

Report on Examination
of
Neighborhood Health Partnership, Inc.
Miami, FL
as of
December 31, 2014



**FLORIDA OFFICE OF
INSURANCE REGULATION**

David Altmaier, 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 (NAIC), we have completed a financial condition examination of Neighborhood Health Partnership, Inc. as of December 31, 2014. Our report on the examination follows.

Florida Office of Insurance Regulation
March 28, 2016

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2014 of Neighborhood Health Partnership, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2010 through January 14, 2014. The Company's main administrative office was in Miami, Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2009.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination report includes significant findings of fact, as mentioned in Section 624.319 Florida Statutes (F.S.) and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was incorporated in Florida on January 21, 2000 and licensed by the Office as an HMO on November 9, 2000. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S.

Dividends and Capital Contributions

The Company distributed stockholder dividends in the amounts of \$14.8 million, \$23.8 million, \$41.0 million, \$38.0 million, and \$29.5 million in years 2010 through 2014, respectively. The Company did not receive capital contributions during the period examined.

CORPORATE RECORDS

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

MANAGEMENT AND CONTROL

The Company was a wholly owned subsidiary of United Healthcare, Inc. (UHC), which was a wholly owned subsidiary of United HealthCare Services, Inc. (UHS). UHS was a HMO management corporation, which was a wholly owned subsidiary of UnitedHealth Group, Inc. (UHG), the ultimate controlling party. The ultimate parent, UHG, was a publicly traded company (NYSE: UNH).

The Company's senior officers and directors were:

Senior Officers

| Name | Title |
|----------------------|---------------------------------------|
| Nicholas J. Zaffiris | President and Chief Executive Officer |
| Juliet T. Scott | Chief Financial Officer |
| Cheryl A. Lippert | Vice President |
| John J. Matthews | Secretary |
| Juanita B. Luis | Assistant Secretary |
| Michelle M. Huntley | Assistant Secretary |
| Robert W. Oberrender | Treasurer |
| Nyle B. Cottington | Assistant Treasurer |

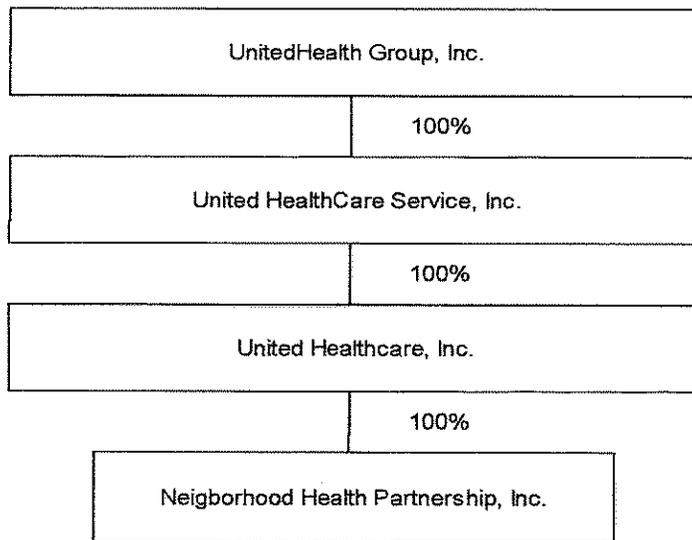
Board of Directors

| Name | Location |
|------------------------|-------------------|
| Thomas D. Lewis | Tampa, FL |
| Cheryl A. Lippert | Fort Myers, FL |
| Juliet T. Scott | Coconut Creek, FL |
| Stephen L. Wilson, Jr. | Franklin, TN |
| Nicholas J. Zaffiris | Weston, FL |

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 April 1, 2015.

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

**Neighborhood Health Partnership, Inc.
Abbreviated Organizational Chart
December 31, 2014**



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

Effective September 1, 2012, the Company entered a Subordinated Revolving Credit Agreement with UnitedHealth Group. Pursuant to the agreement, UHG provided a short-term borrowing facility for the Company, which required repayment within one year of the date on which the loan was initially made. On December 22, 2014, the Company borrowed \$10,000,000.00 from UHG and repaid the loan including interest on December 29, 2014, in the amount of \$10,001,271.67.

