

Report on Examination
of
Medica HealthCare Plans, Inc.
Coral Gables, Florida
as of
December 31, 2012



**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 Medica HealthCare Plans, Inc. as of December 31, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation
February 11, 2014

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of Medica HealthCare Plans, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2008 through December 31, 2012 and took place primarily in the Company's Coral Gables, Florida office. Our examination of the Company was one of eighteen coordinated financial condition examinations of companies in the Unitedhealth group by ten participating states. The exams were coordinated by the Texas Department of Insurance. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2007.

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.

COMPANY HISTORY

The Company was incorporated in Florida on June 19, 2003. It was licensed by the Office as a Medicare Plus Choice provider-sponsored organization on September 2, 2004 and as an HMO on April 30, 2012. 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.). It was acquired by a subsidiary of UnitedHealth Group Incorporated (UHG) on April 30, 2012.

Dividends and Capital Contributions

The Company distributed stockholder dividends in the amounts of \$2,000,000 and \$5,000,000 in years 2009 and 2010, respectively. It received contributions to its capital in the amounts of \$23,985, \$3,585, \$13,780, and \$13,116,635 in years 2008, 2009, 2010, and 2012, respectively.

CORPORATE RECORDS

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

MANAGEMENT AND CONTROL

The Company was wholly owned by United HealthCare Services, Inc. (UHS) which was wholly owned by UHG, a diversified managed health care company with headquarters in Minnetonka, Minnesota. UHG's common stock traded on the New York Stock Exchange. The Company was affiliated through common ownership and control with numerous other entities including the Florida domiciled HMOs Citrus Health Care, Inc., Medica Health Plans of Florida, Inc. (MHPFL), Neighborhood Health Partnership, Inc., Preferred Care Partners, Inc., and UnitedHealthcare of Florida, Inc. Its senior officers, directors, and members of principal board committees were:

Senior Officers

Name	Title
Rafael P. Perez	Chief Executive Officer
Cynthia L. Polich	President
Martiniano J. Perez	Chief Financial Officer
John W. Kelly	Vice President, Tax Services
Robert W. Oberrender	Treasurer

