

REPORT OF EXAMINATION  
OF THE  
HEALTH NET LIFE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2014

Filed on June 17, 2016

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Los Angeles, California  
June 15, 2016

Honorable Dave Jones  
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) at its statutory home office 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 made as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2014.

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 included 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 and California was the lead state. The state of Arizona participated in the examination. This examination was conducted concurrently with Health Net of Arizona, Inc.

## COMPANY HISTORY

### Capitalization

During 2014, the Company received a total of \$120 million as cash contribution to its surplus from its parent, Health Net of California, Inc.

### Dividends Paid to Parent

In April 2011, the Company paid an ordinary dividend of \$41 million in securities to its immediate parent, Health Net of California (HNCA).

In July 2011, the California Department of Insurance (CDI) approved the Company's request for an extraordinary cash dividend of \$53 million to HNCA.

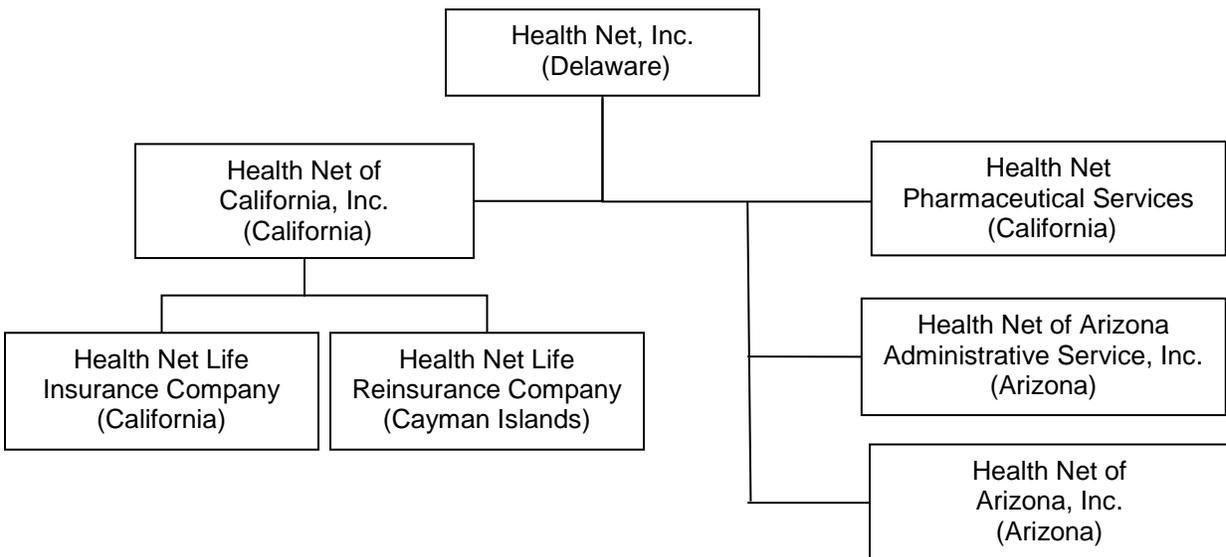
In August 2012, the CDI approved the Company's request for an extraordinary cash dividend of \$100 million to HNCA.

In August 2013, the Company paid an ordinary cash dividend of \$45 million to HNCA.

On December 6, 2013, the Company made a return of paid-in surplus to HNCA, with bonds with a fair market value of \$80,000,000, after obtaining the approval of the Department.

### MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Health Net of California, Inc. (HNCA) and is ultimately owned by Health Net, Inc. (HNI). The following chart depicts the interrelationship of the Company within the holding company system at December 31, 2014:



All ownership is 100%

Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2014 follows:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Patricia T Clarey Studio City, California	Chief State Health Program and Regulatory Relations Officer Health Net, Inc.
Scott D. Law Woodland Hills, California	Health Care Services Officer Health Net, Inc.
Steven J. Sell Mill Valley, California	President, West Region Health Plan Health Net, Inc.
Larry S. Tallman Tiburon, California	Vice President Health Net Life Insurance Company
Steven D. Tough Santa Monica, California	Chairman of the Board Health Net Life Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Steven J. Sell	President
Roupen Berberian	Vice President, Chief Financial Officer, and Treasurer
Steven D. Sickle	Secretary

Management Agreements

Administrative Services Agreements: The Company entered into various administrative services agreements with Health Net, Inc. (HNI), Health Net of California, Inc. (HNCA), Health Net Health Plan of Oregon, Inc., Health Net of the Northeast, Inc., Health Net of Arizona, Inc., Health Net Federal Services, Health Net Pharmaceutical Services, and

MHN Services. The agreements cover certain administrative services, managerial support, consulting and other support services including executive, government relations, internal audit, legal, finance, human resources, marketing, medical management, government programs, actuarial and underwriting, membership accounting, purchasing, and IT administration services and support. 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 California Department of Insurance (CDI) on various dates in 2003 and subsequent years.

