

# UnitedHealthcare of Louisiana, Inc.

Statutory Basis Financial Statements as of and  
for the Years Ended December 31, 2018 and 2017,  
Supplemental Schedules as of and for the  
Year Ended December 31, 2018,  
Independent Auditors' Report and Qualification Letter

# UNITEDHEALTHCARE OF LOUISIANA, INC.

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## **INDEPENDENT AUDITORS' REPORT**

To the Audit Committee of  
UnitedHealthcare of Louisiana, Inc.  
3838 North Causeway Boulevard, Suite 2600  
Metairie, LA 70002

We have audited the accompanying statutory basis financial statements of UnitedHealthcare of Louisiana, Inc. (the "Company"), which comprise the statutory basis statements of admitted assets, liabilities, and capital and surplus as of December 31, 2018 and 2017, and the related statutory basis statements of operations, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory basis financial statements.

### **Management's Responsibility for the Statutory Basis Financial Statements**

Management is responsible for the preparation and fair presentation of these statutory basis financial statements in accordance with the accounting practices prescribed or permitted by the Louisiana Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these statutory basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory basis financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the statutory basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the statutory basis financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory basis financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of UnitedHealthcare of Louisiana, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Louisiana Department of Insurance described in Note 1 to the statutory basis financial statements.

## **Basis of Accounting**

We draw attention to Note 1 of the statutory basis financial statements, which describes the basis of accounting. As described in Note 1 to the statutory basis financial statements, the statutory basis financial statements are prepared by UnitedHealthcare of Louisiana, Inc. using accounting practices prescribed or permitted by the Louisiana Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Louisiana Department of Insurance. Our opinion is not modified with respect to this matter.

## **Report on Supplemental Schedules**

Our 2018 audit was conducted for the purpose of forming an opinion on the 2018 statutory basis financial statements as a whole. The supplemental schedule of investment risks interrogatories and the supplemental summary investment schedule, as of and for the year ended December 31, 2018 are presented for purposes of additional analysis and are not a required part of the 2018 statutory basis financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory basis financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the 2018 statutory basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the statutory basis financial statements or to the statutory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2018 statutory basis financial statements as a whole.

## **Restriction on Use**

Our report is intended solely for the information and use of the Audit Committee and the management of UnitedHealthcare of Louisiana, Inc. and for filing with state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

May 3, 2019

# UNITEDHEALTHCARE OF LOUISIANA, INC.

## STATUTORY BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
<b>ADMITTED ASSETS</b>		
CASH AND INVESTED ASSETS:		
Bonds	\$ 231,956,414	\$ 221,519,160
Cash of \$1,189,038 and \$134,780, and cash equivalents of \$123,843,352 and \$126,078,382 in 2018 and 2017, respectively	<u>125,032,390</u>	<u>126,213,162</u>
Subtotal cash and invested assets	<u>356,988,804</u>	<u>347,732,322</u>
OTHER ASSETS:		
Investment income due and accrued	2,323,291	1,915,002
Premiums and considerations	182,353,026	154,577,982
Amounts recoverable from reinsurers	271,846	24,539,372
Amounts receivable relating to uninsured plans	274,040	58,172
Net deferred tax asset	14,591,450	16,791,655
Health care receivables	10,137,230	10,603,961
Other assets	<u>231</u>	<u>19,157</u>
Subtotal other assets	<u>209,951,114</u>	<u>208,505,301</u>
TOTAL ADMITTED ASSETS	<u>\$ 566,939,918</u>	<u>\$ 556,237,623</u>
<b>LIABILITIES AND CAPITAL AND SURPLUS</b>		
LIABILITIES:		
Claims unpaid	\$ 242,105,849	\$ 199,078,836
Accrued medical incentive pool and bonus amounts	4,909,576	32,601,316
Unpaid claims adjustment expenses	1,351,967	1,370,586
Aggregate health policy reserves	79,492,787	99,833,192
Aggregate health claim reserves	2,588,118	2,373,673
Premiums received in advance	177,316	111,594
General expenses due or accrued	55,596,719	46,849,407
Current federal income taxes payable	18,724,065	10,911,691
Ceded reinsurance premiums payable	165,808	9,794,140
Remittances and items not allocated	161	-
Amounts due to parent, subsidiaries, and affiliates, net	11,555,554	4,098,941
Liability for amounts held under uninsured plans	<u>24,205</u>	<u>-</u>
Total liabilities	<u>416,692,125</u>	<u>407,023,376</u>
CAPITAL AND SURPLUS:		
Section 9010 ACA subsequent fee year assessment	-	45,339,570
Common capital stock, \$2 par value — 1,000,000 shares authorized; 900,000 shares issued and outstanding	1,800,000	1,800,000
Gross paid-in and contributed surplus	67,138,440	67,138,440
Unassigned surplus	<u>81,309,353</u>	<u>34,936,237</u>
Total capital and surplus	<u>150,247,793</u>	<u>149,214,247</u>
TOTAL LIABILITIES AND CAPITAL AND SURPLUS	<u>\$ 566,939,918</u>	<u>\$ 556,237,623</u>

See notes to statutory basis financial statements.

# UNITEDHEALTHCARE OF LOUISIANA, INC.

## STATUTORY BASIS STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
REVENUES:		
Net premium income	\$ 2,254,982,771	\$ 1,981,612,830
Change in unearned premium reserves and reserve for rate credits	<u>(2,696,722)</u>	<u>25,144,313</u>
Total revenues	<u>2,252,286,049</u>	<u>2,006,757,143</u>
UNDERWRITING DEDUCTIONS:		
Hospital and medical:		
Hospital/medical benefits	1,204,185,537	1,096,153,276
Other professional services	23,131,909	23,220,508
Prescription drugs	331,057,520	320,960,965
Full Medicaid pricing pass through	346,377,610	303,331,342
Incentive pool, withhold adjustments, and bonus amounts	(15,535,553)	20,409,463
Net reinsurance payments (recoveries)	<u>6,663,928</u>	<u>(155,212,154)</u>
Total hospital and medical	1,895,880,951	1,608,863,400
Claims adjustment expenses	88,909,905	75,489,675
General administrative expenses	272,302,597	173,362,821
(Decrease) increase in reserves for accident and health contracts	<u>(438,000)</u>	<u>66,876,000</u>
Total underwriting deductions	<u>2,256,655,453</u>	<u>1,924,591,896</u>
NET UNDERWRITING (LOSS) GAIN	<u>(4,369,404)</u>	<u>82,165,247</u>
NET INVESTMENT GAINS:		
Net investment income earned	6,835,785	4,060,655
Net realized capital (losses) gains less capital tax (benefit) of (\$16,237) and \$31,398 in 2018 and 2017, respectively	<u>(80,370)</u>	<u>37,857</u>
Total net investment gains	<u>6,755,415</u>	<u>4,098,512</u>
NET LOSS FROM AGENTS' OR PREMIUM BALANCES CHARGED OFF	<u>(85,730)</u>	<u>(1,559,331)</u>
OTHER LOSSES	<u>(295,000)</u>	<u>(495,500)</u>
NET INCOME BEFORE FEDERAL INCOME TAXES	2,005,281	84,208,928
FEDERAL INCOME TAXES INCURRED	<u>9,072,302</u>	<u>51,854,275</u>
NET (LOSS) INCOME	<u>\$ (7,067,021)</u>	<u>\$ 32,354,653</u>

See notes to statutory basis financial statements.

# UNITEDHEALTHCARE OF LOUISIANA, INC.

## STATUTORY BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Section 9010 ACA Subsequent Fee Year Assessment	Common Capital Stock Shares	Common Capital Stock Amount	Gross Paid-In and Contributed Surplus	Unassigned Surplus	Total Capital and Surplus
BALANCE — January 1, 2017	\$ -	900,000	\$ 1,800,000	\$ 67,138,440	\$ 52,227,169	\$ 121,165,609
Net income	-	-	-	-	32,354,653	32,354,653
Change in net deferred income taxes	-	-	-	-	13,641,271	13,641,271
Change in nonadmitted assets	-	-	-	-	(5,947,286)	(5,947,286)
Section 9010 ACA subsequent fee year assessment	45,339,570	-	-	-	(45,339,570)	-
Dividend paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,000,000)</u>	<u>(12,000,000)</u>
BALANCE — December 31, 2017	45,339,570	900,000	1,800,000	67,138,440	34,936,237	149,214,247
Net loss	-	-	-	-	(7,067,021)	(7,067,021)
Change in net unrealized capital losses less capital gains benefit of (\$13)	-	-	-	-	(49)	(49)
Change in net deferred income taxes	-	-	-	-	(2,200,218)	(2,200,218)
Change in nonadmitted assets	-	-	-	-	(12,472,166)	(12,472,166)
Correction of error (Note 2)	-	-	-	-	22,773,000	22,773,000
Section 9010 ACA subsequent fee year assessment	<u>(45,339,570)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,339,570</u>	<u>-</u>
BALANCE — December 31, 2018	<u>\$ -</u>	<u>900,000</u>	<u>\$ 1,800,000</u>	<u>\$ 67,138,440</u>	<u>\$ 81,309,353</u>	<u>\$ 150,247,793</u>

See notes to statutory basis financial statements.

# UNITEDHEALTHCARE OF LOUISIANA, INC.

## STATUTORY BASIS STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATIONS:		
Premiums collected — net of reinsurance	\$ 2,217,018,781	\$ 1,954,030,856
Net investment income	9,342,955	5,414,830
Benefit and loss related payments	(1,867,562,889)	(1,582,655,928)
Operating expenses paid	(352,744,638)	(286,708,843)
Federal income taxes paid — net	<u>(1,243,692)</u>	<u>(34,054,463)</u>
Net cash provided by operations	<u>4,810,517</u>	<u>56,026,452</u>
CASH FLOWS FROM INVESTMENTS:		
Proceeds from bonds sold, matured, or repaid	36,430,685	28,446,791
Cost of bonds acquired	(49,879,025)	(154,283,511)
Net gains (losses) on cash equivalents and short-term investments	<u>275</u>	<u>(9)</u>
Net cash used in investments	<u>(13,448,065)</u>	<u>(125,836,729)</u>
CASH FLOWS FROM FINANCING AND MISCELLANEOUS ACTIVITIES:		
Cash provided through net transfers from affiliates	7,456,613	1,148,958
Dividend paid	-	(12,000,000)
Other cash provided	<u>163</u>	<u>-</u>
Net cash provided by (used in) financing and miscellaneous activities	<u>7,456,776</u>	<u>(10,851,042)</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS:		
NET CHANGE IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS:	(1,180,772)	(80,661,319)
CASH, CASH EQUIVALENT, AND SHORT-TERM INVESTMENTS — Beginning of year	<u>126,213,162</u>	<u>206,874,481</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 125,032,390</u>	<u>\$ 126,213,162</u>

See notes to statutory basis financial statements.



# UNITEDHEALTHCARE OF LOUISIANA, INC.

## NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN

#### Organization and Operation

UnitedHealthcare of Louisiana, Inc. (the "Company"), licensed as a health maintenance organization ("HMO"), offers its enrollees a variety of managed care programs and products through contractual arrangements with health care providers. The Company is a wholly owned subsidiary of UnitedHealthcare, Inc. ("UHC"). UHC is a wholly owned subsidiary of United HealthCare Services, Inc. ("UHS"), a management corporation that provides services to the Company under the terms of a management agreement (the "Agreement"). UHS is a wholly owned subsidiary of UnitedHealth Group Incorporated ("UnitedHealth Group"). UnitedHealth Group is a publicly held company trading on the New York Stock Exchange.

The Company was incorporated on April 9, 1986, as an HMO and operations commenced in November 1986. The Company is certified as an HMO, by the Louisiana Department of Insurance ("LADOI"). The Company has entered into contracts with physicians, hospitals, and other health care provider organizations to deliver health care services for all enrollees.

The Company offers comprehensive commercial products to individual and employer groups. Each contract outlines the coverage provided and renewal provisions. Effective January 1, 2017, the Company exited the Affordable Care Act ("ACA") individual exchange market in Louisiana.

Effective January 2018, the Company serves as a plan sponsor offering Medicare Advantage and Medicare Part D prescription drug insurance coverage (collectively "Medicare program") under a contract with the Centers for Medicare and Medicaid Services ("CMS"). Under the Medicare program, there are seven separate elements of payment received by the Company either during the year or at settlement in the subsequent year. These payment elements are CMS premium, member premium, CMS low-income premium subsidy, CMS catastrophic reinsurance subsidy, CMS low-income member cost-sharing subsidy, CMS risk share, and the CMS coverage gap discount program ("CGDP"). Each component of the Medicare program is further defined throughout Note 1.

During 2011, the Company was awarded a statewide Medicaid coordinated care network shared savings contract. This was an administrative services only ("ASO") contract. The Company was a primary care case manager that provided enhanced primary care case management in addition to being the entity contracting with primary care providers ("PCP") for PCP care management (see Note 18). Effective February 1, 2015, this contract with the State of Louisiana, Louisiana department of health, was converted into the Medicaid fully insured business to provide health care services to Medicaid and eligible beneficiaries. The current contract is effective through December 31, 2019, and is subject to an annual renewal provision thereafter.

#### A. Accounting Practices

The statutory basis financial statements of the Company are presented on the basis of accounting practices prescribed and permitted by the LADOI.

The LADOI recognizes only statutory accounting practices, prescribed or permitted by the State of Louisiana, for determining and reporting the financial condition and results of operations of an HMO for determining its solvency under Louisiana Insurance Law. The state prescribes the use of the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures manual ("NAIC SAP") in effect for the accounting periods covered in the statutory basis financial statements.

No significant differences exist between the practices prescribed or permitted by the State of Louisiana and the NAIC SAP which materially affect the statutory basis net (loss) income and capital and surplus, as illustrated in the table below:

Net (Loss) Income	SSAP #	AFS Line	2018	2017
(1) Company state basis (Page 4, Line 32, Columns 2 & 3)	XXX	XXX	\$ (7,067,021)	\$ 32,354,653
(2) State prescribed practices that are an increase/(decrease) from NAIC SAP: Not applicable			-	-
(3) State permitted practices that are an increase/(decrease) from NAIC SAP: Not applicable			-	-
(4) NAIC SAP (1 - 2 - 3 = 4)	XXX	XXX	<u>\$ (7,067,021)</u>	<u>\$ 32,354,653</u>
<b>Capital and Surplus</b>				
(5) Company state basis (Page 3, Line 33, Columns 3 & 4)	XXX	XXX	\$ 150,247,793	\$ 149,214,247
(6) State prescribed practices that are an increase/(decrease) from NAIC SAP: Not applicable			-	-
(7) State permitted practices that are an increase/(decrease) from NAIC SAP: Not applicable			-	-
(8) NAIC SAP (5 - 6 - 7 = 8)	XXX	XXX	<u>\$ 150,247,793</u>	<u>\$ 149,214,247</u>

## B. Use of Estimates in the Preparation of the Statutory Basis Financial Statements

The preparation of these statutory basis financial statements in conformity with the NAIC Annual Statement Instructions and the NAIC SAP include certain amounts that are based on the Company's estimates and judgments. These estimates require the Company to apply complex assumptions and judgments, often because the Company must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to hospital and medical benefits, claims unpaid, aggregate health policy reserves (including medical loss ratio rebates and premium deficiency reserves), aggregate health claim reserves, and risk adjustment estimates. The Company adjusts these estimates each period as more current information becomes available. The impact of any changes in estimates is included in the determination of net (loss) income in the period in which the estimate is adjusted.

## C. Accounting Policy

**Basis of Presentation** — The Company prepares its statutory basis financial statements on the basis of accounting practices prescribed or permitted by the LADOI. These statutory practices differ from accounting principles generally accepted in the United States of America ("GAAP").

Accounting policy disclosures that are required by the NAIC Annual Statement instructions are as follows:

- (1–2) Bonds are stated at book/adjusted carrying value if they meet NAIC designation of one or two and stated at the lower of book/adjusted carrying value or fair value if they meet an NAIC designation of three or higher. The Company does not have any mandatory

convertible securities or Securities Valuation Office of the NAIC (“SVO”) identified funds (i.e.: exchange traded funds or bond mutual funds) in its bond portfolio. Amortization of bond premium or accretion of discount is calculated using the constant-yield interest method. Bonds are valued and reported using market prices published by the SVO in accordance with the NAIC Valuation of Securities manual prepared by the SVO or an external pricing service;

- (3–4) The Company holds no common or preferred stock;
- (5) The Company holds no mortgage loans on real estate;
- (6) U.S. government and agency securities and corporate debt securities include loan-backed securities (mortgage-backed securities and asset-backed securities), which are valued using the retrospective adjustment methodology. Prepayment assumptions for the determination of the book/adjusted carrying value, commonly referred to as amortized cost, of loan-backed securities are based on a three-month constant prepayment rate history obtained from external data source vendors. The Company’s investment policy limits investments in nonagency residential mortgage-backed securities, including home equity and sub-prime mortgages, to 10% of total cash and invested assets. Total combined investments in mortgage-backed securities and asset-backed securities cannot exceed more than 30% of total cash and invested assets;
- (7) The Company holds no investments in subsidiaries, controlled, or affiliated entities;
- (8) The Company has no investment interests with respect to joint ventures, partnerships, or limited liability companies;
- (9) The Company holds no derivatives;
- (10) Premium deficiency reserves (inclusive of conversion reserves) and the related expenses are recognized when it is probable that expected future health care expenses, claims adjustment expenses (“CAE”), direct administration costs, and an allocation of indirect administration costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries considered over the remaining lives of the contracts, and are recorded as aggregate health policy reserves in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Indirect administration costs arise from activities that are not specifically identifiable to a specific group of existing contracts, and therefore, those costs are fully allocated among the various contract groupings. The allocation of indirect administration costs to each contract grouping is made proportionately to the expected margins remaining in the premiums after future health care expenses, CAE, and direct administration costs are considered. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated, and any adjustments are reflected as a decrease (increase) in reserves for accident and health contracts in the statutory basis statements of operations in the period in which the change in estimate is identified. The Company anticipates investment income as a factor in the premium deficiency calculation (see Note 30);
- (11) CAE are those costs expected to be incurred in connection with the adjustment and recording of accident and health claims. Pursuant to the terms of the Agreement (see Note 10), the Company pays a management fee to its affiliate, UHS, in exchange for administrative and management services. A detailed review of the administrative expenses of the Company and UHS is performed to determine the allocation between CAE and general administrative expenses (“GAE”) to be reported in the statutory basis statements of operations. It is the responsibility of UHS to pay CAE in the event the Company ceases operations. The Company has recorded an estimate of unpaid CAE associated with incurred but unpaid claims, which is included in unpaid CAE in the statutory basis

statements of admitted assets, liabilities, and capital and surplus. Management believes the amount of the liability for unpaid CAE as of December 31, 2018 is adequate to cover the Company's cost for the adjustment and recording of unpaid claims; however, actual expenses may differ from those established estimates. Adjustments to the estimates for unpaid CAE are reflected in operating results in the period in which the change in estimate is identified;

- (12) The Company does not carry any fixed assets on the statutory basis financial statements;
- (13) Health care receivables consist of pharmacy rebates receivable estimated based on the most currently available data from the Company's claims processing systems and from data provided by the Company's pharmaceutical benefit manager, OptumRx, Inc. ("OptumRx"). Health care receivables also include receivables for amounts due to the Company for provider advances and claim overpayments to providers, hospitals and other health care organizations. Health care receivables are considered nonadmitted assets under the NAIC SAP if they do not meet admissibility requirements. Accordingly, the Company has excluded receivables that do not meet the admissibility criteria from the statutory basis statements of admitted assets, liabilities, and capital and surplus (see Note 28).

