

Report of Statutory Examination
As of December 31, 2015

The Vermont Health Plan, LLC

by the

Vermont Department of Financial Regulation
Division of Insurance





State of Vermont
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

For consumer assistance:
[Banking] 888-568-4547
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[Securities] 877-550-3907
www.dfr.vermont.gov

Don George
President and Chief Executive Officer
The Vermont Health Plan, LLC
445 Industrial Lane
Berlin, VT 05601

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of The Vermont Health Plan, LLC for the year ending December 31, 2015 is adopted.

The Vermont Health Plan, LLC may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.

A handwritten signature in blue ink, appearing to read "Michael S. Pieciak", written over a horizontal line.

Michael S. Pieciak, Commissioner

4-13-17



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March 8, 2017

Honorable Michael Pieciak
Commissioner of Insurance
State of Vermont
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner:

Pursuant to the January 14, 2016 examination order, the Insurance Division's financial examination team has conducted an examination of:

The Vermont Health Plan, LLC
with their statutory home offices located at
445 Industrial Lane
Berlin, VT 05601

The examination was performed pursuant to 8 V.S.A. §3563 in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.



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802-828-3307

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Securities
802-828-3304

THE VERMONT HEALTH PLAN, LLC
AS OF DECEMBER 31, 2015

SCOPE

We have performed our examination of The Vermont Health Plan, LLC (the Company) as of December 31, 2015. The last exam was completed as of December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2015. We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings as a result of the examination.

HISTORY

The Company was granted a Certificate of Organization on December 5, 1996, and a Certificate of Good Standing on December 9, 1996 by the Secretary of State. A Certificate of Authority and a Certificate of Need were both granted to the Company on December 11, 1996 by the Vermont Department of Banking, Insurance, Securities and Health Care Administration. The design of the Company's structure was a joint venture limited liability company (LLC) that provided for a mutual reliance on the owner partners, with the hospitals and physicians providing medical delivery and the insurance carrier providing the administrative functions. As part of the transaction in December 1996, Blue Cross Blue Shield of Vermont (BCBSVT), the insurer, entered into an agreement with two Vermont health care institutions, Fletcher Allen Health Care, Inc. (FAHC), and Comprehensive Health Resources, Inc. (CHRI) (the parent organization of Rutland Regional Medical Center), to jointly establish the Company in order to provide and market managed care products and services. The Hitchcock Partnership (THP) joined as an equity partner in 1998. During 2005, BCBSVT increased its membership interest in the Company from 50% to 50.1%.

In 2008, the Company redeemed the full membership interest of the other members (FAHC, CHRI, and THP) for \$12 million, leaving BCBSVT as the sole member owner. This transaction was financed by the Company through a cash payout of \$8.5 million and the issuance of surplus notes in the amount of \$3.5 million. The surplus notes were paid off in 2013.

CORPORATE RECORDS

The Company's main administrative offices and its corporate functions take place in Berlin, Vermont. The examiners reviewed the Minutes of the Board of Directors of BCBSVT (where effective corporate oversight is conducted) and determined that the minutes adequately support Company transactions and events.

THE VERMONT HEALTH PLAN, LLC
AS OF DECEMBER 31, 2015

MANAGEMENT AND CONTROL

Effective corporate oversight for the Company is performed by the Board of Directors of BCBSVT. A separate Board of Managers is maintained by the Company in order to perform certain functions required by statute. The Board of Managers consists of members of management, as shown below.

