

REPORT OF EXAMINATION  
OF THE  
HEALTH NET LIFE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2022

*Insurance Commissioner*

A handwritten signature in blue ink, appearing to read "DeLa", is positioned to the right of the title "Insurance Commissioner".

*Filed on June 20, 2024*

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Los Angeles, California  
May 24, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

#### HEALTH NET LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company). The primary location of its books and records is located at 7700 Forsyth Boulevard, Saint Louis, Missouri 63105, and its statutory home office is located at 21281 Burbank Boulevard, Woodland Hills, California 91367.

#### SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2022.

The 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. 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 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 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.

This was a coordinated examination with Texas serving as the lead state of Centene Corporation Group. It was conducted concurrently with other insurance entities in the holding company group, including:

### **Centene Group**

<b>Company Name</b>	<b>CoCode</b>	<b>Domiciled State</b>
WellCare of AL Inc	16239	Alabama
Centene Venture Company AL Health Plan Inc	16771	Alabama
Arkansas Health & Wellness Health Plan I	16130	Arkansas
Arkansas Total Care Inc	16256	Arkansas
QCA Health Plan Inc	95448	Arkansas
Qualchoice Life & Health Insurance Company Inc	70998	Arkansas
WellCare Health Insurance Company of America	16343	Arkansas
Bridgeway Health Solutions of Arizona	16310	Arizona
Hallmark Life Insurance Company	60078	Arizona
Health Net Community Solutions of Arizona	15895	Arizona
Health Net of Arizona Inc	95206	Arizona
Wellcare Health Insurance of Arizona Inc	83445	Arizona
Wellcare Health Insurance of the Southwest Inc	16692	Arizona
Wellcare Prescription Insurance Inc	10155	Arizona

<b>Company Name</b>	<b>CoCode</b>	<b>Domiciled State</b>
Health Net Life Insurance Company	66141	California
Wellcare Health Insurance of Connecticut Inc	16513	Connecticut
Wellcare of Connecticut Inc	95310	Connecticut
Centene Venture Company Florida	16499	Florida
Sunshine Health Community Solutions Inc	15927	Florida
Sunshine State Health Plan Inc	13148	Florida
Wellcare Health Insurance of Hawaii Inc	17002	Hawaii
Iowa Total Care Inc	15713	Iowa
Celtic Insurance Company	80799	Illinois
Centene Venture of Illinois	16505	Illinois
Harmony Health Plan Inc	11229	Illinois
Meridian Health Plan of Illinois Inc	13189	Illinois
Wellcare of Illinois Inc	16765	Illinois
Centene Venture Company Kansas	16528	Kansas
Sunflower State Health Plan Inc	14345	Kansas
Wellcare Health Insurance of Kentucky Inc	64467	Kentucky
Wellcare Heaalth Plans of Kentucky Inc	15510	Kentucky
Louisiana Healthcare Connections Inc	13970	Louisiana
Wellcare Health Insurance Company of LA Inc	16788	Louisiana
Wellcare of Maine Inc	16344	Maine
Centene Venture Company Michigan	16613	Michigan
Meridian Health Plan of Michigan Inc	52563	Michigan
Home State Health Plan Inc	14218	Missouri
Wellcare Health Plans of Missouri Inc	16753	Missouri
Wellcare of MO Health Insurance Company Inc	16512	Missouri
Ambetter of Magnolia Inc	15762	Mississippi
Magnolia Health Plan Inc	13923	Mississippi
Wellcare of Mississippi Inc	16329	Mississippi
Ambetter of North Carolina Inc	16395	North Carolina
Carolina Complete Health Inc	16526	North Carolina
Wellcare Health Insurance of NC Inc	16548	North Carolina
Wellcare of North Carolina Inc	16547	North Carolina
Nebraska Total Care Inc	15902	Nebraska
Granite State Health Plan Inc	14226	New Hampshire
Wellcare Health Insurance Company of NH Inc	16516	New Hampshire
Wellcare of New Hampshire Inc	16515	New Hampshire
Wellcare Health Insurance Company of NJ Inc	16789	New Jersey

