

Report on Examination

of

**HealthSpring of Florida, Inc.
d/b/a Leon Medical Centers Health Plans**

Miami, Florida

as of

December 31, 2010

By The

Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street
Tallahassee, Florida 32399-0305

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 HealthSpring of Florida, Inc. d/b/a Leon Medical Centers Health Plans as of December 31, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation
March 16, 2012

Contents

Scope of Examination	1
Company History	2
Corporate Records	2
Management and Control	3
Fidelity Bonds and Other Insurance	6
Pension, Stock Ownership and Insurance Plans	6
Territory and Plan of Operation	7
Company Growth.....	7
Statutory Deposits	7
Financial Statements	8
Summary of Findings	13
Subsequent Events	14
Conclusion.....	15

SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of HealthSpring of Florida, Inc. d/b/a Leon Medical Centers Health Plans (the "Company"), a single-state 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, 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.

The examination was conducted primarily in the Company's Miami, Florida office.

COMPANY HISTORY

The Company was incorporated in Florida on June 12, 2001 and licensed by the Office as an HMO on October 17, 2002. It was acquired by NewQuest, LLC on October 1, 2007 following approval by the Office and subsequently changed its name to HealthSpring of Florida, Inc. d/b/a Leon Medical Centers Health Plans. 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 \$12 million in shareholder dividends during 2010. No dividends were distributed during 2008 or 2009. The Company did not receive capital contributions during the period covered by the examination.

CORPORATE RECORDS

The minutes of the Company's shareholder and board of directors meetings 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 NewQuest, LLC, a single member limited liability company owned by HealthSpring, Inc. With headquarters in Franklin, Tennessee, HealthSpring, Inc. was a managed care organization which concentrated on Medicare Advantage health plans. The capital stock of HealthSpring, Inc. traded on the New York Stock Exchange. The Company was affiliated with various other entities through common ownership.

The Company's senior officers and directors were as shown below.

Senior Officers

<u>Name</u>	<u>Title</u>
Albert R. Maury	President and Chief Executive Officer
Michael G. Mirt	Co-Chief Executive Officer
Henry Hernandez	Chief Operating Officer and Vice President
Franklin S. Warren	Chief Financial Officer
David L. Terry	Chief Actuary
Jack L. Wade	Senior Vice President
Mark A. Tulloch	Vice President and Secretary
Brian T. McCullough	Treasurer

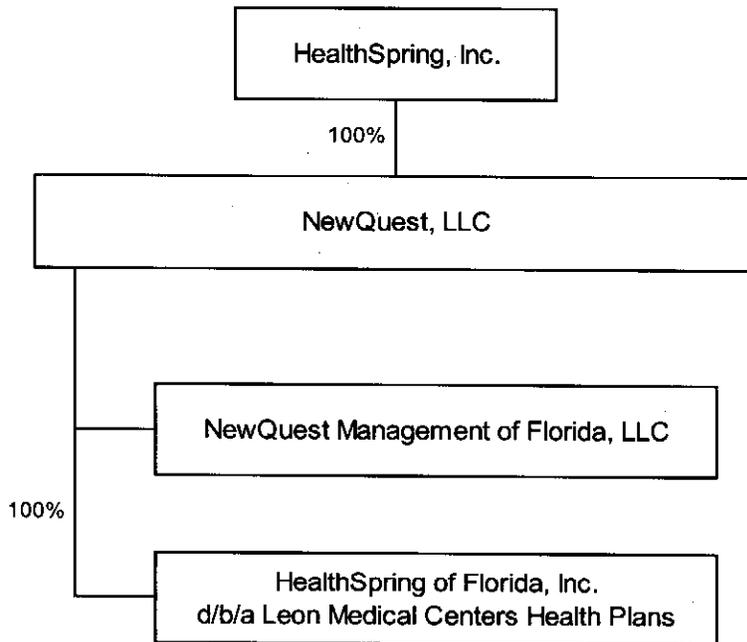
Board of Directors

<u>Name</u>	<u>Location</u>
Mercedes M. Kirkpatrick	Miami, Florida
Albert R. Maury	Miami, Florida
Alina Campos-Vega, M.D.	Miami, 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 March 30, 2011.

