

**Report on Examination**  
**of**  
**United HealthCare of Florida, Inc.**  
**Maitland, Florida**  
**as of**  
**December 31, 2006**

**By The**  
**State of Florida**  
**Office of Insurance Regulation**

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Tallahassee, Florida

June 11, 2008

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

**United HealthCare of Florida, Inc.  
495 North Keller Road, Suite 200  
Maitland, Florida 32751**

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004 through December 31, 2006. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2002.

Planning for the current examination began on October 1, 2007. The fieldwork commenced on October 8, 2007 and concluded on April 18, 2008. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial condition examination conducted in accordance with the NAIC *Financial Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions*, with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value, and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, various ratio results, *Best's Insurance Reports*, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2006 annual statement. Transactions subsequent to December 31, 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

**STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION**

The prior examination report did not contain any significant adverse regulatory disclosures or findings related to the Company's solvency.

## HISTORY

### GENERAL

The Company was incorporated in Florida on May 26, 1970, and commenced business on March 6, 1973.

As of the date of this examination, the Company was authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S.

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

### CAPITAL STOCK

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	9
Number of shares issued and outstanding	9
Total common capital stock	\$45.00
Par value per share	\$5.00

At December 31, 2006, the Company was wholly-owned and controlled by UnitedHealthcare, Inc. (UHC), which in turn was wholly-owned by United HealthCare Services, Inc. (UHS), which was wholly-owned by UnitedHealth Group Incorporated. An abbreviated organizational chart appears on page 8.

## PROFITABILITY

For the period of this examination, the Company reported the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Year-end enrollment	402,083	433,619	527,923
In millions:			
Net premiums	\$1,743.2	\$1,910.6	\$2,257.5
Total revenues	\$1,733.6	\$1,910.0	\$2,257.5
Net income	\$59.4	\$73.4	\$119.2
Total surplus	\$115.4	\$147.8	\$193.5

## DIVIDENDS

The Company paid shareholder dividends in the amounts of \$63.4 million, \$125 million, and \$90 million in years 2004, 2005, and 2006, respectively.

## MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S. Directors serving as of December 31, 2006 were:

<u>Name and Location</u>	<u>Directors</u> <u>Principal Occupation</u>
Amy K. Knapp Sunrise, Florida	Director and Vice President of the Company
Thomas D. Lewis Tampa, Florida	Director, Chief Executive Officer and President of the Company
Daniel I. Rosenthal Sunrise, Florida	Director and Vice President of the Company

The following were the Company's senior officers as of December 31, 2006, as appointed by its board of directors in accordance with the Company's bylaws:

<b>Senior Officers</b>	
<b>Name</b>	<b>Title</b>
Thomas D. Lewis	President & Chief Executive Officer
Robyn S. Cerio	Chief Financial Officer
Gerald Brockman	Vice President - Finance & Assistant Treasurer
John W. Kelly	Vice President - Tax Services
Amy K. Knapp	Vice President
Daniel I. Rosenthal	Vice President
Forrest G. Burke	Secretary
Robert W. Oberrender	Treasurer

#### **CONFLICT OF INTEREST PROCEDURE**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

#### **CORPORATE RECORDS**

The recorded minutes of the shareholder and Board of Directors meetings 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. A review of the prior report of examination by the Office was documented in the minutes of the Board.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-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 69O-143.046, F.A.C., on April 16, 2007.

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

### **Management Services Agreement**

UHS provided managerial, administrative and financial services to the Company pursuant to a December 1, 1999 agreement in return for monthly fees based on a percentage of gross premium revenues. Fees related to the agreement were \$272.3 million, \$229.2 million, and \$208.2 million in years 2004, 2005, and 2006, respectively.

### **Mental Health and Substance Abuse Agreement**

United Behavioral Health, a wholly-owned subsidiary of UHS, provided mental health and substance abuse services to the Company's members pursuant to an October 1, 1994 agreement. Fees related to the agreement were \$37.7 million, \$31.7 million, and \$37.5 million in years 2004, 2005, and 2006, respectively.