<b>Company Name</b>	<b>CoCode</b>	<b>Domiciled State</b>
Wellcare Health Plans of NJ Inc	13020	New Jersey
Western Sky Community Care Inc	16351	New Mexico
Silver Summit Healthplan Inc	16143	Nevada
American Progressive L&H Insurance of NY	80624	New York
Buckeye Community Health Plan Inc	11834	Ohio
Buckeye Health Plan Community Solutions Inc	16112	Ohio
Oklahoma Complete Health Inc	16904	Oklahoma
Wellcare Health Insurance Company of OK Inc	16752	Oklahoma
Wellcare of Oklahoma Inc	16117	Oklahoma
Health Net Health Plan of Oregon Inc	95800	Oregon
Trillium Community Health Plan Inc	12559	Oregon
Pennsylvania Health & Wellness Inc	16041	Pennsylvania
Wellcare Health Plans of Rhode Island Inc	16766	Rhode Island
Centene Venture Company Tennessee	16770	Tennessee
Rhythm Health Tennessee Inc	16533	Tennessee
Wellcare Health Insurance of Tennessee Inc	16532	Tennessee
Centene Venture Company Texas	16990	Texas
Envolve Dental of Texas	16106	Texas
Envolve Vision of Texas	95302	Texas
SelectCare of Texas Inc	10096	Texas
Superior Healthplan Inc	95647	Texas
Wellcare National Health Insurance Company	16342	Texas
Wellcare of Texas Inc	12964	Texas
Wellcare of Virginia Inc	16763	Virginia
Wellcare Health Plans of Vermont Inc	16514	Vermont
Coordinated Care of Washington Inc	15352	Washington
Wellcare Health Insurance Company of WA Inc	16570	Washington
Wellcare of Washington Inc	16571	Washington
Bankers Reserve Life Insurance Company of WI	71013	Wisconsin
Managed Health Service Insurance Corporation	96822	Wisconsin

### **Magellan Subgroup**

<b>Company Name</b>	<b>CoCode</b>	<b>Domiciled State</b>
Magellan Complete Care of LA Inc	15550	Louisiana
Magellan Behavioral Health of NJ LLC	12632	New Jersey
Magellan Behavioral Health of PA Inc	47019	Pennsylvania
Magellan Complete Care of PA Inc	15924	Pennsylvania

## COMPANY HISTORY

The Company was incorporated under the laws of California on November 20, 1986, and commenced business on January 1, 1987. On March 24, 2016, the Centene Corporation (Centene), a Delaware corporation, acquired Health Net, LLC., a Delaware corporation and parent of the Company. As a result, Centene became the ultimate parent of the Company effective March 24, 2016. Centene is a publicly traded managed care company, which is an intermediary for government-sponsored and privately insured healthcare programs.

### Capitalization

The Company is authorized to issue 5 shares of common stock with a par value of \$500,000 per share. As of December 31, 2022, all 5 shares were issued and outstanding.

