

REPORT ON EXAMINATION AS TO THE CONDITION OF
MAGELLAN BEHAVIORAL HEALTH OF NEW JERSEY, LLC

COLUMBIA, MARYLAND 21046

AS OF DECEMBER 31, 2022

NAIC GROUP CODE 1295

NAIC COMPANY CODE 12632

FILED
June 24, 2024
COMMISSIONER
NEW JERSEY DEPARTMENT
OF
BANKING AND INSURANCE

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State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF INSURANCE

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May 24, 2024

Honorable Justin Zimmerman
Acting Commissioner of Department of Banking and Insurance
State of New Jersey
20 W. State Street
Trenton, New Jersey 08625-0325

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

MAGELLAN BEHAVIORAL HEALTH OF NEW JERSEY, LLC
COLUMBIA, MARYLAND 21046
NAIC GROUP CODE 1295
NAIC COMPANY CODE 12632

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, Magellan Behavioral Health of New Jersey, LLC, will be referred to in this report as the "Company" or "MBH NJ."

SCOPE OF EXAMINATION

The New Jersey Department of Banking and Insurance (“NJDOBI”) conducted a risk focused examination of MBH NJ for the period January 1, 2021, through December 31, 2022, and transactions occurring subsequent to that period were reviewed where deemed appropriate by the examiners. The examination was conducted pursuant to the authority granted by N.J.S.A. 26:2J-18.1. The statutory examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (“the Handbook”).

The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. This is accomplished by obtaining information about the Company including: corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners relied upon the audit work prepared by the independent auditors when appropriate.

This examination is part of the coordinated examination of Centene Insurance Group (“Centene”) being conducted by the Texas Department of Insurance (“TDI”). The various Magellan entities were carved out of the TDI led examination into a special subgroup led by the Pennsylvania Department of Insurance (“PDI”), assisted by Lewis & Ellis, Inc. (“L&E”). The examination was conducted in accordance with the proposed risk focused procedures and guidelines prescribed by the National Association of Insurance Commissioners (“NAIC”). This examination, for common subject matter, relied upon the work of L&E to identify risk classifications and inherent risks of key functional activities. L&E was also responsible for the preparation of matrices that identify controls and risk mitigation strategies. Finally, L&E determined residual risk and prepared substantive test procedures when deemed necessary.

The NJDOBI examiners were responsible for identifying significant deviations from New Jersey laws and regulations. Additional substantive procedures were performed where deemed necessary.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Compliance with the Prior Report Exam Recommendations
- History and Kind of Business
- Territory and Plan of Operation
- Reinsurance
- Parent, Subsidiaries and Affiliates
- Intercompany Agreements
- Management
- Policy on Conflicts of Interest
- Fidelity Bond and Other Insurance Coverages

- Accounts and Records
- Treatment of Policyholders
- Statutory Deposits
- Financial Statements and Other Exhibits
- Subsequent Events
- Examination Recommendations

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations, or rules, or which are deemed to require explanation or description.

HISTORY AND KIND OF BUSINESS

The Company was formed as a limited liability company on March 26, 2001, the **Green Spring Health Services, Inc.** (“GSHS”), a Delaware corporation, and a record of the formation was filed with the New Jersey State Treasurer on April 10, 2001. The company commenced business on January 1, 2006, and was granted a license to operate as an Organized Delivery System (“ODS”) on January 9, 2006.

On January 30, 2015, GSHS was merged into **Magellan Rx Management, Inc.** (“MRM”), a Delaware corporation. On December 2, 2015, **Magellan Pharmacy Services, Inc.** (“Parent” or “MPS”), a full-service pharmacy benefits manager, acquired all the capital stock of MRM thereby effectively making it the new full owner of MBH NJ as well. All three companies – GSHS, MRM and MPS – are subsidiaries of **Magellan Health, Inc.** (“MHI”), a Delaware corporation specializing in the coordination of management of behavioral healthcare treatment services through its contracted network of third-party treatment providers which includes psychiatrists, psychologists, psychiatric hospitals, and residential treatment centers.

On January 8, 2021, Centene Corporation (“Centene”), a Delaware publicly traded managed care company, submitted a Form A filing with the NJDOBI to acquire indirect control of MBH NJ. The proposed acquisition was conditionally approved on May 14, 2021, through Department Order No. A21.03. The acquisition was completed on January 4, 2022. As a result of this transaction, MHI became a direct, wholly owned subsidiary of Centene, and Centene became the ultimate controlling person of the Company.

