Report for Special Master's Status Conference

February 2, 2024

R-565 Friday Health Insurance Company

SDR: CANTILO & BENNETT, L.L.P.
Primary Responsible Person: Susan E. Salch
Estate Counsel: Christopher Fuller and Greg Pierce
Receiver's Counsel: David Ashton
RLO Analyst: John Walker

Background on Receivership

- Date of Permanent Injunction (Liquidation): March 23, 2023
- Date of Appointment of SDR: March 23, 2023
- Claims Filing Deadline: **September 5, 2024**
- States Where Licensed: Texas
- Lines of Business: Friday Health Insurance Company ("FHIC") offered Affordable Care Act ("ACA") individual and small group health insurance plans
- Texas Guaranty Association Triggered: Texas Life and Health Insurance Guaranty Association ("TLHIGA")
- Early Access Distribution: December 2023 - $25,000,000

Overview of FHIC: FHIC was licensed to write business only in Texas and began issuing policies on January 1, 2021. The company only offered ACA individual and group health insurance policies. In 2022, FHIC insured approximately 300,000 individuals. All individual policies terminated on December 31, 2022. There were only eight small group plans remaining covering forty-eight people as of the date of receivership and they have all terminated pursuant to the terms of the plans.

FHIC was placed into Supervision on September 30, 2022. It was placed into receivership for liquidation on March 23, 2023.

FHIC was a virtual insurance company and did not have any employees, offices, or equipment of its own. All functions were performed by FHIC parent, Friday Health Plans Management Services Company, Inc. ("FHPMSC").

Statement of Assets and Liabilities as of December 31, 2023

Total Assets:	$436,634,851
Cash:	$166,064,924
Non-Cash Assets:	$148,617,321
Restricted Assets:	$121,952,606
Total Liabilities:	$842,947,271
Negative Equity:	($406,312,420)

Status and Activity Since Last Conference

Affiliates Status and Interaction with SDR and Friday Health Plans, Inc. ("FHP"): All five of FHIC's active affiliates in Colorado, Georgia, North Carolina, Oklahoma, and Nevada are in receivership for liquidation. Unlike FHIC, the receivers for these companies (referred to collectively as the "OSRs") require significant administrative and claims handling services which FHPMSC was contractually required to provide. Each of the affiliates are significantly smaller than FHIC.

The Texas SDR has cooperated with the OSRs and their respective guaranty associations on a number of matters.

FHPMSC Shutdown: As of the close of business on July 6, 2023, FHPMSC terminated all remaining employees. An existing third-party vendor, UST HealthProof ("UST"), hired a significant number of the former employees to continue to work at the (former) FHPMSC's Alamosa office, and to provide administration and claims processing services for the receivers of the other states — Colorado, Oklahoma, Georgia, and North Carolina (whether the Nevada affiliate is participating is unknown), and claims processing for the TLHIGA. The SDR is not a party to the agreement with UST.

IT Matters: Estate business records are held by the SDR in a secure cloud storage maintained by approved vendor, Network1.

Paper Records: The SDR's staff has finished reviewing the forty-six boxes of returned mail and paper appeals (mostly IDRs) for FHIC from the Alamosa office. Much of the returned items are Explanations of Benefits, which are sent out when a claim on the policy is processed, and other various notices. The boxes are stored at Safesite, Inc. in Austin.

First Supplement to Fee and Expense Application: The SDR's First Supplement to the existing fee and expense order was filed on December 6, 2023. It was granted on January 12, 2024.

Tax Returns: Counsel for the former FHPMSC confirmed that it would be filing the consolidated tax return for FHPMSC and the affiliates, including FHIC. There is a pre-receivership tax sharing agreement.

Claims Activity

Proof of Claim ("POC") Process: The Receivership Court granted the SDR's application to provide notice and set a POC filing deadline, as supplemented, on December 5, 2023. The deadline to file POCs with the SDR is September 5, 2024. The POC form and instructions are posted on the SDR web site. The posted FAQs have been updated as well. The Notice of Liquidation and Claim Filing Deadline will be issued, primarily by e-mail. More than 350,000 notices will be issued to former insureds, providers, and other creditors. The notice will also be published in newspapers in Texas and Colorado. The SDR will establish a telephone answering service to handle related inquiries.

