



**REPORT ON EXAMINATION  
AS TO CONDITION OF THE  
AMERIGROUP New Jersey, Inc.  
ISELIN, NEW JERSEY  
AT DECEMBER 31, 2017  
NAIC COMPANY CODE #95373  
NAIC GROUP CODE #0671**

**FILED**

**June 20, 2019**

**Commissioner  
Department of Banking & Insurance**

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**State of New Jersey**  
**DEPARTMENT OF BANKING AND INSURANCE**  
**OFFICE OF SOLVENCY REGULATION**  
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May 9, 2019

Honorable Marlene Caride  
Commissioner of Banking and Insurance  
State of New Jersey  
20 West State Street  
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the provisions of N.J.S.A. 26:2J-18.1 a financial examination has been made of the assets and liabilities, methods of conducting business, and all other affairs of the:

**AMERIGROUP New Jersey, Inc.**  
**101 Wood Avenue South, 8<sup>th</sup> Floor, Iselin, New Jersey, US 08830**  
**NAIC Code 95373 and NAIC Group Code 0671**

AMERIGROUP New Jersey, Inc. is a health maintenance organization (HMO) authorized to transact business in the state of New Jersey, and herein referred to in this report as "AGP-NJ" or the "Company."

The Company is a wholly owned subsidiary of AMERIGROUP Corporation, which is an indirect wholly owned subsidiary of Anthem, Inc. ("Anthem"). The respective office addresses of the ultimate parent and the Company are as follows:

**National Headquarters**  
Anthem, Inc.  
220 Virginia Avenue  
Indianapolis, Indiana 46204

**New Jersey Healthplan**  
AMERIGROUP New Jersey, Inc.  
101 Wood Avenue South, 8<sup>th</sup> Floor  
Iselin, New Jersey 08830

The examination was conducted at the ultimate parent's national office in Indianapolis, Indiana and the direct parent's corporate office in Virginia Beach, Virginia.

## **SCOPE OF EXAMINATION**

The New Jersey Department of Banking and Insurance (NJDOBI) conducted a financial condition examination of the Company for the four-year period ending December 31, 2017, which included a review of material transactions and/or events occurring subsequent to the examination date and prior to the conclusion of fieldwork.

The NJDOBI conducted the examination in accordance with the 2017 edition of the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook (the "NAIC Handbook"). The NAIC Handbook requires NJDOBI to plan and perform the examination in order to evaluate the financial condition and identify prospective risks of the Company. To meet these objectives, NJDOBI obtained information regarding the Company's corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated the Company's system of internal controls and procedures used to mitigate identified risks. The examination also included 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.

According to the NAIC Handbook, "One of the increased benefits of the enhanced risk-focused approach is to include ... consideration of other than financial risks that could impact the insurer's future solvency. By utilizing the enhanced approach, the examiner reviewed the "financial" and "enterprise" risks that existed at the examination "as of" date and will be positioned to assess "financial" and "enterprise" risks that extend or commence during the time the examination was conducted and "prospective" risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer."

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

During this period, the admitted assets of the Company increased by \$135,216,495 to \$313,484,579 from \$178,268,084, liabilities increased by \$83,971,140 to \$151,975,522 from \$68,004,382, and total capital and surplus increased by \$51,245,355 to \$161,509,057 from \$110,263,702.

## Balance Sheet

	2017	2016	2015	2014
Admitted assets	\$313,484,579	\$317,983,596	\$386,502,973	\$290,792,668
Liabilities	151,975,522	149,155,390	232,214,695	116,282,831
Capital	10	10	10	10
Surplus	161,509,047	168,828,196	154,288,268	174,509,827
Total capital and surplus	161,509,057	168,828,206	154,288,278	174,509,837
Total liabilities, capital and surplus	\$313,484,579	\$317,983,596	\$386,502,973	\$290,792,668

The Company's Risk Based Capital ("RBC") to capital and surplus ratios were as follows:

Year	Admitted Assets	Liabilities	Net Worth	RBC Ratio
2017	\$313,484,579	\$151,975,522	\$161,509,057	350.1%
2016	\$317,983,596	\$149,155,390	\$168,828,206	410.4%
2015	\$386,502,973	\$232,214,695	\$154,288,278	418.2%
2014	\$290,792,668	\$116,282,831	\$174,509,837	632.6%

