

**Report on Examination**  
**of**  
**Capital Health Plan, Inc.**

**Tallahassee, Florida**

**as of**

**December 31, 2010**

**By The**  
**Florida Office of Insurance Regulation**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
200 E. Gaines Street  
Tallahassee, Florida 32399-0305

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 Capital Health Plan, Inc. as of December 31, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation  
March 7, 2012

## Contents

Scope of Examination .....	1
Plan History .....	2
Corporate Records .....	2
Management and Control .....	2
Fidelity Bonds and Other Insurance .....	5
Pension and Insurance Plans .....	6
Territory and Plan of Operation .....	6
Plan Growth .....	6
Reinsurance .....	7
Accounts and Records .....	7
Statutory Deposits .....	7
Financial Statements .....	8
Summary of Findings .....	13
Subsequent Events .....	14
Conclusion .....	15

## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of Capital Health Plan, Inc. (the "Plan"), a Florida health maintenance organization (HMO). The last financial condition examination of the Plan by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2005.

This examination covered the period of January 1, 2008 through December 31, 2010. We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Plan. It required that we do so by obtaining information about the Plan including corporate governance, identifying and assessing inherent risks within the Plan, 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 overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Plan were considered in accordance with the risk-focused examination process.

The examination was conducted in Pensacola and Tallahassee, Florida.

## PLAN HISTORY

The Plan was incorporated in Florida as a not-for-profit corporation on June 26, 1978 and commenced business on June 1, 1982. It was licensed by the Office on May 25, 1982 and was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.).

## CORPORATE RECORDS

The minutes of the meetings of the Board of Directors and its committees were reviewed for the period examined. The 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.

## MANAGEMENT AND CONTROL

Blue Cross and Blue Shield of Florida, Inc. (Blue Cross) controlled 51% of the Plan's corporate membership. The Plan's senior officers, directors and committee members were as follows:

### Senior Officers

<u>Name</u>	<u>Title</u>
John M. Hogan	Chief Executive Officer
Sabin C. Bass	Chief Financial Officer
Nancy Van Vesseem, M.D.	Chief Medical Officer
Eric M. Smith	Chief Information Officer
Thomas A. Barron	Secretary
David K. Coburn	Treasurer

**Board of Directors**

<b>Name</b>	<b>Location</b>
C. Dubose Ausley	Tallahassee, Florida
Thomas A. Barron	Tallahassee, Florida
Lillie M. Bogan	Tallahassee, Florida
W. Kenneth Boutwell, Jr., Ph.D.	Tallahassee, Florida
David K. Coburn	Tallahassee, Florida
Patricia C. Hayward, Ph.D.	Tallahassee, Florida
J. Thomas Herndon	Tallahassee, Florida
Joyce A. Kramzer	Jacksonville, Florida
Stephen C. McArthur	Tallahassee, Florida
Isaac Moore, M.D.	Tallahassee, Florida
Winifred H. Schmeling, Ph.D.	Tallahassee, Florida
J. Brian Sheedy, M.D.	Tallahassee, Florida

**Committees of the Board of Directors**

**Finance & Strategic Planning**

C. Dubose Ausley  
 Thomas A. Barron  
 David K. Coburn  
 J. Thomas Herndon  
 Joyce A. Kramzer  
 Stephen C. McArthur  
 Isaac Moore, M.D.  
 Winifred H. Schmeling, Ph.D.

**Executive**

C. Dubose Ausley  
 Thomas A. Barron  
 W. Kenneth Boutwell, Jr., Ph.D.  
 David K. Coburn  
 Joyce A. Kramzer  
 Winifred H. Schmeling, Ph.D.

**Nominating**

C. Dubose Ausley  
 Thomas A. Barron  
 W. Kenneth Boutwell, Jr., Ph.D.  
 David K. Coburn  
 Joyce A. Kramzer  
 Winifred H. Schmeling, Ph.D.

**Health Delivery**

Lillie M. Bogan  
 Patricia C. Hayward, Ph.D.  
 Isaac Moore, M.D.  
 Winifred H. Schmeling, Ph.D.  
 J. Brian Sheedy, M.D.

**Personnel**

Thomas A. Barron  
 J. Thomas Herndon  
 Stephen C. McArthur  
 Winifred H. Schmeling, Ph.D.

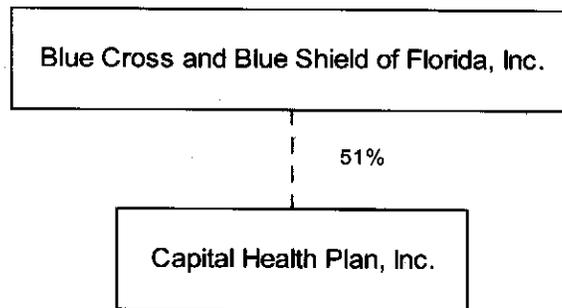
**Compensation**

Lillie M. Bogan  
 Patricia C. Hayward, Ph.D.  
 Stephen C. McArthur  
 Winifred H. Schmeling, Ph.D.  
 J. Brian Sheedy, M.D.

The Plan 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 May 27, 2011.

An organizational chart reflecting the holding company system is shown below.

**Capital Health Plan, Inc.  
Organizational Chart  
December 31, 2010**



The following agreements were in effect between the Plan and Blue Cross:

The Plan and Blue Cross entered into an agreement on December 4, 1981 giving Blue Cross majority control of the Plan's corporate membership. The agreement provided that Blue Cross may supply certain administrative services and products to the Plan and committed it to lend operating funds to the Plan.

The Plan and Blue Cross entered into an agreement, effective July 1, 1992, in order to manage any rating, finance, accounting, reporting, and regulatory issues arising from the administration of joint venture-type programs provided by them to group purchasers. The agreement did not contain a provision that it would be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

Blue Cross provided anti-fraud investigative services to the Plan pursuant to a May 1, 2000 agreement in return for monthly fees. The agreement did not contain a provision that it would be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

#### **FIDELITY BONDS AND OTHER INSURANCE**

The Plan maintained acceptable levels of general liability insurance in accordance with Rule 69O-191.069, F.A.C., and was insured by a blanket fidelity bond as required by Section 641.22(7), F.S., in the amount of \$2 million. As a combination model HMO, the Plan maintained adequate medical malpractice insurance for the Plan as well as the physicians it employed, and required in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069(1), F.A.C. The Plan's general liability and medical malpractice/professional liability insurance policies did not

provide, as required by Rule 69O-191.069(2), F.A.C., for the Office to receive written notification of any reduction of coverage, cancellation, non-renewal or termination. However, on August 24, 2011, certificates of liability insurance naming the Office as certificate holder were filed with the Office.

### **PENSION AND INSURANCE PLANS**

The Plan provided various benefits to eligible employees. They included group medical, life, short-term and long-term disability, and dental insurance; paid time off; and a simplified employee defined contribution pension plan. In addition, the Plan maintained a Section 457(b) deferred compensation plan for certain employees.

### **TERRITORY AND PLAN OF OPERATION**

The Plan provided health care services to comprehensive and Medicare members in the Florida counties of Calhoun, Gadsden, Jefferson, Leon, Liberty, and Wakulla. 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 May 29, 2012.

### **PLAN GROWTH**

The Plan reported the following for years 2008 through 2010:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Year-end enrollment	112,205	112,748	114,080
(In millions)			
Premiums	\$ 497.8	\$ 533.9	\$ 577.7
Revenues	\$ 500.6	\$ 536.4	\$ 580.2
Net income	\$ 33.9	\$ 14.6	\$ 33.5
Capital and surplus	\$ 215.5	\$ 220.5	\$ 266.2

## **REINSURANCE**

The Plan maintained reinsurance providing for reimbursement, per member per year, of 90% of the cost of covered inpatient hospital services in excess of \$500,000 up to \$2,000,000. It also maintained reinsurance providing for reimbursement, per member per policy period, of the cost of covered organ/bone marrow services in excess of \$350,000 up to \$2,000,000. Examiners found that the reinsurance agreements had not been filed with and approved by the Office, as required by Rule 69O-191.072, F.A.C. Subsequently, a new reinsurance agreement was entered into and filed with and approved by the Office.

## **ACCOUNTS AND RECORDS**

Examiners found that the Plan's contracts with unaffiliated entities for administrative, management, and certain provider services did not contain provisions that they would be canceled upon issuance of an order by the Office pursuant to Section 641.234(3), F.S.

## **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.

**Capital Health Plan, Inc.**  
**Assets**  
**December 31, 2010**

	Per Plan	Examination Adjustments	Per Examination
Bonds	\$ 285,669,687	\$ -	\$ 285,669,687
Properties occupied by the company	21,387,330	-	21,387,330
Cash, cash equivalents and short-term investments	36,125,171	-	36,125,171
Receivables for securities	507,413	-	507,413
	343,689,601	-	343,689,601
Investment income due and accrued	1,938,537	-	1,938,537
Uncollected premiums and agents' balances	801,225	-	801,225
Amounts recoverable from reinsurers	286,000	-	286,000
Electronic data processing equipment and software	1,103,560	-	1,103,560
Health care and other amounts receivable	2,192,281	-	2,192,281
Aggregate write-ins for other than invested assets	1,677,107	-	1,677,107
<b>Total assets</b>	<b>\$ 351,688,311</b>	<b>\$ -</b>	<b>\$ 351,688,311</b>

**Capital Health Plan, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2010**

<b>Liabilities</b>	<b>Per Plan</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$ 55,850,808	\$ -	\$ 55,850,808
Unpaid claims adjustment expenses	520,000	-	520,000
Premiums received in advance	10,827,096	-	10,827,096
General expenses due or accrued	2,702,228	-	2,702,228
Amounts due to parent, subsidiaries and affiliates	841,689	-	841,689
Payable for securities	7,042,946	-	7,042,946
Aggregate write-ins for other liabilities	7,699,992	-	7,699,992
<b>Total liabilities</b>	<b>85,484,759</b>	<b>-</b>	<b>85,484,759</b>
<b>Capital and Surplus</b>			
Unassigned funds	266,203,552	-	266,203,552
<b>Total liabilities, capital and surplus</b>	<b>\$ 351,688,311</b>	<b>\$ -</b>	<b>\$ 351,688,311</b>

**Capital Health Plan, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Plan)**  
**For The Year Ended December 31, 2010**

Net premium income	\$ 577,694,281
Fee-for-service	2,516,538
<b>Total revenues</b>	<b>580,210,819</b>
Hospital and medical benefits	394,958,033
Outside referrals	1,741,031
Emergency room and out-of-area	34,624,844
Prescription drugs	91,271,088
	<b>522,594,996</b>
Net reinsurance recoveries	1,509,975
<b>Total hospital and medical</b>	<b>521,085,021</b>
Claims adjustment expenses	8,060,736
General administrative expenses	24,710,496
<b>Total underwriting deductions</b>	<b>553,856,253</b>
Net underwriting gain	26,354,566
Net investment gains	6,914,572
Aggregate write-ins for other income	206,735
<b>Net income</b>	<b>\$ 33,475,873</b>

**Capital Health Plan, Inc.**  
**Statement of Changes in Capital and Surplus**  
**For The Three Years Ended December 31, 2010**

Capital and surplus - December 31, 2007	\$ 184,396,326
Net income	33,857,286
Change in nonadmitted assets	(2,782,424)
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Capital and surplus - December 31, 2008	215,471,188
Net income	14,595,525
Change in nonadmitted assets	(9,612,816)
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Capital and surplus - December 31, 2009	220,453,897
Net income	33,475,873
Change in nonadmitted assets	12,273,782
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	266,203,552
Examination adjustments	-
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Capital and surplus - December 31, 2010	\$ 266,203,552
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**Capital Health Plan, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2010**

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

<b>Capital and surplus, December 31, 2010 - per annual statement</b>			<b>\$ 266,203,552</b>
	<b>Per Plan</b>	<b>Per Examination</b>	<b>Increase (Decrease) In Capital &amp; Surplus</b>
Total assets	<u>\$ 351,688,311</u>	<u>\$ 351,688,311</u>	<u>\$ -</u>
Total liabilities	\$ 85,484,759	\$ 85,484,759	\$ -
Net change in capital and surplus			-
<b>Capital and surplus, December 31, 2010 - per examination</b>			<u><u>\$ 266,203,552</u></u>

## SUMMARY OF FINDINGS

### Reinsurance Agreements

As reported on page 7, the Plan's reinsurance agreements had not been filed with and approved by the Office, as required by Rule 69O-191.072, F.A.C. Subsequently, a new reinsurance agreement was entered into and filed with and approved by the Office.

### Other Agreements

As reported on pages 5 and 7, certain of the Plan's agreements did not contain provisions that they would be canceled upon issuance of an order by the Office in accordance with Section 641.234(3), F.S. **We recommend that the Plan amend the agreements to provide that they would be canceled upon issuance of an order by the Office in accordance with Section 641.234(3), F.S.**

### Liability Insurance

As reported beginning on page 5, the Plan's general liability and medical malpractice/professional liability insurance policies did not provide, as required by Rule 69O-191.069(2), F.A.C., for the Office to receive written notification of any reduction of coverage, cancellation, non-renewal or termination. However, on August 24, 2011, certificates of liability insurance naming the Office as certificate holder were filed with the Office.

## **SUBSEQUENT EVENTS**

Stephen C. McArthur, who had served as one of the Plan's directors, passed away on March 3, 2011.

On August 8, 2011, the Plan and the Office entered into a consent order following a market conduct examination by the Office. The market conduct examination resulted in multiple findings that the Plan had violated certain statutes and rules. The order required the Plan to take corrective action and pay an administrative penalty of \$30,000 and administrative costs of \$3,000. The Plan complied with the order.

In its quarterly statement filed with the Office as of September 30, 2011, the Plan reported premiums of \$465,204,032 and net income of \$35,274,992 for the nine months then ended; it also reported capital and surplus of \$293,541,975 and 117,822 members as of September 30, 2011.

## 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., consistent with the insurance laws of the State of Florida.

The Plan's capital and surplus at December 31, 2010 was determined to be \$266,203,552 which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$11,553,886.

In addition to the undersigned, the following individuals participated in this examination: Christine N. Afolabi, CPA, Financial Specialist; Cathy S. Jones, CPA, AFE, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

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Michael D. Young, CFE  
Financial Examiner/Analyst