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

**HealthSpring of Florida, Inc.
d/b/a Leon Medical Centers Health Plans
Abbreviated Organizational Chart
December 31, 2010**



Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of HealthSpring, Inc. pursuant to an October 1, 2007 tax allocation agreement. The agreement provided for the allocation of consolidated income tax liability on a separate-return basis with current credit for net operating losses or other items utilized in the consolidated tax return.

Management Agreement

NewQuest Management of Florida, LLC provided management and administrative services to the Company pursuant to an October 1, 2007 agreement. The services included claims processing, medical management, credentialing, support, personnel, administrative, financial, data processing, debt collection, and general accounting services.

Medical Services Agreement

Effective October 1, 2007, the Company entered into an agreement with Leon Medical Centers, Inc. Under the terms of the agreement, Leon Medical Centers, Inc. provided certain specialty care, pharmacy, and ancillary medical services to the Company's Medicare Advantage members in the Miami-Dade area.

Risk-Sharing Agreement

Effective October 1, 2007, the Company entered into a risk-sharing agreement with Leon Medical Centers, Inc. The agreement provided for the sharing in any surplus or deficit with respect to agreed-upon medical loss ratio benchmarks.

Pharmacy Rebate Agreement

The Company received pharmacy rebates from HealthSpring Life & Health Insurance Company, Inc., an affiliate. The transactions were not pursuant to a written agreement as required by paragraph 6 of Statement of Statutory Accounting Principles (SSAP) No. 25. In addition, the Company was in violation of Section 641.234(3), F.S., which required that such agreements contain provisions that they would be canceled upon issuance of an order by the Office pursuant to Section 641.234(3), F.S.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on the general liability policy of HealthSpring, Inc. which was maintained at acceptable levels in compliance with Rule 69O-191.069, F.A.C. The Company was also a named insured on the crime policy of HealthSpring, Inc. in the amount of \$2 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. 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. The policies were amended during the course of the examination to include the required provision.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees and, therefore, no pension or other employee benefit plans.

TERRITORY AND PLAN OF OPERATION

The Company operated as an HMO in the Florida counties of Escambia, Miami-Dade, and Santa Rosa. As a Medicare Advantage plan, it received monthly prepaid capitated payments from the Centers for Medicare & Medicaid Services (CMS) in return for arranging necessary medical services for enrolled Medicare participants. 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 September 19, 2012. It provided health care services to 37,022 Medicare members as of December 31, 2010.

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	27,568	32,606	37,022
In millions:			
Premiums	\$ 373.7	\$ 492.9	\$ 541.1
Total revenues	\$ 373.7	\$ 492.9	\$ 541.1
Net income	\$ 2.2	\$ 12.6	\$ 9.8
Capital and surplus	\$ 11.0	\$ 27.4	\$ 26.5

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$413,086 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.

HealthSpring of Florida, Inc.
d/b/a Leon Medical Centers Health Plans
Assets
December 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 48,896,566	\$ -	\$ 48,896,566
Cash, cash equivalents and short-term investments	5,453,875	-	5,453,875
	54,350,441	-	54,350,441
Investment income due and accrued	524,691	-	524,691
Uncollected premiums and agents' balances	58,148	-	58,148
Accrued retrospective premiums	2,365,755	-	2,365,755
Amounts receivable relating to uninsured plans	412,535	-	412,535
Net deferred tax asset	698,149	-	698,149
Health care and other amounts receivable	1,466,513	-	1,466,513
Total assets	\$ 59,876,232	\$ -	\$ 59,876,232

HealthSpring of Florida, Inc.
d/b/a Leon Medical Centers Health Plans
Liabilities, Capital and Surplus
December 31, 2010

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 28,920,139	\$ -	\$ 28,920,139
Accrued medical incentive pool and bonuses	1,388,589	-	1,388,589
Unpaid claims adjustment expenses	545,607	-	545,607
Premiums received in advance	2,476	-	2,476
General expenses due or accrued	99,978	-	99,978
Current federal and foreign income tax payable	1,217,672	-	1,217,672
Amounts due to parent, subsidiaries and affiliates	527,516	-	527,516
Aggregate write-ins for other liabilities	673,913	-	673,913
Total liabilities	33,375,890	-	33,375,890
Capital and Surplus			
Common capital stock	3	-	3
Gross paid in and contributed surplus	9,008,319	-	9,008,319
Unassigned funds	17,492,020	-	17,492,020
Total capital and surplus	26,500,342	-	26,500,342
Total liabilities, capital and surplus	\$ 59,876,232	\$ -	\$ 59,876,232

