

Report on Examination
of
CIGNA HealthCare of Florida, Inc.
Tampa, Florida
as of
December 31, 2006

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

April 29, 2008

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0301

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, 2006, of the financial condition and corporate affairs of:

CIGNA HealthCare of Florida, Inc.
3101 W. Dr. Martin Luther King, Jr. Blvd., Suite 200
Tampa, Florida 33607

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004 through December 31, 2006. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2002.

Planning for the current examination began on October 1, 2007. The fieldwork commenced on October 18, 2007 and concluded on February 27, 2008. 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 Company's solvency.

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

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2006 annual statement. Transactions subsequent to December 31, 2006 were reviewed where relevant and deemed significant to the Company'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.

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The following is a summary of significant adverse findings contained in the Office's examination report as of December 31, 2002, along with resulting action taken by the Company in connection therewith.

Accounts and Records

During the prior examination, the Company did not always readily make available to the examiners its accounts, records, documents, files, information, and matters in its possession or control relating to the subject of the examination, as required by Section 624.318(2), F.S. The Company did not always provide examiners with prompt and adequate access to requested financial records; limited examiners' access to knowledgeable Company employees; and did not always provide examiners with requested documentation on a timely basis in the manner requested. As a result, the prior examination was needlessly prolonged and difficult to conduct, and resulted in undue expense. As discussed on page 15 of this report, the current examination of the Company resulted in a similar finding.

Premium Collections

The prior examination of the Company resulted in a finding that, pursuant to a management services agreement with CIGNA Health Corporation (CHC), premium payments received by CHC on behalf of the Company were generally required to be remitted to the Company no later than midnight on the fourth business day after receipt. The examination revealed that the premiums were frequently not forwarded to the Company on a timely basis as required by the agreement, and that they were often remitted following periods substantially in excess of four business days. Resolution: During the current examination, we found that premiums collected on behalf of the Company were forwarded to the Company in a timely manner.

Federal and Foreign Income Tax Recoverable

The Company's operations were included in the consolidated federal income tax return of CIGNA Corporation. In its 2002 annual statement, the Company reported as an admitted asset "federal and foreign income tax recoverable" in the total amount of \$5,528,713, including a deferred tax asset of \$1,558,438. While the remaining \$3,970,275, identified by the Company as "federal income taxes due from CIGNA Corporation" was subsequently collected by the Company, it was unable to provide the examiners with a detailed explanation of how the reported amount was calculated. Resolution: The current examination of the Company did not result in a similar finding.

Due To Parent, Subsidiaries and Affiliates

The prior examination of the Company revealed that, in its 2002 annual statement, it failed to accrue \$537,590 as of December 31, 2002 for the final seven days of employee salary and benefit expenses, in accordance with Section 641.35(3)(c), F.S., and Statement of Statutory Accounting Principles No. 5. Resolution: The current examination of the Company did not result in a similar finding.

HISTORY

GENERAL

The Company was incorporated in Florida on February 10, 1981, and commenced business on February 22, 1981.

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

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

CAPITAL STOCK

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	500
Total common capital stock	\$500
Par value per share	\$1.00

At December 31, 2006, the Company was wholly-owned by Healthsource, Inc., which in turn was wholly-owned by CHC, which was ultimately owned by CIGNA Corporation. An abbreviated organizational chart appears on page 11.

PROFITABILITY

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

(In millions)	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net premiums	\$253.7	\$242.9	\$238.0
Total revenues	\$253.7	\$242.9	\$238.0
Net income (loss)	(\$2.5)	\$6.6	\$15.1
Total capital and surplus	\$22.9	\$23.4	\$26.9

DIVIDENDS

The Company paid shareholder dividends in the amount of \$8 million during 2005. No dividends were paid in years 2004 or 2006.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S. Directors serving as of December 31, 2006 were:

Directors

<u>Name and Location</u>	<u>Principal Occupation</u>
David M. Ferriss, Jr., M.D. Hartford, Connecticut	Vice President CIGNA HealthCare of Florida, Inc.
David Goldberg Hartford, Connecticut	Vice President CIGNA HealthCare of Florida, Inc.
Scott T. Josephs, M.D. Raleigh, North Carolina	Vice President CIGNA HealthCare of Florida, Inc.

The Company's senior officers as of December 31, 2006, as appointed by its board of directors in accordance with the Company's bylaws, were as follows:

Senior Officers

<u>Name</u>	<u>Title</u>
Andrew D. Crooks	President
Timothy Burton	Vice President
Leslie N. Campbell	Vice President
Kirk D. Cianciolo, M.D.	Vice President
Karen E. Ferrell	Vice President
David M. Ferriss, Jr., M.D.	Vice President
John P. Frey	Vice President
Glenn M. Gerhard	Vice President
David Goldberg	Vice President
Allan E. Hanssen	Vice President
Kathleen M. Hockmuth	Vice President
Scott T. Josephs, M.D.	Vice President
Barry R. McHale	Vice President
Jeffery L. Novak	Vice President
Robert D. Picinich	Vice President
David M. Porcello	Vice President
Vincent L. Shreckengast	Vice President
Joseph E. Turgeon, III	Vice President
James V. Vasquenza, Jr.	Vice President
Susan L. Cooper	Secretary
Scott R. Lambert	Treasurer

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 641.35(7), F.S. A review of the prior report of examination by the Office was not documented in the minutes of the Board.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (F.A.C.). 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, F.A.C., on April 5, 2007.

The following agreements were in force between the Company and its affiliates:

MANAGEMENT SERVICES AGREEMENT

CHC provided administrative services to the Company and certain of its affiliates pursuant to an agreement effective January 1, 1994, and subsequently amended. Fees for the services amounted to \$125.1 million, \$13.9 million, and \$23.1 million in years 2004, 2005, and 2006, respectively.

NETWORK ACCESS AGREEMENT

The Company entered into a network access agreement, effective January 1, 1998, with affiliated HMOs and Connecticut General Life Insurance Company (CGLIC), also an affiliate. The agreement allowed CGLIC and the HMOs access to the Company's provider network.

INTERCOMPANY SERVICE AGREEMENT

International Rehabilitation Associates, Inc., an affiliate, charged the Company a capitation fee for utilization, case, demand, disease, care management, and other services to its members, pursuant to an intercompany service agreement. The expense relating to these services was \$1.6 million in each of years 2004 and 2005, and \$1.7 million in 2006.

AGREEMENT FOR PROVISION OF MENTAL HEALTH SERVICES

CIGNA Behavioral Health, Inc., an affiliate, charged the Company a capitation fee for providing mental health and substance abuse services to its members. The expense relating to this agreement was \$3.4 million in each of years 2004 and 2005, and \$4.1 million in 2006.

AGREEMENT FOR CONSULTATION ON SELECTED DENTAL CASES

The Company was a party to an agreement with CIGNA Dental Health, Inc. and its subsidiaries, effective October 1, 2000, calling for CIGNA Dental Health, Inc. or one of its affiliates to provide dental consultations to the Company's subscribers in return for a fee of \$80 per consultation. No fees were paid under this agreement during the period under examination.

PARTICIPATING PHARMACY AGREEMENT

Tel-Drug, Inc., an affiliate, provided mail-order pharmacy services to the Company's subscribers pursuant to an agreement effective October 1, 1994. No fees were paid under this agreement during the period under examination.

CIGNA HEALTH ACCESS PREMIUM BILLING AGREEMENT

Pursuant to an agreement between the Company, affiliated HMOs, and CGLIC, the HMOs offered group and individual standard service agreements providing coverage of in-network health care services, and CGLIC supplemented the HMO service agreements by providing group insurance coverage of out-of-network health care services. Customers purchasing this product received a single premium invoice. No fees were paid under this agreement during the period under examination.

TAX ALLOCATION AGREEMENT

The Company's operations were included in the consolidated federal income tax return of CIGNA Corporation. Pursuant to a tax allocation agreement, the Company was liable for payments determined as if it had filed a separate return, and was reimbursed to the extent that any of its net operating losses were used to reduce consolidated taxable income.

INVESTMENT ADVISORY AGREEMENT

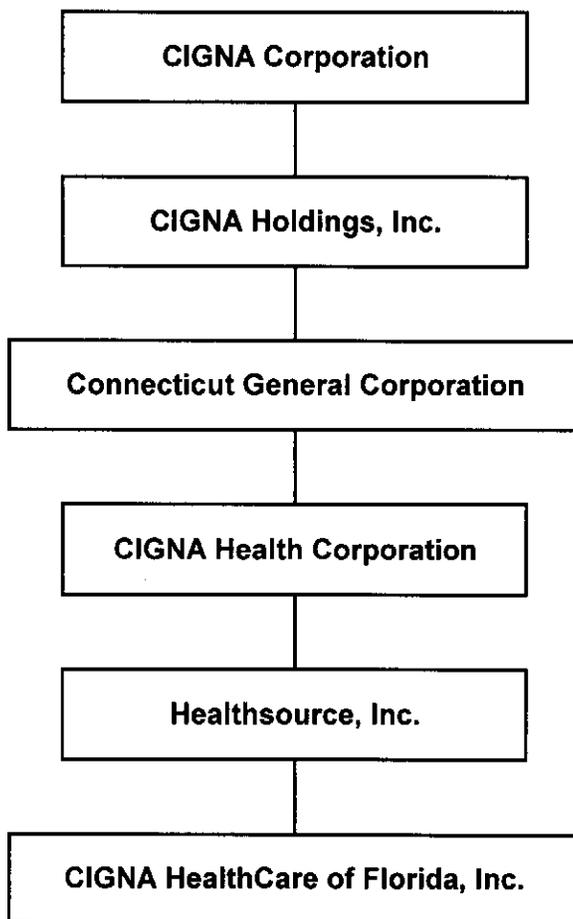
CIGNA Investments, Inc., an affiliate, provided investment services to the Company pursuant to an agreement effective December 1, 1994 and amended on December 3, 2002. The expense relating to this agreement was \$31,463, \$45,744, and \$38,196 in years 2004, 2005, and 2006, respectively.

FLORIDA LINE OF CREDIT AGREEMENT

Pursuant to this agreement, CHC provided a line of credit to the Company in the amount of \$4 million. No interest or other fees were paid under this agreement during the period under examination.

An abbreviated organizational chart as of December 31, 2006 reflecting the holding company system is shown below. Schedule Y of the Company's 2006 annual statement provided the names of all related companies in the holding company group.

**CIGNA HealthCare of Florida, Inc.
Organizational Chart
December 31, 2006**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained acceptable levels of general liability insurance, in compliance with Rule 690-191.069, F.A.C., and maintained a blanket fidelity bond in the amount of \$20 million, as required by Section 641.22, F.S.

As an individual practice association (IPA) model HMO, the Company maintained adequate professional liability insurance.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no direct employees and, as a result, offered no pension or other employee benefit plans.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$1,970,000, 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, 2006, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. 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 June 8, 2008.

The Company used a network of general agents and brokers, operated as an IPA model, and provided health care services exclusively to comprehensive (hospital and medical) members. Its total membership at December 31, 2006 was 69,167.

The Company operated in the Florida counties of Alachua, Brevard, Broward, Charlotte, Clay, Duval, Hernando, Hillsborough, Lake, Lee, Manatee, Marion, Martin, Miami-Dade, Nassau, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Sarasota, Seminole, and Volusia.

TREATMENT OF MEMBERS

The Company 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

As of December 31, 2006, the Company was party to only one reinsurance agreement, which was with CGLIC. The agreement became effective January 1, 2000 and was administered by CHC. In return for premiums paid, the Company was reimbursed for a portion of its claims in excess of a deductible amount for hospital and related services provided to individuals. For the year 2006, the required deductible was \$250,000 per individual health plan member per calendar year, with the Company retaining 20% and ceding 80% of claim costs over \$250,000. During 2006, reinsurance premiums and recoveries related to this agreement amounted to \$422,890 and \$971,814, respectively.

The reinsurance agreement reviewed was found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2004, 2005, and 2006, pursuant to Section 641.26(1)(c), F.S.

The Company'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 Company's main administrative office was located in Tampa, Florida. A significant portion of its books and records were located in Hartford, Connecticut, where this examination was conducted.

During this examination, the Company did not always provide examiners with requested information and documentation on a timely basis in the manner requested. Often the Company required more than one month, and in some cases more than two months, to fulfill requests for information and supporting documentation. As a result, the examination was needlessly prolonged, difficult to conduct, and costly.

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

CUSTODIAL AGREEMENT

JPMorgan Chase & Co. provided investment custodial services to the Company and certain of its affiliates including the safekeeping of assets, collection of income, reporting, and loss protection, in return for a fixed annual fee.

INDEPENDENT AUDITOR AGREEMENT

PricewaterhouseCoopers LLC provided auditing services to the Company in return for fees which amounted to \$22,800, \$42,000, and \$44,100 in years 2004, 2005, and 2006, respectively.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2006, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

CIGNA HealthCare of Florida, Inc.
Assets
December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$40,387,525	\$0	\$40,387,525
Cash, cash equivalents & short-term investments	5,704	0	5,704
Receivables for securities	40,168	0	40,168
	<u>40,433,397</u>	<u>0</u>	<u>40,433,397</u>
Investment income due and accrued	505,379	0	505,379
Uncollected premiums and agents' balances	6,239,868	0	6,239,868
Net deferred tax asset	2,924,796	0	2,924,796
Aggregate write-ins for other than invested assets	137,000	0	137,000
Totals	<u>\$50,240,440</u>	<u>\$0</u>	<u>\$50,240,440</u>

CIGNA HealthCare of Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2006

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$18,165,733	\$0	\$18,165,733
Unpaid claims adjustment expenses	432,901	0	432,901
Aggregate health policy reserves	2,500,000	0	2,500,000
Premiums received in advance	52,596	0	52,596
General expenses due or accrued	54,530	0	54,530
Current federal and foreign income tax payable	584,853	0	584,853
Ceded reinsurance premiums payable	31,678	0	31,678
Amounts due to parent, subsidiaries & affiliates	4,266,316	0	4,266,316
Aggregate write-ins for other liabilities	1,299,002	0	1,299,002
Total liabilities	<u>27,387,609</u>	<u>0</u>	<u>27,387,609</u>
Capital and Surplus			
Common capital stock	500	0	500
Gross paid in and contributed surplus	15,070,135	0	15,070,135
Unassigned funds	7,782,196	0	7,782,196
Total capital and surplus	<u>22,852,831</u>	<u>0</u>	<u>22,852,831</u>
Total liabilities, capital and surplus	<u>\$50,240,440</u>	<u>\$0</u>	<u>\$50,240,440</u>

CIGNA HealthCare of Florida, Inc.
Statement of Revenue and Expenses
For The Year Ended December 31, 2006

Net premium income		\$253,722,572
Hospital/medical benefits	\$153,965,684	
Other professional services	6,778,663	
Outside referrals	14,677,755	
Emergency room and out-of-area	12,570,669	
Prescription drugs	34,096,435	
	<u>222,089,206</u>	
Net reinsurance recoveries	971,813	
Total hospital and medical	<u>221,117,393</u>	
Claims adjustment expenses	7,445,561	
General administrative expenses	28,488,023	
Increase in reserves	2,500,000	
Total underwriting deductions		<u>259,550,977</u>
Net underwriting gain (loss)		(5,828,405)
Net investment income earned	2,880,124	
Net realized capital gains (losses)	(840)	
Net investment gains		<u>2,879,284</u>
Income (loss) before income taxes		(2,949,121)
Federal and foreign income taxes incurred		<u>(421,390)</u>
Net income (loss)		<u><u>(\$2,527,731)</u></u>

CIGNA HealthCare of Florida, Inc.
Capital and Surplus Account
For The Year Ended December 31, 2006

Capital and surplus - December 31, 2005		\$23,385,262
Net income (loss)	(\$2,527,731)	
Change in net deferred income tax	427,537	
Change in nonadmitted assets	1,567,763	
Examination adjustments	<u>0</u>	<u>(532,431)</u>
Capital and surplus - December 31, 2006		<u><u>\$22,852,831</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$21,098,634

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2006 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company 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 Company, we concluded that the aggregate liability was not materially misstated.

CIGNA HealthCare of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2006

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, 2006 - per annual statement				\$22,852,831
	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Increase</u> <u>(Decrease)</u> <u>In Surplus</u>	
Total assets	\$50,240,440	\$50,240,440	\$0	
Total liabilities	\$27,387,609	\$27,387,609	<u>\$0</u>	
Net change in capital and surplus				<u>0</u>
Capital and surplus, December 31, 2006 - per examination				<u><u>\$22,852,831</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the findings contained in the prior examination report as of December 31, 2002 issued by the Office, except as described below.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

Accounts and Records

As reported on page 15, the Company did not always provide examiners with requested information and documentation on a timely basis in the manner requested. Often the Company required more than one month, and in some cases more than two months, to fulfill requests for information and supporting documentation. As a result, the examination was needlessly prolonged, difficult to conduct, and costly. As reported on page 2 of this report, the report on the examination of the Company as of December 31, 2002 contained a similar finding. **We recommend that, during future regulatory examinations, management of the Company be more cooperative and responsive to requests from examiners, and provide them with requested information and documentation on a timely basis.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **CIGNA HealthCare of Florida, Inc.** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$22,852,831, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2006 was \$5,074,451.

In addition to the undersigned, the following participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Russell K. Judge, Financial Examiner/Analyst; M. Alison Miele, Financial Examiner/Analyst; Richard J. Schaaf, CPA, CFE, Financial Specialist; and Richard Tan, Actuary.

Respectfully submitted,

Tom Cook, Financial Examiner/Analyst
Florida Office of Insurance Regulation