REPORT TO COMMISSIONER
ON THE AFFAIRS OF HEALTHYCT, INC. IN LIQUIDATION
August 16, 2019

Pursuant to Conn. Gen. Stat § 38a-13, the Special Deputy Liquidator of HealthyCT, Inc. ("HealthyCT") submits this report on the affairs of HealthyCT, in Liquidation.

Rehabilitation

On July 1, 2016, the "Connecticut Insurance Department issued an Order of Supervision immediately after the Centers for Medicare and Medicaid Services ("CMS") reported that HealthyCT had to pay over $13 million in Risk adjustment charges to other health insurers in the Connecticut market. HealthyCT, Inc. was placed in rehabilitation on November 1, 2016 through an Order of Rehabilitation issued by the Superior Court in the Judicial District of Hartford pursuant to Conn. Gen. Stat. § 38a-920. During November 2016, the Special Deputy Rehabilitator and Connecticut Insurance Department representatives determined that rehabilitation of HealthyCT was not feasible and that liquidation was necessary.

Liquidation/CLHIGA

On December 9, 2016, the Superior Court entered an order placing HealthyCT in liquidation effective December 31, 2016 at 11:59 p.m. The liquidation order activated the Connecticut Life and Health Guaranty Association ("CLHIGA") to assess its member insurers to fund payment of HealthyCT insureds' covered claims in liquidation, as HealthyCT did not have sufficient assets to pay an estimated $18 million in healthcare claims. CLHIGA retained HealthyCT as its servicing agent to administer policies and process claims. Through December 31, 2017, CLHIGA funded payments of $17,525,761 to healthcare providers of HealthyCT insureds. CLHIGA received credit for $1,407,386 in premium paid by the remaining employer groups receiving coverage from CLHIGA in January 2017. That premium and $680,815 of HealthyCT assets paid $1,581,683 for pharmacy claims in January and $506,518 of premium refunds owed to insureds. No policies remained in effect after CLHIGA coverage ended January 31, 2017.

HealthyCT paid a number of large claims for insureds from its assets in late December 2016 to avoid having any HealthyCT member with claims that would exceed CLHIGA's $500,000/person statutory limit on claims CLHIGA would fund in 2017.

Employees

HealthyCT had approximately 75 employees prior to entering Supervision July 1, 2016. . By November 1, 2016, when the Rehabilitation Order was issued, 41 employees remained on the payroll. Staffing steadily decreased with 24 remaining at year end 2017 and only 6 fulltime employees remaining on the payroll by June 1, 2018. Four former employees assist in the closing out of HealthyCT's business on a consulting basis.

Proofs of Claim

July 31, 2017 was the bar date for healthcare providers and other creditors to submit claims to the Liquidator. HealthyCT received relatively few Proofs of Claims ("POCs") from creditors. Medical providers and insurance brokers were not required to file POCs. The main outstanding liabilities of the company, besides the $129 million in loans from CMS structured as surplus notes, are for premium taxes owed to the State of Connecticut (approximately $2 million), commissions owed to brokers ($1.3 million) and payments due under the building lease through the term of the lease, less any rents paid by HealthyCT or new tenants prior to expiration of the lease (now estimated at around $250,000).

Asset Marshaling

HealthyCT has approximately $5.75 million in cash on hand at June 30, 2019. Since liquidation began, the estate has recouped over $1.75 million from overpayments to healthcare providers as claims have been reviewed and audited. $4 million has been received from HealthyCT's commercial excess reinsurer and $2 million of pharmacy rebates and claim credits was received from the pharmacy benefits manager.

A transaction with Juris Capital, LLC ("Juris Capital") to purchase an interest in HealthyCT's $40 million Risk Corridor claim against the federal government added $10.5 million to HealthyCT assets.

CMS Issues

HealthyCT's financial problems stemmed primarily from the failure of two ACA risk programs to operate as anticipated. A large 2015 Risk Adjustment charge of over $13 million in late June 2016 combined with the non-payment of 2014 and 2015 Risk Corridor payments totaling over $15 million caused HealthyCT to essentially run out of operating capital and cease being able to meet all of its claim obligations and operating costs.

In 2016 another $25 million in Risk Corridors was due HealthyCT bringing the total Risk Corridors amount owed to HealthyCT to over $40 million. CMS claims HealthyCT owes it approximately $5 million for Cost Share Reduction ("CSR") reconciliation, 2016 Reinsurance premium overpayment of Advance Premium Tax Credits and other ACA fees.

The liquidation court approved a setoff of credits and debits with CMS in February 2017 wherein CMS owed HealthyCT significantly more than HealthyCT owed CMS ($40 million vs $5 million). CMS disputes that the Risk Corridors payments of $40 million are due HealthyCT.

As a result, HealthyCT filed suit in the Court of Federal Claims in September 2017 for unpaid Risk Corridors amounts plus payment of 2016 transitional reinsurance improperly withheld by CMS. Other ACA insurers have filed similar suits against CMS for Risk Corridors amounts due (over $12 billion owed to all insurers).

Juris Capital purchased an interest in HealthyCT's Risk Corridors litigation and set off claims for $10.5 million. This purchase allowed the estate to reimburse CLHIGA 100% of the claims it funded and administrative costs it incurred in HealthyCT's liquidation. In the event HealthyCT's Risk Corridors litigation results in recovery of amounts claimed, the assets projected to remain in the estate at its completion would be sufficient to reimburse all other creditors of the estate except for the surplus notes owed to the United States for its start-up and solvency loans. In the event that the Risk Corridors litigation does not result in recovery of significant assets, the remaining assets in the estate may need to be paid to CMS as claims of the federal government are next in priority after CLHIGA's claims.

Projected Expenses 2017-2018

HealthyCT's claim and operating expenditures in 2018 totaled approximately $1.8 million, following expenditures of $7.9 million during 2017. Expenses in 2019 are projected to total approximately $600,000.

Average monthly costs of the liquidation have declined from $1 million in January 2017 to $600,000 mid-year 2017 to $125,000 mid-year 2018. Expenditures in 2019 are averaging approximately $50,000 per month.

The projected expenditures for the remainder of 2019 will lower HealthyCT's cash balance to around $5 million at year end 2019.

In 2019, the main expenses are for consulting contracts with the four former employees assisting on an as-needed basis, the fees of the Special Deputy and the Morgan Lewis firm and the costs of maintaining and preserving IT records and data. Some additional expenditures are anticipated for specialized tax consulting as HealthyCT winds up its affairs.

Summary

The Special Deputy has filed eleven Accounting and Status Reports with the Rehabilitation/Liquidation Court which provide extensive information about HealthyCT's Rehabilitation and Liquidation. Those reports are filed with the Superior Court and can be referred to for additional detail at the Judicial Department's website at this link: http://civilinquiry.jud.ct.gov/CaseDetail/PublicCaseDetail.aspx?DocketNo=HHDCV166072516S .

Periodic accountings and reports to the Court will continue to be made for reference on HealthyCT activities in Liquidation prior to the next Conn. Gen. Stat. § 38a-13 report in 2020.

Respectfully submitted,

Daniel L. Watkins, Special Deputy Liquidator
HealthyCT, Inc.