The examination was completed on a coordinated basis with the jurisdictions of Arizona, California, Colorado, Connecticut, District of Columbia, Georgia, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, Ohio, Oklahoma, Texas, Virginia, Washington, West Virginia, and Wisconsin. Indiana acted as the lead state, while the other twenty-four jurisdictions acted as participating states. The conduct of the examination was governed by the procedures outlined in the NAIC Handbook. In determining emphasis to be placed on specific accounts, consideration was given to the Company's accounting methods and system of internal control, the nature and size of each account, its relative importance to solvency, and the annual audit work performed by the Company's certified public accountants for the period under examination.

The coordinated examination officially commenced in the spring of 2018. The Kick-Off Meeting was held in April, 2018 at the ultimate parent's offices in Indianapolis, Indiana. The examination covered the four-year period of operations ending December 31, 2017.

The following key functional activities, related to the Company, were examined on a coordinated basis:

- Capital and Surplus
- Cash
- Claims and Benefits
- General Expenses
- Investments
- Other Liabilities
- Premiums and Underwriting

Reserves  
Taxes

The following areas were also examined on a coordinated basis:

Actuarial Review  
Corporate Governance Review  
Fraud  
Information Systems Review

Additional areas reviewed during this examination, not on a coordinated basis, were as follows:

Accounts and Records  
Compliance with Prior Report on Examination Recommendations  
Conflict of Interest  
Fidelity Bond and Other Insurance

The examination report, contained herein, is presented using the format in accordance with the Handbook. The report will address significant balance sheet accounts and, if necessary, comments on those accounts which involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

### **COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS**

The Company was last examined for the four-year period ending December 31, 2013. During that examination, no reportable exceptions were noted.

### **HISTORY AND KIND OF BUSINESS**

The Company is a wholly owned subsidiary of AMERIGROUP Corporation. On December 24, 2012, Anthem completed the acquisition of all of AMERIGROUP Corporation's outstanding shares. As a result of the acquisition, AGP-NJ became a wholly owned indirect subsidiary of Anthem, a publicly traded company and the largest health benefits company in terms of membership in the United States, serving approximately 40.2 million medical members as of December 31, 2017.

The Company is a licensed HMO, incorporated in the state of New Jersey on April 3, 1995. The Company commenced business on February 1, 1996, and continues to operate under a contract that was most recently renewed on July 1, 2018, under which they provide managed care services to eligible members of the state's New Jersey Medicaid and Family Care program. Additionally, effective January 1, 2008, the Company began operating a Medicare Advantage plan for eligible beneficiaries in New Jersey under a contract that renews annually and was most recently renewed for the 2018 plan year. The Company's current service areas include all 21 counties in New Jersey. The Company has the third largest Medicaid health plan membership of the five (5) health plans in New Jersey.

The Company's revenue is generated primarily as a result of premiums earned from accident and health insurance contracts whereby policyholders are indemnified against losses. The Company incurs expenses primarily from health benefit costs, such as administrative expenses, outpatient and inpatient care, pharmacy benefits, and physician

visits. The Company also provides administrative services, such as claims processing, medical cost management, provider network access, and underwriting to certain customers under self-insured agreements.

AGP-NJ provides coverage to approximately 194,268 New Jersey members as of December 31, 2017. The Company reported 2017 net premium income of \$1,367,796,713. The Company membership during the examination period was:

<b>Membership by Line of Business:</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Medicaid	185,079	200,798	200,965	214,992
Medicare	9,189	8,363	7,599	5,568
Total Members	<u>194,268</u>	<u>209,161</u>	<u>208,564</u>	<u>220,560</u>

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed as a domestic HMO in New Jersey only. The Company operates under a contract that was most recently renewed on July 1, 2018, under which they provide managed care services to eligible members of the state's New Jersey Medicaid and Family Care program. Additionally, effective January 1, 2008, the Company began operating a Medicare Advantage plan for eligible beneficiaries in New Jersey under a contract that renews annually and was most recently renewed for the 2018 plan year. The Company's service areas include all 21 counties in New Jersey.

