

Report on Examination
of
Humana AdvantageCare Plan, Inc.

f/k/a Metcare Health Plans, Inc.

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

Florida Office of Insurance Regulation
April 10, 2012

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of Humana AdvantageCare Plan, 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.

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 31, 2001. It was licensed by the Office on April 22, 2005 and commenced business on July 1, 2005. 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.). Humana Medical Plan, Inc. acquired the Company on August 29, 2008 and the Company's name was changed from Metcare Health Plans, Inc. to Humana AdvantageCare Plan, Inc. effective September 30, 2008.

Dividends and Capital Contributions

No dividends were distributed by the Company during the period examined. During 2008 and 2010, the Company received capital contributions in the amounts of \$2 million and \$15 million, respectively.

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 Medical Plan, Inc. which was a subsidiary of Humana Inc., a Louisville, Kentucky health insurance company. The common stock of Humana Inc. traded on the New York Stock Exchange. The Company 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., a Florida health insurer.

The Company's senior officers and directors were as follows:

Senior Officers

Name	Title
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

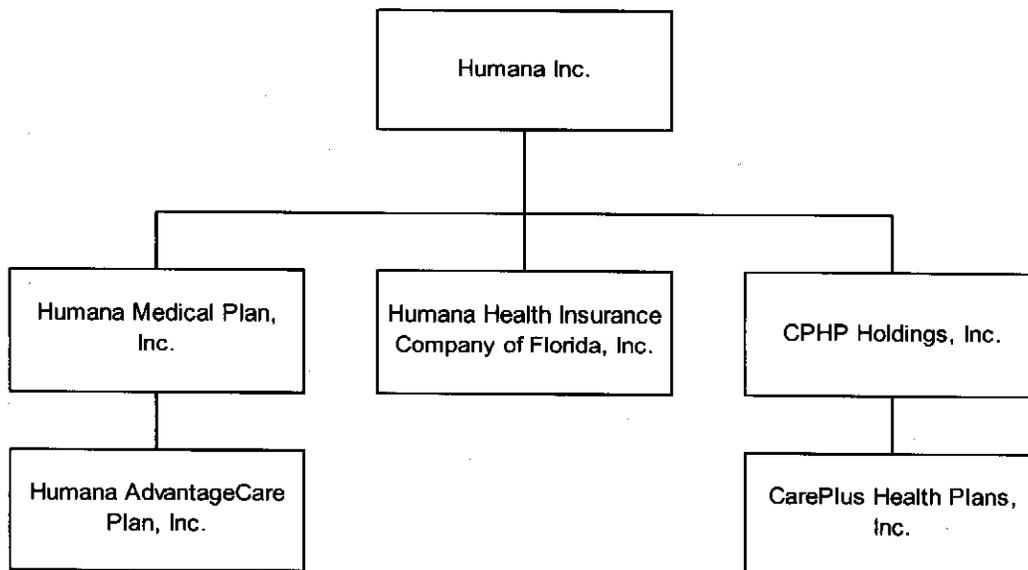
Board of Directors

Name	Location
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 AdvantageCare Plan, Inc.
Abbreviated Organizational Chart
December 31, 2010**



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

Pursuant to an August 29, 2008 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 an agreement effective August 29, 2008, Humana Inc. provided medical and 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 January 1, 2009 and which was later amended to reflect changes required by CMS.

Humana Inc., Humana Wisconsin, and the Company entered into a cost allocation agreement, effective January 1, 2009, 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 a service center agreement effective January 1, 2009. The agreement was later amended to reflect 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 January 1, 2009. The agreement was later amended to reflect changes required by CMS.

CompBenefits Company arranged for the provision of visual health care services to the Company's Medicare members on a capitated basis pursuant to a July 1, 2006 agreement. The capitation fee was evaluated annually and adjusted based on medical loss ratios.

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 as required by 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 health and pharmacy benefits to Medicare members pursuant to an agreement with CMS. 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 March 14, 2013, and provided health care services to 9,529 Medicare members as of December 31, 2010. The Company operated in the Florida counties of Broward, Charlotte, Dade, Glades, Lake, Lee, Manatee, Marion, Martin, Okeechobee, Palm Beach, Polk, Sarasota, St. Lucie, and Sumter.

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)	9,715	8,941	9,529
Premiums	\$ 80.6	\$ 88.2	\$ 98.1
Revenues	\$ 80.6	\$ 88.2	\$ 98.1
Net income (loss)	\$ (5.5)	\$ (5.6)	\$ 3.6
Capital and surplus	\$ 9.0	\$ 1.5	\$ 20.8

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.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$500,000 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 AdvantageCare Plan, Inc.
Assets
December 31, 2010

	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	\$ 34,487,047	\$ -	\$ 34,487,047
Investment income due and accrued	1,868	-	1,868
Uncollected premiums and agents' balances	67,299	-	67,299
Accrued retrospective premiums	1,249,377	-	1,249,377
Amounts receivable relating to uninsured plans	81,547	-	81,547
Current federal and foreign income tax recoverable	1,270,947	-	1,270,947
Net deferred tax asset	1,533,390	-	1,533,390
Electronic data processing equipment and software	21,246	-	21,246
Health care and other amounts receivable	225,964	-	225,964
Total assets	\$ 38,938,685	\$ -	\$ 38,938,685

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

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 17,396,703	\$ -	\$ 17,396,703
Unpaid claims adjustment expenses	162,428	-	162,428
Aggregate health policy reserves	469,340	-	469,340
Premiums received in advance	17,539	-	17,539
Remittances and items not allocated	43,914	-	43,914
Amounts held under uninsured plans	25,372	-	25,372
Aggregate write-ins for other liabilities	5,366	-	5,366
Total liabilities	18,120,662	-	18,120,662
Capital and Surplus			
Common capital stock	18,100	-	18,100
Gross paid in and contributed surplus	43,536,358	-	43,536,358
Unassigned funds (deficit)	(22,736,435)	-	(22,736,435)
Total capital and surplus	20,818,023	-	20,818,023
Total liabilities, capital and surplus	\$ 38,938,685	\$ -	\$ 38,938,685

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

Net premium income	\$ 98,140,135
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Hospital and medical benefits	72,196,403
Other professional services	972,817
Emergency room and out-of-area	1,803,047
Prescription drugs	7,425,321
Total hospital and medical	82,397,588
Claims adjustment expenses	2,710,808
General administrative expenses	7,876,002
Total underwriting deductions	92,984,398
Net underwriting gain	5,155,737
Net investment income earned	31,261
Income before income tax	5,186,998
Federal income tax	1,625,228
Net income	\$ 3,561,770

Humana AdvantageCare Plan, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2010

Capital and surplus - December 31, 2007	\$ 2,723,235
Net income (loss)	(5,535,997)
Change in net deferred income tax	2,276,658
Change in nonadmitted assets	7,549,495
Paid in surplus	2,000,000
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Capital and surplus - December 31, 2008	9,013,391
Net income (loss)	(5,612,152)
Change in net deferred income tax	1,659,260
Change in nonadmitted assets	(3,564,885)
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Capital and surplus - December 31, 2009	1,495,614
Net income (loss)	3,561,770
Change in net deferred income tax	640,741
Change in nonadmitted assets	119,898
Paid in surplus	15,000,000
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	20,818,023
Examination adjustments	-
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Capital and surplus - December 31, 2010	\$ 20,818,023
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Humana AdvantageCare 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			\$ 20,818,023
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 38,938,685	\$ 38,938,685	\$ -
Total liabilities	\$ 18,120,662	\$ 18,120,662	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2010 - per examination			\$ 20,818,023

COMMENTS ON FINANCIAL STATEMENTS

Claims Unpaid

\$17,396,703

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.

Capital and Surplus

\$20,818,023

The Company was required by Section 641.225, F.S., to maintain capital and surplus of at least \$1,764,720 as of December 31, 2009. However, it reported capital and surplus of \$1,495,614 in its 2009 annual statement. Consequently, the Company was in violation of Section 641.225, F.S., as of December 31, 2009. At December 31, 2010, the Company's capital and surplus of \$20,818,023 exceeded its required minimum capital and surplus of \$1,962,803.

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 8. **We recommend that, in future regulatory examinations, the Company adequately respond to examiner requests for data and supporting documents in a timely manner.**

Capital and Surplus

As reported on page 14, the Company was in violation of Section 641.225, F.S., as of December 31, 2009 because its capital and surplus of \$1,495,614 was less than the required minimum amount of \$1,764,720. **We recommend that the Company maintain capital and surplus at least equal to the minimum amount required by Section 641.225, F.S., at all times.**

SUBSEQUENT EVENTS

In its 2011 annual statement, the Company reported net premium income and total revenues of \$124.5 million and net income of \$7.8 million for the year, and total capital and surplus of \$30.5 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 AdvantageCare 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 \$20,818,023 which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$1,962,803.

In addition to the undersigned, the following individuals participated in this examination: Walter F. Banas, CIE, Financial Specialist; Chester A. Irvin, MBA, MTax, CGMA, CPA, Financial Administrator; Darlene L. Lenhart-Schaeffer, CFE, 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