

**Report on Examination**  
**of**  
**Great-West Healthcare of Florida, Inc.**  
**Tampa, 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:

**Great-West Healthcare of Florida, Inc.**  
**1511 N. Westshore Blvd., Suite 700**  
**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, 2003 through December 31, 2005. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 1999.

Planning for the current examination began on March 27, 2006. The fieldwork commenced on April 3, 2006 and concluded on July 28, 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 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 2005 annual statement. Transactions subsequent to December 31, 2005 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 prior examination report did not contain any significant adverse regulatory disclosures or findings related to the Company's solvency.

## HISTORY

### GENERAL

The Company was incorporated in Florida and commenced business on November 27, 1996.

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.

On July 28, 2003, the Company's name was changed from One Health Plan of Florida, Inc. to Great-West Healthcare of Florida, Inc.

The Company's bylaws were amended on October 1, 2003.

### CAPITAL STOCK

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000
Number of shares issued and outstanding	350
Total common capital stock	\$3,500,000
Stated value per share	\$10,000

At December 31, 2005, the Company was wholly-owned and controlled by Great-West Healthcare Holdings, Inc. which was ultimately owned by Power Corporation of Canada. An abbreviated organizational chart appears on page 7.

## PROFITABILITY

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Year-end enrollment	1,075	1,802	2,330
000's omitted:			
Net premiums	\$2,502.7	\$3,580.2	\$5,251.7
Total revenues	\$2,502.7	\$3,580.2	\$5,251.7
Net income (loss)	\$18.7	(\$1,359.5)	\$1,079.0
Total capital & surplus	\$4,220.1	\$4,309.5	\$6,565.0

## DIVIDENDS

The Company paid dividends in the amount of \$1,079,046 during 2004. No dividends were paid in years 2003 or 2005.

## 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, 2005 were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Donna A. Goldin Denver, Colorado	Sr. Vice President - Healthcare Operations Great-West Life & Annuity Insurance Company
Christopher M. Knackstedt Littleton, Colorado	Sr. Vice President - Healthcare Management Great-West Life & Annuity Insurance Company
Martin Rosenbaum Lone Tree, Colorado	Sr. Vice President - Healthcare Finance Great-West Life & Annuity Insurance Company

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

**Senior Officers**

<b>Name</b>	<b>Title</b>
Steven A. White	President
John D. Greeson, M.D.	Vice President & Medical Director
David C. Larsen	Secretary
Glen R. Derback	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.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), 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 28, 2006.

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

### **ADMINISTRATIVE SERVICES AGREEMENT**

Great-West Life & Annuity Insurance Company (GWL&A) provided administrative and financial services to the Company pursuant to an April 29, 1998 agreement. The services included administering the Company's investment portfolio and processing the Company's claims. Compensation for these services, which was based on incurred costs, amounted to \$920,139, \$741,047, and \$502,188 in years 2003, 2004, and 2005, respectively.

### **SOLICITOR AGREEMENT**

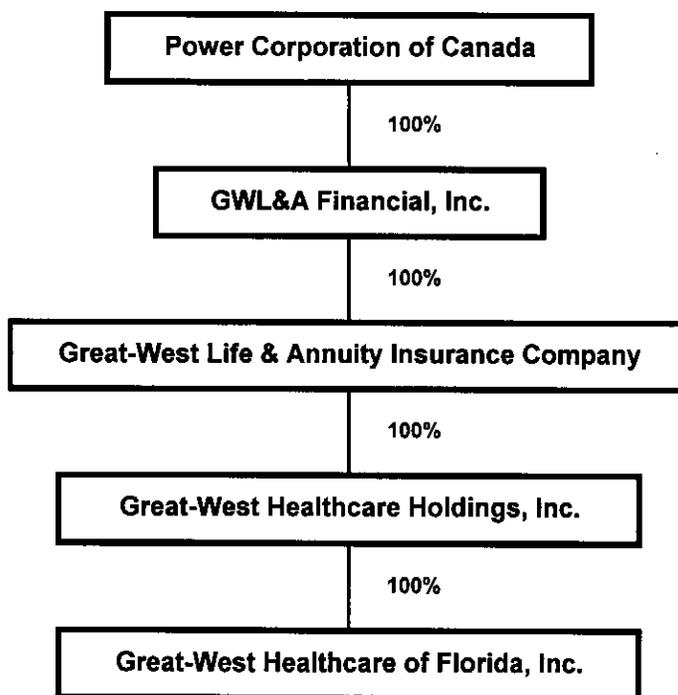
GWL&A marketed the Company's products pursuant to an April 29, 1998 agreement with the Company. The solicitor agreement was not continued in 2006. Fees for these services amounted to \$199,302, \$116,823, and \$99,052 in years 2003, 2004, and 2005, respectively.

### **TAX ALLOCATION AGREEMENT**

The results of the Company's operations were included in the consolidated federal income tax return of GWL&A Financial, Inc. pursuant to a tax allocation agreement.

An abbreviated organizational chart as of December 31, 2005 reflecting the holding company system is shown below. Schedule Y of the Company's 2005 annual statement provided the names of all related companies in the holding company group.

**Great-West Healthcare of Florida, Inc.  
Organizational Chart  
December 31, 2005**



## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintains acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and has a blanket fidelity bond in the amount of \$2 million, as required by Section 641.22, F.S. As an individual practice association (IPA) model HMO, the Company maintains adequate professional liability insurance. It requires in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Rule 69O-191.069, F.A.C.

## **PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS**

The Company had no direct employees of its own and, therefore, did not provide employee benefits.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office an insolvency protection deposit of \$308,718 in accordance with Section 641.285, F.S.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

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

At December 31, 2005, 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 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 November 7, 2007.

The Company operated as an IPA model HMO. It did not provide services to Medicare or Medicaid subscribers. Its total membership at December 31, 2005 was 1,075.

The Company operated in the Florida counties of Hillsborough, Orange, Osceola, Pasco, Pinellas, Polk, and Seminole.

Effective July 19, 2005, the Company ceased issuing new policies, resulting from its decision to exit the Florida HMO market.

### **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

The Company contracted with GWL&A to provide specific stop-loss coverage for claims in excess of \$10,000 per contract year per member. Stop-loss premiums were \$2.1 million, \$1.9 million, and \$1.2 million in years 2003, 2004, and 2005, 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. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory-basis financial statements annually for years 2003, 2004, and 2005, 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, where this examination was conducted.

The following agreement was in effect between the Company and non-affiliates:

### **INDEPENDENT AUDITOR AGREEMENT**

The Company contracted with Deloitte & Touche LLP to audit its financial statements. Fees for these services were \$34,000, \$33,000, and 33,000 in years 2003, 2004, and 2005, respectively.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following four pages contain statements of the Company'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 Company.

**Great-West Healthcare of Florida, Inc.**  
**Assets**  
**December 31, 2005**

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$4,238,428	\$0	\$4,238,428
Cash, cash equivalents, and short-term investments	<u>459,186</u>	<u>0</u>	<u>459,186</u>
	4,697,614	0	4,697,614
Investment income due and accrued	20,255	0	20,255
Amounts recoverable from reinsurers	358,682	0	358,682
Current federal and foreign income tax recoverable	135,718	0	135,718
Net deferred tax asset	<u>71,902</u>	<u>0</u>	<u>71,902</u>
Totals	<u><u>\$5,284,171</u></u>	<u><u>\$0</u></u>	<u><u>\$5,284,171</u></u>

**Great-West Healthcare of Florida, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2005**

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$449,582	\$0	\$449,582
Unpaid claims adjustment expenses	17,315	0	17,315
Aggregate health policy reserves	195,725	0	195,725
General expenses due or accrued	10,334	0	10,334
Ceded reinsurance premiums payable	243,191	0	243,191
Amounts due to parent, subsidiaries and affiliates	<u>147,922</u>	<u>0</u>	<u>147,922</u>
Total liabilities	<u>1,064,069</u>	<u>0</u>	<u>1,064,069</u>
<b>Capital and Surplus</b>			
Common capital stock	3,500,000	0	3,500,000
Gross paid in and contributed surplus	1,500,000	0	1,500,000
Unassigned funds (surplus)	<u>(779,898)</u>	<u>0</u>	<u>(779,898)</u>
Total capital and surplus	<u>4,220,102</u>	<u>0</u>	<u>4,220,102</u>
Total liabilities, capital and surplus	<u>\$5,284,171</u>	<u>\$0</u>	<u>\$5,284,171</u>

**Great-West Healthcare of Florida, Inc.**  
**Statement of Revenue and Expenses**  
**For the Year Ended December 31, 2005**

Net premium income		\$2,502,708
Hospital/medical benefits	\$2,532,771	
Other professional services	292,410	
Emergency room and out-of-area	352,403	
Prescription drugs	<u>587,169</u>	
	3,764,753	
Net reinsurance recoveries	<u>1,092,599</u>	
Total hospital and medical	2,672,154	
Claims adjustment expenses	151,048	
General administrative expenses	351,140	
Increase in reserves	<u>(317,438)</u>	
Total underwriting deductions		<u>2,856,904</u>
Net underwriting gain (loss)		(354,196)
Net investment income earned	235,687	
Net realized capital gains	<u>1,471</u>	<u>237,158</u>
Net income (loss) before income taxes		(117,038)
Federal income taxes incurred (benefit)		<u>(135,718)</u>
Net income		<u><u>\$18,680</u></u>

**Great-West Healthcare of Florida, Inc.  
Capital and Surplus Account  
For the Year Ended December 31, 2005**

Capital and surplus, December 31, 2004		\$4,309,538
Net income	\$18,680	
Change in net deferred income tax	(109,888)	
Change in nonadmitted assets	<u>1,772</u>	
	(89,436)	
Examination adjustments	<u>0</u>	<u>(89,436)</u>
Capital and surplus, December 31, 2005		<u><u>\$4,220,102</u></u>

## **COMMENTS ON FINANCIAL STATEMENTS**

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2005 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.

**Great-West Healthcare of Florida, Inc.**  
**Comparative Analysis of Changes in Capital & Surplus**  
**December 31, 2005**

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

<b>Capital &amp; Surplus - December 31, 2005, per annual statement</b>				<b>\$4,220,102</b>
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) in Surplus</u>	
Assets	\$5,284,171	\$5,284,171	\$0	
Liabilities	\$1,064,069	\$1,064,069	<u>\$0</u>	
Net change in capital & surplus				<u>0</u>
<b>Capital &amp; Surplus - December 31, 2005, per examination</b>				<b><u><u>\$4,220,102</u></u></b>

## **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 Company.

## CONCLUSION

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

Per examination findings, the Company's total capital and surplus was \$4,220,102, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2005 was \$1.5 million.

In addition to the undersigned, the following participated in this examination: Darlene L. Lenhart-Schaeffer, Financial Examiner/Analyst; David C. Schleit, CPA, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

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Steven A. Steele, Financial Specialist  
Florida Office of Insurance Regulation