

Report on Examination

of

**MedAmerica Insurance Company
of Florida**

Orlando, Florida

as of

December 31, 2009

By The

Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street, Room 101
Tallahassee, Florida 32399-0301

Dear Sir:

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 MedAmerica Insurance Company of Florida as of December 31, 2009. Our report on the examination follows.

Florida Office of Insurance Regulation
September 7, 2010

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2009 of MedAmerica Insurance Company of Florida (the "Company"), a single-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, 2008.

This examination covered the period of January 1, 2009 through December 31, 2009. 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 Company's main administrative office was in Rochester, New York. It also maintained an office in Orlando, Florida. This examination was conducted partly in the Company's Rochester office and partly in its Orlando office.

SUMMARY OF SIGNIFICANT FINDINGS

As reported on page 3, we found that the Company failed to maintain its financial and corporate records in the State of Florida as required. Subsequent to this examination, the Company agreed to comply with the record keeping requirements in a manner approved by the Office. In its 2009 annual statement, the Company reported as admitted assets certain investments which were not allowable by Statement of Statutory Accounting Principles (SSAP) No. 4, as reported on page 15 of this report. Upon examination, the investments were nonadmitted in the total amount of \$1,336,013. Recommendations relating to all reported findings of the current examination are summarized on page 16.

COMPANY HISTORY

The Company was incorporated in Florida on March 29, 2007. It was licensed by the Office as an insurer on June 14, 2007 and commenced business on October 1, 2007. The Company was authorized by the State of Florida to operate as an accident and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company received capital contributions of \$1.5 million in 2009. It did not distribute any shareholder dividends that year.

CORPORATE RECORDS

The minutes of the Board of Directors, Audit Committee, and Finance and Investments Committee meetings were reviewed for the period examined. The minutes of the Board and its committees adequately documented 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. However, the Company was unable to provide a written record that it held a shareholder meeting for the election of directors as required by Section 607.0701(1), F.S.

During this examination, we found that the Company failed to maintain its financial and corporate records in the State of Florida as required by Section 628.271(1), F.S., and Consent Order 89686-07 issued by the Office on March 29, 2007. The report on our examination of the Company as of December 31, 2008 included the same finding. However, subsequent to the current examination, the Company agreed to comply with the record keeping requirements in a manner approved by the Office by providing access to its electronic and printed records from the Company's Florida office.

MANAGEMENT AND CONTROL

As of December 31, 2009, the Company was wholly-owned by MedAmerica Insurance Company (MedAmerica), a Pennsylvania insurer owned by New York corporations MedAmerica, Inc. and Excellus Ventures, Inc. MedAmerica, Inc. was wholly-owned by Excellus Health Plan, Inc. (Excellus), a New York insurer. Excellus was wholly-owned by Lifetime Healthcare, Inc. (Lifetime), a New York corporation, holding company and parent of Excellus and Excellus Ventures, Inc.

The Company's senior officers, directors, Audit Committee members, and Finance and Investments Committee members were as shown below.

Senior Officers	
Name	Title
David H. Klein	Chief Executive Officer
William E. Jones, Jr.	President & Chief Operating Officer
Stephen R. Sloan	Secretary
Emil D. Duda	Treasurer & Chief Financial Officer

Board of Directors

Name	Location
Hermes L. Ames, III	Menands, New York
Natalie L. Brown	Barneveld, New York
Randall L. Clark	East Amherst, New York
Thomas S. Coughlin	Brackney, Pennsylvania
Geoffrey H. Davis, Ph.D.	Little Falls, New York
John G. Doyle, Jr.	Rochester, New York
Deborah A. Freund, Ph.D.	Jamesville, New York
Thomas Y. Hobart, Jr.	East Amherst, New York
David H. Klein	Pittsford, New York
Joseph F. Kurnath, M.D.	Rochester, New York
Daniel R. Mackenzie, M.D.	Trumansburg, New York
Edward J. Pettinella	Webster, New York
Carol Raphael	New York, New York
Leonard E. Redon	Pittsford, New York
David D. Reh	Victor, New York
Casper F. Sedgwick	Fayetteville, New York
Albert J. Simone, Ph.D.	Penn Yan, New York
George F. T. Yancey, Jr.	Rochester, New York

Audit Committee

Leonard E. Redon
 Casper F. Sedgwick
 George F. T. Yancey, Jr.