The Company was charged \$191,290,548, \$189,742,817, \$179,471,096, \$117,575,626, and \$110,783,121 for 2010, 2011, 2012, 2013, and 2014, respectively, for services provided by its affiliates. The Company charged payments of \$1,340,854, \$1,065,103, \$1,113,008, \$1,218,083, and \$2,338,470 for services rendered to affiliates for 2010, 2011, 2012, 2013, and 2014, respectively.

Tax Reimbursement Agreement: The Company and its affiliates have a Tax Reimbursement Agreement with its ultimate parent, HNI, effective January 1, 2007, to file federal income taxes on a consolidated basis. According to the agreement, the Company pays HNI an amount equal to a separate return tax liability. If the Company is entitled to a tax credit or incurs a net operating loss during a taxable period, HNI will apply such credit to the Company. The agreement was approved by the CDI on September 17, 2008 and its amendment on November 30, 2009.

#### TERRITORY AND PLAN OF OPERATION

The Company offers preferred provider organization health plans, exclusive provider organization health plans, point of service health plans (discontinued in 2015), indemnity health, dental, vision, Medicare supplemental, Medicare Advantage PPO, behavioral health, and life insurance products. The Company's life insurance products include group term life, individual term life, accidental death and dismemberment,

supplemental term life, and dependent term life.

The Company entered into an annual “risk-based” Medicare contract with the Center for Medicare and Medicaid Services (CMS). Under the risk-based contract, the Company is paid a fixed per-member, per-month amount by CMS for all services provided. The Company bears the risk that the actual costs of health care services may exceed the per-member per-month amount paid by CMS.

As of December 31, 2014, the Company was licensed to sell life and accident and health products in all states except New York. The Company is also licensed in the District of Columbia. The principal line of business written is health insurance. The Company concentrates on the small group and individual market.

In 2014, the Company wrote \$1.56 billion of direct premiums. Of the direct premiums written, \$893 million (57.3%) was written in California, \$343 million (22%) in Oregon, \$289 million (18.5%) in Arizona, and \$35 million (2.2%) in the remaining states.

## REINSURANCE

### Assumed

The Company does not assume any business.

### Ceded

The Company is party to an affiliated quota share reinsurance agreement with Health Net Life Reinsurance Company (HNLRC), an authorized affiliate. Under the terms of this agreement, the Company cedes 50% of its California Company preferred provider organization health business and Medicare business to HNLRC. Since HNLRC is considered an unauthorized reinsurer, HNLRC had trust deposits totaling \$95 million as of December 31, 2014 to support the ceded reserve credits taken by the Company.

As of December 31, 2014, the Company had life insurance in force of \$236,194,000, including \$655,000, which was reinsured under renewable term reinsurance contracts. The Company is reinsured for all death claims over \$75,000 and less than \$400,000, and all accidental death and dismemberment claims. For the year ended December 31, 2014, reinsurance premiums totaled \$87,641, and reinsurance recoveries totaled \$(44,605).

### ACCOUNTS AND RECORDS

The California Department of Insurance (CDI) engaged an independent firm to review the Company's Information Systems (IT). As a result of this review, some low risk findings were noted in controls and were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate the recommendations and make appropriate changes to strengthen its information system controls.

### FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements as filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. 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, 2014

Statement of Revenue and Expenses for the Year Ended December 31, 2014

Reconciliation of Capital and Surplus from December 31, 2009  
through December 31, 2014