### **Call-In Services Agreement**

The OPTUM division of UHS provided a call-in service available to the Company's members on a 24-hour basis pursuant to a November 1, 1999 agreement. Fees related to the agreement were \$5.6 million, \$3.9 million, and \$3.3 million in years 2004, 2005, and 2006, respectively.

#### Chiropractic Services Agreement

ACN Group, Inc. provided chiropractic services to the Company's members pursuant to an agreement effective September 1, 2002. Fees related to the agreement were \$1.9 million, \$1.4 million, and \$1.3 million in years 2004, 2005, and 2006, respectively.

#### Dental Services Agreement

Dental Benefit Providers, Inc. provided dental services to the Company's members pursuant to an April 1, 2000 agreement. Fees related to the agreement were \$595,116, \$804,763, and \$1.1 million in years 2004, 2005, and 2006, respectively.

#### Vision Care Services Agreement

Spectera, Inc. provided vision care services to the Company's members pursuant to a January 1, 2004 agreement. Fees related to the agreement were \$476,462, \$295,068, and \$248,777 in years 2004, 2005, and 2006, respectively.

#### Transplant Services Agreement

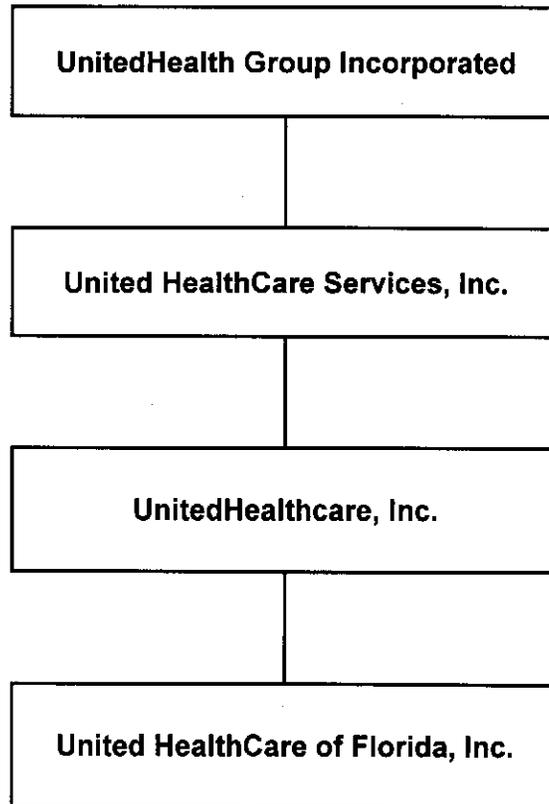
United Resource Networks provided transplant-related health care services to the Company's members. Fees related to the agreement were \$1.3 million, \$842,993, and \$734,464 in years 2004, 2005, and 2006, respectively.

#### Tax Allocation Agreement

The results of the Company's 2006 operations were included in the consolidated federal income tax return of UnitedHealth Group Incorporated pursuant to a tax sharing agreement to which the Company became a party on January 1, 1997. The consolidated federal income tax liability was allocated to group members based on the amount of each member's federal income tax computed on a separate return basis.

An abbreviated organizational chart as of December 31, 2006 reflecting the holding company system is shown below. Schedule Y of the Company's 2006 annual statement provided the names of all related companies in the holding company group.

**United HealthCare of Florida, Inc.  
Organizational Chart  
December 31, 2006**



## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and had a blanket fidelity bond in the amount of \$25 million, as required by Section 641.22, F.S. As an individual practice association (IPA) 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 had no direct employees and, therefore, did not maintain any pension, stock ownership, or insurance plans.

## **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.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **TERRITORY AND PLAN OF OPERATION**

At December 31, 2006, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It 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 May 12, 2009.

The Company used a network of general agents and brokers, and operated as an IPA model. It provided health care services to comprehensive, Medicare, and Medicaid members. At December 31, 2006, the Company had 402,083 members, of which 10% were Medicare members, 25% were Medicaid members, and 65% were comprehensive members.

