

**REPORT TO COMMISSIONER
ON THE AFFAIRS OF HEALTHYCT, INC. IN LIQUIDATION
August 6, 2021**

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.

Supervision and 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. HealthyCT also paid healthcare claims of \$149,708 after January 1, 2018 when CLHIGA funding was no longer needed. Asset distributions of \$386,475 have been made to reimburse CLHIGA for administrative expenses in the liquidation and \$17,525,761 to reimburse CLHIGA for medical claim payments. One hundred percent of CLHIGA’s expenses and claim payments have been reimbursed through these asset distributions approved by the Court.

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 employees remaining at year end 2017. Only 6 fulltime employees remained on the payroll by June 1, 2018. The former Chief Financial Officer and former Chief Operating Officer and one employee continue to assist the Special Deputy Liquidator in the closing out of HealthyCT's business on a part-time basis.

Proofs of Claim

July 31, 2017 was the bar date for creditors to submit claims to the Liquidator. HealthyCT received relatively few Proofs of Claims ("POCs"). Medical providers and insurance brokers were not required to file POCs. The outstanding liabilities of the company are: commissions owed to brokers (\$1.3 million, Class 6 claim); 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 (Class 6 claim balance estimated to be around \$450,000); premium taxes owed to the State of Connecticut (\$661,850, Class 7 claim); \$129 million in loans from CMS which are structured as surplus notes (Class 8 claim); and, interest owed the State of Connecticut on unpaid premium taxes (\$23,264 through 2020 Class 8 claim).

Claims of the United States government entities totaling approximately \$11.5 million were filed on behalf of CMS and those claims have been resolved as discussed in the Federal Government Issues section. The Special Deputy Liquidator also negotiated a Closing Agreement with the IRS under which HealthyCT will pay \$165,883.81 to the IRS to resolve outstanding Class 4 federal tax issues. A motion to the Court to approve this Closing Agreement is being filed at the time of this report.

Assets available after payment of 100% of all future administrative expenses of the liquidation and the taxes due the United States for its Class 4 tax claim are projected to be sufficient to pay 100% of Classes 5-7 claims in the estate. Some assets are also projected to remain which would pay some small portion of the Class 8 surplus notes claim of the United States for HealthyCT's start-up and solvency loans and owed the State of Connecticut for interest on Class 8 unpaid premium taxes.

Asset Marshaling

HealthyCT had \$4,886,112 million in cash on hand at June 30, 2021. Since liquidation began, the estate has recouped over \$1.75 million from overpayments to healthcare providers as claims have been reviewed and audited. Approximately \$4 million has been received from HealthyCT's excess reinsurer and \$2 million in pharmacy rebates was paid by the pharmacy benefits manager.

A transaction with Juris Capital, LLC ("Juris Capital") to purchase an interest in HealthyCT's \$46.5 million Risk Corridor and Federal Reinsurance claims against the federal

government added \$10.5 million to HealthyCT assets. This transaction, together with other asset recoveries cited above, enabled HealthyCT to reimburse CLHIGA 100% of its Class 2 Administrative expenses and Class 3 payments to healthcare providers.

Federal Government Issues

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

An additional \$25 million payment for Risk Corridors was due HealthyCT for its 2016 business, bringing the total Risk Corridors amount owed to HealthyCT to over \$40 million. HealthyCT was owed an additional \$6.5 million for ACA reinsurance for 2016 which was withheld by CMS when HealthyCT went into liquidation. HealthyCT owed CMS approximately \$11.5 million for 2016 Risk Adjustment assessments, Cost Share Reduction ("CSR") reconciliation, Reinsurance premium, overpayment of Advance Premium Tax Credits and other ACA fees, plus interest claimed on some unpaid amounts.

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 (\$46.5 million vs \$11.5 million). CMS disputed that the Risk Corridors payments of over \$40 million were due HealthyCT.

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

In April 2020, a decision in cases related to HealthyCT's Risk Corridors litigation at the United States Supreme Court, *Maine Community Health Options v. United States*, determined that Risk Corridors payments were due and owing to insurers. As a result, a stipulated judgement for payment of \$35,404,687.74 in favor of HealthyCT was filed July 10, 2020 in the United States Court of Federal Claims, the amount paid from the federal Judgment Fund. This judgment amount was the net of amounts owed between HealthyCT and CMS and resolved all issues between HealthyCT and CMS. The Closing Agreement negotiated with the IRS will resolve the remaining tax issue with the federal government. Juris Capital received the Court of Federal Claims judgment amount under the terms of its agreement with HealthyCT.

Expenses 2017-2021

HealthyCT's liquidation expense totals and average monthly from 2017-mid-2021 are as follows:

	TOTAL	MONTHLY AVG
2017	\$7.9M	\$650K
2018	\$1.8M	\$150K
2019	\$.7M	\$ 60K
2020	\$.55M	\$ 45K
2021(6 mos)	\$.18M	\$ 30K

In 2021-2022, the main expenses are for the costs of maintaining and preserving IT records and data, services of the three former employees assisting on an as-needed basis and the fees of the Special Deputy and the Morgan Lewis firm. Average monthly expenditures in 2022 are projected to decline to \$20K.

Summary

The Special Deputy has filed fourteen Accounting and Status Reports with the Rehabilitation/Liquidation Court which provide extensive information about HealthyCT's Rehabilitation and Liquidation including detailed documentation of all expenditures. 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 2021.

Respectfully submitted,



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