

**Report on Examination**  
**of**  
**Humana Health Insurance Company**  
**of Florida, 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

Sharon P. Clark, Commissioner  
Kentucky Department of Insurance  
Secretary, NAIC Southeast Zone  
P.O. Box 517  
Frankfort, Kentucky 40602-0517

Joseph Torti, III, Superintendent  
Rhode Island Division of Insurance  
Chair, NAIC Financial Condition (E) Committee  
1511 Pontiac Avenue, Building 69-2  
Cranston, Rhode Island 02920

Dear Commissioners and Superintendent:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Humana Health Insurance Company of Florida, Inc. as of December 31, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation  
March 5, 2012

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of Humana Health Insurance Company of Florida, Inc. (the "Company"), a multi-state insurer domiciled in Florida. 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.

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 December 19, 1983 and licensed by the Office as an insurer on February 8, 1984. It commenced business on May 1, 1984.

The Company was authorized by the State of Florida to operate as an insurer in accordance with Section 624.401, Florida Statutes (F.S.), in the following lines:

- Life
- Group life and annuities
- Accident and health

### Dividends and Capital Contributions

The Company distributed \$12 million in shareholder dividends during 2010. In 2008, it received \$15 million in capital contributions from its parent Humana Inc.

## **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 625.304, F.S.

## MANAGEMENT AND CONTROL

The Company was wholly owned by 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 the Florida health maintenance organizations Humana Medical Plan, Inc. (HMP), Humana AdvantageCare Plan, Inc., and CarePlus Health Plans, Inc. The Company's senior officers and directors were as follows:

### Senior Officers

<b>Name</b>	<b>Title</b>
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

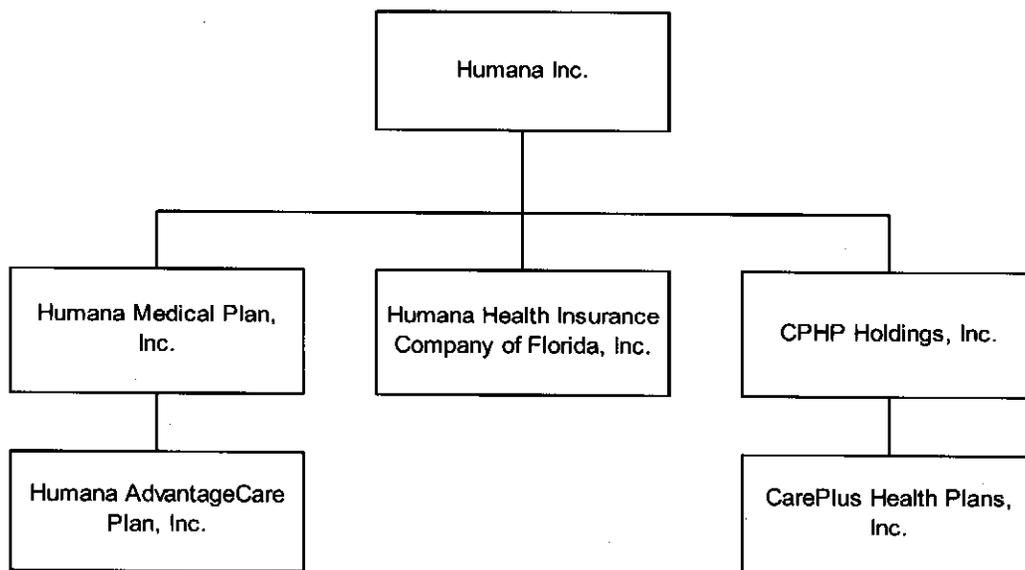
### Board of Directors

<b>Name</b>	<b>Location</b>
James H. Bloem	Louisville, Kentucky
Bruce J. Goodman	Louisville, Kentucky
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. 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, on February 29, 2012.

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

**Humana Health Insurance Company of Florida, Inc.  
Abbreviated Organizational Chart  
December 31, 2010**



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

Pursuant to a June 30, 1995 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 a 2003 agreement, 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 in 2003 and which was later amended to include changes required by CMS.

Humana Inc., HMP, and the Company entered into a cost allocation agreement effective in 2003 and amended in 2008 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 an agreement effective in 2003. The agreement was later amended to include changes required by CMS.

