REPORT OF EXAMINATION
OF THE
KAISER PERMANENTE
INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

Filed on June 3, 2020

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Oakland, California
May 28, 2020

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

KAISER PERMANENTE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 300 Lakeside Drive, 13th Floor, Oakland, California 94612.

## SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2018.

This examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating 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. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during the course of the examination, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

## COMPANY HISTORY

The Company was incorporated and became part of the Kaiser Foundation Health Plan, Inc. (KFHP) insurance holding company system on March 22, 1994.

### Capitalization

The Company is authorized to issue 1,200 shares of common stock with a par value of $50 per share and 100,000 shares of preferred stock with a par value of $80 per share. As of December 31, 2018, there were 960 shares of common stock and 50,000 shares of preferred stock issued and outstanding. KFHP owns 100% of the issued and outstanding preferred stock of the Company.

The Company's common stock has voting rights but is not eligible to receive dividends. The Company's preferred stock has no voting rights and is entitled to cumulative dividends at annual rates to be determined by the Board of Directors, not to exceed 5% annually. There were no dividends declared, approved, or distributed to shareholders during the examination period.

## MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The Company is owned 50% by the Kaiser Foundation Health Plan, Inc. and 50% in the aggregate by the

Permanente Medical Groups. The following abridged chart depicts the interrelationship of the Company within the holding company system at December 31, 2018:

Kaiser Foundation Health Plan, Inc. (California)
- Kaiser Foundation Health Plan of the Northwest (Oregon)
- Kaiser Foundation Health Plan of Georgia (Georgia)
- Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc. (Maryland)
- Kaiser Foundation Health Plan of Colorado (Colorado)
- KP CAL, LLC (California)
- **Kaiser Permanente Insurance Company (California) [50%] ownership**

Permanente Medical Groups (Multiple States)
- **Kaiser Permanente Insurance Company (California) [50%*] ownership**
- The Permanente Federation, LLC (California)
  - Permanente Advantage, LLC (Pennsylvania)

* Permanente Medical Groups ownership of the Company:
The Permanente Medical Group, Inc. (15%)
Southern California Permanente Medical Group (15%)
Northwest Permanente, P.C. (4%)
The Southeast Permanente Medical Group, Inc. (4%)
Hawaii Permanente Medical Group, Inc. (4%)
Colorado Permanente Medical Group, P.C. (4%)
Mid-Atlantic Permanente Medical group, P.C. (4%)

The six members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal offices of the Company serving at December 31, 2018:

Directors

| Name and Location | Principal Business Affiliation |
|---|---|
| Peter S. Andrade<br>Azusa, California | Senior Vice President<br>Kaiser Foundation Health Plan, Inc. |
| Gerard C. Bajada [(a)]<br>Oakland, California | Vice President of Financial Services<br>The Permanente Medical Group, Inc. |
| Charles P. Bevilacqua<br>Poway, California | Senior Vice President<br>Kaiser Foundation Health Plan, Inc. |

Directors (continued)

| Name and Location | Principal Business Affiliation |
|---|---|
| Jo Carol Hiatt, MD [a]<br>Los Angeles, California | Assistant Medical Director for Business Management and Chair of the National Product Counsel Southern California Permanente Medical Group |
| Kimberly K. Horn<br>Washington DC | President<br>Kaiser Foundation Health Plan of the Mid-Atlantic States |
| William R. Marsh, MD<br>Walnut Creek, CA | Executive Director<br>The Permanente Federation |

Principal Officers

| Name | Title |
|---|---|
| Charles P. Bevilacqua | President and Chief Operating Officer |
| Thomas R. Meier | Senior Vice President and Treasurer |
| Mark S. Zemelman | Senior Vice President and Secretary |
| Arthur M. Southam, MD | Senior Vice President |
| William E. Juram | Chief Financial Officer |
| Daniel E. McDermott | Controller |
| John E. Hrebec | Assistant Secretary |

(a) Effective February 25, 2019, Ronald A. Navarro and Suketu Sanghvi replaced Gerald C. Bajada and Jo Carol Hiatt, MD as members of the board of directors.

Management Agreements

Administrative and Management Services Agreement: The Company and its parent, Kaiser Foundation Health Plan, Inc. (KFHP), entered into an Administrative and Management Services Agreement on November 30, 1994. Pursuant to the Agreement, KFHP provides various services to the Company, including actuarial, accounting, marketing, investment, administrative, financial, legal, data processing, computer programming, human resources, and other management services. Services rendered under the agreement are paid at cost. The total fees incurred by the Company for services under this Agreement in 2018 were $4,235,718.