The Company’s statutory home address in the State of New Jersey is located at 8621 Robert Fulton Drive, Columbia, Maryland 21046. The registered agent upon whom process may be served in the State of New Jersey is **Corporation Service Company** located at Princeton South Corporation CT, Suite 160, 100 Charles Ewing Blvd, Ewing, New Jersey 08628.

TERRITORY AND PLAN OF OPERATION

The business purpose of MBH NJ is to manage behavioral healthcare programs for payers in the State that are designed to decrease psychiatric and chemical dependency claim dollars through individualized case management and in-person intervention. The Company provides utilization management of behavioral healthcare services to enrollees covered under contractual health plans; however, contracts

with Horizon Blue Cross Blue Shield of New Jersey and AmeriHealth expired prior to the current examination period and were not renewed, resulting in the reduction of revenue and business activity during the prior examination period. The Company intends to hold on to its ODS license in order to participate in new contracts as opportunities arise in the future.

The Company has no employees. All administrative functions of the Company are performed pursuant to a series of affiliated agreements which are described in the “Intercompany Agreements” section of this report.

Treatment of Policyholders

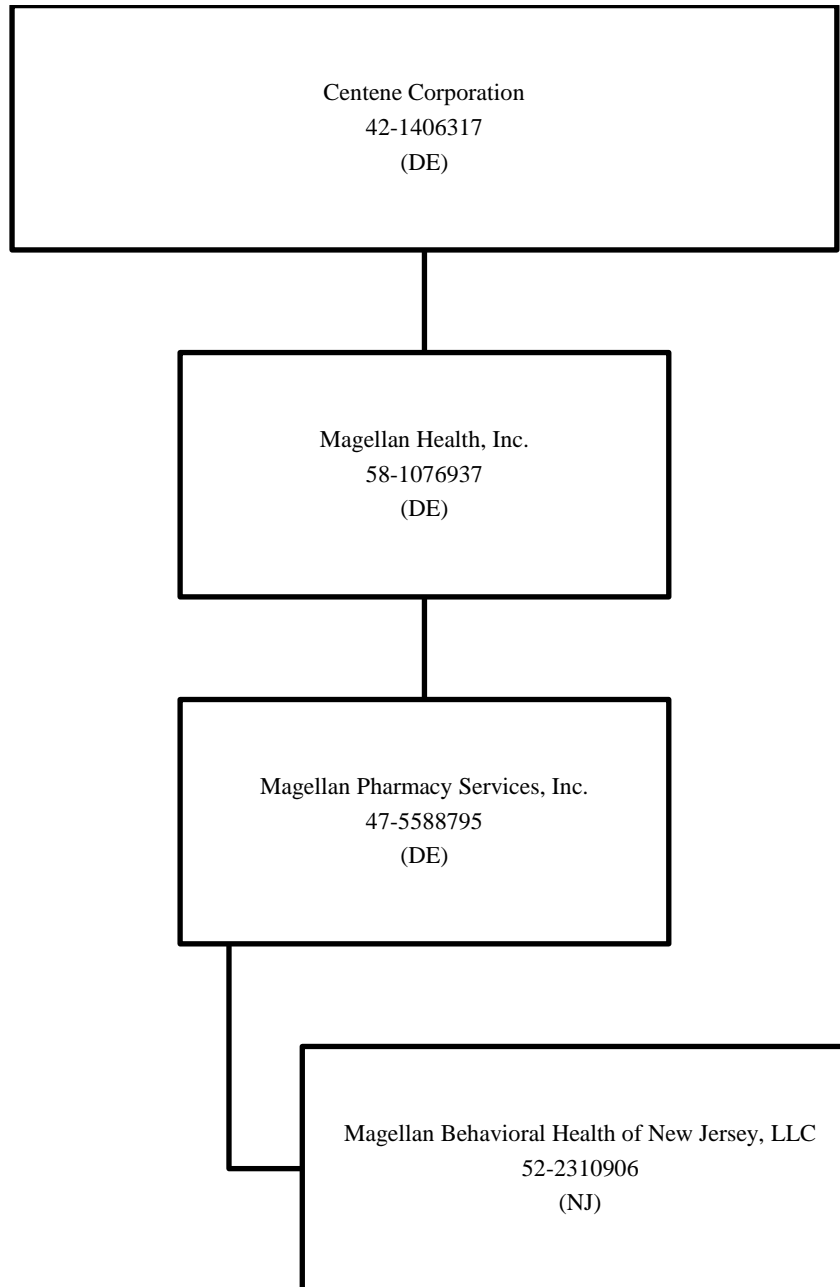
The Company did not register any complaints during the examination period and is therefore in compliance with N.J.S.A. 17B:30-13.2 regarding the maintenance of a complaint log.