Humana Inc., Humana Wisconsin, and the Company entered into a cost allocation agreement effective in 2006 and amended in 2008 for the purpose of sharing operating costs incurred in the Florida market.

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 in 2006. The agreement was later amended to reflect changes required by CMS.

The Company jointly marketed a national point-of-service product with HMP. The Company was responsible for the direct out-of-pocket claims in return for a share of the direct premiums generated. Beginning on January 1, 2007, the Company assumed the direct in-network portion of the product from HMP on a 100% coinsurance basis pursuant to a reinsurance agreement. The agreement was terminated effective October 1, 2010 pursuant to a commutation agreement.

#### **FIDELITY BONDS AND OTHER INSURANCE**

Humana Inc. maintained a fidelity bond which included coverage of its subsidiaries including the Company. The bond provided coverage of \$15 million with a deductible of \$1 million which exceeded the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$5 million.

#### **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, 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 coordinated health and pharmacy insurance coverage through a variety of plans for employer groups and government-sponsored programs. It also provided health and pharmacy insurance coverage to Medicare members pursuant to an agreement with CMS. The Company was authorized to transact insurance in Florida and Kentucky, but only wrote business in Florida.

## COMPANY GROWTH

The Company reported the following for years 2008, 2009 and 2010:

(In millions)	2008	2009	2010
Premiums	\$ 499.6	\$ 516.9	\$ 451.2
Revenues	\$ 536.1	\$ 558.6	\$ 489.7
Net income (loss)	\$ (0.5)	\$ 13.7	\$ 36.9
Capital and surplus	\$ 61.8	\$ 80.4	\$ 97.8

## REINSURANCE

The Company ceded reinsurance pursuant to various agreements with unaffiliated companies, primarily on stop loss and coinsurance bases.

## STATUTORY DEPOSITS

The Company maintained U.S. Treasury notes on deposit with the State of Florida in accordance with Section 624.411, F.S. The total par and market values of the notes were \$3,025,000 and \$3,092,870, respectively.

**Humana Health Insurance Company of Florida, Inc.**  
**Assets**  
**December 31, 2010**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 136,200,777	\$ -	\$ 136,200,777
Cash, cash equivalents and short-term investments	8,932,448	-	8,932,448
Securities lending reinvested collateral assets	875,235	-	875,235
	146,008,460	-	146,008,460
Investment income due and accrued	1,307,564	-	1,307,564
Uncollected premiums and agents' balances	6,991,772	-	6,991,772
Accrued retrospective premiums	11,548	-	11,548
Amounts receivable relating to uninsured plans	1,518,758	-	1,518,758
Net deferred tax asset	9,444,260	-	9,444,260
Electronic data processing equipment and software	1,313,166	-	1,313,166
Health care and other amounts receivable	2,199,779	-	2,199,779
<b>Total assets</b>	<b>\$ 168,795,307</b>	<b>\$ -</b>	<b>\$ 168,795,307</b>

**Humana Health Insurance Company of Florida, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2010**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$ 23,658,768	\$ -	\$ 23,658,768
Unpaid claims adjustment expenses	245,308	-	245,308
Aggregate health policy reserves	10,709,877	-	10,709,877
Aggregate life policy reserves	2,491,583	-	2,491,583
Aggregate health claim reserves	46,000	-	46,000
Premiums received in advance	2,851,210	-	2,851,210
General expenses due or accrued	17,387,628	-	17,387,628
Current federal and foreign income tax payable	6,707,211	-	6,707,211
Ceded reinsurance premiums payable	55,208	-	55,208
Amounts withheld or retained for others	111,567	-	111,567
Amounts due to parent, subsidiaries and affiliates	3,249,957	-	3,249,957
Payable for securities lending	999,364	-	999,364
Liability for amounts held under uninsured plans	1,969,693	-	1,969,693
Aggregate write-ins for other liabilities	509,830	-	509,830
<b>Total liabilities</b>	<b>70,993,204</b>	<b>-</b>	<b>70,993,204</b>
<b>Capital and Surplus</b>			
Common capital stock	1,000,000	-	1,000,000
Gross paid in and contributed surplus	182,006,773	-	182,006,773
Unassigned funds (deficit)	(85,204,670)	-	(85,204,670)
<b>Total capital and surplus</b>	<b>97,802,103</b>	<b>-</b>	<b>97,802,103</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 168,795,307</b>	<b>\$ -</b>	<b>\$ 168,795,307</b>