The Company operated in the Florida counties of Alachua, Baker, Bradford, Brevard, Broward, Charlotte, Citrus, Clay, Collier, Columbia, DeSoto, Duval, Escambia, Flagler, Hernando, Highlands, Hillsborough, Indian River, Jefferson, Lake, Lee, Leon, Madison, Manatee, Marion, Martin, Miami-Dade, Nassau, Okaloosa, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Putnam, Santa Rosa, Sarasota, Seminole, St. Johns, St. Lucie, Suwannee, Taylor, Union, Volusia, Wakulla, and Walton.

### **TREATMENT OF MEMBERS**

The Company established procedures for handling written complaints in accordance with Section 641.511, F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## **REINSURANCE**

The Company entered into a stop-loss agreement with United HealthCare Insurance Company, an indirect subsidiary of UHS, on January 1, 2005, to cover losses in the event of the Company's insolvency. Premiums were \$1.9 million and \$1.7 million in years 2005 and 2006, respectively. 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**

An independent CPA audited the Company's statutory-basis financial statements annually for years 2004, 2005, and 2006, pursuant to Section 641.26(1)(c), F.S.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office was located in Maitland, Florida, where this examination was conducted.

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

Pharmacy Benefit Agreement

The Company entered into an agreement with Merck Medco Managed Care, LLC on October 1, 2000 to provide pharmacy benefit management services to its members to include claims processing, eligibility management, pharmacy network management, and call center services. Fees associated with the agreement were \$1.6 million, \$622,000, and \$985,000 in years 2004, 2005, and 2006, respectively.

Custodial Agreement

The Company entered into a custodial agreement with State Street Bank & Trust Company on April 30, 2002. Fees related to the agreement were \$21,800, \$18,300, and \$13,800 in years 2004, 2005, and 2006, respectively.

Independent Auditor Agreement

The Company contracted with Deloitte & Touche LLP to audit its statutory-basis financial statements. Fees related to the agreement were \$178,852, \$311,812, and \$322,813 in years 2004, 2005, and 2006, respectively.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following four pages contain statements of the Company's financial position at December 31, 2006, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

**United HealthCare of Florida, Inc.**  
**Assets**  
**December 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$289,056,662	\$0	\$289,056,662
Cash, cash equivalents & short-term investments	70,544,451	0	70,544,451
	<u>359,601,113</u>	<u>0</u>	<u>359,601,113</u>
Investment income due and accrued	4,086,234	0	4,086,234
Uncollected premiums and agents' balances	4,280,604	0	4,280,604
Net deferred tax asset	6,065,468	0	6,065,468
Aggregate write-ins - other than invested assets	56,494	0	56,494
Totals	<u>\$374,089,913</u>	<u>\$0</u>	<u>\$374,089,913</u>

**United HealthCare of Florida, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2006**

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$157,443,949	\$0	\$157,443,949
Accrued medical incentive pool and bonuses	4,733,116	0	4,733,116
Unpaid claims adjustment expenses	2,622,687	0	2,622,687
Aggregate health policy reserves	35,707,507	0	35,707,507
Aggregate health claim reserves	3,578,060	0	3,578,060
Premiums received in advance	11,069,477	0	11,069,477
General expenses due or accrued	8,366,111	0	8,366,111
Current federal and foreign income tax payable	3,453,768	0	3,453,768
Amounts withheld or retained for others	366,348	0	366,348
Amounts due to parent, subsidiaries and affiliates	6,570,606	0	6,570,606
Liability for amounts held under uninsured plans	24,816,455	0	24,816,455
Total liabilities	<u>258,728,084</u>	<u>0</u>	<u>258,728,084</u>
<b>Capital and Surplus</b>			
Common capital stock	45	0	45
Gross paid in and contributed surplus	184,913,731	0	184,913,731
Unassigned funds	(69,551,947)	0	(69,551,947)
Total capital and surplus	<u>115,361,829</u>	<u>0</u>	<u>115,361,829</u>
Total liabilities, capital and surplus	<u>\$374,089,913</u>	<u>\$0</u>	<u>\$374,089,913</u>

**United HealthCare of Florida, Inc.**  
**Statement of Revenue and Expenses**  
**For The Year Ended December 31, 2006**

