

Report on Examination
of
Capital Health Plan, Inc.

Tallahassee, Florida

as of

December 31, 2005

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

October 31, 2006

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2005, of the financial condition and corporate affairs of:

**Capital Health Plan, Inc.
2140 Centerville Place
Tallahassee, Florida 32308**

hereinafter referred to as the "Plan." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2003 through December 31, 2005. The Plan was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 1996.

Planning for the current examination began on March 30, 2006. The fieldwork commenced on April 3, 2006 and concluded on July 27, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial condition examination conducted in accordance with the NAIC *Financial Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions*, with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value, and integrity of the statement assets and the determination of liabilities, as they affect the Plan's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Plan's operations and practices. In addition, various ratio results, *Best's Insurance Reports*, the Plan's independent audit reports, and certain work papers prepared by the Plan's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Plan's assets and liabilities as reported by the Plan in its 2005 annual statement. Transactions subsequent to December 31, 2005 were reviewed where relevant and deemed significant to the Plan's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

After considering the Plan's control environment and the materiality level set for this examination, we relied on work performed by the Plan's CPA in the area of commitments and contingent liabilities.

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The prior examination report did not contain any significant adverse regulatory disclosures or findings related to the Plan's solvency.

HISTORY

GENERAL

The Plan was incorporated as a not for profit corporation in Florida on June 26, 1978, and commenced business on June 1, 1982. The Plan's name was changed from Capital Group Health Services of Florida, Inc. to Capital Health Plan, Inc. on November 12, 2002.

As of the date of this examination, the Plan was authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S.

The Plan's bylaws were amended on August 24, 2004.

CORPORATE MEMBERSHIP

As a not for profit corporation organized pursuant to Chapter 617, F.S., the Plan has no issued capital stock. Blue Cross and Blue Shield of Florida, Inc. (BCBSF) retains majority control of the Plan's corporate membership. An abbreviated organizational chart appears on page 8.

PROFITABILITY

For the period of this examination, the Plan reported the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Year-end enrollment	112,560	110,799	107,909
In \$ millions:			
Net premiums	\$385.1	\$350.0	\$312.0
Total revenues	\$387.2	\$352.3	\$314.3
Net income	\$37.5	\$38.4	\$19.5
Total surplus	\$117.3	\$83.3	\$45.9

MANAGEMENT

The annual membership meeting for the election of directors was held in accordance with Section 617.0701, F.S. Directors serving as of December 31, 2005 were:

Directors

Name and Location	Principal Occupation
Charles D. Ausley Tallahassee, Florida	Attorney Ausley and McMullen
Thomas A. Barron Tallahassee, Florida	President Capital City Bank
Wallace K. Boutwell, Jr. Tallahassee, Florida	President MGT of America, Inc.
David K. Coburn Tallahassee, Florida	Staff Director, Florida Senate Ways and Means Committee
Patricia C. Hayward, Ph.D. Tallahassee, Florida	Assistant Vice President, Office of the Provost, Florida State University
John T. Herndon Tallahassee, Florida	Consultant Southern Strategy Group
Joyce A. Kramzer Jacksonville, Florida	Group Vice President, Delivery System Blue Cross and Blue Shield of Florida, Inc.
Stephen C. McArthur Tallahassee, Florida	Retired Executive Vice President MGT of America, Inc.
Isaac Moore, M.D. Tallahassee, Florida	Ophthalmologist Alpha Eye Care Center
Winifred H. Schmeling, Ph.D. Tallahassee, Florida	Consultant Organizational Improvement/ QI Tallahassee Memorial Healthcare
James B. Sheedy, M.D. Tallahassee, Florida	Physician Hematology/Oncology
Edwin M. Thorpe, Ph.D. Tallahassee, Florida	Retired Dean of Student Affairs Florida A&M University

At December 31, 2005, members of the principal committee(s) of the Board were:

Finance Committee

Charles D. Ausley
Thomas A. Barron
David K. Coburn
John T. Herndon
Joyce A. Kramzer
Stephen C. McArthur

Executive Committee

Charles D. Ausley
Thomas A. Barron
Wallace K. Boutwell, Jr.
David K. Coburn
Winifred H. Schmeling, Ph.D.

