STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION

OF

HEALTHSPRING OF ALABAMA, INC.

HOOVER, ALABAMA

AS OF DECEMBER 31, 2015
# TABLE OF CONTENTS

EXAMINER’S AFFIDAVIT .................................................................................................................. ii
SCOPE OF EXAMINATION ........................................................................................................ 2
ORGANIZATION AND HISTORY ............................................................................................... 3
MANAGEMENT AND CONTROL ................................................................................................. 4
Stockholders ............................................................................................................................... 4
Board of Directors ..................................................................................................................... 4
Committees ............................................................................................................................... 5
Officers ...................................................................................................................................... 6
Conflict Of Interest ................................................................................................................... 7
CORPORATE RECORDS ............................................................................................................ 7
HOLDING COMPANY AND AFFILIATE MATTERS ..................................................................... 8
Holding Company ...................................................................................................................... 8
Dividends to Stockholders ......................................................................................................... 8
Management and Service Agreements ....................................................................................... 8
Organizational Chart ................................................................................................................ 13
DIVIDENDS TO POLICYHOLDERS .......................................................................................... 22
AL. ADMIN. CODE 482-1-146 (2009) ....................................................................................... 22
EMPLOYEE AND AGENT WELFARE ....................................................................................... 22
FINANCIAL CONDITION AND GROWTH OF COMPANY ......................................................... 23
MARKET CONDUCT ACTIVITIES ............................................................................................. 23
Territory and Plan of Operation ............................................................................................... 23
Policy Forms and Underwriting ............................................................................................... 24
Marketing and Sales ................................................................................................................ 24
Policyholder Complaints .......................................................................................................... 24
Compliance with Producer Licensing Requirements ............................................................... 25
Terminated Producers ............................................................................................................. 25
Privacy ...................................................................................................................................... 26
REINSURANCE .......................................................................................................................... 26
ACCOUNTS AND RECORDS ....................................................................................................... 26
Information Technology ........................................................................................................... 27
Information Requests ............................................................................................................... 27
Compliance with Annual Statement Instructions .................................................................... 28
FINANCIAL STATEMENTS INDEX ........................................................................................... 30
NOTES TO FINANCIAL STATEMENT ..................................................................................... 34
Summary of Reclassifications .................................................................................................... 37
Analysis of Changes to Surplus ................................................................................................. 37
SUMMARY OF SIGNIFICANT FINDING OF FACTS .................................................................. 37
COMMITMENTS AND CONTINGENT LIABILITIES ................................................................ 37
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS ....................................................... 37
COMMENTS AND RECOMMENDATIONS .............................................................................. 38
SUBSEQUENT EVENTS ............................................................................................................ 43
CONCLUSION ............................................................................................................................. 44
EXAMINER'S AFFIDAVIT

STATE OF ALABAMA,
COUNTY OF JEFFERSON,

Toni L. Bean, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of HealthSpring of Alabama, Inc.

2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of HealthSpring of Alabama, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Toni L. Bean, CFE

Subscribed and sworn before me by Toni L. Bean on this 19th day of January, 2017.

(SEAL)

Notary Public

My commission expires December 24, 2017.
January 19, 2017

Honorable Jim L. Ridling
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

HealthSpring of Alabama, Inc.
Hoover, Alabama

at the office located at 2 Chase Corporate Drive, Suite 300; Hoover, Alabama 35244 as of December 31, 2015. The report of examination is submitted herewith.

Where the description “Company” or “HealthSpring” appears herein, without qualification, it will be understood to indicate HealthSpring of Alabama, Inc.
SCOPE OF EXAMINATION

An examination was performed on HealthSpring of Alabama, Inc. a single state, health maintenance organization (HMO). The last examination covered the period of January 1, 2010 through December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2015. The examination was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to 2015 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the Code of Alabama, 1975, as amended, which included the Alabama Insurance Code, Alabama Insurance Department regulations, bulletins and directives in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The examination was planned and performed to:

- Evaluate the financial condition of the Company as of December 31, 2015.
- Assess corporate governance.
- Identify current and prospective risks and evaluate system controls and procedures used to mitigate those risks.
- Identify and evaluate significant risks that could result in a material misstatement of surplus, currently or prospectively.
- Evaluate management’s compliance with statutory accounting principle.

All accounts and activities were considered in accordance with the risk-focused examination approach, including significant estimates made by management. Management’s compliance with Statutory Accounting Principles were evaluated as well. The examination does not attest to the fair presentation of the financial statements included herein. Adjustments identified including their impact on surplus was documented in the Analysis to Change in Surplus on page 37.

This report includes significant findings of fact, in accordance with Title 27 of the Alabama Insurance Code, 1975, as amended. This report also contains general information about the Company and its financial condition. There may be other items identified during this examination that, due to their nature, are not included in this report, but communicated separately to other regulators and the Company.
An examination of the market conduct activities and information technology (IT) was conducted concurrently with the financial examination. The market conduct examination included a review of: territory and plan of operations; policy forms and underwriting; marketing and sales; policyholder complaints; producer licensing; and privacy. The IT examination included a review of physical and logical security; change and project management; and business continuity. See “Market Conduct Activities” and “Information Technology” on pages 23 and 27 respectively, for further discussion of the market conduct and IT examinations.

The Company’s Annual Statements for all years under examination were compared with or reconciled to the corresponding general ledger account balances.

PricewaterhouseCoopers, LLP was the Company’s external auditors for the examination period. The auditor's work papers were utilized during the examination as deemed appropriate.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2015.

ORGANIZATION AND HISTORY

The Company is a health maintenance organization (HMO) licensed in the state of Alabama only. The Company was formed on April 1, 1985, as “Sunmark Health Plans.” On May 28, 1986, the Company was purchased by Baptist Health Systems, Inc. On November 19, 2002, NewQuest, LLC acquired the Company and changed the name to “HealthSpring of Alabama, Inc.” NewQuest, LLC is a wholly-owned subsidiary of HealthSpring, Inc., which is an indirect wholly-owned subsidiary of Cigna Corporation (Cigna or ultimate parent). On January 31, 2012, the Company was merged into Cigna Corporation. At December 31, 2015, NewQuest, LLC, owned 100% of all outstanding shares of the Company.

At December 31, 2015, the Company reported $5.0 and $40.5 million in gross paid-in and contributed surplus and unassigned funds (surplus), respectively.

The following events occurred subsequent to the examination date:

- On January 21, 2016, the Centers for Medicare and Medicaid Services (CMS) imposed immediate intermediate sanctions against the Company prohibiting the enrollment of new participants and marketing activities.
• On January 27, 2016, the Alabama Department of Insurance approved the indirect acquisition of all outstanding shares of the Company by Anthem, Inc.

MANAGEMENT AND CONTROL

Stockholders

At December 31, 2015, NewQuest, LLC, owned 100% of the Company’s common capital stock. NewQuest, LLC is a wholly-owned subsidiary of HealthSpring, Inc., which is an indirect wholly-owned subsidiary of Cigna Corporation (Cigna or ultimate parent).

Board of Directors

Article II, Section 3 of the bylaws states:

The corporation shall hold an annual meeting of its shareholders for the election of directors and for the transaction of general business in January of each year at a time and place designated by the Board of Directors, immediately preceding the annual Board of Directors meeting.

The written consents of the sole shareholder were reviewed for the examination period. There was no documentation evidencing the election of the directors of the Company for year-ending 2014. This was not in accordance with Article II, Section 3 of the bylaws cited above or ALA. CODE § 27-27-23 (1975), which states:

(b) Directors must be elected by the members or stockholders of a domestic insurer at the annual meeting of stockholders or members.

At December 31, 2015, the following were elected by the shareholder to serve as directors:
Committees

Effective April 15, 2013, the Board of Directors appointed Connecticut General Corporation (CGC) Audit Committee to serve as its Audit Committee. This was in accordance with ALA. ADMIN. CODE 482-1-141-.04 (2008), which states:

(4) Every insurer required to file an annual audited financial report pursuant to this chapter shall designate a group of individuals as constituting its audit committee, as defined in chapter 482-1-141-.03. The audit committee of an entity that controls an insurer may be deemed to be the insurer's audit committee for purposes of this chapter at the election of the controlling person.

