

Report on Examination
of
AMERIGROUP Florida, Inc.
Tampa, Florida
as of
December 31, 2012



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, 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, we have completed a financial condition examination of AMERIGROUP Florida, Inc. as of December 31, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation
March 1, 2014

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of AMERIGROUP Florida, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2008 through December 31, 2012 and took place primarily in the Company's Virginia Beach, Virginia office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2007.

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.

COMPANY HISTORY

The Company was incorporated in Florida on February 10, 1992 and licensed by the Office as an HMO on August 25, 1994. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.).

Dividends and Capital Contributions

No dividends were distributed during the period under review. The Company received capital contributions of \$336,448, \$3,807,028, \$435,897, \$3,368,642, and \$530,921 in years 2008 through 2012, respectively.

CORPORATE RECORDS

We reviewed the minutes of the Company's stockholder and board of directors 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 wholly owned by PHP Holdings, Inc., a subsidiary of AMERIGROUP Corporation. Following approval by the Office, AMERIGROUP Corporation was acquired by WellPoint, Inc. on December 24, 2012 and the Company became an indirect subsidiary of WellPoint, Inc. WellPoint, Inc. was an independent licensee of the Blue Cross and Blue Shield Association and one of the largest health benefits companies in the United States. It offered a broad spectrum of network-based managed care health benefit plans to the large and small employer, individual, Medicaid and Medicare markets. The common stock of WellPoint, Inc. traded on the New York Stock Exchange.

The Company's senior officers and directors were:

Senior Officers

Name	Title
William L. McHugh	President and Chief Executive Officer
Donald V. Gilmore	Vice President and Chief Operating Officer
Nicholas J. Pace	Vice President and Assistant Secretary
Scott W. Anglin	Vice President and Assistant Treasurer
Kathleen S. Kiefer	Secretary
R. David Kretschmer	Treasurer

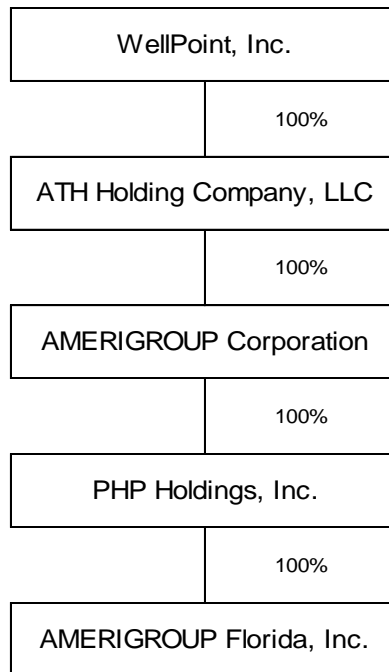
Board of Directors

Name	Location
Carter A. Beck	Manchester, New Hampshire
Wayne S. DeVeydt	Indianapolis, Indiana
Donald V. Gilmore	St. Petersburg, Florida
Catherine I. Kelaghan	Carmel, Indiana
William L. McHugh	Longboat Key, Florida

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 March 29, 2013.

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

**AMERIGROUP Florida, Inc.
Abbreviated Organizational Chart
December 31, 2012**



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

Administrative 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, with several subsequent amendments. Services were provided to the Company in exchange for monthly fees based on the amounts of premiums and administrative costs and amounted to \$30.8 million, \$48.5 million, \$43.6 million, \$46.3 million and \$43.2 million in years 2008 through 2012, respectively.

Tax Allocation Agreement

Pursuant to tax allocation agreements, the results of the Company's operations were included in the consolidated federal income tax returns of AMERIGROUP Corporation through December 24, 2012 and WellPoint, Inc. thereafter. In accordance with the agreements, consolidated income tax liabilities were allocated to the Company and other members of the consolidated groups on a pro rata basis based on the separate return tax liabilities of included members.

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. However, the policies did not provide for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage, as required by Rule 69O-191.069(2), F.A.C. The Company was a named insured on the financial institution bond policy of its parent in the amount of \$10,000,000 which adequately met the requirements of Section 641.22(7), F.S.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided various benefits to eligible employees. Benefits included group medical, vision, life, short-term and long-term disability, and dental insurance; paid time off; and participation in a 401(k) plan.

