

Report on Examination
of
Coventry Health Care of Florida, Inc.
f/k/a Vista Healthplan, Inc.
Sunrise, 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 Coventry Health Care of Florida, Inc. as of December 31, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation
March 13, 2012

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of Coventry Health Care of Florida, Inc. (the "Company"), a single-state Florida health maintenance organization (HMO). The last limited-scope and full-scope financial condition examinations of the Company by the Florida Office of Insurance Regulation (the "Office") were as of September 30, 2005 and December 31, 2003, respectively.

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 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 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 Company were considered in accordance with the risk-focused examination process.

The examination was conducted primarily in the Company's Sunrise, Florida office.

SUMMARY OF SIGNIFICANT FINDINGS

We found that the Company understated its expenses and overstated its net income by \$29.8 million in its 2010 annual statement, as discussed on page 9. All examination findings are summarized on page 15.

COMPANY HISTORY

The Company was incorporated in Florida on December 16, 1999 and licensed by the Office as an HMO on October 17, 2000. Formerly known as Vista Healthplan, Inc., the Company became a wholly owned subsidiary of Florida Health Plan Administrators, LLC (FHPA) in July of 2006. Prior to then, it was owned by Florida Health Plan Holdings, LLC, which later merged into FHPA. On September 10, 2007, Coventry Health Care, Inc. (CHCI) acquired FHPA, and on February 25, 2010, the Company's name was changed from Vista Healthplan, Inc. to Coventry Health Care of Florida, Inc.

The Company was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.). It was also licensed by the State of Florida as a third party administrator pursuant to Part VII of Chapter 626, F.S.

Dividends and Capital Contributions

No dividends were distributed by the Company during the period examined. In 2009, it received \$13 million in capital contributions.

CORPORATE RECORDS

The minutes of the meetings of the Company's board of directors were reviewed for the period examined. The 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.

MANAGEMENT AND CONTROL

The Company was wholly owned by FHPA which, in turn, was owned by CHCI. It was affiliated with numerous entities through common ownership. CHCI is a national managed health care company with headquarters in Bethesda, Maryland; its capital stock traded on the New York Stock Exchange. The Company's senior officers and directors were as shown below.

Senior Officers

Name	Title
Christopher A. Ciano	President and Chief Executive Officer
Richard B. Weiss	Vice President and Chief Financial Officer
Shirley R. Smith	Secretary
John J. Ruhlmann	Treasurer and Controller
Robert J. Finkelman	Actuary

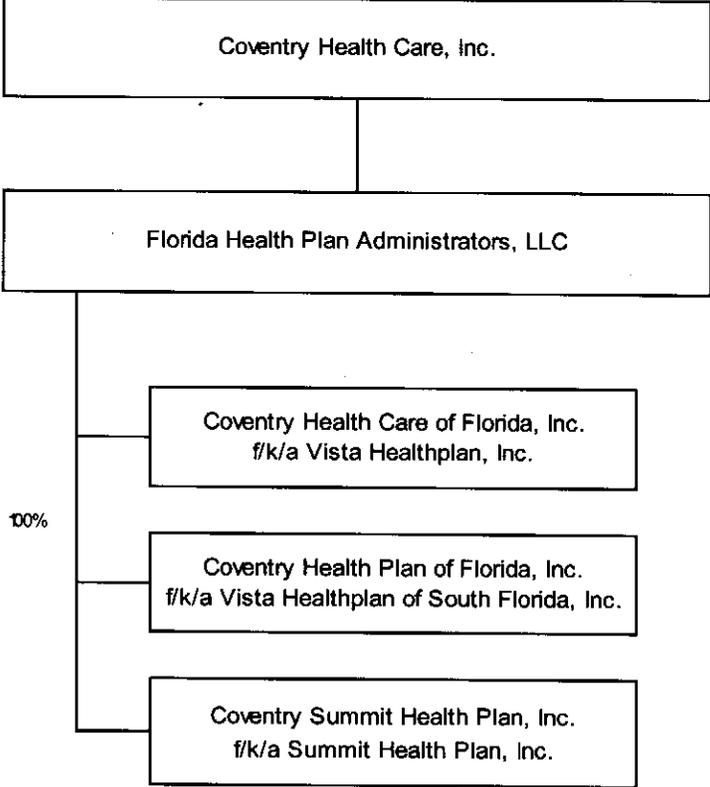
Board of Directors

Name	Location
Christopher A. Ciano	Ft. Lauderdale, Florida
John J. Ruhlmann	Bethesda, Maryland
Shirley R. Smith	Rockville, Maryland
Richard B. Weiss	Weston, Florida

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(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 690-143.046, F.A.C., on March 31, 2011.

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

**Coventry Health Care of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2010**



The following agreements were in effect with affiliates:

Management Agreement

Pursuant to a 2004 agreement, FHPA provided executive management and consulting, marketing, accounting, claims processing, utilization management, and provider and member relations services to the Company.

Administrative Services Agreement

The Company provided services related to the collection and transfer of premium payments for Coventry Health Plan of Florida, Inc. and Coventry Health and Life Company pursuant to a 2010 agreement.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated income tax returns of CHCI pursuant to a tax allocation agreement effective in 2008. In accordance with the agreement, consolidated income tax liabilities were allocated to members of the consolidated group in amounts that approximated the amounts which would have been computed on a separate company basis. 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.; however, the agreement was amended to include the required provision during the course of the examination.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on the general liability insurance policy of CHCI which was maintained at acceptable levels in compliance with Rule 69O-191.069, F.A.C. The Company was also a named insured on the crime policy of CHCI in the amount of \$10 million which adequately met the requirements of Section 641.22(7), F.S. As an individual practice association model HMO, the Company maintained adequate professional liability insurance. It required in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent as required by Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees and, therefore, did not provide employee benefits or sponsor retirement plans.

TERRITORY AND PLAN OF OPERATION

The Company 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 September 16, 2012. As an individual practice association model HMO operating solely in Florida, the Company provided health care services to comprehensive, Medicare and Medicaid members. It had 207,107 members as of December 31, 2010, of which 86% were comprehensive, 12% were Medicaid, and 2% were Medicare members.

The Company operated in the Florida counties of Alachua, Bradford, Broward, Calhoun, Columbia, Dixie, Escambia, Franklin, Gadsden, Gilchrist, Hamilton, Hendry, Jefferson, Lafayette, Leon, Levy, Liberty, Madison, Marion, Martin, Miami-Dade, Palm Beach, Santa Rosa, St. Lucie, Suwannee, Union, and Wakulla.

COMPANY GROWTH

The Company reported the following for years 2008, 2009 and 2010:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Year-end enrollment (In millions)	187,029	203,012	207,107
Premiums	\$ 696.8	\$ 771.4	\$ 790.5
Revenues	\$ 696.8	\$ 771.4	\$ 790.5
Net income (loss)	\$ (1.1)	\$ (3.4)	\$ 0.7
Capital and surplus	\$ 22.1	\$ 33.9	\$ 39.7

REINSURANCE

Since September 1, 2008, the Company maintained stop loss reinsurance with Coventry Health and Life Insurance Company. The agreement, as amended on April 1, 2010, provided coverage for 90% of the cost of specified commercial health care services in excess of \$450,000 and 80% of the cost of specified Medicare health care services in excess of \$375,000, up to a maximum per member of \$1,000,000.

ACCOUNTS AND RECORDS

The Company and certain affiliates, including Coventry Health Plan of Florida, Inc., were defendants in a lawsuit which was settled in 2010 for \$35,075,061. As a result, the Company was liable for claims in the amount of \$29,764,363. The settlement amount was paid by FHPA on behalf of all defendants. The expenses were attributable to the Company and other defendants and should have been recognized and reported by them as such. However, the Company failed to report its share of the settlement as expenses. As a result, the Company's expenses, as reported in its 2010 annual statement, were understated and its net income was overstated by \$29,764,363. Upon examination, that amount was reclassified from 'unassigned funds' to 'gross paid in and contributed surplus' in accordance with paragraph 7 of Statement of Statutory Accounting Principles (SSAP) No. 72.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$5,453,000 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.

Coventry Health Care of Florida, Inc.
Assets
December 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 89,008,581	\$ -	\$ 89,008,581
Properties held for the production of income	8,826,166	-	8,826,166
Cash, cash equivalents and short-term investments	43,747,092	-	43,747,092
	141,581,839	-	141,581,839
Investment income due and accrued	717,949	-	717,949
Uncollected premiums and agents' balances	2,875,083	-	2,875,083
Amounts recoverable from reinsurers	1,692,563	-	1,692,563
Current federal income tax recoverable	2,479,431	-	2,479,431
Net deferred tax asset	2,742,002	-	2,742,002
Electronic data processing equipment and software	76,155	-	76,155
Health care and other amounts receivable	311,652	-	311,652
Aggregate write-ins for other than invested assets	366,386	-	366,386
Total assets	\$ 152,843,060	\$ -	\$ 152,843,060

Coventry Health Care of Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2010

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 87,416,420	\$ -	\$ 87,416,420
Accrued medical incentive pool and bonuses	1,628,200	-	1,628,200
Unpaid claims adjustment expenses	1,771,840	-	1,771,840
Aggregate health policy reserves	1,467,153	-	1,467,153
Premiums received in advance	8,132,566	-	8,132,566
General expenses due or accrued	10,731,518	-	10,731,518
Amounts due to parent, subsidiaries and affiliates	981,028	-	981,028
Liability for amounts held under uninsured plans	1,000,097	-	1,000,097
Total liabilities	113,128,822	-	113,128,822
Capital and Surplus			
Common capital stock	1	-	1
Gross paid in and contributed surplus	121,609,599	29,764,363	151,373,962
Unassigned funds (deficit)	(81,895,362)	(29,764,363)	(111,659,725)
Total capital and surplus	39,714,238	-	39,714,238
Total liabilities, capital and surplus	\$ 152,843,060	\$ -	\$ 152,843,060

Coventry Health Care of Florida, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2010

Net premium income	\$ 790,488,431
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Hospital and medical benefits	564,207,723
Other professional services	4,794,977
Outside referrals	3,433,028
Prescription drugs	124,639,359
Incentive pool, adjustments and bonuses	3,135,617
	<hr/> 700,210,704
Net reinsurance recoveries	2,617,433
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Total hospital and medical	697,593,271
Claims adjustment expenses	18,211,099
General administrative expenses	76,835,117
Increase in reserves	1,156,144
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Total underwriting deductions	793,795,631
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Net underwriting gain (loss)	(3,307,200)
Net investment gains	3,276,968
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Income (loss) before income tax	(30,232)
Federal income tax (benefit)	(762,571)
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Net income	\$ 732,339
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Coventry Health Care of Florida, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2010

Capital and surplus - December 31, 2007	\$ 23,708,125
Net income (loss)	(1,083,076)
Change in net deferred income tax	5,386,129
Change in nonadmitted assets	(5,931,957)
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Capital and surplus - December 31, 2008	22,079,221
Net income (loss)	(3,397,754)
Change in net deferred income tax	(1,488,301)
Change in nonadmitted assets	8,833,185
Paid in capital	13,000,000
Aggregate write-ins for gains or (losses) in surplus	(5,162,967)
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Capital and surplus - December 31, 2009	33,863,384
Net income (loss)	732,339
Change in net deferred income tax	(1,398,437)
Change in nonadmitted assets	6,516,952
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	39,714,238
Examination adjustments	-
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Capital and surplus - December 31, 2010	\$ 39,714,238
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Coventry Health Care of Florida, 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 Company and as determined by the examination.

Capital and surplus, December 31, 2010 - per annual statement			\$ 39,714,238
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 152,843,060	\$ 152,843,060	\$ -
Total liabilities	\$ 113,128,822	\$ 113,128,822	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2010 - per examination			\$ 39,714,238

SUMMARY OF FINDINGS

Tax Allocation Agreement

As reported on page 6, the Company's tax allocation 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.; however, the agreement was amended to include the required provision during the course of the examination.

Unreported Expenses

As reported on page 9, the Company failed to report certain expenses paid on its behalf by its parent. As a result, the Company's expenses, as reported in its 2010 annual statement, were understated and its net income was overstated by \$29,764,363. **We recommend that, in future statements filed with the Office, the Company properly report all of its expenses and its gross paid in and contributed surplus in accordance with the annual statement instructions and SSAP No. 72.**

SUBSEQUENT EVENTS

In its quarterly statement, the Company reported total capital and surplus of \$38.6 million as of September 30, 2011, and net premium income and total revenues of \$616.0 million and a net loss of \$2.1 million for the nine months then ended.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Coventry Health Care of Florida, Inc. as of December 31, 2010, consistent with the insurance laws of the State of Florida.

The Company's capital and surplus at December 31, 2010 was determined to be \$39,714,238, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$15,809,769.

In addition to the undersigned, the following individuals participated in this examination: Christine N. Afolabi, CPA, Financial Specialist; Stephen Feliu, CFE (Fraud), Financial Examiner/Analyst; Cathy S. Jones, CPA, AFE, Financial Examiner/Analyst Supervisor; Scott R. Slaughter, CPA, Financial Examiner/Analyst; Richard Tan, Actuary; and Mike Young, CFE, Financial Examiner/Analyst.

Respectfully submitted,

Robert Y. Meszaros, Financial Specialist
Florida Office of Insurance Regulation