The Audit Committee meeting minutes were reviewed for the examination period. The meeting minutes did not evidence:

- The Committee’s review of the Company’s accounting and reporting matters.
- The actions taken by the Committee on behalf of the Company.

This was not in accordance with ALA. CODE § 10A-2-16.01 (1975), which states:

A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.

At December 31, 2015, the following were serving on the Audit Committee:
Richard Kevin Bailey
Mary Terese Hoeltzel
Eric Paul Palmer
Jeffrey Temple Rigg
William John Smith
Neil Boyd Tanner
James Van Hoof
James Yablecki (no middle name)

**Officers**

Article III, Section 10 of the bylaws states:

>The annual meeting of the Board of Directors shall be held for the purpose of electing officers and the transaction of such other business as may come before the meeting.

The BOD meeting minutes, including the written consents of the BOD, were reviewed for the examination period. The minutes did not document or reflect the election of the officers of the Company by the Directors. This was not in accordance with Article III, Section 10 cited above or ALA. CODE § 10A-2-8.40 (1975), which states:

> (a) A corporation has the officers described in its bylaws or appointed by the board of directors in accordance with the bylaws.

The officers’ changes and appointments, including a complete listing of the officers elected and serving was documented in the written consent(s) of the sole shareholder. However, the year-ending 2014, written consent(s) of the sole shareholder did not contain a complete listing of the officers elected and serving.

The following officers were elected and serving as of December 31, 2015:

<table>
<thead>
<tr>
<th><strong>Officer</strong></th>
<th><strong>Title</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthew Shawn Morris</td>
<td>Co-CEO</td>
</tr>
<tr>
<td>Sheffield Hoover Young</td>
<td>President, CEO and Chairman</td>
</tr>
<tr>
<td>Brent Jason Sanders</td>
<td>Vice President &amp; Secretary</td>
</tr>
<tr>
<td>Jeffrey Alan Brown</td>
<td>Vice President &amp; Vice Chairman</td>
</tr>
</tbody>
</table>
Ryan Bruce McGroarty  CFO
Open MD  Chief Medical Officer
David Bradley Holladay  President - Govt. Pharmacy Services**
Richard Alan Appel  Compliance Officer
Gregory Nicholas Malone  Appointed Actuary
Scott Ronald Lambert  Vice President & Treasurer
Maureen Hardiman Ryan  Vice President & Assistant Treasurer
Jumana Nadeem Siddiqui  Assistant Treasurer
Kevin James Oleksak  Assistant Secretary
Rhiannon Ashley Bernier  Assistant Secretary
Anna Krishtul  Assistant Secretary*
Susan Marks Metrow  Assistant Secretary
Theresa Press  Assistant Treasurer*
Francis Sudall  Assistant Treasurer*
Joanne Ruth Hart  Vice President & Assistant Treasurer
Mark Paul Fleming  Vice President and Assistant Treasurer
Rebecca Ann Croes  Vice President
William Patton Brown  Vice President
Jessica Anne Sasser  Assistant Secretary
Melissa Ahmann-Tucker  Assistant Secretary
Casey Patrick McKeon  Assistant Vice President
Mark Robert Bieze  Assistant Vice President
Mario Nicholas Vangel  Vice President

*No middle name
**Retired in 2016

Conflict Of Interest

The conflict of interest statements filed by the officers, directors and key employees were reviewed for the examination period. There were no material conflicts noted.

CORPORATE RECORDS

The Company’s Articles of Incorporation and Bylaws, as amended, were inspected and found to provide for the operation of the Company in accordance with Alabama statutes, regulations, and accepted corporate practices.

Minutes of the meetings of the Board of Directors were reviewed for the examination period. The minutes appeared complete with regards to recording actions taken on matters before the respective bodies for deliberation and action.
In general, the Company’s corporate records appeared to be complete with regard to actions taken on matters before the respective body for deliberation and action, except as noted otherwise in this report.

**HOLDING COMPANY AND AFFILIATE MATTERS**

**Holding Company**

Effective January 1, 2016, the Company became subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975), as amended. The appropriate filings for year-ending 2015 were reviewed. The filings included the appropriate disclosures, except as noted otherwise in this report.

**Dividends to Stockholders**

The following dividends were issued to the sole stockholder during the examination period:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$26,000,000</td>
</tr>
<tr>
<td>2014</td>
<td>$14,900,000</td>
</tr>
<tr>
<td>2015</td>
<td>$7,300,000</td>
</tr>
</tbody>
</table>

**Management and Service Agreements**

**Management Agreement - NewQuest Management of Alabama, LLC**

Effective, January 1, 2003, this agreement was between the Company and NewQuest of Alabama, LLC. NewQuest provided management and administrative services to the Company, including the management of risks associated with the enrollment of members. The agreement was for an initial period of one year and automatically renewable for successive three year periods thereafter, unless either party gave a sixty day advance written notice of cancellation.
Intercompany Service Agreement between International Rehabilitation Associates, Inc. and Connecticut General Life Insurance Company

Effective, January 1, 2001, this agreement was between Connecticut General Life Insurance Company (CGC); Cigna Health Corporation; and International Rehabilitation Associates, Inc., (d/b/a Intracorp). CGC and Cigna Health were collectively referred to as “CHC.”

Intracorp provided utilization management, case management, demand management, disease management, care management and other services to support CHC’s Healthcare business. This agreement was effective until terminated at such time as the parties may agree.

On January 1, 2004, the agreement was amended to reflect the name change of International Rehabilitation Associates, Inc. (d/b/a Intracorp) to Cigna Health Management, Inc. (CHM).

On January 1, 2014, the agreement was amended to include the following:

- HealthSpring of Alabama, Inc.
- HealthSpring of Florida, Inc.
- HealthSpring of Tennessee, Inc.
- HealthSpring Life & Health Insurance Company, Inc.
- Bravo Health Mid-Atlantic, Inc.
- Bravo Health Pennsylvania, Inc.

Other changes pursuant to this amendment were:

- The inclusion of provisions mandated by the Centers for Medicare & Medicaid Services (CMS) regarding confidentiality of records; prompt payment; access, etc.
- The agreement could be terminated by either party immediately upon written notice if: (1) either party materially breached any terms/conditions of the agreement; and failed to remedy the breach within thirty days; and (2) loss of licensure or any other governmental authorization necessary to perform its obligations pursuant to this agreement.
- The agreement could be terminated by any party provided a ninety-day written notice was given to the remaining parties.
Expense Sharing Agreement

Effective August 31, 2012, this agreement was between the Company, Cigna Corporation, and various affiliates, subsidiaries, directly or indirectly owned by Cigna Corporation.

This agreement set forth the manner in which the participants shared expenses for certain shared services. These services could be provided by or contracted for, by one of the parties to this agreement. The contracting party was responsible for:

- Allocating costs of the shared service expenses to each party utilizing the services.
- Establishing an allocation method for the shared service expenses in accordance with generally accepted accounting principles (GAAP) with respect to the particular type of expense.

The agreement was for an initial term of one year and was automatically renewable on an annual basis, unless any party provided a thirty-day advance notice of termination or non-renewal.

The agreement could be terminated by written notice (provided in reasonable time) to the remaining parties, no less than thirty days following the close of the month in which notice was given.

Fee Sharing Agreement

Effective September 10, 2014, this agreement was between the Company; Cigna Corporation ("Cigna"); and various affiliates or subsidiaries, directly or indirectly owned by Cigna Corporation.

Per this agreement Cigna was responsible for:

- Submitting and paying the annual fee imposed by Section 9010 of the Patient Protection and Affordable Care Act (PPACA) for all parties to the agreement.
- Filing all reports and forms required by the U.S. Treasury or IRS.

Each party was responsible for:

- Reimbursing Cigna for its portion of the annual fee paid.
- Providing administrative assistance to Cigna with the performance of the fee calculations as specified in this agreement.
This agreement could be terminated by any party, provided a written notice was given to Cigna no less than thirty days following the end of the month in which the notice was given and the terminating party had satisfied its payment obligations.

On July 21, 2014, the agreement was amended to include the allocation of overhead costs to each participant for payment of the annual fee imposed by PPACA.

