

MAY 21 2019

CERTIFICATION

FILED

May 21, 2019

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

WELLCARE OF NEBRASKA, INC.

8055 O STREET, SUITE 300

LINCOLN, NE 68510

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

WELLCARE OF NEBRASKA, INC.

dated as of December 31, 2017 verified under oath by the examiner-in-charge on April 22, 2019 and received by the company on April 23, 2019, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 9th day of May 2019.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a faint, illegible background.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

WELLCARE OF NEBRASKA, INC.

as of

December 31, 2017



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Tampa, Florida
April 10, 2019

Honorable Bruce R. Ramage
Director of Insurance
Nebraska Department of Insurance
1135 M Street, Suite 300
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

WELLCARE OF NEBRASKA, INC.

which has its Statutory Home Office located at

**8055 O Street, Suite 300
Lincoln, NE 68510**

with its Principal Executive Office located at

**8735 Henderson Road
Tampa, FL 33634**

(hereinafter also referred to as the “Company”) and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of April 15, 2016 by the State of Nebraska as part of the qualification process in order to obtain licensing. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2017, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, Florida, Arizona, Connecticut, Georgia, Illinois, Missouri,

New Jersey, New York, Ohio and Oklahoma participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company's affiliates, WellCare of Florida, Inc., WellCare Prescription Insurance, Inc., Wellcare Health Insurance of Arizona, Inc., Harmony Health Plan, Inc., Missouri Care, Inc., WellCare Health Plans of New Jersey, Inc., American Progressive Life & Health Insurance Company of New York, WellCare of Ohio, Inc., WellCare of Connecticut, Inc., WellCare of Georgia, Inc. and WellCare of Oklahoma, Inc.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Florida Office of Insurance Regulation as the coordinating state and the Arizona Department of Insurance, the Connecticut Insurance Department, the Georgia Office of Insurance and Safety Fire Commissioner, the Illinois Department of Insurance, the Missouri

Department of Insurance, the Nebraska Department of Insurance, the New Jersey Department of Banking and Insurance, the New York Department of Financial Services, the Ohio Department of Insurance, and the Oklahoma Insurance Department. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the shareholders, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, and approval of investment transactions were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. The Certificate of Authority to conduct the business of insurance in the state of Nebraska was inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Deloitte & Touche LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2017. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Articles of Incorporation of the Company were originally filed with the Secretary of State of the State of Nebraska on October 20, 2015. The Company received a Certificate of Authority to operate as a Health Maintenance Organization in Nebraska in 2016. The Company began providing services to Nebraska Medicaid members on January 1, 2017 under a contract with the Nebraska Department of Health and Human Services (DHHS).

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the ‘Ultimate Controlling Person’, as reported in the 2017 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- WellCare Health Plans, Inc. (DE)
 - WCG Health Management, Inc. (DE)
 - The WellCare Management Group, Inc. (NY)
 - WellCare of Florida, Inc. (FL)
 - WellCare Prescription Insurance, Inc. (FL)
 - WellCare of Georgia, Inc. (GA)
 - WellCare of Kansas, Inc. (KS)
 - WellCare of Nebraska, Inc. (NE)
 - WellCare of Ohio, Inc. (OH)
 - WellCare of South Carolina, Inc. (SC)
 - WellCare of Texas, Inc. (TX)
 - Missouri Care, Inc. (MO)
 - WellCare Health Plans of Kentucky, Inc. (KY)
 - WellCare Health Insurance Company of Kentucky, Inc. (KY)
 - WellCare Health Plans of New Jersey, Inc. (NJ)
 - WellCare of Alabama, Inc. (AL)
 - WellCare of Oklahoma, Inc. (OK)
 - WellCare Health Insurance of Arizona, Inc. (AZ)
 - WellCare Health Insurance of New York, Inc. (NY)

Harmony Health Systems, Inc. (NJ)
Harmony Health Plan, Inc. (IL)
Universal American Corp. (DE)
Universal American Holdings, LLC (DE)
American Progressive Life and Health
Insurance Company of New York (NY)
Heritage Health Systems, Inc. (TX)
SelectCare of Texas, Inc. (TX)
SelectCare Health Plans, Inc. (TX)
WellCare of New York, Inc. (NY)
WellCare of Connecticut, Inc. (CT)

Shareholders

The By-Laws provide that, “all meetings of the Shareholders may be held either within or without the State of Nebraska, as determined by the Board of Directors from time to time, and as stated in the notice of meeting or in a duly executed waiver thereof.” The By-Laws also state, “the Annual Meeting of the Shareholders shall be held annually. Failure to hold the Annual Meeting as aforesaid shall not work a forfeiture or dissolution of the Corporation nor shall such failure affect otherwise valid corporate acts.”

