

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
CareSource Indiana, Inc.)
230 North Main Street)
Dayton, OH 45402)

Examination of: **CareSource Indiana, Inc.**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the CareSource Indiana, Inc. (hereinafter “Company”) for the time period January 1, 2018 through December 31, 2020.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on January 26, 2022.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 24, 2022 and was received by the Company on May 31, 2022.

On June 22, 2022, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company’s response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2020.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 30 day of
June, 2022.



Amy L. Beard
Insurance Commissioner

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
CARESOURCE INDIANA, INC.
NAIC Co. CODE 10142
NAIC GROUP CODE 3683

As of

December 31, 2020

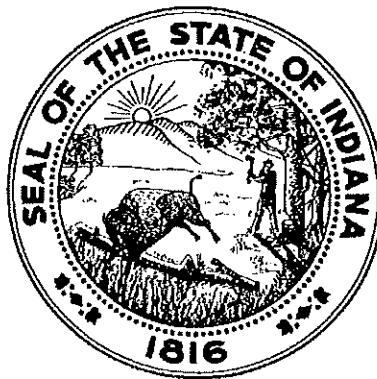


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STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Amy L. Beard, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-232-5251
Website: in.gov/idoi

January 26, 2022

Honorable Amy L. Beard, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 4095, an examination has been made of the affairs and financial condition of:

CareSource Indiana, Inc.
230 North Main Street
Dayton, Ohio 45402

hereinafter referred to as the "Company", or "CSIN", an Indiana domestic health maintenance organization (HMO). The examination was conducted remotely with assistance from the Company in Dayton, Ohio.

The Report of Examination, reflecting the status of the Company as of December 31, 2020, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2389	COMPANY COMPLIANCE 317-232-3495	CONSUMER SERVICES 317-232-2395/1-800-622-4461	FINANCIAL SERVICES 317-232-2390	MEDICAL MALPRACTICE 317-232-2402	COMPANY RECORDS 317-232-5692	STATE HEALTH INSURANCE PROGRAM 1-800-452-4800
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SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) and covered the period from January 1, 2016 through December 31, 2017. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2018 through December 31, 2020, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (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.

The examination of the Ohio domestic insurance companies of CareSource Group was called by the Ohio Department of Insurance (ODI) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The ODI served as the lead state on the examination, and the insurance departments from Georgia, Indiana, Montana, and West Virginia served as participating states.

Lewis & Ellis, Inc. provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2020.

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

This examination report includes significant findings of fact, as mentioned in the Indiana Code (IC) 27-1-3.1-10 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.

HISTORY

The Company operates as a not-for-profit, domiciled in the state of Indiana, and is a wholly-owned subsidiary of CareSource Management Group Company (CSMG), a not-for-profit managed care organization operating primarily in Ohio. The Company is managed by CSMG. The Company qualifies as an Internal Revenue Code Section 501(c)(3) entity, and as such, is exempt from federal income taxes, but is subject to the unrelated business income tax code.

The Company was incorporated on July 15, 2004 and commenced operations on January 1, 2005. During 2005, the Company entered into a contract with the Office of Medicaid Policy and Planning (OMPP) to provide financing and delivery of healthcare services to Medicaid beneficiaries throughout the state of Indiana. The contract with OMPP was terminated in the fourth quarter of 2006. During the period of examination, the Company wrote health insurance on Indiana's Federally Facilitated Marketplace (FFM), Medicare and Medicaid business.

CAPITAL AND SURPLUS

As of December 31, 2017, the Company has no outstanding shares of stock and therefore does not pay dividends. The Company entered into a \$20,000,000 surplus note arrangement with its corporate parent CSMG effective September 30, 2020 to ensure capital requirements were maintained. The surplus note, in the amount of \$20,000,000, was issued pursuant to Rule 144A, under the Securities Act of 1933, in the form of cash underwritten by CSMG.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in the state of Indiana as a health maintenance organization. The Company provides services to Indiana's Medicaid members through a Medicaid managed care contract with the Indiana Family and Social Services Administration. In 2015, CSIN was approved as a Qualified Health Plan and began offering a product registered as "Just4Me" to qualified individuals on Indiana's FFM, with coverage effective January 1, 2015. Effective January 1, 2017, CSIN began participating in Hoosier Healthwise and Healthy Indiana Plan (under Medicaid managed care).