TLHIGA: As of December 31, 2023, TLHIGA has funded 142,534 claims totaling $19,793,697. An additional 481 claims totaling $340,082 were funded on January 2, 2024. As of year-end, TLHIGA has paid $4,890,573 in administrative expenses. As part of its claim payment processing, the association reduced the payments it issued to certain providers to account for pre-liquidation provider overpayments held by certain providers. The amount of these reductions and the identities of the specific providers will be determined.

TLHIGA originally contracted with FHIC's parent company, FHPMSC, to process its covered claims. Many of the claims were processed before FHPMSC shut down. The guaranty association is now contracting with UST (which hired many former FHPMSC personnel) to handle claims and appeals.

TLHIGA has agreed to have claims that are in excess of the association's $500,000 limits on coverage processed fully under its agreement with UST. The results are reported to the SDR for reinsurance reporting purposes.

As previously reported, TLHIGA will not pay any claims arising under the IDR statutes and regulations, and will not participate in any of the various IDR procedures that authorize out-of-network providers and facilities to appeal the amount awarded on a claim. It notifies new and existing IDR claimants that the guaranty association will not provide coverage on the claim and refers them to the SDR for handling under the POC process. However, the association has resolved a number of out-of-network claims through its claim and appeal process.

Risk Adjustment Transfer ("RAT") Liability: The RAT program is a component of the ACA that transfers premiums from insurers that enroll members with relatively lower health risks to insurers that enroll members with relatively higher health risks. CMS issued its 2022 Summary Report on June 30, 2023. It recites that FHIC owes $634,864,844 in RAT liability for the 2022 plan year. RAT payments are calculated annually, and payment for the 2022 assessment was due in August 2023. In October 2023, CMS issued a press release stating, in part:

> As of October 2023, Friday has paid 5 percent of its total 2022 benefit year risk adjustment charges of $780 million. As such, CMS will pursue all Federal debt collection methods available, including offsetting other ACA program payments to Friday pursuant to 45 CFR § 156.1215 and filing a proof of claim to assert the government's claim to all debts owed, including the unpaid debts for the 2022 benefit year risk adjustment charges in these states. Consistent with the established policy for addressing shortfalls in the collection of risk adjustment charges, issuers in the same state market risk pools as Friday who are eligible to receive 2022 benefit year risk adjustment payments will receive the initial funds collected as prorated 2022 benefit year risk adjustment payments in the November 2023 cycle. Any further collection of these amounts, through offsetting or otherwise, will be distributed to issuers in the affected state market risk pools as further

prorated 2022 benefit year risk adjustment payments in the following monthly payment cycle.

The RAT obligation arises under federal law, and it is the SDR's position that it has a Class 3 priority under Section 443.301 of the Insurance Code. The SDR will not make any distributions on the RAT liability outside of the POC process.

Early Access: The Receivership Court approved the SDR's application for an early access distribution on November 9, 2023. The SDR distributed $25 million to TLHIGA in December 2023.

Premium Refund Claims: There are a number of claimants seeking a premium refund. TLHIGA normally covers unearned premium claims. However, the premium refund claims to date all appear to arise from FHIC's failure to stop collecting or accepting premiums after cancellation of insurance policies. Most collections took place before liquidation, although it is possible that FHPMSC continued to draw on some accounts after March 23, 2023. It also appears that some members failed to stop the automatic deduction from their bank accounts or credit cards, so the funds continued to be deposited into FHIC's accounts. The SDR posted a notice on the web site advising former insureds to make sure they have stopped any such automatic payments.

TLHIGA takes the position that the claims are not covered because there was no policy in existence as of receivership. Thus, the SDR tells such claimants that they will have to file a POC. Information for claimants seeking a premium refund has also been updated on the SDR's web site.

Asset Recovery Activity

Reinsurance: FHIC has two reinsurance relationships. The first is a quota share agreement with AXA France Vie ("AXA") with coverage of 60% for 2021, and 80% for 2022. Shortly before receivership, AXA gave notice that it considered the agreement to be terminated as of January 1, 2022. Following regulatory action against the companies of the other states, AXA sent each of them a notice of dispute. The SDR and AXA have communicated regarding the reinsurer's contentions, and the SDR is preparing to respond to certain requests for information.

AXA owes FHIC approximately $246 million as of December 31, 2023. Reporting is done quarterly, so the paid loss figure, which includes the ceded risk adjustment obligation reported by CMS in its June 30, 2023, report, will be quantified further in the quarterly reporting, as post-receivership paid losses by TLHIGA are reported to the SDR.

