

Report on Examination
of
Humana Health Insurance Company
of Florida, Inc.

Miramar, Florida

as of

December 31, 2005

By The
State of Florida
Office of Insurance Regulation

Contents

SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION.....	2
HISTORY	4
GENERAL	4
CAPITAL STOCK.....	4
PROFITABILITY.....	5
DIVIDENDS.....	5
MANAGEMENT.....	5
CONFLICT OF INTEREST PROCEDURE	6
CORPORATE RECORDS.....	7
AFFILIATED COMPANIES	8
INDEMNITY AGREEMENT.....	8
TAX ALLOCATION AGREEMENT.....	8
CORPORATE SERVICES AGREEMENT	8
TELEMARKETING SERVICES AGREEMENTS	9
MARKETING COST ALLOCATION AGREEMENT	9
SERVICE CENTER AGREEMENTS	9
ORGANIZATIONAL CHART.....	10
FIDELITY BOND AND OTHER INSURANCE	11
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS	11
STATUTORY DEPOSITS.....	11
INSURANCE PRODUCTS AND RELATED PRACTICES.....	12
TERRITORY AND PLAN OF OPERATION	12
TREATMENT OF POLICYHOLDERS.....	12
REINSURANCE	12
ASSUMED.....	12
CEDED.....	12
ACCOUNTS AND RECORDS	14
RISK-BASED CAPITAL.....	14
CUSTODIAL AGREEMENT.....	15
INDEPENDENT AUDITOR AGREEMENT	15

FINANCIAL STATEMENTS PER EXAMINATION.....	16
ASSETS	17
LIABILITIES, CAPITAL AND SURPLUS.....	18
STATEMENT OF REVENUE AND EXPENSES	19
CAPITAL AND SURPLUS ACCOUNT.....	20
COMMENTS ON FINANCIAL STATEMENTS.....	21
COMPARATIVE ANALYSIS OF CHANGES IN CAPITAL AND SURPLUS.....	22
SUMMARY OF FINDINGS.....	23
COMPLIANCE WITH PREVIOUS DIRECTIVES	23
CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION.....	23
CONCLUSION	24

Tallahassee, Florida

April 11, 2007

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

Eleanor Kitzman, Director
South Carolina Department of Insurance
Secretary, NAIC Southeastern Zone
P.O. Box 100105
Columbia, South Carolina 29202-3105

Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chair, NAIC Financial Condition (E) Committee
P.O. Box 1157
Richmond, Virginia 23218

Commissioners McCarty and Gross and Director Kitzman:

Pursuant to your instructions, in compliance with Section 624.316, 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:

**Humana Health Insurance Company of Florida, Inc.
3501 SW 160th Ave.
Miramar, Florida 33027**

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, 2000. In lieu of conducting statutory financial condition examinations of the Company for the years 2001 and 2002, the Office accepted the independent certified public accountant's (CPA) audit reports on the Company's statutory-basis financial statements for those years pursuant to Section 624.316(2)(a), F.S.

Planning for the current examination began on April 10, 2006. The fieldwork commenced on April 19, 2006, was suspended on August 21, 2006, resumed on October 30, 2006, and concluded on December 21, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This was an association zone statutory financial condition examination conducted in accordance with the *NAIC Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions* as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (F.A.C.), 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, *Best's Insurance Reports*, the Company's independent audit reports, and certain work papers prepared by the Company's independent 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.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA in the following areas:

- Commitments and contingencies
- Deferred tax asset
- Management fee allocations
- Securities lending

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2000, along with resulting action taken by the Company in connection therewith.

Corporate Records

There was no documentation in the minutes reviewed that Company directors reviewed the previous examination report. Resolution: The current examination did not result in a similar finding.

Reinsurance Ceded

The Company's 2000 annual statement included various errors and omissions pertaining to the Company's ceding of its Medicare Supplement line of business. Resolution: The current examination did not result in a similar finding.

Unpaid Claims

In its 2000 annual statement, the Company understated the amount of its liability for unpaid claims by \$3.9 million, and improperly prepared Exhibit 11, Part 1 and Schedule O, Part 2. Resolution: The current examination did not result in a similar finding.

HISTORY

GENERAL

The Company was incorporated in Florida on December 19, 1983 and commenced business on May 1, 1984.