The Company has also deemed the following to be significant accounting policies and/or differences between statutory practices and GAAP:

## **ASSETS**

### ***Cash and Invested Assets***

- Bonds include U.S. government and agency securities, state and agency municipal securities, city and county municipal securities, and corporate debt securities, with a maturity of greater than one year at the time of purchase;
- Certain debt investments categorized as available-for-sale or held-to-maturity under GAAP are presented at the lower of book/adjusted carrying value or fair value in accordance with the NAIC designations in the statutory basis financial statements, whereas under GAAP, these investments are shown at fair value or book/adjusted carrying value, respectively;
- Cash and cash equivalents in the statutory basis financial statements represent cash balances and investments with original maturities of one year or less from the time of acquisition, whereas under GAAP, the corresponding caption of cash, cash equivalents, and short-term investments includes cash balances and investments that will mature in one year or less from the balance sheet date;
- The Company has no short-term investments;
- Cash represents cash held by the Company in operating accounts. Claims and other payments are made from the operating accounts daily;
- Outstanding checks are required to be netted against cash balances or presented as cash overdrafts if in excess of cash balances in the statutory basis statements of admitted assets, liabilities, and capital and surplus as opposed to being presented as other liabilities under GAAP;
- Cash equivalents include money-market funds. Cash equivalents have original maturity dates of three months or less from the date of acquisition and are reported at cost or amortized cost depending on the nature of the underlying security, which approximates fair

value. Cash equivalents, excluding money-market funds, are reported at cost or book/adjusted carrying value depending on the nature of the underlying security, which approximates fair value. Money-market funds are reported at fair value or net asset value ("NAV") as a practical expedient;

- Realized capital gains and losses on sales of investments are calculated based upon specific identification of the investments sold. These gains and losses are reported as net realized capital (losses) gains less capital gains tax (benefit) in the statutory basis statements of operations;
- The Company continually monitors the difference between amortized cost and estimated fair value of its investments. If any of the Company's investments experience a decline in value that the Company has determined is other-than-temporary, or if the Company has determined it will sell a security that is in an impaired status, the Company will record a realized loss in net realized capital (losses) gains less capital gains tax (benefit) in the statutory basis statements of operations. The new cost basis is not changed for subsequent recoveries in fair value. The prospective adjustment method is utilized for loan-backed securities for periods subsequent to the loss recognition. The Company recognized an other-than-temporary impairment ("OTTI") of \$1,550 and \$0 for the years ended December 31, 2018 and 2017, respectively.
- The statutory basis statements of cash flows reconcile cash, cash equivalents and short term investments, with original maturities of one year or less from the time of acquisition; whereas under GAAP, pursuant to Accounting Standards Update 2016-18, *Statement of Cash Flows, Restricted Cash*, the statements of cash flows reconcile the corresponding captions of cash, cash equivalents and restricted cash with maturities of three months or less. Short-term investments with a final maturity of one year or less from the balance sheet date are not included in the reconciliation of GAAP cash flows. In addition, there are classification differences within the presentation of the cash flow categories between GAAP and statutory reporting. The statutory basis statements of cash flows are prepared in accordance with the NAIC Annual Statement Instructions.

#### **Other Assets**

- **Investment Income Due and Accrued** — Investment income earned and due as of the reporting date, in addition to investment income earned but not paid or collected until subsequent periods, is reported as investment income due and accrued in the statutory basis statements of admitted assets, liabilities, and capital and surplus. The Company evaluates the collectability of the amounts due and accrued and amounts determined to be uncollectible are written off in the period in which the determination is made. In addition, the remaining balance is assessed for admissibility and any balance greater than 90 days past due is considered a nonadmitted asset.
- **Premiums and Considerations** — The Company reports uncollected premium balances from its insured members as premiums and considerations in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Uncollected premium balances that are over 90 days past due, with the exception of amounts due from government insured plans, are considered nonadmitted assets. In addition to those balances, current balances are also considered nonadmitted if the corresponding balance greater than 90 days past due is deemed more than inconsequential. Premiums and considerations also include the following:
  - a) risk adjustment receivables as defined in Section 1343 of the ACA. Premium adjustments are based upon the risk scores (health status) of enrollees participating in risk adjustment covered plans, rather than the actual loss experience of the

insured. Effective for the 2018 benefit plan year, the risk adjustments and distributions are calculated using a high-cost risk pool which adds a reinsurance-like element to this program. A risk adjustment receivable is recorded when the Company estimates its average actuarial risk score for policies included in this program is greater than the average actuarial risk scores in that market and state risk pool (see Note 24);

- b) CMS risk corridor receivables for which adjustments are based on whether the ultimate per member per month ("PMPM") benefit costs of any Medicare program plan varies more than 5% above the level estimated in the original bid submitted by the Company and approved by CMS (see Note 24);
- c) CMS risk adjustment receivables. The risk adjustment model apportions premiums paid to all health plans according to the health severity and certain demographic factors of its enrollees. The CMS risk adjustment model pays more for members whose medical history indicates they have certain medical conditions. Under this risk adjustment methodology, CMS calculates the risk-adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient, and physician treatment settings. The Company and health care providers collect, capture, and submit the necessary and available diagnosis data to CMS within prescribed deadlines. The Company estimates risk adjustment revenues based upon the diagnosis data submitted and expected to be submitted to CMS. The Company recognizes such changes when the amounts become determinable and supportable and collectability is reasonably assured (see Note 24); and
- d) Premium withhold receivables for a Medicaid performance guarantees. The pay for performance program is based upon the Company's performance against various quality and operational measures established in the Company's contract with the State which is based on a stated percentage of total direct premiums written. Premium adjustments for the Medicaid performance guarantee program are accounted for as premium adjustments subject to redetermination (see Note 24).

Premium adjustments for the CMS risk corridor programs are accounted for as premium adjustments subject to retrospectively rated features (see Note 24). Premium adjustments for the ACA Section 1343 risk adjustment and CMS risk adjustment programs are accounted for as premium adjustments subject to redetermination (see Note 24).

- **Amounts Receivable Relating to Uninsured Plans** — Receivables for amounts held under uninsured plans represent the costs incurred in excess of the cost reimbursement under the Medicare program for the catastrophic reinsurance subsidy and the low-income member cost-sharing subsidy for the individual members. The Company is fully reimbursed by CMS for costs incurred for these contract elements, and accordingly, there is no insurance risk to the Company. Subsidies for individual members are received monthly and are not reflected as net premium income, but rather are accounted for as deposits. If the Company incurs costs in excess of these subsidies, a corresponding receivable is recorded in amounts receivable relating to uninsured plans in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Related cash flows are presented within operating expenses paid within net cash provided by operations in the statutory basis statements of cash flows. ACA mandates consumer discounts of 50% on brand name prescription drugs for Part D plan participants in the coverage gap. As part of the CGDP, the Company records a receivable from the pharmaceutical manufacturers for reimbursement of the discounts which is included in amounts receivable relating to uninsured plans in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Related cash flows are presented within operating expenses paid within net cash provided by operations in the statutory basis statements of cash flows. The Company solely administers the application of these funds and has no insurance risk.

- **Net Deferred Tax Asset** — The NAIC SAP provides for an amount to be recorded for deferred taxes on temporary differences between the financial reporting and tax bases of assets, subject to a valuation allowance and admissibility limitations on deferred tax assets (see Note 9). In addition, under the NAIC SAP, the change in deferred tax assets is recorded directly to unassigned surplus in the statutory basis financial statements, whereas under GAAP, the change in deferred tax assets is recorded as a component of the income tax provision within the income statement and is based on the ultimate recoverability of the deferred tax assets. Based on the admissibility criteria under the NAIC SAP, any deferred tax assets determined to be nonadmitted are charged directly to surplus and excluded from the statutory basis financial statements, whereas under GAAP, such assets are included in the balance sheet.

## **LIABILITIES**

- **Claims Unpaid and Aggregate Health Claim Reserves** — Claims unpaid and aggregate health claim reserves include claims processed but not yet paid, estimates for claims received but not yet processed, estimates for the costs of health care services enrollees have received but for which claims have not yet been submitted, and payments and liabilities for physician, hospital, and other medical costs disputes.

The estimates for incurred but not yet reported claims are developed using an actuarial process that is consistently applied, centrally controlled, and automated. The actuarial models consider factors such as historical submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates, and other relevant factors. The Company estimates such liabilities for physician, hospital, and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. These estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. The Company did not change actuarial methods during 2018 and 2017. Management believes the amount of claims unpaid and aggregate health claim reserves is a best estimate of the Company's liability for unpaid claims and aggregate health claim reserves as of December 31, 2018; however, actual payments may differ from those established estimates.

The reserves ceded to reinsurers for claims unpaid and aggregate health claim reserves have been reported as reductions of the related reserves rather than as assets, which would be required under GAAP.

The Company contracts with hospitals, physicians, and other providers of health care under capitated or discounted fee for service arrangements, including a hospital per diem to provide medical care services to enrollees. Some of these contracts are with related parties (see Note 10). Capitated providers are at risk for the cost of medical care services provided to the Company's enrollees; however, the Company is ultimately responsible for the provision of services to its enrollees should the capitated provider be unable to provide the contracted services.

The Company has a contract with the Department of Health and Hospitals ("DHH") in which the Company processes Full Medicaid Pricing ("FMP") payments to specified providers where the FMP has agreements. The Company records both the amounts collected from the DHH and the amounts disbursed to providers, excluding FMP related premium tax, as net premium income and hospital and medical expense, respectively, in the statutory basis statements of operations. Unsettled FMP payments owed to providers, net of premium tax, of \$89,367,001 and \$70,256,370 is included in claims unpaid as of December 31, 2018 and 2017, respectively, in the statutory basis statements of admitted assets, liabilities and capital and surplus.

- **Accrued Medical Incentive Pool and Bonus Amounts** — The Company has agreements with certain independent physicians and physician network organizations that provide for the establishment of a fund into which the Company places monthly premiums payable for members assigned to the physician. The Company manages the disbursement of funds from this account as well as reviews the utilization of nonprimary care medical services of members assigned to the physicians. Any surpluses in the fund are shared by the Company and the physician based upon predetermined risk-sharing percentage and the liability is included in accrued medical incentive pool and bonus amounts in the statutory basis statements of admitted assets, liabilities, and capital and surplus. The Company has incentive and bonus arrangements with providers that are based on quality, utilization, and/or various health outcome measures. The estimated amount due to providers that meet the established metrics is included in accrued medical incentive pool and bonus amounts in the statutory basis statements of admitted assets, liabilities, and capital and surplus.
- **Aggregate Health Policy Reserves** — The Company establishes a liability, net of ceded reinsurance, for estimated premium refunds on experience rated contracts based on the actuarial method and assumptions and minimum loss ratio requirements.

Aggregate health policy reserves also includes:

- a) risk adjustment payables as defined in Section 1343 of the ACA. Premium adjustments are based upon the risk scores (health status) of enrollees participating in risk adjustment covered plans, rather than the actual loss experience of the insured. Effective for the 2018 benefit plan year, the risk adjustments and distributions are calculated using a high-cost risk pool which adds a reinsurance-like element to this program. A risk adjustment payable is recorded when the Company estimates its average actuarial risk score for policies included in this program is less than the average actuarial risk scores in that market and state risk pool (see Note 24);
  - b) estimated rebates payable on the comprehensive commercial, Medicaid and Medicare products, if the medical loss ratios on these fully insured products, as calculated under the definitions of the ACA and/or State statutes (see Note 14) and implementing regulations, fall below certain targets. The Company is required to rebate the ratable portions of the premiums annually (see Note 24);
  - c) Healthy Louisiana Medicaid estimated payables for the Value Added Benefits and Services program (see Note 24); and
  - d) the estimated amount for premium deficiency reserves (see Note 30).
- **Premiums Received in Advance** — Premiums received in full during the current period that are not due until future periods are recorded as premiums received in advance in the statutory basis statements of admitted assets, liabilities, and capital and surplus.
  - **General Expenses Due or Accrued** — General expenses that are due as of the reporting date in addition to general expenses that have been incurred but are not due until a subsequent period are reported as general expenses due or accrued in the statutory basis statements of admitted assets, liabilities, and capital and surplus. General expenses due or accrued also include the amounts for unpaid assessments, premium taxes, and the unpaid portion of the contributions required under the ACA risk adjustment and reinsurance programs (see Note 24).



- **Current Federal Income Taxes Payable** — The Company is included in the consolidated federal income tax return with its ultimate parent, UnitedHealth Group under which taxes approximate the amount that would have been computed on a separate company basis, with the exception of net operating losses and capital losses. For these losses, the Company receives a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent losses can be utilized in the consolidated federal income tax return of UnitedHealth Group. A liability for federal income taxes payable is recognized when its allocated intercompany estimated payments are less than its actual calculated obligation based on the Company's stand-alone federal income tax return (see Note 9).
- **Remittances and Items Not Allocated** — Remittances and items not allocated generally represent monies received from policyholders for monthly premium billings or providers that have not been specifically identified or applied prior to year-end. The majority is from monies received in the lockbox account on the last day of the year.
- **Amounts Due to Parent, Subsidiaries, and Affiliates, Net** — In the normal course of business, the Company has various transactions with related parties (see Note 10). The Company reports any unsettled amounts owed as amounts due to parent, subsidiaries, and affiliates, net, in the statutory basis statements of admitted assets, liabilities, and capital and surplus.
- **Liability for Amounts Held Under Uninsured Plans** — Liability for amounts held under uninsured plans represents costs incurred that are less than the cost reimbursement under the Medicare program for the CGDP program. The ACA mandates consumer discounts of 50% on brand name prescription drugs for Part D plan participants in the coverage gap. These discounts are pre-funded for the individual members by CMS and a liability for the amount subject to recoupment is recorded in liability for amounts held under uninsured plans in the statutory basis statements of admitted assets, liabilities, and capital and surplus. There are no similar subsidies for employer group members. Related cash flows are presented within operating expenses paid within net cash provided by operations in the statutory basis statements of cash flows. The Company solely administers the application of these funds and has no insurance risk.

#### **CAPITAL AND SURPLUS AND MINIMUM STATUTORY REQUIREMENTS**

- **Nonadmitted Assets** — Certain assets, including certain aged premium receivables, certain health care receivables and, prepaid expenses, are considered nonadmitted assets under the NAIC SAP and are excluded from the statutory basis statements of admitted assets, liabilities, and capital and surplus and charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet.
- **Restricted Cash Reserves** — The Company held regulatory deposits in the amount of \$1,000,000 as of December 31, 2018 and 2017, respectively, in compliance with the State of Louisiana requirements for qualification purposes as a domestic insurer. These restricted cash reserves consist principally of government obligations and are stated at book/adjusted carrying value, which approximates fair value. These restricted deposits are included in bonds in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Interest earned on these deposits accrues to the Company.
- **Minimum Capital and Surplus** — Under the laws of the State of Louisiana, the LADOI, requires the Company to maintain a minimum capital and surplus equal to \$3,000,000. The Company has \$150,247,743 and \$149,214,247 in total statutory basis capital and surplus as of December 31, 2018 and 2017, respectively, which is in compliance with the required amount.

Risk-based capital ("RBC") is a regulatory tool for measuring the minimum amount of capital appropriate for a managed care organization to support its overall business operations in consideration of its size and risk profile. The LADOI requires the Company to maintain minimum capital and surplus equal to the greater of the state statute as outlined above, or the company action level as calculated by the RBC formula, or the level needed to avoid action pursuant to the trend test in the RBC formula. The Company is in compliance with the required amount.

- **Section 9010 ACA Subsequent Fee Year Assessment** — The Company is subject to the Section 9010 ACA subsequent fee year assessment. Under the NAIC SAP, an amount equal to the estimated subsequent year fee must be apportioned out of unassigned surplus and reported as Section 9010 ACA subsequent fee year assessment, in the statutory basis statements of admitted assets, liabilities, and capital and surplus, whereas under GAAP, no such special surplus designation is required. In accordance with the 2019 Health Insurer Fee ("HIF") moratorium, no HIF will be payable in 2019, therefore no amounts were apportioned out of unassigned surplus in the 2018 statutory basis statements of admitted assets, liabilities, and capital and surplus.