**Humana Health Insurance Company of Florida, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**For The Year Ended December 31, 2010**

Net premium income	\$ 451,203,363
Change in unearned premium reserves	159,946
Aggregate write-ins for other revenues	38,326,391
<b>Total revenues</b>	<b>489,689,700</b>
Hospital and medical benefits	157,539,896
Other professional services	5,329,309
Emergency room and out-of-area	6,502,497
Prescription drugs	22,913,814
	192,285,516
Net reinsurance recoveries	(143,850,188)
<b>Total hospital and medical</b>	<b>336,135,704</b>
Non-health claims (net)	247,029
Claims adjustment expenses	10,053,217
General administrative expenses	106,966,303
Increase in reserves	(5,187,130)
<b>Total underwriting deductions</b>	<b>448,215,123</b>
Net underwriting gain	41,474,577
Net investment gains or (losses)	5,165,112
Aggregate write-ins for other income	135,052
<b>Income before income tax</b>	<b>46,774,741</b>
Federal and foreign income taxes	9,887,703
<b>Net income</b>	<b>\$ 36,887,038</b>

**Humana Health Insurance Company of Florida, Inc.**  
**Statement of Changes in Capital and Surplus**  
**For The Three Years Ended December 31, 2010**

Capital and surplus - December 31, 2007	\$ 45,305,882
Net income or (loss)	(454,304)
Change in net unrealized capital gains (losses)	(337,774)
Change in net deferred income tax	3,838,161
Change in nonadmitted assets	(1,537,483)
Paid in surplus adjustments	15,000,000
<hr/>	
Capital and surplus - December 31, 2008	61,814,482
Net income or (loss)	13,743,622
Change in net unrealized capital gains (losses)	445,440
Change in net deferred income tax	1,284,913
Change in nonadmitted assets	1,412,418
Paid in surplus adjustments	1,668,031
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Capital and surplus - December 31, 2009	80,368,906
Net income or (loss)	36,887,038
Change in net unrealized capital gains (losses)	232,763
Change in net deferred income tax	(5,309,201)
Change in nonadmitted assets	(4,012,119)
Paid in surplus adjustments	5,444,712
Dividends to stockholder	(12,000,000)
Aggregate write-ins for gains or (losses) in surplus	(3,809,996)
<hr/>	
	97,802,103
Examination adjustments	-
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Capital and surplus - December 31, 2010	\$ 97,802,103
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**Humana Health Insurance Company of Florida, 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.

<b>Capital and surplus, December 31, 2010 - per annual statement</b>				\$ 97,802,103
	<b>Per Company</b>	<b>Per Examination</b>	<b>Increase (Decrease) In Capital &amp; Surplus</b>	
Total assets	\$ 168,795,307	\$ 168,795,307	\$ -	
Total liabilities	\$ 70,993,204	\$ 70,993,204	\$ -	
Net change in capital and surplus				-
<b>Capital and surplus, December 31, 2010 - per examination</b>				<b>\$ 97,802,103</b>

## **SUBSEQUENT EVENTS**

In April of 2011, the Company distributed \$36.0 million in shareholder dividends following approval by the Office.

In its 2011 annual statement, it reported premiums and annuity considerations, total revenues, and net income for the year of \$259.9 million, \$248.9 million, and \$10.1 million, respectively, and total capital and surplus of \$73.0 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 Health Insurance Company of Florida, 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 \$97,802,103, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$4,104,253.

In addition to the undersigned, the following individuals participated in this examination: Chester A. Irvin, MBA, MTax, CGMA, CPA; Kerry A. Krantz, Actuary; Darlene L. Lenhart-Schaeffer, CFE, Financial Examiner/Analyst; and Michael D. Young, CFE, Financial Examiner/Analyst.

Respectfully submitted,

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Cathy S. Jones, CPA, AFE  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation