

Report on Examination
of
AMERIGROUP Florida, Inc.
Tampa, Florida
as of
December 31, 2007

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

May 11, 2009

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, 2007, of the financial condition and corporate affairs of:

AMERIGROUP Florida, Inc.
4200 West Cypress Street
Tampa, Florida 33607

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, 2005 through December 31, 2007. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2003.

Planning for the current examination began on July 7, 2008. The fieldwork commenced on July 14, 2008 and concluded on February 25, 2009. 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, 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 2007 annual statement. Transactions subsequent to December 31, 2007 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.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA for the following accounts:

- Net deferred tax asset
- Premiums received in advance
- Current income tax payable
- Commitments and contingent liabilities

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Company in connection therewith.

Investments in Bonds and Preferred Stocks

In its 2003 annual statement, the Company incorrectly reported \$39.4 million of investments in bonds and preferred stocks as cash equivalents. In addition, the preferred stock investments exceeded the limitation of Section 641.35(14)(a)4, F.S., by \$11,946,005 which amount was nonadmitted upon examination. **Resolution:** Investments reported by the Company in its 2007 annual statement were properly classified and were not in excess of investment limitations.

Reserves, Claims Liabilities and Related Expenses

In its 2003 annual statement, the Company failed to specifically provide for obligations resulting from insufficient premiums due from the Florida Agency for Health Care Administration and, upon examination, a premium deficiency reserve was reclassified from claims unpaid to aggregate health

policy reserves in the amount of \$5,486,820. **Resolution:** The current examination did not result in a similar finding.

Capital Stock

In its 2003 annual statement, the Company incorrectly reported its issued common stock at \$1.00 rather than at the correct amount of \$100.00. **Resolution:** The Company accurately reported the amount of its issued common stock in subsequent annual statements.

Deficit

As of December 31, 2003, the Company's total capital and surplus was a deficit of \$2,532,368 and was \$12,339,600 less than the amount required by Section 641.225, F.S., and Consent Order 64108-02-CO filed by the Office on November 21, 2002 (the "Consent Order") of \$9,807,232. **Resolution:** As of December 31, 2007, the Company's total capital and surplus was \$52,137,588, which exceeded its required minimum capital and surplus of \$11,761,999.

HISTORY

GENERAL

The Company was incorporated in Florida on February 10, 1992 as Physician Healthcare Plans, Inc., changed its name to Physicians Healthcare Plans, Inc. on February 24, 1993, and commenced business on October 1, 1993. On December 31, 2002, the Company's name was changed to AMERIGROUP Florida, Inc. following the acquisition and merger of its parent corporation as approved by the Office on November 21, 2002 subject to the terms and conditions of the Consent Order.

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.

The Company's articles of incorporation were not amended during the period covered by this examination. On November 15, 2006 and January 2, 2007 the Company's bylaws were amended in order to change the number of authorized directors and the process of their election.

CAPITAL STOCK

As of December 31, 2007, the Company's capitalization was as follows:

	Common Stock
Shares authorized	1,000
Shares issued and outstanding	100
Total capital stock	\$100
Par value per share	\$1.00

At December 31, 2007, the Company was wholly-owned and controlled by PHP Holdings, Inc. which, in turn, was wholly-owned by AMERIGROUP Corporation. An abbreviated organizational chart appears on page 10.

PROFITABILITY

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Year-end enrollment	205,643	202,040	218,592
In millions:			
Net premiums	\$438.1	\$392.4	\$396.3
Total revenues	\$438.1	\$392.4	\$396.3
Net income (loss)	\$21.8	\$17.4	(\$0.1)
Total capital and surplus	\$52.1	\$35.0	\$18.1

DIVIDENDS

The Company did not pay shareholder dividends during the period of this examination.

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, 2007 were:

Directors

<u>Name and Location</u>	<u>Principal Occupation</u>
Donald V. Gilmore St. Petersburg, Florida	Vice President and Chief Operating Officer (Tampa/Orlando) of the Company
William L. McHugh Longboat Key, Florida	President and Chief Executive Officer of the Company
Nicholas J. Pace, II Richmond, Virginia	Deputy General Counsel of AMERIGROUP Corporation
Charles B. Shipp Nashville, Tennessee	Regional Chief Executive Officer of AMERIGROUP Corporation
James H.T. Tan, M.D. Virginia Beach, Virginia	National Medical Director of AMERIGROUP Corporation
Thomas Wilfong Coral Springs, Florida	Vice President and Chief Operating Officer (South Florida) of the Company

The Company's senior officers as of December 31, 2007, as appointed by its board of directors in accordance with the Company's bylaws, were:

Senior Officers

Name	Title
William L. McHugh	President and Chief Executive Officer
Donald V. Gilmore	Vice President and Chief Operating Officer (Tampa/Orlando)
Thomas Wilfong	Vice President and Chief Operating Officer (South Florida)
Stanley F. Baldwin	Vice President and Secretary
Scott W. Anglin	Vice President and Treasurer
Nicholas J. Pace, II	Vice President and Assistant Secretary
Richard C. Zoretic	Vice President and Assistant Secretary
Karen L. Shields	Vice President and Assistant Treasurer
James W. Truess	Vice President and Assistant Treasurer
Margaret M. Roomsburg	Vice President
Charles B. Shipp	Vice President

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. The recorded minutes of the Board meetings documented its review of the prior report of examination by the Office, but did not include evidence that the Board authorized the Company's investments during the examination period as required by Section 641.35(7), F.S. However, in 2008, the Board established an investment policy and retroactively approved the investments.

SURPLUS DEBT

As of December 31, 2007, the Company was obligated for surplus notes in the total amount of \$17.1 million as follows:

<u>Holder</u>	<u>Interest Rate</u>	<u>Amount</u>
PHP Holdings, Inc.	10.5%	\$10,000,000
PHP Holdings, Inc.	7.0%	<u>7,100,000</u>
		<u>\$17,100,000</u>

The notes were approved by the Company’s board of directors and the Office, and complied with the provisions of Rule 69O-191.088, Florida Administrative Code (F.A.C.). In accordance with Section 641.19(19), F.S., the surplus note debt was included in the Company’s surplus. In 2008, with the permission of the Office, the Company repaid the surplus notes together with \$8,650,866 in accrued interest.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), 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 March 28, 2008 and updated on July 15, 2008.

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

Administrative and Support Services Agreement

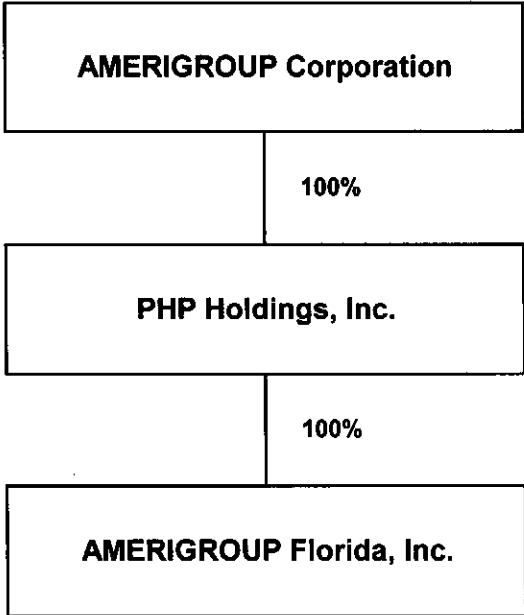
AMERIGROUP Corporation provided administrative, claims processing and financial support services to the Company pursuant to an agreement originally entered into on January 1, 2003 and later amended on November 6, 2003, June 1, 2004, and September 24, 2004. Services were provided to the Company in exchange for monthly fees based on the amounts of premiums and administrative costs and amounted to \$26.6 million, \$31.8 million, and \$30.7 million in years 2005, 2006, and 2007, respectively. The original agreement was submitted to the Office for approval as required by the Consent Order; however, the subsequent amendments were not.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax return of AMERIGROUP Corporation pursuant to a tax allocation agreement dated December 15, 2006. The consolidated income tax liability was allocated to members of the consolidated group on a pro rata basis according to the separate return tax liabilities of included members. The agreement was not submitted to the Office for approval as required by the Consent Order.

An abbreviated organizational chart as of December 31, 2007 reflecting the holding company system is shown below. Schedule Y of the Company's 2007 annual statement provided the names of all related companies in the holding company group.

**AMERIGROUP Florida, Inc.
Organizational Chart
December 31, 2007**



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 was insured by 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 and 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 to eligible employees benefits including health and dental insurance, educational assistance and participation in a Section 401(k) retirement plan sponsored by AMERIGROUP Corporation.

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

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 pursuant to Part III of Chapter 641, F.S., valid until July 28, 2010.

The Company used a network of general agents and brokers, and operated as an IPA model. It provided health care services to comprehensive and Medicaid members. Its total membership at December 31, 2007 was 205,643, 70% of which was Medicaid. In January of 2008, the Company was authorized to offer Medicare coverage.

The Company operated in the Florida counties of Brevard, Broward, Hernando, Hillsborough, Lake, Lee, Manatee, Martin, Miami-Dade, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Sarasota, Seminole, St. Lucie, and Volusia.

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 ceded risk to ING Reinsurance, a division of ReliaStar Life Insurance Company, pursuant to an excess risk reinsurance agreement effective July 1, 2007. The agreement provided for reimbursement of 90% of eligible paid losses in excess of \$1 million per member per agreement period up to \$1 million per member per contract year. Coverage was subject to a lifetime maximum of \$2 million per member and certain other limitations. 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 2005, 2006, and 2007, 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 statutory home office was located in Tampa, Florida. A significant portion of its books and records were located in Virginia Beach, Virginia, where this examination was conducted.

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

Custodial Agreement

The Company contracted with Wachovia N.A. for securities custodian services.

Independent Auditor Agreement

The Company contracted with KPMG LLP to conduct annual audits of the Company's statutory basis financial statements.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2007, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

AMERIGROUP Florida, Inc.
Assets
December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$69,564,834	\$0	\$69,564,834
Cash, cash equivalents and short-term investments	35,616,299	0	35,616,299
	<u>105,181,133</u>	<u>0</u>	<u>105,181,133</u>
Investment income due and accrued	876,795	0	876,795
Uncollected premiums and agents' balances	590,029	0	590,029
Amounts recoverable from reinsurers	25,453	0	25,453
Net deferred tax asset	1,277,802	0	1,277,802
Electronic data processing equipment and software	582,506	0	582,506
Total assets	<u><u>\$108,533,718</u></u>	<u><u>\$0</u></u>	<u><u>\$108,533,718</u></u>

AMERIGROUP Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2007

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$39,619,870	\$0	\$39,619,870
Accrued medical incentive pool and bonuses	880,176	0	880,176
Unpaid claims adjustment expenses	817,162	0	817,162
Premiums received in advance	12,747,183	0	12,747,183
General expenses due or accrued	43,190	0	43,190
Current income tax payable	767,762	0	767,762
Amounts due to parent, subsidiaries and affiliates	1,283,020	0	1,283,020
Aggregate write-ins for other liabilities	237,767	0	237,767
Total liabilities	56,396,130	0	56,396,130
Capital and Surplus			
Common capital stock	100	0	100
Gross paid in and contributed surplus	26,706,034	0	26,706,034
Surplus notes	17,100,000	0	17,100,000
Unassigned funds	8,331,454	0	8,331,454
Total capital and surplus	52,137,588	0	52,137,588
Total liabilities, capital and surplus	\$108,533,718	\$0	\$108,533,718

AMERIGROUP Florida, Inc.
Statement of Revenue and Expenses
For The Year Ended December 31, 2007

Net premium income		\$438,099,946
Hospital and medical benefits	\$209,820,906	
Other professional services	9,426,331	
Emergency room and out-of-area	41,573,202	
Prescription drugs	68,079,144	
Aggregate write-ins	9,457,190	
Incentive pool and bonus amounts	1,064,794	
	<u>339,421,567</u>	
Net reinsurance recoveries	23,993	
Total hospital and medical	<u>339,397,574</u>	
Claims adjustment expenses	13,064,624	
General administrative expenses	59,937,278	
Total underwriting deductions		<u>412,399,476</u>
Net underwriting gain		25,700,470
Net investment income earned	6,006,796	
Net realized capital gains	6,549	
Net investment gains		<u>6,013,345</u>
Income before federal income taxes		<u>31,713,815</u>
Federal income taxes		<u>9,914,327</u>
Net income		<u><u>\$21,799,488</u></u>

AMERIGROUP Florida, Inc.
Capital and Surplus Account
For The Year Ended December 31, 2007

Capital and surplus - December 31, 2006	\$34,965,963
Net income	21,799,488
Change in net deferred income tax	1,277,802
Change in nonadmitted assets	(327,142)
Change in surplus notes	(5,900,000)
Paid in surplus adjustments	321,477
	<hr/> 52,137,588
Examination adjustments	<hr/> 0
Capital and surplus - December 31, 2007	<hr/> <hr/> \$52,137,588

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$41,317,208

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2007 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.

AMERIGROUP Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2007

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, 2007 - per annual statement			\$52,137,588
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Total assets	\$108,533,718	\$108,533,718	\$0
Total liabilities	\$56,396,130	\$56,396,130	<u>\$0</u>
Net change in capital and surplus			<u>0</u>
Capital and surplus, December 31, 2007 - per examination			<u><u>\$52,137,588</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the prior examination report as of December 31, 2003 issued by the Office.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings of the examination as of December 31, 2007.

Authorization of Investments

As reported on page 7, the recorded minutes of the Company's board of directors meetings did not include evidence that the Board authorized the Company's investments during the examination period, as required by Section 641.35(7), F.S. However, in 2008, the Board established an investment policy and retroactively approved the investments. **We recommend that the Company ensure future compliance with Section 641.35(7), F.S.**

Affiliated Agreements

As reported on page 9, certain of the Company's agreements were not submitted to the Office for approval as required by the Consent Order. **We recommend that the Company submit all of its administrative services contracts, management contracts, and contracts with affiliates to the Office for approval prior to the execution and/or consummation of such contracts in accordance with the Consent Order.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **AMERIGROUP Florida, Inc.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$52,137,588 which was in compliance with Section 641.225, F.S., and Consent Order 64108-02-CO. Its required minimum capital and surplus at December 31, 2007 was \$11,761,999.

In addition to the undersigned, the following participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Russell K. Judge, Financial Examiner/Analyst; M. Alison Miele, AFE, Financial Examiner/Analyst; and Richard Tan, Actuary.

Respectfully submitted,

Robert Y. Meszaros, Financial Specialist
Florida Office of Insurance Regulation