

Report on Examination
of
Health Options, Inc.

Jacksonville, Florida

as of

December 31, 2014



**FLORIDA OFFICE OF
INSURANCE REGULATION**

David Altmaier, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

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, 2014. Our report on the examination follows.

Florida Office of Insurance Regulation
March 8, 2016

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2014 of Health Options, Inc. (Company), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2010 through December 31, 2014. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (Office) was as of December 31, 2009.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (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.

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.).

Effective January 1, 2014, the Company reorganized under a policyholder owned, not-for-profit mutual insurance holding company system. The new mutual insurance holding company, GuideWell Mutual Holding Corporation (GuideWell Mutual), replaced Blue Cross Blue Shield of Florida, Inc. (Blue Cross) as the controlling organization and is owned by the policyholders. The Company is a wholly owned subsidiary of Diversified Health Services, Inc. (DHS). Prior to the January 1, 2014 reorganization, DHS was a wholly owned subsidiary of Blue Cross. Effective January 1, 2014, DHS was transferred from Blue Cross to GuideWell Group, Inc. (GuideWell Group), a new non-insurance stock company wholly owned by GuideWell Mutual.

Dividends and Capital Contributions

The Company distributed shareholder dividends in the amount of \$129,109,124 and \$52,000,000 in 2010 and 2011, respectively. No capital contributions were received by the Company during the period examined.

CORPORATE RECORDS

The minutes of the shareholder and Board of Directors (Board) were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

MANAGEMENT AND CONTROL

The Company is a wholly owned subsidiary of Diversified Health Services, Inc. which in turn is a wholly owned subsidiary of GuideWell Group. GuideWell Group is wholly owned by GuideWell Mutual. The Company's senior officers and directors were as shown below:

Senior Officers

<u>Name</u>	<u>Title</u>
Joyce A. Kramzer	Chief Executive Officer
Seth M. Phelps	Secretary
William A. Coats	Treasurer

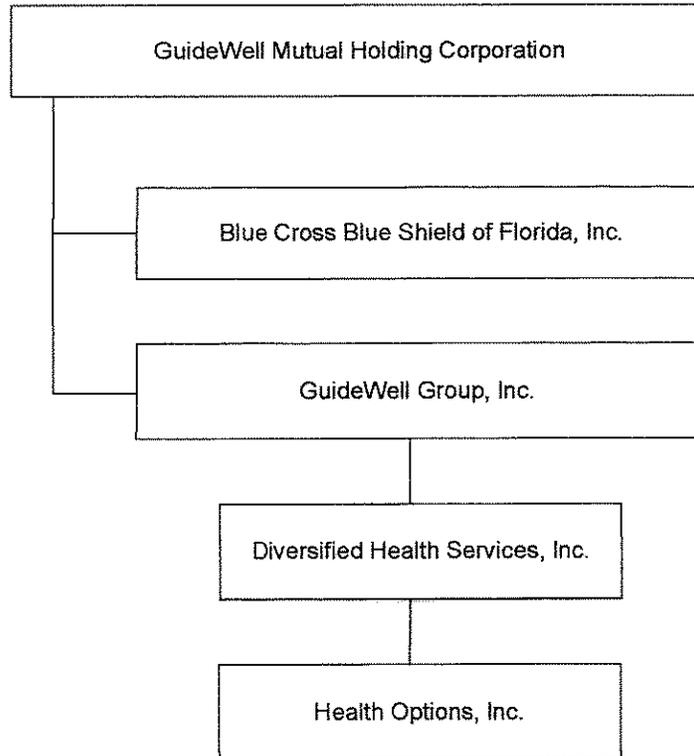
Board of Directors

<u>Name</u>	<u>Location</u>
Jannifer Harper, M.D.	Jacksonville, Florida
Joyce A. Kramzer	Jacksonville, Florida
James C. Modaff	Jacksonville, Florida

The Company was a member of an insurance holding company system. 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, Florida Administrative Code (F.A.C.), on March 30, 2014.

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

**Health Options, Inc.
Abbreviated Organizational Chart
December 31, 2014**



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

Guarantee Agreement

Effective March 16, 1989, Blue Cross guaranteed that it would provide sufficient funds to assure payment of all liabilities including covered subscriber claims of the Company. 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 its discharge, and payment to unaffiliated providers for services to covered enrollees.

Tax Allocation Agreement

The Company was included in the consolidated federal income tax return of its ultimate parent company, GuideWell Mutual, pursuant to a tax allocation agreement effective January 1, 2001 and later amended. The agreement required allocation of consolidated income tax liability based upon the separate taxable incomes of included companies and provided for annual settlement of amounts due under the agreement.

Administrative Services Agreement

The Company, and several of its affiliates, entered into an administrative services agreement effective December 31, 2007 and later amended. 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, underwriting, claims, investment, and functional support services. The agreement provided for reimbursement based on actual costs and expenses or an otherwise reasonable charge basis.

Management Agreement

The Company, Blue Cross and LSV Dental Management, LLC, (LSV) entered into a management agreement effective October 1, 2013, later amended, whereby LSV agreed to provide management and administrative services as well as access to a network of providers that would furnish certain dental services.

