

**Report on Examination**  
**of**  
**HealthSun Health Plans, Inc.**  
**Miami, Florida**  
**as of**  
**December 31, 2011**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**

Kevin M. McCarty, 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 HealthSun Health Plans, Inc. as of December 31, 2011. Our report on the examination follows.

Florida Office of Insurance Regulation  
December 13, 2012

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2011 of HealthSun Health Plans, 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, 2006. The current examination covered the period of January 1, 2007 through December 31, 2011 and took place primarily in the Company's Miami, Florida office.

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.

## SUMMARY OF SIGNIFICANT FINDINGS

The current examination resulted in findings that:

- The Company had not filed with the Office an agreement with one of its affiliates as required by Rule 69O-143.046, Florida Administrative Code (F.A.C.), relating to holding company registration statements;
- Certain of the Company's agreements did not contain provisions that the agreements would be canceled upon issuance of an order by the Office as required by Section 641.234(3), Florida Statutes (F.S.), and had not been submitted to the Office for approval as required by a consent order;
- One of the Company's provider networks did not maintain professional liability insurance in connection with services provided under an agreement with the Company as required by the agreement;
- The Company was in violation of paragraph 6 of Statement of Statutory Accounting Principles (SSAP) No. 25 in that certain of its transactions with related parties were not pursuant to written agreements;
- The Company's general liability insurance policy did not provide for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage in accordance with Rule 69O-191.069(2), F.A.C.;
- The Company's reinsurance agreement had not been submitted to the Office for approval as required by Section 641.22(8), F.S.;
- The Company failed to submit to the Office a biographical statement and character report on its chief operating officer and chief financial officer in accordance with Rule 69O-191.030(3), F.A.C.; and
- The Company overstated its capital and surplus at December 31, 2011 by \$167,700.

The report on our prior examination of the Company included a finding that its capital and surplus as of December 31, 2006 was \$648,669 less than the minimum amount required by Section 641.225, F.S. The current examination did not result in a similar finding.

## **COMPANY HISTORY**

The Company was incorporated in Florida on March 18, 2004 and licensed by the Office on May 26, 2005. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S.

### Dividends and Capital Contributions

The Company distributed shareholder dividends in the amounts of \$822,000, \$1,656,000 and \$1,964,100 in years 2009, 2010 and 2011, respectively. Dividends were not distributed in 2007 or in 2008. The Company did not receive capital contributions during the period examined.

## **CORPORATE RECORDS**

We reviewed the minutes of the Company's board of directors meetings held during the period examined. The Board's approval of Company transactions, including the authorization of its investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

## MANAGEMENT AND CONTROL

The Company was equally owned by Health Management Services, LLC; Healx, LLC; and Racor, LLC; and was affiliated with various other entities through common ownership. Its senior officers and directors were:

### Senior Officers

<u>Name</u>	<u>Title</u>
Alexander Fuster	President and Chief Executive Officer
Claudio I. Alvarez, M.D.	Vice President
Ramon Corona	Secretary and Treasurer
Gale G. Lam	Chief Operating Officer and Chief Financial Officer

### Board of Directors

<u>Name</u>	<u>Location</u>
Claudio I. Alvarez, M.D.	Key Biscayne, Florida
Ramon Corona	Coral Gables, Florida
Alexander Fuster	Coconut Grove, Florida