GROWTH OF THE COMPANY

The following table summarizes the financial results of the Company during the examination period:

Year	Admitted Assets**	Liabilities**	Capital and Surplus**	Total Revenues	Net Income
2020	\$ 322,350,534	\$ 240,829,232	\$ 81,521,303	\$ 718,400,227	\$ 181,675
2019	246,934,282	159,197,841	87,736,440	621,196,698	52,752,826
2018	302,075,738	228,716,805	73,358,932	782,063,565	9,719,834

**The balances include immaterial rounding differences.

The increase in assets in 2020 was primarily driven by increased cash and invested assets. This is due to increased membership across all products and the issuance of the surplus notes. The increase in liabilities in 2020 was primarily due to an increase in claims unpaid and medical incentives and an increase in health policy reserves offset by a decrease in premiums received in advance. The increase in premiums earned in 2020 was primarily due to an increase in members. The decrease in net income in 2020 was primarily driven by an increase in total underwriting deductions, mainly for hospital and medical benefits.

The decrease in assets in 2019 was primarily driven by decreased cash and invested assets and receivables from CSMG. This is due to a capital distribution and repayment of the surplus notes. The decrease in liabilities in 2019 was primarily driven by a decrease in claims unpaid and decrease in premiums received in advance. The decrease in premiums earned in 2019 was primarily due to a decrease in membership. The increase in net income in 2019 was primarily driven by a decrease in total underwriting deductions, mainly for hospital and medical benefits and other professional services.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board)

consisting of no less than three (3) and no more than five (5) directors. Except for the CSMG CEO or any director who is an employee of CSMG or the Company and serving on the Board by virtue of his or her position with either CSMG or the Company, directors may not serve more than three (3) consecutive terms. At least one (1) of the directors must be a resident of Indiana. The sole member, CSMG, elects the Board members.

The following is a listing of persons serving as directors as of December 31, 2020, and his or her principal occupation as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
David A. Finkel Dayton, Ohio	Executive Vice President CareSource Management Services LLC.
Steve W. Smitherman Indianapolis, Indiana	Indiana Market President CareSource Management Services LLC
William C. Coffin Jr. Dayton, Ohio	Vice President, Market Finance CareSource Management Services LLC

Officers

The Bylaws state that the officers shall be a President and a Secretary/Treasurer, and such other officers as the directors may deem necessary. The Company's Bylaws state that the officers of the Company shall be elected by a majority of the directors in office.

The following is a list of key officers and his or her respective titles as of December 31, 2020:

<u>Name</u>	<u>Office</u>
Erhardt H. Preitauer	President and Chief Executive Officer
David Goltz	Chief Financial Officer
Jai P. Pillai	Chief Operating Officer
Daniel J. McCabe	Chief of Staff and Chief Administrative Officer

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2020.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

The Bylaws were amended on October 4, 2018 and became effective January 1, 2019. The amendment changed the following:

- Changed the number of Directors on the Board from four (4) to a range of three (3) to five (5).
- Removed term limits of any Director who holds the Director position by virtue of his employment with CareSource.
- Removed wording that initial terms shall expire upon staggered terms.
- Changed the term of office for officers from one (1) year to two (2) years.
- Changed the recipient of proceeds upon dissolution from The CareSource Foundation to the CareSource Management Group Foundation.

Minutes

The Board and shareholder meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

The CSMG Board committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit, Risk and Compliance Committee, Executive Compensation Committee, Finance Committee, Nominating and Governance Committee, and Quality Committee.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the Company's parent and affiliates as of December 31, 2020:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
CareSource Management Group Company, n/k/a CareSource		
CareSource Ohio, Inc.	95201	OH
The CareSource Foundation		OH
CareSource Reinsurance LLC		MT
CareSource Real Estate Holdings LLC		OH
CareSource Kentucky Co.	15479	KY
CareSource Virginia Co.		VA
CareSource Network Partners LLC		OH
CareSource Life Services Co.		OH
CareSource at Home LLC		OH
CareSource Indiana, Inc.	10142	IN
CareSource Georgia Co.	15710	GA
CareSource West Virginia Co.	15728	WV
CareSource Holding LLC		AR
CareSource Arkansas Health Plan Co.		OH
CareSource Management Services Holding LLC		DE
CareSource Management Services LLC		OH
CareSource Rx Innovations LLC		OH
Kids' CareAlliance Co.		OH

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

Guaranty Agreement

The Guaranty Agreement is between CSMG and the Company. CSMG provides for payment of funds into the Plan in the event that the Plan's risk-based capital falls below the Company action level as defined by IC 27-1-36-6. The Company is required to calculate risk-based capital on a quarterly basis to ensure that they stay above the action level. This amended and restated agreement was filed with the INDOI and non-disapproved on March 23, 2016.

Management Services Agreement

The Management Agreement is between CSMG and the Company. In accordance with the Management Agreement, which outlines the allocation of costs for shared resources and direct costs between CSIN and CSMG, certain administrative services are provided to the Company by CSMG. Costs are allocated in accordance with SSAP No. 70, *Allocation of Expenses*. CSMG invoices the Company on a monthly basis and a payment is made within fifteen (15) business days. This agreement was filed with the INDOI and non-disapproved as of December 12, 2014. The Management Agreement was subsequently amended and non-disapproved by the INDOI on May 22, 2015. Pursuant to the Management Agreement, the Company incurred management fees of \$79,951,817. This agreement was terminated effective December 31, 2019.

Administrative Services Agreement

Effective January 1, 2020, CSIN entered into an Administrative Services Agreement (ASA) with CareSource Management Services. This ASA was non-disapproved by the INDOI on May 13, 2020. Costs are allocated based on the line of business and annual net revenues and range from 8% to 12.5% of annual net revenues.

Network Access Agreement

The Network Access Agreement is between CareSource Network Partners LLC (CSNP) and the Company. The agreement allows for CSNP to make available its providers to those covered under plans of insurance offered by the Company. CSNP shall cause network providers to sign provider agreements approved by the Company. The agreement was filed with the INDOI and non-disapproved as of April 22, 2016. Pursuant to terms of the Network Access Agreement there are no payments made between the Company and CSNP.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through fidelity insurance issued by Beazley Insurance Company, Inc. and National Union Fire Insurance Company of Pittsburgh, PA (an AIG company). The insurance has a single loss coverage limit of \$10,000,000 with a \$100,000 deductible. The fidelity insurance is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2020, including but not limited to private company directors and officers liability, employment practices liability, and fiduciary liability.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has no pension, stock ownership, or insurance plans.

SPECIAL AND STATUTORY DEPOSITS

The Company reported the following deposits as of December 31, 2020:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$ 500,000	\$ 500,000
Total Deposits	<u>\$ 500,000</u>	<u>\$ 500,000</u>

REINSURANCE

Ceded Reinsurance

The Company has stop loss reinsurance with Partner Re as of December 31, 2020 with retention of \$250,000 for its Medicare Exchange Plan and \$200,000 for its Medicaid Hoosier Healthwise and Healthy Indiana Plan. In 2020, premiums ceded under this agreement were \$31,074,794, and reinsurance recoverable was \$17,949,936 as of year-end 2020.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared from the Company's general ledger for the year ended December 31, 2020 was agreed to the respective Annual Statement. The Annual Statement for the year ended December 31, 2020 was agreed to the independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

FINANCIAL STATEMENTS

CARESOURCE INDIANA, INC.

Assets

As of December 31, 2020

	<u>Per Examination*</u>
Bonds	\$ 11,753,707
Stocks:	
Common stocks	483,400
Cash, cash equivalents and short-term investments	<u>272,314,987</u>
Subtotals, cash and invested assets	284,552,095
Investment income due and accrued	43,937
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	16,076,695
Health care and other amounts receivable	<u>21,677,808</u>
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>322,350,534</u>
Totals	<u>\$ 322,350,534</u>

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

CARESOURCE INDIANA, INC.
Liabilities, Surplus and Other Funds
As of December 31, 2020

	Per Examination*
Claims unpaid	\$ 72,322,736
Accrued medical incentive pool and bonus amounts	897,850
Unpaid claims adjustment expenses	2,188,724
Aggregate health policy reserves	100,630,445
Premiums received in advance	61,163,671
General expenses due or accrued	2,157,009
Amounts due to parent, subsidiaries and affiliates	1,468,798
Total liabilities	240,829,232
Gross paid in and contributed surplus	41,505,227
Surplus notes	20,000,000
Unassigned funds (surplus)	20,016,076
Total capital and surplus	81,521,303
Total liabilities, capital and surplus **	\$ 322,350,534

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

** The balances include immaterial rounding differences.

CARESOURCE INDIANA, INC.
Statement of Revenue and Expenses
For the Year Ended December 31, 2020

	Per Examination*
Member Months	1,912,492
Net premium income	\$ 714,622,963
Aggregate write-ins for other health care related revenues	3,777,265
Total revenues	718,400,227
Hospital and Medical:	
Hospital/medical benefits	373,807,343
Other professional services	151,644,522
Prescription drugs	114,115,621
Incentive pool, withhold adjustments and bonus amounts	1,303,125
Subtotal	640,870,611
Less:	
Net reinsurance recoveries	23,224,199
Total hospital and medical	617,646,412
Claims adjustment expenses, including cost containment expenses	11,939,591
General administrative expenses	89,586,348
Total underwriting deductions	719,172,351
Net underwriting gain or (loss)	(772,124)
Net investment income earned	953,799
Net investment gains (losses)	953,799
Net income or (loss) after capital gains tax and before all other federal income taxes	181,675
Net income (loss)	\$ 181,675

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

CARESOURCE INDIANA, INC.
Capital and Surplus Account Reconciliation

	2020*	2019*	2018*
Capital and surplus prior reporting year	\$ 87,736,437	\$73,358,929	\$ 39,061,193
Net income or (loss)	181,675	52,752,826	9,719,834
Change in nonadmitted assets	3,603,189	(3,655,485)	(422,098)
Change in surplus notes	20,000,000	(25,000,000)	25,000,000
Surplus adjustments:			
Paid in	(30,000,000)	(9,719,834)	-
Net change in capital and surplus	(6,215,137)	14,377,507	34,297,736
Capital and surplus end of reporting year	<u>\$ 81,521,300</u>	<u>\$ 87,736,437</u>	<u>\$ 73,358,929</u>

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2020, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

There were no significant issues requiring disclosure in this Report on Examination.

SUBSEQUENT EVENTS

On June 7, 2021, Scott R. Markovich replaced David A. Finkel as Chairman of the Board. On April 2, 2022, Stephanie Williams replaced William C. Coffin on the Board of Directors. Daniel J. McCabe resigned as Chief Administrative Officer effective April 1, 2022.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that they, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Lewis and Ellis, Inc., performed an examination of CareSource Indiana Inc., as of December 31, 2020.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of the condition of the CareSource Indiana Inc. as of December 31, 2020, as determined by the undersigned.


Daniel Schnepf, CFE
Noble Consulting Services, Inc.

Under the Supervision of:

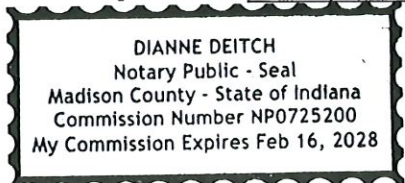

Jerry Ehlers, CFE, AES
Examinations Manager
Indiana Department of Insurance

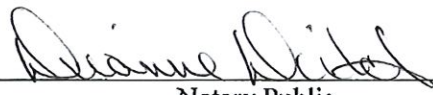
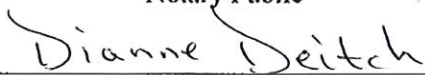
State of: Indiana
County of: Marion

On this 15th day of June, 2022, before me personally appeared, Daniel Schnepf and Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: 2/16/2028




Notary Public

Notary Public

