

Report on Examination
of
Universal Health Care
Insurance Company, Inc.

St. Petersburg, Florida

as of

December 31, 2008

By The
Florida Office of Insurance Regulation

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Gentlemen:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Universal Health Care Insurance Company, Inc. as of December 31, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
October 8, 2009

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SCOPE OF EXAMINATION

We have completed an association financial condition examination as of December 31, 2008 of Universal Health Care Insurance Company, Inc. (the "Company"), a multi-state insurer domiciled in Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of June 30, 2007.

This examination covered the period of July 1, 2007 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 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 in St. Petersburg, Florida, where this examination was conducted.

SUMMARY OF SIGNIFICANT FINDINGS

The previous examination of the Company by the Office resulted in multiple adverse findings. While the current examination did not result in the same findings as did the prior examination, it did result in other findings including those that the Company overstated the amounts of its net deferred tax asset (DTA) and surplus by \$420,000 and incorrectly reported certain other assets and liabilities in its 2008 annual statement. Recommendations relating to all significant findings of the current examination are summarized beginning on page 18.

COMPANY HISTORY

The Company was incorporated in Florida on May 25, 2006. It was licensed by the Office as an insurer and commenced business on May 26, 2006. The Company was authorized by the State of Florida to operate as an accident and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

Dividends

No shareholder dividends were distributed by the Company in 2007 or 2008.

CORPORATE RECORDS

The recorded minutes of the meetings of the shareholder, Board of Directors and Audit Committee 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 625.304, F.S.

MANAGEMENT AND CONTROL

As of December 31, 2008, the Company was wholly-owned by Universal Health Care Group, Inc. (Group), and was affiliated through common ownership with other entities including American Family & Geriatric Care, P.A., Universal Health Care, Inc. (UHC), a Florida health maintenance organization, and American Managed Care, LLC (AMC), a Florida third party administrator.

The Company's senior officers, directors and Audit Committee members at December 31, 2008 were as shown below.

Senior Officers

<u>Name</u>	<u>Title</u>
Akshay M. Desai, M.D., M.P.H.	President, Secretary and Chief Executive Officer
Brett McIntyre	Chief Financial Officer
James P. O'Drobinak	Chief Operating Officer
Steven J. Schaefer	Treasurer

Board of Directors

<u>Name</u>	<u>Location</u>
Jayendra Choski, M.D.	Tampa, Florida
Akshay M. Desai, M.D., M.P.H.	St. Petersburg, Florida
Deepak Desai	San Francisco, California
Seema Desai	St. Petersburg, Florida
Zachariah P. Zachariah, M.D. ¹	Fort Lauderdale, Florida

Audit Committee

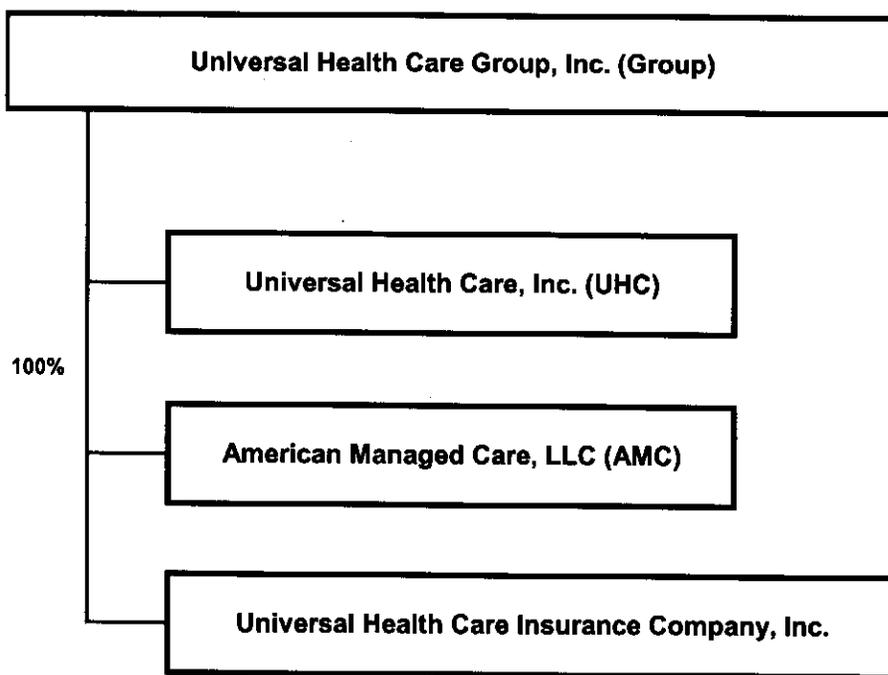
Jayendra Choski, M.D.
Deepak Desai
Zachariah P. Zachariah, M.D.