## **STATEMENTS OF OPERATIONS**

- **Net Premium Income and Change in Unearned Premium Reserves and Reserve for Rate Credits** — Revenues consist of net premium income that is recognized in the period in which enrollees are entitled to receive health care services. Net premium income is shown net of reinsurance premiums paid and reinsurance premiums incurred but not paid in the statutory basis statements of operations.

Comprehensive commercial health plans with medical loss ratios on fully insured products, as calculated under the definitions in the ACA (see Note 14) and implementing regulations, that fall below certain targets are required to rebate ratable portions of premiums annually. The Company classifies its estimated rebates as change in unearned premium reserves and reserve for rate credits in the statutory basis statements of operations.

Pursuant to Section 1342 and Section 1343 of the ACA, the Company records premium adjustments for changes to the risk adjustment balances which are reflected in change in unearned premium reserves and reserve for rate credits and net premium income, respectively, in the statutory basis statements of operations.

Net premium income includes premium under the Medicare Advantage program, which includes CMS premium. It also includes premium under the Medicare program, which includes CMS premium, member premium, and CMS low-income premium subsidy for the Company's insurance risk coverage. Net premium income is recognized ratably over the period in which eligible individuals are entitled to receive health care services and prescription drug benefits.

Net premium income also includes amounts pursuant to the CMS risk adjustment program. The Company recognized \$0 for changes in prior year Medicare risk factor estimates during the year ended December 31, 2018, which is recorded as net premium income in the statutory basis statements of operations.

The Company also records estimates related to the CMS risk corridor program. Changes to these estimates are reflected as change in unearned premium reserves and reserve for rate credits in the statutory basis statements of operations.

Medicare Advantage plans and Part D prescription drug plans are subject to medical loss ratio requirements under the ACA. Plans with medical loss ratios that fall below certain targets are required to rebate ratable portions of premiums annually. The Company classifies its estimated rebates as change in unearned premium reserves and reserve for rate credits in the statutory basis statements of operations.

Net premium income also includes amounts paid by state and federal governments on a per member basis in exchange for the provision and administration of medical benefits under the Medicaid program. Premiums are contractual and are recognized in the coverage period in which members are entitled to receive services, except in the case of maternity payments. Maternity income is billed on contractual rates and recognized as income as each birth case is identified by the Company. Included in net premium income are capitated payments, home nursing risk-sharing payments, high-dollar risk pool payments, and maternity payments. The majority of net premium income recorded is based on capitated rates, which are monthly premiums paid for each member enrolled. Home nursing risk-sharing income is payable based upon the number of members that qualify for such reimbursement.

The Medicaid plan is subject to experience rebates, risk adjustments, and performance guarantees based on various utilization measures. The Company has reported its estimated risk adjustments and experience rebates as change in unearned premium reserves and reserve for rate credits in the statutory basis statements of operations.

- **Full Medicaid Pricing Pass Through** — The DHH and the Company entered into a contract effective February 1, 2015 in which the Company processes FMP payments to specified providers where the FMP has agreements. Once received for the DHH, the Company disburses funds from an allocated pool to hospitals, physician groups, and ambulance groups, less any premium taxes. The funds that have been received cannot be directly linked to a specific claim. Additionally, the Company has no obligation to pay the specified providers until funds have been received. The amounts collected, net of tax, are included in net premium income in the statutory basis statements of operations. FMP receipts of \$346,377,610 and \$303,331,342 were recorded to net premium income and other medical expenses as of December 31, 2018 and 2017 respectively.
- **Total Hospital and Medical Expenses** — Total hospital and medical expenses include claims paid, claims processed but not yet paid, estimates for claims received but not yet processed, estimates for the costs of health care services enrollees have received but for which claims have not yet been submitted, and payments and liabilities for physician, hospital, and other medical costs disputes.

Total hospital and medical expenses also include amounts incurred for incentive pool, withhold adjustments, and bonus amounts that are based on the underlying contractual provisions with the respective providers. In addition, adjustments to claims unpaid estimates and aggregate health claim reserves are reflected in the period once the change in estimate is identified and included in total hospital and medical expenses in the statutory basis statements of operations.

- **General Administrative Expenses** — Pursuant to the terms of the Agreement (see Note 10), the Company pays a management fee to UHS in exchange for administrative and management services. Costs for items not included within the scope of the Agreement are directly expensed as incurred. A detailed review of the administrative expenses of the Company and UHS is performed to determine the allocation between CAE and GAE to be reported in the statutory basis statements of operations.

The Company is subject to an annual fee under Section 9010 of the ACA. A health insurance entity's annual fee becomes payable once the entity provides health insurance for any U.S. health risk during the calendar year, which is nondeductible for tax purposes. Under the NAIC SAP, the entire amount of the estimated annual fee expense is recognized on January 1 of the fee year in GAE in the statutory basis statements of operations, whereas under GAAP, a deferred asset is created on January 1 of the fee year which is amortized to expense on a straight-line basis throughout the year.

Administrative fee revenues consist of gain share provisions from the Company's ASO contract. Administrative fee revenue and related expenses are netted against GAE in the statutory basis statements of operations (see Note 18).

- **Net Investment Income Earned** — Net investment income earned includes investment income collected during the period, as well as the change in investment income due and accrued on the Company's holdings. Amortization of premium or discount on bonds and certain external investment management costs are also included in net investment income earned (see Note 7).
- **Federal Income Taxes Incurred** — The provision for federal income taxes incurred is calculated based on applying the statutory federal income tax rate of 21% in 2018 and 35% in 2017 to net income before federal income taxes and net realized capital (losses) gains subject to certain adjustments (see Note 9).
- **Comprehensive Income** — Comprehensive income and its components are not separately presented in the statutory basis financial statements, whereas under GAAP, it is a requirement to present comprehensive income and its components in the financial statements.

## **REINSURANCE**

- **Reinsurance Ceded** — In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding premium to other insurance enterprises or reinsurers under excess coverage contracts or specific transfer of risk agreements. The Company remains primarily liable as the direct insurer on the risks reinsured. Reinsurance premiums paid and reinsurance premiums incurred but not paid are deducted from net premium income in the statutory basis statements of operations. Any amounts due to the Company pursuant to this agreement are recorded as amounts recoverable from reinsurers in the statutory basis statements of admitted assets, liabilities, and capital and surplus (see Note 23).

The Company has an insolvency-only reinsurance agreement with UnitedHealthcare Insurance Company ("UHIC"), an affiliate, whereby 0.01% of net premium income is ceded to UHIC.

- **Amounts Recoverable from Reinsurers** — The Company records amounts recoverable from reinsurers for claims paid pursuant to the reinsurance agreement with Unimerica Insurance Company, Inc. in the statutory basis statements of admitted assets, liabilities, and capital and surplus and as net reinsurance recoveries in the statutory basis statements of operations.
- **Section 1341 ACA Transitional Reinsurance** — The Company has established receivables of \$45,860 and \$1,596,494 as of December 31, 2018 and 2017, respectively, pursuant to Section 1341 of the ACA which are included in amounts recoverable from reinsurers, a reduction to claims unpaid in the statutory basis statements of admitted assets, liabilities, and capital and surplus, for the transitional reinsurance program. This

program was designed to protect issuers in the individual market from an expected increase in large claims due to the elimination of preexisting condition limitations (see Note 24).

- **Ceded Reinsurance Premiums Payable** — The ceded reinsurance premiums payable balance represents amounts due to the reinsurers for specified coverage which will be paid based on the contract terms.

#### **OTHER**

- **Vulnerability Due to Certain Concentrations** — The Company is subject to substantial federal and state government regulation, including licensing and other requirements relating to the offering of the Company's existing products in new markets and offerings of new products, both of which may restrict the Company's ability to expand its business.

The Company has no commercial customers that individually exceed 10% of total direct premiums written and premiums and considerations, including receivables for contracts subject to redetermination, for the years ended December 31, 2018 and 2017.

Direct premiums written and uncollected premiums, including receivables for contracts subject to redetermination, from members and CMS related to Medicare Advantage and the Medicare Part D program as a percentage of total direct premiums written and total uncollected premiums, including receivables for contracts subject to redetermination, are 0.2% and below 0.1% as of December 31, 2018.

Direct premiums written and premiums and considerations, including receivables for contracts subject to redetermination, from the State of Louisiana, as a percentage of total direct premiums written and total premiums and considerations, including receivables for contracts subject to redetermination, are 98% and 99% as of December 31, 2018 and 97% and 99% as of December 31, 2017, respectively.

**Recently Issued Accounting Standards** — The Company reviewed all other recently issued guidance in 2018 and 2017 that has been adopted for 2018 or subsequent years' implementation and has determined that none of the items would have a significant impact to the statutory basis financial statements.

#### **D. Going Concern**

The Company has the ability and will continue to operate for a period of time sufficient to carry out its commitments, obligations and business objectives.

## **2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS**

During 2018, the Company determined that it had overstated in aggregate health policy reserves and increase in reserves for life and accident and health contracts related to premium deficiency reserves by \$22,773,000 for the year ended December 31, 2017. In addition, the deferred tax asset as a result of this error was overstated by \$4,782,330 for the year ended December 31, 2017. Had the above adjustment been recorded to the 2017 statutory basis financial statements, the increase/(decrease) to net income, total capital and surplus, total assets and total liabilities would have been \$22,773,000, \$17,990,670, \$(4,782,330), and \$(22,773,000), respectively. Due to the significance of the error, the cumulative effect of the net income and deferred tax asset of this prior year error was corrected by the Company in accordance with Statements of Statutory Accounting Principles ("SSAP") No. 3, *Accounting Changes and Corrections of Errors*, and is reflected in the statutory basis statements of changes in capital and surplus as a correction of error and change in net deferred income tax, respectively, for the period ended December 31, 2018.

### **3. BUSINESS COMBINATIONS AND GOODWILL**

**A–D.** The Company was not party to a business combination during the years ended December 31, 2018 and 2017, and does not carry goodwill in its statutory basis statements of admitted assets, liabilities, and capital and surplus.

### **4. DISCONTINUED OPERATIONS**

#### **A. Discontinued Operation Disposed of or Classified as Held for Sale**

**(1–4)** The Company did not have any discontinued operations disposed of or classified as held for sale during 2018 and 2017.

#### **B. Change in Plan of Sale of Discontinued Operation — Not applicable.**

#### **C. Nature of any Significant Continuing Involvement with Discontinued Operations after Disposal — Not applicable.**

#### **D. Equity Interest Retained in the Discontinued Operation after Disposal — Not applicable.**

### **5. INVESTMENTS AND OTHER INVESTED ASSETS**

For purposes of calculating gross realized gains and losses on sales of investments, the amortized cost of each investment sold is used. The gross realized gains and losses on sales of long-term investments were \$29,048 and \$124,442, respectively, for 2018 and \$102,771 and \$33,507, respectively, for 2017. There were no gross realized gains and losses on sales of short-term investments for 2018. The gross realized gains and losses on sales of short-term investments were \$0 and \$9, respectively, for 2017. The net realized (loss) gain is included in net realized capital (losses) gains less capital gains tax (benefit) in the statutory basis statements of operations. Total proceeds on the sale of long-term investments were \$17,709,644 and \$22,733,097 and for short-term investments were \$0 and \$2,276,778,150 in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the book/adjusted carrying value, fair value, and gross unrecognized unrealized gains and losses of the Company's investments, excluding cash and cash equivalents of \$125,032,390 and \$126,213,162, respectively, are as follows:

<b>2018</b>					
	<b>Book/Adjusted Carrying Value</b>	<b>Gross Unrecognized Unrealized Gains</b>	<b>Gross Unrecognized Unrealized Losses &lt; 1 Year</b>	<b>Gross Unrecognized Unrealized Losses &gt; 1 Year</b>	<b>Fair Value</b>
U.S. government and agency securities	\$ 42,206,761	\$ 202,356	\$ 115,838	\$ 723,252	\$ 41,570,027
State and agency municipal securities	32,405,673	65,326	57,845	388,393	32,024,761
City and county municipal securities	74,919,201	94,099	147,400	789,705	74,076,195
Corporate debt securities	<u>82,424,779</u>	<u>134,886</u>	<u>585,441</u>	<u>1,030,075</u>	<u>80,944,149</u>
Total bonds	<u>\$ 231,956,414</u>	<u>\$ 496,667</u>	<u>\$ 906,524</u>	<u>\$2,931,425</u>	<u>\$ 228,615,132</u>

<b>2018</b>					
	<b>Book/Adjusted Carrying Value</b>	<b>Gross Unrecognized Unrealized Gains</b>	<b>Gross Unrecognized Unrealized Losses &lt; 1 Year</b>	<b>Gross Unrecognized Unrealized Losses &gt; 1 Year</b>	<b>Fair Value</b>
Less than one year	\$ 7,040,451	\$ -	\$ 1,469	\$ 43,588	\$ 6,995,394
One to five years	110,410,290	51,132	409,401	1,289,380	108,762,641
Five to ten years	71,925,709	184,159	440,138	775,509	70,894,221
Over ten years	<u>42,579,964</u>	<u>261,376</u>	<u>55,516</u>	<u>822,948</u>	<u>41,962,876</u>
Total bonds	<u>\$ 231,956,414</u>	<u>\$ 496,667</u>	<u>\$ 906,524</u>	<u>\$2,931,425</u>	<u>\$ 228,615,132</u>

<b>2017</b>					
	<b>Book/Adjusted Carrying Value</b>	<b>Gross Unrecognized Unrealized Gains</b>	<b>Gross Unrecognized Unrealized Losses &lt; 1 Year</b>	<b>Gross Unrecognized Unrealized Losses &gt; 1 Year</b>	<b>Fair Value</b>
U.S. government and agency securities	\$ 35,710,261	\$ 13,506	\$ 95,211	\$ 299,228	\$ 35,329,328
State and agency municipal securities	31,274,645	120,389	246,826	66,740	31,081,468
City and county municipal securities	77,974,429	251,860	430,246	279,432	77,516,611
Corporate debt securities	<u>76,559,825</u>	<u>185,066</u>	<u>179,249</u>	<u>213,281</u>	<u>76,352,361</u>
Total bonds	<u>\$ 221,519,160</u>	<u>\$ 570,821</u>	<u>\$ 951,532</u>	<u>\$ 858,681</u>	<u>\$ 220,279,768</u>

Included in U.S. government and agency securities and corporate debt securities in the tables above are mortgage-related loan-backed securities, which do not have a single maturity date. For the years to maturity table above, these securities have been presented in the maturity group based on the securities' final maturity date and at a book/adjusted carrying value of \$30,386,688 and fair value of \$29,788,345.

The following table illustrates the fair value and gross unrecognized unrealized losses, aggregated by investment category and length of time that the individual securities have been in a continuous unrecognized unrealized loss position as of December 31, 2018 and 2017:

	2018					
	< 1 Year		> 1 Year		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency securities	\$ 9,361,804	\$ 115,838	\$ 17,775,912	\$ 723,252	\$ 27,137,716	\$ 839,090
State and agency municipal securities	5,670,244	57,845	20,433,253	388,393	26,103,497	446,238
City and county municipal securities	20,124,624	147,400	44,744,159	789,705	64,868,783	937,105
Corporate debt securities	34,022,101	585,441	35,092,630	1,030,075	69,114,731	1,615,516
Total bonds	<u>\$ 69,178,773</u>	<u>\$ 906,524</u>	<u>\$ 118,045,954</u>	<u>\$ 2,931,425</u>	<u>\$ 187,224,727</u>	<u>\$ 3,837,949</u>

  

	2017					
	< 1 Year		> 1 Year		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency securities	\$ 10,195,077	\$ 95,211	\$ 17,418,671	\$ 299,228	\$ 27,613,748	\$ 394,439
State and agency municipal securities	18,542,578	246,826	4,871,134	66,740	23,413,712	313,566
City and county municipal securities	32,777,480	430,246	17,332,091	279,432	50,109,571	709,678
Corporate debt securities	39,999,645	179,249	9,698,780	213,281	49,698,425	392,530
Total bonds	<u>\$ 101,514,780</u>	<u>\$ 951,532</u>	<u>\$ 49,320,676</u>	<u>\$ 858,681</u>	<u>\$ 150,835,456</u>	<u>\$ 1,810,213</u>

The unrecognized unrealized losses on investments in U.S. government and agency securities, state and agency municipal securities, city and county municipal securities, and corporate debt securities at December 31, 2018 and 2017, were mainly caused by interest rate increases and not by unfavorable changes in the credit ratings associated with these securities. The Company evaluates impairment at each reporting period for each of the securities whereby the fair value of the investment is less than its book/adjusted carrying value. The contractual cash flows of the U.S. government and agency securities are guaranteed either by the U.S. government or an agency of the U.S. government. It is expected that the securities would not be settled at a price less than the cost of the investment, and the Company does not intend to sell the investment until the unrealized loss is fully recovered. The Company evaluated the credit ratings of the municipal, local agency and corporate debt securities, noting whether a significant deterioration since purchase or other factors that may indicate an OTTI, such as the length of time and extent to which fair value has been less than cost, the financial condition, and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer and the Company's intent to sell the investment. Additionally, the Company evaluated its intent and ability to retain loan-backed securities for a period of time sufficient to recover the amortized cost. As a result of these reviews, the Company recorded an OTTI of \$1,550 and \$0 as of December 31, 2018 and 2017, respectively, which are included in net realized capital (losses) gains less capital gains tax (benefit) in the statutory basis statements of operations.

**A–C.** The Company has no mortgage loans, real estate loans, restructured debt, or reverse mortgages. The Company also has no real estate property occupied by the Company, real estate property held for the production of income, or real estate property held for sale.

**D. Loan-Backed Securities**

- (1) U.S. government and agency securities and corporate debt securities include loan-backed securities (mortgage-backed securities and asset-backed securities), which are valued using the retrospective adjustment methodology. Prepayment assumptions for the determination of the book/adjusted carrying value, commonly referred to as amortized cost, of loan-backed securities are based on a three-month constant prepayment rate history obtained from external data source vendors.