Board of Managers

At December 31, 2015, the Board of Managers consisted of the following members:

<u>Name</u>	<u>Principal Occupation</u>
Don C. George	President and Chief Executive Officer, BCBSVT
Ruth Greene	Vice-President, Treasurer and Chief Financial Officer, BCBSVT
Christopher R. Gannon	Vice-President, Secretary, General Counsel and Chief Administrative Officer, BCBSVT

Officers

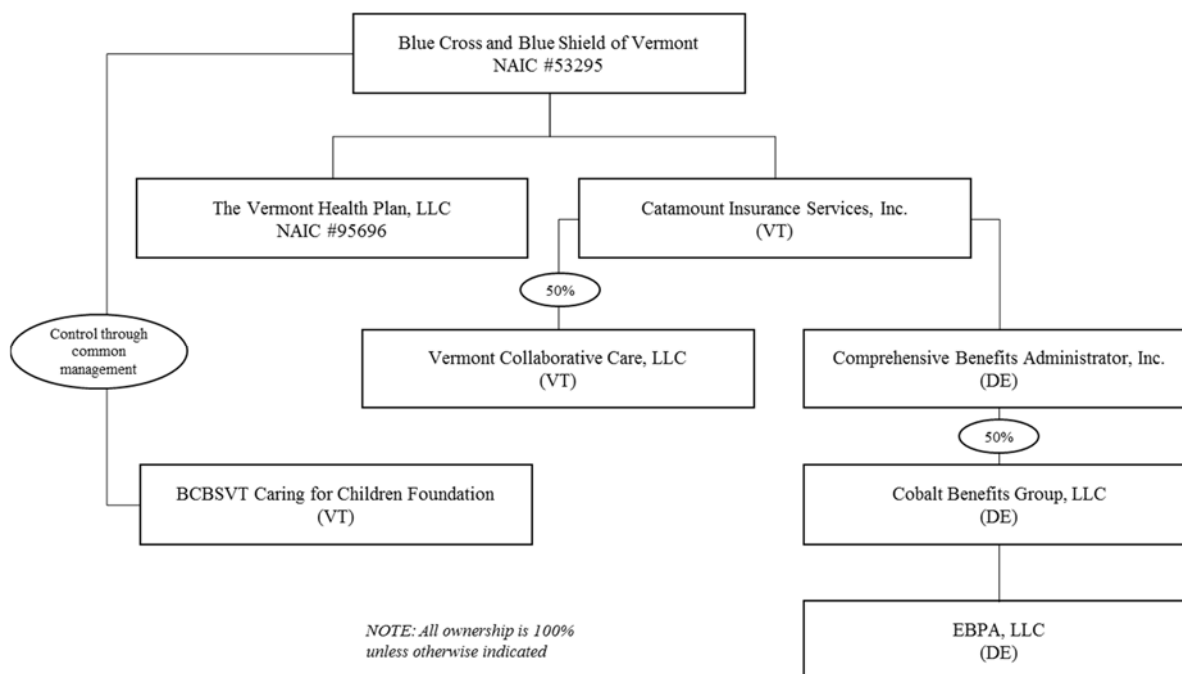
The following officers were serving the Company at December 31, 2015:

<u>Name</u>	<u>Title</u>
Don C. George	President
Ruth Greene	Treasurer
Christopher R. Gannon	Secretary
Alexa McGrath	Assistant Secretary

Holding Company Organizational Structure

The Companies are members of a holding company structure illustrated in the following chart:

THE VERMONT HEALTH PLAN, LLC
AS OF DECEMBER 31, 2015



Services Agreement

The Company has no employees and therefore has entered into a “Services Agreement” with BCBSVT effective January 1, 2006. Under the terms of the “Services Agreement,” BCBSVT’s employees perform all required core services for the Company including all information technology support and systems, and all regulatory filings and compliance requirements to which the Company is subject.

In consideration for performing the previously mentioned services, the Company reimburses BCBSVT an agreed fee amount based on an allocation of the actual direct and indirect costs calculated by BCBSVT’s cost accounting system.

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the State of Vermont and offers HMO products to complement the indemnity products offered by its sole member, BCBSVT.

REINSURANCE

The Company has excess of loss reinsurance in place to provide protection against large losses from any one member.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Vermont Department of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2015.