¹ On January 30, 2009, Brett McIntyre replaced Zachariah P. Zachariah, M.D., as a director.

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 May 21, 2009.

An abbreviated organizational chart as of December 31, 2008, reflecting the holding company system, is shown below.

**Universal Health Care Insurance Company, Inc.
Abbreviated Organizational Chart
December 31, 2008**



The results of the Company's operations were included in the consolidated federal income tax return of Group pursuant to a tax allocation agreement dated September 27, 2007 and amended on February 27, 2008. The consolidated income tax liability was required to be allocated to members of the consolidated group on a pro rata basis according to the separate return tax liabilities of included members. All payments were required to be made on a quarterly basis not later than the due dates of the affiliated group's estimated tax payments.

AMC provided claims processing, customer service, utilization review, accounting, information systems, credentialing, quality assurance, enrollment and billing services to the Company pursuant to a June 1, 2006 management agreement which was amended effective January 1, 2007 and January 1, 2008. The original agreement called for payments to AMC at the rate of 9% of collected premiums. The fees were reduced to 3% of collected premiums effective January 1, 2007. The Office approved an increase in the fees to 6.5% of collected premiums effective January 1, 2008.

As of December 31, 2008, AMC was prohibited from acting as an administrator except on behalf of the Company and UHC, in accordance with Consent Order 90624-07-CO issued by the Office on December 21, 2007. In accordance with the order, this condition is to remain in effect until the Office is satisfied of AMC's solvency.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$500,000 with a deductible of \$25,000. The minimum amount of such coverage for the Company recommended by the NAIC was \$1,000,000. During the examination, the Company increased its coverage to the recommended amount.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered to eligible employees benefits including health and dental insurance, paid leave and a 401(k) retirement plan sponsored by American Family & Geriatric Care, P.A., an affiliate.

TERRITORY AND PLAN OF OPERATION

The Company operated a private fee-for-service Medicare Advantage plan. It was authorized to transact insurance in the following states at December 31, 2008²:

Arizona	Georgia	Nevada	Texas
Florida	Louisiana	South Carolina	Utah

GROWTH OF COMPANY

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>
(In millions)			
Net premiums ³	\$0.0	\$562.2	\$140.3
Total revenues ³	\$0.0	\$562.2	\$140.3
Net income (loss)	(\$9.6)	\$30.3	\$4.3
Total capital and surplus	\$13.4	\$121.1	\$69.2

² In 2009, the Company obtained certificates of authority to transact insurance in Pennsylvania, Maryland and Mississippi.

³ See comments on page 8 pertaining to the Company's 2008 transfer of risk pursuant to reinsurance.

SURPLUS NOTES

At December 31, 2008, the Company was obligated to Group for surplus notes as follows:

<u>Interest Rate</u>	<u>Amount</u>
5.0%	\$11,000,000
5.0%	8,000,000
5.0%	2,000,000
9.0%	<u>6,000,000</u>
	<u>\$27,000,000</u>

The notes were approved by the Company's board of directors and the Office. In accordance with Section 628.401, F.S., the debt was included in the Company's surplus.