TERRITORY AND PLAN OF OPERATION

The Company provided coordinated health benefits through a variety of government-sponsored and long-term care programs. 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 21, 2014. The Company was licensed solely in the State of Florida. As an IPA model HMO, there were 256,002 Company members as of December 31, 2012, of which 23% were comprehensive members, 1% were Medicare members, and 75% were Medicaid members. The Company marketed its products primarily through community outreach materials at health fairs and public events and was authorized to operate in the following Florida counties:

Alachua	Hernando	Orange
Baker	Highlands	Osceola
Brevard	Hillsborough	Palm Beach
Broward	Indian River	Pasco
Charlotte	Lake	Pinellas
Citrus	Lee	Polk
Clay	Levy	Putnam
Collier	Manatee	Saint Johns
DeSoto	Marion	Saint Lucie
Duval	Martin	Santa Rosa
Escambia	Miami-Dade	Sarasota
Flagler	Monroe	Seminole
Glades	Nassau	Sumter
Hardee	Okaloosa	Volusia
Hendry	Okeechobee	Walton

COMPANY GROWTH

The Company reported the following for years 2008 through 2012:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Member months	2,662,831	3,093,361	3,089,226	3,101,235	3,146,682
Year-end enrollment	237,248	236,177	263,127	256,580	256,002

<i>(In millions)</i>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Premiums	\$ 494.2	\$ 559.5	\$ 562.8	\$ 578.0	\$ 601.7
Revenues	\$ 494.2	\$ 559.5	\$ 562.8	\$ 578.0	\$ 601.7
Underwriting deductions	\$ 491.1	\$ 548.6	\$ 539.7	\$ 588.5	\$ 586.2
Net income (loss)	\$ (0.5)	\$ 7.8	\$ 15.7	\$ (3.1)	\$ 11.5
Stockholder dividends	\$ -	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ 0.3	\$ 3.8	\$ 0.4	\$ 3.4	\$ 0.5
Admitted assets	\$ 136.1	\$ 148.0	\$ 154.0	\$ 113.1	\$ 118.4
Liabilities	\$ 97.8	\$ 99.4	\$ 89.0	\$ 49.3	\$ 40.9
Capital and surplus	\$ 38.3	\$ 48.6	\$ 65.1	\$ 63.9	\$ 77.5

REINSURANCE

The Company ceded risk to an unaffiliated reinsurer pursuant to an excess risk reinsurance agreement effective July 1, 2012. The arrangement provided for reimbursement of 90% of eligible losses in excess of \$1.25 million, up to \$2 million per member per agreement period.

ACCOUNTS AND RECORDS

In accordance with Section 626.9891(1), F.S., and Rule 69D-2.003, F.A.C., the Company filed a description of its anti-fraud investigative unit with the Florida Department of Financial Services Division of Insurance Fraud (DIF) and represented therein that it would report all suspected fraudulent insurance acts to DIF. However, we found that the Company failed to do so during the period examined.

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.

AMERIGROUP Florida, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2012

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 49,249,248	\$ -	\$ 49,249,248
Common stocks	9,559,923	-	9,559,923
Cash, cash equivalents and short-term investments	54,497,700	-	54,497,700
	113,306,871	-	113,306,871
Investment income due and accrued	486,468	-	486,468
Uncollected premiums and agents' balances	2,396,542	-	2,396,542
Amounts receivable relating to uninsured plans	4,314	-	4,314
Net deferred tax asset	2,196,292	-	2,196,292
Electronic data processing equipment and software	729	-	729
Total admitted assets	\$ 118,391,216	\$ -	\$ 118,391,216

Liabilities			
Claims unpaid	\$ 33,561,052	\$ -	\$ 33,561,052
Accrued medical incentive pool and bonuses	714,253	-	714,253
Unpaid claims adjustment expenses	581,645	-	581,645
Aggregate health policy reserves	506,503	-	506,503
General expenses due or accrued	29,131	-	29,131
Current federal income tax payable	1,002,421	-	1,002,421
Remittances and items not allocated	2,441,273	-	2,441,273
Amounts due to parent, subsidiaries and affiliates	1,529,309	-	1,529,309
Liability for amounts held under uninsured plans	480,645	-	480,645
Aggregate write-ins for other liabilities	24,782	-	24,782
Total liabilities	40,871,014	-	40,871,014