Net premium income		\$1,743,165,547
Change in unearned premium reserves		<u>(9,588,012)</u>
Total revenues		1,733,577,535
Hospital and medical benefits	\$1,237,065,135	
Other professional services	3,354,910	
Prescription drugs	192,135,034	
Incentive pool, withhold adjustments and bonuses	1,371,367	
Total hospital and medical	<u>1,433,926,446</u>	
Claims adjustment expenses	34,555,559	
General administrative expenses	213,870,480	
Increase (decrease) in reserves for contracts	<u>(15,256,200)</u>	
Total underwriting deductions		<u>1,667,096,285</u>
Net underwriting gain		66,481,250
Net investment income earned	18,152,435	
Net realized capital gains (losses)	<u>(73,311)</u>	<u>18,079,124</u>
Income before income taxes		84,560,374
Federal and foreign income taxes incurred		<u>25,159,000</u>
Net income		<u><u>\$59,401,374</u></u>

**United HealthCare of Florida, Inc.**  
**Capital and Surplus Account**  
**For The Year Ended December 31, 2006**

Capital and surplus - December 31, 2005		\$147,826,221
Net income	\$59,401,374	
Change in net deferred income tax	(246,817)	
Change in nonadmitted assets	(1,618,949)	
Dividends to stockholders	(90,000,000)	
Examination adjustments	0	<u>(32,464,392)</u>
Capital and surplus - December 31, 2006		<u>\$115,361,829</u>

## COMMENTS ON FINANCIAL STATEMENTS

### **Losses and Loss Adjustment Expenses**

**\$204,085,319**

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2006 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate liability was not materially misstated.

### **General Expenses Due or Accrued**

**\$8,366,111**

As of December 31, 2006, the Company was obligated to AHCA for the cost of health care provided to or for the benefit of certain of the Company's Medicaid members. During our examination, the Company was working with AHCA to determine the extent of its liability in this matter. While, in its 2006 annual statement, the Company reported a liability for the obligation in the estimated amount of \$3,252,305, the amount eventually payable could exceed that amount.

**United HealthCare of Florida, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2006**

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, 2006 - per annual statement				\$115,361,829
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Surplus</u>	
Total assets	\$374,089,913	\$374,089,913	\$0	
Total liabilities	\$258,728,084	\$258,728,084	<u>\$0</u>	
Net change in capital and surplus				<u>0</u>
Capital and surplus, December 31, 2006 - per examination				<u><u>\$115,361,829</u></u>

## **SUBSEQUENT EVENTS**

As a result of complaints received, market analysis, and market conduct examination findings, the Office and certain other state insurance regulatory offices conducted a joint, multi-year analysis of the Company and certain of its affiliates (UHC Companies). The analysis identified areas of concern involving claims handling and other insurance administrative practices. On August 27, 2007, the UHC Companies entered into a multi-state regulatory settlement agreement with the Office, Arkansas Insurance Department, Connecticut Department of Insurance, Iowa Division of Insurance, and New York Department of Insurance. In connection with the settlement agreement, the UHC Companies agreed to a monetary assessment in settlement of regulatory findings and to reimburse the regulators for costs incurred in connection with the analysis. In addition, the UHC Companies, in cooperation with the regulators, developed a process improvement plan to address, resolve, and monitor the reviewed areas.

## **SUMMARY OF FINDINGS**

### Compliance With Previous Directives

There were no directives or significant findings from the prior examination on which to comment.

### Current Examination Comments and Corrective Action

The current financial condition examination did not result in any material findings of non-compliance with statutes, rules, or other requirements on the part of the Company.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **United HealthCare of Florida, Inc.** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$115,361,829, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2006 was \$34,863,311.

In addition to the undersigned, the following participated in this examination: Tom Cook, Financial Examiner/Analyst; Darlene L. Lenhart-Schaeffer, Financial Examiner/Analyst; M. Alison Miele, Financial Examiner/Analyst; Richard J. Schaaf, CPA, CFE, Financial Specialist; Steven A. Steele, Financial Specialist; and Richard Tan, Actuary.

Respectfully submitted,

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Cathy S. Jones, CPA  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation