



Paul R. LePage  
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

May 15, 2015

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

Dear Superintendent:

Pursuant to the provisions of 24-A M.R.S.A. §221 and in conformity with your instructions, a financial examination has been made of

**ANTHEM HEALTH PLANS OF MAINE, INC.**

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



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**REPORT OF EXAMINATION**  
**ANTHEM HEALTH PLANS OF MAINE, INC.**  
**AS OF**  
**DECEMBER 31, 2013**

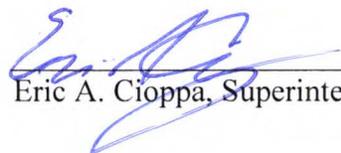
**ACCEPTANCE OF REPORT OF EXAMINATION**

WHEREAS, a verified report of examination of Anthem Health Plans of Maine, Inc. dated May 15, 2015 was delivered to that insurer on June 15, 2015 and;

WHEREAS, no hearing with respect to the report of examination has been requested by Anthem Health Plans of Maine, Inc.;

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.A. §226 (3).

Dated: June 29, 2015

  
Eric A. Cioppa, Superintendent

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## SCOPE OF EXAMINATION

Anthem Health Plans of Maine, Inc. (hereinafter, "Company" or "AHPM") was last examined as of December 31, 2010, by the State of Maine Bureau of Insurance. This examination covered the period from January 1, 2011, to December 31, 2013.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (hereinafter, "NAIC"), and consisted of a review of the Company's operations, controls, and corporate governance, assessment of current and prospective risk, valuation of assets, and determination of liabilities at December 31, 2013, in conformity with statutory accounting practices, NAIC guidelines, the 2014 Financial Condition Examiners Handbook and the laws, rules, and regulations prescribed or permitted by the State of Maine.

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.A. §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 COMMENTS**

#### **Comment 1:**

Review of the minutes indicates that the Company is in substantial compliance with its articles and bylaws, and with 24-A M.R.S.A. Chapter 47. The examiners did note the following two issues:

- a. The 2007 annual meeting was not held by the end of May as required by the bylaws, and
- b. The unanimous consent for the May 9, 2009, annual meeting was signed by only three (3) of the seven (7) directors.

#### **Status:**

The Company has adequately responded to this comment.

**Comment 2:**

The examiners reviewed the master administrative services agreement, the tax agreement, the tax footnote disclosure (note 9 F), schedule Y of the annual statement and exhibit 21 of the Securities and Exchange Commission's Form 10-K. The examiners noted that certain entities listed in the agreements have either been dissolved, renamed, or sold, but the agreements have not been updated to reflect these changes.

**Status:**

The Company has adequately responded to this comment.

**Comment 3:**

A review of the annual statement indicates that the Company is not disclosing the insolvency reinsurance agreement or the quota share reinsurance agreement in the notes of the annual statement (see note 23).

**Status:**

The Company has adequately responded to this comment.

**CURRENT EXAMINATION COMMENTS**

None noted.

**THE COMPANY**

**HISTORY**

The Company was incorporated on March 10, 2000, in anticipation of the acquisition of Associated Hospital Service of Maine d/b/a Blue Cross and Blue Shield of Maine (hereinafter, "BCBSME"), by Anthem Insurance Companies, Inc. (hereinafter, "AICI"). By decision and order dated May 25, 2000, the Superintendent of Insurance (hereinafter, "Superintendent") granted the application of BCBSME to convert to a for-profit stock insurer and to voluntarily dissolve. The decision and order also approved the application of AICI, through AHPM, to acquire substantially all of the assets and assume substantially all of the liabilities of the converted BCBSME. The assets acquired included the stock and ownership interests in affiliates and subsidiaries of BCBSME. The decision and order additionally granted AHPM a certificate of authority to operate as a health insurer with a health maintenance organization (hereinafter, "HMO") line of business.

At the time AHPM was incorporated, AICI was the ultimate controlling person in the insurance holding company system. AICI converted from a mutual insurance company to a stock insurance company on November 2, 2001, and, as part of the conversion, it became a wholly-owned subsidiary of Anthem, Inc., a new Indiana stock corporation created for the purpose of being the public holding company for the Anthem family of companies.

On December 21, 2000, the Superintendent approved the January 1, 2001, merger of Central Maine Partners Health Plan, Inc. with its parent, AHPM. Central Maine Partners Health Plan, Inc. ceased operations on December 31, 2000, and merged into AHPM on January 1, 2001.