Statement of Financial Condition  
as of December 31, 2014

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 342,918,903	\$	\$ 342,918,903	
Cash and short-term investments	(28,848,556)		(28,848,556)	
Contract loans	9,779		9,779	
Investment income due and accrued	3,286,697		3,286,697	
Premiums and agents' balances in course of collection	24,705,280	5,748,390	18,956,890	
Accrued retrospective premiums	42,034,830		42,034,830	
Amount recoverable from reinsurers	92,732,513		92,732,513	
Other amounts receivable under reinsurance contracts	446,000		446,000	
Amounts receivable relating to other uninsured plans	12,125,841		12,125,841	
Net deferred tax asset	7,067,375	208,458	6,858,917	
Receivables from parent, subsidiaries and affiliates	84,231,728	370	84,231,358	
Health care and other amounts receivable	26,455,110	16,118,233	10,336,877	
Aggregate write-ins for other than invested assets	<u>41,502,853</u>	<u>2,564,880</u>	<u>38,937,973</u>	
 Total assets	 <u>\$ 648,668,353</u>	 <u>\$ 24,640,331</u>	 <u>\$ 624,028,022</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life contracts			\$ 333,233	(1)
Aggregate reserves for accident and health contracts			4,790,560	(1)
Contract Claims: Life			393,750	(1)
Contract Claims: Accident and health			163,083,434	(1)
Premiums and annuity consideration received in advance			26,610,680	
Provisions for experience rating refunds			2,098,209	(1)
Interest maintenance reserve			8,553,233	
Commissions to agents due or accrued			5,476,859	
General expenses			7,235,264	
Taxes, licenses and fees			9,679,820	
Current federal and foreign income taxes			1,294,854	
Unearned investment income			456	
Remittances and items not allocated			4,814,964	
Asset valuation reserve			1,374,950	
Payable to parent, subsidiaries and affiliates			3,762,427	
Liability for amounts held under uninured plans			790,092	
Aggregate write-ins for liabilities			<u>19,857,125</u>	
 Total liabilities			 260,149,910	
 Common capital stock	 \$ 2,500,000			
Gross paid-in and contributed surplus		357,518,685		
Aggregate write-ins		30,500,000		
Unassigned funds (surplus)		<u>(26,640,573)</u>		
Surplus as regards policyholders			<u>363,878,112</u>	
 Total liabilities, surplus and other funds			 <u>\$ 624,028,022</u>	

Statement of Revenue and Expenses  
for the Year Ended December 31, 2014

Statement of Income

Underwriting Income

Premiums and annuity consideration	\$1,040,859,890	
Net investment income	8,628,879	
Amortization of interest maintenance reserve	3,417,780	
Commissions and expense allowances on reinsurance ceded	76,914,000	
Aggregate write-ins for miscellaneous income	<u>5,493,018</u>	

Total \$1,135,313,567

Death Benefits	\$ 697,500
Disability benefits and benefits under accident and health contracts	881,626,060
Interest and adjustments on contract funds	11,388
Increase in aggregate reserves for life and accident and health contracts	4,210,945
Commissions on premiums	58,363,329
General insurance expenses	122,723,974
Insurance taxes, licenses and fees excluding federal income taxes	71,999,681
Aggregate write-ins for deductions	<u>2,844</u>

Total \$1,139,635,721

Net loss from operations before federal income taxes and net realized capital losses	(4,322,154)
Federal income taxes incurred	<u>4,963,327</u>

Net Loss \$ (9,285,481)

Capital and Surplus Account

Capital and Surplus, December 31, 2013		\$ 257,180,319
Net Loss	\$ (9,285,481)	
Change in net deferred income tax	1,289,751	
Change in nonadmitted assets	(5,337,391)	
Change in asset valuation reserve	30,068	
Surplus adjustments: Paid-in	<u>120,000,846</u>	
Change in surplus as regards policyholders for the year		<u>106,697,793</u>
Capital and Surplus, December 31, 2014		<u>\$ 363,878,112</u>



## COMMENTS ON FINANCIAL STATEMENT ITEMS

- (1) Contract Claims: Life  
Contract Claims: Accident and Health  
Aggregate Reserve for Life Contracts  
Aggregate Reserve for Accident and Health Contracts  
Provision for Experience Rating Refunds

The Company's reserves were reviewed by a Life Actuary from the California Department of Insurance (CDI). The CDI actuary determined that the reserves were fairly stated.

## SUBSEQUENT EVENTS

On July 2, 2015, the Company's ultimate parent, Health Net, Inc., and Centene Corporation ("Centene"), a Texas corporation entered into an Agreement and Plan of Merger, of which Centene will acquire all outstanding shares of Health Net, Inc.

On March 22, 2016 the California Department of Insurance approved the acquisition of Health Net Inc. by Centene.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records (Page 8): As the result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

### Previous Report of Examination

None

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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/

Cuauhtemoc Beltran, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California

/S/

Aram Shahenian, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
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