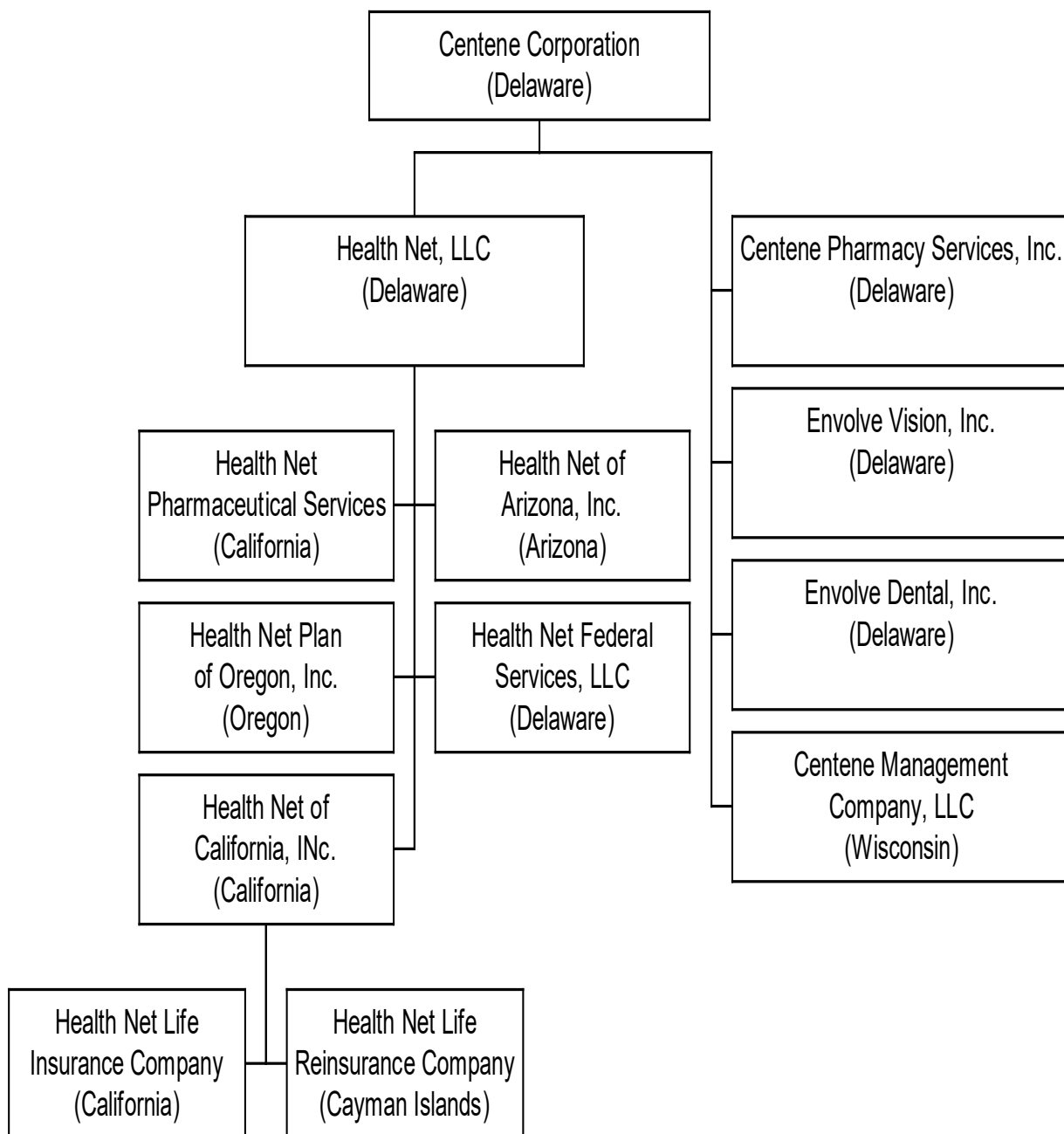
### Dividends

On May 17, 2019, the Company paid a \$50,000,000 extraordinary cash dividend to Health Net of California, Inc. (HNCA), the immediate parent. The California Department of Insurance (CDI) approved this transaction on May 13, 2019.

On December 29, 2020, the Company paid a \$232,985,246 extraordinary cash dividend to HNCA. The CDI approved this transaction on December 23, 2020.

## MANAGEMENT AND CONTROL

The Company is wholly-owned by Health Net of California, Inc. (HNCA), which is a wholly-owned subsidiary of Health Net, LLC, previously known as Health Net, Inc. The ultimate parent is Centene Corporation. The following abridged chart depicts the interrelationship of the companies within the holding company system at December 31, 2022. All ownership is 100%.





The five members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2022:

### Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Kerri A. Balbone <sup>(a)</sup> West Hollywood, California	Vice President Health Net of California, Inc.
Patricia T. Clarey <sup>(b)</sup> Saint Helena, California	External Director Health Net of California, Inc.
Colin M. Havert Thousand Oaks, California	Commerical Officer Health Net of California, Inc.
Steven D. Sickie <sup>(c)</sup> Camarillo, California	Director of Contacting and Legal Affairs Health Net of California, Inc.
John B. Ternan Thousand Oaks, California	President and Chief Executive Officer Health Net of California, Inc.

### Principal Officers

<u>Name</u>	<u>Title</u>
John B. Ternan	President and Chief Executive Officer
Jessica B. Sellner	Chief Financial Officer and Treasurer
Kerri A. Balbone <sup>(a)</sup>	Vice President
Patricia T. Clarey <sup>(b)</sup>	External Director
Paul Pakuckas	Senior Vice President and Contracting Officer
Erik Korolev	Regional Health Plan Officer
Tricia L. Dinkelman	Vice President of Tax
Sarah K. Brewer	Vice President
Martha J. Smith	Vice President
Joel B. Samson	Assistant Secretary

The following changes in management occurred subsequent to the examination date:

- <sup>(a)</sup> Effective August 30, 2023, Kerri A. Balbone resigned and was replaced by Tricia L. Dinkelman as a board member.
- <sup>(b)</sup> Effective August 30, 2023, Patricia T. Clarey resigned and was replaced by

- Rachael Rudd as Senior Vice President, Medicare Product and a board member.
- (c) Effective October 6, 2023, Steven D. Sickie resigned and was replaced by Lisa Lambert as Director of Contracting and Legal Affairs and a board member.

### Management Agreements

Amended and Restated Tax Allocation and Indemnity Agreement: Effective January 1, 2007, the Company entered into a Tax Allocation and Indemnity Agreement (Tax Agreement) with Health Net, LLC, its parent, and other affiliates and subsidiaries. Under the terms of the Tax Agreement, participants in the group file a consolidated federal income tax return. Health Net, LLC is responsible for filing and making federal income tax payments on behalf of the participants. Allocation of taxes is based on separate return calculations with the tax balance payable or receivable being settled in amounts as if separate returns were filed. Tax payments or credits are settled no later than 30 days after the filing date of the consolidated tax return.

Effective April 1, 2017, the Company filed an Amended & Restated Tax Allocation Agreement to remove certain parties from the Tax Agreement that are no longer subsidiaries of Health Net, LLC, with all terms and provisions of the Tax Agreement remaining unchanged. The CDI approved the amended agreement on September 16, 2016. During the examination period, the Company paid/(recovered) federal income taxes of (\$47,067,248), \$19,509,990, \$49,967,740, \$16,985,056, and (\$12,041,630) for 2018, 2019, 2020, 2021, and 2022, respectively.

Amended and Restated Management Services Agreement: Effective March 11, 2010, the Company entered into an Administrative Services Agreement (Original ASA) with Health Net, LLC, its parent. Under the terms of the agreement, Health Net, LLC provides certain administrative services, consulting, and other support services to the Company. These services include, but are not limited to, executive planning, government relations, internal audit, legal, finance, human resources, marketing, medical management, actuarial and underwriting, purchasing, claims, and IT administration. The management fees for these services are based on actual costs.

On March 24, 2016, Health Net, LLC, and its subsidiaries were acquired by Centene Corporation. Subsequent to the acquisition and in connection with integrating various operations of Health Net, LLC entities into Centene systems and processes, Centene's subsidiary, Centene Management Company, LLC (CMC), started providing certain administrative services to the Company. Accordingly, on July 18, 2018, the Company filed an Amended Administrative Services Agreement (2016 Amendment) to add Centene Management Company, LLC as a party and incorporate various safeguard provisions, with an effective date retroactive to March 24, 2016. The CDI approved the 2016 Amendment on February 22, 2019.

On November 29, 2022, the Company filed an Amended and Restated Management Services Agreement (Restated Agreement) to replace the Original ASA and 2016 Amendment, and to remove Health Net, LLC as a party with an effective date of January 1, 2023. Under the terms of the Restated Agreement, CMC will continue to provide certain administrative services including, but not limited to, program planning and development, management information system, financial systems and services, claims administration, provider and enrollee services, and records, utilization review, quality assurance, and premium billing and collections. The management fees for these services are based on actual costs. The Company reimburses CMC quarterly for all costs and expenses incurred in the performance of duties under this Restated Agreement. The CDI approved the Restated Agreement on December 28, 2022.

Amended and Restated Administrative Services Agreement: Effective November 1, 2012, the Company entered into an Amended and Restated Administrative Services Agreement (Agreement) with Health Net of California, Inc (HNCA), the immediate parent. Under the terms of the Agreement, HNCA provides certain administrative and managerial support services to the Company. These services include, but are not limited to, underwriting, administrative support, output services, financial analysis, health services, legal services, health claims processing, network access, marketing, sales, etc. The management fees for these services are based on actual expenses incurred. The CDI approved the Agreement on November 28, 2012.

On November 21, 2019, the Company filed a first amendment to the Agreement (Amendment #1) to revise the cost allocation methodology. The costs charged by HNCA for providing the services shall be allocated based on a metric that correlates with fair and reasonable costs, and based on discussion with the cost center managers. In addition, Amendment #1 adds certain National Association of Insurance Commissioners (NAIC) safeguard provisions of the NAIC Insurance Company System Model Regulations. The CDI approved the Amendment #1 on January 2, 2020.

Vision Services Agreement: Effective January 1, 2018, the Company entered into a Vision Services Agreement (Agreement) with Envolve Vision, Inc. (Envolve Vision), and other affiliates. Under the terms of the agreement, Envolve Vision provides certain administration services for California bundled products, including Medicare. These services include quality improvement, credentialing, network development and maintenance, call center services, and claims processing. For compensation, the Company pays Envolve Vision capitation rates per member per month based on products used. All general expenses incurred are based on actual costs and settled monthly. The CDI approved the Agreement on November 21, 2017.