On November 23, 2004, the Superintendent approved the merger of Maine Partners Health Plan, Inc. with its parent, AHPM. Maine Partners Health Plan, Inc. merged with its parent AHPM on January 1, 2005.

On November 30, 2004, Anthem, Inc. completed its acquisition of California-based WellPoint Health Networks Inc. and changed its name to WellPoint, Inc. (hereinafter, "WLP").

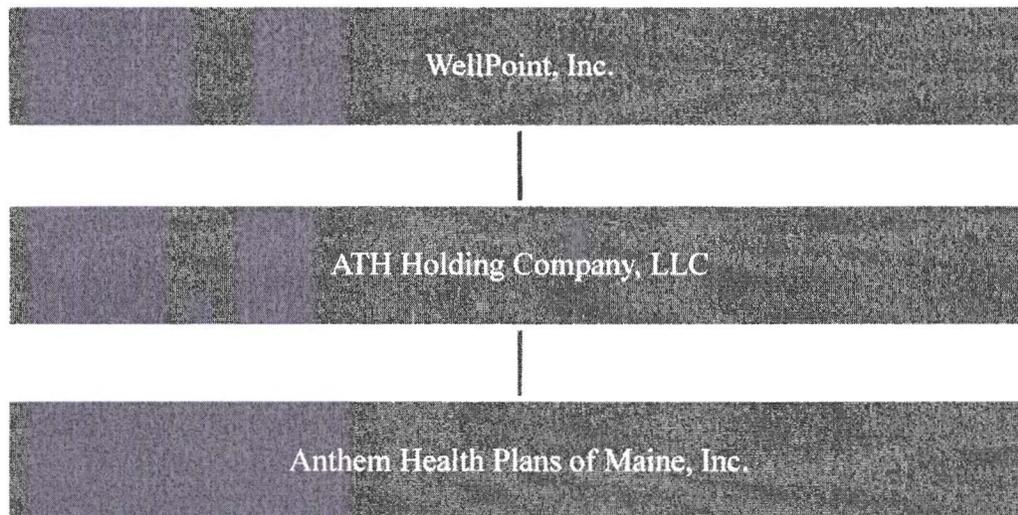
Effective December 28, 2006, Anthem East, LLC, the sole shareholder of AHPM, merged with and into ATH Holding Company, LLC (hereinafter "ATH"), making that company the new shareholder of AHPM.

Effective December 2, 2014, WLP changed their name to Anthem, Inc.

**MANAGEMENT AND CONTROL**

The Company is a wholly-owned subsidiary of ATH whose ultimate parent is WLP.

An abbreviated organizational chart as of December 31, 2013 is presented below:



**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 the management team of the Company as well as the board of directors of WLP and committees thereof.

As of December 31, 2013, the board of directors of the Company consisted of the following members:

<u>Name</u>	<u>Title</u>
Daniel Patrick Corcoran	Chairperson
Carter Allen Beck	Director
Wayne Scott DeVeydt	Director
John Edward Gallina	Director
Catherine Irene Kelaghan	Director
Kathleen Susan Kiefer	Director
Robert David Kretschmer	Director

As of December 31, 2013, the officers of the Company consisted of the following individuals:

<u>Name</u>	<u>Title</u>
Daniel Patrick Corcoran	President and Chairperson
Kathleen Susan Kiefer	Secretary
Robert David Kretschmer	Treasurer
Lendall Libby Smith, Esq.	Assistant Secretary and Clerk
Eric (Rick) Kenneth Noble	Assistant Treasurer
Timothy Paul Deno	Valuation Actuary

At December 31, 2013, WLP's board of directors consisted of 10 individuals. Other than Joseph R. Swedish, President and Chief Executive Officer, all directors were outside directors. The WLP board has responsibility for establishing broad corporate policies and for overall performance.

The WLP board of directors has four standing committees. These committees include audit, compensation, executive and governance. The duties and responsibilities of the committees are set forth in WLP's and each entity's by-laws and committee charters as applicable. With the exception of the executive committee, all standing committees of the board are comprised entirely of independent directors.