**Investment Advisory Agreement**

Effective, January 31, 2012, the agreement was between the Company and Cigna Investments, Inc.

Cigna Investment had sole discretion, in accordance with applicable law and as stipulated within the agreement, to make and carry out decisions regarding acquisitions, holdings and dispositions of securities on behalf of the Company. The fees related to this agreement were due no later than ninety days after receipt of the invoices. This agreement could be terminated by either party at any time by written notice.

**Amended and Restated Investment Pooling Agreement**

Effective January 31, 2012, the agreement was between the Company, Cigna Investments, Inc. (the “Advisor”) and various indirect wholly-owned subsidiaries of Cigna Corporation (each a “Participant” and collectively, the “Participants”).

Cigna Investments functioned as the investment advisor with respect to short-term investments for each participant. Each party, participated in a pool of investments to facilitate the effective management of its short-term assets. Cigna Investments served as the Pool Manager administering the investment and operation of the account.

The agreement could be terminated by either party provided a one day (business day) written notice was given.

**Right to Offset Agreement**

Effective May 21, 2012, this agreement was between the Company and:

- HealthSpring Life & Health Insurance Company, Inc.
- HealthSpring of Tennessee, Inc.
- HealthSpring of Florida, Inc.
- Bravo Health Mid-Atlantic, Inc.
• Bravo Health Pennsylvania, Inc.
• NewQuest, LLC.
• HealthSpring, Inc.

HealthSpring Life & Health was responsible for offsetting certain payable and receivable accounts against the other participants (accounts) on regulatory reporting forms as needed. The parties could unilaterally amend this agreement if required to remain in compliance with any federal, state, or local law, rule or regulation or other regulatory instruction(s).

This agreement was for an initial period of one year and automatically renewable on an annual basis, unless any party provided a thirty day advance written notice of termination or non-renewal.

**Network Access Agreement**

Effective June 12, 2001, the agreement was between each of the subsidiaries of Cigna Corporation (referred to as Healthplan) and Connecticut General Life Insurance Company (CG).

A Healthplan or CG could provide or receive network access and certain associated administrative services from other subsidiaries of Cigna Corporation that were parties to this agreement. This agreement could be terminated at any time by giving sixty days advance written notice of termination.

Effective February 19, 2013, this agreement was amended to include the Medicare Advantage Addendum pursuant to the Centers for Medicare & Medicaid Services (CMS) guidelines.

Effective January 28, 2014, this agreement was amended to include:

• HealthSpring of Alabama, Inc.
• HealthSpring of Florida, Inc.
• HealthSpring of Tennessee, Inc.
• HealthSpring Life & HealthSpring Insurance Company, Inc.
• Bravo Health Mid-Atlantic, Inc.
• Bravo Health Pennsylvania, Inc.
Amended and Restated Consolidated Federal Income Tax Agreement

Effective January 31, 2012, this agreement was between the Company; Cigna Corporation; and each of Cigna’s subsidiaries that became a party to the agreement.

Each subsidiary included in the consolidated federal income tax return was required to pay Cigna an amount equal to the federal income tax liability recorded as its current annual tax provision. The tax benefit of net operating losses, capital losses and tax credits were funded to the extent it reduced the consolidated federal income tax liability. This agreement was only applicable with respect to the period for which the parties were members of the same affiliated group filing a consolidated federal income tax return.

Organizational Chart

The following chart presents the corporate affiliations of the Company as of December 31, 2015.

CIGNA CORPORATION

A Delaware Corporation and ultimate parent company

| Cigna Holdings, Inc.
|   | Cigna Intellectual Property, Inc.
|   | Cigna Investment Group, Inc.
|   |   | Cigna International Finance Inc.
|   |   | Former Cigna Investments, Inc.
|   |   | Cigna Investments, Inc.
|   |   |   | Cigna Mezzanine Partners III, Inc.
|   |   |   | Cigna Mezzanine Partners III, LP
|   |   | Cigna Benefits Financing, Inc.
|   |   | (EI # 010947889, DE)
|   | Connecticut General Corporation
|   |   | Benefit Management Corp.
|   |   | (EI # 81-0585518)
|   |   | *Allegiance Life & Health Insurance Company
|   |   | (EI # 20-4433475, NAIC # 12814, MT)
|   |   | *Allegiance Re, Inc.
|   |   | (EI # 20-3851464, MT)
|   | Allegiance Benefit Plan Management, Inc.
|   | Allegiance COBRA Services, Inc.
|   | Allegiance Provider Direct, LLC
Community Health Network, LLC
Intermountain Underwriters, Inc.
Star Point, LLC
HealthSpring, Inc.
NewQuest, LLC

NewQuest Management Northeast, LLC

*Bravo Health Mid-Atlantic, Inc.
(EI # 52-2259087, NAIC # 10095, MD)

*Bravo Health Pennsylvania, Inc.
(EI # 52-2363406, NAIC # 11254, PA)

*HealthSpring Life & Health Insurance Company
(EI # 20-8534298, NAIC # 12902, TX)

*HealthSpring of Alabama, Inc.
(EI # 63-0925225, NAIC # 95781, AL)

*HealthSpring of Florida, Inc.
(EI # 65-1129599, NAIC # 11532, FL)

NewQuest Management of Illinois, LLC
NewQuest Management of Florida, LLC
HealthSpring Management of America, LLC
NewQuest Management of West Virginia, LLC
TexQuest, LLC
HouQuest, LLC

| GulfQuest, LP
NewQuest Management of Alabama, LLC
HealthSpring USA, LLC
HealthSpring Management, Inc.

*HealthSpring of Tennessee, Inc.
(EI # 62-1593150, NAIC # 11522, MD)

Tennessee Quest, LLC
HealthSpring Pharmacy Services, LLC
HealthSpring Pharmacy of Tennessee, LLC

Home Physicians Management, LLC

*Cigna Arbor Life Insurance Company
(EI # 03-0452349, NAIC # 13733, CT)

Cigna Behavioral Health, Inc.

Cigna Behavioral Health of California, Inc.
(EI# 94-3107309)

Cigna Behavioral Health of Texas, Inc.
(EI# 75-2751090)

MCC Independent Practice Association of New York, Inc.

Cigna Dental Health, Inc.
| Cigna Dental Health of California, Inc. | (EI# 59-2600475, CA) |
| Cigna Dental Health of Colorado, Inc. | (EI# 59-2675861, NAIC # 11175, CO) |
| Cigna Dental Health of Delaware, Inc. | (EI# 59-2676987, NAIC # 95380, DE) |
| Cigna Dental Health of Florida, Inc. | (EI# 59-1611217, NAIC # 52021, FL) |
| Cigna Dental Health of Illinois, Inc. | (EI# 06-1351097, IL) |
| Cigna Dental Health of Kansas, Inc. | (EI# 59-2625350, NAIC # 52024, KS) |
| Cigna Dental Health of Kentucky, Inc. | (EI# 59-2619589, NAIC # 52108, KY) |
| Cigna Dental Health of Missouri, Inc. | (EI#06-1582068, NAIC # 11160, MO) |
| Cigna Dental Health of New Jersey, Inc. | (EI# 59-2308062, NAIC # 11167, NJ) |
| Cigna Dental Health of North Carolina, Inc. | (EI# 56-1803464 , NAIC # 95179, NC) |
| Cigna Dental Health of Ohio, Inc. | (EI# 59-2579774, NAIC # 47805, OH) |
| Cigna Dental Health of Pennsylvania, Inc. | (EI# 52-1220578, NAIC # 47041, PA) |
| Cigna Dental Health of Texas, Inc. | (EI# 59-2676977, NAIC # 95037, TX) |
| Cigna Dental Health of Virginia, Inc. | (EI# 52-2188914, NAIC # 52617, VA) |
| Cigna Dental Health Plan of Arizona, Inc. | (EI# 86-0807222, NAIC # 47013, AZ) |
| Cigna Dental Health of Maryland, Inc. | (EI#20-2844020, NAIC #48119, MD) |

Cigna Health Corporation

Healthsource, Inc.

