



Janet T. Mills  
Governor

STATE OF MAINE  
DEPARTMENT OF PROFESSIONAL  
AND FINANCIAL REGULATION  
BUREAU OF INSURANCE  
34 STATE HOUSE STATION  
AUGUSTA, MAINE  
04333-0034

Eric A. Cioppa  
Superintendent

September 3, 2019

Eric A. Cioppa, Superintendent  
Maine Bureau of Insurance  
34 State House Station  
Augusta, ME 04333-0034

Dear Superintendent:

Pursuant to the provisions of 24 M.R.S. §2307 and in conformity with your instructions, a financial examination has been made of the

**MAINE COMMUNITY HEALTH OPTIONS**

at its statutory home office in Lewiston, Maine. The following report is respectfully submitted.



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**REPORT OF EXAMINATION**  
**MAINE COMMUNITY HEALTH OPTIONS**  
**AS OF**  
**DECEMBER 31, 2017**

### ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified Report of Examination of Maine Community Health Options dated September 3, 2019, was delivered to that insurer on September 10, 2019, and;

WHEREAS Maine Community Health Options and Bureau of Insurance staff have agreed to certain modifications with respect to the Report of Examination, and

WHEREAS I find such modifications proper, and

WHEREAS no hearing with respect to the Report of Examination has been requested by Maine Community Health Options;

NOW THEREFORE, I accept the Report of Examination and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S. §226 (3).

Dated: 10 - 7 - 19

Eric A. Cioppa  
Eric A. Cioppa, Superintendent

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## **SCOPE OF EXAMINATION**

This is the first examination of Maine Community Health Options (“the Company” or MCHO) by the State of Maine Bureau of Insurance (MBOI). This examination covered the period from February 28, 2013, to December 31, 2017.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (NAIC), in conformity with statutory accounting practices, NAIC guidelines, the 2018 Financial Condition Examiners Handbook (FCEH) and the laws, rules, and regulations prescribed or permitted by the State of Maine. The examination consisted of a review of the Company's operations, controls, and corporate governance, valuation of assets, and determination of liabilities at December 31, 2017. The examination also included the identification and evaluation of significant risks that could cause the Company'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. The examination does not attest to the fair presentation of the financial statements included herein. Comments on various balance sheet items, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

This examination report includes significant findings of fact, pursuant to 24-A M.R.S. §225 (1), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included herein, and are instead separately reported to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **PRIOR EXAMINATION**

This examination as of December 31, 2017, represented the first examination of the Company.

### **CURRENT EXAMINATION**

None noted.

## **THE COMPANY**

### **HISTORY**

The Company was incorporated on September 26, 2011, as a nonprofit corporation organized under the laws of the State of Maine and was formed pursuant to the Affordable Care Act (ACA) to serve as the State of Maine's first Consumer Operated and Oriented Plan (CO-OP) under the provisions of that law. On February 28, 2013, the Company was granted a certificate of authority by the State of Maine to conduct the business of health insurance. In late 2013, the Company

commenced writing and issuing policies effective as of January 1, 2014. The Company is domiciled in the State of Maine with its home office located in Lewiston, Maine.

The Company was capitalized through the financing made available by the Center for Consumer Information and Insurance Oversight (CCIIO) within the Centers for Medicare and Medicaid Services (CMS). The Company has received a total of \$132,316,124, comprised of \$12,506,124 in Start-up Loan funding and \$119,810,000 in Solvency Loan funding. No further capitalization from CMS is currently available. The loans are considered surplus notes within the meaning of 24-A M.R.S. §4379(9) and Statement of Statutory Accounting Principles No. 41. Repayment of principal and interest may be made only with the prior approval of the Superintendent of Insurance of the State of Maine and only to the extent the Company has sufficient surplus earnings to make such a payment. CMS' right to payment under the Start-Up and Solvency Loans is subordinated to all other classes of creditors.