THE VERMONT HEALTH PLAN, LLC
AS OF DECEMBER 31, 2015

Statutory Statement of Assets

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 42,003,677	\$ 0	\$ 42,003,677
Cash, cash equivalents and short-term investments	726,659	0	726,659
Investment income due and accrued	271,080	0	271,080
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	16,008	461	15,547
Reinsurance:			
Amounts recoverable from reinsurers	56,493	0	56,493
Totals	<u>\$ 43,073,917</u>	<u>\$ 461</u>	<u>\$ 43,073,456</u>

Statutory Statement of Liabilities and Surplus

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$ 3,729,900	\$ 41,000	\$ 3,770,900
Unpaid claims adjustment expenses	172,900	2,100	175,000
Premiums received in advance	71,792	0	71,792
General expenses due or accrued	645,845	0	645,845
Amounts due to parent, subsidiaries and affiliates	5,154,754	0	5,154,754
Aggregate write-ins for other liabilities	6,856	0	6,856
Total liabilities	<u>\$ 9,782,047</u>	<u>\$ 43,100</u>	<u>\$ 9,825,147</u>
Aggregate write-ins for special surplus funds	XXX	XXX	756,176
Gross paid in and contributed surplus	XXX	XXX	1,538,687
Unassigned funds (surplus)	XXX	XXX	30,953,446
Total capital and surplus	XXX	XXX	33,248,309
Total liabilities, capital and surplus	<u>\$ XXX</u>	<u>XXX</u>	<u>\$ 43,073,456</u>

THE VERMONT HEALTH PLAN, LLC
AS OF DECEMBER 31, 2015

Statutory Statement of Revenue and Expenses

	<u>Uncovered</u>	<u>Total</u>
Member months	XXX	155,938
Net premium income	XXX	\$ 50,823,896
Change in unearned premium reserves and reserve for rate credits	XXX	33,638
Total revenues	XXX	<u>50,857,534</u>
Hospital and Medical:		
Hospital/medical benefits	\$ 0	28,115,285
Outside referrals	358,642	358,642
Emergency room and out-of-area	135,692	8,800,161
Prescription drugs	0	6,252,331
Incentive pool, withhold adjustments and bonus amounts	0	(407)
Subtotals	<u>494,334</u>	<u>43,526,012</u>
Less:		
Net reinsurance recoveries	0	(529,985)
Total hospital and medical	494,334	44,055,997
Claims adjustment expenses, including \$397,813 cost containment expenses	0	3,060,999
General administrative expenses	0	5,540,253
Total underwriting deductions	<u>\$ 494,334</u>	<u>52,657,249</u>
Net underwriting gain or (loss)	XXX	(1,799,715)
Net investment income earned	0	1,029,513
Net realized capital gains or (losses) less capital gains tax of \$0	0	22,498
Net investment gains or (losses)	0	1,052,011
Net income (loss)	XXX	<u>\$ (747,704)</u>

Surplus Account

Capital and surplus prior reporting year	\$ <u>33,738,355</u>
Net income or (loss)	(747,704)
Change in nonadmitted assets	<u>257,658</u>
Net change in capital and surplus	<u>(490,046)</u>
Capital and surplus end of reporting year	\$ <u>33,248,309</u>

COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the financial statements of the Company as a result of the examination.

SUBSEQUENT EVENT

Subsequent to the examination date, BCBSVT was in the process of designing and implementing an overarching administrative system. The new system will replace and combine several legacy systems and its successful completion and implementation will be a critical factor in the Company's future operations.

SUMMARY OF RECOMMENDATIONS

There were no material adverse findings as a result of the examination. A comment letter was issued to the Board of Directors as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the examination.

CONCLUSION

In addition to the undersigned, Jesse Lussier, Robert Crawford, CFE, Mike McNulty, CFE, Kate Bolbas, CFE, Joanna Latham, AES and Jenny Jeffers, AES also participated in this examination. We wish to express our appreciation to the officers and employees of the Company for the courteous cooperation extended during the course of the examination.

Respectfully submitted,



Karen Murphy, CPA, AFE
Chief Examiner, Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Karen Murphy, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn before me
this 13th day of April, 2017


Notary Public
my commission expires: 2/10/19