Joint Administration Agreements: The Company and its parent, KFHP, entered into a Joint Administration Agreement on February 3, 1995. The Agreement pairs KFHP's prepaid healthcare programs with the Company's indemnity products for the purposes of joint marketing and administration. Pursuant to the Agreement, both companies' health benefit programs are combined to create various health care products. Similar agreements are in place between the Company and KFHP's regions in Southern California, effective August 1, 1996; and in Hawaii, effective January 1, 1996. Pursuant to these agreements, the regions and affiliated health plans agree to provide the following services to the Company: marketing, advertising, enrollment, underwriting, pricing, billing, utilization management, collections, and claims adjudication in some circumstances. Services rendered under the agreements are paid at cost. The total fees incurred by the Company for services under these Agreements in 2018 were $823,059.

Self-funded Administrative Services Agreements: The Company entered into individual Self-funded Administrative Services Agreements with KFHP and each of the following affiliated health plans: Kaiser Foundation Health Plan of the Northwest, Kaiser Foundation Health Plan of Colorado, Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc., and Kaiser Foundation Health Plan of Georgia, Inc. on February 19, 2008, July 1, 2008, July 30, 2008, August 21, 2012, and February 19, 2018, respectively. Under the terms of the Agreements, the Company is to administer the self-funded plans using the respective health plan's administrative services. These administrative services include marketing, provider network administration, integrated medical management and other services in support of the Company's administration of self-funded health benefit plans. The Company was granted exemption from filing these Agreements pursuant to California Insurance Code Section 1215.5(i). Services rendered under the agreements are paid at cost. The total fees incurred by the Company in 2018 for services rendered under these Agreements were $187,699,256.

Amended and Restated Administrative Services Only (ASO) Services Agreement: The Company and its parent, KFHP, entered into an Amended and Restated Administrative Services Only (ASO) Services Agreement, effective July 1, 2009. Pursuant to the Agreement, the Company provides services related to self-funded health benefit plans covering certain employees of KFHP and its affiliates, Kaiser Foundation Health Plan of Georgia, Inc., Kaiser Foundation Hospitals, and KP OnCall, LLC. This Agreement superseded the 2008 ASO Services Agreement filed by the Company, which covered only services provided to employees of Kaiser Foundation Health Plan of Georgia, Inc. The 2009 ASO Services Agreement was approved by the California Department of Insurance (CDI) on June 29, 2009. Services rendered under the agreement are paid at cost. The total fees received by the Company for services under this Agreement in 2018 were $100,503,965.

Medical Director Agreement: The Company and its affiliate, The Permanente Federation, LLC (TPF), entered into a Medical Director Agreement, effective July 1, 2008. Under the terms of the Agreement, TPF will provide the Company with physician medical director services. The medical director will direct, oversee, and coordinate medical quality; appeals and grievances; and utilization management related strategies, goals and key activities for the Company. The Agreement was approved by the CDI on December 26, 2008. Services rendered under the agreement are paid at cost. The total fees incurred by the Company in 2018 for services under this Agreement were $51,136.

Service Agreement, Permanente Advantage LLC: The Company and its affiliate, Permanente Advantage, LLC (PA), entered into a Service Agreement, effective January 1, 2010. Pursuant to the Service Agreement, PA provides services to the Company relating to healthcare utilization management, case management, revision of pre-certification requirements and related activities of the health insurance coverage and self-funded plans offered by the Company in the following three regions: Northern California, Southern California, and Hawaii; and to the affiliated health plans in Colorado, Georgia, Ohio, and Mid-Atlantic States (Virginia, Maryland and Washington, D.C.). The

Agreement was approved by the CDI on December 2, 2009. Services rendered under the agreement are paid at cost. The total fees incurred by the Company in 2018 for services under this Agreement were $3,122,501.

