



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

After full consideration and review of the report of the financial examination of Cox Health Systems Insurance Company for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: subsequent events, summary of significant findings, company history, corporate records, management and control, territory and plan of operations, reinsurance, financial statements, financial statement changes resulting from examination, comments on financial statement items, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Cox Health Systems Insurance Company as of December 31, 2015 be and is hereby ADOPTED as filed and for Cox Health Systems Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 14th day of June, 2017.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF
COX HEALTH SYSTEMS
INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2015**



FILED
JUN 26 2017
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI**

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Springfield, Missouri
March 31, 2017

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Director Lindley-Myers:

In accordance with the financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Cox Health Systems Insurance Company

hereinafter referred to as such, as CHSIC, or as the Company. Its administrative office is located at 3200 South National, Springfield, Missouri 65807, telephone number 417-269-2900. The fieldwork for this examination began on November 21, 2016 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) has performed a single-state examination of Cox Health Systems Insurance Company. The last examination covered the period of January 1, 2008 through December 31, 2011 and was also conducted by examiners from the Missouri DIFP. This examination covers the four year period from January 1, 2012 through December 31, 2015. This examination was performed concurrently with the examination of Company's direct parent, Cox Health Systems HMO, Inc. (CHMO).

This examination also includes the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations of the Missouri DIFP and statutes of the State of Missouri prevailed.

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 of the Company 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 approach. 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.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not communicated within the examination report but separately communicated to other regulators and/or the Company.

Reliance Upon Others

The examination also relied upon information supplied by the Company's independent auditor, BKD, LLP of Fort Wayne, Indiana for its audit covering the period from January 1, 2015 through December 31, 2015. The items relied upon included, but were not limited to, narrative descriptions of processes and controls, investment confirmations and attorney letters.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2015 through the date of the examination report.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

Cox Health Systems Insurance Company was incorporated on March 31, 1994, and commenced business on January 4, 1995, under Chapter 376 RSMo (Life, Health and Accident Insurance). As of December 31, 2015, the Company has only written group and individual health insurance.

Capital Contributions

Cox Health Systems HMO, Inc. owns 100% of the issued and outstanding common stock of CHSIC, and is therefore, the direct parent of CHSIC. During the examination period, CHMO made the following capital contributions to CHSIC:

<u>Year Contributed</u>	<u>Amount Contributed</u>
2012	\$2,500,000
2013	3,000,000
2015	3,000,000

Dividends

The Company has neither declared nor paid any dividends since inception.

Mergers and Acquisitions

Effective December 30, 2013, a nonprofit entity entitled CoxHealth was created and was thereby structured as the ultimate controlling entity of CHSIC. Effective January 1, 2015, the Company's articles of incorporation were amended, converting CHSIC to a nonprofit corporation.

Surplus Debentures

In 1997, CHSIC issued a surplus note to its parent, Cox Health Systems HMO, Inc., with a par value of \$1.4 million. There have been no payments of interest or principle on the surplus note since its inception. Below is the balance on the surplus note including accrued interest as of each year end during the examination period:

<u>Year</u>	<u>Accumulated Balance</u>
2012	\$2,767,226
2013	2,816,949
2014	2,860,119
2015	2,890,952

CORPORATE RECORDS

A review was made of the Company's articles of incorporation and bylaws. The bylaws were amended in December 2012 to include a provision that one member of the board of directors reside in the Skaggs Community Hospital Association d/b/a Cox Medical Center Branson service area near Branson, Missouri.

The bylaws were amended in October 2014 to include provisions requiring two board members to be Cox Medical Group (CMG) physician directors once CMG is operational (and for at least five years thereafter). At the same time, the bylaws were amended to require approval of a majority of the CMG board members in order to reduce or increase the number of CMG directors required, and to state procedures in case of a vacancy of a CMG director.

As described in the "Acquisitions, Mergers and Major Corporate Events" section of this report, on January 1, 2015, the articles of incorporation were amended, converting the Company to a nonprofit organization. In conjunction with this amendment to the articles of incorporation, the bylaws were also amended to clearly define the purpose of the organization as being organized to provide a community benefit.