### **TRANSACTIONS WITH AFFILIATES**

Amounts due to or receivable from the parent, subsidiaries, and affiliates represent the amounts payable or receivable under the inter-company administrative, service, and tax sharing agreements. The Company had the following agreements with affiliates at December 31, 2013:

<u>Company Providing Service</u>	<u>Service Provided</u>
WellPoint, Inc.	Master Administrative Services Agreement
WellPoint, Inc.	Cash Concentration Agreement
Wellpoint, Inc. & Subsidiaries	Consolidated Federal Income Tax Agreement
Meridian Resource Company, LLC	Claim Recovery Service Agreement
Bloom Health Corp.	Services Agreement

On December 5, 2013, the Company declared an ordinary dividend of \$39,900,000 which was paid to its parent, ATH on December 20, 2013.

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

The Company is licensed to write accident and health insurance, including HMO products, in the State of Maine. Presently, the Company offers a wide variety of managed care and indemnity health insurance options to individuals and groups within the State of Maine. These products are offered to both fully insured and “administrative services only” plans. In addition to providing managed care, the Company participates in the Medicare program regulated by the Centers for Medicare & Medicaid Services.

### **REINSURANCE**

The Company has two reinsurance agreements with AICI. The first coverage is a quota share agreement that provides surplus relief and would only be triggered by certain risk based capital ratios. The second coverage is an insolvency reinsurance agreement. These agreements represent compliance with ¶10 and ¶11 of the May 25, 2000, decision and order.

At December 31, 2013, the Company was a member of the Maine Guaranteed Access Reinsurance Association (hereinafter, “MGARA”). MGARA was established pursuant to Maine Public Law Chapter 90, “An Act to Modify Rating Practices for Individual and Small Group Health Plans and to Encourage Value-based Purchasing of Health Care Services” (hereinafter, “PL90”). Included in the many components of PL90 was the establishment of MGARA as a reinsurance program for the higher risk segment of Maine’s individual health insurance market.

Effective January 1, 2014, the MGARA reinsurance program was suspended. Suspension of the program was due to the establishment of a temporary uniform national reinsurance program (hereinafter, “national program”) to be operated across all fifty states in the years 2014, 2015, and 2016 as part of the federal Patient Protection and Affordable Care Act. Beginning January 1, 2014, the Company participated in the national program.

## **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 Maine Bureau of Insurance and thus the Maine Bureau of Insurance does not express an opinion on the financial statements as a whole.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS  
AS OF DECEMBER 31, 2013**

Assets:

Bonds	\$ 195,960,781
Real estate - occupied	8,055,018
Cash & short-term investments	(24,462,891)
Other invested assets	205,702
Investment income due and accrued	2,075,699
Uncollected premiums and agents balances	21,119,529
Deferred premiums, agents' balances and installments	17,241,485
Accrued retrospective premiums	811,213
Amounts recoverable from reinsurers	6,835,260
Amounts receivable relating to uninsured plans	17,397,561
Net deferred tax asset	14,572,197
Electronic data processing equipment & software	73,844
Receivables from parent, subsidiaries, and affiliates	31,518,079
Healthcare amounts receivable	68,416,230
Aggregate write-ins for other than invested assets	57,766,850
Total assets	<u>\$ 417,586,557</u>

Liabilities:

Claims unpaid less reinsurance ceded	\$ 89,692,801
Accrued medical incentive pool and bonus amounts	115,488
Unpaid claims adjustment expenses	2,140,362
Aggregate health policy reserves	101,268,916
Aggregate health claim reserves	1,177,990
Premiums received in advance	12,289,600
General expenses due or accrued	5,021,402
Current federal income tax payable and interest thereon	1,103,459
Ceded reinsurance premiums payable	812,919
Amounts withheld or retained for the account of others	318,291
Remittances and items not allocated	2,268,098
Amounts due to parent, subsidiaries, and affiliates	20,856,748
Liability for amounts held under uninsured plans	7,915,760
Aggregate write-ins for other liabilities	9,475,956
Total liabilities	<u>254,457,790</u>

Capital and Surplus:

Common capital stock	2,500,000
Gross paid in & contributed surplus	120,652,900
Unassigned funds	39,975,867
Total Capital and Surplus:	<u>163,128,767</u>
Total Liabilities, Capital and Surplus	<u>\$ 417,586,557</u>

**STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2013**

Member months	3,948,805
Net premium income	\$ 1,046,112,967
Change in unearned premium reserves and reserve for rate credits	<u>(15,311,564)</u>
Total revenues	<u>1,030,801,403</u>
Hospital medical benefits	704,883,599
Other professional services	8,460,692
Emergency room and out-of-area	31,805,050
Prescription drugs	158,306,906
Incentive pool, withhold adjustments, and bonus amounts	<u>1,278,018</u>
Subtotal	904,734,265
Less: net reinsurance recoveries	<u>23,813,108</u>
Total hospital and medical	880,921,157
Claims adjustment expenses, including cost containment expenses	29,079,545
General administrative expenses	<u>62,677,317</u>
Total underwriting deductions	<u>972,678,019</u>
Net underwriting gain	<u>58,123,384</u>
Net investment income earned	9,243,340
Net realized capital gains net of capital gains tax	<u>1,241,718</u>
Net investment gains	<u>10,485,058</u>
Net gain from agents' or premium balances recovered	73,102
Aggregate write-ins for other income or expenses	<u>16,242</u>
Net income after capital gains tax and before federal income taxes	68,697,786
Federal income taxes incurred	<u>20,327,923</u>
Net income	<u>\$ 48,369,863</u>

**STATEMENT OF CAPITAL AND SURPLUS  
YEAR ENDED DECEMBER 31, 2013**

Capital and surplus, December 31, 2012	\$ 142,789,377
Net income	48,369,863
Change in unrealized capital gains (losses) net of capital gains tax	(14,331)
Change in net deferred income tax	(10,527,154)
Change in nonadmitted assets	22,411,012
Dividends to stockholders	<u>(39,900,000)</u>
Net change in capital and surplus	20,339,390
Capital and surplus, December 31, 2013	<u>\$ 163,128,767</u>

## COMMENTS ON THE FINANCIAL STATEMENTS

### RESERVES

Merlinos & Associates, Inc. was engaged to provide actuarial assistance with the financial examination of AHPM as of December 31, 2013. The summary of the actuarial work performed and the associated opinion is included as Appendix A attached hereto.

### CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the three year period since our last examination:

#### STATEMENT OF CAPITAL AND SURPLUS THREE YEAR PERIOD ENDED DECEMBER 31, 2013

Capital and surplus, December 31, 2010	\$	229,181,437
Net income		133,256,290
Change in net unrealized capital gains or (losses), net of capital gains tax		(12,292)
Change in net deferred income tax		(2,187,578)
Change in nonadmitted assets		(2,961,658)
Cumulative effect of changes in accounting principles		5,176,069
Dividends to stockholders		(198,700,000)
Aggregate write-ins for gains or (losses) in surplus		(623,501)
Capital and surplus, December 31, 2013	\$	<u>163,128,767</u>

### SUBSEQUENT EVENTS

Anthem, Inc. included the following disclosure in its 10-Q for the quarterly period ended March 31, 2015:

“In February 2015, we reported that we were the target of a sophisticated external cyber attack. The attackers gained unauthorized access to certain of our information technology systems and obtained personal information related to many individuals and employees, such as names, birthdays, health care identification/social security numbers, street addresses, email addresses, phone numbers and employment information, including income data. To date, there is no evidence that credit card or medical information, such as claims, test results or diagnostic codes, were targeted, accessed or obtained, although no assurance can be given that we will not identify additional information that was accessed or obtained.

Currently, we are in the process of addressing the cyber attack and supporting federal law enforcement efforts to identify the responsible parties. Upon discovery of the cyber attack, we took immediate action to remediate the security vulnerability and retained a cybersecurity firm to evaluate our systems and identify solutions based on the evolving landscape. We will provide credit monitoring and identity protection services to those who have been affected by this cyber attack. While the cyber attack did not have an impact on our business, cash flows, financial condition and results of operations for the year ended December 31, 2014, we have incurred expenses subsequent to the cyber attack to investigate and remediate this matter and expect to continue to incur expenses of this nature in the foreseeable future. Although we are unable to quantify the ultimate magnitude of such expenses and any other impact to our business from this incident at this time, they may be significant. We will recognize these expenses in the periods in which they are incurred.

Actions have been filed in various federal and state courts and other claims have been or may be asserted against us on behalf of current or former members, current or former employees, other individuals, shareholders or others seeking damages or other related relief, allegedly arising out of the cyber attack. State and federal agencies, including state insurance regulators, state attorneys general, the Health and Human Services Office of Civil Rights and the Federal Bureau of Investigations, are investigating events related to the cyber attack, including how it occurred, its consequences and our responses. Although we are cooperating in these investigations, we may be subject to fines or other obligations, which may have an adverse effect on how we operate our business and our results of operations. With respect to the civil actions, a motion to transfer was filed with the Judicial Panel on Multidistrict Litigation on February 10, 2015 and will be heard by the Panel on May 28, 2015.