Health Delivery Committee

Patricia C. Hayward, Ph.D.
Stephen C. McArthur
Isaac Moore, MD
Winifred H. Schmeling, Ph.D.
James B. Sheedy, M.D.

External Affairs Committee

Patricia C. Hayward, Ph.D.
Stephen C. McArthur
Isaac Moore, MD

Personnel Committee

Thomas A. Barron
John T. Herndon
Stephen C. McArthur
Winifred H. Schmeling, Ph.D.
Edwin M. Thorpe, Ph.D.

Strategic Planning Committee

Charles D. Ausley
Thomas A. Barron
David K. Coburn
Isaac Moore, MD
Winifred H. Schmeling, Ph.D.
Edwin M. Thorpe, Ph.D.

Member Relations Committee

Patricia C. Hayward, Ph.D.
John T. Herndon
Stephen C. McArthur
Edwin M. Thorpe, Ph.D.

Facilities Committee

Charles D. Ausley
Thomas A. Barron
Stephen C. McArthur
Edwin M. Thorpe, Ph.D.

The following were the Plan's senior officers as of December 31, 2005, as appointed by its board of directors in accordance with the Plan's bylaws:

Senior Officers

Name	Title
Wallace K. Boutwell, Jr.	Chairman
Winifred H. Schmeling, Ph.D.	Vice Chairman
David K. Coburn	Treasurer
Thomas A. Barron	Secretary

CONFLICT OF INTEREST PROCEDURE

The Plan adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 617.0832, F.S. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the corporate membership, Board of Directors, and Executive, Finance, Health Delivery, and Personnel Committee meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Plan transactions in accordance with Section 617.1601, F.S., including the authorization of investments as required by Section 641.35(7), F.S.

AFFILIATED COMPANIES

The following agreements were in force between the Plan and its affiliates.

AFFILIATION AND ADMINISTRATIVE AGREEMENT

Under the terms of a February 4, 1981 agreement, BCBSF controls 51% of the Plan's corporate membership and makes available to the Plan certain services to include legal, data processing, actuarial services, and certain products to include subscriber certificates, riders, and subscriber conversion coverage.

ACCOUNTING AGREEMENT

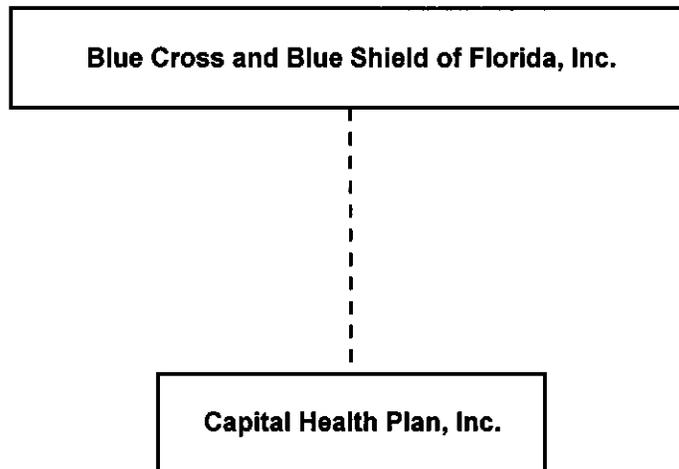
The Company entered into an agreement with BCBSF effective July 1, 1992 providing for the determination of billing rates to be used by the parties in joint ventures in which they together participate, and providing for reimbursement to the party providing services to or on behalf of the other party. Fees to BCBSF pursuant to the agreement amounted to \$2.4 million, \$1.6 million, and \$1.3 million in years 2003, 2004, and 2005, respectively.

ANTI-FRAUD INVESTIGATIVE SERVICES AGREEMENT

BCBSF provides anti-fraud investigative services to the Plan pursuant to a May 1, 2000 agreement in return for a monthly fee of \$3,000.

An abbreviated organizational chart as of December 31, 2005 is shown below. BCBSF controls the majority of the Plan's corporate membership.

