

Report on Examination
of
AMERIGROUP Florida, Inc.
Tampa, Florida
as of
December 31, 2014



**FLORIDA OFFICE OF
INSURANCE REGULATION**

David Altmaier, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

In accordance with Section 641.27, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of AMERIGROUP Florida, Inc. as of December 31, 2014. Our report on the examination follows.

Florida Office of Insurance Regulation
April 1, 2016

Contents

Scope of Examination.....	1
Company History.....	2
Corporate Records.....	2
Management and Control.....	2
Fidelity Bonds and Other Insurance.....	5
Pension, Stock Ownership and Insurance Plans.....	6
Territory and Plan of Operation.....	6
Company Growth.....	7
Reinsurance.....	7
Accounts and Records.....	7
Statutory Deposits.....	8
Financial Statements.....	8
Subsequent Events.....	13
Conclusion.....	14

SCOPE OF EXAMINATION

We have completed a financial condition examination of AMERIGROUP Florida, Inc. (the "Company"), a Florida health maintenance organization (HMO). Our examination covered the period of January 1, 2013, through December 31, 2014, and took place primarily in the Company's Indianapolis, Indiana office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the Office) was as of December 31, 2012.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook required that we plan and perform our examination to evaluate the financial condition and identify current and prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination was conducted as part of a multi-state coordinated examination of other companies within the holding company group.

This examination report includes significant findings of fact, as mentioned in the F.S. 624.319, Florida Statutes (F.S.) and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective

conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was incorporated in Florida on February 10, 1992, and licensed by the Office as an HMO on August 25, 1994. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company distributed stockholder dividends in the amount of \$11,500,000 in 2014. The Company received a \$35,000,000 capital contribution on December 31, 2014.

CORPORATE RECORDS

We reviewed the minutes of the Company's stockholder and Board of Directors (Board) meetings. The Board's approval of Company transactions, including the authorization of its investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

MANAGEMENT AND CONTROL

The Company was wholly-owned by AMERIGROUP Corporation who was wholly-owned by WellPoint, Inc. WellPoint, Inc. changed its name effective December 2, 2014, to Anthem, Inc. ("Anthem"). The common stock of Anthem traded on the New York Stock Exchange under the ticker symbol "ANTM."

Its senior officers and directors were:

Senior Officers	
Name	Title
Rosa M. Cozad	President/Chief Executive Officer
Robert D. Kretschmar	Treasurer
Kathleen S. Kiefer	Secretary
Judith L. Peterson	Vice President/Chief Operations Officer
Jack L. Young	Vice President/Assistant Secretary

Board of Directors

Name	Location
Carter A. Beck	Manchester, New Hampshire
Rosa M. Cozad	Surfside, Florida
Wayne S. DeVeydt	Indianapolis, Indiana
Catherine I. Kelaghan	Carmel, Indiana
Judith L. Peterson	Tampa, Florida
Charles B. Shipp, Chair	Nashville, Tennessee