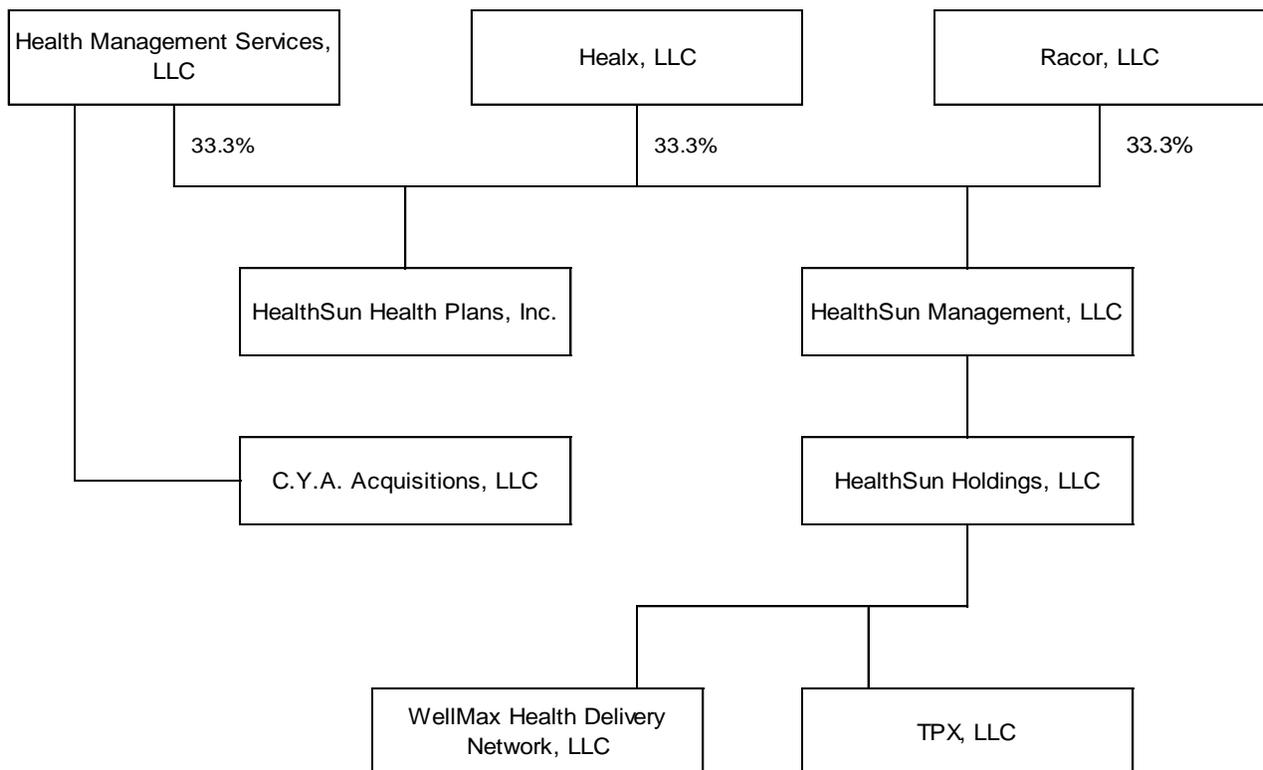
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on November 14, 2012. The report on our prior examination of the Company contained a finding that the Company failed to file a holding company registration statement with the Office.

As discussed on page 7, one of the Company's affiliates provided transportation services to the Company pursuant to an agreement. During the current examination, we found that the Company had not filed the agreement with the Office as required by Rule 69O-143.046, F.A.C.,

relating to holding company registration statements. However, subsequent to the period examined, the agreement was filed with the Office.

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

**HealthSun Health Plans, Inc.  
Abbreviated Organizational Chart  
December 31, 2011**



Network Risk Agreements

WellMax Health Delivery Network, LLC (WellMax), an affiliated staff model provider network, furnished health care services to the Company pursuant to a 2005 agreement in return for 85% of premiums from assigned members. In addition, staff model provider networks Managed Healthcare Partners, LLC, Solera Health Systems, LLC (Solera), REC Health Management, LLC,

and Liberty Health Management, LLC, provided health care services to the Company pursuant to 2009 agreements in return for 90% of premiums from assigned members.

In accordance with Rule 69O-191.069(1), F.A.C., the Company's agreement with Solera included a requirement that Solera maintain professional liability insurance in connection with services provided under the agreement. However, Solera did not maintain the required insurance. The report on our prior examination of the Company contained a similar finding.

