

REPORT TO COMMISSIONER
ON THE AFFAIRS OF HEALTHYCT, INC. IN LIQUIDATION
August 12, 2020

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. Three former employees continue to 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 \$3.3 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 (claim amount now estimated to be around \$450,000).

Asset Marshaling

HealthyCT has approximately \$5.35 million in cash on hand at June 30, 2020. 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 commercial excess reinsurer and \$2 million in 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 enabling HealthyCT to reimburse CLHIGA 100% of its Class 2 Administrative expenses and Class 3 payments to healthcare providers.

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. HealthyCT was owed an additional \$6.5 million for ACA reinsurance. HealthyCT owed CMS approximately \$11.5 million for Risk Adjustment assessments, Cost Share Reduction ("CSR") reconciliation, 2016 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 million vs \$11

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 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. As noted, this purchase allowed the estate to reimburse CLHIGA 100% of its claims in HealthyCT's liquidation. In late 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 to be paid from the federal Judgment Fund. Juris Capital will receive this judgment amount under its agreement with HealthyCT. Assets projected to be available after all expenses are paid can reimburse other creditors of the estate, except the surplus notes owed to the United States for HealthyCT's start-up and solvency loans. The three main creditors with allowed claims are insurance brokers (for unpaid commissions), HealthyCT's landlord and the State of Connecticut (for unpaid premium taxes).

Projected Expenses 2017-2018

HealthyCT's claim and operating expenditures in 2017 totaled \$7.9 million; 2018 expenses totaled approximately \$1.8 million; expenses in 2019 totaled \$700,000; 2020 expenses are projected to total approximately \$550,000.

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 averaged approximately \$60,000 per month. Expenditures for the remainder of 2020 are projected at \$42,000/month.

HealthyCT's cash balance is projected to be approximately \$5 million at year end 2020.

In 2019, the main expenses are for consulting contracts with the three 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 thirteen 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 2021.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel L. Watkins".

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