



MISSISSIPPI INSURANCE DEPARTMENT

Report of Examination

of

Molina Healthcare of Mississippi, Inc.

as of

December 31, 2021

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MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal
MARK HAIRE
Deputy Commissioner of
Insurance

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May 31, 2023

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance
Department 1001 Woolfolk
Building
501 North West
Street Jackson,
Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, a coordinated examination has been conducted, as of December 31, 2021, of the affairs and financial condition of:

Molina Healthcare of Mississippi, Inc.

188 East Capitol Street,
Suite 700
Jackson, MS 39201

| License # | NAIC Group # | NAIC # | FEETS# | MATS# |
|-----------|--------------|--------|-----------------|-------------|
| 1700015 | 1531 | 16301 | 16301-MS-2021-4 | MS-MS099-39 |

This examination was commenced in accordance with Miss. Code Ann. §83-5-201 et seq. and §83-41-337 and was performed in Ridgeland, Mississippi. The report of examination is herewith submitted.

SCOPE OF EXAMINATION

We have performed the coordinated examination of Molina Healthcare of Mississippi, Inc. (the "Company"). This examination covers the period January 1, 2019, through December 31, 2021.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the coordinated risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with *Statutory Accounting Principles*. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

There were no previous examination comments and recommendations.

HISTORY OF THE COMPANY

The Company was incorporated under the laws of the state of Mississippi on March 2, 2009, and received a certificate of authority to transact business as a health maintenance organization ("HMO") effective January 19, 2018, to provide comprehensive health care services to Medicaid enrollees under contracts with the state of Mississippi, Office of the Governor, Division of Medicaid ("Division"). The Company commenced operations on October 1, 2018, to serve Medicaid members. The Company may terminate the Medicaid contract with ninety (90) day written notice.

The Company contracts with independent physician associations, hospitals and other providers to provide medical services to its members.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors (“Board”), prepared during the period under examination, were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included approval of the Company's investment portfolio and actions of the Company's officers.

MANAGEMENT AND CONTROL

Stockholder

As of December 31, 2021, the Company had ten thousand (10,000) shares of no-par value common capital stock authorized, 100 shares issued and outstanding. The common capital stock was owned 100% by Molina Healthcare, Inc.

Board of Directors

The Amended and Restated Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board. The members of the duly elected Board, along with their place of residence and principal occupation, as of December 31, 2021, were as follows:

| Name and Residence | Principal Occupation |
|--|---|
| Bridget Leigh Galatas, Madison, Mississippi | President, Molina Healthcare of Mississippi, Inc. |
| Matthew Douglas Wolf, Downers Grove, Illinois | Molina Healthcare of Mississippi, Inc. |
| Benjamin Edward Lynam, Long Beach California | Molina Healthcare of Mississippi, Inc. |

Officers

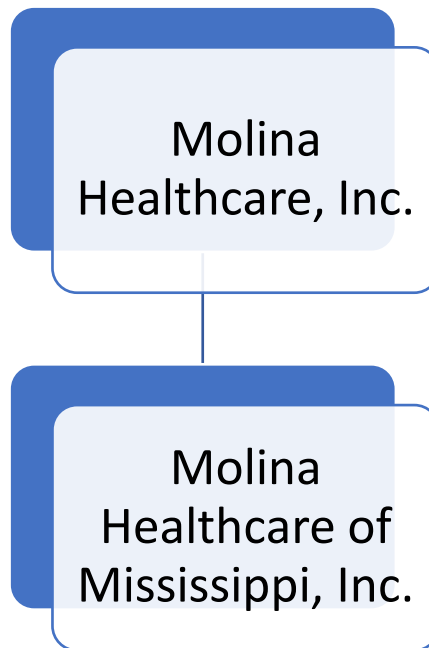
| Name | Title |
|-----------------------|-------------------------|
| Bridget Leigh Galatas | President |
| Caroline Ruth LeBlanc | Chief Financial Officer |
| Jeffrey Don Barlow | Secretary |

Conflict of Interest

The Company had formal procedures whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with the official duties of such persons.

HOLDING COMPANY STRUCTURE

The Company is a member of an insurance holding company system as defined in Miss. Code Ann. §83-6-1. The Company was required to file with the MID, Holding Company Registration Statements in accordance with Miss. Code Ann. §§83-6-5 and 83-6-9. These filings set forth material changes in structure, identity or relationships of affiliates and any material transactions by and between the Company and its affiliates.



