

**REPORT TO COMMISSIONER
ON THE AFFAIRS OF HEALTHYCT, INC. IN LIQUIDATION
August 30, 2017**

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

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 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 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 claims. CLHIGA retained HealthyCT as its servicing agent to administer policies and process claims. Through August 31, 2017, CLHIGA has funded payments of \$16.9 million to healthcare providers of HealthyCT insureds. CLHIGA received credit for \$1.4 million in January premium paid for the remaining employer groups receiving coverage in January 2017. That premium and \$675,000 of HealthyCT assets paid \$1.6 million in pharmacy claims in January and \$500,000 of member premium refunds. All remaining individual plans were terminated December 31, 2016. No policies remained in effect after January 31, 2017.

HealthyCT paid a number of large claims for insureds from its assets in late December to avoid having any HealthyCT member have claims that would exceed CLHIGA’s \$500,000/person statutory limit on claims it paid in 2017. July 31, 2017 was the bar date for healthcare providers and other creditors to submit claims to the Liquidator. It is estimated that up to \$1 million more in claims will need to be funded by CLHIGA.

Employees

HealthyCT had up to 75 employees prior to entering Supervision July 1, 2016 and beginning to wind down. By November 1, when the Rehabilitation Order was issued, 41 employees remained on the payroll. Since then, staffing has steadily decreased with 24 remaining at year end 2016 and only 6 fulltime employees remaining on the payroll by June 1, 2017. Four key employees now remain assisting with the close out of HealthyCT’s business. Another six employees assist on reduced time of one, two or three days a week. By year-end 2017, no employees are anticipated to remain on payroll, but consulting arrangements with the four key employees will allow remaining matters to be addressed.

Proofs of Claim

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 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 (\$625,000 maximum).

Asset Marshaling

HealthyCT has approximately \$13.5 million in cash on hand at August 31, 2017. Since January 1, 2017, the estate has recouped \$1.3 million from overpayments to healthcare providers as claims have been reviewed and audited. Close to \$4 million has been received from HealthyCT’s commercial excess reinsurer. The main outstanding receivable is \$2.3 million due for pharmacy rebates and claim credits from OptumRx. Collection of this receivable is being pursued by the Special Deputy.

A proposed transaction with Juris Capital, LLC (“Juris Capital”) could add \$10.5 million to assets available for HealthyCT creditors if approved by the Court and closed with Juris.

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 capital and cease being able to make ends meet.

With results now available for 2016 Risk Corridors—over \$25 million more is owed for 2016—CMS owes HealthyCT over \$40 million which it is not paying. \$6.3 million owed HealthyCT for 2016 transitional reinsurance is being netted against a 2016 Risk Adjustment charge of \$8 million. Altogether, CMS claims HealthyCT owes it \$5 million after netting the 2016 reinsurance against 2016 Risk Adjustment charges and other amounts owed to CMS, including \$1.6 million for CSR reconciliation and \$1 million for 2016 Reinsurance premiums.

While HealthyCT effectuated a liquidation-court approved setoff of credits and debits with CMS in February 2017 wherein CMS owed HealthyCT significantly more than HealthyCT owed CMS, CMS recently netted HealthyCT’s 2016 transitional reinsurance payment against amounts due CMS. CMS does not agree that it currently owes unpaid 2014 and 2015 Risk Corridors of over \$15 million and no payment for over \$25 million of 2016 Risk Corridors is anticipated in December 2017 when it will be due.

As a result, HealthyCT is filing suit in the Court of Federal Claims in early September for these unpaid Risk Corridors amounts plus payment of 2016 transitional reinsurance improperly netted by CMS. HealthyCT joins many other ACA insurers in doing so.

Juris Capital proposes to purchase an interest in HealthyCT's Risk Corridors claims for \$10.5 million. This amount would allow the estate to reimburse CLHIGA for approximately 50% of the claims it has funded and administrative costs it has incurred. Assets remaining after HealthyCT has fully wound down should be sufficient to reimburse CLHIGA most, if not all, of the balance of its claims funding and administrative costs, provided the Juris transaction closes.

The Juris Capital transaction would also provide \$760,000 for payment to lower priority creditors.

Projected Expenses 2017-2018

HealthyCT's expenditures in 2017 through July totaled approximately \$5.7 million.

HealthyCT's contract with Xerox for claims processing and other services calls for final payments of approximately \$725,000 through December 31.

Other costs for claim and operating expenditures through the end of 2017 total approximately \$350,000.

Remaining 2017 employee expenses including accumulated PTO are projected to total approximately \$500,000.

Estimated costs for August-December 2017 for MLB (\$250,000) and the Special Deputy (\$150,000) total \$400,000.

Average monthly costs have declined from \$1 million in January to \$600,000 mid-year to a projected \$400,000 in the fourth quarter.

The projected expenditures for the remainder of 2017 will lower HealthyCT's cash balance to around \$11 million at year end 2017. That balance could be substantially higher depending on recovery efforts on the outstanding OptumRx pharmacy rebates and credits.

In 2018, the high costs of Xerox and attendant claim processing and customer service expenses will no longer be necessary. The main expenses will be for consulting contracts with a few former employees to help on an as-needed basis and the fees of the Special Deputy and the Morgan Lewis firm. An estimate of those costs will be developed over the final quarter of 2016.

Summary

The Special Deputy has filed five 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 be made in the last months of 2017 and throughout 2018 for reference on HealthyCT activities in Liquidation prior to the next Conn. Gen. Stat. § 38a-13 report.

Respectfully submitted,

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

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