PARENT, SUBSIDIARIES AND AFFILIATES

The Company is a member of an insurance holding company registration system as defined by N.J.S.A. 17:27A-1. The Company is a wholly owned subsidiary of MPS, which in turn is owned by MHI, which in turn is owned by Centene, an insurance holding company domiciled in the State of Delaware.

A review of the Company’s holding company registration statement indicated that the Company was in compliance with N.J.S.A. 17:27A-3, Sections a-j, requiring registration of those insurers who qualify as determined by N.J.S.A. 17 27A-1.

A simplified organizational chart as of December 31, 2022, reflecting the holding company system, is shown on the following page. Schedule Y of the Company’s 2022 annual statement provided a list of all related companies of the holding company group.



During the examination period, the Company paid no dividends and did not receive any capital contributions from its parent.

INTERCOMPANY AGREEMENTS

The examination determined that the Company was a named party to the following affiliated agreements as of December 31, 2022:

1. Administrative Services Agreement

2. Tax Sharing Agreement

Administrative Services Agreement

Effective January 1, 2006, the Company executed an administrative services agreement with its affiliate, Magellan Healthcare, Inc. (“MHC”) (formerly, Magellan Behavioral Health, Inc.). Under this agreement, MHC shall receive, review, process and pay claims to providers and facilities under contract with the Company, or other third-party payors of health care benefits in the State of New Jersey and other providers for mental health and substance abuse services covered under the Mental Health and Substance Abuse (“MHSA”) Service Agreements rendered to covered members in accordance with the terms of the MHSA Service Agreements. This agreement calls for the Company to establish a bank account, in a bank mutually agreeable to both parties, in order to facilitate claim payments.

MHC is responsible for providing services in connection with the development and maintenance of the Company’s providers and facilities. The agreement calls for MHC to design, implement and maintain, at its own expense, a management information system for effective gathering, synthesis, analysis, storage, and retrieval of Company data. In addition, MHC shall provide the Company’s Covered Members with off-hour treatment authorization on a 24-hour basis, complaint and grievance procedures that adhere to the MHSA Service Agreements, and assistance selecting a Participating Provider.

MHC is also responsible for providing utilization management services with respect to MHSA services provided to Covered Members. These services are to include precertification, concurrent retrospective review, case management, and discharge planning.

The Company is to pay MHC an 18% administrative fee on the annual net revenue of the Company on or before the twentieth day of each month for which services are provided. The agreement was amended as of January 1, 2009, to provide that fees payable by the Company under the agreement would be forgiven in any year to the extent of any underwriting loss incurred by the Company for that year. Such forgiveness shall be treated as a contribution to the capital of the Company.

The agreement shall be in full force and effect for the term of one (1) year. Thereafter, the agreement shall automatically renew for successive periods of one (3) year unless either party gives the other party notice of intent to terminate at least ninety (90) days prior to the expiration of the then existing term.

Tax Sharing Agreement

Effective January 4, 2022, the Company entered into a tax sharing agreement with Centene Corporation. Under the terms of the agreement, each member shall pay to Centene or receive from Centene the amount of tax liability or benefit reported on each member’s pro forma federal income tax return within 90 days of the date Centene files its consolidated federal income tax return. This agreement replaced a tax sharing agreement between the Company and Magellan Healthcare, Inc. The tax sharing agreement between the Company and Centene Corporation was submitted to and approved by the NJ DOBI.

MANAGEMENT

The Company is bound to a Limited Liability Company Agreement (“Operating Agreement”), effective March 23, 2001, between the Company and the Member, which provides a framework for governing the operating of the Company as a limited liability company as permitted by N.J.S.A. 42:2C-11.

According to Section 14, paragraph (a) of the Operating Agreement, the Member has full exclusive and complete discretion to manage the business and affairs of the Company, to make all decisions affecting the business and affairs of the Company, and to take such actions as it deems necessary or appropriate to accomplish the purpose of the Company as set forth in the operating agreement.