REINSURANCE

The Company entered into a yearly renewable term indemnity reinsurance agreement with Hannover Life Reassurance Company of America. The initial term of the agreement was for three years beginning January 1, 2008. Pursuant to the agreement, the Company ceded 50% quota share of the reinsured risks, subject to the annual maximum reinsurance premium of \$1 billion, net of any existing reinsurance. In January of 2008, the Company exercised an option to increase the quota share amount ceded to 75% effective January 1, 2009. It retained the option to decrease the quota share percentage by a maximum of 15% in subsequent years.

The Company entered into a stop-loss insurance agreement with HCC Life Insurance Company providing coverage for 90% of eligible expenses incurred per member per contract year in excess of \$150,000, with a lifetime maximum of \$2,000,000 per member.

The reinsurance agreements reviewed were 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

The Company and Fifth Third Bank entered into a securities custodial agreement which did not comply with Rule 69O-143.042(2), F.A.C. The agreement was revised during the examination to comply with the rule. In addition, the Company failed to disclose the existence of the agreement in its 2008 annual statement as required by the annual statement instructions.

The Company failed to file its 2008 audited financial statements by June 1, 2009, as required by Section 624.424(8)(a), F.S. The statements were filed on June 5, 2009.

In its 2008 annual statement, the Company reported that its senior officers were subject to a code of ethics. However, the Company was unable to provide examiners with a copy of the code.

During the course of the examination, the Company developed a code of ethics.

In its 2008 annual statement, the Company failed to fully disclose information related to its federal income tax, as required by the annual statement instructions.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with various other states as required or permitted by law:

Holder	Description	Par Value	Market Value
Florida	Cash	\$1,238,729	\$1,238,729
Georgia	U.S. Treasury fund	4	4
Georgia	U.S. Treasury notes	35,000	35,900
Nevada	Cash	200,000	204,820
South Carolina	U.S. Treasury notes	125,000	128,013
Texas	U.S. Treasury notes	1,000,000	1,024,100
Total deposits		\$2,598,733	\$2,631,566

Universal Health Care Insurance Company, Inc.
Assets
December 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$0	\$1,352,081	\$1,352,081
Cash, cash equivalents and short-term investments	90,509,350	(1,352,081)	89,157,269
	90,509,350	0	90,509,350
Investment income due and accrued	53,942	0	53,942
Accrued retrospective premiums	3,010,009	0	3,010,009
Other amounts receivable under reinsurance contracts	0	3,795,967	3,795,967
Amounts receivable relating to uninsured plans	5,077,977	0	5,077,977
Current federal income tax recoverable	1,102,549	(1,102,549)	0
Net deferred tax asset	0	682,549	682,549
Health care and other amounts receivable	48,480	0	48,480
Aggregate write-ins for other than invested assets	3,795,967	(3,795,967)	0
Total assets	\$103,598,274	(\$420,000)	\$103,178,274

Universal Health Care Insurance Company, Inc.
Liabilities, Capital and Surplus
December 31, 2008

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$24,638,600	\$0	\$24,638,600
Unpaid claims adjustment expenses	483,376	0	483,376
Premiums received in advance	625,616	0	625,616
General expenses due or accrued	1,265,546	967,996	2,233,542
Current federal income tax payable	967,996	3,643,248	4,611,244
Amounts due to parent, subsidiaries and affiliates	4,819,926	(4,611,244)	208,682
Aggregate write-ins for other liabilities	1,600,952	0	1,600,952
Total liabilities	34,402,012	0	34,402,012
Capital and Surplus			
Common capital stock	2,500,100	0	2,500,100
Gross paid in and contributed surplus	12,499,900	0	12,499,900
Surplus notes	27,000,000	0	27,000,000
Unassigned funds	27,196,262	(420,000)	26,776,262
Total capital and surplus	69,196,262	(420,000)	68,776,262
Total liabilities, capital and surplus	\$103,598,274	(\$420,000)	\$103,178,274

Universal Health Care Insurance Company, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2008

Net premium income	\$140,349,827
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Hospital and medical benefits	69,802,504
Other professional services	985,619
Emergency room and out-of-area	7,062,177
Prescription drugs	22,469,155
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Total hospital and medical	100,319,455
Claims adjustment expenses	(172,578)
General administrative expenses	37,892,986
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Total underwriting deductions	138,039,863
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Net underwriting gain	2,309,964
Net investment income	3,138,474
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Income before income taxes	5,448,438
Federal income taxes	1,104,520
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Net income	\$4,343,918
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Universal Health Care Insurance Company, Inc.
Statement of Changes in Capital and Surplus
For The Two Years Ended December 31, 2008

Capital and surplus - December 31, 2006	\$13,368,453
Net income	30,264,078
Change in nonadmitted assets	(1,540,183)
Change in surplus notes	79,000,000
<hr/>	
Capital and surplus - December 31, 2007	121,092,348
Net income	4,343,918
Change in nonadmitted assets	(1,008,752)
Change in surplus notes	(60,000,000)
Paid in capital	2,500,000
Paid in surplus	(2,500,000)
Cumulative effect of correction of error	4,768,748
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	69,196,262
Examination adjustments	(420,000)
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Capital and surplus - December 31, 2008	\$68,776,262
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Universal Health Care Insurance Company, 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			\$69,196,262
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Assets:			
Bonds	\$0	\$1,352,081	\$1,352,081
Cash, cash equivalents and short-term investments	\$90,509,350	\$89,157,269	(\$1,352,081)
Other amounts receivable under reinsurance contracts	\$0	\$3,795,967	\$3,795,967
Current federal income tax recoverable	\$1,102,549	\$0	(\$1,102,549)
Net deferred tax asset	\$0	\$682,549	\$682,549
Aggregate write-ins for other than invested assets	\$3,795,967	\$0	(\$3,795,967)
Liabilities:			
General expenses due or accrued	\$1,265,546	\$2,233,542	(\$967,996)
Current federal income tax payable	\$967,996	\$4,611,244	(\$3,643,248)
Amounts due to parent, subsidiaries and affiliates	\$4,819,926	\$208,682	\$4,611,244
Net change in capital and surplus			<u>(420,000)</u>
Capital and surplus, December 31, 2008 - per examination			<u><u>\$68,776,262</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Bonds **\$1,352,081**

The amount of bonds reported by the Company in its 2008 annual statement has been increased by \$1,352,081. The Company incorrectly reported investments in U.S. Treasury securities as cash equivalents rather than bonds as required by Statement of Statutory Accounting Principles (SSAP) No. 26 and the annual statement instructions. Upon examination, the securities were reclassified.

Cash, Cash Equivalents and Short-Term Investments **\$89,157,269**

The \$90,509,350 of 'cash, cash equivalents and short-term investments' reported by the Company in its 2008 annual statement has been decreased by \$1,352,081 to \$89,157,269 as a result of the reclassification described above. In addition, in its 2008 annual statement, the Company incorrectly reported cash on deposit with the State of Florida as a cash equivalent, and the negative balances of various checking accounts as short-term investments, rather than as cash.

Other Amounts Receivable Under Reinsurance Contracts **\$3,795,967**
Aggregate Write-Ins For Other Than Invested Assets **\$0**

In its 2008 annual statement, the Company incorrectly reported \$3,795,967 due from its reinsurer as 'aggregate write-ins for other than invested assets' rather than as 'other amounts receivable under reinsurance contracts'. Upon examination, the receivable was reclassified.