Parent and Affiliated Companies

The above simplified organizational chart reflects the direct ownership of the Company.

MOLINA HEALTHCARE, INC. (Molina): Molina Healthcare, Inc. provides health care services to financially vulnerable families and individuals who are covered by government programs through local health plans. Each health plan's organizational structure includes a management team responsible for the profitability and pre-determined goals and objectives of the plan. The health plan presidents report to Molina's Executive Vice President, Health Plans. All key functions supporting local health plans, such as claims processing, IT, legal, human resources, etc. are carried out at the corporate offices located in Long Beach, California.

The Company paid a dividend in the amount of \$15 million to Molina Healthcare, Inc. on December 8, 2021.

Affiliated and Related Party Transactions

Amended and Restated Services Agreement – Each health plan has an agreement with Molina whereby Molina provides certain management services to the health plans. Expenses incurred relating to this agreement include claims processing and administration, utilization management and general and administrative expenses. The Company agreed to pay Molina, on a monthly basis, an amount not to exceed Molina's cost. The invoice charges or fees for services must be fair and reasonable and expenses incurred and payment received must be allocated to the health plan in conformity with customary statutory accounting practices consistently applied. The Company agreed to pay such amount no later than thirty (30) days after receipt of invoices from Molina. Expenses incurred related to this agreement amounted to \$39.9 million for the year ended December 31, 2021.

Federal Tax Sharing Agreement – Each health plan files a consolidated federal income tax return. Under a written inter-company tax-sharing agreement with Molina, approved by the Company's board of directors, the combined federal income tax is allocated to each entity which is a party to the consolidation. Molina collects from, or refunds to, the subsidiaries the amount of taxes or benefits determined as if each entity filed separate tax returns, with the exception of net operating losses and capital losses. For those losses, the Company receives a benefit at the federal rate in the current year for current taxable losses in that year to the extent losses can be utilized in the consolidated income tax return of Molina. Federal income taxes paid for 2021 pursuant to the tax sharing agreement was \$5,080,000.

Reinsurance - The Company had a reinsurance agreement with Oceangate Reinsurance, Inc., an affiliate, which provides unlimited coverage of 90% of individual claims above deductibles of \$1,000,000. Reinsurance expense amounted to \$914,036 for the year ended December 31, 2021.

FIDELITY AND OTHER INSURANCE

Molina maintained a comprehensive insurance program. This program included commercial general liability, directors' and officers' liability, property, employment practices and wage & hour liability, and crime policies, as deemed appropriate by the Company's management. The Company maintained a fiduciary policy with a \$10,000,000 single loss limit of insurance. The Company is insured under this bond as a subsidiary of Molina, which adequately covers the suggested minimum amount of coverage for the Company as recommended by the NAIC.

EMPLOYEE BENEFIT PLANS

The employees of the Company are eligible to participate in a defined contribution 401(k) plan sponsored by Molina subject to the participation eligibility set forth in the plan. Eligible employees are allowed to contribute up to the maximum allowed by law. The Company matches 100% up to the first 4% of compensation contributed by the employees, up to IRS recognized limits, subject to a one-year cliff vesting requirement. The Company has no legal obligation to provide benefits under the plan. The Company's expense recognized in connection with the 401(k) plan was \$292,530 for the year ended December 31, 2021.

Under an equity incentive plan adopted by Molina, the Company's employees may be awarded restricted stock or other equity incentives. Restricted stock awards generally vest in equal annual installments over periods of up to four (4) years from the date they were granted.

Molina has a stock purchase plan under which the eligible employees of the Company may purchase common shares at 85% of the lower of the fair market value of Molina's common stock on either the first or last trading day of each six-month offering period. Each participant is limited to a maximum purchase of \$25,000 per year through payroll deductions.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company was authorized to do business as an HMO in the state of Mississippi.

GROWTH OF THE COMPANY

| | 2021 | 2020 | 2019 |
|--|----------------|----------------|-----------------|
| Capital and Surplus | \$ 62,028,980 | \$ 72,185,945 | \$ 43,449,646 |
| Ratio of written premiums to capital and surplus | 11.18 to 1 | 6.67 to 1 | 7.80 to 1 |
| Ratio of assets to liabilities | 1.32 to 1 | 1.69 to 1 | 1.65 to 1 |
| Ratio of written premiums to expenses | 1.08 to 1 | 1.34 to 1 | 0.92 to 1 |
| Cash flows from operations | \$ 91,689,039 | \$ 92,013,113 | \$ (7,759,943) |
| Net income (loss) | \$ 17,797,597 | \$ 31,799,881 | \$ (22,930,184) |
| Assets | \$ 253,962,540 | \$ 175,555,190 | \$ 110,032,818 |
| Liabilities | \$ 191,933,560 | \$ 104,369,245 | \$ 66,583,245 |
| Written Premiums | \$ 693,474,594 | \$ 428,008,762 | \$ 338,748,158 |
| Expenses | \$ 640,847,930 | \$ 404,676,176 | \$ 367,811,277 |

ACCOUNTS AND RECORDS

The Company is audited by Grant Thornton. Audit workpapers were evaluated by the lead state.

The Company is licensed as a health maintenance organization pursuant to Miss. Code Ann. §83-41-325, which requires the Company to maintain capital and surplus equal to \$1,000,000 or 2% of annual premium on the first \$150,000,000 of premium and 1% of annual premium on the premiums in excess of \$150,000,000 or an amount equal to the sum of three (3) months uncovered health care expenditures. As of December 31, 2021, the Company was in compliance with the statutory minimum net worth requirement.

Pursuant to Miss. Code Ann. §83-5-55, the Company is required to file an NAIC Health Maintenance Organization Annual Statement. The Company is also required to file risk-based capital (RBC) reports for each of its NAIC annual statement filings pursuant to Miss. Code Ann. §83-5-401 through § 83-5-427.

STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. §83-41-325(5). The following chart displays the Company's deposits at December 31, 2021:

| Description | Book/Adjusted Carrying Value | Fair Value |
|--------------------|-------------------------------------|-------------------|
| Bonds | \$ 530,415 | \$ 529,779 |

FINANCIAL STATEMENTS

Introduction

The following financial statements consist of a Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2021, a Statement of Revenues and Expenses for year ended December 31, 2021, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2021, and a Reconciliation of Examination Adjustments to Surplus as of December 31, 2021.

The following financial statements are based on the statutory financial statements filed by the Company with the Mississippi Insurance Department and present the financial condition of the Company for the period ending December 31, 2021. The following Statement of Assets, Liabilities, Surplus and Other Funds include a required reclassification to report premiums billed in advance and the associated unearned premium liability in compliance with Annual Statement Instructions

Statement of Assets, Liabilities, Capital and Surplus December 31, 2021

| | ASSETS | 2021 |
|---|----------------------------------|----------------|
| Cash and invested assets | | |
| Bonds | | \$ 113,613,585 |
| Cash and cash equivalents | | 112,722,388 |
| | | 226,335,973 |
| Investment income due and accrued | | 390,243 |
| Premiums due and unpaid | | 13,942,566 |
| Amounts recoverable from reinsurers | | - |
| Amounts receivable relating to uninsured plans | | - |
| Current federal and foreign income tax recoverable and interest thereon | | 1,216,711 |
| Net deferred tax asset | | 2,857,215 |
| Health care and other amounts receivable | | 8,861,890 |
| Premium taxes recoverable | | 357,942 |
| | | 253,962,540 |
| TOTAL ASSETS | | \$ 253,962,540 |
| | LIABILITIES, CAPITAL AND SURPLUS | |
| Liabilities | | |
| Claims unpaid | | \$ 73,458,317 |
| Accrued medical incentive pool and bonus amounts | | 2,550 |
| Unpaid claims adjustment expenses | | 639,521 |
| Aggregate health policy reserves | | 95,652,818 |
| Premiums received in advance | | 531,689 |
| General expenses due and accrued | | 10,562,552 |
| Amounts due to Parent and affiliates | | 3,168,537 |
| Reinsurance in unauthorized and certified companies | | - |
| Liability for amounts held under uninsured plans | | 2,156,804 |
| Amounts due to government agencies | | 5,760,772 |
| | | 191,933,560 |
| Total liabilities | | 191,933,560 |
| Capital and surplus | | |
| Common stock, no par value (10,000 shares authorized and 100 shares issued and outstanding) | | - |
| Paid-in surplus | | 60,000,000 |
| Surplus notes | | - |
| Unassigned surplus | | 2,028,980 |
| | | 62,028,980 |
| Total capital and surplus | | 62,028,980 |
| TOTAL LIABILITIES, CAPITAL AND SURPLUS | | \$ 253,962,540 |