Pharmacy Benefit Service Agreement

The Company and Blue Cross entered into a pharmacy benefit service agreement with Prime Therapeutics, LLC, effective January 1, 2013, to provide certain pharmacy benefit management and other prescription drug benefit programs.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained general and professional liability insurance at acceptable levels and required its providers to certify and maintain appropriate levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069, F.A.C. The policies provided for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was insured by a blanket fidelity bond issued by a licensed Florida carrier as required by Section 641.22(7), F.S., in the amount of \$40,000,000.

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, 2016. It provided health care services to comprehensive and Medicare members. It had 346,881 members as of December 31, 2014, of which 89% were comprehensive members and 11% were Medicare members. The Company operated in the following Florida counties: Alachua, Baker, Bay, Bradford, Brevard, Broward, Charlotte, Citrus, Clay, Collier, Columbia, Dade, DeSoto, Dixie, Duval, Escambia, Flagler, Gilchrist, Hendry, Hernando, Highlands, Hillsborough, Indian River, Lake, Lee, Levy, Manatee, Marion, Martin, 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 2010 through 2014:

(Dollars are in millions)

	2010	2011	2012	2013	2014
Member months	1,017,104	971,022	1,658,715	2,550,224	3,878,089
Year-end enrollment	81,351	94,637	167,183	228,865	346,881
Premiums	\$ 486.7	\$ 428.2	\$ 665.1	\$ 1,020.8	\$ 1,604.9
Revenues	\$ 486.2	\$ 419.4	\$ 671.5	\$ 1,012.1	\$ 1,592.5
Underwriting deductions	\$ 434.1	\$ 405.4	\$ 652.9	\$ 971.9	\$ 1,549.7
Net income	\$ 52.1	\$ 17.8	\$ 16.1	\$ 35.5	\$ 19.6
Shareholder dividends	\$ -	\$ -	\$ -	\$ 52.0	\$ 129.1
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 291.7	\$ 257.2	\$ 268.4	\$ 387.6	\$ 560.2
Liabilities	\$ 94.1	\$ 89.3	\$ 87.3	\$ 171.6	\$ 319.2
Capital and surplus	\$ 197.6	\$ 167.9	\$ 181.1	\$ 216.0	\$ 241.0

REINSURANCE

The Company participated in the public health insurance exchanges established pursuant to the Patient Protection and Affordable Care Act and The Health Care Education Reconciliation Act of 2010 (ACA). The ACA temporary Reinsurance Program provided for partial reimbursement of high cost claims for certain eligible ACA individual plans. As part of this program, the Company recorded reinsurance recoverable of \$5,000,000 on paid claims as of December 31, 2014. Reinsurance contributions associated with other lines of business are considered a government assessment and are included in general administrative expenses.

Health Options, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2014

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 296,317,400	\$ -	\$ 296,317,400
Cash, cash equivalents and short-term investments	19,113,091	-	19,113,091
Receivables for securities	173,982	-	173,982
Securities lending reinvested collateral assets	43,283,519	-	43,283,519
	358,887,992	-	358,887,992
Investment income due and accrued	2,802,785	-	2,802,785
Uncollected premiums and agents' balances	30,817,772	-	30,817,772
Deferred premiums and agents' balances	9,136,780	-	9,136,780
Accrued retrospective premiums	9,028	-	9,028
Amounts recoverable from reinsurers	51,016,738	-	51,016,738
Amounts receivable relating to uninsured plans	40,545,896	-	40,545,896
Net deferred tax asset	17,006,885	-	17,006,885
Healthcare and other amounts receivable	31,110,560	-	31,110,560
Aggregate write-ins for other than invested assets	18,835,966	-	18,835,966
Total assets	\$ 560,170,402	\$ -	\$ 560,170,402

Liabilities

Claims unpaid	\$ 123,084,978	\$ -	\$ 123,084,978
Accrued medical incentive pool and bonus amounts	1,078,328	-	1,078,328
Unpaid claims adjustment expense	3,084,905	-	3,084,905
Aggregate health policy reserves	34,137,788	-	34,137,788
Premiums received in advance	20,552,039	-	20,552,039
General expenses due or accrued	12,687,169	-	12,687,169
Current income tax payable	618,094	-	618,094
Ceded reinsurance premiums payable	3,529,783	-	3,529,783
Remittances and items not allocated	5,090	-	5,090
Amounts due to parent, subsidiaries and affiliates	40,610,732	-	40,610,732
Payable for securities	2,544,196	-	2,544,196
Payable for securities lending	43,283,519	-	43,283,519
Liability for amounts held under uninsured plans	19,036,962	-	19,036,962
Aggregate write-ins for liabilities	14,963,672	-	14,963,672
Total liabilities	319,217,255	-	319,217,255