**Capital Health Plan, Inc.
Organizational Chart
December 31, 2005**



FIDELITY BOND AND OTHER INSURANCE

The Plan maintains acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and maintains a blanket fidelity bond in the amount of \$1 million as required by Section 641.22, F.S. As a combination model HMO, the Plan maintains adequate medical malpractice insurance for the Plan as well as the physicians it employs, in compliance with Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Plan provides to eligible employees fringe benefits including medical, group life, long and short term disability insurance coverage and paid leave.

The Plan maintains a defined contribution retirement plan whereby contributions are made directly to individual retirement accounts of employees. Contributions are determined annually by the Plan's management and are allocated among participants in proportion to their eligible compensation during the plan year.

STATUTORY DEPOSITS

The Plan 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.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2005, the Plan was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It holds a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, F.S., which is valid until May 30, 2008.

The Plan employs its own agents and works closely with independent agents. It operates as a combined model HMO and provides health care services to comprehensive and Medicare members. The Plan's total membership at December 31, 2005 was 112,560, 95% of which was comprehensive.

The Plan operates in Gadsden, Jefferson, Leon, and Wakulla County, Florida.

TREATMENT OF MEMBERS

The Plan established procedures for handling written complaints in accordance with Section 641.511, F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The reinsurance agreements reviewed were found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines, except as noted below.

ASSUMED

The Company did not assume business for the period under review.

CEDED

The Plan maintained two excess-of-loss treaties with authorized reinsurers at December 31, 2005.

Inpatient hospital services coverage provides for 90% of eligible hospital services in excess of \$350,000 per member per year with an annual limit of \$2 million per member. Organ/bone transplant coverage provides reimbursement for 60% to 100% of all eligible transplant and transplant related services for up to 365 days following the day of transplant, and is limited to \$2 million for each type of covered transplant procedure.

The reinsurance contracts were reviewed by the Plan's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Plan's statutory-basis financial statements annually for years 2003, 2004, and 2005, pursuant to Section 641.26(1)(c), F.S.

The Plan's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Plan's main administrative office is located in Tallahassee, Florida, where this examination was conducted.

The following agreements were in effect between the Plan and non-affiliates:

CUSTODIAL AGREEMENT

On May 2, 2002, the Plan entered into an agreement with the Bank of New York for the holding and safekeeping of the its stocks, certificates, bonds, and other securities. Fees related to this agreement were \$8,183, \$8,817, and \$18,613 in years 2003, 2004, and 2005, respectively.

INDEPENDENT AUDITOR AGREEMENT

The Plan contracted with PricewaterhouseCoopers LLP for conducting annual audits of its statutory-basis financial statements. Fees related to this agreement were \$38,600, \$30,334 and \$56,100 in years 2003, 2004, and 2005, respectively.

ACTUARIAL CONSULTING SERVICES AGREEMENT

The Plan contracted with an independent actuary, David Llewellyn, FSA, MAAA, to provide general actuarial support services. Fees related to this agreement were \$32,400, \$12,000, and \$42,880 in years 2003, 2004, and 2005, respectively.

TELEMANAGEMENT SERVICES AGREEMENT

The MLB Group, LLC receives telephone calls on behalf of the Plan relating to member and provider services, provides callers with information, and refers members needing additional information to the Plan, pursuant to a July 12, 2004 agreement. Fees related to the agreement were \$100,915 and \$287,084 in years 2004 and 2005, respectively.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Plan's financial position at December 31, 2005, as determined by this examination, and the results of its operations for the year then ended as reported by the Plan.

Capital Health Plan, Inc.
Assets
December 31, 2005

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$124,443,503	\$0	\$124,443,503
Properties occupied by the company	12,519,089	0	12,519,089
Properties held for sale	15,000	0	15,000
Cash, cash equivalents, and short-term investments	34,690,099	0	34,690,099
Receivables for securities	960,299	0	960,299
Aggregate write-ins for invested assets	<u>102,966</u>	<u>0</u>	<u>102,966</u>
	172,730,956	0	172,730,956
Investment income due and accrued	935,412	0	935,412
Uncollected premiums and agents' balances	2,443,004	0	2,443,004
Amounts recoverable from reinsurers	254,000	0	254,000
Electronic data processing equipment and software	1,884,176	0	1,884,176
Health care and other amounts receivable	1,187,132	0	1,187,132
Aggregate write-ins for other than invested assets	<u>1,035,683</u>	<u>0</u>	<u>1,035,683</u>
Totals	<u><u>\$180,470,363</u></u>	<u><u>\$0</u></u>	<u><u>\$180,470,363</u></u>

Capital Health Plan, Inc.
Liabilities and Surplus
December 31, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$27,704,077	\$0	\$27,704,077
Unpaid claims adjustment expenses	455,000	0	455,000
Premiums received in advance	8,202,643	0	8,202,643
General expenses due or accrued	3,377,774	0	3,377,774
Amounts due to parent, subsidiaries and affiliates	196,355	0	196,355
Payable for securities	16,820,006	0	16,820,006
Aggregate write-ins for other liabilities	6,401,387	0	6,401,387
Total liabilities	<u>63,157,242</u>	<u>0</u>	<u>63,157,242</u>
Surplus			
Unassigned funds (surplus)	<u>117,313,121</u>	<u>0</u>	<u>117,313,121</u>
Total surplus	<u>117,313,121</u>	<u>0</u>	<u>117,313,121</u>
Total liabilities and surplus	<u><u>\$180,470,363</u></u>	<u><u>\$0</u></u>	<u><u>\$180,470,363</u></u>

Capital Health Plan, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2005

Net premium income		\$385,111,302
Fee-for-service		<u>2,089,629</u>
Total revenues		387,200,931
Hospital/medical benefits	\$258,610,270	
Outside referrals	3,022,119	
Emergency room and out-of-area	17,461,916	
Prescription drugs	<u>52,537,551</u>	
	331,631,856	
Net reinsurance recoveries	<u>259,841</u>	
Total hospital and medical	331,372,015	
Claims adjustment expenses	5,929,014	
General administrative expenses	<u>18,547,084</u>	
Total underwriting deductions		<u>355,848,113</u>
Net underwriting gain		31,352,818
Net investment income earned	7,334,199	
Net realized capital gains (losses)	<u>(1,965,373)</u>	5,368,826
Aggregate write-ins for other income		<u>808,783</u>
Net income		<u><u>\$37,530,427</u></u>

Capital Health Plan, Inc.
Surplus Account
For the Year Ended December 31, 2005

Surplus, December 31, 2004		\$83,346,278
Net income	\$37,530,427	
Change in nonadmitted assets	(3,215,616)	
Cumulative effect of changes in accounting principles	<u>(347,968)</u>	
	33,966,843	
Examination adjustments	<u>0</u>	<u>33,966,843</u>
Surplus, December 31, 2005		<u><u>\$117,313,121</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Claims Unpaid	\$27,704,077
Unpaid Claims Adjustment Expenses	\$455,000

The consulting actuary appointed by the Board of Directors rendered an opinion that the amounts carried on the Plan's balance sheet as of December 31, 2005 reasonably provided for all unpaid loss and loss expense obligations of the Plan under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Plan and concurred with this opinion.

Based on the results of the Office actuary's review and analysis of work papers and data provided by the Plan, we concluded that the aggregate liability was not materially misstated.

**Capital Health Plan, Inc.
Comparative Analysis of Changes in Surplus
December 31, 2005**

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

Surplus - December 31, 2005, per annual statement			\$117,313,121
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) in Surplus</u>
Assets	\$180,470,363	\$180,470,363	\$0
Liabilities	\$63,157,242	\$63,157,242	<u>\$0</u>
Net change in surplus			<u>0</u>
Surplus - December 31, 2005, per examination			<u><u>\$117,313,121</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

There were no directives or significant findings from the prior examination on which to comment.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The current financial condition examination did not result in any material findings of non-compliance with statutes, rules, or other requirements on the part of the Plan.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Capital Health Plan, Inc.** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Plan's total surplus was \$117,313,121, which was in compliance with Section 641.225, F.S. Its required minimum surplus at December 31, 2005 was \$7,702,226.

In addition to the undersigned, the following participated in this examination: M. Alison Miele, Financial Examiner/Analyst; Richard J. Schaaf, CPA, Financial Specialist; David C. Schleit, CPA, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

Walter F. Banas, CIE, Financial Specialist
Florida Office of Insurance Regulation