- (2) The Company did not recognize any OTTI on loan-backed securities as of December 31, 2018 and 2017.
- (3) The Company did not have any loan-backed securities with an OTTI to report by CUSIP as of December 31, 2018 or 2017.
- (4) The following table illustrates the fair value, gross unrecognized unrealized losses, and length of time that the loan-backed securities have been in a continuous unrecognized unrealized loss position as of December 31, 2018 and 2017:

**2018**

The aggregate amount of unrealized losses:

1. Less than 12 months	\$ 16,767
2. 12 months or longer	768,266

The aggregate related fair value of securities with unrealized losses:

1. Less than 12 months	2,669,374
2. 12 months or longer	19,563,680

**2017**

The aggregate amount of unrealized losses:

1. Less than 12 months	\$ 72,543
2. 12 months or longer	350,063

The aggregate related fair value of securities with unrealized losses:

1. Less than 12 months	12,735,058
2. 12 months or longer	12,966,017

- (5) The Company believes that it will collect all principal and interest due on all investments that have an amortized cost in excess of fair value. The unrecognized unrealized losses as of December 31, 2018 and 2017 were primarily caused by interest rate increases and not by unfavorable changes in the credit ratings associated with these securities.

- E. Dollar Repurchase Agreements and/or Securities Lending Transactions** — Not applicable.
- F. Repurchase Agreements Transactions Accounted for as Secured Borrowing** — Not applicable.
- G. Reverse Repurchase Agreements Transactions Accounted for as Secured Borrowing** — Not applicable.
- H. Repurchase Agreements Transactions Accounted for as a Sale** — Not applicable.
- I. Reverse Repurchase Agreements Transactions Accounted for as a Sale** — Not applicable.
- J. Real Estate** — Not applicable.
- K. Low-Income Housing Tax Credits** — Not applicable.

## L. Restricted Assets —

(1) Restricted assets, including pledged securities as of December 31, 2018 and 2017, are presented below:

Restricted Asset Category	1 Total Gross (Admitted & Nonadmitted) Restricted from Current Year	2 Total Gross (Admitted & Nonadmitted) Restricted from Prior Year	3 Increase/ (Decrease) (1 Minus 2)	4 Total Current Year Nonadmitted Restricted	5 Total Current Year Admitted Restricted (1 Minus 4)	6 Gross (Admitted & Nonadmitted) Restricted to Total Assets (a)	7 Admitted Restricted to Total Admitted Assets (b)
a. Subject to contractual obligation for which liability is not shown	\$ -	\$ -	\$ -	\$ -	\$ -	- %	- %
b. Collateral held under security lending agreements	-	-	-	-	-	-	-
c. Subject to repurchase agreements	-	-	-	-	-	-	-
d. Subject to reverse repurchase agreements	-	-	-	-	-	-	-
e. Subject to dollar repurchase agreements	-	-	-	-	-	-	-
f. Subject to dollar reverse repurchase agreements	-	-	-	-	-	-	-
g. Placed under option contracts	-	-	-	-	-	-	-
h. Letter stock or securities restricted as to sale—excluding FHLB capital stock	-	-	-	-	-	-	-
i. FHLB capital stock	-	-	-	-	-	-	-
j. On deposit with states	1,000,000	1,000,000	-	-	1,000,000	-	-
k. On deposit with other regulatory bodies	-	-	-	-	-	-	-
l. Pledged as collateral to FHLB (including assets backing funding agreements)	-	-	-	-	-	-	-
m. Pledged as collateral not captured in other categories	-	-	-	-	-	-	-
n. Other restricted assets	-	-	-	-	-	-	-
o. Total restricted assets	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>- %</u>	<u>- %</u>

(a) Column 1 divided by Asset Page, Column 1, Line 28

(b) Column 5 divided by Asset Page, Column 3, Line 28

(2–4) The Company has no assets pledged as collateral not captured in other categories and no other restricted assets as of December 31, 2018 or 2017.

M. Working Capital Finance Investments — Not applicable.

## N. Offsetting and Netting of Assets and Liabilities

The Company does not have any offsetting or netting of assets and liabilities as it relates to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and securities lending activities.

## O. Structured Notes

The Company does not have any structured notes.

## P. 5GI Securities

The Company does not have any investments with an NAIC designation of 5GI as of December 31, 2018 and 2017.

**Q. Short Sales** — Not applicable.

**R. Prepayment Penalty and Acceleration Fees** — Not applicable.

## 6. JOINT VENTURES, PARTNERSHIPS, AND LIMITED LIABILITY COMPANIES

**A–B.** The Company has no investments in joint ventures, partnerships, or limited liability companies that exceed 10% of admitted assets and did not recognize any impairment write-down for its investments in joint ventures, partnerships, and limited liability companies during the statement periods.

## 7. INVESTMENT INCOME

**A.** The Company excludes all investment income due and accrued amounts that are over 90 days past due from the statutory basis statements of admitted assets, liabilities, and capital and surplus.

**B.** There were no investment income amounts excluded from the statutory basis financial statements.

## 8. DERIVATIVE INSTRUMENTS

**A–H.** The Company has no derivative instruments.

## 9. INCOME TAXES

The Tax Cuts and Jobs Act (“Tax Reform”) enacted by the U.S. federal government in December 2017 changed the existing United States tax law including reducing the U.S. corporate income tax rate from 35% in 2017 to 21% beginning in 2018. The Company accounted for the impacts of Tax Reform and as of December 31, 2017, remeasured its deferred tax assets/(liabilities) at the 21% enacted tax rate.

### A. Deferred Tax Asset/Liability

**(1)** The components of the net deferred tax asset at December 31, 2018 and 2017, are as follows:

	2018			2017			Change		
	1 Ordinary	2 Capital	3 (Col 1 + 2) Total	4 Ordinary	5 Capital	6 (Col 4 + 5) Total	7 (Col 1 - 4) Ordinary	8 (Col 2 - 5) Capital	9 (Col 7 + 8) Total
(a) Gross deferred tax assets	\$ 14,966,439	\$ 13	\$ 14,966,452	\$ 16,800,773	\$ -	\$ 16,800,773	\$ (1,834,334)	\$ 13	\$ (1,834,321)
(b) Statutory valuation allowance adjustments	-	-	-	-	-	-	-	-	-
(c) Adjusted gross deferred tax assets (1a - 1b)	14,966,439	13	14,966,452	16,800,773	-	16,800,773	(1,834,334)	13	(1,834,321)
(d) Deferred tax assets nonadmitted	-	-	-	-	-	-	-	-	-
(e) Subtotal net admitted deferred tax asset (1c - 1d)	14,966,439	13	14,966,452	16,800,773	-	16,800,773	(1,834,334)	13	(1,834,321)
(f) Deferred tax liabilities	<u>373,655</u>	<u>1,347</u>	<u>375,002</u>	<u>7,852</u>	<u>1,266</u>	<u>9,118</u>	<u>365,803</u>	<u>81</u>	<u>365,884</u>
(g) Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	<u>\$ 14,592,784</u>	<u>\$ (1,334)</u>	<u>\$ 14,591,450</u>	<u>\$ 16,792,921</u>	<u>\$ (1,266)</u>	<u>\$ 16,791,655</u>	<u>\$ (2,200,137)</u>	<u>\$ (68)</u>	<u>\$ (2,200,205)</u>

- (2) The components of the adjusted gross deferred tax assets admissibility calculation under SSAP No. 101, *Income Taxes — A Replacement of SSAP No. 10R and SSAP No. 10*, are as follows:

Admission Calculation Components SSAP No. 101	2018			2017			Change		
	1 Ordinary	2 Capital	3 (Col 1 + 2) Total	4 Ordinary	5 Capital	6 (Col 4 + 5) Total	7 (Col 1 - 4) Ordinary	8 (Col 2 - 5) Capital	9 (Col 7 + 8) Total
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 14,966,439	\$ 13	\$ 14,966,452	\$ 16,800,773	\$ -	\$ 16,800,773	\$ (1,834,334)	\$ 13	\$ (1,834,321)
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (The lesser of 2(b)1 and 2(b)2 below)	-	-	-	-	-	-	-	-	-
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	-	-	-	-	-	-	-	-	-
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	13,565,634	XXX	XXX	23,243,483	XXX	XXX	(9,677,849)
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	-	-	-	-	-	-	-	-	-
(d) Deferred tax assets admitted as the result of application of SSAP No. 101 Total (2(a) + 2(b) + 2(c))	<u>\$ 14,966,439</u>	<u>\$ 13</u>	<u>\$ 14,966,452</u>	<u>\$ 16,800,773</u>	<u>\$ -</u>	<u>\$ 16,800,773</u>	<u>\$ (1,834,334)</u>	<u>\$ 13</u>	<u>\$ (1,834,321)</u>

- (3) The ratio percentage and adjusted capital and surplus used to determine the recovery period and threshold limitations for the admissibility calculation are presented below:

	2018	2017
(a) Ratio percentage used to determine recovery period and threshold limitation amount	255 %	319 %
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)(2) above	\$ 135,656,343	\$ 160,946,591

- (4) The impact to the gross deferred tax assets balances as a result of tax-planning strategies as of December 31, 2018 and 2017, is presented below:

Impact of Tax-Planning Strategies	2018		2017		Change	
	1	2	3	4	5	6
	Ordinary	Capital	Ordinary	Capital	(Col 1 - 3) Ordinary	(Col 2 - 4) Capital
(a) Determination of adjusted gross deferred tax assets and net admitted deferred tax assets by tax character as a percentage.						
1. Adjusted gross DTAs amount from Note 9A1(c)	\$ 14,966,439	\$ 13	\$ 16,800,773	\$ -	\$ (1,834,334)	\$ 13
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax-planning strategies	- %	- %	- %	- %	- %	- %
3. Net admitted adjusted gross DTAs amount from Note 9A1(e)	\$ 14,966,439	\$ 13	\$ 16,800,773	\$ -	\$ (1,834,334)	\$ 13
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax-planning strategies	- %	- %	- %	- %	- %	- %
(b) Does the Company's tax-planning strategies include the use of reinsurance?			Yes		No	X

## B. Unrecognized Deferred Tax Liabilities

- (1-4) There are no unrecognized deferred tax liabilities for the years ended December 31, 2018 and 2017.

## C. Significant Components of Income Taxes

- (1) The current federal and foreign income taxes incurred for the years ended December 31, 2018 and 2017 are as follows:

	1	2	3
	2018	2017	(Col 1 - 2) Change
1. Current income tax			
(a) Federal	\$ 9,072,302	\$ 51,854,275	\$ (42,781,973)
(b) Foreign	-	-	-
(c) Subtotal	9,072,302	51,854,275	(42,781,973)
(d) Federal income tax on net capital (losses) gains	(16,237)	31,398	(47,635)
(e) Utilization of capital loss carryforwards	-	-	-
(f) Other	-	-	-
(g) Total federal and foreign income taxes incurred	\$ 9,056,065	\$ 51,885,673	\$ (42,829,608)

**(2-4)** The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2018 and 2017, are as follows:

	1	2	3
	2018	2017	(Col 1 - 2) Change
2 Deferred tax assets:			
(a) Ordinary:			
(1) Discounting of unpaid losses	\$ 809,482	\$ 357,000	\$ 452,482
(2) Unearned premium reserve	7,447	4,687	2,760
(3) Policyholder reserves	9,169,650	14,043,960	(4,874,310)
(4) Investments	-	-	-
(5) Deferred acquisition costs	-	-	-
(6) Policyholder dividends accrual	-	-	-
(7) Fixed assets	-	-	-
(8) Compensation and benefits accrual	-	-	-
(9) Pension accrual	-	-	-
(10) Receivables — nonadmitted	4,978,992	2,359,922	2,619,070
(11) Net operating loss carryforward	-	-	-
(12) Tax credit carryforward	-	-	-
(13) Other (including items <5% of total ordinary tax assets)	<u>868</u>	<u>35,204</u>	<u>(34,336)</u>
(99) Subtotal	14,966,439	16,800,773	(1,834,334)
(b) Statutory valuation allowance adjustment	-	-	-
(c) Nonadmitted	<u>-</u>	<u>-</u>	<u>-</u>
(d) Admitted ordinary deferred tax assets (2a99 - 2b - 2c)	<u>14,966,439</u>	<u>16,800,773</u>	<u>(1,834,334)</u>
(e) Capital:			
(1) Investments	-	-	-
(2) Net capital loss carryforward	-	-	-
(3) Real estate	-	-	-
(4) Other (including items <5% of total capital tax assets)	<u>13</u>	<u>-</u>	<u>13</u>
(99) Subtotal	13	-	13
(f) Statutory valuation allowance adjustment	-	-	-
(g) Nonadmitted	<u>-</u>	<u>-</u>	<u>-</u>
(h) Admitted capital deferred tax assets (2e99 - 2f - 2g)	<u>13</u>	<u>-</u>	<u>13</u>
(i) Admitted deferred tax assets (2d + 2h)	<u>14,966,452</u>	<u>16,800,773</u>	<u>(1,834,321)</u>
3 Deferred tax liabilities:			
(a) Ordinary:			
(1) Investments	19,851	6,731	13,120
(2) Fixed assets	-	-	-
(3) Deferred and uncollected premium	-	-	-
(4) Policyholder reserves	-	-	-
(5) Other (including items <5% of total ordinary tax liabilities)	<u>353,804</u>	<u>1,121</u>	<u>352,683</u>
(99) Subtotal	<u>373,655</u>	<u>7,852</u>	<u>365,803</u>
(b) Capital:			
(1) Investments	1,347	1,266	81
(2) Real estate	-	-	-
(3) Other (including items <5% of total capital tax liabilities)	<u>-</u>	<u>-</u>	<u>-</u>
(99) Subtotal	<u>1,347</u>	<u>1,266</u>	<u>81</u>
(c) Deferred tax liabilities (3a99 + 3b99)	<u>375,002</u>	<u>9,118</u>	<u>365,884</u>
4 Net deferred tax assets/liabilities (2i - 3c)	<u>\$ 14,591,450</u>	<u>\$ 16,791,655</u>	<u>\$ (2,200,205)</u>

The other capital deferred tax asset of \$13 for 2018 consists of unrealized loss. The other ordinary deferred tax asset of \$35,204 for 2017 consists of bad debt of \$34,352 and general expenses of \$852. The other ordinary deferred tax liability of \$353,804 for 2018 consists of discounting of unpaid loss of \$352,087 and \$1,717 of premium acquisition expense. The other ordinary deferred tax liability of \$1,121 for 2017 consists of premium acquisition expense.

The Company's measurement of the income tax effects on Tax Reform for the year ended December 31, 2017 was reasonably estimated. The Company has completed the accounting for the income tax effects of Tax Reform by the end of the measurement period in 2018.

The Company assessed the potential realization of the gross deferred tax asset and as a result no statutory valuation allowance was required and no allowance was established as of December 31, 2018 and 2017.

- D.** The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 21% in 2018 and 35% in 2017 to net (loss) income before federal income taxes incurred, plus capital gains tax/less capital gains (benefit) tax. A summarization of the significant items causing this difference as of December 31, 2018 and 2017 is as follows:

	<b>2018</b>		<b>2017</b>	
	<b>Amount</b>	<b>Effective Tax Rate</b>	<b>Amount</b>	<b>Effective Tax Rate</b>
Tax provision at the federal statutory rate	\$ 417,699	21 %	\$ 29,484,114	35 %
Tax-exempt interest	(291,711)	(14)	(352,599)	-
Health insurer fee	8,967,120	451	-	-
Tax effect of nonadmitted assets	(2,619,155)	(132)	(2,081,550)	(2)
Deferred corrections	4,782,330	240	-	-
Change in tax law	-	-	11,194,437	13
Total statutory income taxes	<u>\$ 11,256,283</u>	<u>566 %</u>	<u>\$ 38,244,402</u>	<u>46 %</u>
Federal income taxes incurred	\$ 9,072,302	456 %	\$ 51,854,275	62 %
Capital gains tax	(16,237)	(1)	31,398	-
Change in net deferred income tax	<u>2,200,218</u>	<u>111</u>	<u>(13,641,271)</u>	<u>(16)</u>
Total statutory income taxes	<u>\$ 11,256,283</u>	<u>566 %</u>	<u>\$ 38,244,402</u>	<u>46 %</u>

- E.** At December 31, 2018, the Company had no net operating loss carryforwards.

Current federal income taxes payable of \$18,724,065 and \$10,911,691 as of December 31, 2018 and 2017, respectively, are included in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Federal income taxes paid, net of refunds were \$1,243,692 and \$34,054,463 in 2018 and 2017, respectively.

Federal income taxes incurred of \$9,056,065 and \$52,060,691 for 2018 and 2017, respectively, are available for recoupment in the event of future net losses.

The Company has not admitted any aggregate amounts of deposits that are included within Section 6603 ("Deposits made to suspend running of interest on potential underpayments, etc.") of the Internal Revenue Service ("IRS") Code.

- F.** The Company is included in the consolidated federal income tax return with its ultimate parent, UnitedHealth Group. The entities included within the consolidated return are included in NAIC Statutory Statement Schedule Y — Information Concerning Activities of Insurer Members Of A Holding Company Group. Federal income taxes are paid to or refunded by UnitedHealth Group pursuant to the terms of a tax-sharing agreement, approved by the Board of Directors, under which taxes approximate the amount that would have been computed on a separate company basis, with the exception of net operating losses and capital losses. For these losses, the Company receives a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent losses can be utilized in the consolidated federal income tax return of UnitedHealth Group. UnitedHealth Group currently files income tax returns in the U.S. federal jurisdiction, various states, and foreign jurisdictions. The IRS has completed exams on UnitedHealth Group's consolidated income tax returns for fiscal years 2016 and prior. UnitedHealth Group's 2017 and 2018 tax returns are under review by the IRS under its Compliance Assurance Program. With the exception of a few states, UnitedHealth Group is no longer subject to income tax examinations prior to 2012 in major state and foreign jurisdictions. The Company does not believe any adjustments that may result from these examinations will be material to the Company.
- G. Tax Contingencies** — Not applicable.
- H. Repatriation Transition Tax** — Not applicable.
- I. Alternative Minimum Tax Credit** — Not applicable.

