any additional expected activity. Final settlement occurs quarterly after reconciliation is performed and payments are sent by the end of the month in March, May, August, and November.



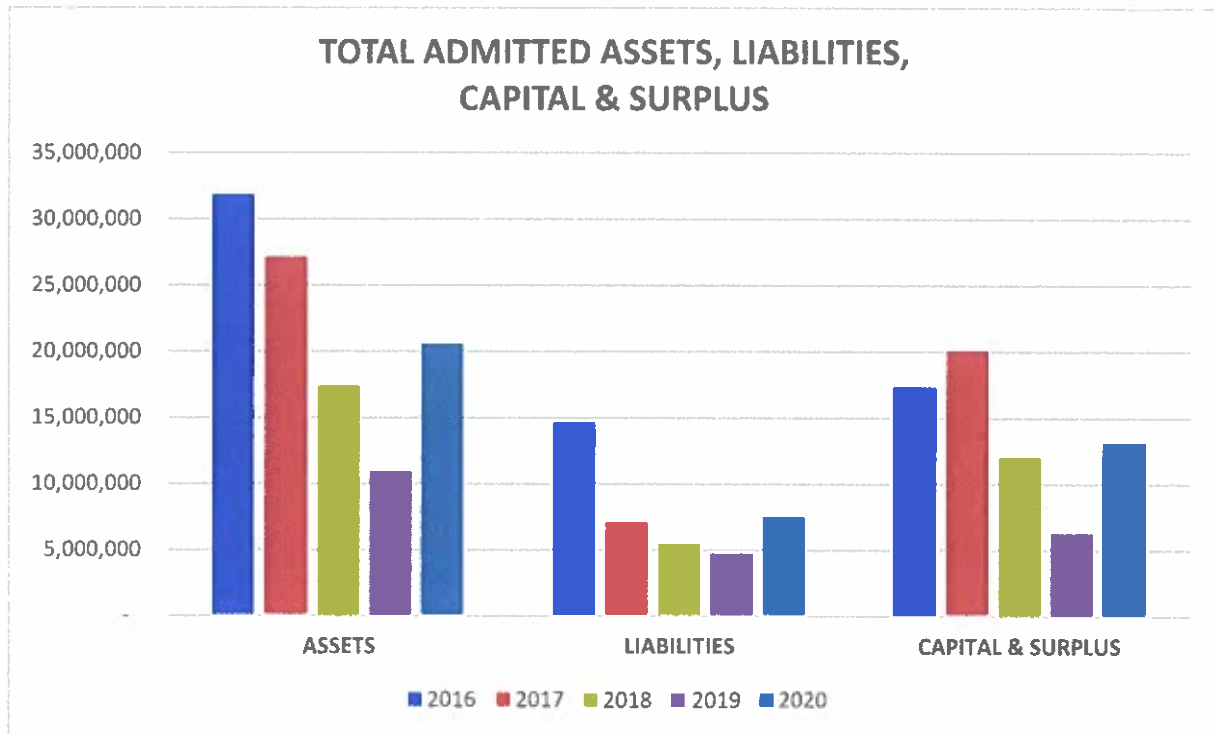
## TERRITORY AND PLAN OF OPERATIONS

The Company's primary business is selling health, dental and vision plan products. The Company offers coordinated health and pharmacy insurance coverage and related services through a variety of plans for government-sponsored programs. Under the Company's federal government contracts with the Centers for Medicare & Medicaid Services, the Company provides health and pharmacy insurance coverage to Medicare eligible members with Medicare Advantage plans providing the bulk of its business. As of December 31, 2020, the Company was licensed in Utah, Idaho, Oregon, and Washington.

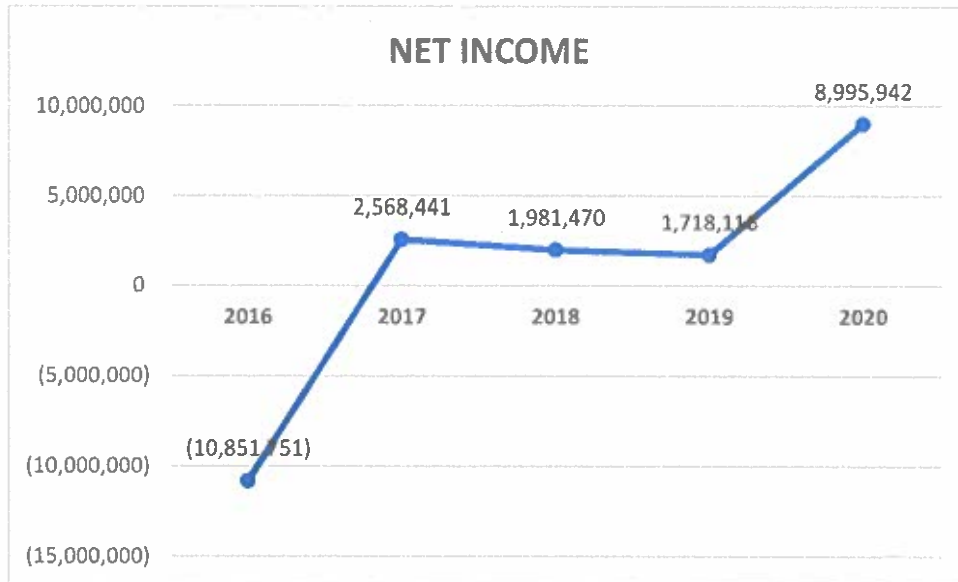
## GROWTH OF COMPANY

During the examination period, the Company's Medicare product was in growth mode, which utilized more financial resources as the Company sought to establish a greater foothold in the Utah market. However, financial performance in 2020 indicates that assets, capital & surplus, and net income are all rebounding.

