

Report on Examination
of
Medica Health Plans of Florida, Inc.

Coral Gables, Florida

as of

December 31, 2008

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 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 Health Plans of Florida, Inc. as of December 31, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
March 25, 2010

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2008 of Medica Health Plans of Florida, Inc. (the "Company"), a Florida health maintenance organization (HMO). This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

This examination covered the period of September 29, 2006 through December 31, 2008. 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 located in Coral Gables, Florida, where this examination was conducted.

SUMMARY OF SIGNIFICANT FINDINGS

This examination resulted in findings that the Company's total capital and surplus at December 31, 2008 was less than the amount it was required to maintain, and that the prospective risk existed that the Company would not generate premium revenues and earnings sufficient to assure its future solvency and long-term success. Recommendations relating to all reported findings of the examination are summarized beginning on page 16.

MATERIAL PROSPECTIVE RISK

During this examination, we assessed the adequacy of the Company's management controls and the extent to which the Company's current business processes might negatively affect its future solvency. We found that, since commencing operations as an HMO in 2007, the Company has reported annual net losses. For years 2007 through 2009, it reported net losses totaling \$4.45 million and the prospective risk existed that the Company would not generate premium revenues and earnings sufficient to assure its future solvency and long-term success.

COMPANY HISTORY

The Company was incorporated in Florida on September 1, 2005. It was licensed by the Office as an HMO on September 29, 2006 pursuant to Consent Order 87492-06 (the Consent Order) and commenced business effective January 1, 2007. 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.).

Dividends and Capital Contributions

The Company issued \$2,760,000 and \$25,000 of common stock in years 2006 and 2007, respectively. In 2008, it issued \$1,000,000 of common stock, representing a 20% interest, to Medica HealthCare Plans, Inc. (MHP), an affiliate. The Company redeemed common stock for \$100,000 in 2007, and issued surplus notes for \$845,000 and \$910,000 in years 2006 and 2008, respectively. No dividends were paid during years 2006, 2007 or 2008.

CORPORATE RECORDS

The recorded minutes of the shareholders and Board of Directors were reviewed for the period examined. The recorded 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. In 2006 and 2007, there were no records of annual meetings of the shareholders for the election of directors, as required by Section 607.0701(1), F.S.

MANAGEMENT AND CONTROL

Rafael P. Perez, Martiniano J. Perez and MHP owned 31.85%, 24.56% and 20.00% of the Company, respectively. Various other individuals collectively owned the remaining 23.59% of the Company. The Company and MHP, a Florida Medicare Plus Choice provider-sponsored organization, were controlled by common management and certain common shareholders.

The Company's senior officers and directors were as shown below.

Senior Officers

<u>Name</u>	<u>Title</u>
Rafael P. Perez	Chief Executive Officer
Martiniano J. Perez	Secretary, Treasurer and Chief Financial Officer
Enrique Acevedo, M.D.	Medical Director

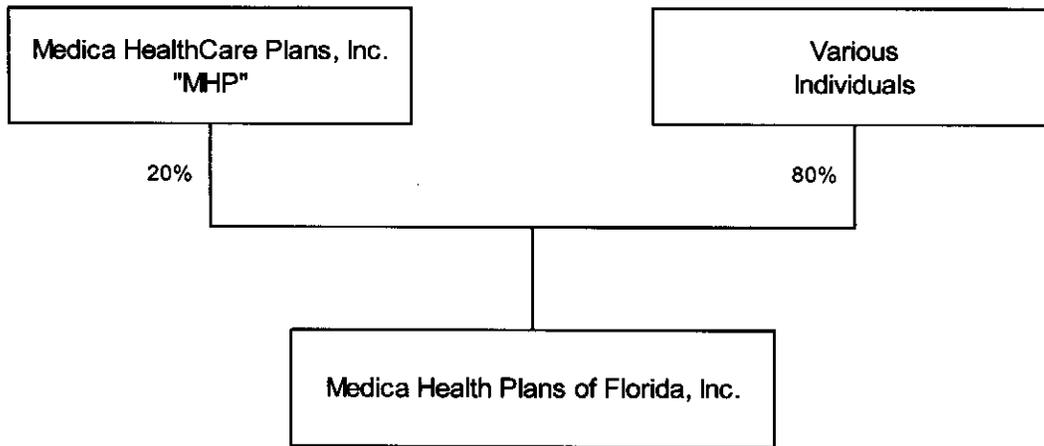
Board of Directors

<u>Name</u>	<u>Location</u>
Armando Cruz, M.D.	Miami, Florida
Adolfo Henriques	Key Biscayne, Florida
Alberto M. Hernandez, M.D.	Coral Gables, Florida
Martiniano J. Perez	Pinecrest, Florida
Rafael P. Perez	Pinecrest, Florida
Gerardo F. Santos, M.D.	Coral Gables, Florida

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 May 14, 2009.

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

**Medica Health Plans of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2008**



MHP provided executive management, consulting and administrative services to the Company in return for monthly fees pursuant to a July 1, 2006 agreement which was subsequently amended in 2007 and 2008. The Company failed to disclose the amendments in its holding company registration statements as required by Rule 69O-143.046, F.A.C.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and was insured by a blanket fidelity bond, as required by Section 641.22(7), F.S., in the amount of \$200,000. 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 in compliance with Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered various benefits to its employees. The benefits included health and dental insurance and participation in a Section 401(k) retirement plan sponsored by MHP.

TERRITORY AND PLAN OF OPERATION

The Company held a current health care provider certificate issued by the Florida Agency for Health Care Administration (AHCA) pursuant to Part III of Chapter 641, F.S., valid until September 5, 2010. It provided comprehensive health care services to its members and had 726 members as of December 31, 2008. The Company operated in the Florida counties of Broward and Miami-Dade.

COMPANY GROWTH

The Company reported the following for years 2006, 2007 and 2008:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Year-end enrollment	0	323	726
In millions			
Net premiums	\$0.0	\$0.8	\$1.9
Total revenues	\$0.0	\$0.8	\$1.9
Net loss	\$0.3	\$0.7	\$1.5
Total capital and surplus	\$3.0	\$2.5	\$2.8

At December 31, 2008, the Company was obligated for 8.25% surplus notes in the total amount of \$1,755,000 to the following individuals:

<u>Holder</u>	<u>Amount</u>
Orlando Cabrera	\$10,000
Alberto M. Hernandez, M.D.	100,000
Francisco Mugerica	10,000
Martiniano J. Perez	935,000
Rafael P. Perez	600,000
Gerardo F. Santos, M.D.	100,000
	<u>\$1,755,000</u>

The notes were approved by the Office and complied with the provisions of Rule 69O-191.088, F.A.C. In accordance with Section 641.19(19), F.S., the debt was included in the Company's surplus.

REINSURANCE

In 2009, the Company began offering Medicaid Temporary Assistance for Needy Families (TANF) and Supplemental Security Income (SSI) benefits. On November 1, 2008, the Company renewed a one year stop-loss reinsurance agreement with Ace American Insurance Company covering the Company's commercial members and its TANF and SSI recipients. The Company's deductible was \$175,000. The maximum limit of liability under the policy was \$5 million per commercial covered person and \$2 million per TANF and SSI covered person. The premium rate was \$3.67 for commercial covered persons and \$1.14 for TANF and SSI covered persons, subject to an overall minimum monthly premium of \$22,500. The agreement was found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

ACCOUNTS AND RECORDS

In its 2008 annual statement, the Company failed to make all required disclosures relating to its surplus notes, reinsurance arrangement and affiliated transactions in accordance with the annual statement instructions.

In 2006, the Company entered into a mutual fund sweep agreement with its bank. The agreement contained a setoff provision granting the bank a lien upon and security interest in any of the Company's funds held by the bank in which the bank had an interest. The Company was not indebted to the bank during the period of the examination and, as of December 31, 2008, none of its funds were encumbered as a result of the setoff provision.

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.

Medica Health Plans of Florida, Inc.
Assets
December 31, 2008

	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	\$3,623,127	\$0	\$3,623,127
Investment income due and accrued	1,447	0	1,447
Uncollected premiums and agents' balances	18,954	0	18,954
Electronic data processing equipment and software	3,914	0	3,914
Total assets	\$3,647,442	\$0	\$3,647,442

Medica Health Plans of Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2008

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$391,946	\$0	\$391,946
Unpaid claims adjustment expenses	4,404	0	4,404
Aggregate health policy reserves	303,843	0	303,843
Premiums received in advance	27,702	0	27,702
General expenses due or accrued	71,891	0	71,891
Amounts due to parent, subsidiaries and affiliates	21,361	0	21,361
Total liabilities	821,147	0	821,147
Capital and Surplus			
Common capital stock	1,235	0	1,235
Gross paid in and contributed surplus	3,683,765	0	3,683,765
Surplus notes	1,755,000	0	1,755,000
Unassigned funds (deficit)	(2,613,705)	0	(2,613,705)
Total capital and surplus	2,826,295	0	2,826,295
Total liabilities, capital and surplus	\$3,647,442	\$0	\$3,647,442

Medica Health Plans of Florida, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2008

<u>Net premium income</u>	<u>\$1,871,692</u>
Hospital and medical benefits	546,430
Other professional services	466,709
Outside referrals	91,621
Emergency room and out-of-area	170,628
Prescription drugs	67,680
<u>Reinsurance expense</u>	<u>20,545</u>
Total hospital and medical	1,363,613
Claims adjustment expense	4,405
General administrative expense	1,840,199
<u>Increase in reserves</u>	<u>303,843</u>
<u>Total underwriting deductions</u>	<u>3,512,060</u>
Net underwriting gain (loss)	(1,640,368)
<u>Net investment income</u>	<u>110,691</u>
<u>Net income (loss)</u>	<u>(\$1,529,677)</u>

Medica Health Plans of Florida, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2008

Capital and surplus - December 31, 2005	\$0
Net income (loss)	(324,996)
Change in nonadmitted assets	(254,066)
Change in surplus notes	845,000
Paid in capital	1,000
Paid in surplus	2,759,000
<hr/>	
Capital and surplus - December 31, 2006	3,025,938
Net income (loss)	(712,185)
Change in nonadmitted assets	233,607
Paid in capital	(12)
Paid in surplus	(74,988)
<hr/>	
Capital and surplus - December 31, 2007	2,472,360
Net income (loss)	(1,529,677)
Change in net deferred income tax	977,409
Change in nonadmitted assets	(1,003,797)
Change in surplus notes	910,000
Paid in capital	247
Paid in surplus	999,753
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Capital and surplus - December 31, 2008	\$2,826,295

Medica Health Plans of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2008

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, 2008 - per annual statement				\$2,826,295
	<u>Per</u>	<u>Per</u>	Increase	
	<u>Company</u>	<u>Examination</u>	(Decrease)	
			In Capital	
			& Surplus	
Total assets	\$3,647,442	\$3,647,442	\$0	
Total liabilities	\$821,147	\$821,147	\$0	
Net change in capital and surplus				<u>0</u>
Capital and surplus, December 31, 2008 - per examination				<u>\$2,826,295</u>

COMMENTS ON FINANCIAL STATEMENTS

Capital and Surplus

\$2,826,295

The Company was required by the Consent Order to maintain capital and surplus in an amount at least equal to the greater of \$3,500,000 or 130% of the capital and surplus required by Section 641.225, F.S., to December 31, 2009. At December 31, 2008, the amount of its required minimum capital and surplus was \$3,500,000; however, its actual capital and surplus was \$2,826,295.

SUMMARY OF RECOMMENDATIONS

Material Prospective Risk

As reported on page 2, the Company reported annual net losses totaling \$4.45 million for years 2007 through 2009, and the prospective risk existed that the Company would not generate premium revenues and earnings sufficient to assure its future solvency and long-term success.

We recommend that the Company develop controls, business processes and a strategy to mitigate this risk, and plan for the potential need to secure additional capital.

Annual Shareholders Meeting

As reported on page 3, there were no records of annual meetings of the shareholders in 2006 or 2007 for the election of directors, as required by Section 607.0701(1), F.S. **We recommend that the Company annually hold a meeting of its shareholders for the election of directors, as required by Section 607.0701(1), F.S.**

Holding Company Registration Statement

As reported on page 5, the Company failed to disclose its 2007 and 2008 MHP agreement amendments in its holding company registration statements as required by Rule 69O-143.046, F.A.C. **We recommend that the Company file an updated holding company registration statement immediately.**

Annual Statement Disclosures

In its 2008 annual statement, the Company failed to make all required disclosures related to its surplus notes, reinsurance arrangement and affiliated transactions, as reported on page 8. **We recommend that, in future statements filed with the Office, the Company make all of the disclosures required by the annual statement instructions.**

Setoff Provision

As reported on page 8, the Company entered into an agreement with its bank containing a setoff provision potentially granting the bank a lien upon and security interest in the Company's funds.

We recommend that, in future statements filed with the Office, the Company nonadmit any of its assets which may then be encumbered by the agreement, in accordance with Statement of Statutory Accounting Principles No. 4.

Capital and Surplus

As reported on page 15, the amount of the Company's required minimum capital and surplus at December 31, 2008 was \$3,500,000; however, its actual capital and surplus was \$2,826,295.

We recommend that the Company comply with the Consent Order and Section 641.225, F.S., at all times.

SUBSEQUENT EVENTS

In January of 2009, the Company contracted with AHCA and the Office to provide Cover Florida plan health care benefits for two years pursuant to Section 408.9091, F.S.

Effective October 9, 2009, the Company entered into an agreement with AHCA to provide Medicaid benefits through August 31, 2012.

In its 2009 annual statement, the Company reported total capital and surplus of \$2,403,242, net premiums of \$4,997,482, and a net loss for the year of \$2,211,055.

Subsequent to December 31, 2008, the Company issued surplus notes to MHP as follows:

<u>Date</u>	<u>Rate</u>	<u>Amount</u>
April 1, 2009	5.0%	\$1,000,000
July 27, 2009	5.0%	\$300,000
December 8, 2009	3.0%	\$500,000
January 29, 2010	3.0%	\$1,000,000

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Medica Health Plans of Florida, Inc. as of December 31, 2008, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2008 was determined to be \$2,826,295, which was in compliance with Section 641.225, F.S., but which was not in compliance with Consent Order 87492-06. The minimum capital and surplus required by the Consent Order as of December 31, 2008 was \$3,500,000.

In addition to the undersigned, Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor, and Richard Tan, Actuary, participated in this examination.

Respectfully submitted,

Christine N. Afolabi, CPA, Financial Specialist
Florida Office of Insurance Regulation