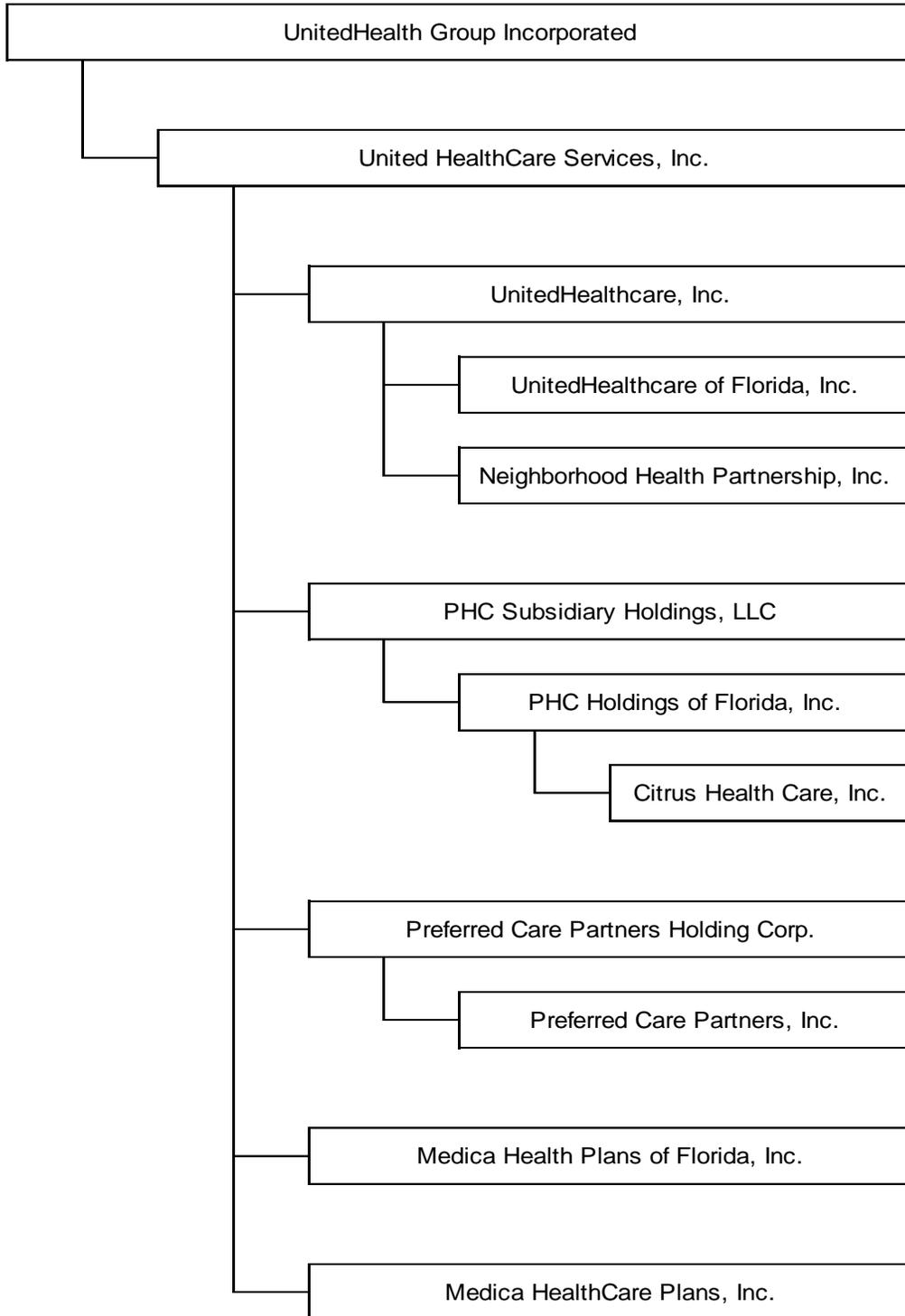
Board of Directors

Name	Location
Joseph L. Caruncho	Miami, Florida
Peter J. Clarkson	Minnetonka, Minnesota
Rafael P. Perez	Miami, Florida
Cynthia L. Polich	Minnetonka, Minnesota
Scott E. Theisen	Minnetonka, Minnesota

The Company was a member of an insurance holding company system. 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 (F.A.C.), on March 25, 2013.

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

**Medica HealthCare Plans, Inc.
Abbreviated Organizational Chart
December 31, 2012**



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

Management Services Agreements

The Company provided management and administrative services to MHPFL in accordance with a services agreement effective July 1, 2006 in return for fees of \$400,000 in 2008 and \$300,000 per year in years 2009 through 2012. The agreement was terminated effective December 14, 2012.

UHS provided management and operational support services to the Company pursuant to a December 14, 2012 management services agreement. Fees under the arrangement were based on expenses for services provided solely to the Company and were payable monthly.

Tax Allocation Agreement

Effective April 30, 2012, the results of the Company's operations were included in the consolidated federal income tax returns of UHG pursuant to a tax allocation agreement. In accordance with the agreement, federal income taxes of the group were allocated to the Company as if it were filing on a separate return basis with credit given for the tax benefit of any net operating losses, capital losses, and tax credits to the extent they reduced the consolidated federal income tax liability.

Ancillary Services Agreements

Medical Transportation Services, LLC provided non-emergency transportation services to the Company's members in return for per member per month fees in accordance with an August 1, 2005 agreement in return for fees of \$1.6 million, \$2.0 million, \$2.5 million, \$3.9 million, and \$4.6 million in years 2008 through 2012, respectively.

Ultima Rx, LLC provided pharmacy and over the counter services to the Company's members pursuant to a May 1, 2010 agreement in return for \$1.1 million, \$2.9 million, and \$3.4 million in years 2010 through 2012, respectively.

FIDELITY BONDS AND OTHER INSURANCE

As an individual practice association (IPA) model HMO, the Company maintained an adequate amount of professional liability insurance and required its providers to maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Florida Statutes, as required by Rule 69O-191.069, F.A.C. The policies provided for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was a named insured on a crime policy of UHG in the amount of \$25 million which satisfied the requirement of Section 641.22(7), F.S.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Effective August 2012, the Company had no employees and UHS performed functions on behalf of the Company. UHS provided various benefits to eligible employees including medical, dental, and vision insurance; and participation in 401(k) savings and employee stock purchase plans.

TERRITORY AND PLAN OF OPERATION

The Company provided Medicare Advantage and Medicare Part D prescription drug coverage to Medicare members pursuant to an agreement with the Centers for Medicare & Medicaid Services. The Company marketed its products primarily through radio, television, billboard, and newspaper advertising. 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 August 19, 2014. As an IPA model HMO, there were 35,821 Medicare members as of December 31, 2012. The Company was authorized to conduct business in the Florida counties of Broward and Miami-Dade.

COMPANY GROWTH

The Company reported the following for years 2008 through 2012:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Member months	142,506	191,174	315,861	415,579	424,215
Year-end enrollment	12,453	17,483	28,497	36,286	35,821
<i>(In millions)</i>					
Premiums	\$ 172.1	\$ 258.4	\$ 395.2	\$ 538.9	\$ 554.8
Revenues	\$ 172.1	\$ 258.4	\$ 395.2	\$ 538.9	\$ 554.3
Underwriting deductions	\$ 167.4	\$ 243.6	\$ 392.6	\$ 554.8	\$ 568.1
Net income (loss)	\$ 2.0	\$ 10.1	\$ 2.1	\$ (11.7)	\$ (8.4)
Stockholder dividends	\$ -	\$ 2.0	\$ 5.0	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ 13.1
Admitted assets	\$ 28.2	\$ 41.5	\$ 51.0	\$ 60.3	\$ 84.9
Liabilities	\$ 22.4	\$ 29.6	\$ 44.3	\$ 65.7	\$ 63.5
Capital and surplus (deficit)	\$ 5.8	\$ 11.8	\$ 6.7	\$ (5.3)	\$ 21.3

REINSURANCE

The Company maintained stop loss reinsurance with RGA Reinsurance Company. The reinsurance covered 90% of specified health care services in excess of \$225,000 up to a maximum of \$2,000,000 per member per year.

SURPLUS NOTES

At December 31, 2012, the Company was obligated for 3% surplus notes in the total amount of \$10 million. The notes were approved by the Company's board of directors and the Office, and complied with the requirements of Rule 69O-191.088, F.A.C. In accordance with Section 641.19(19), F.S., and Statement of Statutory Accounting Principles No. 41, the debt was included in the Company's surplus.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$1,000,000 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.

Medica HealthCare Plans, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2012

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Properties held for the production of income	\$ 5,415,951	\$ -	\$ 5,415,951
Cash, cash equivalents and short-term investments	57,993,751	-	57,993,751
	63,409,702	-	63,409,702
Investment income due and accrued	5,000	-	5,000
Uncollected premiums and agents' balances	8,652,163	-	8,652,163
Amounts receivable relating to uninsured plans	5,277,364	-	5,277,364
Current income tax recoverable	6,008,193	-	6,008,193
Health care and other amounts receivable	1,050,224	-	1,050,224
Aggregate write-ins for other than invested assets	472,883	-	472,883
Total admitted assets	\$84,875,529	\$ -	\$84,875,529

Liabilities			
Claims unpaid	\$ 54,437,777	\$ -	\$ 54,437,777
Accrued medical incentive pool and bonuses	650,951	-	650,951
Unpaid claims adjustment expenses	980,146	-	980,146
Aggregate health policy reserves	473,571	-	473,571
Premiums received in advance	822,760	-	822,760
General expenses due or accrued	3,322,396	-	3,322,396
Amounts due to parent, subsidiaries and affiliates	1,706,012	-	1,706,012
Liability for amounts held under uninsured plans	1,154,544	-	1,154,544
Total liabilities	63,548,157	-	63,548,157

Capital and Surplus			
Common capital stock	21	-	21
Preferred capital stock	85	-	85
Gross paid in and contributed surplus	32,191,998	-	32,191,998
Surplus notes	10,000,000	-	10,000,000
Unassigned funds (deficit)	(20,864,732)	-	(20,864,732)
Total capital and surplus	21,327,372	-	21,327,372
Total liabilities, capital and surplus	\$ 84,875,529	\$ -	\$ 84,875,529

Medica HealthCare Plans, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2012

Net premium income	\$ 554,766,508
Change in unearned premium reserves	(473,571)
Total revenue	554,292,937
Hospital and medical benefits	272,518,809
Other professional services	83,663,833
Outside referrals	32,727,314
Emergency room and out-of-area	27,336,676
Prescription drugs	114,213,951
Incentive pool, withhold adjustments and bonuses	1,029,587
	531,490,170
Net reinsurance recoveries	3,287,090
Total hospital and medical	528,203,080
Claims adjustment expenses	10,901,608
General administrative expenses	28,962,098
Total underwriting deductions	568,066,786
Net underwriting gain (loss)	(13,773,849)
Net investment gains	560,493
Aggregate write-ins for other income or expenses	(59,929)
Income (loss) before federal income tax	(13,273,285)
Federal income tax	(4,905,687)
Net income (loss)	\$ (8,367,598)

Medica HealthCare Plans, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2012

Capital and surplus - December 31, 2007	\$ 5,986,005
Net income	1,998,751
Change in net unrealized capital gains	(72,137)
Change in net deferred income tax	687,821
Change in nonadmitted assets	(1,309,684)
Change in surplus notes	(1,528,000)
Paid in capital and surplus received	23,985
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Capital and surplus - December 31, 2008	5,786,741
Net income	10,065,835
Change in net unrealized capital gains	(141,686)
Change in net deferred income tax	(550,688)
Change in nonadmitted assets	(1,329,185)
Paid in capital and surplus received	3,585
Dividends to stockholders	(2,000,000)
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Capital and surplus - December 31, 2009	11,834,602
Net income	2,055,306
Change in net unrealized capital gains	(88,385)
Change in net deferred income tax	(331,820)
Change in nonadmitted assets	(1,782,100)
Paid in capital and surplus received	13,780
Dividends to stockholders	(5,000,000)
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Capital and surplus - December 31, 2010	6,701,383
Net loss	(11,746,511)
Change in net unrealized capital gains	(42,333)
Change in net deferred income tax	828,663
Change in nonadmitted assets	(2,292,410)
Change in surplus notes	1,210,000
Change in paid in capital and surplus	(1,700)
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Capital and surplus - December 31, 2011	(5,342,908)

- continued -

Medica HealthCare Plans, Inc.
Statement of Changes in Capital and Surplus (Continued)
Five Years Ended December 31, 2012

Capital and surplus - December 31, 2011	(5,342,908)
Net loss	(8,367,598)
Change in net unrealized capital gains	344,540
Change in net deferred income tax	(1,476,452)
Change in nonadmitted assets	7,065,982
Surplus notes issued	18,000,000
Mortgage loan forgiven	3,707,196
Paid in capital received	13,116,635
Capital stock issued	11,800
Settlement of surplus note	(3,746,869)
Sale of investment in subsidiary	(1,984,954)
	<hr/> 21,327,372
Examination adjustments	-
Capital and surplus - December 31, 2012	<hr/> \$ 21,327,372 <hr/>

Medica HealthCare Plans, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2012

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, 2012 - per annual statement		\$21,327,372	
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total admitted assets	\$84,875,529	\$84,875,529	\$ -
Total liabilities	\$63,548,157	\$63,548,157	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2012 - per examination			<u>\$ 21,327,372</u>

SUBSEQUENT EVENTS

The Company entered into a subordinated revolving credit agreement with UHG effective January 1, 2013. The agreement provided that the Company could borrow up to \$40 million from UHG on a short-term basis payable with interest calculated at the applicable currency one month London InterBank Offered Rate (LIBOR) plus 50 basis points.

For the year ended December 31, 2013, the Company reported a net loss of \$21.6 million and total premium income of \$514.2 million.

CONCLUSION

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

At December 31, 2012, the Company's capital and surplus was \$21,327,372, 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 the examination: Faisal Harianawalla, Financial Examiner/Analyst; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

Stephen Feliu, CFE (Fraud)
Financial Examiner/Analyst
Florida Office of Insurance Regulation