In 2014, the Company reported net income of \$7,336,187 and was the only CO-OP in the country to report positive income. However, in 2015, the Company reported a net loss of \$74,016,344 which included a Premium Deficiency Reserve (PDR) of \$43,072,541. The PDR was established because the Company's premium rates for 2016 individual health business were determined to be inadequate and under the ACA could not be changed until January 1, 2017. CMS provided the remainder of the available solvency loan funding to CHO in 2015, which counteracted the impact to surplus from 2015 net losses. Due to the Company's 2015 results, capital position, and their ongoing contractual agreement to provide insurance at inadequate rates, the MBOI began closely monitoring the Company's operations and financial results and continues to do so.

The Company continued to report net losses of \$13,986,447 for 2016, in addition to the drawdown of the previously booked PDR, and \$6,345,841 for 2017. As of December 31, 2017, the Company reported surplus of \$33,734,794. Selected financial information is provided in the following table:

	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Admitted Assets	\$72,937,723	\$101,985,131	\$167,555,607	\$77,352,009	\$18,225,868
Liabilities	39,202,929	63,367,838	117,771,813	49,974,889	12,328,749
Surplus	33,734,794	38,617,293	49,783,794	27,377,122	5,897,119
Net Underwriting Gain/Loss	(4,579,586)	(14,634,221)	(74,207,320)	7,265,902	(6,555,512)
Net Income (Loss)	(6,345,841)	(13,986,447)	(74,016,344)	7,336,187	(6,558,708)
Net Written Premium	266,227,778	377,296,166	331,610,530	167,910,503	—
Cash Flow from Operations	(8,792,950)	(54,701,137)	(10,043,300)	18,355,525	(4,523,890)
Combined Ratio	102%	104%	126%	96%	1339%
Members	37,784	67,539	74,981	39,742	—

#### **CORPORATE OWNERSHIP**

MCHO is a nonprofit, member-led corporation. Members consist of all individuals covered under health insurance policies issued by the Company. Members have the sole and exclusive power and authority to elect a majority of the Company's directors and to approve the merger, consolidation,



dissolution, or sale of substantially all of the assets of the Company. Each member who is age 18 or older is eligible to vote and shall have a single vote.

#### **CORPORATE RECORDS**

The Company's articles of incorporation, bylaws, and minutes of the board of directors meetings held during the period under examination were reviewed.

#### **CORPORATE GOVERNANCE**

The Company is governed and overseen by its board of directors and its management team.

A majority of the Company's board of directors must be members, subject to the limitations defined under federal statutes and regulations governing CO-OPs. As of December 31, 2017, the board of directors of the Company consisted of the following members:

<b><u>Name</u></b>	<b><u>Title</u></b>
Dana Baldwin*	Director
Fred Craigie, M.D.	Director
Tonua Fedusenko	Director
Sarah Hines	Director
Joel Kallich*	Director
Heidi Lukas	Director
Rocell Marcellino	Director
Felicity Myers*	Director
David Shipman	Director
David Shultz	Director
W. Douglas Smith	Chair
Ronnie Weston	Director
Douglas Wilson	Director
Michael Woodard*	Director

As of December 31, 2017, the officers of the Company consisted of the following individuals:

<b><u>Name</u></b>	<b><u>Title</u></b>
Kevin Lewis	Chief Executive Officer
Robert J. Hillman	Senior Vice President, Chief Operating Officer
Joyce H. McPhetres*	Senior Vice President, Chief Human Resources Officer
Edward J. Vozzo	Senior Vice President, Chief Financial Officer
William Kilbreth	Senior Vice President, Chief Information Officer
John Yindra, M.D.*	Senior Vice President, Chief Medical Officer

\*Subsequent to December 31, 2017, Dana Baldwin, Joel Kallich, Felicity Myers, and Michael Woodward resigned as Directors; Edward Yoon, M.D. replaced John Yindra, M.D. as Chief Medical Officer; and Joyce H. McPhetres retired.