| Cigna HealthCare of Arizona, Inc. | (EI# 86-0334392, NAIC#95125, AZ) |
| Cigna HealthCare of California, Inc. | (EI# 95-3310115, CA) |
| Cigna HealthCare of Colorado, Inc. | (EI# 84-1004500, NAIC # 95604, CO) |
| Cigna HealthCare of Connecticut, Inc. |
Great-West Healthcare of Illinois, Inc.
(EIN # 93-1174749, NAIC 95388, IL)
Cigna Healthcare, Inc.
*Cigna Life Insurance Company of New York
(EIN # 13-2556568, NAIC # 64548, NY)
*Connecticut General Life Insurance Company
(EIN # 06-0303370, NAIC # 62308, CT)

| CG Mystic Center LLC
| Station Landing Holding LLC
| CG Mystic Land LLC
| ND/CG Holding LLC
| CG Skyline, LLC
| Skyline ND/CG LLC
| ND Mystic Center Note LLC
| Skyline Mezzanine Borrower, LLC
| Skyline at Station Landing, LLC

Careallies, LLC
CG Bayport LLC
| Bayport Colony Apartments LLC
Cigna Onsite Health, LLC
| Gillette Ridge Community Council, Inc.
| Gillette Ridge Golf LLC
| Hazard Center Investment Company LLC
| Tel-Drug of Pennsylvania, LLC
| GRC Acquisitions LLC
| Cigna Affiliates Realty Investment Group, LLC
(EIN # 27-5402196, DE)
| CR Longwood Investors, LP
| ND/CR Longwood, LLC
| ARE/ND/CR Longwood, LLC
| 121 Tasman Apartments LLC

Secon Properties, LP
| Transwestern Federal Holdings, LLC.
| Transwestern Federal, LLC.
| Market Street Residential Holdings, LLC
| Arborpoint at Market Street LLC
| Diamondview Tower CM-CG LLC
| CR Washington Street Investors LP
| Civic Holding LLC
| Dulles Town Center Mall, LLC
| AEW/FDG, LP
ND/CRC Unicorn, LLC
Union Wharf Apartments LLC
AMD Apartments Limited Partnership
SP Newport Crossing LLC
PUR Arbors Apartments Venture LLC
CG Seventh Street, LLC
Ideal Properties II LLC
Alessandro Partners, LLC
Mallory Square Partners, I, LLC
Houston Briar Forest Apartments Limited Partnership
Newtown Partners II, LP
Newtown Square GP LLP
AFA Apartments Limited Partnership
SB-SNH LLC
   | 680 Investors LLC
   | 685 New Hampshire LLC
CGGL 18301 LLC
Unico/CG Commonwealth LLC
   | Commonwealth Acquisition LLC
222 Main Street Caring GP LLC
222 Main Street Investors LP
Notch 8 Residential, L.L.C.
UVL, LLC
3601 North Fairfax Drive Associates, LLC
CI Perris 151, LLC
Lakehills CM-CG LLC

CORAC LLC
   Bridgepoint Office Park Associates, LLC
       (E1 # 27-3923999, DE)
   Fairway Center Associates, LLC
       (E1 # 27-3126102, DE)
   Henry on the Park Associates, LLC
       (E1 # 27-3582688, DE)

*Cigna Health and Life Insurance Company
  (E1 # 59-1031071, NAIC # 67369, CT)
   | CarePlexus, LLC
       (EI# 45-2681649; DE)
   | Cigna Corporate Services, LLC
       (E22.4EI 27-3396038, DE)
   | Cigna Insurance Agency, LLC
       (EI # 27-1903785, CT)
Ceres Sales of Ohio, LLC
(EI # 34-1970892, OH)

Central Reserve Life Insurance Company
(EI # 34-0970995, NAIC # 61727, OH)

Provident American Life and Health Insurance Company
(EI # 23-1335885, NAIC # 67903, OH)

United Benefit Life Insurance Company
(EI # 75-2305400, NAIC # 65269, OH)

Loyal American Life Insurance Company
(EI # 63-0343428, NAIC # 65722, OH)

American Retirement Life Insurance Company
(EI # 59-2760189, NAIC # 88366, OH)

QualCare Alliance Networks, Inc.

QualCare, Inc.
Scibal Associates, Inc.
QualCare Captive Insurance Company Inc., PCC
QualCare Management Resources Limited Liability Company
Health-Lynx, LLC

Sterling Life Insurance Company

Olympic Health Management Systems, Inc.
Olympic Health Management, Services, Inc.

WorldDoc, Inc.

Cigna Health Management, Inc.
(EI# 23-1728483, DE)

Kronos Optimal Health Company
(20-8064696, AZ)

*Life Insurance Company of North America
(EI# 23-1503749, NAIC # 65498, PA)

*Cigna & CMC Life Insurance Company Limited (China) (50%)
remaining interest owned by an unaffiliated party

Cigna Direct Marketing Company, Inc.

Tel-Drug, Inc.

Vielife Holdings Limited

Vielife Limited
Vielife Services, Inc.
Businesshealth UK Limited

CG Individual Tax Benefit Payments, Inc.

CG Life Pension Benefits Payments, Inc.

CG LINA Pension Benefits Payments, Inc.

Cigna Federal Benefits, Inc.

Cigna Healthcare Benefits, Inc.
| Cigna Integratedcare, Inc. |
| Cigna Managed Care Benefits Company |
| Cigna Re Corporation |
| Blodget & Hazard Limited |
| Cigna Resource Manager, Inc. |
| Connecticut General Benefit Payments, Inc. |
| Healthsource Benefits, Inc. |
| IHN, Inc. |
| LINA Benefit Payments, Inc. |
| Mediversal, Inc. |
| Universal Claims Administration |
| Cigna Global Holdings, Inc. |
| Cigna International Corporation, Inc. |
| Cigna International Services, Inc. |
| Cigna International Marketing (Thailand) Limited |
| CGO Participatos LTDA |
| YCFM Servicos LTDA |
| *Cigna Global Reinsurance Company, Ltd. |
| Cigna Holdings Overseas, Inc. |
| Cigna Bellevue Alpha LLC |
| Cigna Linden Holdings, Inc. |
| Cigna Laurel Holdings, Ltd. |
| Cigna Palmetto Holdings Ltd. |
| Cigna Apac Holdings Limited |
| Cigna Alder Holdings, LLC |
| Cigna Walnut Holdings, Ltd. |
| Cigna Chestnut Holdings, Ltd. |
| *LINA Life Insurance Company of Korea |
| Cigna Korea Foundation |
| Cigna International Services Australia Pty Ltd. |
| Cigna Hong Kong Holdings Company Limited |
| Cigna Data Services (Shanghai) Company Limited |
| Cigna HLA Technology Services Limited |
| *Cigna Worldwide General Insurance Company Limited |
| *Cigna Worldwide Life Insurance Company Limited |
| Cigna International Health Services Sdn Bhd. |
| *Cigna Life Insurance New Zealand Limited |
| Cigna Life Insurance Company of Canada (AA-1560515) |
| Cigna Korea Chusik Heosa (A/K/A Cigna Korea Co. Limited) |
| LINA Financial Services
| RHP (Thailand) Limited
| *Cigna Brokerage & Marketing (Thailand) Limited

| KDM (Thailand) Limited
| *Cigna Insurance Public Company Limited
| Cigna Taiwan Life Assurance Company Limited
| Cigna Myrtle Holdings, Ltd.
| | Cigna Elmwood Holdings, SPRL
| | Cigna Beechwood Holdings
| | Cigna Life Insurance Company of Europe S.A.-N.V.
| | Cigna Europe Insurance Company S.A.-N.V.

| Cigna European Services (UK) Limited
| Cigna 2000 UK Pension LTD
| | Cigna Oak Holdings, LTD.
| | Cigna Willow Holdings, LTD.
| | FirstAssist Administration Limited
| | Cigna Legal Protection Limited
| | Cigna Insurance Services (Europe)

| Cigna International Health Services, BVBA
| Cigna International Health Services, LLC
| | Cigna International Health Services Kenya Limited
| | Cigna Sequoia Holdings, SPRL

| Cigna Magnolia Holdings, Ltd.
| Cigna Turkey Danismanlik Hizmetleri, A.S.
| (A/K/A Cigna Turkey Consultancy Services, A.S.)
| Cigna Nederland Alpha Cooperatief U.A.
| | Cigna Nederland Beta B.V.
| | | Cigna Nederland Gamma B.V.
| | | Cigna Finans Emeklilik Ve Hayat A.S.
| Cigna Health Solution India Pvt. Ltd.
| Cigna Poplar Holdings, Inc.
| PT GAR Indonesia
| | PT PGU Indonesia

| *Cigna Global Insurance Company Limited
| Cigna TTK Health Insurance Company Limited
| Cigna Saico Benefits Services, W.L.L.