As of the date of this examination, the Company was authorized to transact the following insurance coverage in Florida, in accordance with Section 624.401, F.S.: life; group life and annuities; and accident and health.

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, 2005, the Company's capitalization was as follows:

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

At December 31, 2005, the Company was wholly-owned and controlled by Humana, Inc. An abbreviated organizational chart appears on page 10.

PROFITABILITY

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

(In millions)	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net premiums	\$406.9	\$321.9	\$222.0
Total revenues	\$409.6	\$324.2	\$233.8
Net income (loss)	\$1.4	(\$0.2)	\$10.1
Total capital and surplus	\$66.9	\$64.7	\$79.2

DIVIDENDS

The Company paid dividends in the amounts of \$15 million and \$20 million in years 2005 and 2004, respectively. No dividends were paid in 2003.

MANAGEMENT

Humana, Inc. appointed the following Company directors in accordance with Sections 607.0701 and 628.231, F.S., by resolution dated April 26, 2005. Directors serving as of December 31, 2005 were:

Name and Location	Directors	
	Principal Occupation	
James H. Bloem Louisville, Kentucky	Sr. Vice President, CFO & Treasurer of the Company and Humana, Inc.	
Bruce J. Goodman Louisville, Kentucky	Sr. Vice President - Service Operations & IT, Humana, Inc.	
Jonathon T. Lord, M.D. Louisville, Kentucky	Senior Vice President of the Company and Humana, Inc.	
Michael B. McCallister Louisville, Kentucky	President and Chief Executive Officer of the Company and Humana, Inc.	
James E. Murray Louisville, Kentucky	COO Market & Business Segment Operations, Humana, Inc.	

At December 31, 2005, members of the principal committees of the Board were:

Audit Committee	Investment Committee
Frank A. D'Amelio, Chairman	W. Roy Dunbar, Chairman
John R. Hall	Frank A. D'Amelio
Kurt J. Hilzinger	David A. Jones, Jr.
W. Ann Reynolds, Ph.D.	W. Ann Reynolds, Ph.D.
James O. Robbins	

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:

Name	Senior Officers Title
Michael B. McCallister	President & Chief Executive Officer
Craig A. Drablos	Regional CEO (FL/GA/LA/NC/SC)
Michael A. Seltzer	Regional CEO - Senior Products (FL)
Colin P. D'Arcy	Market President - South Florida
Scott T. Latimer, M.D.	Market President - Central Florida
Bruno A. Littleton	Market President - Jacksonville
James H. Bloem	Sr. Vice President, CFO & Treasurer
Thomas J. Liston	Senior Vice President
Jonathon T. Lord, M.D.	Senior Vice President
Heidi S. Margulis	Senior Vice President
Steven O. Moya	Senior Vice President
George G. Bauernfeind	Vice President
John M. Bertko	Vice President and Chief Actuary
Stefan F. Brueckner	Vice President - Senior Products
J. Gregory Catron	Vice President
Gerald L. Ganoni	Vice President
Joan O. Lenahan	Secretary

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, Board of Directors, and Audit and Investment Committee 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 625.304, 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 July 11, 2006.

The following agreements were in force between the Company and its affiliates on December 31, 2005:

INDEMNITY AGREEMENT

The Company entered into an agreement with Humana, Inc. on June 30, 1995, providing for the indemnification of the Company by the parent in the event of the Company's insolvency or inability to provide health care services for which it is contractually obligated.

TAX ALLOCATION AGREEMENT

The results of the Company's operations were included in the consolidated federal income tax return of Humana, Inc. and its wholly owned subsidiaries (including the Company), pursuant to a tax sharing agreement dated June 16, 2003. The consolidated tax liability was allocated among the members of the consolidated return group based on the ratio that each member's separate return tax liability for the year bore to the sum of the separate return liabilities of all members.

CORPORATE SERVICES AGREEMENT

Humana, Inc. provided corporate services to the Company pursuant to an agreement dated June, 16, 2003, including medical and product management services, executive management, information systems management, financial services, legal services and human resources management. Fees for these services amounted to \$12.7 million, \$11.7 million, and \$17.9 million in the years 2003, 2004 and 2005, respectively.

TELEMARKETING SERVICES AGREEMENTS

Humana, Inc., Humana Insurance Company, Inc. (WI), and Humana Health Plan of Texas, Inc. provided telemarketing services to the Company pursuant to agreements that became effective on June 16, 2003. Fees paid amounted to \$177,000, \$222,000, and \$150,000 in the years 2003, 2004 and 2005, respectively.