## **10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES**

### **A–O. Material Related Party Transactions**

Management believes that its transactions with affiliates are fair and reasonable; however, operations of the Company may not be indicative of those that would have occurred if it had operated as an independent company.

Pursuant to the terms of the Agreement, UHS will provide management services to the Company under a fee structure, which is based on a percentage of premium charges representing UHS' expenses for services or use of assets provided to the Company. In addition, UHS provides or arranges for services on behalf of the Company using a pass-through of charges incurred by UHS on a per member per month ("PMPM") basis (where the charges incurred by UHS is on a PMPM basis) or using another allocation methodology consistent with the Agreement. These services may include, but are not limited to, integrated personal health management solutions, such as disease management, treatment decision support, and wellness services, including a 24-hour call-in service, access to a network of transplant providers, and discount program services. The amount and types of services provided pursuant to the pass-through provision of the Agreement can change year over year as UHS becomes the contracting entity for services provided to the Company's members. Total administrative services, capitation expenses, and access fees under this arrangement totaled \$137,570,046 and \$115,629,144 in 2018 and 2017, respectively, and are included in GAE and CAE in the statutory basis statements of operations. Direct expenses not covered under the Agreement, such as broker commissions, DOI exam fees, ACA assessments, and premium taxes, are paid by UHS on behalf of the Company. UHS is reimbursed by the Company for these direct expenses.



The following table identifies the amounts for the administrative services, access fees, and cost of care services provided by related parties for the years ended December 31, 2018 and 2017, which meet the disclosure requirements pursuant to SSAP No. 25, *Affiliates and Other Related Parties* ("SSAP No. 25"), regardless of the effective date of the contract:

	2018	2017
United HealthCare Services, Inc.	\$ 137,570,046	\$ 115,629,144
Optum Rx, Inc.	88,051,257	72,625,357
United Behavioral Health	24,884,921	12,898,009
AxelaCare Intermediate Holdings, LLC	8,590,820	3,372,393
OptumInsight, Inc.	3,286,049	2,385,956

Optum Rx, Inc. provides administrative services related to pharmacy management and pharmacy claims processing for its enrollees, pharmacy incentive services, specialty drug pharmacy services, durable medical equipment services including orthotics and prosthetics and personal health products catalogues showing the healthcare products and benefit credits enrollees needed to redeem the respective products. The 2018 adoption of the Medicaid Managed Care rule provided additional insight into the classification of certain prescription drug related fees. As a result of this information, the Company reevaluated the presentation of these prescription drug related fees, and determined that it would be appropriate to include these fees as a component of general administrative expenses in 2018, whereas in 2017, the fees were included as a component of prescription drug costs.

United Behavioral Health provides mental health and substance abuse services.

AxelaCare Intermediate Holdings, LLC provides home infusion therapy services, and per diem nursing services.

OptumInsight, Inc. provides claim analytics, recovery of medical expense (benefit) overpayments, retroactive fraud, waste and abuse, subrogation and premium audit services. All recoveries are returned to the Company by OptumInsight, Inc. on a monthly basis.

The Company has premium payments that are received and claim payments that are processed by an affiliated UnitedHealth Group entity. Both premiums and claims applicable to the Company are settled at regular intervals throughout the month via the intercompany settlement process and any amounts outstanding are reflected in amounts due to parent, subsidiaries, and affiliates, net in the statutory basis statements of admitted assets, liabilities, and capital and surplus.

The Company holds a \$100,000,000 subordinated revolving credit agreement with UnitedHealth Group at an interest rate of London InterBank Offered Rate plus a margin of 0.50%. This credit agreement is subordinate to the extent it does not conflict with any credit facility held by either party. The credit agreement is for a one-year term and automatically renews annually, unless terminated by either party. The agreement was renewed effective November 1, 2018. No amounts were outstanding under the line of credit as of December 31, 2018 and 2017.

The Company has a Tax Sharing Agreement with UnitedHealth Group (see Note 9).

The Company paid dividends of \$0 and \$12,000,000 in 2018 and 2017, respectively, to its parent (see Note 13).

The Company has entered into reinsurance agreements with affiliated entities (see Note 23).

At December 31, 2018 and 2017, the Company reported \$11,555,554 and \$4,098,941, respectively, amounts due to parent, subsidiaries, and affiliates, net which are included in the statutory basis statements of admitted assets, liabilities, and capital and surplus. These balances are generally settled within 90 days from the incurred date. Any balances due to the Company that are not settled within 90 days are considered nonadmitted assets.

The Company has not extended any guarantees or undertakings for the benefit of an affiliate or related party.

The Company does not have any amount deducted from the value of an upstream intermediate entity or ultimate parent owned, either directly or indirectly, via a downstream subsidiary, controlled, or affiliated entity.

The Company does not have any investments in a subsidiary, controlled, or affiliated entity that exceeds 10% of admitted assets.

The Company does not have any investments in impaired subsidiaries, controlled, or affiliated entities.

The Company does not have any investments in foreign insurance subsidiaries.

The Company does not hold any investments in a downstream noninsurance holding company.

The Company does not have any investments in noninsurance subsidiaries, controlled, or affiliated entities.

The Company does not have any investments in insurance subsidiaries, controlled, or affiliated entities.

## **11. DEBT**

**A–B.** The Company had no outstanding debt with third-parties or outstanding Federal Home Loan Bank agreements during 2018 and 2017.

## **12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS**

**A–I.** The Company has no defined benefit plans, defined contribution plans, multiemployer plans, consolidated/holding company plans, postemployment benefits, or compensated absences plans and is not impacted by the Medicare Modernization Act on postretirement benefits, since all personnel are employees of UHS, which provides services to the Company under the terms of the Agreement (see Note 10).

## **13. CAPITAL AND SURPLUS, SHAREHOLDERS' DIVIDEND RESTRICTIONS, AND QUASI-REORGANIZATIONS**

**(1–2)** The Company has 1,000,000 shares authorized and 900,000 shares issued and outstanding of \$2 par value common stock. The Company has no preferred stock outstanding. All issued and outstanding shares of common stock are held by the Company's parent, UHC.

**(3)** Payment of dividends may be restricted by the LADOI, which generally requires that dividends be paid out of unassigned surplus.

- (4) The Company paid an ordinary cash dividend to UHC of \$12,000,000 on December 15, 2017, which required no approval and was recorded as a reduction to unassigned surplus in the statutory basis statements of admitted assets, liabilities, and capital and surplus.
- (5) The amount of ordinary dividends that may be paid out during any given period is subject to certain restrictions as specified by state statute.
- (6) There are no restrictions placed on the Company's unassigned surplus.
- (7) The Company is not a mutual reciprocal or a similarly organized entity and does not have advances to surplus not repaid.
- (8) The Company does not hold any stock, including stock of affiliated companies for special purposes, such as conversion of preferred stock, employee stock options, or stock purchase warrants.
- (9) For the year ended December 31, 2017, the amount of the estimated Section 9010 ACA subsequent fee year assessment apportioned out of unassigned surplus was \$45,339,570. As discussed in Note 1, in 2018 no amount was required to be apportioned out of unassigned surplus for the Section 9010 ACA subsequent fee year assessment.
- (10) The portion of unassigned surplus, excluding the apportionment of estimated Section 9010 ACA subsequent fee year assessment, correction of error, net (loss) income, and dividends, represented (or reduced) by each item below is as follows:

	2018	2017	Change
Unrealized capital losses on investments	\$ (62)	\$ -	\$ (62)
Net deferred income taxes	14,591,450	16,791,655	(2,200,205)
Nonadmitted assets	<u>(23,709,891)</u>	<u>(11,237,725)</u>	<u>(12,472,166)</u>
Total	<u>\$ (9,118,503)</u>	<u>\$ 5,553,930</u>	<u>\$ (14,672,433)</u>

- (11–13) The Company does not have any outstanding surplus notes and has never been a party to a quasi-reorganization.

#### 14. LIABILITIES, CONTINGENCIES AND ASSESSMENTS

##### A. Contingent Commitments

The Company has no contingent commitments.

##### B. Assessments

The Company is not aware of any guaranty fund assessments or premium tax offsets, potential or accrued, that could have a material financial effect on the operations of the entity.

##### C. Gain Contingencies

The Company is not aware of any gain contingencies that should be disclosed in the statutory basis financial statements.

- D. Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits** — Not applicable.
- E. Joint and Several Liabilities** — Not applicable.
- F. All Other Contingencies**

The Company's business is regulated at the federal, state, and local levels. The laws and rules governing the Company's business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. Further, the Company must obtain and maintain regulatory approvals to market and sell many of its products.

The ACA and the related federal and state regulations will continue to impact how the Company does business and could restrict revenue and enrollment growth in certain products and market segments, restrict premium growth rates for certain products and market segments, increase the Company's medical and administrative costs, expose the Company to an increased risk of liability (including increasing the Company's liability in federal and state courts for coverage determinations and contract interpretation), or put the Company at risk for loss of business. In addition, the Company's statutory basis results of operations, financial condition, and cash flows could be materially adversely affected by such changes. The ACA may create new or expand existing opportunities for business growth, but due to its complexity, the long term impact of the ACA remains difficult to predict and is not yet fully known.

The Company has been, or is currently involved, in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments and other governmental authorities. Certain of the Company's businesses have been reviewed or are currently under review, for reasons including compliance with coding and other requirements under the Medicare risk-adjustment model.

On February 14, 2017, the Department of Justice ("DOJ") announced its decision to pursue certain claims within a lawsuit initially asserted against the Company and filed under seal by a whistleblower in 2011. The whistleblower's complaint, which was unsealed on February 15, 2017, alleges that the Company made improper risk adjustment submissions and violated the False Claims Act. On February 12, 2018, the court granted in part and denied in part the Company's motion to dismiss. In May 2018, the DOJ moved to dismiss the Company's counterclaims, which were filed in March 2018, and moved for partial summary judgment. Those motions were argued in September 2018. The Company cannot reasonably estimate the outcome that may result from this matter given its procedural status.

**Risk Adjustment Data Validation ("RADV") Audit** — CMS adjusts capitation payments to Medicare Advantage plans and Medicare Part D plans according to the predicted health status of each beneficiary as supported by data from health care providers. The Company collects claim and encounter data from providers who the Company generally relies on to appropriately code their claim submissions and document their medical records. CMS then determines the risk score and payment amount for each enrolled member based on the health care data submitted and member demographic information.

CMS and the Office of Inspector General for Health and Human Services periodically perform RADV audits of selected Medicare health plans to validate the coding practices and supporting documentation maintained by health care providers. Such audits have in the past resulted in, and in the future could result in, retrospective adjustments to payments made to the Company, fines, corrective action plans or other adverse action by CMS.

In February 2012, CMS announced a final RADV and payment adjustment methodology and is conducting the RADV audits beginning with the 2011 payment year. These audits involve a review of medical records maintained by care providers and may result in retrospective adjustments to payments made to health plans. CMS has not communicated how the final payment adjustment under its methodology will be implemented.

To date, the Company has not been selected by CMS to participate in a RADV audit.

Because of the nature of its businesses, the Company is frequently made party to a variety of legal actions and regulatory inquiries, including class actions and suits brought by members, care providers, consumer advocacy organizations, customers and regulators, relating to the Company's businesses, including management and administration of health benefit plans and other services.

The Company records liabilities for its estimates of probable costs resulting from these matters where appropriate. Estimates of costs resulting from legal and regulatory matters involving the Company are inherently difficult to predict, particularly where the matters involve: indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or represent a shift in regulatory policy; involve a large number of claimants or regulatory bodies; are in the early stages of the proceedings; or could result in a change in business practices. Accordingly, the Company is often unable to estimate the losses or ranges of losses for those matters where there is a reasonable possibility or it is probable that a loss may be incurred. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions will not have a material adverse effect on the statutory basis statements of admitted assets, liabilities, and capital and surplus or statutory basis statements of operations of the Company.

The Company routinely evaluates the collectability of all receivable amounts included in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Impairment reserves are established for those amounts where collectability is uncertain. Based on the Company's past experience, exposure related to uncollectible balances and the potential of loss for those balances not currently reserved for is not material to the Company's statutory basis financial condition.

There are no assets that the Company considers to be impaired at December 31, 2018 and 2017, except as disclosed in Note 1 and Note 5.

## **15. LEASES**

**A–B.** According to the Agreement between the Company and UHS (see Note 10), operating leases for the rental of office facilities and equipment are the responsibility of UHS. Fees associated with the lease agreements are included as a component of the Company's management fee.

## **16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK**

**(1–4)** The Company does not hold any financial instruments with off-balance-sheet risk or have any concentrations of credit risk.

## **17. SALE, TRANSFER, AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES**

**A–C.** The Company did not participate in any transfer of receivables, financial assets or wash sales.

**18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS**

**A. ASO Plans**

On February 1, 2012, the Company began an ASO with the State of Louisiana as the Company was awarded the statewide Medicaid coordinated care network shared savings contract during 2011 (see Note 1). The Company recorded \$2,345,567 in administrative fee revenues, which included the final 2014 gain share provision of \$2,345,567, and related expenses for \$278,525 resulting in income from operations of \$2,067,042 as of December 31, 2017. These amounts are included in general administrative expenses and claims adjustment expenses in the accompanying statutory basis statements of operations. Effective February 1, 2015, the Company's ASO Contract converted into the Medicaid fully insured business.

The Company does not have any net gain from operations of the uninsured portion of ASO uninsured plans and the uninsured portion of partially insured plans in 2018. The net gain from operations of the uninsured portion of ASO uninsured plans and the uninsured portion of partially insured plans for 2017 follows:

	<b>2017</b>		
	<b>ASO Uninsured Plans</b>	<b>Uninsured Portion of Partially Insured Plans</b>	<b>Total ASO</b>
a. Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	\$ 2,067,042	\$ -	\$ 2,067,042
b. Total net other income or expenses (including interest paid to or received from plans)	-	-	-
c. Net gain (loss) from operations	2,067,042	-	2,067,042
d. Total claim payment volume	-	-	-

**B.** The Company has no operations from Administrative Services Contracts.

**C.** The Medicare Part D program is a partially insured plan. The Company recorded a receivable in amounts receivable relating to uninsured plans in the statutory basis statements of admitted assets, liabilities, and capital and surplus of \$260,743 at December 31, 2018, for cost reimbursement under the Medicare Part D program for the catastrophic reinsurance and low-income member cost-sharing subsidies as described in Note 1, *Amounts Receivable Relating to Uninsured Plans and Liability for Amounts Held Under Uninsured Plans*. The Company also recorded a receivable of \$13,297 and also a payable of \$24,205 at December 31, 2018, for the Medicare Part D CGDP as described in Note 1, *Amounts Receivable Relating to Uninsured Plans and Liability for Amounts Held Under Uninsured Plans*.

## **19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD-PARTY ADMINISTRATORS**

The Company did not have any direct premiums written or produced by managing general agents or third-party administrators in 2018 and 2017.

## **20. FAIR VALUE MEASUREMENT**

The NAIC SAP defines fair value, establishes a framework for measuring fair value, and outlines the disclosure requirements related to fair value measurements. The fair value hierarchy is as follows:

**Level 1** — Quoted (unadjusted) prices for identical assets in active markets.

**Level 2** — Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.);
- Inputs that are derived principally from or corroborated by other observable market data.

**Level 3** — Unobservable inputs that cannot be corroborated by observable market data.

The estimated fair values of bonds, short-term investments and cash equivalents are based on quoted market prices, where available. The Company obtains one price for each security primarily from a third-party pricing service ("pricing service"), which generally uses quoted prices or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source, prices reported by its custodian, its investment consultant, and third-party investment advisors. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services have not historically resulted in an adjustment in the prices obtained from the pricing service.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

## A. Fair Value

### (1) Fair Value Measurements at Reporting Date

The following table present information about the Company's financial assets that are measured and reported at fair value at December 31, 2018, in the statutory basis statements of admitted assets, liabilities, and capital and surplus according to the valuation techniques the Company used to determine their fair values. The Company does not have financial assets measured and reported at fair value at December 31, 2017:

Description for Each Class of Asset or Liability	December 31, 2018				Total
	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV)	
a. Assets at fair value:					
Perpetual preferred stock:					
Industrial and misc	(a) \$ -	\$ -	\$ -	\$ -	\$ -
Parent, subsidiaries, and affiliates	-	-	-	-	-
Total perpetual preferred stocks	-	-	-	-	-
Bonds:					
U.S. governments	-	-	-	-	-
Industrial and misc	-	-	-	-	-
Hybrid securities	-	-	-	-	-
Parent, subsidiaries, and affiliates	-	-	-	-	-
Total bonds	-	-	-	-	-
Common stock:					
Industrial and misc	-	-	-	-	-
Parent, subsidiaries, and affiliates	-	-	-	-	-
Total common stock	-	-	-	-	-
Derivative assets:					
Interest rate contracts	-	-	-	-	-
Foreign exchange contracts	-	-	-	-	-
Credit contracts	-	-	-	-	-
Commodity futures contracts	-	-	-	-	-
Commodity forward contracts	-	-	-	-	-
Total derivatives	-	-	-	-	-
Money-market funds	123,843,352	-	-	-	123,843,352
Separate account assets	-	-	-	-	-
Total assets at fair value/NAV	<u>\$123,843,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$123,843,352</u>
b. Liabilities at fair value:					
Derivative liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities at fair value	\$ -	\$ -	\$ -	\$ -	\$ -

(a) \$0 transferred from Level 1 to Level 2 as an alternative method was utilized to determine fair value as active market price was not readily available.

There were no transfers between Levels 1 and 2 during the year ended December 31, 2018.