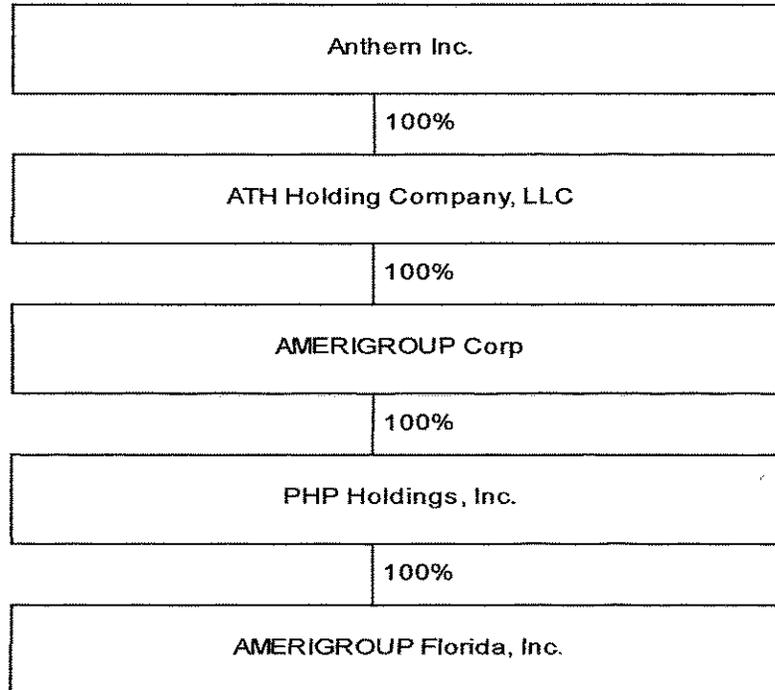
Audit Committee

R. Kerry Clark
Juie H. Hill
Ramiro G. Peru, Chair
Elizabeth E. Tallett

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.), on April 1, 2015.

An abbreviated organizational chart reflecting a holding company system is shown below.

**AMERIGROUP Florida, Inc.
Abbreviated Organizational Chart
December 31, 2014**



The following agreements were in effect between the Company and affiliates:

Effective January 1, 2014, the Company became a party to the Anthem, Inc., master administrative services agreement ("MASA") under which Anthem subsidiaries may provide certain administrative, consulting and other support services to one another from time to time. The agreement provided that services are to be set forth in attachments to the agreement as

may be executed from time-to-time and that each attachment shall be deemed to be part of the master agreement with respect to the entities that are parties to the attachment.

Effective January 1, 2013, the Company became a party to a consolidated federal income tax agreement among Anthem, Inc., and substantially all of its subsidiary companies in which it directly or indirectly has an 80% or greater ownership interest. The purpose of the agreement is to establish a method for allocating the consolidated tax liability of the group among its members, for reimbursing Anthem, Inc., for payment of such tax liability, for compensating any party for use of its tax losses or tax credits, and to provide for the allocation and payment of any refund arising from a carryback of losses or tax credits for subsequent taxable years.

Prior to January 1, 2014, AMERIGROUP Corporation provided administrative, claims processing and financial support services to the Company pursuant to an agreement originally entered into on January 1, 2003, with several subsequent amendments. This agreement was terminated and replaced by the aforementioned MASA agreement with Anthem, Inc.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained general and professional liability insurance at acceptable levels and required its providers to certify and maintain appropriate levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069, F.A.C. The policies provided for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was insured by a blanket fidelity bond issued by a licensed Florida carrier, as required by Section 641.22(7), F.S., in the amount of \$20,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of Anthem performed functions on behalf of the Company. Anthem provided various benefits to eligible employees of the Company including a deferred compensation plan, health care, life insurance, and participation in a Section 401(k) savings plan.

TERRITORY AND PLAN OF OPERATION

The Company provided coordinated health benefits through a variety of government-sponsored and long-term care programs. It held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, F.S., valid until July 31, 2016. The Company was licensed solely in the State of Florida. As an Independent Practice Association (IPA) model HMO, there were 364,108 Company members as of December 31, 2014, of which 13% were comprehensive members, 1% were Medicare members, and 86% were Medicaid members. The Company marketed its products primarily through community outreach materials at health fairs and public events and was authorized to operate in the following Florida counties:

Brevard	Manatee	Pasco
Broward	Miami-Dade	Pinellas
Hernando	Monroe	Polk
Highlands	Orange	Sarasota
Hillsborough	Osceola	Seminole
Lake	Palm Beach	Volusia

COMPANY GROWTH

The Company reported the following for years 2012 through 2014:

(Dollars are in millions)

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Member months	3,146,682	2,947,017	3,613,410
Year-end enrollment	256,002	239,177	364,108
Premiums	\$601.7	\$599.6	\$938.5
Total revenues	\$601.7	\$599.5	\$938.3
Total underwriting deductions	\$586.2	\$590.2	\$974.4
Net income (loss)	\$15.5	\$6.7	(\$26.6)
Stockholder dividends	\$0.0	\$11.5	\$0.0
Paid in surplus received	\$0.5	\$0.0	\$35.0
Admitted assets	\$118.4	\$155.7	\$219.4
Liabilities	\$40.9	\$82.3	\$135.8
Capital and surplus (deficit)	\$77.5	\$73.4	\$83.6

REINSURANCE

The Company ceded risk to an unaffiliated reinsurer pursuant to an excess risk reinsurance agreement effective July 1, 2012, until it became self-insured with regulatory approval effective July 1, 2013.

ACCOUNTS AND RECORDS

In accordance with Section 626.9891(1), F.S., and Rule 69D-2.003, F.A.C., the Company filed a description of its anti-fraud investigative unit with the Florida Department of Financial Services Division of Insurance Fraud ("DIF") in January of 2014 and represented that it would report all suspected fraudulent insurance acts to the DIF. An amended fraud plan was filed in March 2016 clarifying that suspected fraudulent insurance acts relative to Medicaid business would be reported to Florida Medicaid and any non Medicaid fraud would be reported to the DIF.

STATUTORY DEPOSITS

The Company maintained, on deposit with the Office, an insolvency protection deposit of \$300,000 in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected in the following:

AMERIGROUP Florida, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2014

Admitted Assets	As Reported	Examination Adjustments	Per Examination
Bonds	\$ 115,840,845	\$ -	\$ 115,840,845
Common stocks	13,943,531	-	13,943,531
Cash, cash equivalents and short-term investments	59,491,088	-	59,491,088
Securities lending reinvested collateral assets	5,497,979	-	5,497,979
	194,773,443	-	194,773,443
Investment income due and accrued	778,265	-	778,265
Uncollected premiums and agents' balances	7,127,849	-	7,127,849
Amounts receivable relating to uninsured plans	1,701,632	-	1,701,632
Current federal and foreign income tax recoverable	7,333,579	-	7,333,579
Net deferred tax asset	4,901,804	-	4,901,804
Electronic data processing equipment and software	40,149	-	40,149
Receivables from parent, subsidiaries and affiliates	22,146	-	22,146
Health care and other amounts receivable	1,121,489	-	1,121,489
Aggregate write-ins for other than invested assets	1,633,074	-	1,633,074
Total admitted assets	\$ 219,433,430	\$ -	\$ 219,433,430
Liabilities			
Claims unpaid	\$ 81,781,184	\$ -	\$ 81,781,184
Accrued medical incentive pool and bonus amounts	2,285,913	-	2,285,913
Unpaid claims adjustment expenses	2,649,718	-	2,649,718
Aggregate health policy reserves	2,062,033	-	2,062,033
Aggregate health claims reserves	214,727	-	214,727
Premiums received in advance	24,029,523	-	24,029,523
General expenses due or accrued	866,371	-	866,371
Remittances and items not allocated	8,656,218	-	8,656,218
Amounts due to parent, subsidiaries and affiliates	4,708,161	-	4,708,161
Payable for securities lending	5,497,979	-	5,497,979
Liability for amounts held under uninsured plans	12,899	-	12,899
Aggregate write-ins for other liabilities	3,062,776	-	3,062,776
Total liabilities	135,827,502	-	135,827,502
Capital and Surplus			
Aggregate write-ins for special surplus funds	21,492,886	-	21,492,886
Common capital stock	100	-	100
Gross paid-in and contributed surplus	70,184,970	-	70,184,970
Unassigned funds (deficit)	(8,072,028)	-	(8,072,028)
Total capital and surplus	83,605,928	-	83,605,928
Total liabilities, capital and surplus	\$ 219,433,430	\$ -	\$ 219,433,430

AMERIGROUP Florida, Inc.
Statement of Revenue and Expenses
(As Reported By The Company)
Year Ended December 31, 2014

Net premium income	\$ 938,450,419
Change in unearned premium reserves and reserve for rate credits	(195,015)
Total revenues	938,255,404
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Hospital and medical benefits	523,973,795
Other professional services	43,817,297
Emergency room and out-of-area	107,381,436
Prescription drugs	133,591,837
Aggregate write-ins for hospital and medical	52,391,401
Incentive pool, withhold adjustments and bonus amounts	3,317,530
Total hospital and medical	864,473,296
Claims adjustment expenses	51,537,238
General administrative expenses	56,823,350
Increase in reserves for life and accident and health contracts	1,535,613
Total underwriting deductions	974,369,497
Net underwriting gain	(36,114,093)
Net investment gains	3,032,598
Net realized capital gains (losses)	150,646
Net loss before federal income tax	(32,930,849)
Federal income tax	(6,279,326)
Net loss	\$ (26,651,523)

AMERIGROUP Florida, Inc.
Statement of Changes in Capital and Surplus
Two Years Ended December 31, 2014

Capital and surplus - December 31, 2012	\$ 77,520,202
Net income (loss)	6,759,103
Change in net unrealized capital gains (losses)	1,691,171
Change in net deferred income tax	1,643,307
Change in nonadmitted assets	(2,692,629)
Dividends to stockholders	(11,500,000)
<hr/>	
Capital and surplus - December 31, 2013	73,421,154
Net income (loss)	(26,651,523)
Change in net unrealized capital gains (losses)	684,857
Change in net deferred income tax	1,792,767
Change in nonadmitted assets	(641,327)
Surplus paid in	35,000,000
<hr/>	
Capital and surplus - December 31, 2014	83,605,928
Examination adjustments	-
<hr/>	
Capital and surplus - December 31, 2014	<u>\$ 83,605,928</u>

AMERIGROUP Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2014

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2014 - as reported		\$83,605,928																				
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 20%; text-align: center;"><u>As Reported</u></th> <th style="width: 20%; text-align: center;"><u>Per Examination</u></th> <th style="width: 30%; text-align: center;"><u>Increase (Decrease) In Capital & Surplus</u></th> </tr> </thead> <tbody> <tr> <td>Total admitted assets</td> <td style="text-align: right;">\$ 219,433,430</td> <td style="text-align: right;">\$ 219,433,430</td> <td style="text-align: right;">\$ -</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: right;">\$ 135,827,502</td> <td style="text-align: right;">\$ 135,827,502</td> <td style="text-align: right;">\$ -</td> </tr> <tr> <td>Net change in capital and surplus</td> <td></td> <td></td> <td style="text-align: right;">-</td> </tr> <tr> <td>Capital and surplus, December 31, 2014 - per examination</td> <td></td> <td></td> <td style="text-align: right;"><u><u>\$ 83,605,928</u></u></td> </tr> </tbody> </table>		<u>As Reported</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	Total admitted assets	\$ 219,433,430	\$ 219,433,430	\$ -	Total liabilities	\$ 135,827,502	\$ 135,827,502	\$ -	Net change in capital and surplus			-	Capital and surplus, December 31, 2014 - per examination			<u><u>\$ 83,605,928</u></u>	
	<u>As Reported</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>																			
Total admitted assets	\$ 219,433,430	\$ 219,433,430	\$ -																			
Total liabilities	\$ 135,827,502	\$ 135,827,502	\$ -																			
Net change in capital and surplus			-																			
Capital and surplus, December 31, 2014 - per examination			<u><u>\$ 83,605,928</u></u>																			

SUBSEQUENT EVENTS

In February 2015, Anthem was the target of a sophisticated external cyber-attack. The attackers gained unauthorized access to certain of Anthem's information technology systems and obtained personal information related to many individuals and employees, such as names, birthdays, healthcare identification/social security numbers, street addresses, email addresses, phone numbers and employment information including income data. To date, there is no evidence that credit card or medical information were targeted, accessed or obtained. A multi-state cyber-security audit was performed during 2015, the results of which have not yet been issued.

On July 24, 2015, the Company's ultimate parent company, Anthem and Cigna Corporation (Cigna) entered into an Agreement and Plan of Merger dated as of July 23, 2015, by and among Anthem, Cigna and Anthem Merger Sub Corp., a Delaware corporation and a direct wholly-owned subsidiary of Anthem, pursuant to which Anthem will acquire all outstanding shares of Cigna. The acquisition is expected to close in the second half of 2016 and is subject to certain state regulatory approvals, standard closing conditions, customary approvals required under the Hart-Scott-Rodino Antitrust Improvements Act and the approval of both the Anthem and Cigna shareholders.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of AMERIGROUP Florida, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2014, the Company's capital and surplus was \$ 83,605,828 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, the following participated in the examination: Examination Resources, LLC.

Respectfully submitted,



Darlene Lenhart-Schaeffer, PIR, CFE, CISA
Chief Examiner
Florida Office of Insurance Regulation