

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF
LIMITED SCOPE EXAMINATION

OF

EXPRESS SCRIPTS INSURANCE COMPANY

TEMPE, ARIZONA

AT

DECEMBER 31, 2008

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Montgomery, Alabama
July 9, 2009

Honorable Al Gross
Chair NAIC Financial Condition Committee
Commissioner, Virginia Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

Honorable Jim L. Ridling
Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Dear Mr. Commissioners,

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a limited scope financial target examination at December 31, 2008, has been made of

EXPRESS SCRIPTS INSURANCE COMPANY

The report of examination is submitted herewith. Where the description "Company" appears herein, without qualification, it will be understood to indicate Express Scripts Insurance Company.

SCOPE OF EXAMINATION

This examination report herein covers December 31, 2008, and has been conducted by examiners representing the Alabama Department of Insurance. Events subsequent to December 31, 2008, have been reviewed as required and are reported herein as deemed appropriate.

The Company has been examined in accordance with statutory requirements of the Alabama Insurance Code and the regulations and bulletins of the Alabama Department of Insurance; in accordance with applicable guidelines and procedures of the NAIC.

The examination included a limited scope review of the Company's statement of admitted assets, liabilities, surplus, and other funds as reported on the December 31, 2008 Statutory Annual Statement.

Within this report, discussion of the Company's accounts has been confined to those for which comments and/or recommendations have been made.

BACKGROUND AND ORGANIZATION

Express Scripts Insurance Company ("Company") is a wholly owned subsidiary of Express Scripts Senior Holdings, Inc. which is 100% owned by Express Scripts, Inc., a Delaware Corporation. In 2006, the Company was approved by the Centers of Medicare and Medicaid Services (CMS) to function as a Part D prescription drug plan sponsor. In 2007, the Company provided health insurance to both full and self-insured customers under Part D.

The Company is domiciled in Arizona. The last full-scope examination was performed by the Arizona Department of Insurance for the year ended December 31, 2003 and was issued on June 27, 2005. A target examination was initiated by the State of Alabama Department of Insurance on May 26, 2009 for the purpose of initial licensure in the State of Alabama.

ASSETS

Cash and short-term investments

We confirmed the cash on deposit at December 31, 2008, with the depository institutions listed below and we agreed the confirmed balance at December 31, 2008 to the amount shown on the bank reconciliations maintained by the Company to ensure that reported cash balances on line 5 were correct.

Bank	Balances at December 31, 2008
JP Morgan	\$ 9,769,444
US Bank	<u>1,900,122</u>
 Total	 <u>\$ 11,669,566</u>

Confirmed amounts agreed to reported amounts. At December 31, 2008, \$1,900,122 was on deposit with the State of Arizona. On September 4, 2007, the Company secured a \$250,000 surety bond as required by the Nevada Division of Insurance in the processes to obtain a Certificate of Authority with the State of Nevada. The Company is Principal with Travelers Casualty and Surety Company of America as Surety for bond number 105000106. On July 22, 2008, the Company secured a \$100,000 surety bond as required by the New Mexico Insurance Division in the processes to obtain a Certificate of Authority with the State of New Mexico. The Company is Principal with Travelers Casualty and Surety Company of America as Surety for bond number 105125294. On October 23, 2008, the Company secured a \$100,000 surety bond as required by the Louisiana Commissioner of Insurance in the processes to obtain a Certificate of Authority with the State of Louisiana. The Company is Principal with Travelers Casualty and Surety Company of America as Surety for bond number 105160565. There were no significant adjustments identified.

Investment income due and accrued

Examined January 2009 statements for investment income received to ensure that investment income due and accrued on line 12 was reasonable. The investment income due and accrued appears reasonable. There were no significant adjustments identified.

Accounts receivable relating to uninsured plans

To ensure that accounts receivable relating to uninsured plans reported represent the activity reflected in the Company's records on line 15, the Company's independent actuarial report was examined. Based on the exam, accounts receivable relating to uninsured plans of \$500,000 is based on estimates calculated by the Company's independent actuary. These estimates include reinsurance and Low Income Cost Sharing estimates that the Company would expect to receive after CMS performs its annual reconciliations in 2009. The reporting of these amounts is in accordance with standards of the American Academy of Actuaries. There were no significant adjustments identified.

LIABILITIES

Claims unpaid and unpaid claims adjustment expense

Examined the Company's independent actuarial report and general ledger detail to assess the accuracy of unpaid claims on lines 1 and 3. Upon our inspection, the amounts listed as unpaid claims and unpaid claims adjustment expense agree to the actuarially determined amounts. There were no significant adjustments identified.