### **HOLDING COMPANY SYSTEM**

The Company is a member of an Insurance Holding Company as defined in N.J.S.A. 17:27A-1, and as such has registered with the Commissioner of Banking and Insurance of the state of New Jersey under N.J.S.A. 17:27A-3. As previously noted, the ultimate parent of the Company is Anthem, a large health insurance holding company currently listed on the New York Stock Exchange. An abbreviated organizational chart showing the relationships between the Company, its parent and affiliated companies is shown below:

	NAIC Co. Code	Domiciliary State/Country
Anthem, Inc.		IN
ATH Holding Company, LLC		IN
AMERIGROUP Corporation		DE
AMERIGROUP Community Care of New Mexico, Inc.	12354	NM
AMERIGROUP Health Plan of Louisiana, Inc.	14064	LA
AMERIGROUP Health Plan of Oregon, Inc.		OR
AMERIGROUP Insurance Company, Inc.	14078	TX
AMERIGROUP Iowa, Inc.	15807	IA
AMERIGROUP Kansas, Inc.	14276	KS
AMERIGROUP Maryland, Inc.	95832	MD
AMERIGROUP Michigan, Inc.	16376	MI
<b>AMERIGROUP New Jersey, Inc.</b>	<b>95373</b>	<b>NJ</b>
AMERIGROUP Ohio, Inc.	10767	OH
AMERIGROUP Oklahoma, Inc.	15994	OK

AMERIGROUP Pennsylvania, Inc.	16339	PA
AMERIGROUP Tennessee, Inc.	12941	TN
AMERIGROUP Texas, Inc.	95314	TX
AMERIGROUP Washington, Inc.	14073	WA
AMGP Georgia Managed Care Company, Inc.	12229	GA
Community Care Health Plan of Nevada, Inc.	12586	NV
HealthPlus HP, LLC		NY
Simply Healthcare Plans, Inc.	13726	FL

### **Master Administrative Services Agreement**

The Company is a party to a Master Administrative Services Agreement under which Anthem subsidiaries may provide certain administrative, consulting, and other support services to one another from time to time. These services are intended to enhance the organizational and administrative capacity and augment the abilities of one another. The agreement provides that services are to be set forth in attachments to the agreement as may be executed from time-to-time and that each attachment shall be deemed to be part of the master agreement with respect to the entities that are parties to the attachment. In 2017, the Company incurred expenses of \$97,394,024 under the agreement.

### **Consolidated Tax Allocation Agreement**

The Company is a party to the Consolidated Federal Income Tax Agreement amongst Anthem and substantially all of its subsidiary companies which it directly or indirectly has an 80% or greater ownership interest. The purpose of the agreement is to establish a method for allocating the consolidated tax liability of the group among its members, for reimbursing Anthem for payment of such tax liability, for compensating any party for use of its tax losses or tax credits, and to provide for the allocation and payment of any refund arising from a carryback of losses or tax credits for subsequent taxable years. In 2017, the Company incurred tax expenses of \$20,514,658 under the agreement.

## **CORPORATE RECORDS**

The corporate records of the Company are maintained at the Anthem offices in Indianapolis, Indiana.

A review was made of the Board of Directors (“Board”) minutes and committee minutes of the period under examination. The review determined that the minutes adequately approve and support the Company’s transactions and events. During the review of these minutes, it was determined that the Company’s directors had received the prior examination report.

## **MANAGEMENT AND CONTROL**

The Company’s Bylaws provide that the business affairs of the corporation shall be managed by its Board. The Board shall elect the officers of the corporation which shall include a Chairperson, a President, a Secretary, a Treasurer, and other officers deemed necessary.