*Cigna Worldwide Insurance Company
(EI # 23-2088429, NAI # 90859, DE)
| *PT. Asuransi Cigna
| Cigna Teak Holdings, LLC

*Denotes an affiliated relationship between parties.
DIVIDENDS TO POLICYHOLDERS

There were no dividends paid to policyholders during the examination period.

**ALA. ADMIN. CODE 482-1-146 (2009)**

**ALA. ADMIN. CODE 482-1-146-.11 (2009) states:**

A Section 1033 insurer subject to the Commissioner’s examination authority shall have and apply the following:

(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

The Company had internal procedures in place for determining whether applicants for employment had felony convictions for a Section 1033 offense. However, the Company did not have an internal procedure in place to periodically ascertain if existing employees or contractors had been convicted of a Section 1033 offense since the date of hire. Company management indicated employees were required to self-report convictions. If notified of a potential criminal activity by an employee a review would be conducted based on cause.

**EMPLOYEE AND AGENT WELFARE**

The Company had no employees, provided no direct benefits, and had no benefit plans in effect during the examination period. Management and administrative services, including the management of risks with third-party providers was handled by NewQuest Management of Alabama, LLC. For further details about this agreement, see the "Management and Services Agreement" section on page 8 of this report.
FINANCIAL CONDITION AND GROWTH OF COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admitted Assets</td>
<td>*$138,230,040</td>
<td>$ 124,727,153</td>
<td>$139,817,435</td>
</tr>
<tr>
<td>Liabilities</td>
<td>80,912,616</td>
<td>51,104,607</td>
<td>58,778,516</td>
</tr>
<tr>
<td>Common Capital Stock</td>
<td>112,400</td>
<td>112,400</td>
<td>112,400</td>
</tr>
<tr>
<td>Paid in and Contributed Surplus</td>
<td>5,010,875</td>
<td>5,010,875</td>
<td>5,010,875</td>
</tr>
<tr>
<td>Unassigned Funds (Surplus)</td>
<td>40,460,251</td>
<td>57,827,175</td>
<td>75,914,644</td>
</tr>
<tr>
<td>Net Premium Income</td>
<td>637,724,568</td>
<td>528,164,209</td>
<td>502,898,098</td>
</tr>
<tr>
<td>Net Underwriting gain (loss)</td>
<td>(10,459,002)</td>
<td>11,620,476</td>
<td>20,876,459</td>
</tr>
</tbody>
</table>

MARKET CONDUCT ACTIVITIES

Territory and Plan of Operation

At December 31, 2015, the Company was licensed to transact business in the State of Alabama only. The Company was licensed to write business in the following counties:

- Autauga
- Baldwin
- Bibb
- Blount
- Cherokee
- Chilton
- Colbert
- Cullman
- Dallas
- DeKalb
- Elmore
- Etowah
- Jackson
- Jefferson
- Lauderdale
- Lawrence
- Limestone
- Lowndes
- Madison
- Marshall
- Mobile
- Montgomery
- Morgan
- Shelby
- St. Clair
- Talladega
- Tuscaloosa
- Walker

Effective December 9, 1991, a perpetual Certificate of Authority was issued to the Company. The Certificate of Authority was effective until suspended, cancelled or revoked, as long as fees and taxes were paid current.
Policy Forms and Underwriting

During the examination period, the Company did not file any new policy forms with the Alabama Department of Insurance. As of December 31, 2015, the Company issued Medicare Advantage policies only. The Company’s Medicare policy forms were approved by the Centers for Medicare and Medicaid Services (CMS).

Marketing and Sales

During the examination period, the Company offered Medicare Advantage products only. These products were available and administered via a contract with CMS. All advertising materials were regulated by CMS.

The Company’s website indicated Medicare Advantage plans and a stand-alone prescription drug plan were available to Medicare beneficiaries. The website included the Company’s telephone number, TTY (Text Telephone Device) number, hours of operation and mailing address.

Policyholder Complaints

The Company maintained a Complaint Data System and complied with the complaint handling data file information requirements as stated in the NAIC Market Regulation Handbook. The complaint register included: the NAIC code, case number, case date, state, member number, identification number, type of coverage, member name, reason for complaint, grievance detail, etc. It appeared the grievance policy contained sufficient procedures for handling complaints/grievances.

During the examination period, the Company recorded 3,943 complaints/grievances in its complaint register as follows:

- 2013 – 982
- 2014 – 1,427
- 2015 – 1,534

A sample of 115 complaints were selected from the total population of 3,943. The complaints/grievances were reviewed to ensure compliance with Alabama statutes for complaint handling. Each complaint/grievance was addressed by the Company and communicated to the member in accordance with Alabama statutes.
Compliance with Producer Licensing Requirements

A random sample of 116 Alabama premium transactions was selected from a total population of 148,451. Based on the premium transactions reviewed, the Company’s producers were properly licensed and appointed in accordance with ALA. CODE § 27-7-30 (1975), which states:

(a) Each insurer appointing a producer in this state shall file with the commissioner in a format approved by the commissioner, a notice of appointment within 15 days from the date agency contract is executed or the first insurance application is submitted, whichever occurs first. An insurer may also elect to appoint a producer to all or some insurers within the insurer’s holding company system by the filing of a single appointment request.

Terminated Producers

A random sample of 114 Alabama terminated producer files was selected from a total population of 1,153. For twelve terminated producers, it could not be determined whether termination notifications were sent to: (1) the producers’ last known address; or (2) the Alabama Department of Insurance (ALDOI). This was not in accordance with ALA. CODE § 27-7-30.1 (1975) or ALA. CODE § 27-7-30 (1975).

ALA. CODE § 27-7-30.1 (1975) states:

(a) Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

ALA. CODE § 27-7-30 (1975) states:

(e) Subject to the producer’s contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer’s appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the
effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

Company Management indicated the twelve producers were contracted under an agency agreement that was terminated. Termination communication was sent to the agency but not the individual producers. Beginning May 2016, the processes for termination were updated to include provisions for the termination of the agency as well as the producers acting on behalf of the agency.

**Privacy**

The Company does not disclose nonpublic personal financial information to nonaffiliated third parties. The Company has appropriate policies and procedures in place for the protection against the disclosure of members’ nonpublic personal medical information as well. The Company appropriately trained its employees; properly identified authorized personnel with access to personal health information; and established security practices and procedures in accordance with ALA. ADMIN. CODE 482-1-122-.07 (2001) (6) – Privacy of Non-Public Personal Financial Information.

The Company’s Privacy notice content and notice delivery procedures complied with ALA. ADMIN. CODE 482-1-122 (2001) – Privacy of Non-Public Personal Financial Information. The Company was also required to comply with the Health Insurance Portability and Accountability Act (HIPAA) privacy rule as promulgated by the U.S. Department of Health and Human Services.

**REINSURANCE**

The Company did not cede or assume any reinsurance during the examination period.

**ACCOUNTS AND RECORDS**

The financial management, financial reporting, claims, investments, and premium records were maintained utilizing commercial software. The Finance Department was responsible for:

1. Maintaining accounting records including the general ledgers and supporting documentation;
2. Accounting for the assets and liabilities;
3. Processing accounts payable checks; and  

During the examination period, there were several permitted practices in place regarding maintenance of records outside of Alabama; IT functions; and an operating account.

PricewaterhouseCoopers, LLP (PwC) was the Company’s external auditors for the examination period. The examiners reviewed the external auditors’ workpapers, copies of which were incorporated into the examination as deemed appropriate. The audit reports were reviewed as well.

**Information Technology**

An Information Technology (IT) review was performed to determine whether the IT general control environment was sufficient to effectively mitigate the general IT risks associated with:

- Physical and Logical Security
- Change Management
- Project Management
- Business Continuity

No significant issues were noted during the IT review.

**Information Requests**

Forty-nine of the 78 examination requests were not provided within ten working days. This was not in accordance with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner.

A similar situation was noted during the last examination whereby it was recommended the Company comply with ALA. ADMIN. CODE 482-1-118-.06 (1999).
Compliance with Annual Statement Instructions

The following was not completed in accordance with the NAIC Annual Statement Instructions:

- Year-ending 2014, the Company responded “no” to General Interrogatories - Part 1 – Common Interrogatories General, question 14.2, which states, “Has the code of ethics for senior managers been amended?” However, the Company transitioned to Cigna Corporation’s (ultimate parent) code of ethics process in 2014.

- Year-ending 2014, the Company did not provide a response to General Interrogatories - Part 1 – Common Interrogatories General, question 14.3 which states, “Have any provisions of the code of ethics been waived for any of the specified officers?” The examination determined no provisions of the code were waived for any officers in 2014.

- Year-ending 2015, a description was not included in the Notes to Financial Statements, #10, item F for two material service agreements. This was not in accordance with the NAIC Annual Statement Instructions which states:

  The financial statements shall include disclosures of all material related party transactions. A description of material management or service contracts and cost-sharing arrangements involving the reporting entity and any related party. This shall include, but is not limited to, sale lease-back arrangements, computer or fixed asset leasing arrangements, and agency contracts that remove assets that may otherwise be recorded (and potentially nonadmitted) on the reporting entity’s financial statements.

Company Management indicated the agreements would be included in the Notes to Financial Statements going forward.

- Year-ending 2015, LAE expenses of $161,475 was reported on Line 25 – Aggregate write-ins for expenses in the Underwriting and Investment Exhibit – Part 3. However, this amount should have been reported on Line 14 – Outsourced services including EDP, claims, and other services, in the same exhibit. The NAIC Annual Statement Instructions states:
Line 14 – includes: Expenses for administrative services, claim management services, new programming, membership services, and other similar services.

A similar situation was noted during the last examination whereby it was recommended the Company correctly report/classify expenses in the Underwriting and Investment Exhibit – Part 3. The classification error did not have an impact on the financial statements contained herein.
FINANCIAL STATEMENTS INDEX

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

Statement of Assets, Liabilities, Surplus and Other Funds.................................31

Statement of Summary of Operations ......................................................... 32

Statement of Reconciliation of Capital and Surplus.........................................33

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.
HEALTHSPRING OF ALABAMA INC.
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2015

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Nonadmitted Assets</th>
<th>Net Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds (Note 1)</td>
<td>$73,022,010</td>
<td>$73,022,010</td>
</tr>
<tr>
<td>Cash ($5,481,641, Schedule E - Part 1), cash equivalents ($0, Schedule E - Part 2), and short-term investments ($423, Schedule DA)</td>
<td>(5,481,218)</td>
<td>(5,481,218)</td>
</tr>
<tr>
<td>Subtotals, cash and invested assets</td>
<td>$67,540,792</td>
<td>$67,540,792</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>730,070</td>
<td>730,070</td>
</tr>
<tr>
<td>Premiums and considerations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncollected premiums and agents' balances in the course of collection</td>
<td>24,781,095</td>
<td>24,781,095</td>
</tr>
<tr>
<td>Amounts receivable relating to uninsured plans</td>
<td>17,685,211</td>
<td>17,685,211</td>
</tr>
<tr>
<td>Current federal and foreign tax recoverable and interest thereon</td>
<td>6,056,012</td>
<td>6,056,012</td>
</tr>
<tr>
<td>Net deferred tax asset</td>
<td>237,369</td>
<td>210,371</td>
</tr>
<tr>
<td>Receivables from parent, subsidiaries and affiliates</td>
<td>7,298,641</td>
<td>7,298,641</td>
</tr>
<tr>
<td>Healthcare and other amounts receivable</td>
<td>13,927,848</td>
<td>13,927,848</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$138,257,038</td>
<td>$138,230,040</td>
</tr>
</tbody>
</table>

LIABILITIES, CAPITAL AND SURPLUS

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>Nonadmitted Assets</th>
<th>Net Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims unpaid (less $0 reinsurance ceded) (Note 2)</td>
<td>$51,774,210</td>
<td></td>
</tr>
<tr>
<td>Accrued medical incentive pool and bonus amounts</td>
<td>4,806,265</td>
<td></td>
</tr>
<tr>
<td>Unpaid claims adjustment expenses</td>
<td>754,867</td>
<td></td>
</tr>
<tr>
<td>Aggregate health policy reserves, including the liability of $ for medical loss ratio rebate per the Public Health Service Act</td>
<td>812,253</td>
<td></td>
</tr>
<tr>
<td>General expenses due or accrued</td>
<td>141,217</td>
<td></td>
</tr>
<tr>
<td>Amount withheld or retained for the account of others (Note 3)</td>
<td>349,414</td>
<td></td>
</tr>
<tr>
<td>Borrowed money (including $20,000,000 current and interest thereon $1,083 (including $1,085 current)</td>
<td>20,001,085</td>
<td></td>
</tr>
<tr>
<td>Amounts due to parent, subsidiaries and affiliates</td>
<td>2,273,305</td>
<td></td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>$80,912,616</td>
<td></td>
</tr>
</tbody>
</table>

CAPITAL AND SURPLUS

<table>
<thead>
<tr>
<th>CAPITAL AND SURPLUS</th>
<th>Nonadmitted Assets</th>
<th>Net Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate write-ins for special surplus funds</td>
<td>$11,733,898</td>
<td></td>
</tr>
<tr>
<td>Common capital stock</td>
<td>112,400</td>
<td></td>
</tr>
<tr>
<td>Gross paid-in and contributed surplus</td>
<td>5,010,875</td>
<td></td>
</tr>
<tr>
<td>Unassigned funds (surplus)</td>
<td>40,460,251</td>
<td></td>
</tr>
<tr>
<td>TOTAL CAPITAL AND SURPLUS</td>
<td>$57,317,424</td>
<td></td>
</tr>
<tr>
<td>TOTAL LIABILITIES, CAPITAL AND OTHER FUNDS</td>
<td>$138,230,040</td>
<td></td>
</tr>
</tbody>
</table>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF
# HEALTHSPRING OF ALABAMA, INC.

## Statement of Revenue and Expenses

For the Year Ended December 31, 2015, 2014, and 2013

<table>
<thead>
<tr>
<th>Income</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net premium income (including $0 non-health premium income)</td>
<td>$ 637,724,568</td>
<td>$ 528,164,209</td>
<td>$ 502,898,098</td>
</tr>
<tr>
<td>Aggregate write-ins for other health care related revenues</td>
<td>8,357</td>
<td>32,235</td>
<td>4,935</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$ 637,732,925</td>
<td>$ 528,196,444</td>
<td>$ 502,903,033</td>
</tr>
</tbody>
</table>

## Hospital and Medical:

| Hospital medical benefits                  | $ 483,816,088 | $ 383,178,726 | $ 361,417,310 |
| Other professional services                | 10,607,353    | 8,378,736     | 8,489,067     |
| Prescription drugs                         | 52,790,524    | 46,379,686    | 45,887,009    |
| Incentive pool withhold adjustments and bonus amounts | 2,120,747 | (1,584,262) | (1,628,072) |
| **Subtotal**                                | $ 549,334,712 | $ 436,352,886 | $ 414,165,314 |

## Less:

| Total hospital and medical                 | $ 549,334,712 | $ 436,352,886 | $ 414,165,314 |
| Claims adjustment expenses including $3,585,909 cost containment expenses | 10,030,459 | 8,795,580 | 10,809,740 |
| General expenses                           | 88,826,756    | 71,427,502    | 57,051,520    |
| **Total underwriting deductions**          | $ 648,191,927 | $ 516,575,968 | $ 482,026,574 |

| Net underwriting gain or (loss)            | (10,459,002)  | 11,620,476   | 20,876,459   |
| Net Investment income earned (Exhibit of Net Investment Income) | 2,583,971 | 3,012,077 | 1,951,725 |
| Net realized capital gains (losses) less capital gains tax of $8,520 | (139,510) | 298,100 | - |
| Net investment gains (losses)              | $ 2,444,461   | $ 3,310,177   | $ 1,951,725   |

| Net gain or (loss) from agents' or premium balances charged off (amount recovered $________ ) (amount charged off $ 701,429) | 301,429 | (281,781) | (232,715) |

| Aggregate write-ins for other income or expenses | 292,150 | - | - |

| Net income or (loss) after capital gains tax and before all other federal income taxes | $ (8,423,820) | $ 14,648,872 | $ 22,595,469 |
| Federal and foreign income taxes incurred    | 474,597     | 7,317,006     | 7,663,929     |
| **Net income (loss)**                        | $ (8,898,417) | $ 7,331,866   | $ 14,931,540  |