Aggregate health claims reserves

We examined the Company's independent actuarial report to substantiate the reported amount on line 7 as aggregate health claim reserves. Based on our findings, the amount listed as aggregate health claim reserves agrees to the reported amount. There were no significant adjustments identified.

Premiums received in advance

To support the accuracy reported balance of premiums received in advance on line 8, we examined cash clearing accounts detail from 2009, which consists of the premiums received. The accounts appear reasonable and agree to the reported amount. There were no significant adjustments identified.

General expenses due and accrued & Remittance and items not allocated

We examined supporting detail as well as subsequent payments for accrued expenses to ensure that the accrued expenses on line 9 and 13 were accurately reported and reasonable. We found that the amounts reported on the detail as well as subsequent payments agree to the reported amount. The accounts appear reasonable. There were no significant adjustments identified.

Amounts due to parent, subsidiaries and affiliates

We examined the intercompany billing report, the general ledger detail for each account listed on the report and the audit adjustment entry to determine if the amounts reported on line 15 as amounts due to parent subsidiaries and affiliates are accurate. Based on the exam, at December 31, 2008, the Company had \$2,736,033 due to the Company's parent, Express Scripts Senior Care Holdings, Inc. (ESSCH). This payable represents amounts owed to ESSCH for prescription drug claims paid by ESSCH on behalf of the Company and for administrative costs to process those claims. There were no significant adjustments identified.

SURPLUS AND OTHER FUNDS

Common capital stock

We examined the 2008 minutes for approval of stock issuance and stock ledger to conclude if the amounts reported as common capital stock on line 24 are accurate. Based on the exam, during 2008, 1,500,000 shares of common stock (\$1 par) were issued to ESSCH. At December 31, 2008, ESSCH held all 2,600,000 outstanding shares of the Company. The Company has authorized 11,500,000 shares. There were no significant adjustments identified.

Gross paid in and contributed surplus

We examined supporting detail for gross paid in and contributed surplus as well as the related irrevocable forgiveness of debt to ensure amounts as gross paid in and contributed surplus are reported accurately. As a result of the examination, we found that during February 2008 ESSCH forgave \$1,755,976 owed to it by the Company. The state of domicile, Arizona, approved the action which was done to increase capital and surplus as required by the state of domicile to exceed the calculated RBC level. At December 31, 2008, the Company exceeded all control levels of Risk-Based Capital. There were no significant adjustments identified.

FINANCIAL STATEMENTS

Express Scripts Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds – Statutory Basis
At December 31, 2008

	<u>Assets</u>		
	<u>Assets</u>	<u>Non-admitted assets</u>	<u>Net admitted assets</u>
Cash, cash equivalents, and short term investments	\$ 11,669,566	\$ -	\$ 11,669,566
Investment income due and accrued	16,216	-	16,216
Amounts receivable relating to uninsured plans	500,000	-	500,000
Total assets	<u>\$ 12,185,782</u>	<u>\$ -</u>	<u>\$ 12,185,782</u>

Liabilities, Surplus, and Other Funds

Liabilities:		
Claims unpaid		\$ 23,629
Unpaid claims adjustment expenses		11,400
Aggregate health claim reserves		628,600
Premiums received in advance		142,780
General expenses due or accrued		16,515
Remittance and items not allocated		7,138
Amounts due to parent, subsidiaries and affiliates		<u>2,736,033</u>
Total liabilities		<u>3,566,095</u>
Surplus and other funds:		
Common capital stock		2,600,000
Gross paid in and contributed surplus		6,330,976
Unassigned funds (surplus)		<u>(311,289)</u>
Total capital and surplus		<u>8,619,687</u>
Total liabilities surplus and other funds		<u>\$ 12,185,782</u>

RECOMMENDATIONS

We have no recommendations regarding the appropriateness of the amounts reported on the Company's Statement of Admitted Assets, Liabilities, Surplus and Other Funds – statutory basis at December 31, 2008.

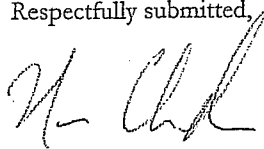
CONCLUSION AND SIGNATURES

Acknowledgement is hereby made of the courtesy and cooperation extended by representatives of Express Scripts Insurance Company during this examination.

The customary examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, the following persons represented the Alabama Department of Insurance as participants in this examination: T. Britt Taylor, CPA and Patrick Thomas.

Respectfully submitted,



Norman Chandler, CPA, CFE, CPCU, ARe, AIAF, ARC, ACP

Examiner

Alabama Department of Insurance

July 9, 2009