HealthSpring of Florida, Inc.
d/b/a Leon Medical Centers Health Plans
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2010

Net premium income	\$ 541,091,172
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Hospital and medical benefits	361,164,158
Outside referrals	9,249,991
Emergency room and out-of-area	9,686,971
Prescription drugs	50,566,231
Incentive pool, withhold adjustments and bonuses	2,523,982
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Total hospital and medical	433,191,333
Claims adjustment expenses	8,466,729
General administrative expenses	84,627,150
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Total underwriting deductions	526,285,212
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Net underwriting gain	14,805,960
Net investment gains	949,317
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Income before income tax	15,755,277
Federal income tax	5,981,743
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Net income	\$ 9,773,534
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HealthSpring of Florida, Inc.
d/b/a Leon Medical Centers Health Plans
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2010

Capital and surplus - December 31, 2007	\$ 16,076,065
Net income	2,219,577
Change in net deferred income tax	1,652,879
Change in nonadmitted assets	(8,925,998)
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Capital and surplus - December 31, 2008	11,022,523
Net income	12,620,748
Change in net deferred income tax	(1,057,589)
Change in nonadmitted assets	4,827,721
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Capital and surplus - December 31, 2009	27,413,403
Net income	9,773,534
Change in net deferred income tax	114,253
Change in nonadmitted assets	1,199,152
Dividends to stockholder	(12,000,000)
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	26,500,342
Examination adjustments	-
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Capital and surplus - December 31, 2010	\$ 26,500,342
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HealthSpring of Florida, Inc.
d/b/a Leon Medical Centers Health Plans
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			\$ 26,500,342
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 59,876,232	\$ 59,876,232	\$ -
Total liabilities	\$ 33,375,890	\$ 33,375,890	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2010 - per examination			\$ 26,500,342

SUMMARY OF FINDINGS

Pharmacy Rebate Agreement

As reported on page 6, examiners found that pharmacy rebate transactions between the Company and one of its affiliates were not pursuant to a written agreement. In addition, the Company was in violation of Section 641.234(3), F.S., which required that such agreements contain provisions that they would be canceled upon issuance of an order by the Office pursuant to Section 641.234(3), F.S. **We recommend that the Company's pharmacy rebate transactions be pursuant to a written agreement which includes a provision that the agreement would be canceled upon issuance of an order by the Office, in accordance with SSAP No. 25 and Section 641.234(3), F.S.**

Liability Insurance Policies

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. The policies were amended during the course of the examination to include the required provision.

SUBSEQUENT EVENTS

In its quarterly statement, the Company reported total capital and surplus of \$29.2 million as of September 30, 2011, and net premium income and total revenues of \$459.4 million and net income of \$7.9 million for the nine months then ended.

The Company distributed \$9.7 million in shareholder dividends in 2011 following approval by the Office.

On January 31, 2012, following approval by the Office, Cigna Corporation completed its acquisition of HealthSpring, Inc. which became an indirect, wholly owned subsidiary of Cigna Corporation.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of HealthSpring of Florida, Inc. d/b/a Leon Medical Centers Health Plans consistent with the insurance laws of the State of Florida.

The Company's capital and surplus at December 31, 2010 was determined to be \$26,500,342, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$10,821,823.

In addition to the undersigned, the following individuals participated in this examination: Christine N. Afolabi, CPA, Financial Specialist; Cathy S. Jones, CPA, AFE, Financial Examiner/Analyst Supervisor; Scott R. Slaughter, CPA, Financial Examiner/Analyst; Michael D. Young, CFE, Financial Examiner/Analyst; and Richard Tan, Actuary.

Respectfully submitted,

Walter F. Banas, CIE, Financial Specialist
Florida Office of Insurance Regulation