The Member elected to exercise its discretion by appointing a Board of Managers (hereafter “the Board”) to manage the affairs of the Company. The following managers were elected and serving at the examination date:

<u>Name</u>	<u>Principal Occupation</u>
Derrick A. Duke	Chief Executive Officer Magellan Health, Inc.
Brian D. Frey	Vice President Strategic Operations and Finance Magellan Health, Inc.
Brandin H. Hay	Senior Director and Legal Counsel Magellan Health, Inc.
Michael P. McQuillen	Senior Vice President, General Counsel Magellan Health, Inc.
Jeffrey N. West	Vice President, Controller Magellan Health, Inc.

N.J.S.A. 17:27A-4d, paragraph (3), requires that at least one-third of the membership (exclusive of the Audit Committee) be made up of outside directors only. Additionally, paragraph (4) of the same statute requires a domestic insurer domiciled in the State of New Jersey to create one or more committees comprised solely of outside directors which are charged with “recommending the selection of independent certified public accountants, reviewing the insurer’s financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders of policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation, including bonuses or other special payments, of the principal officers.”

However, in accordance with N.J.S.A. 17:27A-4d, paragraph (5), the above statutory provisions shall not apply if the insurer is controlled by an entity that has a board of directors and committees thereof that substantially meet the requirements of paragraphs (3) and (4). The Company has satisfied the requirements of these statutory provisions through its ultimate parent, Centene Corporation, which has a board of directors and one or more committees that substantially meet the requirements of these paragraphs.

The Board’s location for all correspondence and meetings is the Company’s direct parent, Magellan Health, Inc.’s home office located at 6303 Cowboys Way, Frisco, Texas 75034.

Through authority delegated by the Member, the Board appointed the following officers to serve as of the examination date:

<u>Name</u>	<u>Title</u>
Derrick A. Duke	President
Jeffrey N. West	Treasurer
Michael P. McQuillen	Secretary
Brian D. Frey	Vice President
Camille N. Guillot	Vice President
Brandin H. Hay	Vice President
David A. Dutkus	Assistant Secretary
Carla S. Jackson	Assistant Secretary

Corporate Records

A review of resolutions made by the Company's directors indicates that they adequately approve of and support the Company's business transactions and events.

Pursuant to N.J.S.A § 17:24-1.1 et seq, the Company is directed to:

- N.J.S.A. § 17:24-1.1.2.b, *“the board of directors shall evidence by formal resolution, at least annually, that it has determined whether all investments have been made in accordance with delegations, standards, limitations and investment objectives prescribed by the board or a committee of the board charged with the responsibility to direct its investments.”*
- N.J.S.A. § 17:24-1.1.2.c(1), *“On no less than a quarterly basis, and more often if deemed appropriate, an insurer's board of directors or committee of the board of directors shall: Receive an review a summary report on the insurer's investment portfolio, its investment activities and investment practices engaged in under delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan.”*
- N.J.S.A. § 17:24-1.1.2.c(2), *“On no less than a quarterly basis, and more often if deemed appropriate, an insurer's board of directors or committee of the board of directors shall: Review and revise, as appropriate, the written plan.”*

Based upon the examination review, no board of directors' meetings, or written resolutions of the board, were held during the period of January 1, 2021, through November 7, 2022. As such, MBH NJ was not in compliance with the above statutes regarding the annual determination of whether all investments have been made in accordance with Company investment policy (for 2021) and the quarterly review of investment portfolio and the written investment plan.

It is recommended that the Company have quarterly board meetings or take appropriate written board action to ensure the Company's compliance with the above referenced statutes.

POLICY ON CONFLICTS OF INTEREST

The Company has adopted Magellan Health's Code of Conduct. According to the Code of Conduct, all employees must attest to the requirements and obligations in the Conflicts of Interest policy through the annual Code of Conduct training course. Additionally, conflict of interest forms are submitted and employee attestations are completed as required by contractual obligations. The Code of Conduct deals with the activities of directors, particularly with respect to transactions in the securities of Centene Corporation, potential conflicts of interest, corporate opportunities, confidentiality, and protection of Company assets.

The Board and key officers of the Company complied with the Code of Conduct policy by completing individual conflict of interest questionnaires that were submitted to and reviewed by the Corporate Compliance Department of Magellan. No conflicts of interest were reported as of December 31, 2022.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The companies in the Centene Group are named insureds under a fidelity bond which provides the Centene Group and its affiliates with coverage totaling \$10,000,000 million in aggregate. The coverage was more than the minimum amount of fidelity bond coverage recommended by the Handbook for MBH NJ.

