

Report on Examination
of
Humana Medical Plan, Inc.
Miramar, Florida
as of
December 31, 2010

By The
Florida Office of Insurance Regulation

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Joseph Torti, III, Superintendent
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Dear Commissioners and Superintendent:

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 Humana Medical Plan, Inc. as of December 31, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation
March 29, 2012

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of Humana Medical Plan, Inc. (the "Company"), a health maintenance organization (HMO) domiciled in Florida. The last financial condition examination of the Company 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 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.

A significant portion of the Company's books and records were located in Louisville, Kentucky, where this examination was primarily conducted.

COMPANY HISTORY

The Company was incorporated in Florida on August 12, 1986 and licensed by the Office on June 1, 1987. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company distributed shareholder dividends in the amounts of \$145 million, \$192 million, and \$290 million during 2008, 2009, and 2010, respectively. It did not receive any capital contributions during the period examined.

Mergers and Acquisitions

On August 29, 2008, the Company acquired Metcare Health Plans, Inc., a Florida HMO with approximately 7,300 members, for approximately \$14.9 million. On September 10, 2008, Metcare Health Plans, Inc. changed its name to Humana AdvantageCare Plan, Inc.

CORPORATE RECORDS

The minutes of the meetings of the Company's shareholder and board of directors and the Humana Inc. Audit and Investment Committees 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 Humana Inc., a Louisville, Kentucky health insurance company. The common stock of Humana Inc. traded on the New York Stock Exchange. The Company owned the Florida HMO Humana AdvantageCare Plan, Inc. and was affiliated through common ownership and control with numerous other entities including CarePlus Health Plans, Inc., a Florida HMO, and Humana Health Insurance Company of Florida, Inc. (HHICF), a Florida health insurer. The Company's senior officers and directors were as follows:

Senior Officers

<u>Name</u>	<u>Title</u>
Michael B. McCallister	President and Chief Executive Officer
James H. Bloem	Sr. Vice President, Chief Financial Officer and Treasurer
Joan O. Lenahan	Vice President and Corporate Secretary
Craig A. Drablos	Regional Chief Executive Officer
Michael A. Seltzer	Regional President
Scott T. Latimer, M.D.	Regional President
Timothy W. Love	Market President - Florida
Thomas J. Liston	Sr. Vice President
Heidi S. Margulis	Sr. Vice President
Frank M. Amrine	Appointed Actuary
Roy Goldman, Ph.D.	Vice President and Chief Actuary

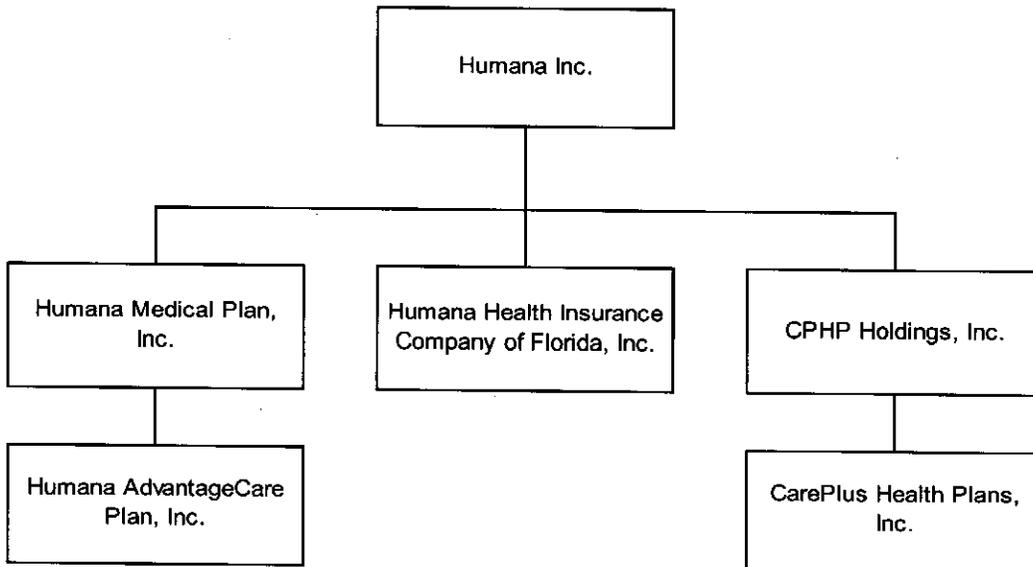
Board of Directors

<u>Name</u>	<u>Location</u>
Michael B. McCallister	Louisville, Kentucky
James E. Murray	Louisville, Kentucky
Melissa L. Weaver, M.D.	Louisville, Kentucky

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 February 29, 2012.

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

**Humana Medical Plan, Inc.
Abbreviated Organizational Chart
December 31, 2010**



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

Pursuant to a June 30, 1995 agreement, the Company was indemnified by Humana Inc. in the event of the Company's insolvency or inability to provide health care services for which it is contractually obligated.

The results of the Company's operations were included in the consolidated federal income tax returns of Humana Inc. pursuant to a tax allocation agreement. Consolidated tax liability was allocated among members of the consolidated group on a pro rata basis according to the separate return tax liabilities of included members. The agreement required that intercompany balances be settled within 30 days after the calculation of income tax attributable to the Company. In the event of a refund, the agreement required settlement within 30 days after receipt of the refund.

Pursuant to a 2003 agreement, Humana Inc. provided medical management, product management, executive management, information systems management, financial, legal, and human resources management services to the Company. The agreement was later amended to reflect changes required by the Centers for Medicare & Medicaid Services (CMS).

Humana Insurance Company (Humana Wisconsin), a Wisconsin corporation, and Humana Inc. provided telemarketing services to the Company pursuant to an agreement which originally became effective in 2003 and which was later amended to include changes required by CMS.

Humana Inc., HHICF, and the Company entered into a cost allocation agreement effective in 2003 and amended in 2008 for the purpose of sharing in the expenses of operating in shared markets.

Humana Inc. and Humana Wisconsin provided claims processing, customer service, billing and enrollment, and other support services to the Company pursuant to an agreement effective in 2003. The agreement was later amended to include changes required by CMS.

Humana Inc. and Humana MarketPOINT, Inc. provided services to the Company related to the marketing of Humana Medicare risk products pursuant to a service agreement effective in 2003. The agreement was later amended to reflect changes required by CMS.

The Company utilized health care provider networks developed by Health Value Management, Inc. pursuant to an agreement effective in 2007.

The Company jointly marketed a national point-of-service product with HHICF. Beginning on January 1, 2007, the Company ceded to HHICF the direct in-network claims on a 100% coinsurance basis pursuant to a reinsurance agreement. The agreement was terminated effective October 1, 2010 pursuant to a commutation agreement.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on the general liability insurance policy of Humana Inc. The policy was maintained at acceptable levels in accordance with Rule 69O-191.069, F.A.C. The Company was also a named insured on the crime policy of Humana Inc. in the amount of \$15 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 in compliance with Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered to eligible employees participation in the Humana Inc. defined contribution and 401(k) retirement plans. The Company, through its affiliates, also provided to eligible employees fringe benefits including medical, dental and vision insurance; short-term and long-term disability insurance; and life insurance.

TERRITORY AND PLAN OF OPERATION

The Company provided coordinated health and pharmacy benefits through a variety of plans for employer groups and government-sponsored programs. 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 February 8, 2013. At December 31, 2010, it was licensed in Florida, Mississippi, North Carolina, and Oregon, but only wrote business in Florida. The Company had 531,520 members as of December 31, 2010, of which 15% were comprehensive, 1% were federal employees, 80% were Medicare members, and 4% were Medicaid members. It operated in the Florida counties of Alachua, Baker, Bradford, Brevard, Broward, Charlotte, Citrus, Clay,

Collier, Columbia, Dade, Dixie, Duval, Escambia, Flagler, Gilchrist, Glades, Hardee, Hendry, Hernando, Highlands, Hillsborough, Indian River, Lake, Lee, Levy, Manatee, Marion, Martin, Nassau, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Putnam, Santa Rosa, Sarasota, Seminole, St. Johns, St. Lucie, Union, and Volusia.

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)	483,026	483,477	531,520
Premiums	\$ 4,001.7	\$ 4,352.6	\$ 4,664.0
Revenues	\$ 4,001.7	\$ 4,352.6	\$ 4,664.0
Net income	\$ 211.1	\$ 291.9	\$ 276.0
Capital and surplus	\$ 344.7	\$ 467.7	\$ 447.5

REINSURANCE

White Mountains Reinsurance Company of America provided excess of loss reinsurance coverage to the Company and certain of its affiliates effective October 1, 2010. Under the first layer, the reinsurance covered 100% of the Company's eligible losses in excess of \$2,000,000 per member with a maximum per member liability to the reinsurer of \$3,000,000. Under the next layer, the reinsurance covered 100% of the Company's eligible losses in excess of \$5,000,000 per member with a maximum per member liability to the reinsurer of \$5,000,000. Under the final layer of coverage, the reinsurance covered 100% of the Company's eligible losses in excess of \$10,000,000 per member with unlimited per member liability to the reinsurer.

ACCOUNTS AND RECORDS

The examination included a review of the Company's paid and unpaid claims in order to determine the extent to which the Company provided for its unpaid loss and loss expense obligations under the terms of its subscriber agreements. In connection with the review, examiners requested from the Company certain claims-related data and supporting documents. The Company did not always provide the items to examiners by the dates and in the manner requested, prolonging the examination and making it more difficult to conduct. The report on our financial condition examination of the Company as of December 31, 2005 contained a similar finding.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$360,000 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.

Humana Medical Plan, Inc.
Assets
December 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 1,022,019,486	\$ -	\$ 1,022,019,486
Properties held for the production of income	2,146,121	-	2,146,121
Cash, cash equivalents and short-term investments	484,324,831	-	484,324,831
Securities lending reinvested collateral assets	9,137,392	-	9,137,392
	1,517,627,830	-	1,517,627,830
Investment income due and accrued	8,831,547	-	8,831,547
Uncollected premiums and agents' balances	8,918,780	-	8,918,780
Accrued retrospective premiums	8,316,684	-	8,316,684
Amounts receivable relating to uninsured plans	12,694	-	12,694
Net deferred tax asset	27,525,227	-	27,525,227
Electronic data processing equipment and software	1,197,028	-	1,197,028
Furniture and equipment	1,578,545	-	1,578,545
Health care and other amounts receivable	12,734,750	-	12,734,750
Aggregate write-ins for other than invested assets	236,652	-	236,652
Total assets	\$ 1,586,979,737	\$ -	\$ 1,586,979,737

Humana Medical Plan, Inc.
Liabilities, Capital and Surplus
December 31, 2010

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 961,801,067	\$ -	\$ 961,801,067
Accrued medical incentive pool and bonuses	1,028,724	-	1,028,724
Unpaid claims adjustment expenses	5,802,817	-	5,802,817
Aggregate health policy reserves	21,826,160	-	21,826,160
Aggregate health claim reserves	169,000	-	169,000
Premiums received in advance	20,116,432	-	20,116,432
General expenses due or accrued	11,608,081	-	11,608,081
Current federal and foreign income tax payable	39,008,735	-	39,008,735
Ceded reinsurance premiums payable	106,398	-	106,398
Remittances and items not allocated	1,086	-	1,086
Amounts due to parent, subsidiaries and affiliates	36,122,836	-	36,122,836
Payable for securities lending	10,669,412	-	10,669,412
Liability for amounts held under uninsured plans	20,745,539	-	20,745,539
Aggregate write-ins for other liabilities	10,510,791	-	10,510,791
Total liabilities	1,139,517,078	-	1,139,517,078
Capital and Surplus			
Common capital stock	1,000	-	1,000
Gross paid in and contributed surplus	155,880,750	-	155,880,750
Unassigned funds	291,580,909	-	291,580,909
Total capital and surplus	447,462,659	-	447,462,659
Total liabilities, capital and surplus	\$ 1,586,979,737	\$ -	\$ 1,586,979,737

Humana Medical Plan, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2010

Net premium income	\$ 4,663,959,341
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Hospital and medical benefits	3,341,700,191
Other professional services	37,213,987
Emergency room and out-of-area	89,259,374
Prescription drugs	450,155,968
Incentive pool, withhold adjustments and bonuses	(1,045,252)
	<hr/> 3,917,284,268
Net reinsurance recoveries	143,862,688
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Total hospital and medical	3,773,421,580
Claims adjustment expenses	143,076,339
General administrative expenses	358,250,582
Increase in reserves	3,090,000
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Total underwriting deductions	4,277,838,501
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Net underwriting gain	386,120,840
Net investment income earned	39,688,462
Net realized capital gains or (losses)	(567,864)
Aggregate write-ins for other income or expenses	2,687,125
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Income before income tax	427,928,563
Federal income taxes incurred	151,926,878
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Net income	\$ 276,001,685
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Humana Medical Plan, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2010

Capital and surplus - December 31, 2007	\$ 292,312,972
Net income	211,148,658
Change in net unrealized capital gains (losses)	(5,656,082)
Change in net deferred income tax	(1,277,633)
Change in nonadmitted assets	(6,802,476)
Dividends to stockholder	(145,000,000)
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Capital and surplus - December 31, 2008	344,725,439
Net income	291,945,344
Change in net unrealized capital gains (losses)	(4,456,442)
Change in net deferred income tax	9,982,179
Change in nonadmitted assets	17,502,445
Dividends to stockholder	(192,000,000)
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Capital and surplus - December 31, 2009	467,698,965
Net income	276,001,685
Change in net unrealized capital gains (losses)	1,939,153
Change in net deferred income tax	4,132,253
Change in nonadmitted assets	(12,470,674)
Paid in surplus adjustments	95,905
Dividends to stockholder	(290,000,000)
Aggregate write-ins for gains or (losses) in surplus	65,372
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	447,462,659
Examination adjustments	-
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Capital and surplus - December 31, 2010	\$ 447,462,659
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Humana Medical 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 Company and as determined by the examination.

Capital and surplus, December 31, 2010 - per annual statement			\$ 447,462,659
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 1,586,979,737	\$ 1,586,979,737	\$ -
Total liabilities	\$ 1,139,517,078	\$ 1,139,517,078	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2010 - per examination			\$ 447,462,659

COMMENTS ON FINANCIAL STATEMENTS

Claims Unpaid

\$961,801,067

The amount of the Company's liability for unpaid claims, as reported in its 2010 annual statement, significantly exceeded the amount required by Section 641.35(3), F.S.

SUMMARY OF FINDINGS

Claims-Related Data and Supporting Documents

During the examination, the Company did not always provide claims-related data and supporting documents to examiners by the dates and in the manner requested, as discussed on page 9. **We recommend that, in future regulatory examinations, the Company adequately respond to examiner requests for data and supporting documents in a timely manner.**

SUBSEQUENT EVENTS

In April of 2011, the Company distributed \$276.0 million in shareholder dividends following approval by the Office.

In its 2011 annual statement, the Company reported net premium income, total revenues, and net income for the year of \$4,935.2 million, \$4,931.3 million, and \$432.9 million, respectively, and total capital and surplus of \$599.1 million as of December 31, 2011.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Humana Medical Plan, Inc. consistent with the insurance laws of the State of Florida.

The Company's capital and surplus at December 31, 2010 was determined to be \$447,462,659 which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$113,951,708.

In addition to the undersigned, the following individuals participated in this examination: Darlene L. Lenhart-Schaeffer, CFE, Financial Examiner/Analyst; Scott R. Slaughter, CPA, Financial Examiner/Analyst; Richard Tan, Actuary; and Michael D. Young, CFE, Financial Examiner/Analyst.

Respectfully submitted,

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