

Report on Examination
of
Preferred Medical Plan, Inc.
Coral Gables, 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

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 Preferred Medical Plan, Inc. as of December 31, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation
April 13, 2012

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of Preferred Medical Plan, Inc. (the "Company"), a Florida health maintenance organization (HMO). 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, 2006 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.

The examination was conducted primarily in the Company's Coral Gables, Florida office.

COMPANY HISTORY

The Company was incorporated in Florida on October 4, 1972 and commenced business on April 1, 1975. It was licensed by the Office as an HMO on January 10, 1975 in accordance with Part I of Chapter 641, Florida Statutes (F.S.). In addition, the Company was licensed as a prepaid health clinic pursuant to Part II of Chapter 641, F.S., and as a health flex plan pursuant to Section 408.909, F.S.

Dividends and Capital Contributions

The Company distributed shareholder dividends in the amounts of \$10.1 million, \$7.6 million, \$12.0 million, \$15.6 million, and \$8.8 million during the years 2006 through 2010, respectively. No capital contributions were received by the Company during the period examined.

Corporate Records

The minutes of the meetings of the Board of Directors and Executive 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 641.35(7), F.S.

MANAGEMENT AND CONTROL

The Company was wholly owned by Sylvia Ulrich, an individual, and was affiliated with various other entities through common ownership.

The Company's senior officers, directors and committee members were as follows:

Senior Officers

Name	Title
Tamara Meyerson	President and Chief Executive Officer
Albert Arca	Secretary, Treasurer and Chief Financial Officer
Gabriel Novoa, M.D.	Medical Director

Board of Directors

Name	Location
Albert Arca	Pembroke Pines, Florida
Tamara Meyerson	Miami Beach, Florida
Gabriel Novoa, M.D.	Miami Beach, Florida
Sylvia Ulrich	Coral Gables, Florida

Executive Committee	Investment Committee
Albert Arca	Albert Arca
Tamara Meyerson	Tamara Meyerson
Gabriel Novoa, M.D.	Sylvia Ulrich

Westchester General Hospital, Inc., an affiliate, provided hospital services to the Company's members pursuant to a January 1, 2003 agreement.

Health Care Management Systems, Inc., an affiliate, provided consulting and management services to the Company pursuant to a January 11, 2005 agreement.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained acceptable levels of general liability insurance as required by Rule 69O-191.069, Florida Administrative Code (F.A.C.), and was insured by a blanket fidelity bond as required by Section 641.22(7), F.S., in the amount of \$500,000. 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 accordance with Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered various benefits to eligible employees. The benefits included participation in a 401(k) retirement plan; medical, dental and vision insurance; short-term and long-term disability insurance; and life insurance.

TERRITORY AND PLAN OF OPERATION

As an individual practice association model HMO, the Company provided health care services to 42,148 members as of December 31, 2010, of which 62% were comprehensive members, 35% were Medicaid members, and 3% were other members. 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 February 23, 2014. The Company operated in the Florida counties of Broward and Miami-Dade.

COMPANY GROWTH

The Company reported the following for years 2006 through 2010:

	2006	2007	2008	2009	2010
Year-end enrollment	55,871	54,149	51,952	46,124	42,148
In millions:					
Premiums	\$ 112.5	\$ 122.0	\$ 129.2	\$ 123.3	\$ 113.7
Revenues	\$ 112.5	\$ 122.0	\$ 129.2	\$ 123.3	\$ 113.7
Net income	\$ 7.6	\$ 12.0	\$ 15.6	\$ 8.8	\$ 10.9
Capital and surplus	\$ 8.9	\$ 13.3	\$ 16.8	\$ 10.1	\$ 12.3

REINSURANCE

The Company maintained reinsurance with HCC Life Insurance Company, effective September 1, 2010. The policy covered 90% of eligible hospital inpatient services in excess of \$250,000 and up to \$1,000,000 per member per year. Coverage was limited to \$2,500 per day for commercial members and \$3,000 per day for Medicaid members.

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., an insolvency protection deposit of \$30,000 in accordance with Section 641.409(3), F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S.