#### Lease Agreement

The Company leased office space from an affiliate C.Y.A. Acquisitions, LLC pursuant to a 2007 lease agreement. The lease was for a term of six years and included a five-year renewal option.

#### Transportation Agreement

WellMax provided transportation services to the Company pursuant to a March 1, 2011 transportation agreement in return for fees based on per member per month rates for members assigned to WellMax. The agreement had not been submitted to the Office for approval as required by Consent Order 81538-05-CO filed by the Office on May 26, 2005 (the "Consent Order"). In addition, it did not contain a provision that the agreement would be canceled upon issuance of an order by the Office as required by Section 641.234(3), F.S. Subsequent to the period examined, the agreement was amended to include the required cancellation provision and was submitted to and approved by the Office. The report on the prior examination of the Company by the Office contained similar findings related to a lease agreement with an affiliate.

## **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. 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., for \$500,000. The Company's general liability insurance policy did not provide for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage in accordance with Rule 69O-191.069(2), F.A.C. However, the policy was amended during the examination and the required provision was added.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company offered various benefits to eligible employees including group health and dental insurance. It did not provide a retirement plan.

## **TERRITORY AND PLAN OF OPERATION**

As a Medicare Advantage organization, the Company provided health care services to Medicare members in Broward and Miami-Dade Counties, Florida pursuant to an agreement with the Centers for Medicare & Medicaid Services. 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 May 14, 2013.

## COMPANY GROWTH

For years 2007 through 2011, the Company reported:

*(Dollars are in millions.)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Member months	30,505	31,322	37,509	46,982	79,149
Year-end enrollment	2,786	2,857	3,429	4,783	10,946
Premiums	\$ 36.9	\$ 39.3	\$ 54.3	\$ 69.2	\$ 129.3
Revenues	\$ 36.9	\$ 39.3	\$ 54.3	\$ 69.2	\$ 129.3
Underwriting deductions	\$ 36.3	\$ 38.7	\$ 52.8	\$ 67.3	\$ 126.4
Net income	\$ 0.8	\$ 0.8	\$ 1.7	\$ 2.0	\$ 3.0
Shareholder dividends	\$ -	\$ -	\$ 0.8	\$ 1.7	\$ 2.0
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 7.1	\$ 5.6	\$ 9.9	\$ 12.9	\$ 23.9
Liabilities	\$ 4.9	\$ 3.2	\$ 5.4	\$ 8.3	\$ 19.3
Capital and surplus	\$ 2.1	\$ 2.4	\$ 4.5	\$ 4.6	\$ 4.6

## REINSURANCE

The Company ceded reinsurance to an unaffiliated reinsurer on an excess loss coinsurance basis. The reinsurance agreement had not been submitted to the Office for approval as required by Section 641.22(8), F.S. Subsequent to the period examined, the agreement was submitted to and approved by the Office.

## ACCOUNTS AND RECORDS

Section 641.234(1), F.S., provides that the Office may require an HMO to submit any contract for administrative or management services and any contract with an affiliate to the Office. The Company was required by paragraph 7 of the Consent Order to submit such agreements to the Office for written approval. Section 641.234(3), F.S., provides that such agreements shall contain a provision that the contract shall be canceled upon issuance of an order by the Office.

Paragraph 6 of SSAP No. 25 provides that transactions between related parties must be in the form of a written agreement. The Company compensated related parties Count On Us, Inc., Claudio I. Alvarez, M.D., Ramon Corona, and Alexander Fuster for services performed other than as employees in connection with verbal agreements for administrative and/or management services. We found that the Company failed to submit agreements for the services to the Office for written approval, in violation of the Consent Order, and was in violation of Section 641.234(3), F.S., in that the agreements did not contain provisions that they would be canceled upon issuance of an order by the Office. We also found that the Company was in violation of paragraph 6 of SSAP No. 25 in that its transactions with the above-named related parties were not pursuant to written agreements.