---

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.
HEALTHSPRING OF ALABAMA, INC.
Statement of Revenue and Expenses (Continued)
For the Year Ended December 31, 2015, 2014, and 2013

<table>
<thead>
<tr>
<th>CAPITAL AND SURPLUS ACCOUNT</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and surplus prior reporting year</td>
<td>$73,622,546</td>
<td>$81,038,919</td>
<td>$92,303,932</td>
</tr>
<tr>
<td>Net income or (loss)</td>
<td>$(8,898,417)</td>
<td>7,331,866</td>
<td>14,931,540</td>
</tr>
<tr>
<td>Change in net unrealized capital gains (losses) less capital gain tax</td>
<td>(50,139)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td>(29,575)</td>
<td>(182,013)</td>
<td>101,113</td>
</tr>
<tr>
<td>Change in non admitted assets</td>
<td>(26,991)</td>
<td>333,774</td>
<td>(296,666)</td>
</tr>
<tr>
<td>Dividends to stockholders</td>
<td>(7,300,000)</td>
<td>(14,900,000)</td>
<td>(26,000,000)</td>
</tr>
<tr>
<td>Net change in capital and surplus</td>
<td>$(16,305,122)</td>
<td>$(7,416,373)</td>
<td>$(11,264,013)</td>
</tr>
<tr>
<td>Capital and surplus end of reporting period</td>
<td>$57,317,424</td>
<td>$73,622,546</td>
<td>$81,039,919</td>
</tr>
</tbody>
</table>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.
NOTES TO FINANCIAL STATEMENT

Note 1 – Bonds $73,022,010

The captioned amount is the same as reported by the Company in its 2015 Annual Statement.

On November 10, 2014, the Company purchased a bond with a book adjusted carrying value (BACV) of $5,185. The bond was not filed with the NAIC Securities Valuation Office (SVO). This was not in accordance with Ala. Admin. Code 482-1-098-.02 (1994) or the Purposes and Procedures Manual of the NAIC Investment Analysis Office. Ala. Admin. Code 482-1-098-.02 (1994) states:

(1) All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC Securities Valuation Office (SVO). Any security owned by an insurer that has not been valued by the SVO shall be submitted to the SVO for valuation in accordance with the procedures of the SVO.

(3) Any security not valued in accordance with this rule shall be carried as non-admitted asset on all financial statements of the insurer until such time as the insurer has complied with Paragraph (1) or (2) or this rule.

November 20, 2016, Ala. Admin. Code 482-1-098-.02, was amended to remove all references to the “NAIC Securities Valuation Office (SVO)” and replace it with the “NAIC Capital Markets and Investment Analysis Office (CMIAO).”

Part two, Section 2: General Reporting Framework of the Purposes and Procedures Manual of the NAIC Investment Analysis Office states:

Insurance companies domiciled in any state of the United States, or any of its territories or possessions, and required by the law of their domiciliary state or territory to report NAIC Association Values for their Investment Securities in the NAIC Financial Statement Blank, shall report purchases of Investment Securities to the SVO. …

Part two, Section 7: When to Use the Securities Acquisition Report (SAR) of the Purposes and Procedures Manual of the NAIC Investment Analysis Office states:
A security issued by an entity unaffiliated with the reporting company is reported by creating, completing and submitting the SAR form. The reporting insurance company must submit the SAR to the SVO not later than 120 days after the purchase of the security.

Year-ending 2015, the bond’s NAIC designation was incorrect. The NAIC designation was “1Z.” Part two, Section 5: Special Reporting Instruction of the Purposes and Procedures Manual of the NAIC Investment Analysis Office states:

An insurance company may report a security with a “Z” suffix on its Schedule D for up to a year after purchase. For the second year after purchase, and thereafter, the insurance company may not report a security with a “Z” suffix. …

The insurer shall either file the security and appropriate documentation with the SVO to obtain an NAIC Designation, file a Principal and Interest Certification Form to obtain an NAIC 5* Designation or report the security with an NAIC 6* Designation on its Schedule D (collectively, the “5*/6* Rule”).

Company Management indicated the NAIC 6* designation would be used until the security is filed with the SVO. The bond was admitted because of the immateriality of the amount.

**Note 2 – Claims Unpaid**

$51,774,210

The captioned amount is the same as reported by the Company in its 2015 Annual Statement.

The hospital/medical benefits and other professional services (i.e. paid claims) reported in the Statement of Revenue and Expenses (in the aggregate) was $491,753,752 and $494,423,440 per the paid claims detail provided by the Company. There was a difference of $2,669,689. Company Management indicated the difference was attributed to the data warehousing system used. The data warehouse system was a “live environment,” whereby the data stored was overwritten each month. As a result, the paid claims data used in the year-ending financial triangles was not saved or archived. Therefore, the year-ending paid claims data and the current claims data retained would not reconcile.

The ALDOI Actuarial Examiner indicated the variance had no effect on the carried reserves. The paid claims data changed from month-to-month because voided checks
and refunds were subtracted from the paid claims amount. However, the carried reserves was an estimate based on a completion study utilizing the service and paid dates. The completion methodology automatically factored voided checks and refunds into the reserve estimate. Hence, the inability to capture or freeze the year-ending paid claims data had no impact on the accuracy of the carried reserves.

The paid claims detail was not maintained in accordance with ALA. CODE § 482-1-079-15 (1975), which states:

An Alabama domiciled (domestic) HMO shall keep all necessary records in an Alabama location required for the efficient examination of its financial condition and health care delivery system. These records shall include but not be limited to the general ledger and subsidiary ledgers, management contracts, provider contracts, enrollment records, utilization records, group contract records, premium records, quality of care documentation records, and complaint records.

A similar situation was noted during the last two examinations (2009 and 2012) whereby it was recommended the Company maintain the detail supporting its paid claims. Company Management indicated corrective action would be taken to remedy this matter.

**Note 3 – Amounts withheld or retained for the accounts of others**

| Aggregate write-ins for other liabilities | $349,414 |

The captioned amounts are $349,414 less than and $349,414 more than the $349,414 and $0, reported by the Company in its 2015 Annual Statement.

The liability for uncashed drafts and checks pending escheatment to the state was recorded on line 12 of the Liabilities, Capital and Surplus page. However, this amount should have been recorded on line 23 of the Liabilities, Capital and Surplus page. The NAIC *Annual Statement Instructions* states:

**Detail of Write-ins Aggregated at Line 23 for Other Liabilities**

List separately each category of liabilities for which there is no pre-printed line on page 3.

Include: Uncashed drafts and checks that are pending escheatment to a state.
This reclassification did not have a financial impact on the Company’s surplus. Further, the classification error was corrected the second quarter of 2016.

**Summary of Reclassifications**

<table>
<thead>
<tr>
<th>A/S Line Item</th>
<th>Bal. Per A/S</th>
<th>Increase</th>
<th>Decrease</th>
<th>Adjusted Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.12 - Amounts withheld or retained for the account of others</td>
<td>$349,414</td>
<td>$</td>
<td>($349,414)</td>
<td>$0</td>
</tr>
<tr>
<td>L.23 - Aggregate write-ins for other liabilities</td>
<td>$</td>
<td>$349,414</td>
<td>$</td>
<td>$349,414</td>
</tr>
</tbody>
</table>

**Analysis of Changes to Surplus**

There were no adjustments made to surplus.