- (2) The Company does not have any financial assets with a fair value hierarchy of Level 3 that were measured and reported at fair value.
- (3) Transfers between fair value hierarchy levels, if any, are recorded as of the beginning of the reporting period in which the transfer occurs. There were no transfers between Levels 1, 2 or 3 of any financial assets or liabilities during the year ended December 31, 2018.
- (4) The Company has no investments reported with a fair value hierarchy of Level 2 or Level 3 and therefore has no valuation technique to disclose.
- (5) The Company has no derivative assets and liabilities to disclose.

**B. Fair Value Combination — Not applicable.**

**C. Aggregate Fair Value Hierarchy**

The aggregate fair value by hierarchy of all financial instruments as of December 31, 2018 and 2017 is presented in the table below:

Types of Financial Investment	2018						Not Practicable (Carrying Value)
	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV)	
U.S. government and agency securities	\$ 41,570,027	\$ 42,206,761	\$ 13,413,831	\$ 28,156,196	\$ -	\$ -	\$ -
State and agency municipal securities	32,024,761	32,405,673	-	32,024,761	-	-	-
City and county municipal securities	74,076,195	74,919,201	-	74,076,195	-	-	-
Corporate debt securities	80,944,149	82,424,779	-	80,944,149	-	-	-
Cash equivalents	<u>123,843,352</u>	<u>123,843,352</u>	<u>123,843,352</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total bonds and cash equivalents	<u>\$ 352,458,484</u>	<u>\$ 355,799,766</u>	<u>\$ 137,257,183</u>	<u>\$ 215,201,301</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

  

Types of Financial Investment	2017						Not Practicable (Carrying Value)
	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV)	
U.S. government and agency securities	\$ 35,329,328	\$ 35,710,261	\$ 17,496,037	\$ 17,833,291	\$ -	\$ -	\$ -
State and agency municipal securities	31,081,468	31,274,645	-	31,081,468	-	-	-
City and county municipal securities	77,516,611	77,974,429	-	77,516,611	-	-	-
Corporate debt securities	<u>76,352,361</u>	<u>76,559,825</u>	<u>-</u>	<u>76,352,361</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total bonds	<u>\$ 220,279,768</u>	<u>\$ 221,519,160</u>	<u>\$ 17,496,037</u>	<u>\$ 202,783,731</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Included as Level 1 in U.S. government and agency securities in the fair value hierarchy tables above are U.S. Treasury securities of \$13,413,831 and \$17,496,037 as of December 31, 2018 and December 31, 2017, respectively.

There are no commercial paper investments included in corporate debt securities in the fair value hierarchy tables above as of December 31, 2018 and 2017.

**D. Not Practicable to Estimate Fair Value — Not applicable.**

**E. Investments Measured Using the NAV Practical Expedient — Not applicable.**

**21. OTHER ITEMS**

**A. Unusual or Infrequent Items**

The Company did not encounter any unusual or infrequent items for the years ended December 31, 2018 and 2017.

**B. Troubled Debt Restructuring: Debtors**

The Company has no troubled debt restructurings as of December 31, 2018 and 2017.

**C. Other Disclosures**

The Company does not have any amounts not recorded in the statutory basis financial statements that represent segregated funds held for others. The Company also does not have any exposures related to forward commitments that are not derivative instruments.

**D. Business Interruption Insurance Recoveries**

The Company has not received any business interruption insurance recoveries during 2018 and 2017.

**E. State Transferable and Non-transferable Tax Credits**

The Company has no transferable or non-transferable state tax credits.

**F. Sub-Prime Mortgage-Related Risk Exposure**

- (1) The investment policy for the Company limits investments in loan-backed securities, which includes sub-prime issuers. Further, the policy limits investments in private-issuer mortgage securities to 10% of the portfolio, which also includes sub-prime issuers. The exposure to unrealized losses on sub-prime issuers is due to changes in market prices. There are no realized losses due to not receiving anticipated cash flows. The investments covered have an NAIC designation of 1 or 2.
- (2) The Company has no direct exposure through investments in sub-prime mortgage loans.
- (3) The Company has no direct exposure through other investments.
- (4) The Company has no underwriting exposure to sub-prime mortgage risk through mortgage guaranty or financial guaranty insurance coverage.

**G. Retained Assets**

The Company does not have any retained asset accounts for beneficiaries.

**H. Insurance-Linked Securities Contracts**

As of December 31, 2018, the Company is not aware of any possible proceeds of insurance-linked securities.

**22. EVENTS SUBSEQUENT**

Subsequent events have been evaluated through May 3, 2019, which is the date these statutory basis financial statements were available for issuance.

**TYPE I — Recognized Subsequent Events**

In April 2019, the Company performed a review of the estimated premium deficiency reserve recorded at December 31, 2018. The updated analysis resulted in a \$43,665,000 premium deficiency reserve required as of December 31, 2018. This is an increase of \$22,809,000 over the premium deficiency reserve originally recorded at December 31, 2018 of \$20,856,000. The adjustment as a result of this change in estimate of the premium deficiency reserve was recorded in the 2018 statutory basis financial statements (see Notes 30 and 32).

There are no other events subsequent to December 31, 2018, that require recognition and disclosure.

## **TYPE II — Non-Recognized Subsequent Events**

The Company is subject to the annual fee under Section 9010 of the ACA. The fee is 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 the 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, of the year the fee is due. Pursuant to the 2019 HIF moratorium (see Note 1), no HIF will be payable in 2019 and therefore there is no amount apportioned out of unassigned funds in 2018 representing an estimate of the 2019 HIF.

The table below presents information regarding the annual fee under Section 9010 of the ACA as of December 31, 2018 and 2017:

	Current Year	Prior Year
A. Did the reporting entity write accident and health insurance premium that is subject to Section 9010 of the Federal Affordable Care Act (Yes/No)?	<u>Yes</u>	
B. ACA fee assessment payable for the upcoming year	\$ -	\$ 45,339,570
C. ACA fee assessment paid	42,700,576	-
D. Premium written subject to ACA 9010 assessment	-	2,128,252,188
E. Total Adjusted Capital before surplus adjustment	150,247,793	
F. Total Adjusted Capital after surplus adjustment	150,247,793	
G. Authorized Control Level (Five-Year Historical Line 15)	62,082,161	
H. Would reporting the ACA assessment as of December 31, 2018, have triggered an RBC action level (Yes/No)?	<u>No</u>	

There are no other events subsequent to December 31, 2018 that require disclosure.

## **23. REINSURANCE**

**Reinsurance Agreements** — In the normal course of business, the Company seeks to reduce potential losses that may arise from catastrophic events that cause unfavorable underwriting results by reinsuring certain levels of such risk with affiliated and other nonaffiliated reinsurers. The Company remains primarily liable as the direct insurer on all risks reinsured.

The Company has an insolvency-only reinsurance agreement with UHIC, an affiliate of the Company, to provide insolvency protection for its enrollees. Reinsurance premiums, which are calculated on a percentage of member premium income, of \$1,889,471 and \$1,806,266 in 2018 and 2017, respectively, are netted against net premium income in the statutory basis statements of operations.

The Company entered into a reinsurance agreement with an affiliated entity, Unimerica Insurance Company, Inc. to cede obligations relating to Louisiana enrollees relating to mental health and substance use disorder benefits and chiropractic, physical and occupational therapy treatments benefits. The agreement has been approved by the LADOL. Reinsurance premiums, which are calculated on a PMPM basis, of \$570,867 and \$122,996,803 as of December 31, 2018 and 2017, respectively were netted against net premium income in the statutory basis statements of operations. Reinsurance recoveries of (\$6,663,928) and \$151,574,468 as of December 31, 2018 and 2017, respectively are

included in net reinsurance recoveries in the statutory basis statements of operations. There were \$225,986 and \$22,942,878 of amounts recoverable from reinsurers related to this agreement as of December 31, 2018 and 2017, respectively. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. This reinsurance agreement was terminated effective December 31, 2017.

Pursuant to Section 1341 of the ACA, through 2017, the Company was subject to the reinsurance provision for compliant individual policies (see Note 24).

The effect of internal and external reinsurance agreements outlined above on net premium income and hospital and medical expenses is presented below:

	<b>2018</b>	<b>2017</b>
Premiums:		
Direct	\$ 2,257,443,108	\$ 2,106,415,899
Ceded:		
Affiliate	<u>2,460,337</u>	<u>124,803,069</u>
Net premium income	<u>\$ 2,254,982,771</u>	<u>\$ 1,981,612,830</u>
Hospital and medical expenses:		
Direct	\$ 1,889,217,023	\$ 1,764,075,554
Ceded:		
Affiliate	<u>6,663,928</u>	<u>(155,212,154)</u>
Net hospital and medical expenses	<u>\$ 1,895,880,951</u>	<u>\$ 1,608,863,400</u>

The Company recognized reinsurance recoveries related to internal and external reinsurance agreements of \$(6,663,928) and \$155,212,154 in 2018 and 2017, respectively, which are recorded as net reinsurance recoveries in the statutory basis statements of operations. In addition, reinsurance recoverables related to internal and external reinsurance agreements of \$271,846 and \$24,539,372 for paid losses are recorded as amounts recoverable from reinsurers and \$227,522 and \$19,984,188 for unpaid losses are recorded as a reduction to claims unpaid in 2018 and 2017, respectively, in the statutory basis statements of admitted assets, liabilities, and capital and surplus.

#### **A. Ceded Reinsurance Report**

##### **Section 1 — General Interrogatories**

- (1) Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the Company or by any representative, officer, trustee, or director of the Company?

Yes ( )      No (X)

- (2) Have any policies issued by the Company been reinsured with a company chartered in a country other than the United States (excluding U.S. branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor, or any other person not primarily engaged in the insurance business?

Yes ( )      No (X)

## Section 2 — Ceded Reinsurance Report — Part A

- (1) Does the Company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit?

Yes ( )      No (X)

- (2) Does the reporting entity have any reinsurance agreements in effect that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes ( )      No (X)

## Section 3 — Ceded Reinsurance Report — Part B

- (1) What is the estimated amount of the aggregate reduction in surplus (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits that are reflected in Section 2 above) of termination of all reinsurance agreements, by either party, as of the date of this statement? Where necessary, the Company may consider the current or anticipated experience of the business reinsured in making this estimate.

The Company estimates there should be no aggregate reduction in surplus for termination of all reinsurance agreements as of December 31, 2018.

- (2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the Company as of the effective date of the agreement?

Yes ( )      No (X)

**B. Uncollectible Reinsurance** — During 2018 and 2017, there were no uncollectible reinsurance recoverables.

**C. Commutation of Ceded Reinsurance** — There was no commutation of reinsurance in 2018 or 2017.

**D. Certified Reinsurer Rating Downgraded or Status Subject to Revocation** — Not applicable.

## 24. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

**A.** The Company estimates accrued retrospective premium adjustments for its group health insurance business based on mathematical calculations in accordance with contractual terms.

**B.** Estimated accrued retrospective premiums due to (from) the Company are recorded in premiums and considerations and aggregate health policy reserves in the statutory basis statements of admitted assets, liabilities, and capital and surplus and as an adjustment to change in unearned premium reserves and reserve for rate credits in the statutory basis statements of operations.

- C. Pursuant to the ACA, the Company's commercial business is subject to retrospectively rated features based on the actual medical loss ratios experienced on the commercial lines of business. The formula is calculated pursuant to the ACA guidance. The total amount of direct premiums written for the commercial lines of business subject to the retrospectively rated features was \$47,082,203 and \$54,171,433, representing 2.2% and 2.6% of total direct premiums written as of December 31, 2018 and 2017, respectively.

Pursuant to the ACA, the Company's Medicare business is subject to retrospectively rated features based on the actual medical loss ratios experienced on the Medicare line of business. The formula is calculated pursuant to the ACA guidance. The total amount of direct premiums written for the Medicare line of business subject to the retrospectively rated features was \$5,085,865, representing 0.2% of total direct premiums written as of December 31, 2018.

The Company has Medicare Part D risk-corridor amounts from CMS which are subject to a retrospectively rated feature related to Part D premiums. The Company has estimated accrued retrospective premiums related to certain Part D premiums based on guidelines determined by CMS. The formula is tiered and based on the bid medical loss ratio. The amount of Medicare Part D direct premiums written subject to the retrospectively rated feature was \$370,152 representing, less than 0.1% of total direct premiums written for 2018.

The Company has risk-adjustment amounts from CMS which are subject to a redetermination feature related to Medicare premiums. The Company has estimated premium adjustments for changes to each member's health scores based on guidelines determined by CMS. The total amount of Medicare direct premiums written for which a portion is subject to the redetermination feature was \$5,085,865 representing, 0.2% of total direct premiums written for 2018.

CMS has released the final Medicaid Managed Care Rule which is subject to each State's administration elections. This rule is the first major update to the Medicaid Managed Care regulations in more than a decade. Many items including a minimum loss ratio requirement were implemented for contracts with an effective date starting on or after July 1, 2017 while other elements of the regulation will be implemented over the following decade. Pursuant to the regulations, for contracts effective on or after July 1, 2017 premiums associated with the Company's Medicaid line of business is subject to retrospectively rated features based on the actual medical loss ratios experienced on this product. The calculation is pursuant to the Medicaid Managed Care guidance. The total amount of direct premiums written for the Medicaid line of business for which a portion is subject to the retrospectively rated features was \$1,858,897,429 and \$1,748,913,125, representing 82.3% and 83.0% of total direct premiums written as of December 31, 2018 and December 31, 2017, respectively.

The Medicaid contract with the State of Louisiana has a redetermination feature for which a portion of total direct premiums written is at risk and can be returned to the Company based on various utilization measures. The total amount of direct premiums written from the Medicaid contract for which a portion is subject to the redetermination feature was \$1,858,897,429 and \$1,748,913,125, representing 82.3% and 83.0% of the Company's total direct premiums written as of December 31, 2018 and 2017, respectively.

The Medicaid contract with the State of Louisiana includes a provision for which a stated percentage of total direct premiums written can be eligible for a performance guarantee payment, based on various quality measures. The total amount of direct premiums written from the Medicaid contract for which a portion is subject to the redetermination feature was \$1,858,897,429 and \$1,748,913,125, representing 82.3% and 83.0%, of the Company's total direct premiums written, as of December 31, 2018 and 2017, respectively.

The Medicaid contract with the State of Louisiana includes a retrospectively rated feature related to the Value Added Benefits and Services program. The Company has estimated accrued retrospective premiums pursuant to the contract. The total amount of direct premiums written

subject to the retrospectively rated feature was \$1,858,897,429 and \$1,748,913,125, representing 82.3% and 83.0% of the Company's total direct premiums written as of December 31, 2018 and 2017, respectively.

- D. The Company is required to maintain specific minimum loss ratios on the comprehensive commercial and Medicare lines of business. The Company's actual loss ratios on the comprehensive commercial and Medicare lines of business were in excess of the minimum requirements and as a result, no minimum medical loss ratio rebate liability was required to be established at December 31, 2018 and 2017.

Pursuant to the Medicaid Managed Care Rule and/or state contractual minimum loss ratio requirements, the Company is required to maintain specific minimum loss ratios on its Healthy Louisiana and Healthy Louisiana populations. The Company has estimated \$35,664,587 and \$26,752,770 in estimated Medicaid Managed Care Rule and/or state minimum loss ratio rebates on its Healthy Louisiana population as of December 31, 2018 and December 31, 2017, respectively.

**E. Risk-Sharing Provisions of the Affordable Care Act**

- (1) The Company has accident and health insurance premiums in 2018 and 2017 subject to the risk-sharing provisions of the ACA.

The ACA imposed fees and premium stabilization provisions on health insurance issuers offering comprehensive commercial health insurance. The three premium stabilization programs are commonly referred to as the 3Rs — risk adjustment, reinsurance, and risk corridors.

**Risk Adjustment** — The permanent risk adjustment program, designed to mitigate the potential impact of adverse selection and provide stability for health insurance issuers, applies to all non-grandfathered plans not subject to transitional relief in the individual and small group markets both inside and outside of the insurance exchanges. Effective for 2018 benefit plan year, the risk adjustments and distributions are calculated using a high-cost risk pool which adds a reinsurance-like element to this program. The operation of the high-cost risk pools exclude a percentage of costs above a threshold level determined by federal regulations. The program operates two national high-cost risk pools, one for individuals and one for small groups. Premium adjustments pursuant to the risk adjustment program are accounted for as premium subject to redetermination and user fees are accounted for as assessments.

**Reinsurance** — The transitional reinsurance program was designed to protect issuers in the individual market from an expected increase in large claims due to the elimination of preexisting condition limitations. The transitional reinsurance program was effective from 2014 through 2016 and applied to all issuers of major medical commercial products and third-party administrators. Contributions attributable to enrollees in the ACA compliant individual plans, including program administrative costs, were accounted for as ceded premium and payments received were accounted for as ceded benefit recoveries. The portion of the individual contributions earmarked for the U.S. Treasury was accounted for as an assessment. Contributions made for enrollees in fully insured plans other than the ACA compliant individual plans, including program administrative costs and payments to the U.S. Treasury, were treated as assessments.

**Risk Corridors** — The temporary risk corridors program, designed to provide some aggregate protection against variability for issuers in the individual and small group markets during the period 2014 through 2016, applied to Qualified Health Plans in the individual and

small group markets both inside and outside of the insurance exchanges. Premium adjustments pursuant to the risk corridors program were accounted for as premium adjustments for retrospectively rated contracts.