#### **TRANSACTIONS WITH AFFILIATES**

The Company is not a member of a holding company system and has no related parties.

### **TERRITORY & PLAN OF OPERATION**

The Company offers health insurance products for individuals, small groups, and large groups. The Company offers coverage on and off the Federally Facilitated Marketplace. On October 2, 2017, the Company was approved for a health maintenance organization (HMO) line of business in Maine and on January 1, 2018 wrote its first HMO policies. Prior to 2018, the Company only offered preferred provider organization (PPO) products.

The Company became licensed in New Hampshire on May 27, 2014 and began offering health insurance products for individuals and groups effective January 1, 2015. In October of 2016, the Company withdrew from the New Hampshire market to focus on its primary market in Maine. A small number of New Hampshire group policies remained on the books during 2017, after renewing in 2016 and remaining in effect until the end of their policy periods. The Company has retained its license in New Hampshire but as of December 31, 2017, the Company writes business solely in Maine.

### **REINSURANCE**

In 2017, MCHO maintained excess of loss reinsurance with an attachment point of \$525,000 and coinsurance of 80%, for claim expenses up to \$5,000,000 per member. Prior to 2017, the Company maintained similar reinsurance programs, except the attachment points were \$500,000 in 2016 and \$300,000 in 2015 and 2014.

In addition, the Company participated in the temporary three-year ACA reinsurance program ("transitional reinsurance"), which ended on December 31, 2016. The federal program was intended to stabilize premiums by providing reinsurance funding to issuers in the individual market that incur high claims costs for enrollees. Transitional reinsurance covered 100% of losses in 2014 for claims between the attachment point of \$45,000 and the reinsurance cap of \$250,000. For 2015 and 2016, the coinsurance percentage was reduced to approximately 50%. In 2016, the attachment point was increased to \$90,000.

## **FINANCIAL STATEMENTS**

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Operations, and the Statement of Capital and Surplus are as presented by management and audited by the Company's external auditors. It should be noted that these financial statements have not been audited by the MBOI and thus the MBOI does not express an opinion on the financial statements as a whole.



**STATEMENT OF ADMITTED ASSETS, LIABILITIES AND SURPLUS  
AS OF DECEMBER 31, 2017**

Assets

Bonds	\$ 36,493,233
Cash, Cash Equivalents, and Short-Term Investments	26,257,532
Investment income due and accrued	130,316
Uncollected premiums in the course of collection	742,722
Amounts recoverable from reinsurers	3,908,020
Electronic data processing equipment and software	430,028
Health care receivables	3,994,539
State taxes receivable	<u>981,333</u>
Total assets	<u>\$ 72,937,723</u>

Liabilities

Claims unpaid less reinsurance ceded	\$ 29,072,039
Accrued medical incentive pool and bonus amounts	154,615
Unpaid claims adjustment expenses	672,190
Premiums received in advance	4,336,658
General expenses due or accrued	3,993,773
Amounts withheld or retained for the account of others	660
Borrowed money	906,528
Risk adjustment user fee payable	<u>66,466</u>
Total liabilities	<u>39,202,929</u>

Capital and Surplus

Risk adjustment user fee payable	2,589,844
Surplus notes	132,316,124
Unassigned funds	<u>(101,171,174)</u>
Total Capital and Surplus	<u>33,734,794</u>
Total Liabilities, Capital and Surplus	<u>\$ 72,937,723</u>

**STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2017**

Member Months	498,750
Net premium income	<u>\$ 266,227,778</u>
Total revenues	266,227,778
Hospital/medical benefits	135,148,164
Other professional services	14,947,750
Outside referrals	18,041
Emergency room and out-of-area	46,411,974
Prescription drugs	33,958,475
Incentive pool, withhold adjustments and bonus amounts	<u>(57,026)</u>
Subtotal	230,427,378
Less: Net reinsurance recoveries	<u>2,623,137</u>
Total hospital and medical	227,804,241
Claims adjustment expenses	12,525,535
General administrative expenses	<u>30,477,588</u>
Total underwriting deductions	<u>270,807,364</u>
Net underwriting loss	<u>(4,579,586)</u>
Net investment income earned	441,694
Net realized capital losses	<u>(132,560)</u>
Net investment gains	<u>309,134</u>
Net loss from agents' or premium balances charged off	<u>(2,075,389)</u>
Net income after capital gains, before federal tax	(6,345,841)
Federal and foreign income taxes incurred	<u>0</u>
Net loss	<u><u>\$ (6,345,841)</u></u>

**STATEMENT OF CAPITAL AND SURPLUS**  
**YEAR ENDED DECEMBER 31, 2017**

Capital and surplus, December 31, 2016	\$ 38,617,293
Net income	(6,345,841)
Change in nonadmitted assets	1,503,905
Aggregate write-ins for gains or losses in surplus	<u>(40,563)</u>
Net change in capital and surplus	<u>(4,882,499)</u>
Capital and surplus, December 31, 2017	<u><u>\$ 33,734,794</u></u>

## **COMMENTS ON THE FINANCIAL STATEMENTS**

### **NOTE 1 – RESERVES**

Lewis & Ellis, Inc. (“consulting actuary”) was engaged to provide actuarial assistance with the financial examination of the Company as of December 31, 2017. The reserves as reported by the Company were determined to be reasonable based on the review performed by the consulting actuary.

### **NOTE 2 – CAPITAL AND SURPLUS**

The following table describes the capital and surplus changes for the five-year period beginning January 1, 2013:

Capital and surplus, January 1, 2013	\$ 0
Net income or (loss)	(93,571,153)
Change in surplus notes	132,316,124
Change in nonadmitted assets	(3,214,036)
Surplus adjustments: Transferred from capital	(1,755,578)
Aggregate write-ins for losses in surplus	<u>(40,563)</u>
Capital and surplus, December 31, 2017	<u>\$ 33,734,794</u>

## **SUBSEQUENT EVENTS**

In 2018, the Company reported net income of \$25,286,819. As a result, the Company’s reported capital and surplus increased materially to \$57,333,556 as of December 31, 2018. In addition, the Company had accrued a liability of \$40,600,000 for possible risk adjustment payments for 2018 to be paid in 2019. On June 28, 2019, CMS announced the Company’s actual payment amount for 2018 to be \$21,133,366.

On January 1, 2018, the Company is subject to an annual fee under section 9010 of the ACA. This annual fee is allocated to individual health insurers based on the ratio of the entity’s net premiums written during the preceding year to the amount of health insurance for any U.S. health risk that is written in the preceding year. A health insurance entity’s portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. As of December 31, 2017, the Company had written health insurance subject to the ACA assessment, expected to conduct health insurance business in 2018, and estimated their portion of the annual health insurance industry fee to be payable September 30, 2018 in the amount of \$2,589,844. The Company disclosed in its Annual Statement for the year ended December 31, 2018, that the amount paid for the health insurer fee in 2018 was \$2,311,244. In January 2018, a moratorium was imposed on the health insurer fee for calendar year 2019, and therefore, there is no health insurer fee due in September 2019.

In 2018, the State of Maine received approval from CMS for its Application for State Innovation Waiver under Section 1332 of the ACA. Pursuant to that approval, the Maine Guaranteed Access Reinsurance Association (MGARA) Board has approved the re-initiation of MGARA operations

as of January 1, 2019. MGARA operates as a reinsurance program for the higher risk segment of Maine's individual health insurance market.

On January 3, 2019, Maine Governor Janet Mills signed an executive order directing the Maine Department of Health and Human Services to begin implementation of Medicaid (MaineCare) expansion.

On February 15, 2019, the U.S. Court of Federal Claims ruled in favor of the Company in its lawsuit against the United States for payment of ACA Cost Sharing Reduction (CSR). On June 10, 2019, the court ruled that the Company was entitled to recover damages in the amount of \$19,230,875, which represents unpaid CSR reimbursements of \$846,493 for 2017 and \$18,384,382 for 2018. The United States filed a Notice of Appeal on July 2, 2019. The outcome of the appeal is unknown at the time of this report.

### **SUMMARY OF RECOMMENDATIONS**

There are no report level recommendations.




**STATE OF MAINE**  
**COUNTY OF KENNEBEC, SS**

Vanessa J. Sullivan, being duly sworn according to law deposes and says that, in accordance with authority vested in her by Eric A. Cioppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made an examination of the condition and affairs of the


**MAINE COMMUNITY HEALTH OPTIONS**

located in Lewiston, Maine as of December 31, 2017, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Arias Wan, CPA, CFE  
Audrey L. Wade, CFE, CISA  
Erin L. Gaddis  
Ebrahim Fazeli  
Sarah A. Hyde  
Rebecca J. Nelson

  
Vanessa J. Sullivan, CFE

Subscribed and sworn to before me  
This 4 day of October, 2019

  
Notary Public  
My Commission Expires:

**KARMA LOMBARD**  
Notary Public, Maine  
My Commission Expires June 12, 2023

## **APPENDIX A – STATEMENT OF ACTUARIAL OPINION**



**LEWIS & ELLIS**  
Actuaries and Consultants  
11225 College Blvd.  
Suite 320  
Overland Park, KS 66210  
913.491.3388  
LewisEllis.com

## MAINE COMMUNITY HEALTH OPTIONS

Statement of Actuarial Opinion  
As of December 31, 2017

I, Karen E. Elsom, am a Vice President with Lewis & Ellis, Inc., Actuaries and Consultants, and am a member of the American Academy of Actuaries. I meet the Academy qualification standards for rendering this opinion and am familiar with the valuation requirements for Health Plans. As part of the financial examination process by the Maine Bureau of Insurance, I participated in the examination of Maine Community Health Options. I recalculated and verified certain actuarial items appearing in the Annual Statement as of December 31, 2017 of Maine Community Health Options, Lewiston, Maine as prepared for filing with state regulatory officials.

I have examined the actuarial assumptions and actuarial methods used in determining loss reserves, actuarial liabilities and related items listed below, as shown in the NAIC Annual Statement of the Company at December 31, 2017.

(A)	Claims Unpaid (Page 3, Item 1)	\$29,072,039
(B)	Accrued Medical Incentive Pool and Bonus Amounts (Page 3, Item 2)	154,615
(C)	Unpaid Claim Adjustment Expenses (Page 3, Item 3)	672,190
(D)	Aggregate Health Policy Reserves (Page 3, Item 4)	0
(G)	Aggregate Health Claim Reserves (Page 3, Item 7)	0

My examination included such review of the actuarial assumptions and actuarial methods used by the Company and such tests of the actuarial calculations as I considered necessary. I relied upon in force and claims data supplied by Maine Community Health Options. The claims data was tested for completeness and accuracy by the Maine examiners and me.

In my opinion, the amounts carried in the balance sheet on account of the actuarial items identified above:

- (A) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;

## Maine Community Health Options

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- (B) are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared;
- (C) meet the requirements of the insurance laws and related rules and regulations of the state of Maine;
- (D) make good and sufficient provision in aggregate for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements, except as may be noted in the following report;
- (E) are, to the best of my knowledge, computed on the basis of assumptions consistent with those used in computing the corresponding items in the Annual Statement of the preceding year end except as may be noted in the following report; and
- (F) include appropriate provision, in the aggregate, for all actuarial items which ought to be established, except as may be noted in the following report.

The actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board which standards form the basis of this statement of opinion.

The actuarial liabilities and certain actuarial related items referred to in this opinion are estimates based on the claims data provided by the Company. The exact liabilities will not be known until a sufficient passage of time permits the filing and payment of all outstanding claims.



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Karen E. Elsom, FSA, MAAA

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August 20, 2019  
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