Statement of Revenue and Expenses
For the period ended December 31, 2021

| | 2021 |
|--|----------------------|
| Revenue | |
| Net premium income | \$ 692,560,558 |
| Change in unearned premium reserves and reserve for rate credits | (29,766,597) |
| Total revenue | 662,793,961 |
| Expenses | |
| Hospital and medical benefits | 357,222,171 |
| Other professional services | 26,006,260 |
| Outside referrals | 9,623,045 |
| Emergency room and out | 67,717,536 |
| Pharrna.cy | 88,395,055 |
| Incentive pool, withhold adjustments and bonus amounts | 70,250 |
| Net reinsurance recoveries | (138,758) |
| Total hospital and medical expenses | 548,895,559 |
| Claims adjustment expenses | 13,954,505 |
| General administrative expenses | 77,997,866 |
| Total expenses | 640,847,930 |
| Net underwriting gain | 21,946,031 |
| Other income (expense) | |
| Net investment income earned | 686,203 |
| Net realized capital gains, less capital gains tax expense of \$29 and \$43 respectively | 111 |
| Other expense | - |
| Total other income | 686,314 |
| Net income before federal income taxes | 22,632,345 |
| Federal income taxes incurred | 4,834,748 |
| NET INCOME | \$ 17,797,597 |

Statement of Revenue and Expenses (continued)
For the period ended December 31, 2021

| | <u>2021</u> |
|--|----------------------|
| Capital and surplus, beginning of year | \$ 72,185,945 |
| Net income | 17,797,597 |
| Change in net deferred income tax | 1,252,197 |
| Change in nonadmitted assets | (4,958,812) |
| Change in unauthorized and certified reinsurance | 752,053 |
| Change in surplus notes | (10,000,000) |
| Dividends to stockholders | <u>(15,000,000)</u> |
| Capital and surplus, end of year | <u>\$ 62,028,980</u> |

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2021**

There was a reclassification adjustment made to assets and liabilities in the admitted assets, liabilities balances reported by the Company for the year ended December 31, 2021, which had no impact on unassigned surplus. The capital and surplus, which totaled \$62,028,980 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-41-325(2).

COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations made in the report of examination of the Company.

COMMITMENTS AND CONTINGENT LIABILITIES

From time to time, the Company may be involved in legal actions in the normal course of business, some of which involve a demand for both compensatory and punitive damages not covered by insurance. As of the date of the examination, there were no pending or threatened actions which, to the knowledge and in the opinion of management and the Company's counsel, would have a material adverse effect on the Company's financial position, results of operations or cash flow.

SUBSEQUENT EVENTS

The Company terminated its reinsurance agreement with Oceangate Reinsurance effective December 31, 2022.

MARKET CONDUCT

As part of the subsequent events review, specific areas of market conduct activities were reviewed in relation to the Company's issuance of policies on the Exchange. A full market conduct examination was not performed. The specific areas reviewed included those items as indicated below.

Privacy

Privacy notices were sent to the Company's policyholders.

Complaint Handling

The Company has implemented policies to maintain complaint documentation.

Producer Appointment & Licensing

The Company appears to have the appropriate licensure to issue its products and agents appear to be properly licensed and appointed.

Claims

The Company has implemented policies and procedures to identify general indicators of policyholder treatment concerns.

Grievances

The Company has implemented procedures to maintain grievance documentation.

Provider Credentialing

The Company appears to have appropriate policies and procedures for credentialing and re-credentialing all health care professionals with whom the Company contracts.

Network Adequacy

The Company appears to have appropriate controls to adequately monitor the effectiveness of its provider network.

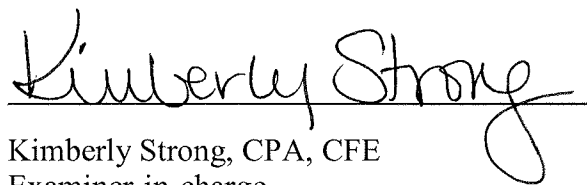
ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

| | |
|---------------------------|---|
| Jimmy Blissett, CFE | Administrative Examiner |
| Kimberly Strong, CPA, CFE | Examiner-in-charge, Harper, Rains, Knight & Co. |
| Leslie Sorrell | Financial Examiner, Harper, Rains, Knight & Co. |
| Brett Davis | Financial Examiner, Harper, Rains, Knight & Co. |

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,


Kimberly Strong, CPA, CFE
Examiner-in-charge

Mark Cooley, CFE
Mississippi Insurance Department Designee