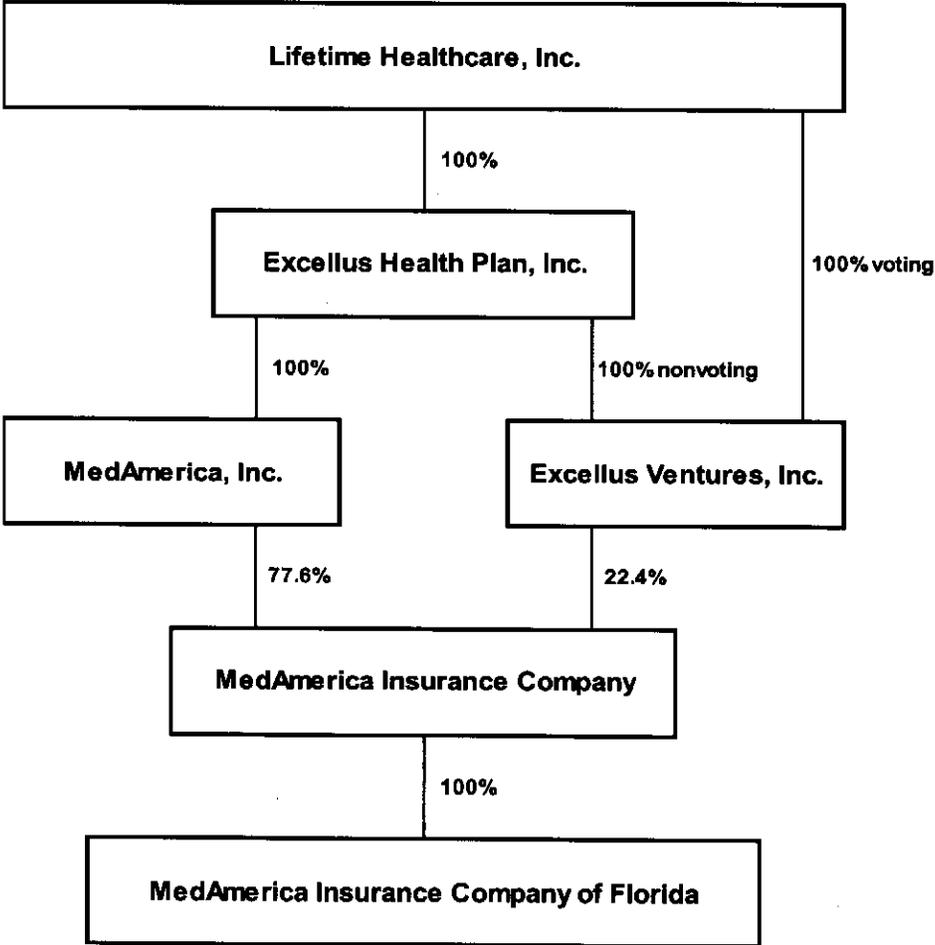
Finance and Investments Committee

Hermes L. Ames, III
 Randall L. Clark
 John G. Doyle, Jr.
 Joseph F. Kurnath, M.D.
 Edward J. Pettinella
 Carol Raphael
 David D. Reh
 Casper F. Sedgwick
 George F. T. Yancey, Jr.

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(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 690-143.046, F.A.C., on July 14, 2010.

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

**MedAmerica Insurance Company of Florida
Organizational Chart
December 31, 2009**



MedAmerica provided administrative services to the Company pursuant to an agreement which became effective April 1, 2007. The Company was required by the agreement to reimburse MedAmerica for the full amount of operating expenses paid on its behalf.

The Company paid commissions to Excellus Insurance Agency, Inc., an affiliate, to service new and recurring policy sales on behalf of the Company pursuant to a supervising general agent agreement effective in December of 2007.

Pursuant to a January 1, 2007 tax allocation agreement, the results of the Company's operations were included in the consolidated federal income tax return of Lifetime. Income taxes were allocated to included companies on a separate return basis.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on a fidelity bond maintained by Lifetime. The amount of the coverage was \$7,500,000 with a deductible of \$250,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$3,500,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees and, as a result, did not provide pension or other employee benefits.