Effective December 1, 2006, United Healthcare Insurance Company, United HealthCare Services, Inc., and PacifiCare Health Plan Administrators, Inc. entered into an Agreement for Combined Billing and Disbursement Operations. Effective February 1, 2012, the Company entered into the agreement by signing a Participating Addendum. The purpose of the agreement

was to provide a common lockbox for premium collection and zero balance disbursements account for paying certain bills.

Effective January 1, 2014, the Company entered into a Dental Services Agreement with Dental Benefit Providers, Inc. (DBP). Pursuant to the agreement, DBP provided a network of dental providers, claims processing, and other administrative functions in order to provide dental services for the Company's members.

Effective July 1, 2007, an Ancillary Provider Participation Agreement was entered into by and between Evercare Hospice, Inc. (Evercare) and United Healthcare Insurance Company on behalf of itself and any affiliates who chose to participate. Effective July 1, 2009, The Company became a party to the agreement by way of a Participating Addendum. Under the terms of the agreement, Evercare provided the Company's members with covered services for hospice care.

Effective March 1, 2013, the Company entered into the Administrative Services Agreement with OptumHealth Care Solutions, Inc. (OptumHealth). Under the terms of the agreement, OptumHealth provided a network of therapy providers and other administrative functions in order to provide physical health solutions for the Company's members.

Effective April 1, 2011, later amended, the Company entered into a Services Agreement with Ingenix, Inc. (Ingenix). Pursuant to the agreement, Ingenix provided the Company with services related to claim analytics and recovery services, retrospective fraud, waste and abuse services, and subrogation services.

Effective January 1, 2012, the Company entered into a Facility Participation Agreement with OptumRx, Inc. (OptumRx). Under the terms of the agreement, OptumRx provided durable medical equipment services and hearing aids for the Company's members.

Effective January 1, 2013, OptumRx, Inc. (OptumRx) and United HealthCare Services, Inc. (UHS) entered into a Prescription Drug Benefit Administration Agreement and the Company was added as a participant through signing a Participating Addendum effective October 1, 2013. Under the terms of the agreement, OptumRx provided the Company with prescription drug benefit services, mail order pharmacy services, claims processing, benefits administration, marketing and sales support, account management services, rebate administration, clinical services, and finance and analytical support services.

Effective January 1, 2014, later amended, the Company entered into a Vision Services Agreement with Spectera, Inc. (Spectera). Pursuant to the agreement, Spectera provided vision services and products, claims processing, and other administrative services to the Company's members.

Effective April 1, 2013, the Company entered a Behavioral Health Services Agreement with United Behavioral Health (UBH). Under the terms of the agreement, UBH provided certain mental health and substance abuse treatment services to the Company's members.

The results of the Company's operations were included in the consolidated federal income tax return of UnitedHealth Group, Inc. pursuant to a Tax Sharing Agreement effective September 20, 2005. In accordance with the agreement, consolidated income tax liabilities were allocated to members of the consolidated group in amounts that approximated the amounts that would have been computed on a separate company basis.

Effective March 1, 2011, the Company entered into a Management Services Agreement with United HealthCare Services, Inc. (UHS). Under the terms of the agreement, UHS provided management and operational support to the Company.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained general and professional liability insurance at acceptable levels and required its providers to certify and maintain appropriate levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069, F.A.C. The policies provided for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was insured by a blanket fidelity bond issued by a licensed Florida carrier, as required by Section 641.22(7), F.S., in the amount of \$25,000,000.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no direct employees and, therefore, did not provide employee benefits nor sponsor retirement plans.