FHIC has an excess-of-loss treaty with Odyssey Reinsurance Company. The treaty terminated on June 30, 2023, but continues to cover losses arising before and reported by June 30, 2023. TLHIGA has provided the SDR with information for claims that both exceed the association's $500,000 cap and the same threshold for XOL coverage, which has been reported to the reinsurer.

Cash/Securities: Cash on hand at liquidation was immediately transferred to the estate's Texas Treasury Safekeeping Trust account. All of FHIC's remaining securities, a portfolio of US Treasury Bills and Bonds worth a total of $88 million, have matured and their proceeds deposited in the estate's Treasury account.

Subrogation: Before receivership, The Phia Group ("Phia"), a collections company, had pursued subrogation recoveries for FHIC even though the only written agreement was between Phia and the Friday Colorado affiliate. Estate counsel notified Phia of the receivership and instructed it that all collections and communications regarding Texas claims had to go through the SDR, and Phia has started to make payments directly to the SDR. The SDR confirmed with TLHIGA that Phia will pursue subrogation on both pre- and post-liquidation claim payments. The SDR will monitor the process, and will work with TLHIGA to reconcile which recoveries go to the estate (pre-liquidation claims) and which go to TLHIGA (from its claim payments). The SDR expects to submit an application for Receivership Court approval of the proposed separate agreement between the estate and Phia. The SDR will not assume the existing agreement because there is no way to accurately assess any existing liabilities under the contract. The new agreement will largely follow the existing terms and all pending recoveries will be assigned.

Overpayment Recovery: FHIC's financial records reflect significant overpayments to providers that are owed to the company. Payments have been made to the SDR on some of the accounts, such as US Renal. As described more fully above, the SDR and TLHIGA are identifying the providers and specific amounts accounted for by TLHIGA to reduce its payments so that the SDR's team can resume collection efforts.

Rebates: FHIC was entitled to rebates from certain providers, such as prescription benefit manager Capital RX. The SDR's financial subcontractor is analyzing the amounts owed and will begin collection efforts.

Other Asset Recovery Activity: The SDR and counsel continue to research potential asset recovery claims.

General Legal Activity

Domestication of Permanent Injunction: The Permanent Injunction was domesticated in Colorado on November 14, 2023, and recorded in Alamosa County.

Delaware Assignment for Benefit of Creditors ("ABC") Proceeding: The former management company and its parent, Friday Health Plans, Inc., jointly filed an ABC proceeding in Delaware on July 24, 2023. Both companies claim to have transferred assets and liabilities to the ABC entity but not ownership of the stock for FHIC and the other affiliates. The SDR filed a Motion to Dismiss or, alternatively, to Abstain in the Delaware Chancery Court on August 11, 2023. Representatives for four of the OSRs filed a joint Joinder to the Texas SDR's motion on August 22, 2023. The Georgia SDR filed its separate Joinder on September 8, 2023. Zelis, which was a claims vendor, intervened to join the SDR's motion in November 2023. The Zelis intervention resulted in an extension of the briefing schedule and an agreement to extend a POC filing deadline unilaterally set by the ABC entity until after a final ruling on the various motions.

Litigation: There are no pending lawsuits against FHIC. A pro se action was filed in JP court in Kaufman County, Texas. The plaintiff agreed to dismiss when informed of the receivership and automatic stay. There were a number of arbitrations pending at receivership, consisting of health care providers objecting to the amount paid on particular claims under the Prompt Pay statutes and regulations. All claimants have been notified of the receivership and automatic stay.

Summary of Major Achievements:

- Distributed $25 million to TLHIGA upon approval of the First Early Access Application.
- Obtained approval of the POC Application by the Receivership Court.
- Completed briefing in the ABC proceeding and negotiated extension the FHPMSC ABC POC deadline to 30 days after final resolution of pending motions to dismiss.

Estate Goals to Achieve Prior to Next Status Conference:

- Serve Notice of Liquidation and Claims Filing Deadline and POC Forms as described in the POC Application.
- Continue coordinating with TLHIGA.
- Work with the guaranty associations and OSRs on reinsurance reporting.
- Review potential asset recovery activity.

Estate Closing Date of Receivership: TBD

Identification of Factors Affecting Closing Date and Final Distribution: TBD