**SUMMARY OF SIGNIFICANT FINDING OF FACTS**

There was an issue, occurring subsequent to the “as of” examination date, that could have a material impact on the (future) financial condition of the Company. On January 21, 2016, the Centers for Medicare and Medicaid Services (CMS) imposed immediate intermediate sanctions against the Company. The sanctions prohibited: (1) the enrollment of new participants into any offered plan and; (2) sales activities. See the “Subsequent Events” sections on page 43 where this was discussed.

**COMMITMENTS AND CONTINGENT LIABILITIES**

Examination of these items included: reviewing the statutory financial statement disclosures, minutes of the corporate governing bodies, examination of the accounts and unrecorded items; and obtaining a letter of representation from management. The external auditor’s legal letter summary at December 31, 2015 was reviewed as well. At December 31, 2015, there was no pending litigation against the Company and no material contingent liabilities were identified.

**COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

The Company satisfactorily complied with prior examination recommendations except for the following:
Accounts and Records – Information Requests – In the prior examination report, it was recommended requested records and written responses be provided in accordance with ALA. ADMIN. CODE 482-1-118-.06 (1999). Requested records and written responses were not always provided within ten working days as required.

Accounts and Records – Compliance with Annual Statement Instructions – In the prior examination report, it was recommended the LAE expenses be reported on Line 14 – Outsourced services including EDP, claims, and other services of the Underwriting and Investment Exhibit – Part 3 – Expenses. The LAE expenses were reported on Line 25 – Aggregate write-ins for expenses of this same exhibit.

Paid Claims Detail – In the last report of examination it was recommended the Company maintain detail supporting its paid claims in accordance with ALA. CODE § 482-1-079-.15 (1975). The Company did not maintain all the necessary records required for the efficient examination of its financial condition and health care delivery system.

COMMENTS AND RECOMMENDATIONS

Board of Directors – Page 4

It is recommended the shareholders elect the directors of the Company on an annual basis in accordance with Article II, Section 3 of the bylaws and ALA. CODE § 27-27-23 (1975).

Article II, Section 3 of the bylaws states:

The corporation shall hold an annual meeting of its shareholders for the election of directors and for the transaction of general business in January. ...

ALA. CODE § 27-27-23 (1975) states:

(b) Directors must be elected by the members or stockholders of a domestic insurer at the annual meeting of stockholders or members.
Committees – Page 5

It is recommended the actions taken on behalf of the Company by the Audit Committee be documented in accordance with ALA. CODE § 10A-2-16.01 (1975), which states:

A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.

Officers – Page 6

It is recommended the Directors elect/appoint the officers of the Company on an annual basis in accordance with Article III, Section 10 of the bylaws and ALA. CODE § 10A-2-8.40 (1975). Article III, Section 10 of the bylaws states:

The annual meeting of the Board of Directors shall be held for the purpose of electing officers and the transaction of such other business as may come before the meeting.

ALA. CODE § 10A-2-8.40 (1975) states:

(a) A corporation has the officers described in its bylaws or appointed by the board of directors in accordance with the bylaws.

ALA. ADMIN. CODE 482-1-146 (2009) – Page 22
(18 U.S.C. § 1033 Compliance)

It is recommended the Company establish internal procedures to periodically ascertain whether existing employees or contractors have been convicted of a felony Section 1033 conviction since the date of hire. This is in accordance with ALA. ADMIN. CODE 482-1-146-.11 (2009) (b), which states:

A Section 1033 insurer subject to the Commissioner’s examination authority shall have and apply the following:

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.
Terminated Producers – Page 25

It is recommended termination notifications be sent to the producers’ last known address and the Department of Insurance in accordance with ALA. CODE § 27-7-30.1 (1975) and ALA. CODE § 27-7-30 (1975).

ALA. CODE § 27-7-30.1 (1975) states:

(a) Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

ALA. CODE § 27-7-30 (1975) states:

(e) Subject to the producer’s contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

Information Requests – Page 27

It is again recommended the Company provide within ten working days any record or written response requested in writing by any employee or examiner of the Commissioner in accordance with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner.
Compliance with Annual Statement Instructions – Page 27

It is recommended the Company complete the questions in the General Interrogatories accurately.

It is recommended the Company include a description of all material management or service contracts in the Notes to Financial Statements, #10, item F in accordance with the NAIC Annual Statement Instructions which states:

A description of material management or service contracts and cost-sharing arrangements involving the reporting entity and any related party. This shall include, but is not limited to, sale lease-back arrangements, computer or fixed asset leasing arrangements, and agency contracts that remove assets that may otherwise be recorded (and potentially nonadmitted) on the reporting entity’s financial statements.

It is again recommended the Company correctly report all expenses for which there are pre-printed lines within the Underwriting and Investment Exhibit – Part 3 in accordance with the NAIC Annual Statement Instructions.

Bonds – Page 34

It is recommended the Company file all newly acquired bonds with the Securities Valuation Office (SVO) in accordance with ALA. ADMIN. CODE 482-1-098-.02 (1994) and the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

ALA. ADMIN. CODE 482-1-098-.02 (1994) states:

(1) All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC Securities Valuation Office (SVO). Any security owned by an insurer that has not been valued by the SVO shall be submitted to the SVO for valuation in accordance with the procedures of the SVO.

Part two, Section two: General Reporting Framework of the Purposes and Procedures Manual of the NAIC Investment Analysis Office states:

Insurance companies domiciled in any state of the United States, or any of its territories or possessions, and required by the law of their domiciliary state or territory to report NAIC Association Values for their Investment Securities in the NAIC Financial Statement Blank, shall report purchases of Investment Securities to the SVO. …
Part two, Section 7: When to Use the Securities Acquisition Report (SAR) of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* states:

A security issued by an entity unaffiliated with the reporting company is reported by creating, completing and submitting the SAR form. The reporting insurance company must submit the SAR to the SVO not later than 120 days after the purchase of the security.

**It is recommended** the Company comply with the Part two, Section 5: Special Reporting Instructions of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* when utilizing the "Z" suffix to report its securities. The Manual states:

An insurance company may report a security with a "Z" suffix on its Schedule D for up to a year after purchase. For the second year after purchase, and thereafter, the insurance company may not report a security with a "Z" suffix. …

The insurer shall either file the security and appropriate documentation with the SVO to obtain an NAIC Designation, file a Principal and Interest Certification Form to obtain an **NAIC 5** Designation or report the security with an **NAIC 6** Designation on its Schedule D (collectively, the "5*/6* Rule").

**Claims unpaid -- Page 35**

**It is again recommended** the Company maintain any and all detail supporting its paid claims in accordance with ALA. CODE § 482-1-079-.15 (1975), which states:

An Alabama domiciled (domestic) HMO shall keep all necessary records in an Alabama location required for the efficient examination of its financial condition and health care delivery system. These records shall include but not be limited to the general ledger and subsidiary ledgers, management contracts, provider contracts, enrollment records, utilization records, group contract records, premium records, quality of care documentation records, and complaint records.

**Amounts withheld or retained for the account of others -- Page 36**

**It is recommended** the liability for uncashed draft or checks be recorded on line 23 of the Liabilities, Capital and Surplus page. This is in accordance with the NAIC *Annual Statement Instructions* which states:
Detail of Write-ins Aggregated at Line 23 for Other Liabilities

List separately each category of liabilities for which there is no pre-printed line on page 3.

Include: Uncashed drafts and checks that are pending escheatment to a state.

SUBSEQUENT EVENTS

The general ledger and cash transactions occurring subsequent to the balance sheet date were reviewed. In addition, the examiners inquired of management regarding any significant subsequent events. The following was noted:

- On January 21, 2016, the Centers for Medicare and Medicaid Services (CMS) imposed immediate intermediate sanctions against the Company prohibiting the enrollment of new participants and marketing activities.
- On January 27, 2016, the Alabama Department of Insurance approved the indirect acquisition of all outstanding shares of the Company by Anthem, Inc.
CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing HealthSpring of Alabama, Inc. during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Agnes D. Riggins, financial examiner; Mora Perkins-Taylor, MCM, market conduct examiner; Charles Turner, CISA, IT examiner and Harland Dyer, ASA, MAAA, actuarial examiner; all representing the Alabama Department of Insurance, participated in the examination of HealthSpring of Alabama, Inc.

Respectfully submitted,

[Signature]
Toni L. Bean, CFE
Examiner-in-charge
State of Alabama
Department of Insurance