- (2) The following table presents the current year impact of risk-sharing provisions of the ACA on assets, liabilities and operations:

**a. Permanent ACA Risk Adjustment Program** **December 31, 2018**

Assets

1. Premium adjustments receivable due to ACA Risk Adjustment (including high risk pool payments)	\$ 15,547
--	-----------

Liabilities

2. Risk adjustment user fees payable for ACA Risk Adjustment	587
3. Premium adjustments payable due to ACA Risk Adjustment (including high risk pool payments)	163,200

Operations (Revenue & Expense)

4. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment	140,596
5. Reported in expenses as ACA risk adjustment user fees (incurred/paid)	601

**b. Transitional ACA Reinsurance Program**

Assets

1. Amounts recoverable for claims paid due to ACA Reinsurance	\$ 45,860
2. Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)	-
3. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance	-

Liabilities

4. Liabilities for contributions payable due to ACA Reinsurance — not reported as ceded premium	-
5. Ceded reinsurance premiums payable due to ACA Reinsurance	-
6. Liability for amounts held under uninsured plans contributions for ACA Reinsurance	-

Operations (Revenue & Expense)

7. Ceded reinsurance premiums due to ACA Reinsurance	-
8. Reinsurance recoveries (income statement) due to ACA reinsurance payments or expected payments	-
9. ACA Reinsurance contributions — not reported as ceded premium	-

**c. Temporary ACA Risk Corridors Program**

Assets

1. Accrued retrospective premium due to ACA Risk Corridors	\$ -
--	------

Liabilities

2. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors	-
---	---

Operations (Revenue & Expense)

3. Effect of ACA Risk Corridors on net premium income (paid/received)	-
4. Effect of ACA Risk Corridors on change in reserves for rate credits	-



(3) The following table is a rollforward of the prior year ACA risk-sharing provisions for asset and liability balances, along with reasons for adjustments to prior year balances:

	Accrued during the Prior Year on Business Written before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written before December 31 of the Prior Year		Differences		Adjustments		Ref	Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 - 3)	Prior Year Accrued Less Payments (Col 2 - 4)	To Prior Year Balances	To Prior Year Balances		Cumulative Balance from Prior Years (Col 1 - 3 + 7)	Cumulative Balance from Prior Years (Col 2 - 4 + 8)
	1	2	3	4	5	6	7	8		9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)		Receivable	(Payable)
a. Permanent ACA Risk Adjustment Program											
1. Premium Adjustment Receivable (including high risk pool payments)	\$ 380,126	\$ -	\$ 662,797	\$ -	\$ (282,671)	\$ -	\$ 298,219	\$ -	A	\$ 15,548	\$ -
2. Premium Adjustment (Payable) (including high risk pool premium)	-	(5,577)	-	-	-	(5,577)	-	5,577	B	-	-
3. Subtotal ACA Permanent Risk Adjustment Program	380,126	(5,577)	662,797	-	(282,671)	(5,577)	298,219	5,577		15,548	-
b. Transitional ACA Reinsurance Program											
1. Amounts recoverable for claims paid	1,596,494	-	1,550,633	-	45,861	-	-	-	C	45,861	-
2. Amounts recoverable for claims unpaid (contra liability)	-	-	-	-	-	-	-	-	D	-	-
3. Amounts receivable relating to uninsured plans	-	-	-	-	-	-	-	-	E	-	-
4. Liabilities for contributions payable due to ACA Reinsurance — not reported as ceded premium	-	-	-	-	-	-	-	-	F	-	-
5. Ceded reinsurance premiums payable	-	-	-	-	-	-	-	-	G	-	-
6. Liability for amounts held under uninsured plans	-	-	-	-	-	-	-	-	H	-	-
7. Subtotal ACA Transitional Reinsurance Program	1,596,494	-	1,550,633	-	45,861	-	-	-		45,861	-
c. Temporary ACA Risk Corridors Program											
1. Accrued retrospective premium	-	-	-	-	-	-	-	-	I	-	-
2. Reserve for rate credits or policy experience rating refunds	-	-	-	-	-	-	-	-	J	-	-
3. Subtotal ACA Risk Corridors Program	-	-	-	-	-	-	-	-		-	-
d. Total for ACA Risk-Sharing Provisions	\$ 1,976,620	\$ (5,577)	\$ 2,213,430	\$ -	\$ (236,810)	\$ (5,577)	\$ 298,219	\$ 5,577		\$ 61,409	\$ -

**Explanation of Adjustments**

- A. The risk adjustment receivable as of December 31, 2018 was adjusted based on the final CMS Summary Report on Permanent Risk Adjustment Transfers for the 2017 Benefit Year. The risk adjustment receivable as of December 31, 2017 utilized paid claims through October 31, 2017. The adjustment to the prior year receivable balance reflects the true up to final results for the 2017 Benefit Year.
- B. The risk adjustment payable as of December 31, 2018 was adjusted based on the final CMS Summary Report on Permanent Risk Adjustment Transfers for the 2017 Benefit Year. The risk adjustment payable as of December 31, 2017 utilized paid claims through October 31, 2017. The adjustment to the prior year payable balance reflects the true up to final results for the 2017 Benefit Year.
- C. N/A
- D. N/A
- E. N/A
- F. N/A
- G. N/A
- H. N/A
- I. N/A
- J. N/A

- (4) The Company does not have any risk corridor receivables or payables to present in the table below.

Risk Corridors Program Year	Accrued during the Prior Year on Business Written before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written before December 31 of the Prior Year		Differences		Adjustments		Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 - 3)	Prior Year Accrued Less Payments (Col 2 - 4)	To Prior Year Balances	To Prior Year Balances	Cumulative Balance from Prior Years (Col 1 - 3 + 7)	Cumulative Balance from Prior Years (Col 2 - 4 + 8)
	1	2	3	4	5	6	7	8	9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable (Payable)
a. 2014										
1. Accrued retrospective premium	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	A	\$ - \$ -
2. Reserve for rate credits or policy experience rating refunds	-	-	-	-	-	-	-	-	B	- -
b. 2015										
1. Accrued retrospective premium	-	-	-	-	-	-	-	-	C	- -
2. Reserve for rate credits or policy experience rating refunds	-	-	-	-	-	-	-	-	D	- -
c. 2016										
1. Accrued retrospective premium	-	-	-	-	-	-	-	-	E	- -
2. Reserve for rate credits or policy experience rating refunds	-	-	-	-	-	-	-	-	F	- -
d. Total for Risk Corridors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ - \$ -
<b>Explanation of Adjustments</b>										
A.										
B.										
C.										
D.										
E.										
F.										

- (5) The following table discloses ACA risk corridor receivable balances by risk corridor program year:

Risk Corridors Program Year	1 Estimated Amount to be Filed or Final Amount Filed with CMS	2 Non-Accrued Amounts for Impairment or Other Reasons	3 Amounts Received from CMS	4 Asset Balance (Gross of Non-admissions) (1 - 2 - 3)	5 Non-admitted Amount	6 Net Admitted Asset (4 - 5)
a. 2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
b. 2015	4,251,826	4,251,826	-	-	-	-
c. 2016	209,226	209,226	-	-	-	-
d. Total (a + b + c)	<u>\$ 4,461,052</u>	<u>\$ 4,461,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## 25. CHANGE IN INCURRED CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

- A. Changes in estimates related to the prior year incurred claims are included in total hospital and medical expenses in the current year in the statutory basis statements of operations. The following tables disclose paid claims, incurred claims, and the balance in claims unpaid, accrued medical incentive pool and bonus amounts, aggregate health claim reserves, health care receivables and reinsurance recoverables for the years ended December 31, 2018 and 2017:

	2018		
	Current Year Incurred Claims	Prior Years Incurred Claims	Total
Beginning of year claim reserve	\$ -	\$(234,053,825)	\$ (234,053,825)
Paid claims — net of health care receivables and reinsurance recoveries collected	1,711,424,208	156,138,681	1,867,562,889
End of year claim reserve	<u>237,606,753</u>	<u>11,996,790</u>	<u>249,603,543</u>
Incurred claims excluding the change in health care receivables and reinsurance recoverables as presented below	1,949,030,961	(65,918,354)	1,883,112,607
Beginning of year health care receivables and reinsurance recoverables	-	46,372,083	46,372,083
End of year health care receivables and reinsurance recoverables	<u>(11,769,211)</u>	<u>(21,834,528)</u>	<u>(33,603,739)</u>
Total incurred claims	<u>\$1,937,261,750</u>	<u>\$ (41,380,799)</u>	<u>\$1,895,880,951</u>

  

	2017		
	Current Year Incurred Claims	Prior Years Incurred Claims	Total
Beginning of year claim reserve	\$ -	\$(195,042,056)	\$ (195,042,056)
Paid claims — net of health care receivables and reinsurance recoveries collected	1,451,650,886	131,005,042	1,582,655,928
End of year claim reserve	<u>206,558,629</u>	<u>27,495,196</u>	<u>234,053,825</u>
Incurred claims excluding the change in health care receivables and reinsurance recoverables as presented below	1,658,209,515	(36,541,818)	1,621,667,697
Beginning of year health care receivables and reinsurance recoverables	-	33,567,786	33,567,786
End of year health care receivables and reinsurance recoverables	<u>(35,185,148)</u>	<u>(11,186,935)</u>	<u>(46,372,083)</u>
Total incurred claims	<u>\$ 1,623,024,367</u>	<u>\$ (14,160,967)</u>	<u>\$1,608,863,400</u>

The liability for claims unpaid, accrued medical incentive pool and bonus amounts, aggregate health claim reserves, net of health care and other amounts receivables and reinsurance recoverables as of December 31, 2017 was \$187,681,742. As of December 31, 2018, \$156,138,681 has been paid for incurred claims attributable to insured events of prior years. Reserves remaining for prior years, net of health care receivables and reinsurance recoverables are now \$(9,837,738) as a result of re-estimation of unpaid claims. Therefore, there has been \$41,380,799 favorable prior year development since December 31, 2017 to December 31, 2018. The primary drivers consist of favorable development as a result of a change in the provider gain share provisions of \$29,244,163, favorable development of \$17,965,966 in retroactivity for inpatient, outpatient, physician, and pharmacy claims and favorable development of \$5,871,255 as a result of a change in the provision for adverse deviations in experience, offset by unfavorable development of \$11,555,552 in behavioral and other health reserves.

At December 31, 2017, the Company recorded \$14,160,967 of favorable development related to favorable development as a result of a change in the provision for adverse deviations in experience of \$6,890,139 and favorable development of \$9,513,645 in retroactivity for inpatient, outpatient, physician, and pharmacy claims, offset by unfavorable development of \$2,004,398 as a result of the provider gain share provisions (See Note 18).

The Company incurred CAE of \$88,909,905 and \$75,489,675 in 2018 and 2017, respectively. These costs are included in the management service fees paid by the Company to UHS as a part of the Agreement (see Note 10). The following table discloses paid CAE, incurred CAE, and the balance in unpaid CAE reserve for 2018 and 2017:

	2018	2017
Total claims adjustment expenses	\$ 88,909,905	\$ 75,489,675
Less: current year unpaid claims adjustment expenses	(1,351,967)	(1,370,586)
Add: prior year unpaid claims adjustment expenses	<u>1,370,586</u>	<u>1,848,701</u>
Total claims adjustment expenses paid	<u>\$ 88,928,524</u>	<u>\$ 75,967,790</u>

- B.** The Company did not make any significant changes in methodologies and assumptions used in the calculation of the liability for claims unpaid and unpaid CAE in 2018.

## **26. INTERCOMPANY POOLING ARRANGEMENTS**

- A–G.** The Company did not have any intercompany pooling arrangements in 2018 or 2017.

## **27. STRUCTURED SETTLEMENTS**

- A–B.** The Company did not have structured settlements in 2018 or 2017.

## **28. HEALTH CARE RECEIVABLES**

- A.** Pharmacy rebates receivable are recorded when reasonably estimated or billed by the affiliated pharmaceutical benefit manager in accordance with pharmaceutical rebate contract provisions. Information used to support rebates billed to the manufacturer is based on utilization information gathered by the pharmaceutical benefit manager and adjusted for significant changes in pharmaceutical contract provisions.

The Company evaluates admissibility of all pharmacy rebates receivable based on the administration of each underlying pharmaceutical benefit management agreement. The Company has nonadmitted and excluded all pharmacy rebates receivable that do not meet the admissibility

criteria of SSAP No. 84, *Certain Health Care Receivables and Receivables under Government Insured Plans* ("SSAP No. 84") from the statutory basis statements of admitted assets, liabilities, and capital and surplus.

For each pharmaceutical management agreement for which a portion of the total pharmacy rebates receivable can be admitted based on the admissibility criteria of SSAP No. 84, the pharmacy rebate transaction history is summarized as follows:

<b>Quarter</b>	<b>Estimated Pharmacy Rebates as Reported on Financial Statements</b>	<b>Pharmacy Rebates as Billed or Otherwise Confirmed</b>	<b>Actual Rebates Received within 90 Days of Billing</b>	<b>Actual Rebates Received within 91 to 180 Days of Billing</b>	<b>Actual Rebates Received More than 180 Days after Billing</b>
12/31/2018	\$ 7,084,291	\$ -	\$ -	\$ -	\$ -
9/30/2018	6,505,071	6,266,979	3,477,796	-	-
6/30/2018	6,775,195	6,687,387	3,798,374	2,248,972	-
3/31/2018	6,788,436	6,497,349	3,031,387	2,776,322	292,025
12/31/2017	6,505,624	6,487,346	3,462,157	2,780,480	224,248
9/30/2017	6,070,663	5,757,948	2,392,970	2,847,846	485,034
6/30/2017	6,470,423	5,681,960	997,521	3,952,323	707,832
3/31/2017	6,412,539	5,854,666	553,351	4,057,423	1,202,798
12/31/2016	8,240,848	8,143,420	2,595,910	3,889,110	1,502,686
9/30/2016	8,096,235	7,950,174	2,536,891	3,928,911	1,359,109
6/30/2016	7,554,604	7,636,689	4,650,049	2,571,933	358,262
3/31/2016	6,622,929	6,499,072	1,321,909	4,918,589	254,789

Of the amount reported as health care receivables, \$9,878,575 and \$10,028,816 relates to pharmacy rebates receivable as of December 31, 2018 and 2017, respectively. This decrease is primarily due to the change in generic/name brand mix.

**B.** The Company does not have any risk-sharing receivables.

The Company has admitted claim overpayments of \$258,655 and \$575,145 in 2018 and 2017, respectively, which are included in health care receivables in the statutory basis statements of admitted assets, liabilities, and capital and surplus.

## 29. PARTICIPATING POLICIES

The Company did not have any participating contracts in 2018 or 2017.

### 30. PREMIUM DEFICIENCY RESERVES

The following table summarizes the Company's premium deficiency reserves as of December 31, 2018 and 2017:

	2018
1. Liability carried for premium deficiency reserves	\$ 43,665,000
2. Date of the most recent evaluation of this liability	12/31/2018
3. Was anticipated investment income utilized in this calculation?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
	2017
1. Liability carried for premium deficiency reserves	\$ 66,876,000
2. Date of the most recent evaluation of this liability	12/31/2017
3. Was anticipated investment income utilized in this calculation?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

Premium deficiency reserves are included in aggregate health policy reserves (see Note 1 — *Basis of Presentation*) in the statutory basis statements of admitted assets, liabilities, and capital and surplus.

### 31. ANTICIPATED SALVAGE AND SUBROGATION

Due to the type of business being written, the Company has no salvage. As of December 31, 2018 and 2017, the Company had no specific accruals established for outstanding subrogation, as it is considered a component of the actuarial calculations used to develop the estimates of claims unpaid and aggregate health claim reserves.

### 32. RECONCILIATION TO THE ANNUAL STATEMENT

During 2018, the Company determined that it had overstated the premium deficiency reserves for the year ended December 31, 2017. In 2018, the Company reflected this change as a correction of error in the statutory basis statements of changes in capital and surplus (see Note 2). During the audits of the 2018 and 2017 statutory basis financial statements, necessary adjustments were discovered during the subsequent event review related to changes in the premium deficiency reserves from what was previously filed by the Company with the LADOI. The below adjustments for 2018 were the result of a change in estimate based on new information received subsequent to the 2018 Annual Statement submission on March 1, 2019, correction of error, and the 2017 adjustments that were reported in the 2018 Annual Statement filed by the Company with the LADOI.

The following table reconciles the 2018 Annual Statement previously filed to the 2018 statutory basis financial statements:

	<b>Per Audited Statutory Basis Financial Statements</b>	<b>Per Annual Statement</b>	<b>Variance</b>
Assets	\$ 566,939,918	\$ 562,150,028	\$ 4,789,890
Liabilities	416,692,125	393,883,125	22,809,000
Capital and surplus	150,247,793	168,266,903	(18,019,110)
Expenses	2,256,655,453	2,253,197,453	3,458,000
Net loss	(7,067,021)	(3,609,021)	(3,458,000)

The following table is also provided for additional information regarding the impact of the adjustments to capital and surplus:

Capital and surplus per annual statement	\$ 168,266,903
Adjustment to change in net deferred income tax	4,789,890
Adjustment to decrease in reserves for accident and health contracts	<u>(22,809,000)</u>
Capital and surplus per statutory basis financial statements	<u>\$ 150,247,793</u>

The following table is also provided for additional information regarding the impact of the adjustments to 2018 net income:

Net loss per annual statement	\$ (3,609,021)
Adjustment to decrease in reserves for accident and health contracts	<u>(3,458,000)</u>
Net income per statutory basis financial statements	<u>\$ (7,067,021)</u>

The result of the adjustments made to the 2018 statutory basis financial statements is a net decrease in total capital and surplus of \$18,019,110 and a decrease in net income of \$3,458,000.

