

**Report on Examination**  
**of**  
**Health Options, Inc.**

**Jacksonville, Florida**

**as of**

**December 31, 2009**

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

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
200 E. Gaines Street  
Tallahassee, Florida 32399-0301

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 Health Options, Inc. as of December 31, 2009. Our report on the examination follows.

Florida Office of Insurance Regulation  
March 14, 2011

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2009 of Health Options, Inc. (the "Company"), a Florida health maintenance organization (HMO). The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2004.

This examination covered the period of January 1, 2007 through December 31, 2009. 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 Company's main administrative office was located in Jacksonville, Florida, where this examination was conducted.

## **COMPANY HISTORY**

The Company was incorporated in Florida on February 29, 1984, and commenced business on October 1, 1984. It was licensed by the Office as an HMO on September 25, 1984. 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.).

### **Dividends and Capital Contributions**

The Company distributed shareholder dividends in the amount of \$92.5 million in 2007. No dividends were distributed by the Company during 2008 or 2009. No capital contributions were received by the Company during 2007, 2008 or 2009.

## CORPORATE RECORDS

The minutes of the shareholder and Board of Directors were reviewed for the period examined. In addition, the minutes of the Audit Committee of the Company's ultimate parent Blue Cross and Blue Shield of Florida, Inc. (BCBSF) 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.

## MANAGEMENT AND CONTROL

The Company was wholly owned by Diversified Health Services, Inc., a wholly owned subsidiary of BCBSF. The Company's senior officers and directors were as shown below.

### Senior Officers

<u>Name</u>	<u>Title</u>
R. Chris Doerr	Chief Executive Officer
Joyce A. Kramzer	President
Seth M. Phelps	Secretary
Cheryl L. Mose	Treasurer

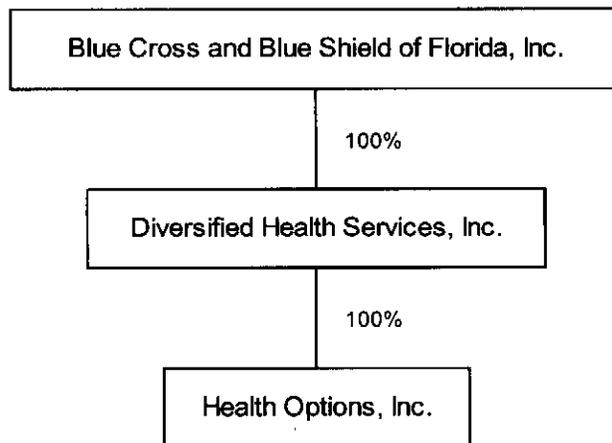
### Board of Directors

<u>Name</u>	<u>Location</u>
R. Chris Doerr	Jacksonville, Florida
Joyce A. Kramzer	Jacksonville, Florida
Arnold D. Livermore	Jacksonville, Florida

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 May 28, 2010.

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

**Health Options, Inc.  
Abbreviated Organizational Chart  
December 31, 2009**



The Company entered into an administrative services agreement with various affiliates effective December 31, 2007. The agreement established the terms and conditions according to which the parties would provide and receive services to and from each other and for the sharing of certain property. The services included accounting, tax, auditing, investment, claims, underwriting and functional support services. The agreement provided for reimbursement based on actual costs and expenses or an otherwise reasonable charge basis. It did not contain a provision that the contract shall be cancelled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

The Company was included in the consolidated federal income tax return of BCBSF pursuant to a January 1, 2001 tax allocation agreement. The agreement required allocation of consolidated income tax liability based upon the separate taxable incomes of the included companies and provided for annual settlement of amounts due under the agreement. It did not contain a provision that the contract shall be cancelled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

On March 16, 1989, BCBSF guaranteed that it would provide sufficient funds to assure payment of all of the Company's liabilities including covered subscriber claims. In addition, it guaranteed the continuation of benefits to enrollees for the duration of any contract period for which payment has been made and to enrollees confined in an inpatient facility on the date of the Company's insolvency until their discharge, and payment to unaffiliated providers for services to covered enrollees.

On May 1, 1990, BCBSF entered into a custodial agreement with The Bank of New York for the holding and safekeeping of the Company's stocks, money certificates, bonds, and other securities.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company was insured by a blanket fidelity bond, as required by Section 641.22(7), F.S., with single loss coverage of \$20,000,000 and aggregate loss coverage of \$40,000,000. 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. The Company maintained acceptable levels of medical malpractice/professional liability insurance as specified by Rule 69O-191.069(3), F.A.C. However, it did not list the Office on its general liability and medical malpractice/professional liability insurance policies such that the Office would receive written notification of any reduction of coverage, cancellation, non-renewal or termination, as required by Rule 69O-191.069(2), 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 June 6, 2012. It provided health care services to comprehensive and Medicare members. It had 105,942 members as of December 31, 2009, of which 78% were comprehensive members and 22% were Medicare members. The Company operated in the following Florida counties: Alachua, Baker, Bradford, Brevard, Broward, Charlotte, Citrus, Clay, Columbia, Desoto, Dixie, Duval, Escambia, Flagler, Gilchrist, Hendry, Hernando, Hillsborough, Lake, Lee, Levy, Manatee, Marion, Martin, Miami-Dade,

Nassau, Okaloosa, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Santa Rosa, Sarasota, Seminole, St. Johns, St. Lucie, Sumter, Suwannee, Volusia and Walton.

### COMPANY GROWTH

The Company reported the following for years 2007, 2008 and 2009:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Year-end enrollment	206,050	148,352	105,942
In millions:			
Net premiums	\$ 992.1	\$ 877.3	\$ 674.4
Total revenues	\$ 990.9	\$ 878.0	\$ 674.5
Net income	\$ 49.5	\$ 7.9	\$ 46.6
Capital and surplus	\$ 225.0	\$ 231.3	\$ 274.8

### ACCOUNTS AND RECORDS

Effective April 26, 2006, the Company entered into a pharmacy benefit service agreement with Prime Therapeutics, LLC. Pursuant to the agreement, Prime Therapeutics, LLC provided certain pharmacy benefit management and other prescription drug benefit programs to the Company's members. The agreement did not contain a provision that the contract shall be cancelled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

### STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$2,000,000 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.

**Health Options, Inc.**  
**Assets**  
**December 31, 2009**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 320,652,273	\$ -	\$ 320,652,273
Cash, cash equivalents and short-term investments	2,598,939	-	2,598,939
Receivables for securities	1,788,693	-	1,788,693
	325,039,905	-	325,039,905
Investment income due and accrued	3,144,739	-	3,144,739
Uncollected premiums and agents' balances	8,269,287	-	8,269,287
Deferred premiums and agents' balances	2,844,834	-	2,844,834
Accrued retrospective premiums	14,044	-	14,044
Amounts receivable relating to uninsured plans	30,978,780	-	30,978,780
Net deferred tax asset	8,681,098	-	8,681,098
Health care and other amounts receivable	4,840,500	-	4,840,500
<b>Total assets</b>	<b>\$ 383,813,187</b>	<b>\$ -</b>	<b>\$ 383,813,187</b>

**Health Options, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2009**

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 53,002,889	\$ -	\$ 53,002,889
Unpaid claims adjustment expenses	1,530,968	-	1,530,968
Aggregate health policy reserves	2,091,379	-	2,091,379
Premiums received in advance	6,864,687	-	6,864,687
Current income tax payable	315,901	-	315,901
Remittances and items not allocated	90,697	-	90,697
Amounts due to parent, subsidiaries and affiliates	22,755,540	-	22,755,540
Payable for securities	4,863,175	-	4,863,175
Liability for amounts held under uninsured plans	10,864,145	-	10,864,145
Aggregate write-ins for other liabilities	6,671,972	-	6,671,972
<b>Total liabilities</b>	<b>109,051,353</b>	<b>-</b>	<b>109,051,353</b>
<b>Capital and Surplus</b>			
Common capital stock	100,000	-	100,000
Gross paid in and contributed surplus	167,284,475	-	167,284,475
Unassigned funds	107,377,359	-	107,377,359
<b>Total capital and surplus</b>	<b>274,761,834</b>	<b>-</b>	<b>274,761,834</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 383,813,187</b>	<b>\$ -</b>	<b>\$ 383,813,187</b>

**Health Options, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**For The Year Ended December 31, 2009**

Net premium income	\$ 674,375,781
Change in unearned premium reserves and reserve for rate credits	121,022
<b>Total revenues</b>	<b>674,496,803</b>
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Hospital and medical benefits	428,300,194
Outside referrals	11,828,843
Emergency room and out-of-area	27,190,973
Prescription drugs	70,772,007
Aggregate write-ins for other hospital and medical	15,523,701
<b>Total hospital and medical</b>	<b>553,615,718</b>
Claims adjustment expenses	22,114,813
General administrative expenses	52,275,072
Increase (decrease) in reserves	(1,896,198)
<b>Total underwriting deductions</b>	<b>626,109,405</b>
<b>Net underwriting gain</b>	<b>48,387,398</b>
Net investment income	15,058,808
Net realized capital gains	2,313,764
Aggregate write-ins for other income or expenses	1,834,149
<b>Income before federal income tax</b>	<b>67,594,119</b>
Federal income tax	21,009,896
<b>Net income</b>	<b>\$ 46,584,223</b>

**Health Options, Inc.**  
**Statement of Changes in Capital and Surplus**  
**For The Three Years Ended December 31, 2009**

Capital and surplus - December 31, 2006	\$ 279,671,925
Net income	49,500,531
Change in net unrealized capital gains (losses)	(6,538,907)
Change in net deferred income tax	5,852,181
Change in nonadmitted assets	(10,999,073)
Dividends to stockholders	(92,500,000)
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Capital and surplus - December 31, 2007	224,986,657
Net income	7,945,098
Change in net unrealized capital gains (losses)	(7,035,076)
Change in net deferred income tax	15,287,793
Change in nonadmitted assets	(9,851,674)
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Capital and surplus - December 31, 2008	231,332,798
Net income	46,584,223
Change in net unrealized capital gains (losses)	(1,568,926)
Change in net deferred income tax	(2,969,101)
Change in nonadmitted assets	1,382,840
<hr/>	
	274,761,834
Examination adjustments	-
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Capital and surplus - December 31, 2009	\$ 274,761,834
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**Health Options, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2009**

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

	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
<b>Capital and surplus, December 31, 2009 - per annual statement</b>			\$ 274,761,834
Total assets	\$ 383,813,187	\$ 383,813,187	\$ -
Total liabilities	\$ 109,051,353	\$ 109,051,353	\$ -
Net change in capital and surplus			-
<b>Capital and surplus, December 31, 2009 - per examination</b>			<u>\$ 274,761,834</u>

## COMMENTS ON FINANCIAL STATEMENTS

**Claims Unpaid and Unpaid Claims Adjustment Expenses** **\$54,533,857**

In its 2009 annual statement, the Company reported liabilities for \$53,002,889 in unpaid claims and \$1,530,968 in unpaid claims adjustment expenses. The reported amounts exceeded those required by Section 641.35(3), F.S., of \$22,546,890 and \$676,407, respectively.

## SUMMARY OF RECOMMENDATIONS

### Agreements

As reported on pages 5 and 7, certain of the Company's agreements did not contain provisions that the contracts shall be cancelled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. **We recommend that the Company amend the agreements to comply with Section 641.234(3), F.S.**

### Cancellation Clause

As reported on page 6, the Company did not list the Office on its general liability and medical malpractice/professional liability insurance policies such that the Office would receive written notification of any reduction of coverage, cancellation, non-renewal or termination, as required by Rule 69O-191.069(2), F.A.C. **We recommend that the Company obtain revised policies that include the required provision.**

## SUBSEQUENT EVENTS

In November of 2010, the Company distributed \$129,109,124 in shareholder dividends to BCBSF, following approval by the Office.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Health Options, Inc. as of December 31, 2009, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2009 was determined to be \$274,761,834, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$13,487,516.

In addition to the undersigned, the following individuals participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; M. Alison Miele, CFE, Financial Examiner/Analyst; and Richard Tan, Actuary.

Respectfully submitted,

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Christine N. Afolabi, CPA  
Financial Specialist  
Florida Office of Insurance Regulation