The Company filed various amendments during the examination period to add Health Net of California, Inc. and Health Net Community Solutions, Inc. as the parties to the Agreement, and revise capitation rates. The amendments were reviewed and found to be compliant with the California Insurance Code (CIC) Section 1215.5 and were filed with the CDI with approvals as required.

Dental Services Agreement: Effective January 1, 2021, the Company entered into a Dental Services Agreement (Agreement) with Envolve Dental, Inc. (Envolve Dental), and other affiliates. Under the terms of the Agreement, Envolve Dental provides covered dental services associated with Medicare plans, including preventive and comprehensive services. Additionally, Envolve Dental provides specific managed care activities, including quality improvement, provider complaints/grievances, provider credentialing and re-credentialing, network management responsibilities, benefits administration/claims processing/payments, encounter management, and call center services. For

compensation, the Company pays Envolve Dental service fees determined on the amount of the monthly fee on the 16th day of the month for the current month's eligible members. The monthly fee per member is based on eligible enrollment on the 15th day of the month. All general expenses incurred are based on actual costs and are settled monthly. The CDI approved the Agreement on April 9, 2021.

The Company filed various amendments during the examination period to make clear the scope of benefits and services covered, and update medicare compensation rates for the latest covered dental services. The amendments were reviewed and found to be compliant with the California Insurance Code Section 1215.5 and were filed with the CDI with approvals as required.

Amended and Restated Administrative Pharmacy Services Agreement: Effective April 1, 2020, the Company entered into a Pharmacy Benefit Management Services Agreement (PBM Agreement) with Envolve Pharmacy Solutions, Inc. (EPS), its affiliate. Under the terms of the PBM Agreement, EPS provides certain pharmacy benefit claims and pharmacy provider contracting services to the Company for plans issued in California and Medicare Advantage. These services include eligibility and claims processing, network pharmacy audits, mail order pharmacy services, specialty pharmacy services, utilization review and quality improvement, compliance with grievance system, call center services, rebates and formulary management, reporting, service performance standards, subcontracting, and information data systems. For compensation, the Company pays EPS an administrative fee of a \$3.00 for Medicare and \$4.50 for commercial plans, and ancillary fees on a bi-monthly basis. Any overpayments or underpayments are reconciled through a charge or credit in a subsequent invoice. These service charges are based on an allocation of operational metrics for each business area under EPS. The CDI approved the PBM Agreement on September 3, 2021.

On November 29, 2022, the Company filed an Amended and Restated Administrative Pharmacy Services Agreement (Restated Agreement) with Centene Pharmacy Services, Inc. (CPS) (f/k/a Envolve Pharmacy Solutions, Inc.), its affiliate, to replace any existing agreements with EPS, with an effective date of January 1, 2023. Under the terms of the

Restated Agreement, CPS will continue to perform certain administrative functions related to the Company's prescription drug benefits. The compensation for services provided by CPS is based on actual costs. All fees are settled on a quarterly basis. The CDI approved the Restated Agreement on December 29, 2022.

Additionally, the Company is a party to various Administrative Services Agreements with other affiliates, Centene Corporation, Health Net Health Plan of Oregon, Inc., Health Net of Arizona, Inc., Health Net Federal Services, Health Net Pharmaceutical Services, Health Smart Preferred Care II, LP and HealthSmart Preferred Network II, Inc., Managed Health Network, and MHN Services. These agreements cover certain administrative services, managerial support, consulting and other support services. According to these agreements, the Company is to reimburse or charge its affiliates for the actual fair and reasonable pro rata costs and expenses incurred or utilize cost factors to calculate and allocate costs. These agreements and amendments were approved by the CDI on various dates in 2003 and subsequent years.

All balances incurred under the aforementioned affiliated agreements during the examination period were settled through the Amended Administrative Services Agreement among all affiliates. The Company paid \$254,176,288, \$214,470,199, \$356,736,101, \$167,925,284, and \$172,380,967 for 2018, 2019, 2020, 2021, and 2022, respectively, for services performed and provided by its affiliates (net of collected payments for services rendered).

#### TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company was licensed to sell life and accident and health products in the District of Columbia, and all states except Michigan and New York. The principal line of business written is health insurance. The Company concentrates on group and individual markets.

The Company offers preferred provider organization health, exclusive provider organization health, indemnity health, dental, vision, Medicare supplement, and life

insurance products, including group term life, accidental death and dismemberment, supplemental term life, and dependent term life. These products are marketed through sales employees and independent sales agents, except for the dental and vision products, which are marketed through strategic relationships with Dental Benefit Providers, Inc. (Optum Health Dental), a United Healthcare Company, and Envolve Vision, which subdelegates to EyeMed Vision Care, LLC.