The following graphs illustrate the growth of the Company during the examination period:



Sources: 2016 – 2020 Annual Statements



Sources: 2016 – 2020 Annual Statements

### REINSURANCE

As of the date of this examination report, the Company does not cede or assume reinsurance.

### FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2020. The accompanying COMMENTS ON FINANCIAL STATEMENTS (if any) reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

HUMANA MEDICAL PLAN OF UTAH, INC.  
BALANCE SHEET

as of December 31, 2020

ASSETS

	<u>Net Admitted Assets</u>
Bonds	\$4,789,028
Cash, cash equivalents and short-term investments	\$14,476,040
Investment income due and accrued	40,286
Uncollected premiums and agents' balances in the course of collection	73,966
Accrued retrospective premiums and contracts subject to redetermination	337,520
Amounts receivable relating to uninsured plans	151,187
Net deferred tax asset	332,217
Health care and other amounts receivable	<u>343,442</u>
Total Assets	<u>\$20,543,686</u>

HUMANA MEDICAL PLAN OF UTAH, INC.  
BALANCE SHEET (Continued)

as of December 31, 2020

LIABILITIES, SURPLUS, AND OTHER FUNDS

	<u>Current Year</u>
Claims unpaid	<u>\$ 2,619,430</u>
Accrued medical incentive pool and bonus amounts	332,316
Unpaid claim adjustment expenses	15,238
Aggregate health policy reserves, including the medical loss ratio rebate per the Public Health Service Act	2,169,057
Premiums received in advance	42,459
General expenses due or accrued	67,533
Current federal and foreign income tax payable and interest thereon	140,090
Remittances and items not allocated	18,476
Amounts due to parent, subsidiaries, and affiliates	1,820,009
Liability for amounts held under uninsured plans	187,980
Aggregate write-ins for other liabilities	<u>35,508</u>
Total Liabilities	\$ 7,448,096
Common capital stock	1,000,000
Gross paid in and contributed surplus	30,317,731
Unassigned funds (surplus)	<u>(18,222,141)</u>
Total Capital & Surplus	<u>13,095,590</u>
Total Liabilities, Surplus and Other Funds	<u>\$20,543,686</u>

**HUMANA MEDICAL PLAN OF UTAH, INC.  
STATEMENT OF REVENUE AND EXPENSES  
for the Year-Ended December 31, 2020**

	<b>Current Year</b>
Net premium income	\$36,225,904
Change in unearned premium reserves and reserve for rate credits	(1,222,377)
Hospital/medical benefits	16,358,872
Other professional services	177,608
Emergency room and out-of-area	492,844
Prescription drugs	984,017
Incentive pool, withhold adjustments and bonus amounts	226,427
Claims adjustment expenses, including cost containment expenses	1,241,165
General administrative expenses	3,969,539
Net underwriting gain (loss)	11,553,055
Net investment income earned	121,167
Net realized capital gains (losses) less capital gains tax	(3,014)
Net investment gain (loss)	118,153
Net income (loss) after capital gains tax, before all other federal income taxes	11,671,208
Federal and foreign income taxes incurred	2,675,266
Net income	<b>\$ 8,995,942</b>

HUMANA MEDICAL PLAN OF UTAH, INC.  
RECONCILIATION OF CAPITAL AND SURPLUS

2016 through 2020

	2016	2017	2018	2019	2020
Capital and surplus, December 31, prior year	\$19,196,876	\$17,241,265	\$20,051,170	\$11,961,992	\$ 6,180,243
Net income or (loss)	(10,851,751)	2,568,441	1,981,470	1,718,117	8,995,942
Change in net unrealized capital gains (losses)	0	(3)	5	0	0
Change in net deferred income tax	(6,517,610)	95,549	(54,963)	57	291,574
Change in nonadmitted assets	15,413,750	160,971	(15,690)	(16,654)	(672,169)
Paid in, Capital	0	0	0	0	999,000
Paid in, Surplus	0	0	(10,000,000)	(7,483,269)	(2,699,000)
Aggregate write-ins for gains or (losses) in surplus	0	(15,053)	0	0	0
Net change in capital and surplus for the year	(1,955,611)	2,809,905	(8,089,178)	(5,781,749)	6,915,347
Capital and surplus, December 31, current year	<u>\$17,241,265</u>	<u>\$20,051,170</u>	<u>\$11,961,992</u>	<u>\$ 6,180,243</u>	<u>\$13,095,590</u>

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

No adjustments were made to financial statements as a result of the examination.

## **SUBSEQUENT EVENTS**

No material subsequent events were identified during the examination fieldwork.

## **ACKNOWLEDGEMENT**

Shumei R. Kuo, FSA, MAAA, Consulting Actuary of Risk & Regulatory Consulting, LLC, performed the actuarial review of the examination. Malis Rasmussen, MSA, CFE, SPIR, Chief Financial Examiner, Utah Insurance Department, supervised the examination. Ashley Bowen, Financial Examiner, Utah Insurance Department, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

*Cambria Shore*

Cambria Shore, MSA, AFE, APIR  
Examiner-in-Charge  
Utah Insurance Department