The Board of the Company as of December 31, 2017 was comprised of the following individuals:

<u>Name</u>	<u>Business Affiliation, Title</u>
Carter Allen Beck	The Anthem Companies, Inc., Senior Vice President and Counsel
Catherine Irene Kelaghan	The Anthem Companies, Inc., Vice President and Counsel
John Wier Koehn	The Anthem Companies, Inc., President, NJ Medicaid Health Plan
Tunde Sotayo Sotunde	The Anthem Companies, Inc., President

The officers and key employees of the Company as of December 31, 2017 were as follows:

<u>Name</u>	<u>Title</u>
John Wier Koehn	President and Chief Executive Officer
Tunde Sotayo Sotunde	Chairperson
Jack Louis Young	Vice President and Assistant Secretary
Kathleen Susan Kiefer	Secretary
Robert David Kretschmer	Treasurer
Eric Kenneth Noble	Assistant Treasurer
Joel Aaron Sage	Valuation Actuary Medicaid

### **POLICY ON CONFLICT OF INTEREST**

Anthem's Conflict of Interest Policy requires each associate, including independent directors of wholly owned subsidiaries, complete a Conflict of Interest statement annually. It was determined that all directors and officers listed in the Management and Control section of this Report on Examination reviewed and signed their Conflict of Interest statements as of December 31, 2017, with one (1) minor exception. The relationships reported in the Conflict of Interest statements received were reviewed and were not considered to have a material effect on the Company.

## **FIDELITY BOND AND OTHER INSURANCE COVERAGES**

The Company, through its parent, maintains a Financial Institution Bond issued by National Union Fire Insurance Company of Pittsburgh, Pennsylvania. This bond has a range of coverage including fidelity bond coverage, forgery or alteration coverage, loss of property coverage, and securities coverage. The financial institution coverage for Anthem and its affiliates has an aggregate loss liability of \$20,000,000, a single loss limit of liability of \$10,000,000, and a single loss deductible of \$1,500,000.

In addition to the coverage provided under the fidelity bond, the Company, through its parent, carries several insurance policies to cover the hazards to which it is exposed including automobile liability, commercial property, cyber liability, directors and officers liability, fiduciary liability, general liability, umbrella liability, and workers' compensation coverage.

## **CONTINUITY OF OPERATIONS**

An information systems review was conducted by Carol Riley, CISA, AES, CGEIT, CRISC, and Sharon Riley, CISA, CGEIT, FLMI, AIRC, of Noble Consulting Services, Inc., along with Jenny Jeffers, CISA, AES, and Joe Detrick, CISA, AES, CFE, CPA, of Jennan Enterprises, LLC. As a part of their information systems review, the IT Specialists reviewed Anthem's disaster recovery plan and cybersecurity risks. The results of this review were provided to the Company.

## **TREATMENT OF POLICYHOLDERS**

N.J.S.A. 17:29B-4(10) requires the maintenance of a complete record of all written complaints. A review of the complaint files determined that the Company is in compliance with this statute.

## **ACCOUNTS AND RECORDS**

The General Ledger system used by AGP-NJ, PeopleSoft Financials, is consistent with the General Ledger system used across the Anthem subsidiaries. PeopleSoft Financials is also used for recording accounts payable, purchasing, and asset management, and was first implemented by Anthem in 2003. The computer system that houses PeopleSoft Financials is located in Richmond, Virginia, and is supported by IBM (Database Administration, Server Administration, and Hardware Maintenance), Cognizant Technology Solutions, Anthem – Corporate Applications, and Cognizant Technology Solutions On- and Off-Shore Resources.

The PeopleSoft Accounts Receivable (AR) and Billing (BI) system is used enterprise-wide for recording Accounts Receivable and Billing. Anthem began using this system in 1997 and the system is supported by IBM (Server Administration and Hardware Maintenance), Anthem Financial Operations Applications, Anthem Database Services, and Cognizant On- and Off-Shore Resources. The computer system that houses PeopleSoft AR and BI is also located in Richmond, Virginia.

Consistent with Anthem's other Government Business Division (GBD) subsidiaries, AGP-NJ's premiums and claims are processed on GBD Facets, a managed care transaction

processing system developed by Cognizant. Anthem began using this application in 2005 and the system is supported by the Application Environment Management – Todd Thompson. The computer system that houses this processing system is located in Virginia Beach, Virginia.

## **FINANCIAL EXHIBITS**

The financial statements consist of the following exhibits and notes to financial statements showing the financial condition as of December 31, 2017, as shown in the Annual Statement:

Exhibit A - Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2017

Exhibit B – Statement of Revenue and Expenses for the four-year period ended December 31, 2017

Exhibit C - Capital and Surplus for the four-year period ended December 31, 2017

**AMERIGROUP New Jersey, Inc.**  
**Exhibit A**  
**STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS**  
**DECEMBER 31, 2017**

<u>Assets</u>	Balance Per Examination	Balance Per Company	Examination Change	Note Number
Bonds	\$ 235,712,167	\$ 235,712,167	-	<b>2</b>
Cash, Cash Equivalents, and Short-Term Investments	42,821,404	42,821,404	-	
Subtotals, cash and reinvested collateral assets	278,533,571	278,533,571	-	
Investment Income Due and Accrued	2,405,364	2,405,364	-	
Uncollected Premiums and Agents' Balances in the Course of Collection	19,122,707	19,122,707	-	
Amounts Receivable Relating to Uninsured Plans	593,977	593,977	-	
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	5,710,379	5,710,379	-	
Net Deferred Tax Asset	2,493,649	2,493,649	-	
Health Care and Other Amounts Receivable	2,193,932	2,193,932	-	
Aggregate Write-ins for Other Than Invested Assets	2,431,000	2,431,000	-	
<b>Total Admitted Assets</b>	<b>\$ 313,484,579</b>	<b>\$ 313,484,579</b>	-	
<u>Liabilities</u>				
Claims Unpaid	\$ 107,557,519	\$ 107,557,519	-	<b>1</b>
Accrued Medical Incentive Pool and Bonus Amounts	8,299,897	8,299,897	-	<b>1</b>
Unpaid Claims Adjustment Expenses	3,077,987	3,077,987	-	<b>1</b>
Aggregate Health Policy Reserves	4,548,598	4,548,598	-	<b>1</b>
Aggregate Health Claim Reserves	109,032	109,032	-	<b>1</b>
Premiums Received in Advance	216	216	-	
General Expenses Due or Accrued	22,008,049	22,008,049	-	
Remittances and Items Not Allocated	2,126,815	2,126,815	-	
Amounts Due to Parent, Subsidiaries, and Affiliates	519,394	519,394	-	
Liability for Amounts Held Under Uninsured Plans	1,585,824	1,585,824	-	
Aggregate Write-Ins for Other Liabilities	2,142,191	2,142,191	-	
<b>Total Liabilities</b>	<b>\$ 151,975,522</b>	<b>\$ 151,975,522</b>	-	
<u>Surplus</u>				
Aggregate Write-Ins for Special Surplus Funds	21,875,502	21,875,502	-	
Common Capital Stock	10	10	-	
Gross Paid In and Contributed Surplus	40,322,020	40,322,020	-	
Unassigned funds (surplus)	99,311,525	99,311,525	-	
<b>Total Capital and Surplus</b>	<b>161,509,057</b>	<b>161,509,057</b>	-	
<b>Total Liabilities, Capital, and Surplus</b>	<b>\$ 313,484,579</b>	<b>\$ 313,484,579</b>	-	

**AMERIGROUP New Jersey, Inc.**  
**EXHIBIT B**  
**STATEMENT OF REVENUE AND EXPENSES FOR THE FOUR-YEAR PERIOD**  
**ENDED DECEMBER 31, 2017**

