

**REPORT TO COMMISSIONER
ON THE AFFAIRS OF HEALTHYCT, INC. IN LIQUIDATION
July 25, 2022**

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 to HealthyCT 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 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 Rehabilitator, 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 Insurance 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. All individual health coverages terminated at December 31, 2016. 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 of the few remaining employer groups ended January 31, 2017.

HealthyCT paid a number of large claims for insureds from its assets in late December 2016 prior to entering liquidation in order to avoid having any HealthyCT enrollee with claims that might exceed CLHIGA’s \$500,000/person statutory limit on claims that CLHIGA would be funding 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 its administrative expenses in the liquidation and \$17,525,761 to reimburse CLHIGA for the medical claim payments it advanced. 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 other employee continue to assist the Special Deputy Liquidator in the closing out of HealthyCT's business on an as needed 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. Based on the POCs, the outstanding liabilities of the company and their respective priorities under Section 944 of the Insurers Rehabilitation and Liquidation Act 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 (approximately \$450,000, Class 6 claim); premium taxes owed to the State of Connecticut (\$661,850, Class 7 claim); start-up and solvency loans from CMS, which are structured as surplus notes (\$129 million plus interest, Class 8 claim); and interest owed to the State of Connecticut on its Class 7 claim for unpaid premium taxes (approximately \$240,000 through June 2022, Class 8 claim).

Class 4 Claims of United States government entities totaling approximately \$11.5 million were filed on behalf of CMS and those claims were resolved and paid as discussed in the Federal Government Issues section. The Special Deputy Liquidator also negotiated a Closing Agreement with the IRS, which was approved by the Superior Court. Under the Closing Agreement, HealthyCT paid \$165,883.81 to the IRS to resolve outstanding Class 4 federal tax issues for the years 2015 to 2019. The Closing Agreement provides that HealthyCT is not liable for any further income taxes or penalties for those years. The Special Deputy has now filed federal tax returns through 2020. No income taxes are anticipated to be imposed.

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

Asset Marshaling

HealthyCT had \$4,416,438 in cash on hand at June 30, 2022. Since liquidation began, the estate recouped over \$1.75 million from overpayments to healthcare providers as claims were reviewed and audited. Approximately \$4 million was 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 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 judgment for payment of \$35,404,687.74 in favor of HealthyCT was filed July 10, 2020 in the United States Court of Federal Claims. That amount was paid to HealthyCT from the federal

Judgment Fund on August 28, 2020. The judgment amount was net of amounts owed by HealthyCT to CMS and resolved all issues between HealthyCT and CMS. Juris Capital received the Court of Federal Claims judgment amount under the terms of its agreement with HealthyCT.

The Special Deputy filed an affidavit and supporting documents with the United States Department of Justice on October 10, 2021 seeking a Federal Release of all claims, excepting taxes. DOJ has not yet responded regarding the requested release.

Expenses 2017-2021

HealthyCT's liquidation expense totals and average monthly costs from 2017-mid-2022 are as follows:

	TOTAL	MONTHLY AVG
2017	\$7.9M	\$650K
2018	\$1.8M	\$150K
2019	\$.7M	\$ 60K
2020	\$.55M	\$ 45K
2021	\$.325M	\$ 27K
2022(6 mos)	\$.150M	\$ 25K

In 2022, the main expenses are for the costs of maintaining and preserving IT records and data, paying for the services of the three former employees assisting on an close out issues and the fees of the Special Deputy and the Morgan Lewis firm. Average monthly expenditures for the remainder of 2022 and in 2023 are projected to continue at close to \$25K/month.

Summary

The Special Deputy has filed sixteen 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 referenced 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 2023.

Respectfully submitted,



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