In addition, the Company provides healthcare services to individuals through government-subsidized programs, including Medicare, through its contract with the Centers for Medicare and Medicaid Services.

In 2022, the Company wrote \$1,127,178,000 of direct premiums. Of the direct premiums written, \$933,133,000 (83%) was written in California, \$173,956,000 (15%) in Oregon, \$20,037,000 (1.8%) in Washington, and \$52,000 in the remaining states.

## REINSURANCE

### Assumed

The Company does not assume any business.

### Ceded

The Company is a party to a Quota Share Reinsurance Agreement with Health Net Life Reinsurance Company (HNLRC), an affiliate, effective January 1, 2004. Under the terms of this agreement, the Company cedes 50% of its California and other states' preferred provider organization (PPO) health business and medicare business to HNLRC. Since HNLRC is an unauthorized reinsurer, HNLRC had collateral trust deposits totaling \$402 million as of December 31, 2022 to support the recoverables reported by the Company. As of December 31, 2022, the Company reported outstanding net paid and unpaid reinsurance recoverables of \$88,101,834 with HNLRC.

The following is a summary of the unaffiliated ceded reinsurance agreements in-force as of December 31, 2022:

Type of Contract and Contract Description	Reinsurer(s)	Company's Retention	Reinsurer(s) Maximum Coverage
Yearly Renewal Term	Hartford Life & Accident Insurance Company (Authorized)	Group Life: \$75,000  Group Accidental Death & Dismemberment: 0%  Group Disability: 25%	Excess of \$75,000, with a maximum of \$400,000 per year  100% Quota Share; \$1 million maximum on the life of each insured  75% Quota Share
100% Coinsurance	United Healthcare Insurance Company (Authorized)	No retention	100% of cost covered under the plans and administered by Dental Benefit Providers, Inc.
Excess of Loss for Commercial Policy	PartnerRe America Insurance Company (Authorized)	Per Covered Person \$5 million	Maximum Coverage: \$5 million per covered person
Excess of Loss for Medicare Advantage	PartnerRe America Insurance Company (Authorized)	Per Covered Person \$5 million	Maximum Coverage: \$5 million per covered person
Facultative Group Long-Term Disability	Westport Insurance Corporation (f/k/a Employers Reinsurance Corporation) (Authorized)	Disability: 25% on contracts effective before 4/1/1994 (closed block)  Disability: 10% on contracts effective on or after 4/1/1994 (closed block)	75% coverage  90% coverage

The total paid and unpaid loss reinsurance recoverables reported by the Company were \$121,226,698, \$90,914,095, \$92,470,072, \$84,828,636, and \$88,220,460 as of year-end 2018, 2019, 2020, 2021, and 2022, respectively.

### ACCOUNTS AND RECORDS

An examination is conducted to determine the financial condition of insurance companies in accordance with the California Insurance Code (CIC) Sections 730(f), 733, and 734, and prescribed accounting practices as promulgated by the National Association of Insurance Commissioners (NAIC). One must consider, among other things, the results of financial statement analyses and ratios, have open access to all the books and papers of



the company, and conduct the examination in accordance with the NAIC's *Financial Condition Examiners Handbook* (Handbook), which requires the examination to evaluate the insurer's financial condition, assess corporate governance, identify current and prospective risks, and evaluate systems controls and procedures used to mitigate those risks.

As this is a coordination examination led by the state of Texas, many examination requests sent by Texas and other participating states, including California, experienced significant delays in obtaining access to various supporting documentation; the delayed time frame ranges from a few weeks to a few months. The many delayed and outstanding requests cover the group and the Company. The delays impacted the timely completion of the examinations. It also affected the examiner's ability to adequately observe, assess, verify, and evidence key functions.

As a result of the delays, it is determined that the Company is not in compliance with CIC Sections 730(f), 733, and 734. It is recommended that the Company comply with CIC Sections 730(f), 733, and 734 by providing timely and full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined. The documentation should be prepared in sufficient detail to allow for a full and complete audit trail.

Upon notification by the California Department of Insurance (CDI) during the examination, the Company acknowledged the delays experienced and added additional resources in responding to the examination requests, which resulted in more timely responses.