TERRITORY AND PLAN OF OPERATION

The Company was an Individual Practice Association (IPA) model type HMO and was part of UnitedHealth Group's Employer & Individual business segment, commonly known as the "commercial market" and offered a variety of managed care programs and products to employers and individuals through contractual arrangements with health care providers. The Company 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 September 30, 2016. At

December 31, 2014, the Company was licensed in the Florida counties of Broward, Flagler, Hernando, Highlands, Hillsborough, Lake, Lee, Martin, Miami-Dade, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Sarasota, Seminole, and Volusia. As an IPA model HMO, the Company had 106,870 members as of December 31, 2014, of which 100% were comprehensive "commercial" members.

COMPANY GROWTH

The Company reported the following for years 2010 through 2014:

(Dollars are in millions.)

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Member months | 1,115,181 | 1,154,070 | 1,232,477 | 1,280,122 | 1,259,023 |
| Year-end enrollment | 95,780 | 101,343 | 104,595 | 107,281 | 106,870 |
| Premiums | \$ 390.1 | \$ 417.9 | \$ 443.5 | \$ 474.3 | \$ 485.1 |
| Revenues | \$ 390.1 | \$ 409.9 | \$ 448.2 | \$ 477.4 | \$ 485.6 |
| Underwriting deductions | \$ 363.7 | \$ 380.9 | \$ 389.2 | \$ 431.7 | \$ 449.5 |
| Net income | \$ 18.3 | \$ 16.9 | \$ 42.1 | \$ 30.6 | \$ 21.9 |
| Shareholder dividends | \$ 14.8 | \$ 23.8 | \$ 41.0 | \$ 38.0 | \$ 29.5 |
| Paid in surplus received | \$ - | \$ - | \$ - | \$ - | \$ - |
| Admitted assets | \$ 123.8 | \$ 127.2 | \$ 106.1 | \$ 94.4 | \$ 93.4 |
| Liabilities | \$ 69.7 | \$ 78.8 | \$ 62.8 | \$ 59.5 | \$ 65.0 |
| Capital and surplus | \$ 54.1 | \$ 48.4 | \$ 43.3 | \$ 34.9 | \$ 28.4 |

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$329,250 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.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

Neighborhood Health Partnership, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2014

| | Per Company | Examination Adjustments | Per Examination |
|--|----------------------|----------------------------|----------------------|
| Admitted Assets | | | |
| Bonds | \$ 82,275,956 | \$ - | \$ 82,275,956 |
| Cash, cash equivalents and short-term investments | 3,904,688 | - | 3,904,688 |
| | 86,180,644 | - | 86,180,644 |
| Investment income due and accrued | 699,142 | - | 699,142 |
| Uncollected premiums and agents' balances | 1,736,770 | - | 1,736,770 |
| Net deferred tax asset | 4,426,786 | - | 4,426,786 |
| Health care amounts receivable | 241,035 | - | 241,035 |
| Aggregate write-ins for other than invested assets | 131,390 | - | 131,390 |
| Total admitted assets | \$ 93,415,767 | \$ - | \$ 93,415,767 |
| Liabilities | | | |
| Claims unpaid | \$ 43,962,577 | \$ - | \$ 43,962,577 |
| Unpaid claims adjustment expenses | 388,790 | - | 388,790 |
| Aggregate health policy reserves | 779,686 | - | 779,686 |
| Premiums received in advance | 6,655,412 | - | 6,655,412 |
| General expenses due or accrued | 8,653,001 | - | 8,653,001 |
| Current federal income tax payable | 505,221 | - | 505,221 |
| Amounts withheld or retained for the account of others | 152,864 | - | 152,864 |
| Remittances and items not allocated | 565,391 | - | 565,391 |
| Amounts due to parent, subsidiaries and affiliates | 3,271,220 | - | 3,271,220 |
| Aggregate write-ins for other liabilities | 39,416 | - | 39,416 |
| Total liabilities | 64,973,578 | - | 64,973,578 |
| Capital and Surplus | | | |
| Aggregate write-ins for special surplus funds | 9,297,969 | - | 9,297,969 |
| Common capital stock | 100 | - | 100 |
| Gross paid in and contributed surplus | 4,988,383 | - | 4,988,383 |
| Unassigned funds (deficit) | 14,155,737 | - | 14,155,737 |
| Total capital and surplus | 28,442,189 | - | 28,442,189 |
| Total liabilities, capital and surplus | \$ 93,415,767 | \$ - | \$ 93,415,767 |

Neighborhood Health Partnership, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2014

| | |
|--|----------------------|
| Net premium income | \$ 485,108,070 |
| Change in unearned premium reserves and reserve for rate credits | 475,123 |
| Total revenues | 485,583,193 |
| <hr/> | |
| Hospital and medical benefits | 336,482,298 |
| Other professional services | 6,245 |
| Prescription drugs | 50,635,119 |
| Total hospital and medical | 387,123,662 |
| Claims adjustment expenses | 12,546,831 |
| General administrative expenses | 49,842,067 |
| Total underwriting deductions | 449,512,560 |
| Net underwriting gain | 36,070,633 |
| Net investment gains | 1,685,425 |
| Net (loss) from agents' or premium balances charged off | (93,162) |
| Income before federal income tax | 37,662,896 |
| Federal income tax | 15,758,744 |
| Net income | \$ 21,904,152 |

Neighborhood Health Partnership, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2014

| | |
|---|---------------|
| Capital and surplus - December 31, 2009 | \$ 48,064,843 |
| Net income | 18,837,534 |
| Change in net deferred income tax | (1,412,853) |
| Change in nonadmitted assets | 3,455,304 |
| Dividends to stockholder | (14,800,000) |
| <hr/> | |
| Capital and surplus - December 31, 2010 | 54,144,828 |
| Net income | 16,936,278 |
| Change in net deferred income tax | 2,872,830 |
| Change in nonadmitted assets | (1,705,226) |
| Dividends to stockholder | (23,800,000) |
| <hr/> | |
| Capital and surplus - December 31, 2011 | 48,448,710 |
| Net income | 42,069,711 |
| Change in net deferred income tax | (558,784) |
| Change in nonadmitted assets | (5,669,974) |
| Dividends to stockholder | (41,000,000) |
| <hr/> | |
| Capital and surplus - December 31, 2012 | 43,289,663 |
| Net income | 30,558,113 |
| Change in net deferred income tax | 672,227 |
| Change in nonadmitted assets | (1,551,703) |
| Dividends to stockholder | (38,000,000) |
| <hr/> | |
| Capital and surplus - December 31, 2013 | 34,968,300 |
| Net income | 21,904,152 |
| Change in net deferred income tax | 12,257 |
| Change in nonadmitted assets | 1,057,480 |
| Dividends to stockholder | (29,500,000) |
| <hr/> | |
| | 28,442,189 |
| Examination adjustments | - |
| <hr/> | |
| Capital and surplus - December 31, 2014 | \$ 28,442,189 |

Neighborhood Health Partnership, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2014

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, 2014 - per annual statement | | | | \$ 28,442,189 |
| | <u>Per</u> | <u>Per</u> | <u>Increase</u> | |
| | <u>Company</u> | <u>Examination</u> | <u>(Decrease)</u> | |
| | | | <u>In Capital</u> | |
| | | | <u>& Surplus</u> | |
| Total assets | \$ 93,415,767 | \$ 93,415,767 | \$ - | |
| Total liabilities | \$ 64,973,578 | \$ 64,973,578 | \$ - | - |
| Capital and surplus, December 31, 2014 - per examination | | | | <u>\$ 28,442,189</u> |

SUBSEQUENT EVENTS

Cheryl Ann Lippert was replaced as a director by Thomas Clifton Choate of S. Glastonbury, CT, effective March 23, 2015.

CONCLUSION

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

At December 31, 2014, the Company's capital and surplus was \$28,442,189 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: Luke Stavenau, Financial Specialist; Cathy Jones, CPA, CFE, Financial Examination Manager; and INS Regulatory Insurance Services, Inc.

Respectfully submitted,


Darlene Lenhart-Schaeffer, PIR, CFE, CISA
Chief Examiner
Florida Office of Insurance Regulation