MARKETING COST ALLOCATION AGREEMENT

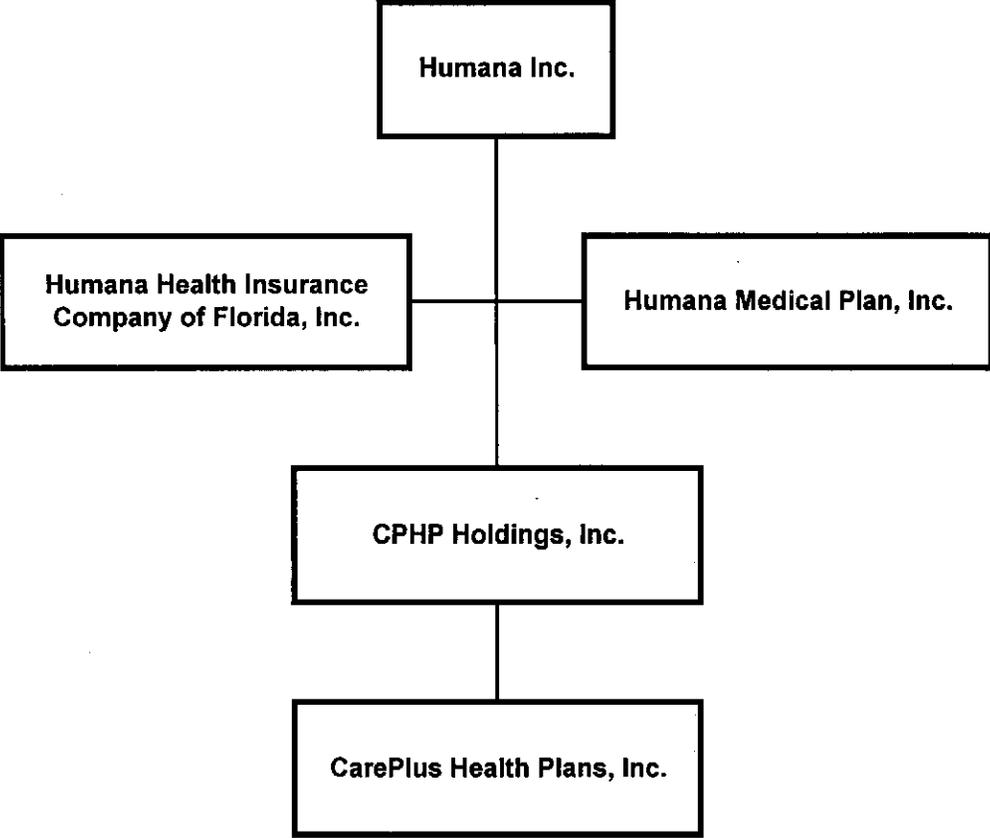
Humana, Inc., Humana Medical Plan, Inc., and the Company entered into an agreement effective June 17, 2003, for the purpose of sharing in the expenses of operating in shared markets. Fees paid amounted to \$408,000, \$3.5 million, and \$3.0 million in years 2003, 2004, and 2005, respectively.

SERVICE CENTER AGREEMENTS

The Company provided claims processing, customer service, and other services to Humana, Inc., and Humana Medical Plan, Inc. pursuant to an agreement effective June 16, 2003. Fees received for these services amounted to \$1.9 million, \$2.3 million and \$3.3 million for the years 2003, 2004, and 2005, respectively. Humana, Inc., Humana Medical Plan, Inc., and Humana Insurance Company, Inc. (WI) provided senior leadership, education and development, financial management, claims processing, billing and enrollment, customer service, and other services to the Company, pursuant to June 16, 2003 agreements. Fees paid for these services amounted to \$3.8 million, \$4.2 million, and \$5.8 million in 2003, 2004, and 2005, respectively.

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.