Current Federal Income Tax Recoverable **\$0**
Net Deferred Tax Asset **\$682,549**

Of the \$1,102,549 reported by the Company in its 2008 annual statement as 'current federal income tax recoverable', \$682,549 has been reclassified to 'net deferred tax asset' and \$420,000

has been nonadmitted. The Company reported as an admitted asset a net DTA in the amount of \$1,102,549 which included \$420,000 relating to a nonadmitted receivable from an affiliate. The net DTA was incorrectly reported as 'current federal income tax recoverable'. Upon examination, the portion of the net DTA relating to the receivable (\$420,000) was nonadmitted because it did not consist of expected future tax consequences of temporary differences generated by statutory accounting as defined in paragraph 11 of Statement of Financial Accounting Standards No. 109 (FAS 109), as discussed in paragraphs 5 and 6 of SSAP No. 10. Since neither the origination of the receivable nor its subsequent collection resulted or will result in a taxable event, and the nonadmitted receivable will not result in taxable or deductible amounts when the asset is recovered, the receivable did not constitute a temporary difference resulting in the deferral of income taxes. The remainder of 'current federal income tax recoverable' has been reclassified to 'net deferred tax asset'.

General Expenses Due or Accrued	\$2,233,542
Current Federal Income Tax Payable	\$4,611,244
Amounts Due To Parent, Subsidiaries and Affiliates	\$208,682

'General expenses due or accrued' has been increased by \$967,996, 'current federal income tax payable' has been increased by \$3,643,248, and 'amounts due to parent, subsidiaries and affiliates' has been decreased by \$4,611,244. In its 2008 annual statement, the Company incorrectly reported state taxes payable in the amount of \$967,996 as 'current federal income tax payable' rather than as 'general expenses due or accrued', and 'current federal income tax payable' in the amount of \$4,611,244 as 'amounts due to parent, subsidiaries and affiliates' rather than as 'current federal income tax payable'. Accordingly, these amounts have been reclassified.

SUMMARY OF RECOMMENDATIONS

Fidelity Bonds

As reported on page 6, the Company failed to maintain fidelity bond coverage in the minimum amount recommended by the NAIC. However, during the examination, the Company increased its coverage to the recommended amount. **We recommend that the Company maintain fidelity bond coverage at least in the minimum amount recommended by the NAIC at all times.**

Securities Custodial Agreement

As reported on page 9, the Company entered into a securities custodial agreement which did not comply with Rule 69O-143.042(2), F.A.C. The agreement was revised during the examination to comply with the rule. In addition, it failed to disclose the existence of the agreement in its 2008 annual statement. **We recommend that the Company comply with Rule 69O-143.042(2), F.A.C., and the annual statement instructions with respect to its custodial agreements.**

Audited Financial Statements

As reported on page 9, the Company failed to file its 2008 audited financial statements by the due date. **We recommend that the Company file its audited financial statements when due, in accordance with Section 624.424(8)(a), F.S.**

Income Tax Disclosures

As reported on page 9, the Company failed to fully disclose in its 2008 annual statement information related to its federal income tax, as required by the annual statement instructions. **We recommend that, in future statements filed with the Office, the Company make all**

required disclosures related to its federal income tax, in accordance with the annual statement instructions.

Financial Statement Errors

As reported on pages 16 and 17, the Company incorrectly reported certain assets and liabilities in its 2008 annual statement. **We recommend that, in future statements filed with the Office, the Company accurately report its assets and liabilities in accordance with the annual statement instructions.**

Deferred Tax Asset

As reported beginning on page 16, the Company overstated the amount of its net DTA by \$420,000 in its 2008 annual statement. **We recommend that, in future statements filed with the Office, the Company accurately report the amount of its deferred tax assets and liabilities, calculated in accordance with SSAP No. 10.**

SUBSEQUENT EVENTS

During the second quarter of 2009, the Company distributed a dividend to Group in the amount of \$8 million, as approved by the Office.

During the fourth quarter of 2009, the Company notified the Office of the Company's intention to restate its 2008 financial statements in order to correct certain errors, and that the error correction would result in a net reduction in the Company's total capital and surplus of \$2,338,499.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Universal Health Care Insurance Company, 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 \$68,776,262. The minimum amount of its capital and surplus required by Section 624.408, F.S., was \$2,734,854.

In addition to the undersigned, the following participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Kerry A. Krantz, Actuary; and Robert Y. Meszaros, Financial Specialist.

Respectfully submitted,

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