According to the Articles of Incorporation, “the aggregate number, class and par value of the shares which the Corporation shall have the authority to issue is one thousand (1,000) shares of common stock in a single series, all of which shall have a par value of \$1.00 per share. These shares shall constitute one single class with no preferences, special rights or qualifications.” As of December 31, 2017 the Company has 100 shares issued and outstanding. All outstanding shares are owned by the Company’s parent, The WellCare Management Group, Inc. (WCMG), which is owned by WCG Health Management, Inc, which in turn is owned by WellCare Health Plans, Inc. (WellCare).

During the calendar year 2016 the Company received three (3) separate capital contributions in an aggregate amount of \$26,900,000 from WMG. On March 27, 2017 the Company received another capital contribution of \$15,000,000 from WMG.

Board of Directors

The By-Laws provide that, “the Board of Directors of the Corporation shall consist of between one and five members. The precise number of Directors shall be fixed by resolution of either the Shareholders or the Board of Directors from time to time.” According to the By-Laws, “each Director shall hold office until the next Annual Meeting of Shareholders is held (or until a written consent in lieu thereof is effective) after his or her initial election, and thereafter until his or her successor shall have been duly elected and qualified or until his or her earlier death, resignation, removal, retirement, disqualification, or expiration of term.” The By-Laws further state, “a quorum of the Board of Directors shall be one-third (1/3) of the number of Directors in office immediately before the meeting begins. If at any meeting of Directors a quorum shall not be represented in person, by proxy or by means of remote communication, the Directors represented thereat may adjourn the meeting from time to time until such time as a quorum shall be represented in person, by proxy or by means of remote communication.” According to the By-Laws, “any action required or permitted to be taken at a Board of Directors’ meeting may be taken without a meeting if the action is taken by all members of the Board of Directors and would be effective as of the date of the last Director’s signature, unless the consent specifies a different effective time. The action must be evidenced by one or more written consents describing the action taken, signed by each Director, and delivered to the Corporation for inclusion in the minutes or filing with the corporate records.”

The following persons were serving as Directors at December 31, 2017:

Name and Residence

Andrew Lynn Asher
Tampa, FL

Michael Troy Meyer
Tampa, FL

Principal Occupation

Executive Vice President & Chief Financial Officer
WellCare Health Plans, Inc.

Vice President and Corporate Controller
WellCare Health Plans, Inc.

Officers

According to the By-Laws, “the Officers of the Corporation shall be designated and appointed by the Board of Directors with such responsibilities and duties as may be designated by the Board of Directors consistent with this Article V. The Officers of the Corporation may consist of one or more Presidents, a Secretary, a Treasurer, and such other Officers with such other titles as the Board of Directors may determine. Any two or more offices may be held by the same person.” The By-Laws further state, “all Officers shall be appointed by the Board of Directors or by a duly appointed Officer pursuant to Article V and shall serve at the pleasure of the Board of Directors or the appointing Officer as the case may be. The Officers shall be appointed by unanimous written consent of the Board of Directors in lieu of Annual Meeting or during the Annual Meeting of the Board of Directors. Each Officer shall hold office until the next Annual Meeting of the Board of Directors is held (or until written consent in lieu thereof is effective) after his or her initial election, and thereafter until his or her successor shall have been duly elected and qualified...”

The following is a listing of Officers elected and serving the Company at December 31, 2017:

Name

Stephanie Ann Davis
Michael Warren Haber
Goran Jankovic
Michael Troy Meyer
Tammy Lynn Meyer

Officer

President
Secretary and Vice President
Treasurer and Vice President
Chief Financial Officer, Assistant Treasurer, Vice President and Corporate Controller
Assistant Secretary and Vice President

Committees

According to the By-Laws, “the Board of Directors may create one or more committees and appoint members of the Board of Directors, or persons who are not members of the Board of the Directors to serve on them. Each committee shall have one or more members...”