#### Annual Statement Instructions

Pursuant to the Statement of Statutory Accounting Principle (SSAP) No. 55 and the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners (NAIC) for Notes to the Financial Statements Number 14D, Claims Related Extra-Contractual Obligation and Bad Faith Losses Stemming from Lawsuits, the

Company shall disclose the dollar amount paid (for the extra-contractual and bad faith portion of the total claim amount) for claims related extra-contractual obligations and bad faith losses stemming from lawsuits, in the current reporting period on a direct basis.

The Company's Annual Statement Note to Financial Statements 14D was not prepared in accordance with the NAIC's Annual Statement Instructions and did not disclose the potential risks and/or uncertainties related to lawsuits in the manner or format required by the NAIC. The Company should compile its bad faith/extra-contractual litigation settlements arising from claims and disclose it annually in the Notes to Financial Statements in accordance with the NAIC Annual Statement Instructions. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions. Upon notification by the CDI during the examination, the Company acknowledged the oversight and agreed to revise its disclosure procedures.

#### Annual Information Statement Filing

Pursuant to CIC Section 701, in order to establish the Company's continuing qualification to hold a California Certificate of Authority, all insurers must complete an Annual Information Statement (AIS) covering the period from the past calendar year. Upon review, it was noted that no AIS filings were made during the examination period. It is recommended that the Company implement procedures to ensure compliance with CIC Section 701. Upon notification by the CDI during the examination, the Company acknowledged the oversight and has filed the AIS for the current year and ensure the future compliance with CIC Section 701.

## 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, 2022. These financial statements were prepared by management and are the responsibility of management. No adjustments were made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2022

Statement of Operations for the Year Ended December 31, 2022

Reconciliation of Capital and Surplus from December 31, 2017  
through December 31, 2022

Statement of Financial Condition  
as of December 31, 2022

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 341,175,697	\$	\$ 341,175,697	
Cash, cash equivalents and short-term investments	77,683,538		77,683,538	
Other invested assets	20,864,756		20,864,756	
Investment income due and accrued	3,341,425		3,341,425	
Premiums and agents' balances course of collection	1,640,461		1,640,461	
Contracts subject to redetermination	44,510,323		44,510,323	
Amounts recoverable from reinsurers	23,643		23,643	
Other amounts receivable under reinsurance contracts	3,192,851		3,192,851	
Amounts receivable relating to uninsured plans	2,850,587		2,850,587	
Current federal income tax recoverable	14,142,168		14,142,168	
Net deferred tax asset	10,750,552	1,080,273	9,670,279	
Receivables from parent, subsidiaries and affiliates	32,313,984		32,313,984	
Health care and other amounts receivable	25,634,134	23,695,575	1,938,559	
Aggregate write-ins for other than invested assets	801,868	640,019	161,849	
Total assets	<u>\$ 578,925,988</u>	<u>\$ 25,415,867</u>	<u>\$ 553,510,121</u>	
<u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Aggregate reserve for life contracts		\$	291,252	(1)
Aggregate reserve for accident and health contracts			12,548,741	(1)
Contract Claims: Life			281,100	(1)
Contract Claims: Accident and health			94,193,925	(1)
Premiums and annuity consideration received in advance			1,546,451	
Interest maintenance reserve			1,168,936	
Commissions to agents due or accrued			1,370,580	
General expenses due or accrued			6,232,871	
Taxes, licenses and fees			9,779,454	
Asset valuation reserve			1,679,677	
Payable to parent, subsidiaries and affiliates			6,739,327	
Liability for amounts held under uninsured plans			1,116,866	
Aggregate write-ins for liabilities			64,184,163	(2)
Total liabilities			201,133,343	
Common capital stock	\$	2,500,000		
Gross paid-in and contributed surplus		402,543,459		
Unassigned funds (surplus)		<u>(52,666,681)</u>		
Surplus as regards policyholders			<u>352,376,778</u>	
Total liabilities, surplus, and other funds			<u>\$ 553,510,121</u>	

Statement of Operations  
for the Year Ended December 31, 2022

Summary of Operations

Underwriting Income

Premiums and annuity consideration	\$ 563,126,978
Net investment income	12,193,836
Amortization of interest maintenance reserve	292,819
Commissions and expense allowances on reinsurance ceded	84,363,553
Aggregate write-ins for miscellaneous income	<u>1,790,761</u>
Total	\$ 661,767,947

Death Benefits	\$ 461,955
Disability benefits and benefits under accident and health contracts	496,211,770
Decrease in aggregate reserve for life and accident and health contracts	(2,154,281)
Commissions on premiums	39,604,949
General insurance expenses	97,792,887
Insurance taxes, licenses and fees excluding federal income taxes	36,185,668
Aggregate write-ins for deductions	10,328
Total	\$ 668,113,276

Net loss from operations before federal income taxes and net realized capital losses	(6,345,329)
Federal income taxes incurred	(3,914,786)
Net realized capital losses	<u>(11)</u>
Net Loss	<u>\$ (2,430,532)</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2021	\$ 353,281,392
Net Loss	\$ (2,430,532)
Change in net unrealized capital losses	3,234,211
Change in deferred income tax	(1,738,764)
Change in nonadmitted assets	(647,652)
Change in asset valuation reserve	<u>678,123</u>
Net change in capital and surplus for the year	<u>(904,614)</u>
Capital and Surplus, December 31, 2022	<u>\$ 352,376,778</u>

Reconciliation of Capital and Surplus  
from December 31, 2017 through December 31, 2022

Capital and Surplus, December 31, 2017			\$ 399,918,465
	Gain in Surplus	Loss in Surplus	
Net income	\$ 222,483,037	\$	
Change in net unrealized capital losses		658,418	
Change in net deferred income tax	11,479,443		
Change in nonadmitted assets	3,085,410		
Change in asset valuation reserve		945,913	
Dividend to stockholders		282,985,246	
Total gains and losses	\$ 237,047,890	\$ 284,589,577	
Net decrease in capital and surplus			(47,541,687)
Capital and Surplus, December 31, 2022			<u>\$ 352,376,778</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

- (1) Aggregate Reserve for Life Contracts
- (1) Aggregate Reserve for Accident and Health Contracts
- (1) Contract Claims: Life
- (1) Contract Claims: Accident and Health

An actuary from Texas Department of Insurance (TDI) performed the analysis on the reasonableness of the Group's life and accident and health reserves. Based on the analysis by the TDI and the review of their work by a Health Actuary from the California Department of Insurance, the Company's December 31, 2022 life and accident and health reserves were found to be reasonably stated and have been accepted for purposes of this examination.

### (2) Aggregate Write-ins for Liabilities

The Company reported aggregate write-ins for liabilities totaling \$64,184,163. Of the total liability, \$62,632,069 represents a payable not currently due to the Company's affiliated reinsurer, Health Net Life Reinsurance Company (HNLRC), under the terms of a 50% quota share reinsurance agreement. As noted under the caption "Reinsurance – Ceded" elsewhere in this examination report, the Company cedes 50% off its California based PPO health business and Medicare business to HNLRC. The \$62,632,069 payable represents the net of 50% of the Company's assets less 50% of its liabilities related to the ceded PPO health and Medicare business. The remaining payable balance consists primarily of checks issued \$1,395,028 and still outstanding.

## SUBSEQUENT EVENTS

Starting in 2023, the Company made a strategic business plan to move its individual and group preferred provider organization (PPO) line of business to its immediate parent, Health Net of California (HNCA). The decision was made to consolidate its commercial

business into one entity, HNCA, for its group and individual products in order to simplify business processes, create efficiencies, and lower operational expenses.

As of January 1, 2024, all individual and group PPO products have moved to HNCA. The Company retains its indemnity, dental, vision, Medicare, Medicare supplement, behavioral health, and life insurance products.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records – California Insurance Code (CIC) Sections 730(f), 733, and 734 (Page 14): It is recommended that the Company comply with CIC Sections 730(f), 733, and 734 by providing timely and full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail. Upon notification by the California Department of Insurance (CDI) during the examination, the Company acknowledged the delays experienced and has added additional personnel, which resulted in more timely responses.

Accounts and Records – Annual Statement Instructions (Page 15): It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions. Upon notification by the CDI during the examination, the Company acknowledged the errors made and agreed to revise its disclosures procedures.

Accounts and Records – Annual Information Statement Filing (Page 16): It is recommended that the Company implement procedures to ensure compliance with CIC Section 701. Upon notification by the CDI during the examination, the Company acknowledged the errors made and has filed an AIS for the current year, and will make filings for the prior and future years.



### Previous Report of Examination

Management Agreements – Amended & Restated Administrative Services Agreement (Page 7): It is recommended that the Company perform necessary procedures to ensure the proper implementation of cost allocation methods in accordance with the terms of the agreement. The Company has complied with the recommendation.

## 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,

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Senior Insurance Examiner  
Department of Insurance  
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