MEMBER MONTHS	2017	2016	2015	2014
	2,442,666	2,515,372	2,600,439	2,351,286
<b>Revenues</b>				
Net Premium Income	\$1,367,796,713	\$1,302,608,476	\$1,211,514,714	\$965,274,095
Change in Unearned Premium Reserves and Reserve for Rate Credits	(1,876,502)	1,706,003	(3,328,728)	133,571
<b>Total Revenues</b>	<b>\$1,365,920,211</b>	<b>1,304,314,479</b>	<b>1,208,185,986</b>	<b>965,407,666</b>
<b>Expenses</b>				
Hospital and Medical:				
Hospital/Medical Benefits	\$574,944,153	\$588,734,219	\$490,956,976	347,298,101
Other Professional Services	166,493,513	45,984,845	55,113,054	48,659,583
Emergency Room and Out-of-Area	220,803,982	102,219,932	113,449,683	94,250,941
Prescription Drugs	172,400,634	162,188,794	156,206,398	111,483,241
Aggregate Write-Ins for Other Hospital and Medical Incentive Pool, Withhold	517,500	147,223,728	129,536,967	113,985,287
Adjustments and Bonus Amounts	11,686,585	10,650,116	1,714,261	1,086,267
<b>Total Hospital and Medical</b>	<b>\$1,146,846,367</b>	<b>\$1,057,001,634</b>	<b>\$946,977,339</b>	<b>\$716,763,420</b>
Claims Adjustment Expenses	74,390,185	64,274,470	61,711,512	47,980,239
General Administrative Expenses	87,993,944	80,396,150	101,839,623	78,498,050
<b>Total Underwriting Deductions</b>	<b>\$1,309,230,496</b>	<b>\$1,201,672,254</b>	<b>\$1,110,528,474</b>	<b>\$843,241,709</b>
<b>Net Underwriting Gain or (Loss)</b>	<b>56,689,715</b>	<b>102,642,225</b>	<b>97,657,512</b>	<b>122,165,957</b>
Net Investment Income Earned	4,984,004	5,281,341	4,396,970	2,566,076
Net Realized Capital Gains Less Capital Gains Tax	(46,025)	19,095	(305,366)	10,597
<b>Net Investment Gains</b>	<b>\$4,937,979</b>	<b>\$5,300,436</b>	<b>\$4,091,604</b>	<b>\$2,576,673</b>
Net Gain or (Loss) From Agents' or Premium Balances Charged Off	(875)	-	-	-
Net Income After Capital Gains Tax and Before All Other Federal Income Taxes	61,626,819	107,942,661	101,749,116	124,742,630
Federal and Foreign Income Taxes Incurred	20,514,658	42,697,537	42,661,572	46,998,751
<b>Net Income</b>	<b>\$41,112,161</b>	<b>\$65,245,124</b>	<b>\$59,087,544</b>	<b>\$77,743,879</b>

**AMERIGROUP New Jersey, Inc.**  
**EXHIBIT C**  
**CAPITAL AND SURPLUS ACCOUNT FOR THE FOUR-YEAR PERIOD ENDED**  
**DECEMBER 31, 2017**

	2017	2016	2015	2014
<b>Capital and Surplus Prior Reporting Year</b>	<b>\$168,828,206</b>	<b>\$154,288,278</b>	<b>\$174,509,837</b>	<b>\$110,263,702</b>
Net Income	41,112,161	65,245,124	59,087,544	77,743,879
Change in Net Unrealized Capital Gains (Losses) Less Capital Gains Tax	13,289	(13,289)	(605,239)	517,058
Change in Net Deferred Income Tax	(4,436,420)	419,100	2,312,125	(136,998)
Change in Nonadmitted Assets	6,291,821	(1,111,007)	(3,315,989)	(977,804)
Dividends to Stockholders	(50,300,000)	(50,000,000)	(77,700,000)	(12,900,000)
Net Change in Capital and Surplus	(7,319,149)	14,539,928	(20,221,559)	64,246,135
<b>Capital and Surplus End of Reporting Period</b>	<b>\$161,509,057</b>	<b>\$168,828,206</b>	<b>\$154,288,278</b>	<b>\$174,509,837</b>

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1 – Actuarial Reserves**

Joel Sage, Actuarial Director, MAAA, signed the AGP-NJ actuarial opinion as of December 31, 2017. Joel Sage concluded that the actuarial items reported in the balance sheet are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles.

The actuarial opinion covered the following loss reserve amounts:

Claims unpaid	\$107,557,519
Accrued medical incentive pool and bonus payments	8,299,897
Unpaid claims adjustment expenses	3,077,987
Aggregate health policy reserves including unearned premium reserves, premium deficiency reserves, and additional policy reserves from the Underwriting and Investment Exhibit – Part 2D	4,548,598
Aggregate life policy reserves	0
Property/casualty unearned premium reserves	0
Aggregate health claim reserves	109,032
Any other loss reserves, actuarial liabilities, or related items presented as liabilities in the annual statement:	
Medicaid MLR Rebate Payable	13,313,813
Specified actuarial items presented as assets in the annual statement:	
Portion of Rx Rebate Receivables	746,781

Kirk Braunius, ASA, MAAA, of Merlinos and Associates, Inc., was appointed to conduct a review of statutory reserves as of December 31, 2017. The Actuarial Specialist concluded that the reserves are fairly stated and related risks were adequately mitigated.

### **Note 2 – Securities on Deposit**

AGP-NJ had the following securities held on deposit on behalf of the Company.

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
New Jersey	\$174,479,511	\$177,127,321

## **SUMMARY OF RECOMMENDATIONS**

No Report recommendations have been identified at this time.

## **SUBSEQUENT EVENTS**

The Company's ultimate parent, Anthem, and Cigna Corporation (Cigna) entered into an "Agreement and Plan of Merger" dated July 23, 2015. On July 21, 2016, the U.S. Department of Justice (DOJ) filed a civil antitrust lawsuit in U.S. District Court seeking to block the acquisition. The court ruled in favor of the DOJ and Anthem promptly filed notice that they would appeal the ruling. On February 14, 2017, Cigna purported to terminate the Agreement and commenced litigation against Anthem seeking damages and declaratory judgment. Anthem promptly initiated litigation and received a temporary restraining order enjoining Cigna from terminating the Agreement. The motion was ultimately denied, and on May 12, 2017, Anthem delivered a notice to Cigna terminating the Agreement. The litigation in Delaware is ongoing. Trial commenced in late February 2019 and concluded in March 2019. The Delaware Court has set closing arguments for September 11, 2019 with post trial briefing due before then.

In March 2016, Anthem, Inc. filed a lawsuit against Express Scripts, Inc. (ESI), their vendor for pharmacy benefit management (PBM) services, in the U.S. District Court for the Southern District of New York. The lawsuit seeks to recover damages for pharmacy pricing that is higher than competitive benchmark pricing under the agreement between the parties, and damages related to operational breaches, as well as various declarations. ESI has disputed the contractual claims and is seeking declaratory judgments, including, among others, that it has no obligation to ensure that Anthem receive any specific level of pricing, that Anthem has no contractual right to any change in pricing under the ESI PBM Agreement and that its sole obligation is to negotiate proposed pricing terms in good faith; and that Anthem does not have the right to terminate the ESI PBM Agreement. In the alternative, Express Scripts claims that Anthem has been unjustly enriched by its payment of \$4.7 billion at the time of the ESI PBM Agreement. In March 2017, the court granted Anthem's motion to dismiss Express Scripts' counterclaims for (i) breach of the implied covenant of good faith and fair dealing, and (ii) unjust enrichment with prejudice. The only remaining claims are for breach of contract and declaratory relief.

In October 2017, Anthem announced the establishment of IngenioRx, their new PBM. In addition, at that same time, Anthem announced that it entered into a five-year agreement with CVS Health Corporation to begin offering a full suite of PBM solutions starting on January 1, 2020, which coincides with the conclusion of Anthem's current PBM agreement with ESI. In January 2019, Anthem announced the acceleration of the launch of IngenioRx. The ESI PBM Agreement terminated on March 1, 2019, and the twelve-month transition period provided for in the ESI PBM Agreement to migrate the services began on March 2, 2019.



## CONCLUSION

A regulatory statutory examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.

Respectfully submitted,



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Patricia Casey Davis, CFE<sup>®</sup> Examiner  
Examiner-In-Charge  
Representing the State of New Jersey

Under the supervision of,



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Robert Pietras, CFE Reviewer  
New Jersey Department of Banking and Insurance

**AFFIDAVIT**

I, Patricia Casey Davis, 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 Amerigroup New Jersey, Inc. in accordance with the NAIC Financial Condition Examiners Handbook and New Jersey State Regulations.

Respectfully submitted,

*Patricia Casey Davis*

Patricia Casey Davis, CFE, Examiner-in-Charge  
Noble Consulting Services, Inc.  
Representing the State of New Jersey  
Department of Banking and Insurance

Under the supervision of:

*Robert Pietras*

Robert Pietras, CFE Reviewer  
New Jersey Department of Banking and Insurance

State of New Jersey  
County of Mercer

Subscribed and sworn to before me, Sheila M. Tkacs, on  
this 5<sup>th</sup> day of June, 2019.

*Sheila M. Tkacs*

Notary Public of New Jersey

SHEILA M. TKACS  
NOTARY PUBLIC  
STATE OF NEW JERSEY  
My Commission Expires: July 2020