During the audit of the 2017 statutory basis financial statements, necessary adjustments were discovered during the subsequent event review related to changes in the premium deficiency reserves and net premium income from what was previously filed by the Company with the LADOI. The following tables reconcile the 2017 Annual Statement as previously filed to the 2017 audited statutory basis financial statements:

	<b>Per Audited Statutory Basis Financial Statements</b>	<b>Per Annual Statement</b>	<b>Variance</b>
Assets	\$ 556,237,623	\$ 550,247,583	\$ 5,990,040
Liabilities	407,023,376	378,499,376	28,524,000
Capital and surplus	149,214,247	171,748,207	(22,533,960)
Revenues	2,006,757,143	1,998,566,171	8,190,972
Expenses	1,924,591,896	1,896,067,896	28,524,000
Federal income tax expense	51,854,275	48,987,435	2,866,840
Net income	32,354,653	55,554,521	(23,199,868)

The following table is also provided for additional information regarding the impact of the adjustments to capital and surplus:

Capital and surplus per annual statement	\$ 171,748,207
Adjustment to change in net deferred income tax	5,990,040
Adjustment to increase in reserves for accident and health contracts	<u>(28,524,000)</u>
Capital and surplus per statutory basis financial statements	<u>\$ 149,214,247</u>

The following table is also provided for additional information regarding the impact of the adjustments to net income:

Net income per annual statement	\$ 55,554,521
Adjustment to net premium income	8,190,972
Adjustment to increase in reserves for accident and health contracts	(28,524,000)
Adjustment to federal income taxes incurred	<u>(2,866,840)</u>
Net income per statutory basis financial statements	<u>\$ 32,354,653</u>

The result of the adjustments made to the 2017 statutory basis financial statements is a net decrease in total capital and surplus of \$22,533,960 and a decrease in net income of \$23,199,868.

\* \* \* \* \*



## **SUPPLEMENTAL SCHEDULES**

**EXHIBIT I:  
SUPPLEMENTAL INVESTMENT  
RISKS INTERROGATORIES**



# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2018  
(To Be Filed by April 1)

Of The UnitedHealthcare of Louisiana, Inc. ....  
ADDRESS (City, State and Zip Code) Minnetonka , MN 55343 .....  
NAIC Group Code 0707 ..... NAIC Company Code 95833 ..... Federal Employer's Identification Number (FEIN) 72-1074008 .....

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. ....\$ .....566,939,918

2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Goldman Sachs - FGTX	Bonds	\$ 20,053,846	3.5 %
2.02	DEUTSCHE GOV - ICAXX	Bonds	\$ 20,032,696	3.5 %
2.03	FNMA	Bonds	\$ 11,547,486	2.0 %
2.04	JP Morgan - OGVXX	Bonds	\$ 10,033,197	1.8 %
2.05	FHLMC	Bonds	\$ 8,700,232	1.5 %
2.06	HSBC - HGIXX	Bonds	\$ 8,304,569	1.5 %
2.07	Morgan Stanley Institutional - MVRXX	Bonds	\$ 5,052,999	0.9 %
2.08	TUGXX US Equity - TUGXX	Bonds	\$ 5,041,957	0.9 %
2.09	DEUTSCHE INV MGT - DBBXX	Bonds	\$ 5,018,810	0.9 %
2.10	NEW YORK ST URBA - ITR	Bonds	\$ 3,545,188	0.6 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

	Bonds	1	2	Preferred Stocks	3	4
3.01	NAIC-1	\$ 201,692,910	35.6 %	3.07 P/RP-1	\$ 0	0.0 %
3.02	NAIC-2	\$ 30,263,504	5.3 %	3.08 P/RP-2	\$ 0	0.0 %
3.03	NAIC-3	\$ 0	0.0 %	3.09 P/RP-3	\$ 0	0.0 %
3.04	NAIC-4	\$ 0	0.0 %	3.10 P/RP-4	\$ 0	0.0 %
3.05	NAIC-5	\$ 0	0.0 %	3.11 P/RP-5	\$ 0	0.0 %
3.06	NAIC-6	\$ 0	0.0 %	3.12 P/RP-6	\$ 0	0.0 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

4.02 Total admitted assets held in foreign investments.....\$ .....0 .....0.0 %  
4.03 Foreign-currency-denominated investments .....\$ .....0 .....0.0 %  
4.04 Insurance liabilities denominated in that same foreign currency .....\$ .....0 .....0.0 %

# SUPPLEMENT FOR THE YEAR 2018 OF THE UnitedHealthcare of Louisiana, Inc.

## 5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

		1	2
5.01	Countries designated NAIC-1 .....	\$ .....0	.....0.0 %
5.02	Countries designated NAIC-2 .....	\$ .....0	.....0.0 %
5.03	Countries designated NAIC-3 or below .....	\$ .....0	.....0.0 %

## 6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
Countries designated NAIC - 1:			
6.01	Country 1: .....	\$ .....0	.....0.0 %
6.02	Country 2: .....	\$ .....0	.....0.0 %
Countries designated NAIC - 2:			
6.03	Country 1: .....	\$ .....0	.....0.0 %
6.04	Country 2: .....	\$ .....0	.....0.0 %
Countries designated NAIC - 3 or below:			
6.05	Country 1: .....	\$ .....0	.....0.0 %
6.06	Country 2: .....	\$ .....0	.....0.0 %

		1	2
7.	Aggregate unhedged foreign currency exposure .....	\$ .....0	.....0.0 %

## 8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

		1	2
8.01	Countries designated NAIC-1 .....	\$ .....0	.....0.0 %
8.02	Countries designated NAIC-2 .....	\$ .....0	.....0.0 %
8.03	Countries designated NAIC-3 or below .....	\$ .....0	.....0.0 %

## 9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
Countries designated NAIC - 1:			
9.01	Country 1: .....	\$ .....0	.....0.0 %
9.02	Country 2: .....	\$ .....0	.....0.0 %
Countries designated NAIC - 2:			
9.03	Country 1: .....	\$ .....0	.....0.0 %
9.04	Country 2: .....	\$ .....0	.....0.0 %
Countries designated NAIC - 3 or below:			
9.05	Country 1: .....	\$ .....0	.....0.0 %
9.06	Country 2: .....	\$ .....0	.....0.0 %

## 10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1	2	3	4
	Issuer	NAIC Designation		
10.01	.....	.....	\$ .....0	.....0.0 %
10.02	.....	.....	\$ .....0	.....0.0 %
10.03	.....	.....	\$ .....0	.....0.0 %
10.04	.....	.....	\$ .....0	.....0.0 %
10.05	.....	.....	\$ .....0	.....0.0 %
10.06	.....	.....	\$ .....0	.....0.0 %
10.07	.....	.....	\$ .....0	.....0.0 %
10.08	.....	.....	\$ .....0	.....0.0 %
10.09	.....	.....	\$ .....0	.....0.0 %
10.10	.....	.....	\$ .....0	.....0.0 %

# SUPPLEMENT FOR THE YEAR 2018 OF THE UnitedHealthcare of Louisiana, Inc.

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11.

		1	2
11.02 Total admitted assets held in Canadian investments .....	\$	0	0.0 %
11.03 Canadian-currency-denominated investments .....	\$	0	0.0 %
11.04 Canadian-denominated insurance liabilities .....	\$	0	0.0 %
11.05 Unhedged Canadian currency exposure .....	\$	0	0.0 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

		1	2	3
12.02 Aggregate statement value of investments with contractual sales restrictions .....	\$	0	0.0 %	
Largest three investments with contractual sales restrictions:				
12.03 .....	\$	0	0.0 %	
12.04 .....	\$	0	0.0 %	
12.05 .....	\$	0	0.0 %	

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

		1	2	3
		Issuer		
13.02 .....	\$	0	0.0 %	
13.03 .....	\$	0	0.0 %	
13.04 .....	\$	0	0.0 %	
13.05 .....	\$	0	0.0 %	
13.06 .....	\$	0	0.0 %	
13.07 .....	\$	0	0.0 %	
13.08 .....	\$	0	0.0 %	
13.09 .....	\$	0	0.0 %	
13.10 .....	\$	0	0.0 %	
13.11 .....	\$	0	0.0 %	

# SUPPLEMENT FOR THE YEAR 2018 OF THE UnitedHealthcare of Louisiana, Inc.

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities .....	\$ .....0	.....0.0 %	
Largest three investments held in nonaffiliated, privately placed equities:			
14.03 .....	\$ .....0	.....0.0 %	
14.04 .....	\$ .....0	.....0.0 %	
14.05 .....	\$ .....0	.....0.0 %	

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02 Aggregate statement value of investments held in general partnership interests .....	\$ .....0	.....0.0 %	
Largest three investments in general partnership interests:			
15.03 .....	\$ .....0	.....0.0 %	
15.04 .....	\$ .....0	.....0.0 %	
15.05 .....	\$ .....0	.....0.0 %	

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
Type (Residential, Commercial, Agricultural)			
16.02 .....	\$ .....0	.....0.0 %	
16.03 .....	\$ .....0	.....0.0 %	
16.04 .....	\$ .....0	.....0.0 %	
16.05 .....	\$ .....0	.....0.0 %	
16.06 .....	\$ .....0	.....0.0 %	
16.07 .....	\$ .....0	.....0.0 %	
16.08 .....	\$ .....0	.....0.0 %	
16.09 .....	\$ .....0	.....0.0 %	
16.10 .....	\$ .....0	.....0.0 %	
16.11 .....	\$ .....0	.....0.0 %	

# SUPPLEMENT FOR THE YEAR 2018 OF THE UnitedHealthcare of Louisiana, Inc.

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12 Construction loans .....	\$ .....	0	0.0 %
16.13 Mortgage loans over 90 days past due .....	\$ .....	0	0.0 %
16.14 Mortgage loans in the process of foreclosure .....	\$ .....	0	0.0 %
16.15 Mortgage loans foreclosed .....	\$ .....	0	0.0 %
16.16 Restructured mortgage loans .....	\$ .....	0	0.0 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan to Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%.....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
17.02 91 to 95%.....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
17.03 81 to 90%.....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
17.04 71 to 80%.....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
17.05 below 70%.....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description	1	2	3
18.02 .....	\$ .....	0	0.0 %
18.03 .....	\$ .....	0	0.0 %
18.04 .....	\$ .....	0	0.0 %
18.05 .....	\$ .....	0	0.0 %
18.06 .....	\$ .....	0	0.0 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

Description	1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans: .....	\$ .....	0	0.0 %
Largest three investments held in mezzanine real estate loans:			
19.03 .....	\$ .....	0	0.0 %
19.04 .....	\$ .....	0	0.0 %
19.05 .....	\$ .....	0	0.0 %

# SUPPLEMENT FOR THE YEAR 2018 OF THE UnitedHealthcare of Louisiana, Inc.

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year End		1st Quarter		At End of Each Quarter		3rd Quarter	
		1	2	3		4		5	
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	
20.02	Repurchase agreements	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	
20.03	Reverse repurchase agreements	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	
20.04	Dollar repurchase agreements	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	
20.05	Dollar reverse repurchase agreements	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
21.01	Hedging	\$ .....0	.....0.0 %	\$ .....0	.....0.0 %
21.02	Income generation	\$ .....0	.....0.0 %	\$ .....0	.....0.0 %
21.03	Other	\$ .....0	.....0.0 %	\$ .....0	.....0.0 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

		At Year End		1st Quarter		At End of Each Quarter		3rd Quarter	
		1	2	3		4		5	
22.01	Hedging	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	
22.02	Income generation	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	
22.03	Replications	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	
22.04	Other	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

		At Year End		1st Quarter		At End of Each Quarter		3rd Quarter	
		1	2	3		4		5	
23.01	Hedging	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	
23.02	Income generation	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	
23.03	Replications	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	
23.04	Other	\$ .....0	.....0.0 %	\$ .....0		\$ .....0		\$ .....0	



**EXHIBIT II:**  
**SUMMARY INVESTMENT SCHEDULE**

**SUMMARY INVESTMENT SCHEDULE**

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities .....	13,544,280	3.794	13,544,280	0	13,544,280	3.794
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies .....	0	0.000	0	0	0	0.000
1.22 Issued by U.S. government sponsored agencies .....	0	0.000	0	0	0	0.000
1.3 Non-U.S. government (including Canada, excluding mortgaged-backed securities) .....	0	0.000	0	0	0	0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S. :						
1.41 States, territories and possessions general obligations .....	13,888,625	3.890	13,888,625	0	13,888,625	3.890
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations .....	39,810,308	11.152	39,810,308	0	39,810,308	11.152
1.43 Revenue and assessment obligations .....	52,646,461	14.747	52,646,461	0	52,646,461	14.747
1.44 Industrial development and similar obligations .....	0	0.000	0	0	0	0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA .....	8,414,762	2.357	8,414,762	0	8,414,762	2.357
1.512 Issued or guaranteed by FNMA and FHLMC .....	20,247,718	5.672	20,247,718	0	20,247,718	5.672
1.513 All other .....	0	0.000	0	0	0	0.000
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA .....	0	0.000	0	0	0	0.000
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521 .....	1,724,208	0.483	1,724,208	0	1,724,208	0.483
1.523 All other .....	0	0.000	0	0	0	0.000
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) .....	81,680,052	22.880	81,680,052	0	81,680,052	22.880
2.2 Unaffiliated non-U.S. securities (including Canada) .....	0	0.000	0	0	0	0.000
2.3 Affiliated securities .....	0	0.000	0	0	0	0.000
3. Equity interests:						
3.1 Investments in mutual funds .....	0	0.000	0	0	0	0.000
3.2 Preferred stocks:						
3.21 Affiliated .....	0	0.000	0	0	0	0.000
3.22 Unaffiliated .....	0	0.000	0	0	0	0.000
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated .....	0	0.000	0	0	0	0.000
3.32 Unaffiliated .....	0	0.000	0	0	0	0.000
3.4 Other equity securities:						
3.41 Affiliated .....	0	0.000	0	0	0	0.000
3.42 Unaffiliated .....	0	0.000	0	0	0	0.000
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated .....	0	0.000	0	0	0	0.000
3.52 Unaffiliated .....	0	0.000	0	0	0	0.000
4. Mortgage loans:						
4.1 Construction and land development .....	0	0.000	0	0	0	0.000
4.2 Agricultural .....	0	0.000	0	0	0	0.000
4.3 Single family residential properties .....	0	0.000	0	0	0	0.000
4.4 Multifamily residential properties .....	0	0.000	0	0	0	0.000
4.5 Commercial loans .....	0	0.000	0	0	0	0.000
4.6 Mezzanine real estate loans .....	0	0.000	0	0	0	0.000
5. Real estate investments:						
5.1 Property occupied by company .....	0	0.000	0	0	0	0.000
5.2 Property held for production of income (including \$ .....0 of property acquired in satisfaction of debt) .....	0	0.000	0	0	0	0.000
5.3 Property held for sale (including \$ .....0 property acquired in satisfaction of debt) .....	0	0.000	0	0	0	0.000
6. Contract loans .....	0	0.000	0	0	0	0.000
7. Derivatives .....	0	0.000	0	0	0	0.000
8. Receivables for securities .....	0	0.000	0	0	0	0.000
9. Securities Lending (Line 10, Asset Page reinvested collateral).....	0	0.000	0	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments .....	125,032,390	35.024	125,032,390	0	125,032,390	35.024
11. Other invested assets .....	0	0.000	0	0	0	0.000
12. Total invested assets .....	356,988,804	100.000	356,988,804	0	356,988,804	100.000

**OTHER ATTACHMENT**

To the Audit Committee of  
UnitedHealthcare of Louisiana, Inc.  
3838 North Causeway Boulevard, Suite 2600  
Metairie, LA 70002

The Management of  
UnitedHealthcare of Louisiana, Inc.  
3838 North Causeway Boulevard, Suite 2600  
Metairie, LA 70002

Dear Members of the Audit Committee and Management:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory basis financial statements of UnitedHealthcare of Louisiana, Inc. (the "Company") for the years ended December 31, 2018, and 2017, and have issued our report thereon dated May 3, 2019. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to the Company and conform to the standards of the accounting profession as contained in the *Code of Professional Conduct* and pronouncements of the American Institute of Certified Public Accountants, the rules and regulations of the Louisiana Department of Insurance, and the Rules of Professional Conduct of the Minnesota State Board of Accountancy.
- b. The engagement partner and engagement manager, who are certified public accountants, have 14 years and 11 years, respectively, of experience in public accounting and are experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and 29 percent of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Company intends to file its audited statutory basis financial statements and our report thereon with the Louisiana Department of Insurance and other state insurance departments in states in which the Company is licensed and that the insurance commissioners of those states will be relying on that information in monitoring and regulating the statutory basis financial condition of the Company.

While we understand that an objective of issuing a report on the statutory basis financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Company and insurance commissioners should understand that the objective of an audit of statutory basis financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory basis financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus, results of operations and cash flows in accordance with accounting practices prescribed or permitted by the Louisiana Department of Insurance. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance regarding whether the statutory basis financial statements are

free from material misstatement, whether due to error or fraud, and to exercise due professional care in the conduct of the audit. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. Our audit included consideration of internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit mean that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of the Company to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory basis financial position of insurers and should not rely solely on the independent auditors' report.

- d. We will retain the working papers (including those kept in a hard copy or electronic medium) prepared in the conduct of our audit until the Louisiana Department of Insurance has filed a Report of Examination covering 2018, but no longer than seven years. After notification to the Company, we will make the working papers available for review by the Louisiana Department of Insurance or its delegates, at the offices of the insurer, at our offices, at the Louisiana Department of Insurance, or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Louisiana Department of Insurance, photocopies of pertinent audit working papers may be made (under the control of Deloitte & Touche LLP) and such copies may be retained by the Louisiana Department of Insurance. In addition, to the extent requested, we may provide the Louisiana Department of Insurance with copies of certain audit working papers (such as unlocked copies of Excel spreadsheets that do not contain password protection or encryption). As such, these audit working papers will be subject to potential modification by Louisiana Department of Insurance or by others. We are not responsible for any modifications made to the copies, electronic or otherwise, after they are provided to the Louisiana Department of Insurance; and we are likewise not responsible for any effect that any such modifications, whether intentional or not, might have on the process, substance, or outcome of your regulatory examination.

- e. The engagement partner has served in this capacity with respect to the Company since 2018, is licensed by the Minnesota State Board of Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the *NAIC's Model Rule (Regulation) Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Audit Committee and management of UnitedHealthcare of Louisiana, Inc. and for filing with the Louisiana Department of Insurance and other state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

May 3, 2019