In addition, MBH NJ is covered by various corporate property and liability policies issued to Centene Group, which appeared to be adequate to cover risks in the normal course of business.

ACCOUNTS AND RECORDS

The Company shares in a centralized IT operation, which delivers a common control framework, people, process, and technology for processing financial transactions. The Company's business is processed electronically on a networked infrastructure.

The Company's general ledger is the final repository for its financial information. The automated general ledger system stores and processes this information to produce financial and management reports. The Company uses healthcare industry specific software designed by Infor (formerly Lawson, Inc.) to generate its financial and management reports.

STATUTORY DEPOSIT

As of December 31, 2022, the Company had on deposit with the State of New Jersey, its domiciliary state, cash, and securities with a total par value of \$43,800, in compliance with N.J.A.C. 11:20-4.8(e). This deposit is held for the benefit and security of the Company's policyholders.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

- Exhibit A – Comparative Statement of Assets, Liabilities, Surplus, and Other Funds at December 31, 2022
- Exhibit B – Statement of Revenue and Expenses for the Five-Year Period Ended December 31, 2022
- Exhibit C – Capital and Surplus Account for Five-Year Period Ended December 31, 2022

EXHIBIT A

MAGELLAN BEHAVIORAL HEALTH OF NEW JERSEY, LLC
COMPARATIVE STATEMENT OF ASSETS, LIABILITIES, SURPLUS, AND OTHER FUNDS
AT DECEMBER 31, 2022

	Current Examination at <u>12/31/22</u>	Balance Per Company at <u>12/31/22</u>	Examination Change	Note Number
<u>ASSETS</u>				
Cash Equivalents	\$ 223,353	\$ 223,353	\$ -	
Investment Income Due and Accrued	718	718	-	
Total Admitted Assets	<u>\$ 224,071</u>	<u>\$ 224,071</u>	<u>\$ -</u>	
<u>LIABILITIES, CAPITAL AND SURPLUS</u>				
General Expenses Due or Accrued	\$ 17,542	\$ 17,542	\$ -	
Current federal and foreign income tax payable and interest thereon	45	45	-	
Amounts Due to Parent, Subsidiaries and Affiliates	<u>3,760</u>	<u>3,760</u>	<u>-</u>	
Total Liabilities	<u>\$ 21,347</u>	<u>\$ 21,347</u>	<u>\$ -</u>	
<u>SURPLUS AND OTHER FUNDS</u>				
Common Capital Stock	\$ -	\$ -	\$ -	1
Gross Paid In and Contributed Surplus	15,227,494	15,227,494	-	1
Unassigned Funds (Surplus)	<u>(15,024,770)</u>	<u>(15,024,770)</u>	<u>-</u>	1
Total Capital and Surplus	<u>\$ 202,724</u>	<u>\$ 202,724</u>	<u>\$ -</u>	1
Total Liabilities, Surplus and Other Funds	<u>\$ 224,071</u>	<u>\$ 224,071</u>	<u>\$ -</u>	

EXHIBIT B

MAGELLAN BEHAVIORAL HEALTH OF NEW JERSEY, LLC
STATEMENT OF REVENUE AND EXPENSES
FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2022

	2022	2021	2020	2019	2018
<u>Revenues</u>					
Risk Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Other Health Care Related Revenues	-	-	-	-	-
Total Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Deductions:</u>					
Hospital and Medical Benefits	-	-	-	-	-
Other Professional Services	-	-	-	-	-
Claims Adjustment Expenses	-	-	-	-	-
General Administrative Expenses	11,669	11,908	14,083	9,608	9,646
Total Underwriting Deductions	<u>\$ 11,669</u>	<u>\$ 11,908</u>	<u>\$ 14,083</u>	<u>\$ 9,608</u>	<u>\$ 9,646</u>
Net Underwriting Gain	<u>\$ (11,669)</u>	<u>\$ (11,908)</u>	<u>\$ (14,083)</u>	<u>\$ (9,608)</u>	<u>\$ (9,646)</u>
<u>Investment Income:</u>					
Net Investment Income Earned	2,860	107	3,017	6,279	10,714
Net Realized Capital Gains (Losses)	-	-	-	-	(870)
Net Investment Gains	<u>\$ 2,860</u>	<u>\$ 107</u>	<u>\$ 3,017</u>	<u>\$ 6,279</u>	<u>\$ 9,844</u>
Net Income (Loss) Before Income Taxes	<u>\$ (8,809)</u>	<u>\$ (11,801)</u>	<u>\$ (11,066)</u>	<u>\$ (3,329)</u>	<u>\$ 198</u>
Federal and Foreign Income Taxes Incurred	<u>(2,476)</u>	<u>(3,317)</u>	<u>(3,098)</u>	<u>(936)</u>	<u>56</u>
Net Income (Loss)	<u><u>\$ (6,333)</u></u>	<u><u>\$ (8,484)</u></u>	<u><u>\$ (7,968)</u></u>	<u><u>\$ (2,393)</u></u>	<u><u>\$ 142</u></u>

EXHIBIT C

MAGELLAN BEHAVIORAL HEALTH OF NEW JERSEY, LLC
CAPITAL AND SURPLUS ACCOUNT
FOR FIVE-YEAR PERIOD ENDED DECEMBER 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Capital and Surplus, Prior Year	<u>\$ 209,058</u>	<u>\$ 217,540</u>	<u>\$ 225,508</u>	<u>\$ 227,901</u>	<u>\$ 527,759</u>
Net Income	\$ (6,333)	\$ (8,484)	\$ (7,968)	\$ (2,393)	\$ 142
Change in Nonadmitted Assets	-	-	-	-	-
Dividends to Stockholders	-	-	-	-	(300,000)
Aggregate Write-ins for Losses in Surplus	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Capital and Surplus	<u>\$ (6,333)</u>	<u>\$ (8,484)</u>	<u>\$ (7,968)</u>	<u>\$ (2,393)</u>	<u>\$ (299,858)</u>
Capital and Surplus, Current Year	<u><u>\$ 202,725</u></u>	<u><u>\$ 209,056</u></u>	<u><u>\$ 217,540</u></u>	<u><u>\$ 225,508</u></u>	<u><u>\$ 227,901</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Capital and Surplus

The Company reported total capital and surplus in the amount of \$202,724 at December 31, 2022, as summarized:

Common Capital Stock	\$0
Gross Paid In and Contributed Surplus	15,227,494
Unassigned Funds (Surplus)	<u>(15,024,770)</u>
 Total Capital and Surplus	 <u>\$202,724</u>

The Company received \$3,000,000 in capital contributions from GSHS, its former parent, as part of the funding of costs involved in the startup of MBH NJ's operations in 2006. In subsequent years, in accordance with the terms of the Company's amended administrative services agreement with MHC, Magellan received additional contributions totaling \$12,227,494, which represented the forgiveness of a portion of the allocated administrative services charges equal to the Company's underwriting losses that were actualized in 2009, 2013 and 2015. There was no change in the Gross Paid-in and Contributed Surplus during the examination period.

In compliance with N.J.A.C. 11:22-4.8(a), the Company meets the statutorily required minimum capital and surplus benchmark of \$100,000, an excess of \$102,724 remaining in surplus.

SUMMARY OF EXAMINATION RECOMMENDATIONS

Corporate Records

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# 9	Corporate Records – It is recommended that the Company have quarterly board meetings or take appropriate written board action to ensure the Company's compliance with N.J.S.A. § 17:24-1.1.2c(1).
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CONCLUSION

The courteous cooperation and assistance extended during the course of this examination by the officers of the Company and members of the office staff is hereby acknowledged.

Respectfully Submitted,



Sigurd Kenneth Proudfit, CFE, AMCM
Examiner-In-Charge
Examination Resources, LLC
Representing the State of New Jersey
Department of Banking and Insurance

Under the supervision of:



Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examination
New Jersey Department of Banking and Insurance

AFFIDAVIT

I, Sigurd Kenneth Proudfit, the undersigned, hereby certify that the foregoing Report of Examination accurately discloses, to the best of my knowledge, all material and relevant information related to the financial condition of Magellan Behavioral Health of New Jersey, LLC, in accordance with the Handbook and New Jersey State Regulations.

Respectfully submitted,



Sigurd Kenneth Proudfit, CFE, AMCM
Examiner-In-Charge
Examination Resources, LLC
Representing the State of New Jersey
Department of Banking and Insurance

Under the supervision of:



Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examination
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me,

 30th Sheila M. Tkacs on this
day of May, 2024.


Notary Public of New Jersey

My commission expires: July 2025