The Company was required by Rule 69O-191.030(3), F.A.C., to submit to the Office biographical statements and character reports on its officers. However, it failed to submit the required statement and report on its chief operating officer and chief financial officer Gale G. Lam. Subsequent to the period examined, the required statement and report were submitted to the Office.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office an insolvency protection deposit of \$300,000 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.

**HealthSun Health Plans, Inc.**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2011**

<b>Admitted Assets</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Cash, cash equivalents and short-term investments	\$ 20,372,895	\$ -	\$ 20,372,895
Uncollected premiums and agents' balances	2,784,739	-	2,784,739
Amounts recoverable from reinsurers	106,091	-	106,091
Amounts receivable relating to uninsured plans	441,603	-	441,603
Electronic data processing equipment and software	143,520	-	143,520
Health care and other amounts receivable	30,000	-	30,000
<b>Total admitted assets</b>	<b>\$ 23,878,848</b>	<b>\$ -</b>	<b>\$ 23,878,848</b>

<b>Liabilities</b>			
Claims unpaid	\$ 11,462,156	\$ -	\$ 11,462,156
Accrued medical incentive pool and bonus amounts	1,630,661	-	1,630,661
Unpaid claims adjustment expenses	222,466	-	222,466
Aggregate health policy reserves	438,464	-	438,464
General expenses due or accrued	508,609	-	508,609
Amounts withheld or retained for the account of others	34,898	-	34,898
Amounts due to parent, subsidiaries and affiliates	2,661,377	167,700	2,829,077
Liability for amounts held under uninsured plans	548,895	-	548,895
Aggregate write-ins for other liabilities	1,793,455	-	1,793,455
<b>Total liabilities</b>	<b>19,300,981</b>	<b>167,700</b>	<b>19,468,681</b>

<b>Capital and Surplus</b>			
Common capital stock	15	-	15
Gross paid in and contributed surplus	2,147,249	-	2,147,249
Unassigned funds	2,430,603	(167,700)	2,262,903
<b>Total capital and surplus</b>	<b>4,577,867</b>	<b>(167,700)</b>	<b>4,410,167</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 23,878,848</b>	<b>\$ -</b>	<b>\$ 23,878,848</b>

**HealthSun Health Plans, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**Year Ended December 31, 2011**

Net premium income	\$ 129,283,867
Hospital and medical benefits	73,832,944
Other professional services	6,000,161
Outside referrals	14,041,265
Emergency room and out-of-area	2,262,218
Prescription drugs	15,769,603
Aggregate write-ins for other hospital and medical	1,001,601
	<hr/> 112,907,792
Net reinsurance recoveries	726,011
Total hospital and medical	<hr/> 112,181,781
Claims adjustment expenses	3,529,013
General administrative expenses	10,670,230
Total underwriting deductions	<hr/> 126,381,024
Net underwriting gain	2,902,843
Net investment gains	60,243
Net income	<hr/> <hr/> \$ 2,963,086

**HealthSun Health Plans, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2011**

Capital and surplus - December 31, 2006	\$ 851,331
Net income	833,544
Change in nonadmitted assets	446,551
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Capital and surplus - December 31, 2007	2,131,426
Net income	823,158
Change in nonadmitted assets	(517,220)
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Capital and surplus - December 31, 2008	2,437,364
Net income	1,656,554
Change in nonadmitted assets	1,244,424
Dividends to stockholders	(822,000)
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Capital and surplus - December 31, 2009	4,516,342
Net income	1,964,114
Change in nonadmitted assets	(246,533)
Dividends to stockholders	(1,656,000)
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Capital and surplus - December 31, 2010	4,577,923
Net income	2,963,086
Change in nonadmitted assets	(999,042)
Dividends to stockholders	(1,964,100)
<hr/>	
	4,577,867
Examination adjustments	(167,700)
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Capital and surplus - December 31, 2011	\$ 4,410,167
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**HealthSun Health Plans, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2011**