Preferred Medical Plan, Inc.
Assets
December 31, 2010

	Per Company	Examination Adjustments	Per Examination
Properties occupied by the company	\$ 1,440,283	\$ -	\$ 1,440,283
Cash, cash equivalents and short-term investments	35,491,108	-	35,491,108
	36,931,391	-	36,931,391
Investment income due and accrued	124	-	124
Uncollected premiums and agents' balances	85,704	-	85,704
Electronic data processing equipment and software	101,215	-	101,215
Aggregate write-ins for other than invested assets	27,437	-	27,437
Total assets	\$ 37,145,871	\$ -	\$ 37,145,871

**Preferred Medical Plan, Inc.
Liabilities, Capital and Surplus
December 31, 2010**

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 15,245,619	\$ -	\$ 15,245,619
Aggregate health policy reserves	3,061,062	-	3,061,062
Premiums received in advance	4,512,360	-	4,512,360
General expenses due or accrued	301,850	-	301,850
Amounts withheld or retained for others	6,108	-	6,108
Amounts due to parent, subsidiaries and affiliates	170,519	-	170,519
Aggregate write-ins for other liabilities	1,522,794	-	1,522,794
Total liabilities	24,820,312	-	24,820,312
Capital and Surplus			
Common capital stock	2,500	-	2,500
Gross paid in and contributed surplus	17,500	-	17,500
Unassigned funds	12,305,559	-	12,305,559
Total capital and surplus	12,325,559	-	12,325,559
Total liabilities, capital and surplus	\$ 37,145,871	\$ -	\$ 37,145,871

Preferred Medical Plan, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2010

Net premium income	\$ 113,732,347
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Hospital and medical benefits	47,479,475
Other professional services	6,366,117
Emergency room and out-of-area	23,591,965
Prescription drugs	7,127,466
Aggregate write-ins for other hospital and medical	75,219
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	84,640,242
Net reinsurance recoveries	10,852
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Total hospital and medical	84,629,390
Claims adjustment expenses	1,872,265
General administrative expenses	15,163,810
Increase in reserves	1,154,931
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Total underwriting deductions	102,820,396
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Net underwriting gain	10,911,951
Net investment income earned	7,215
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Net income	\$ 10,919,166
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Preferred Medical Plan, Inc.
Statement of Changes in Capital and Surplus
For The Five Years Ended December 31, 2010

Capital and surplus - December 31, 2005	\$ 11,472,973
Net income	7,591,910
Change in nonadmitted assets	(27,122)
Dividends to stockholder	(10,148,262)
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Capital and surplus - December 31, 2006	8,889,499
Net income	12,000,373
Change in nonadmitted assets	(8,706)
Dividends to stockholder	(7,591,910)
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Capital and surplus - December 31, 2007	13,289,256
Net income	15,611,695
Change in nonadmitted assets	(69,230)
Dividends to stockholder	(12,000,373)
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Capital and surplus - December 31, 2008	16,831,348
Net income	8,812,237
Change in nonadmitted assets	93,513
Dividends to stockholder	(15,611,695)
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Capital and surplus - December 31, 2009	10,125,403
Net income	10,919,166
Change in nonadmitted assets	93,227
Dividends to stockholder	(8,812,237)
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	12,325,559
Examination adjustments	-
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Capital and surplus - December 31, 2010	\$ 12,325,559
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Preferred Medical Plan, 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.

Capital and surplus, December 31, 2010 - per annual statement			\$ 12,325,559
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 37,145,871	\$ 37,145,871	\$ -
Total liabilities	\$ 24,820,312	\$ 24,820,312	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2010 - per examination			\$ 12,325,559

SUBSEQUENT EVENTS

In its 2011 annual statement, the Company reported net premium income and total revenues of \$108.5 million and net income of \$4.2 million for the year 2011, and total capital and surplus of \$5.7 million as of December 31, 2011. The Company reported that it distributed \$10.9 million in shareholder dividends during 2011.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Preferred Medical Plan, 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 \$12,325,559 which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$2,482,031.

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

Respectfully submitted,

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