Capital and Surplus

Aggregate write-ins for special surplus funds	31,035,123	-	31,035,123
Common capital stock	100,000	-	100,000
Gross paid in and contributed surplus	167,284,475	-	167,284,475
Unassigned funds (surplus)	42,533,550	-	42,533,550
Total surplus and other funds	240,953,148	-	240,953,148
Total liabilities, surplus and other funds	\$ 560,170,403	\$ -	\$ 560,170,403

Health Options, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2014

Net premium income	\$ 1,604,911,929
Change in unearned premium reserves and reserve for rate credits	(12,412,211)
<u>Total revenues</u>	<u>1,592,499,718</u>
Hospital/medical benefits	1,027,403,849
Outside referrals	11,597,475
Emergency room and out-of-area	89,615,752
Prescription drugs	233,030,290
Aggregate write-ins for other hospital and medical	(10,596,474)
Incentive pool, withhold adjustments and bonus amounts	(428,820)
	<u>1,350,622,072</u>
Net reinsurance recoveries	71,516,613
<u>Total hospital and medical</u>	<u>1,279,105,459</u>
Claims adjustment expense	56,713,874
General administrative expenses	209,054,686
Increase in reserves	4,858,319
<u>Total underwriting deductions</u>	<u>1,549,732,338</u>
Net underwriting gain	42,767,380
Net investment gains	9,296,328
Aggregate write-ins for other income or expenses	(4,796,251)
<u>Income before federal income tax</u>	<u>47,267,457</u>
Federal income tax	27,677,592
<u>Net income</u>	<u>\$ 19,589,865</u>

Health Options, Inc.
Statement of Changes in Capital and Surplus
For The Five Years Ended December 31, 2014

Capital and surplus - December 31, 2009	\$ 274,761,834
Net income	52,089,923
Change in valuation basis of aggregate policy and claim reserves	709,105
Change in net deferred income tax	(5,915,591)
Change in nonadmitted assets	5,053,262
Dividends to stockholders	(129,109,124)
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Capital and surplus - December 31, 2010	197,589,409
Net income	17,841,207
Change in net unrealized capital gains (losses)	(17,725)
Change in net deferred income tax	(835,749)
Change in nonadmitted assets	5,282,482
Dividends to stockholders	(52,000,000)
Aggregate write-ins for gains or (losses) in surplus	30,742
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Capital and surplus - December 31, 2011	167,890,366
Net income	16,084,307
Change in net unrealized capital gains (losses)	8,181
Change in net deferred income tax	3,473,637
Change in nonadmitted assets	(6,369,191)
<hr/>	
Capital and surplus - December 31, 2012	181,087,300
Net income	35,454,418
Change in net unrealized capital gains (losses)	(3,656)
Change in net deferred income tax	(1,742,495)
Change in nonadmitted assets	1,209,559
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Capital and surplus - December 31, 2013	216,005,126
Net income	19,589,865
Change in net unrealized capital gains (losses)	6,092
Change in net deferred income tax	5,362,669
Change in nonadmitted assets	(10,604)
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Capital and surplus - December 31, 2014	<u>\$ 240,953,148</u>

Health Options, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2014

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, 2014 - per annual statement				\$ 240,953,148
	Per	Per	Increase	
	Company	Examination	(Decrease)	
			In Capital	
			& Surplus	
Total assets	\$ 560,170,402	\$ 560,170,402	\$ -	
Total liabilities	\$ 319,217,255	\$ 319,217,255	\$ -	\$ -
Capital and surplus, December 31, 2014 - per examination				<u>\$ 240,953,148</u>

SUBSEQUENT EVENTS

In July 2015, the Company, as a co-borrower with Blue Cross, GuideWell Mutual and GuideWell Group, entered into a \$500 million revolving credit agreement with a syndicate of commercial and investment banks led by Bank of America (BOA) as administrative agent. This agreement replaced the previous \$300 million line of credit agreement with BOA. The term of the \$500 million agreement expires in July 2020.

In March 2015, the Company, as a co-issuer with Blue Cross, GuideWell Mutual and GuideWell Group, entered into a \$300 million credit facility with Prudential Capital Group, Inc. Draws on the facility can be made at any time over the three-year term of the facility and are structured as fixed rate, medium term notes. The Company had no borrowings under this agreement.

The Company received capital contributions totaling \$70,000,000 during 2015 to ensure adequate capital to support the growth experienced in recent years.

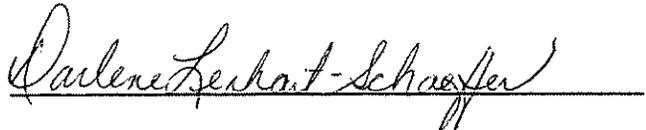
CONCLUSION

The 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, 2014, consistent with the insurance laws of the State of Florida.

At December 31, 2014, the Company's capital and surplus was \$240,953,148 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in this examination: Luke Stavenau, Financial Specialist, Kerry Krantz, Actuary, Lisa Parker, Actuary and Examination Resources, LLC

Respectfully submitted,



Darlene L. Lenhart-Schaeffer, PIR, CFE, CISA
Chief Examiner
State of Florida
Office of Insurance Regulation
Life and Health Financial Oversight