**Humana Health Insurance Company of Florida, Inc.
Organizational Chart
December 31, 2005**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$10 million with a deductible of \$1 million which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1 million.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Company employees participated in a defined contribution retirement plan offered through Humana, Inc. In addition, the Company, through its affiliates, provided to eligible employees medical and dental insurance; short-term and long-term disability insurance; and life insurance.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with various other governments as required or permitted by law:

Holder	Description	Rate	Due	Par Value	Market Value
Florida	U.S. Treasury Note	3.25%	1/15/09	\$2,200,000	\$2,130,289
Florida	U.S. Treasury Note	3.50%	11/15/09	<u>825,000</u>	<u>799,574</u>
Total Special Deposits				<u>\$3,025,000</u>	<u>\$2,929,863</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company marketed individual accident and health products, group accident and health products, and individual term life products through licensed sales representatives and independent brokers.

TERRITORY AND PLAN OF OPERATION

At December 31, 2005, the Company was authorized to transact insurance in the states of Florida and Kentucky, but only wrote business in Florida.

TREATMENT OF POLICYHOLDERS

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), 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.

ASSUMED

The Company had not assumed insurance from any other insurer.

CEDED

The Company completed the sale of its Medicare Supplement business to United Teachers Associates Insurance Company on June 30, 2000. Until the assumption agreement was filed and approved, the

Medicare Supplement business was 100% coinsured. The assumption process commenced during 2001 and was completed in 2005.

The Company entered into a specific excess loss reinsurance agreement limited to behavioral health services on September 5, 2005 with American Re-insurance Company.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2003, 2004, and 2005, pursuant to Section 624.424(8), F.S. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, F.A.C.

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 is located in Miramar, Florida. A significant portion of its books and records are located in Louisville, Kentucky, where this examination was conducted.

This examination included a review of the Company's paid and unpaid claims for the purpose of determining whether the Company adequately provided for all unpaid loss and loss expense obligations under the terms of its agreements. In conjunction with that review, examiners requested from the Company certain claims-related data and supporting documentation. While the Company did eventually provide the requested data and documentation to examiners, it did not do so in a timely manner. As a result, completion of the examination was significantly delayed. On January 4, 2006 examiners requested that the Company provide a database of claims paid and outstanding by April 17, 2006. On June 5, 2006, the Company requested an extension until June 16, 2006; however, it was not until July 14, 2006 that a portion of the database was actually provided, and the remainder was not provided until August 3, 2006. On July 21, 2006 examiners made a request for documentation supporting certain claims. While part of the requested documentation was provided on August 3, 2006, the remainder was not provided until September 13, 2006.

RISK-BASED CAPITAL

The Company reported its risk-based capital at an adequate level.

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

CUSTODIAL AGREEMENT

On December 10, 1997, the Company entered into a custodial agreement with the Chase Manhattan Bank (now known as JPMorganChase), which was amended on May 6, 1999, for the holding and safekeeping of the Company's securities.

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with an independent CPA, PricewaterhouseCoopers LLP, to conduct annual audits of the Company's statutory-basis financial statements.

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.

Humana Health Insurance Company of Florida, Inc.
Assets
December 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$96,113,716	\$0	\$96,113,716
Cash, cash equivalents, & short-term investments	26,877,457	0	26,877,457
Receivables for securities	3,064,687	0	3,064,687
	<u>126,055,860</u>	<u>0</u>	<u>126,055,860</u>
Investment income due & accrued	1,330,371	0	1,330,371
Uncollected premiums & agents' balances in the course of collection	9,625,698	0	9,625,698
Amounts receivable relating to uninsured plans	127,471	0	127,471
Net deferred tax asset	14,964,557	0	14,964,557
Electronic data processing equipment & software	85,836	0	85,836
Health care and other amounts receivable	25,783	0	25,783
Aggregate write-ins for other than invested assets	18,928	0	18,928
	<u>\$152,234,504</u>	<u>\$0</u>	<u>\$152,234,504</u>
Totals	<u>\$152,234,504</u>	<u>\$0</u>	<u>\$152,234,504</u>