Capital and Surplus			
Common capital stock	100	-	100
Gross paid in and contributed surplus	35,184,970	-	35,184,970
Unassigned funds	42,335,132	-	42,335,132
Total capital and surplus	77,520,202	-	77,520,202
Total liabilities, capital and surplus	\$ 118,391,216	\$ -	\$ 118,391,216

AMERIGROUP Florida, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2012

Net premium income	\$ 601,679,818
Hospital and medical benefits	331,902,547
Other professional services	11,892,034
Emergency room and out-of-area	81,884,907
Prescription drugs	87,978,056
Aggregate write-ins for other hospital and medical	5,891,555
Incentive pool, withhold adjustments and bonuses	1,371,023
	<hr/> 520,920,122
Claims adjustment expenses	15,818,014
General administrative expenses	49,470,432
	<hr/> 586,208,568
Net underwriting gain	15,471,250
Net investment gains	991,278
Aggregate write-ins for other income or expenses	23,263
	<hr/> 16,485,791
Income before federal income tax	16,485,791
Federal income tax	4,944,155
	<hr/> \$ 11,541,636
Net income	<hr/> <hr/> \$ 11,541,636

AMERIGROUP Florida, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2012

Capital and surplus - December 31, 2007	\$ 52,137,588
Net income or (loss)	(542,852)
Change in net deferred income tax	2,245,083
Change in nonadmitted assets	1,198,794
Change in surplus notes	(17,100,000)
Paid in surplus	336,448
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Capital and surplus - December 31, 2008	38,275,061
Net income or (loss)	7,842,590
Change in net deferred income tax	947,152
Change in nonadmitted assets	(2,224,473)
Paid in surplus	3,807,028
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Capital and surplus - December 31, 2009	48,647,358
Net income or (loss)	15,663,462
Change in net deferred income tax	7,288
Change in nonadmitted assets	315,071
Paid in surplus	435,897
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Capital and surplus - December 31, 2010	65,069,076
Net income or (loss)	(3,064,292)
Change in net unrealized capital gains	237,872
Change in net deferred income tax	(3,102,387)
Change in nonadmitted assets	1,369,754
Paid in surplus	3,368,642
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Capital and surplus - December 31, 2011	63,878,665
Net income or (loss)	11,541,636
Change in net unrealized capital gains	759,824
Change in net deferred income tax	(1,214,304)
Change in nonadmitted assets	2,023,460
Paid in surplus	530,921
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	77,520,202
Examination adjustments	-
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Capital and surplus - December 31, 2012	\$ 77,520,202
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AMERIGROUP Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2012

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

	<u>Per company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Capital and surplus, December 31, 2012 - per annual statement				\$ 77,520,202
Total admitted assets	\$ 118,391,216	\$ 118,391,216	\$ -	
Total liabilities	\$ 40,871,014	\$ 40,871,014	\$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2012 - per examination				<u>\$ 77,520,202</u>

SUMMARY OF RECOMMENDATIONS

General and Professional Liability Insurance Policies

As reported on page 6, the Company's general and professional liability insurance policies did not provide for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage, as required by Rule 69O-191.069(2), F.A.C. **We recommend that the Company amend or replace the policies and comply with Rule 690-191.069(2), F.A.C.**

Reporting of Suspected Insurance Fraud

As reported on page 9, the Company failed to report suspected fraudulent insurance acts to DIF during the period examined. **We recommend that the Company report all suspected fraudulent insurance acts to DIF in accordance with the description of its anti-fraud investigative unit filed with DIF.**

SUBSEQUENT EVENTS

In its 2013 annual statement, the Company reported net premium income, net income, and the distribution of shareholder dividends for the year in the amounts of \$599.6 million, \$6.8 million, and \$11.5 million, respectively.

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. consistent with the insurance laws of the State of Florida.

At December 31, 2012, the Company's capital and surplus was \$77,520,202 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, Actuarial Group, Inc., Christine N. Afolabi, CPA, Financial Specialist, and Stephen Feliu, CFE (Fraud), Financial Examiner/Analyst, participated in the examination.

Respectfully submitted,

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