We have contingency plans and insurance coverage for certain expenses and potential liabilities of this nature, however, the coverage may not be sufficient to cover all claims and liabilities. While a loss from these matters is reasonably possible, we cannot reasonably estimate a range of possible losses because our investigation into the matter is ongoing, the proceedings remain in the early stages, alleged damages have not been specified, there is uncertainty as to the likelihood of a class or classes being certified or the ultimate size of any class if certified, and there are significant factual and legal issues to be resolved.”

The cyber attack and data breach announcement was made by Anthem during the ongoing financial examination. On March 14, 2015, the Indiana Department of Insurance called a multi-state targeted market conduct examination to investigate the cyber-attack and data breach. Maine is a lead state in the multi-state targeted examination which is still in progress and has not reached any conclusions.

AHPM included the following disclosure in its Annual Statement for the period ending December 31, 2013:

“On January 1, 2014, the Company will be subject to an annual fee under section 9010 of the Affordable Care Act (“ACA”). This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity’s net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar 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, 2014. As of December 31, 2013, the Company has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2014, and estimates their portion of the annual health insurance industry fee to be payable on September 30, 2014 to be \$14,808,000.”

AHPM disclosed in its Annual Statement for the period ending December 31, 2014 that the ACA fee paid in 2014 was \$13,442,456. AHPM also disclosed an ACA fee assessment payable for 2015 of \$18,002,175.

#### **SUMMARY OF RECOMMENDATIONS**

There are no report level recommendations.

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

Vanessa J. Leon, 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

**ANTHEM HEALTH PLANS OF MAINE, INC.**

located in South Portland, Maine as of December 31, 2013, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. The examination was completed by Noble Consulting Services, Inc. The following examiners from the Maine Bureau of Insurance assisted:

Vanessa J. Leon, CFE

  
Vanessa J. Leon, CFE

Subscribed and sworn to before me  
This 29<sup>th</sup> day of June, 2015

  
Notary Public  
My Commission Expires: 4-27-2022

**APPENDIX A – STATEMENT OF ACTUARIAL OPINION**

**Statement of Actuarial Opinion  
Annual Statement for the Year Ended December 31, 2013**

**RESERVES / OPINION**

Merlinos & Associates, Inc. (“Merlinos”) was engaged to provide actuarial assistance with the financial examination of Anthem Health Plans of Maine, Inc. as of December 31, 2013. Our review of the carried reserves was performed within the framework of the Risk-Focused examination approach currently adopted by the National Association of Insurance Commissioners (NAIC). Our review included participation in interviews and discussions with key personnel, review of controls and processes in place around the reserving process, a review of the work performed by the Appointed Actuary as documented in the Actuarial Memorandum, a review of the conclusions reached by independent auditor E&Y regarding the adequacy of the carried reserves, and a review of the one-year runoff of the December 31, 2013 carried reserves as of December 31, 2014. We note that the reserves ran off favorably.

Based on the work performed, it is our opinion that the amounts carried by Anthem Health Plans of Maine, Inc. in their 2013 Statutory Annual Statement, Page 3 (Items 1 through 7):

- A. meet the requirements of the insurance laws of the State of Maine;
- B. are consistent with reserves that are computed in accordance with accepted loss reserving standards and principles; and,
- C. make a reasonable provision for all unpaid claims, claim adjustment expense, and other obligations under the terms of its policies and agreements.

<b>Annual Statement Page 3, December 31, 2013</b>		
<b>Line Number</b>	<b>Description</b>	<b>Carried Amount</b>
1	Claims unpaid	\$ 89,692,801
2	Accrued medical incentive pool and bonus amounts	115,488
3	Unpaid claims adjustment expenses	2,140,362
4	Aggregate health policy reserves	101,268,916
5	Aggregate life policy reserves	-
6	Property/casualty unearned premium reserves	-
7	Aggregate health claim reserves	1,177,990

We did not find any material issues with the claim reserves controls, or with the accuracy of calculations or the reasonability of the reserves. Further, we found that the Appointed Actuary’s

**Anthem Health Plans of Maine, Inc.**

**Statement of Actuarial Opinion  
Annual Statement for the Year Ended December 31, 2013**

analysis and conclusions regarding the carried reserves are reasonable. Therefore, we do not consider an adjustment of reserves to be merited.



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June 11, 2015