Joint Marketing and Administrative Services Agreements: The Company and its parent, KFHP, entered into Joint Marketing and Administrative Services Agreements with the following affiliated health plans: Kaiser Foundation Health Plan of Colorado (KFHP-CO), Kaiser Foundation Health Plan of Georgia (KFHP-GA), and Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc (KFHP-MAS). The Agreements pairs the prepaid health programs of KFHP-CO, KFHP-GA, and KFHP-MAS with the Company's indemnity products. Pursuant to the Agreement, KFHP-CO, KFHP-GA, and KFHP-MAS will provide certain administrative services related to the indemnity products of the Company. These administrative services include, but are not limited to: product development, rating and underwriting, sales and marketing, claims adjudication, member services, utilization management, and premium billing and collection. Services rendered under the agreements are paid at cost. The total fees incurred by the Company in 2018 for services under the Agreements were $702,072.

## TERRITORY AND PLAN OF OPERATION

The Company jointly markets its indemnity health and dental products alongside the prepaid health care plans of Kaiser Foundation Health Plan, Inc. (KFHP). The Company uses the same sales forces employed by KFHP. The Company offers Preferred Provider Organization (PPO) dental insurance products, PPO and Point-of-Service (POS) medical products, and Exclusive Provider Organization (EPO) medical products.

The Company is also an administrator for Kaiser Permanente's Self-Funded Program. Each self-funded plan, through its plan sponsor, will contract with the Company to provide Administrative Services Only (ASO) for self-funded plan. The Company contracts with Harrington Health, a third-party administrator, to provide certain administrative services for Kaiser Permanente's Self-Funded Program such as claims processing, eligibility information, and benefits. The Company also offers plan sponsors the option to purchase stop-loss coverage for their Company-administered self-funded members.

The Company is licensed to write business in the following states and the District of Columbia:

| | | |
|---|---|---|
| California | Kansas | Oregon |
| Colorado | Maryland | South Carolina |
| Georgia | Missouri | Virginia |
| Hawaii | Ohio | Washington |

For the year ending December 31, 2018, the Company wrote in California, Colorado, Georgia, Hawaii, Maryland, Missouri, Virginia, and District of Columbia with the majority of direct premiums written in California (67.3%).

At December 31, 2018, the Company's largest lines of business are group indemnity health insurance and dental with direct premiums written of $80.2 million and $36.9 million, respectively.

## REINSURANCE

### Assumed

The Company did not assume any reinsurance during the examination period.

### Ceded

The Company did not cede any reinsurance during the examination period.

# FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2018

Statement of Revenue and Expenses for the Year Ended December 31, 2018

Reconciliation of Capital and Surplus from December 31, 2014 through December 31, 2018

## Statement of Financial Condition
## as of December 31, 2018

| Assets | Ledger and Nonledger Assets | Assets Not Admitted | Net Admitted Assets | Notes |
|---|---|---|---|---|
| Bonds | $ 137,536,932 | $ | $ 137,536,932 | |
| Cash and short-term investments | 18,046,046 | | 18,046,046 | |
| Receivables for securities | 3,487,674 | | 3,487,674 | |
| Investment income due and accrued | 653,383 | | 653,383 | |
| Uncollected premiums and agents' balances in the course of collection | 9,050,381 | 728,325 | 8,322,056 | |
| Contracts subject to redetermination | 1,306,161 | | 1,306,161 | |
| Amounts receivable relating to uninsured plans | 11,902,133 | 644,598 | 11,257,535 | |
| Net deferred tax asset | 878,056 | | 878,056 | |
| Aggregate write-ins for other than invested assets | 6,397 | 6,261 | 136 | |
| Total assets | $ 182,867,163 | $ 1,379,184 | $ 181,487,979 | |

| Liabilities, Surplus and Other Funds | | | |
|---|---|---|---|
| Claims unpaid | | $ 17,290,360 | (1) |
| Unpaid claims adjustment expenses | | 2,960,035 | (1) |
| Aggregate health policy reserves | | 205,607 | |
| Premiums received in advance | | 210 | |
| General expenses due or accrued | | 9,172,686 | |
| Current federal and foreign income tax payable and interest thereon | | 157,590 | |
| Payable due to parent, subsidiaries and affiliates | | 15,010,928 | |
| Payable for securities | | 4,198,111 | |
| Liability for amounts held under uninsured plans | | 12,725,701 | |
| Total liabilities | | 61,721,228 | |
| Common capital stock | $ 48,000 | | |
| Preferred capital stock | 4,000,000 | | |
| Gross paid-in and contributed surplus | 16,000,000 | | |
| Unassigned funds (surplus) | 99,718,751 | | |
| Surplus as regards policyholders | | $ 119,766,751 | |
| Total liabilities, surplus and other funds | | $ 181,487,979 | |