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

<b>Capital and surplus, December 31, 2011 - per annual statement</b>			\$ 4,577,867
	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Increase</u> <u>(Decrease)</u> <u>In Capital</u> <u>&amp; Surplus</u>
Amounts due to parent, subsidiaries and affiliates	\$ 2,661,377	\$ 2,829,077	\$ (167,700)
Net change in capital and surplus			<u>(167,700)</u>
<b>Capital and surplus, December 31, 2011 - per examination</b>			<u><u>\$ 4,410,167</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Amounts Due To and From Parent, Subsidiaries and Affiliates

The liability reported by the Company in its 2011 annual statement as 'amounts due to parent, subsidiaries and affiliates' of \$2,661,377 has been increased and the Company's capital and surplus has been reduced by \$167,700. SSAP No. 64 provides that, with certain exceptions, assets and liabilities shall be offset and reported net only when a valid right of offset exists. We found that, contrary to the requirement of SSAP No. 64, the Company offset \$167,700 due from an affiliate against amounts payable to other entities when no valid right of offset existed. Upon examination, the liability was increased by \$167,700 and the corresponding amount due from the affiliate was nonadmitted in accordance with Section 641.35(2)(i)3, F.S.

## SUMMARY OF RECOMMENDATIONS

### Agreements

As reported on page 5, we found that the Company had not filed with the Office an agreement with one of its affiliates as required by Rule 69O-143.046, F.A.C., relating to holding company registration statements. In addition, we found that certain of the Company's agreements did not contain provisions that the agreements would be canceled upon issuance of an order by the Office as required by Section 641.234(3), F.S., and had not been submitted to the Office for approval as required by the Consent Order, as reported on pages 7 and 10. We also found that the Company was in violation of paragraph 6 of SSAP No. 25 by engaging in related party transactions which were not pursuant to written agreements, as reported on page 10. **We recommend that the Company comply with Rule 69O-143.046, F.A.C., Section 641.234(3), F.S., all requirements of the Consent Order, and paragraph 6 of SSAP No. 25.**

### Provider Liability Insurance

As reported on page 7, the Company's agreement with Solera included a requirement that Solera maintain professional liability insurance in connection with services provided under the agreement. However, Solera did not maintain the required insurance. **We recommend that the Company enforce the provision in its agreement with Solera.**

### Company Liability Insurance

As reported on page 8, the Company's general liability insurance policy did not provide for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage in accordance with Rule 69O-191.069(2), F.A.C. **We recommend that the Company comply with Rule 69O-191.069(2), F.A.C.**

#### Reinsurance Agreement

As reported on page 9, the Company's reinsurance agreement had not been submitted to the Office for approval as required by Section 641.22(8), F.S. **We recommend that the Company comply with Section 641.22(8), F.S., by submitting all of its future reinsurance agreements to the Office for approval.**

#### Biographical Statement and Character Report

As reported on page 10, the Company failed to submit to the Office a biographical statement and character report on its chief operating officer and chief financial officer Gale G. Lam, in violation of Rule 69O-191.030(3), F.A.C. Subsequent to the period examined, the required statement and report were submitted to the Office. **We recommend that, in the future, the Company submit to the Office all biographical statements and character reports on new officers, as required by Rule 69O-191.030(3), F.A.C.**

#### Accounting For Amounts Due To and From Affiliates

As reported on page 16, the Company understated its obligations to affiliates and overstated its capital and surplus by \$167,700. **We recommend that, in future statements filed with the Office, the Company comply with the requirements of SSAP No. 64 pertaining to the offsetting of assets and liabilities, and not admit amounts due from affiliates in accordance with Section 641.35(2)(i)3, F.S.**

## **SUBSEQUENT EVENTS**

In its quarterly statement, the Company reported capital and surplus of \$12.6 million as of September 30, 2012, and premium income of \$228.8 million, net income of \$10.5 million, and shareholder dividends of \$3.0 million for the nine months then ended.

## CONCLUSION

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

At December 31, 2011, the Company's capital and surplus was \$4,410,167 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

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

Respectfully submitted,

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Scott R. Slaughter, CPA  
Financial Examiner/Analyst  
Florida Office of Insurance Regulation