The Company’s Board of Directors approved the creation of an Audit Committee on July 11, 2017, by reviewing and approving an Audit Committee Charter. The Company is included in joint Audit Committee Meetings on a quarterly basis with numerous other affiliates.

Examiners noted the Audit Committee Charter contained a reference to filing documents with the Missouri Department of Insurance. It is recommended that the Audit Committee Charter be revised to properly reference the Nebraska Department of Insurance.

The following persons were serving on the Audit Committee at December 31, 2017:

Andrew L. Asher
Michael T. Meyer

TRANSACTIONS WITH AFFILIATES

Management Agreement

The Company has a management agreement with an affiliate, Comprehensive Health Management, Inc. (CHMI), in which CHMI provides the majority of management, administrative and operational services for the Company. For the services provided, the Company pays a fee equal to 9.0% of annual gross Medicaid premium revenue. The fee in the Agreement was amended from 9.0% to 6.5%, retroactive to January 1, 2017. The Agreement has an annual true-up provision where the management fee charged is compared to the actual cost of services provided and any difference is settled between CHMI and the Company within 30 days. During 2017, the Company paid \$31,784,683 under this agreement.

Tax Allocation Agreement

Effective January 1, 2017, the Company was added to an existing tax allocation agreement with WellCare and its subsidiaries. The agreement includes the Company on the consolidated federal income tax return of WellCare. Estimated tax payments are made quarterly and subsidiaries are required to pay the amount necessary to reimburse the parent for the portion of consolidated federal income tax liability attributed to the subsidiary.

TERRITORY AND PLAN OF OPERATION

The Company was organized in 2015 to operate as a Health Maintenance Organization and received a Certificate of Authority to transact business in the State of Nebraska in 2016. The Company has contracted with DHHS Medicaid program as of January 1, 2017. The contract is the Company's sole source of revenue and its ongoing business operations are dependent on its renewal. As of the examination date the contract is set to expire on December 31, 2022.

REINSURANCE

Ceded

Effective January 1, 2017, the Company entered into an excess of loss reinsurance agreement with PartnerRe America Insurance Company. The Company retains \$2,750,000 per covered person, per agreement term. The reinsurer's maximum amount payable is \$2,000,000 per covered person, per agreement term.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2016</u>	<u>2017</u>
Bonds	\$ 312,570	311,054
Cash and cash equivalents	26,571,069	132,875,957
Admitted assets	26,945,637	142,494,249
Claims unpaid	0	67,475,368
Aggregate health policy reserves	0	19,118,214
Total liabilities	138,710	99,465,769
Capital and surplus	26,806,927	43,028,480
Premium income	0	367,195,429
Net investment income	11,960	680,229
Total hospital and medical benefits	0	313,268,918
Net income	\$ (92,783)	787,228

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2017

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 311,054		\$ 311,054
Cash and cash equivalents	<u>132,875,957</u>		<u>132,875,957</u>
Subtotal, cash and invested assets	\$133,187,011		\$133,187,011
Investment income due and accrued	112,544		112,544
Uncollected premiums and agents' balances in the course of collection	8,448,052		8,448,052
Net deferred tax asset	490,267		490,267
Health care and other amounts receivable	8,320		8,320
ASO prepayments	300,000	\$51,945	248,055
Other non-admitted assets (prepaids)	<u>4,287</u>	<u>4,287</u>	<u> </u>
Totals	<u>\$142,550,481</u>	<u>\$56,232</u>	<u>\$142,494,249</u>
 <u>Liabilities, Surplus, and Other Funds</u>			
Claims unpaid			\$ 67,475,368
Unpaid claims adjustment expenses			431,991
Aggregate health policy reserves			19,118,214
General expenses due or accrued			12,215,128
Current federal income tax payable			156,784
Amounts due to parent and affiliates			<u>68,284</u>
Total liabilities			<u>\$ 99,465,769</u>
Estimated ACA industry fee (following year)			\$ 6,866,000
Common capital stock			100
Gross paid in and contributed surplus			41,899,900
Unassigned funds (surplus)			<u>(5,737,520)</u>
Total capital and surplus			<u>\$ 43,028,480</u>
Totals			<u>\$142,494,249</u>

STATEMENT OF REVENUE AND EXPENSES – 2017

Net premium income	\$367,195,429
Change in unearned premium reserves and reserve for rate credits	<u>(19,118,214)</u>
Total revenues	\$348,077,215
Hospital/medical benefits	\$234,708,256
Other professional services	13,323,475
Emergency room and out-of-area	20,464,998
Prescription drugs	<u>44,772,189</u>
Subtotal	\$313,268,918
Claims adjustment expenses	\$ 4,817,756
General administrative expenses	<u>28,223,790</u>
Total underwriting deductions	\$346,310,464
Net underwriting gain	\$ 1,766,751
Net investment gains	680,229
Federal income taxes incurred	<u>(1,659,752)</u>
Net income	<u>\$ 787,228</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2016</u>	<u>2017</u>
Capital and surplus, beginning	\$ <u>0</u>	<u>\$26,806,927</u>
Net income	\$ (92,783)	\$ 787,228
Change in net deferred income tax	(290)	490,557
Change in nonadmitted assets		(56,232)
Paid in capital	100	
Paid in surplus	<u>26,899,900</u>	<u>15,000,000</u>
Net change for the year	<u>\$26,806,927</u>	<u>\$16,221,553</u>
Capital and surplus, ending	<u>\$26,806,927</u>	<u>\$43,028,480</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(5,737,520), as reported in the Company's 2017 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A qualifying examination was performed by the Nebraska Department of Insurance as of April 15, 2016. As such, this is the first full scope examination of the Company.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Custodial Agreement

The Company's safekeeping agreements with Oppenheimer and US Bank were not found to be fully compliant with Nebraska Department of Insurance Rules and Regulations. It is recommended the Company execute safekeeping agreements with Oppenheimer and US Bank that are fully compliant with Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81.

SUBSEQUENT EVENTS

Centene Acquisition

On March 26, 2019, WellCare entered into an Agreement and Plan of Merger (Merger Agreement) with Centene Corporation (Centene), Wellington Merger Sub I, Inc. (Merger Sub I) and Wellington Merger Sub II, Inc. (Merger Sub II). Pursuant to the Merger Agreement, and subject to the terms and conditions thereof, Centene will acquire all of the outstanding shares of WellCare through a series of transactions in which Merger Sub I will merge with and into WellCare (First Merger), with WellCare surviving as a direct, wholly owned subsidiary of Centene. Immediately after the First Merger, WellCare will merge with and into Merger Sub II,

with Merger Sub II continuing as the surviving corporation. Subject to the terms and conditions set forth in the Merger Agreement, the Company's stockholders will receive cash and shares of Centene. Completion of the transaction remains subject to certain closing conditions and may take up to a year to complete.

Aetna Medicare Part D Acquisition

On September 26, 2018, Wellcare entered into an asset purchase agreement and related agreements with Aetna Inc. to acquire their entire standalone Medicare Part D prescription drug plan business effective December 31, 2018. The Aetna Part D business had an aggregate of approximately 2.2 million members as of June 30, 2018.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Audit Committee Charter – It is recommended the Company revise the Audit Committee Charter to properly reference the Nebraska Department of Insurance.

Custodial Agreement – It is recommended the Company execute safekeeping agreements with Oppenheimer and US Bank that are fully compliant with Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Financial Examiners, Information Systems Specialists, and Actuarial Examiners with or contracted by the Florida Office of Insurance Regulation, the Arizona Department of Insurance, the Connecticut Insurance Department, the Georgia Office of Insurance and Safety Fire Commissioner, the Illinois Department of Insurance, the Missouri Department of Insurance, the New Jersey Department of Banking and Insurance, the New York Department of Financial Services, the Ohio Department of Insurance, and the Oklahoma Insurance Department participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Joseph Hofmeister', written over a horizontal line.

Joseph Hofmeister, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

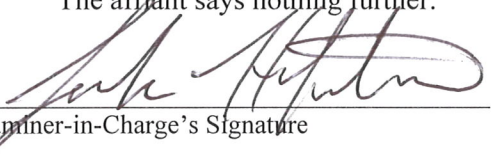
State of Nebraska,

County of Lancaster,

Joseph Hofmeister, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of WellCare of Nebraska, Inc.
2. The Department of Insurance of the State of Nebraska 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 WellCare of Nebraska, Inc. was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.


Examiner-in-Charge's Signature

Subscribed and sworn before me by Joseph Hofmeister on this 22 day of April, 20 19.

(SEAL)




Notary Public

My commission expires July 25, 2022 [date].