TERRITORY AND PLAN OF OPERATION

At December 31, 2009, the Company was authorized as an insurer solely in the State of Florida. It provided long-term care insurance through a brokerage distribution channel of long-term care specialist agencies.

COMPANY GROWTH

The Company reported the following for years 2007, 2008 and 2009:

(In millions)	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net premiums	\$ 2.3	\$ 4.2	\$ 2.7
Total revenues	\$ 2.4	\$ 4.3	\$ 2.9
Net income (loss)	\$ (0.3)	\$ (0.8)	\$ 0.3
Capital and surplus	\$ 2.7	\$ 1.8	\$ 3.8

REINSURANCE

The Company assumed long-term care policy liabilities from Combined Insurance Company of America, an Illinois insurer, effective December 31, 2008. The assumption was on a coinsurance basis. In 2009, the Office approved the Company's certificate of assumption and as of December 31, 2009 no reinsurance was in place.

ACCOUNTS AND RECORDS

The Northern Trust Company provided securities custody services to the Company pursuant to an agreement effective June 22, 2009. The Company was unable to demonstrate that the agreement had been authorized by a resolution of its board of directors or an authorized committee of the Board as required by Rule 69O-143.042(2), F.A.C. In addition, the terms of the agreement did not comply with all requirements of the rule.

STATUTORY DEPOSITS

The Company maintained a deposit with the State of Florida in the amount of \$109,795 as required by Section 624.411, F.S.

MedAmerica Insurance Company of Florida
Assets
December 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 9,285,138	\$ -	\$ 9,285,138
Cash, cash equivalents and short-term investments	2,335,682	(1,336,013)	999,669
	11,620,820	(1,336,013)	10,284,807
Investment income due and accrued	141,166	-	141,166
Uncollected premiums and agents' balances	36,816	-	36,816
Net deferred tax asset	105,414	-	105,414
Receivables from parent, subsidiaries and affiliates	2,010	-	2,010
Total assets	\$ 11,906,226	\$ (1,336,013)	\$ 10,570,213

MedAmerica Insurance Company of Florida
Liabilities, Surplus and Other Funds
December 31, 2009

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for accident and health contracts	\$ 7,791,627	\$ -	\$ 7,791,627
Contract claims - accident and health	59,835	-	59,835
Premiums received in advance	36,037	-	36,037
Interest maintenance reserve	15,601	-	15,601
Commissions to agents	1,499	-	1,499
General expenses	34,347	-	34,347
Taxes, licenses and fees	9,910	-	9,910
Current federal and foreign income taxes	127,898	-	127,898
Asset valuation reserve	13,740	-	13,740
Payable to parent, subsidiaries and affiliates	28,573	-	28,573
Aggregate write-ins for liabilities	31,901	-	31,901
Total liabilities	8,150,968	-	8,150,968
Capital and Surplus			
Common capital stock	15,000	-	15,000
Gross paid in and contributed surplus	4,485,000	-	4,485,000
Aggregate write-ins for special surplus funds	62,507	-	62,507
Unassigned funds (deficit)	(807,249)	(1,336,013)	(2,143,262)
Total capital and surplus	3,755,258	(1,336,013)	2,419,245
Total liabilities, capital and surplus	\$ 11,906,226	\$ (1,336,013)	\$ 10,570,213

MedAmerica Insurance Company of Florida
Summary of Operations
(As reported by the Company)
For The Year Ended December 31, 2009

Premiums and annuity considerations	\$ 2,657,634
Net investment income	249,532
Amortization of interest maintenance reserve	48
Total revenues	2,907,214
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Disability benefits under accident and health contracts	413,077
Increase in aggregate reserves for accident and health contracts	1,150,142
Commissions on premiums	432,398
Commissions and expense allowances on reinsurance assumed	5,806
General insurance expenses	322,212
Insurance taxes, licenses and fees	55,404
	2,379,039
Income before income tax	528,175
Federal income tax	218,481
Net realized capital loss	238
Net income	\$ 309,456

**MedAmerica Insurance Company of Florida
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2009**

Capital and surplus - December 31, 2006	\$ -
Net income (loss)	(256,642)
Change in net deferred income tax	12,860
Change in nonadmitted assets	(31,135)
Paid in capital and surplus	3,000,000
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Capital and surplus - December 31, 2007	2,725,083
Net income (loss)	(823,090)
Change in net deferred income tax	21,938
Change in nonadmitted assets	(132,592)
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Capital and surplus - December 31, 2008	1,791,339
Net income (loss)	309,456
Change in net deferred income tax	8,109
Change in nonadmitted assets	97,586
Change in asset valuation reserve	(13,740)
Change in capital	5,000
Change in surplus	1,495,000
Aggregate write-ins for gains and losses in surplus	62,508
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	3,755,258
Examination adjustments	(1,336,013)
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Capital and surplus - December 31, 2009	\$ 2,419,245
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MedAmerica Insurance Company of Florida
Comparative Analysis of Changes in Capital and Surplus
December 31, 2009

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, 2009 - per annual statement			\$ 3,755,258
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Cash, cash equivalents and short-term investments	\$ 2,335,682	\$ 999,669	\$ (1,336,013)
Net change in capital and surplus			(1,336,013)
Capital and surplus, December 31, 2009 - per examination			\$ 2,419,245

COMMENTS ON FINANCIAL STATEMENTS

Cash, Cash Equivalents and Short-Term Investments

\$999,669

The amount reported by the Company in its 2009 annual statement as 'cash, cash equivalents and short-term investments' has been reduced by \$1,336,013 to \$999,669. Included in the \$2,335,682 reported by the Company as short-term investments were investments held in Plan Investment Fund, Inc. accounts in the total amount of \$1,336,013. Certain employees of Excellus had exclusive authority to approve purchases and sales of the investments. The Company did not have direct access to the investments and was unable to control access to the investments by Excellus. Therefore, the investments have been nonadmitted in accordance with SSAP No. 4.

SUMMARY OF RECOMMENDATIONS

Annual Shareholder Meeting

As reported on page 3, the Company was unable to provide a written record that it held a shareholder meeting for the election of directors as required by Section 607.0701(1), F.S. **We recommend that the Company hold annual meetings of its shareholder for the election of directors as required by Section 607.0701(1), F.S., and maintain a written record of those meetings.**

Custodial Agreement

As reported on page 9, the Company was unable to demonstrate that its securities custody services agreement had been authorized by a resolution of its board of directors or an authorized committee of the Board as required by Rule 69O-143.042(2), F.A.C. In addition, the terms of the agreement did not comply with all requirements of the rule. **We recommend that the Company comply with Rule 69O-143.042(2), F.A.C.**

Short-Term Investments

In its 2009 annual statement, the Company reported as admitted assets certain investments which were not allowable by SSAP No. 4, as reported on page 15. **We recommend that the Company report short-term investments as admitted assets only to the extent that they are controlled by the Company, in accordance with SSAP No. 4.**

SUBSEQUENT EVENTS

In March of 2010, Deborah A. Freund, Ph.D., Geoffrey H. Davis, Ph.D., and David D. Reh resigned as directors. Carol Raphael resigned as a director on June 24, 2010. A. Thomas Hildebrandt and Patrick A. Mannion were elected as directors on March 25, 2010 and June 24, 2010, respectively.

On June 28, 2010, the Company entered into an agreement with Excellus and two affiliates which issue long-term care insurance policies (MedAmerica and MedAmerica Insurance Company of New York). The agreement called for Excellus to take all action necessary to ensure that the Company and the two affiliates have sufficient liquid assets for the timely payment of amounts due on policies issued by them on or after July 1, 2010. The agreement provided that payments by Excellus pursuant to the agreement would be considered to be contributions to the capital of the receiving company.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of MedAmerica Insurance Company of Florida as of December 31, 2009, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2009 was determined to be \$2,419,245, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$1,500,000.

In addition to the undersigned, the following individuals participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor, and Kerry A. Krantz, Actuary.

Respectfully submitted,

M. Alison Miele, CFE
Financial Examiner/Analyst
Florida Office of Insurance Regulation