The minutes of the meetings of the stockholder and board of directors were reviewed for the period under examination. The minutes of the Management Committee of an affiliate, Cox Health Plans, LLC, covered events relating to the Company and were also reviewed. The minutes provided sufficient documentation that major corporate transactions were evaluated and approved by the board of directors.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of nine (9) directors. The directors serving at December 31, 2015 were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Joseph W. Turner Strafford, Missouri	President Great Southern Bank
Kenneth E. Meyer Springfield, Missouri	President-Owner Meyer Communications
Chris W. Nattinger Springfield, Missouri	President Skyline Investment Company
Larry E. Schmitt Reeds Spring, Missouri	Owner / Chief Executive Officer Recreational Management, Inc.
James H. Ceaser Springfield, Missouri	Physician Ferrell Duncan Clinic
Jerry G. Jared Rogersville, Missouri	Real Estate Investment and Development Jared Enterprises

Clifford M. Costley Monett, Missouri	Physician Cox Health Systems
Steven D. Edwards Springfield, Missouri	Chief Executive Officer CoxHealth
Rita M. Needham Springfield, Missouri	Chief Executive Officer (Retired) Missouri Association of Manufacturers

Senior Officers

The officers of the Company serving as of December 31, 2015 were as follows:

<u>Name</u>	<u>Position</u>
Matthew J. Aug	President
Loree B. Lines	Secretary
John D. Gamble ¹	Assistant Treasurer
Susan M. Butts	Officer
Joseph W. Turner	Treasurer

Committees

The Company does not have any formal board committees in place. In order to comply with the requirements of RSMo 375.1030 (Annual audit required, report filed, when--extensions granted, when--audit committee required, when) the entire board of directors is deemed to constitute the Audit Committee.

Holding Company, Subsidiaries and Affiliates

The Company is a member of an insurance holding company system as defined in Section 382.010 RSMo (Definitions).

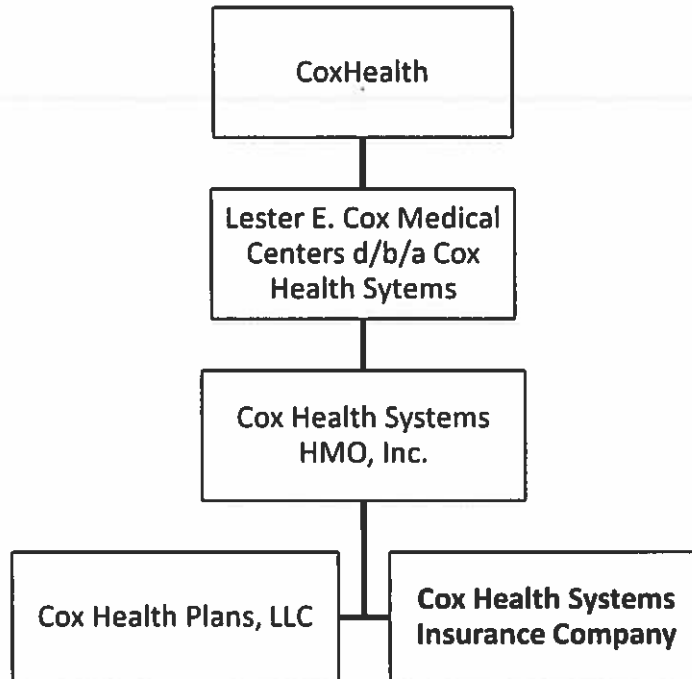
Prior to December 30, 2013, Lester E. Cox Medical Centers, doing business as Cox Health Systems, was the ultimate controlling entity of the Company. Cox Health Systems is a community-owned, not-for-profit health care organization. The organization consists of various entities, all of which are related to the health care industry including hospitals, a nursing home, home care companies, physician services, mental health services and insurance companies.

On December 30, 2013, the holding company system was restructured with the incorporation of CoxHealth, a nonprofit corporation. CoxHealth became the ultimate controlling entity of Cox Health Systems, and thus, the ultimate controlling entity of the Company as well.

¹ John D. Gamble resigned effective July 8, 2016. He was replaced on July 29, 2016 by Lisa J. Odom.

Organizational Chart

The following is an abridged organizational chart which depicts the holding company system at December 31, 2015. All subsidiaries are wholly-owned unless otherwise noted. Only entities that are directly related to the Company are listed.



Intercompany Transactions

CHSIC has entered into various agreements with affiliates. Agreements with affiliates as of December 31, 2015 are documented below:

1) Management Agreement

- Parties: CHSIC and Cox Health Plans, LLC
 Effective: January 1, 2002. Most recent amendment effective January 1, 2009
 Terms: Cox Health Plans, LLC provides comprehensive administrative, financial and managerial services for the Company including premium processing, claims management and provider network administration.
 Rate(s): Cox Health Plans, LLC receives a fluctuating rate between 7.0% and 9.5% of the Company's net premium revenue each month as compensation for this arrangement.

2) Indemnity Agreement

Parties: CHSIC and Cox Health Systems
 Effective: June 18, 1999
 Terms: Cox Health Systems agrees to indemnify the Company from any and all liability, loss or damage suffered as a result of the Company's failure to perform its obligations arising under insurance coverage it has issued or assumed should the Company become insolvent or otherwise financially incapable of furnishing such coverage.

3) Company Agreement

Parties: CHSIC and Cox Health Systems
 Effective: May 1, 2004. Assignment to Cox Health Systems October 31, 2005
 Terms: Primrose Health Care Service (an affiliated company) and its network providers agree to provide health care services to the Company's members. Pursuant to the assignment, Cox Health Systems assumes all contractual rights, responsibilities and obligations of Primrose.
 Rate(s): Covered services are reimbursed as indicated in Exhibit C of the agreement.

4) Additional Discounts Agreement

Parties: CHSIC and Cox Health Systems
 Effective: January 1, 2002. Most recent amendment effective January 1, 2006
 Terms: Cox Health Systems provides the Company with additional provider discounts of up to 7% of total premiums billed by the Company when the Company's medical loss ratio exceeds 86% during a calendar year.

5) Conversion Policy Agreement

Parties: CHSIC and CHMO
 Effective: January 1, 1997. Amendment effective January 1, 2008
 Terms: This agreement allows the Company to write a conversion policy that is available to CHMO.
 Rate(s): CHMO pays the Company twelve cents per member per month in exchange for these services.

6) Dual Option Product Agreement

Parties: CHSIC and CHMO
 Effective: October 1, 2002
 Terms: The companies agree to jointly offer health benefit programs to employer groups of 26 or more.
 Rate(s): Each company will record its respective premium and expense related to the products selected by each group, and the parties will share equally in the net income or loss of each group.

7) Point of Service Rider

Parties: CHSIC and CHMO
 Effective: January 1, 2007. Most recent amendment effective November 1, 2008
 Terms: This agreement sets forth the duties of each party relating to the POS product marketed by CHMO. The Company provides the indemnity benefits included in the POS product and CHMO provides the HMO benefits.
 Rate(s): The Company receives 3% of the aggregate monthly premium as compensation.

8) Income Tax Apportionment Agreement

Parties: CHSIC and CHMO
 Effective: December 31, 2004
 Terms: This agreement allows the entities to file consolidated federal and state income tax returns. The respective tax liabilities are determined as if each entity were a stand-alone company.
 Rate(s): No fees are incurred or earned by the Company under this agreement.

9) Cox Health Fitness Centers Services Agreement

Parties: CHSIC, CHMO and Cox Health Systems
 Effective: January 1, 2009
 Terms: Under this agreement, the Company and CHMO will offer to certain fully-insured members the option to have access to the Cox Fitness Centers.
 Rate(s): The insurance companies reimburse Cox Health Systems for services provided according to the agreement.

10) Wellness Services Agreement

Parties: CHSIC and Cox Health Systems
 Effective: December 10, 2011. Most recent amendment effective January 15, 2013
 Terms: The Company offers members the ability to purchase wellness riders with their policies. Cox Health Systems agrees to provide certain services related to the wellness rider based on the level of service chosen.
 Rate(s): For each wellness rider sold by the Company, a fee ranging from \$30 to \$100 per employee per service is charged by Cox Health Systems based on the level of the rider. Additionally, the Company will reimburse Cox Health Systems for overnight travel for services rendered to groups that reside outside of its service area.

TERRITORY AND PLAN OF OPERATIONS

CHSIC is licensed in the State of Missouri under RSMo Chapter 376 (Life, Health and Accident Insurance). The Company is not licensed in any other states. The Company's business is currently limited to individual and group accident and health insurance. Although CHSIC has authority to write life insurance business, it has no plans to do so at this time.

The Company's service area is concentrated in southwestern Missouri. Business is produced mostly through outside brokers and through salaried employees of the parent company, Cox Health Systems. The Company had 30,301 insureds as of December 31, 2015.

The Company's primary products are the group preferred provider plans (PPO). These plans provide groups a choice of benefit levels and premiums to offer their members. The Company also has a preferred provider plan for individuals with a child-only option. The PPO plans allow members to use providers of their choice or to use providers from an established network that has a contractual arrangement with the Company. PPO members are responsible for deductibles and coinsurance. Co-payments are greater if out-of-network providers are used.

The Company also provides an indemnity rider in conjunction with the Point of Service (POS) product written by Cox Health Systems HMO, Inc. The POS members of CHMO can use the HMO's network of providers through a primary care physician or use any out-of-network provider of their choice. The Company is at risk for any losses incurred when the HMO member goes out-of-network for other than emergency care.

A strategic decision was made in 2012 to move all membership out of CHMO due to continued decline in the demand for HMO products. As of December 31, 2016, CHMO had no remaining members and was effectively in run-off.

REINSURANCE

General

The Company's reinsurance and premium activity during the period under examination are as follows:

	2012	2013	2014	2015
Direct Business	\$ 102,959,490	\$ 110,945,134	\$ 114,042,887	\$ 122,510,458
Reinsurance Assumed:	0	0	0	0
Reinsurance Ceded:				
Affiliates	0	0	0	0
Non-affiliates	946,091	991,151	1,719,345	1,758,302
Net Premiums Written	<u>\$102,013,399</u>	<u>\$109,953,983</u>	<u>\$112,323,542</u>	<u>\$120,752,156</u>

Assumed

CHSIC did not assume any business during the period under examination.

Ceded

The aim of the Company's reinsurance program is to protect against catastrophic loss. Prior to January 1, 2013, CHSIC had excess of loss reinsurance through HCC Life Insurance Company. Effective January 1, 2013, the Company switched reinsurance carriers to Munich Reinsurance America Inc. (Munich Re).

The Company has separate reinsurance agreements with Munich Re for PPO and for POS policies. The terms of the reinsurance agreements are the same other than for the premium rates. Under the terms of the reinsurance agreements, Munich Re will reimburse 90% of net excess loss above \$425,000 up to a maximum of \$3,575,000 for each covered person. The agreements cap daily reimbursement for claims at \$3,000 per day for claims originating from certain hospitals within the CoxHealth system. The daily limits do not apply to eligible expenses that are incurred during transplant confinement.

The Company is contingently liable for all reinsurance losses ceded to reinsurers. This contingent liability would become an actual liability in the event that an assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

FINANCIAL STATEMENTS

The following financial statements, are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items". These differences were determined to be immaterial concerning their effect on the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual activity.

Assets

	<u>Ledger and Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 16,615,284	\$ 0	\$ 16,615,284
Cash, cash equivalents and short-term investments	16,972,450	0	16,972,450
Investment income due and accrued	100,592	0	100,592
Uncollected premiums and agents' balances in the course of collection	298,193	39,288	258,905
Amounts recoverable from reinsurers	2,910,999	0	2,910,999
Current federal and foreign income tax recoverable	453,561	0	453,561
Health care and other amounts receivable	1,421,995	448,526	973,469
Total assets	\$ 38,773,074	\$ 487,814	\$ 38,285,260

Liabilities, Surplus and Other Funds

Claims unpaid	\$ 14,056,145
Unpaid claims adjustment expense	204,323
Aggregate health policy reserves	2,037,958
Premiums received in advance	2,720,783
General expenses due or accrued	647,572
Amounts due to parent, subsidiaries and affiliates	<u>1,120,404</u>
Total liabilities	\$ 20,787,185
Common capital stock	\$ 800,000
Gross paid in and contributed surplus	15,189,682
Surplus notes	2,890,952
Aggregate write-ins for special surplus finds	725,675
Unassigned funds (surplus)	<u>(2,108,235)</u>
Total capital and surplus	\$ 17,498,074
Total liabilities and capital and surplus	\$ 38,285,259

Summary of Operations

Member Months	397,549
Net premium income	\$ 120,752,156
Aggregate write-ins for othe health care related revenues	(221,027)
Total Revenues	\$ 120,531,129
Hospital/medical benefits	\$ 82,545,429
Outside referrals	2,888,986
Emergency room and out-of-area	3,107,422
Prescription drugs	23,602,900
Net reinsurance recoveries	(3,326,737)
Claims adjustment expenses	3,129,954
General administrative expenses	14,823,277
Increase in reserves for life, accident and health contracts	(2,300,000)
Total Underwriting Deductions	\$ 124,471,231
Net underwriting gain or (loss)	\$ (3,940,102)
Net investment income earned	275,413
Net realized capital gains (losses)	(16,903)
Net income or (loss) before taxes	\$ (3,681,592)
Federal income taxes incurred	3,568,531
Net income or (loss)	\$ (113,061)

Capital and Surplus Account

Capital and surplus, December 31, 2014	\$ 14,500,234
Net income (loss)	(113,061)
Change in net unrealized capital gains (losses) less capital gains tax	3,813
Change in net deferred income tax	401,776
Change in nonadmitted assets	(294,688)
Surplus adjustments - paid in	3,000,000
Net change in capital and surplus	2,997,840
Capital and surplus end of reporting period, December 31, 2015	\$ 17,498,074

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

None

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Cox Health Systems Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Jennifer Danz, CPA, CFE, Steven Koonse, CFE and Kimberly Dobbs, CFE, AES, examiners for the Missouri DIFP, also participated in this examination. The actuarial firm of Merlinos & Associates, Inc. also participated as a consulting actuary.

VERIFICATION

State of Kansas)
 County of Johnson)

I, Mark A. Nance, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Cox Health Systems Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Mark A. Nance
 Mark A. Nance, CPA, CFE
 Senior Examiner-In-Charge
 Missouri DIFP

Sworn to and subscribed before me this 19 day of April, 2017.

My commission expires: 5-14-2020 Sheila R. Briscoe
 Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed, except where practices, procedures and applicable regulations of the Missouri DIFP and statutes of the State of Missouri prevailed.

Levi Nwasoria
 Levi Nwasoria, CPA, CFE
 Audit Manager
 Missouri DIFP