## Statement of Revenue and Expenses
## for the Year Ended December 31, 2018

| | | |
|---|---|---|
| **Underwriting Income** | | |
| Net premium income | | $ 118,193,299 |
| Deductions: | | |
| Hospital/medical benefits | $ 66,961,617 | |
| Other professional services | 15,489,323 | |
| Emergency room and out-of-area | 1,840,007 | |
| Prescription drugs | 13,937,231 | |
| Claims adjustment expenses | 12,217,143 | |
| General administrative expenses | 6,399,077 | |
| Total underwriting deductions | | 116,844,398 |
| Net underwriting gain | | 1,348,901 |
| **Investment Income** | | |
| Net investment income earned | $ 3,528,388 | |
| Net realized capital losses | (1,475,195) | |
| Net investment gain | | 2,053,193 |
| Net income after capital gains tax and before federal and foreign income taxes | | 3,402,094 |
| Federal and foreign income taxes incurred | | 1,263,056 |
| Net income | | $ 2,139,038 |

## Capital and Surplus Account

| | | |
|---|---|---|
| Surplus as regards policyholders, December 31, 2017 | | $ 118,126,574 |
| Net income | $ 2,139,038 | |
| Change in net deferred income tax | 244,112 | |
| Change in nonadmitted assets | (742,973) | |
| Net Change in capital and surplus | | 1,640,177 |
| Capital and surplus ,December 31, 2018 | | $ 119,766,751 |

Reconciliation of Capital and Surplus
from December 31, 2014 through December 31, 2018

| | Gain in Surplus | Loss in Surplus | |
|---|---|---|---|
| Capital and surplus, December 31, 2014 | | | $ 94,822,402 |
| Net income | $ 24,220,714 | $ | |
| Change in net deferred income tax | | 720,944 | |
| Change in nonadmitted assets | 1,444,579 | | |
| Total gains and losses | $ 25,665,293 | $ 720,944 | |
| Net increase in surplus as regards policyholders | | | 24,944,349 |
| Capital and surplus, December 31, 2018 | | | $ 119,766,751 |

## COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Life Actuary for the California Department of Insurance, the Company's claims unpaid and unpaid claims adjustment expense reserves as of December 31, 2018 were found to be reasonably stated and have been accepted for the purpose of this examination.

## SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus (COVID-19) a pandemic, and on March 13, 2020, the President of the United States declared a state of national emergency. COVID-19 has precipitated both a health crisis and economic deterioration across the world. Economies and financial markets have been adversely impacted by COVID-19 largely due to the uncertainty of the pandemic and the curtailment of businesses resulting from government actions to slow the spread of COVID-19. The Company believes it continues to have sufficient liquid resources available to meet its operational requirements.

The impact of COVID-19 has increased the uncertainty associated with several of the assumptions underlying the Company's estimates. COVID-19's overall impact on the Company will be driven primarily by the severity and duration of the pandemic; the pandemic's impact on the United States economy and the timing, scope, and effectiveness of federal, state, and local governmental responses to the pandemic; and, the resulting economic slowdown. Those primary drivers are highly uncertain and beyond the Company's control and may adversely impact the Company's membership levels, values of investments, and number of health service providers among other aspects of the Company. The actual impact of COVID-19 on the Company's statutory financial statements may differ significantly from the judgments and estimates made as of the current reporting period.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None

### Previous Report of Examination

Management and Control – Management Agreements (Page 9): It was noted that the Joint Marketing and Administrative Services Agreement (Agreement) between the Company and Kaiser Foundation Health Plan, Inc. was not executed and therefore deemed expired. As a result, the Company was required to refile the Agreement with the California Department of Insurance in accordance with California Insurance Code Section 1215.5(b)(4). The Company has complied with this recommendation.

Accounts and Records – Information Systems Controls (Page 13): As a result of the current review of the Company's information systems controls, additional recommendations for improving these controls were presented to the Company. The Company evaluated the recommendations and agreed to make all the appropriate changes to strengthen its information system controls. The Company has taken steps to address the recommendations.

## ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.


Respectfully submitted,

___/S/________________________

Allen Lau, CFE
Examiner-In-Charge
Senior Insurance Examiner (Specialist)
Department of Insurance
State of California

___/S/________________________

Li Lim, CFE
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California