Humana Health Insurance Company of Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$44,679,274	\$0	\$44,679,274
Unpaid claims adjustment expenses	1,317,265	0	1,317,265
Aggregate health policy reserves	2,532,681	0	2,532,681
Aggregate life policy reserves	643,169	0	643,169
Aggregate health claim reserves	432,529	0	432,529
Premiums received in advance	5,022,038	0	5,022,038
General expenses due or accrued	11,709,092	0	11,709,092
Amounts withheld or retained for others	214,614	0	214,614
Due to parent, subsidiaries & affiliates	14,617,219	0	14,617,219
Payable for securities	2,413,959	0	2,413,959
Amounts held under uninsured plans	2,792	0	2,792
Aggregate write-ins for other liabilities	1,703,843	0	1,703,843
Total liabilities	<u>85,288,475</u>	<u>0</u>	<u>85,288,475</u>
Capital and Surplus			
Gross paid in and contributed surplus	159,894,029	0	159,894,029
Unassigned funds	<u>(93,948,000)</u>	<u>0</u>	<u>(93,948,000)</u>
Surplus	65,946,029	0	65,946,029
Common capital stock	1,000,000	0	1,000,000
Total capital and surplus	<u>66,946,029</u>	<u>0</u>	<u>66,946,029</u>
Totals	<u>\$152,234,504</u>	<u>\$0</u>	<u>\$152,234,504</u>

Humana Health Insurance Company of Florida, Inc.
Statement of Revenue and Expenses
For The Year Ended December 31, 2005

Net premium income		\$406,868,153
Change in unearned premium reserves		(586,755)
Claims processing income		3,315,183
Total revenues		<u>409,596,581</u>
Hospital/medical benefits	\$248,330,245	
Other professional services	4,306,512	
Emergency room and out-of-area	11,923,620	
Prescription drugs	48,112,677	
Aggregate write-ins for other hospital and medical	3,086	
Net reinsurance recoveries	<u>(2,702,253)</u>	
Total hospital and medical	309,973,887	
Non-health claims	92,732	
Claims adjustment expenses	9,132,851	
General administrative expenses	74,903,791	
Increase in reserves for life and A&H contracts	<u>490,809</u>	<u>394,594,070</u>
Net underwriting gain		15,002,511
Net investment income earned	4,713,532	
Net realized capital gains	<u>287,470</u>	
Net investment gains		5,001,002
Aggregate write-ins for other income		<u>673,178</u>
Net income before federal income taxes		20,676,691
Federal income taxes incurred		<u>19,319,254</u>
Net income		<u><u>\$1,357,437</u></u>

Humana Health Insurance Company of Florida, Inc.
Capital and Surplus Account
For The Year Ended December 31, 2005

Capital and surplus - December 31, 2004		\$64,670,106
Net income	\$1,357,437	
Change in net unrealized capital gains or (losses)	(77,207)	
Change in net deferred income tax	8,763,178	
Change in nonadmitted assets and related items	(3,999,689)	
Dividends to stockholders	(15,000,000)	
Aggregate write-ins for gains in surplus	11,232,204	
Examination adjustments	<u>0</u>	<u>2,275,923</u>
Capital and surplus - December 31, 2005		<u><u>\$66,946,029</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Claims Unpaid, Aggregate Reserves, and Claims Adjustment Expenses **\$49,604,918**

The Company's 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.

Humana Health Insurance Company of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2005

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, 2005 - per annual statement				\$66,946,029
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Surplus</u>	
Assets	\$152,234,504	\$152,234,504	\$0	
Liabilities	\$85,288,475	\$85,288,475	<u>\$0</u>	
Net change in capital & surplus				<u>0</u>
Capital and surplus, December 31, 2005 - per examination				<u><u>\$66,946,029</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the 2000 examination report issued by the Office.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings of the examination as of December 31, 2005.

Accounts and Records

As discussed on page 14, this examination included a review of the Company's paid and unpaid claims for the purpose of determining whether the Company adequately provided for all unpaid loss and loss expense obligations under the terms of its agreements. In conjunction with that review, examiners requested from the Company certain claims-related data and supporting documentation. While the Company did eventually provide the requested data and documentation to examiners, it did not do so in a timely manner. As a result, completion of the examination was significantly delayed. **We recommend that the Company respond to examiner requests and provide requested data and documentation in a timely manner during the course of future regulatory examinations.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Humana Health Insurance Company 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 \$66,946,029, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2005 was \$4,632,199.

In addition to the undersigned, the following participated in this examination: Thomas I. Cook, Financial Examiner/Analyst; Russell K. Judge, Financial Examiner/Analyst; Kerry A. Krantz, Actuary; and David C. Schleit, CPA, AFE, Financial Examiner/Analyst Supervisor.

Respectfully submitted,

Cathy S. Jones, CPA, Financial Examiner/Analyst
Florida Office of Insurance Regulation