

Report on Examination

of

AvMed, Inc.

Gainesville, Florida

as of

December 31, 2017



**FLORIDA OFFICE OF
INSURANCE REGULATION**



**FINANCIAL SERVICES
COMMISSION**

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**JIMMY PATRONIS
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ATTORNEY GENERAL**

**NICOLE "NIKKI" FRIED
COMMISSIONER OF
AGRICULTURE**

David Altmaier

Commissioner

David Altmaier, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0327

Dear Sir:

In accordance with Section 624.316 and 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 AvMed, Inc. as of December 31, 2017. Our report on the examination follows.

Florida Office of Insurance Regulation

April 10, 2019

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2017 of AvMed, Inc. (Company), a single-state insurer domiciled in Florida. The examination covered the period of January 1, 2013 through December 31, 2017 and took place in Tallahassee, Florida and at the Company's Gainesville, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (Office) was as of December 31, 2012.

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, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. Our examination also included identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statute (F.S.) and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but were separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings to include in this report.

COMPANY HISTORY

The Company was incorporated in Florida on August 27, 1986 and was authorized by the State of Florida to operate as a Health Maintenance Organization (HMO) in accordance with Part I of Chapter 641, F.S.

In addition, the Company was licensed by the State of Florida as a third-party administrator pursuant to Part VII of Chapter 626, F.S.

CORPORATE RECORDS

We reviewed the minutes of meetings held by the Board of Directors (Board), and by its Audit and Finance Committees. The Board's approval of Company transactions, including the authorization of its investments was recorded in the minutes of its meetings as required by Section 641.35(7), F.S.

DIVIDENDS AND CAPITAL CONTRIBUTIONS

The Company distributed \$12.5 million in 2013 to its ultimate parent company, SantaFe HealthCare, Inc. (SantaFe). The Company did not receive capital contributions during the period examined.

MANAGEMENT AND CONTROL

The Company and SantaFe were Florida not-for-profit corporations. SantaFe controlled the Company and other health-related corporations through their corporate charters, bylaws and governing board appointments.

Its senior officers, directors, and members of principal board committees were:

Senior Officers	
Name	Title
Michael P. Gallagher	Chief Executive Officer
James M. Repp	President, Chief Operating Officer
Robert B. Bentley	Sr. Vice President, Chief Marketing Officer
Ann O. Wehr MD	Sr. Vice President, Chief Medical Officer, Population Health & Provider Alliances
James A. Simpson	Sr. Vice President, Chief Information Officer
Steven M. Ziegler	Asst. Secretary, Sr. Vice President, Legal & Compliance
Catherine E. Ayers	Asst. Secretary, Sr. Vice President, Human Resources
Randall L. Stuart	Asst. Treasurer, Sr. Vice President, CFO, Finance & Delivery Solutions

Board of Directors

<u>Name</u>	<u>Location</u>
Richard McLemore Anderson M.D.	Gainesville, FL
Scottie James Butler	Gainesville, FL
Joseph William Davis	Gainesville, FL
Benjamin Irving Doerr, Jr	Gainesville, FL
Albert Eugene Dotson PhD	Palmetto Bay, FL
Joe G. Dunlap	Gainesville, FL
Robert Lee Epling	Newberry, FL
George Edward Fletcher	Gainesville, FL
Michael Patrick Gallagher	Gainesville, FL
Glenda Evans Hood	Orlando, FL
Robert Charles Hudson	Gainesville, FL
Pamela Jo Mooney PhD	St. Petersburg, FL
Thomas Anthony Natiello PhD	Coral Gables, FL
Paul Randolph Philip	Weston, FL
Jackson Norman Sasser PhD	Gainesville, FL

Executive

Scottie Butler
Jody Davis
Ben Doerr
Albert Dotson, PhD
Robert Epling
Michael P. Gallagher, ex officio
Glenda Hood, Chair
Robert Hudson
Paul Philip
Jackson Sasser, PhD

Audit and Compliance

Richard Anderson, M.D.
Ben Doerr, Chair
Albert Dotson, PhD
Joe Dunlap
Cotton Fletcher
Michael P. Gallagher, ex officio
Glenda Hood, ex officio
Robert Hudson
Pamela Mooney, PhD

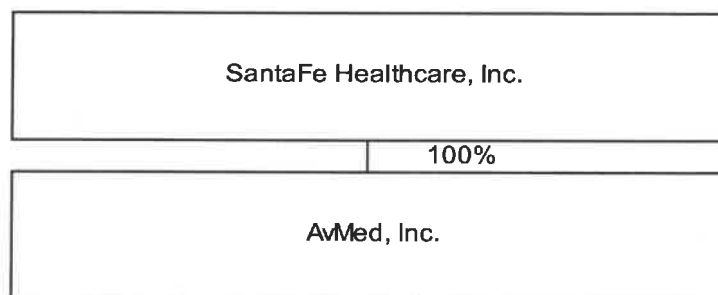
Finance and Investment

Scottie Butler
Jody Davis, Chair
Joe Dunlap
Michael P. Gallagher, ex officio
Glenda Hood, ex officio
Pamela Mooney, PhD
Thomas Natiello, PhD
Jackson Sasser, PhD

The Holding Company Registration Statement for 2017 was filed timely with the State of Florida as required by Section 628.801, F.S, and Rule 69O-143.046, Florida Administrative Code (F.A.C.).

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

**AvMed, Inc.
Abbreviated Organizational Chart
December 31, 2017**



AFFILIATED AND OTHER AGREEMENTS

Management Services Agreements

The Company provides management services to SantaFe Healthcare, Inc. (SFHC) for which it receives management fees. These services encompass various operational and financial accounting functions, legal consultation and use of office space. For 2017 and 2016, the management fee revenue was approximately \$863,000 and \$1,709,000, respectively, and is included in aggregate write-ins for other non-health revenues in the statutory-basis statements of revenues and expenses.

SantaFe Management Services (SFMS) and SFHC provides executive oversight and governance, including executive leadership team assistance, personnel management, compliance management and necessary real estate & facility needs to the Company, for which it receives fees. For 2017 and 2016, the expense to the Company for this was approximately \$11,904,000 and \$2,292,000, respectively, and is included in general administrative expenses in

the statutory-basis statements of revenues and expenses. The increase in 2017 management fees expense was due to members of the Company's leadership team becoming employees of SFMS. The costs of these employees, which prior to 2017 were paid directly by the Company, were charged to the Company by SFMS through a management fee, effective January 1, 2017.

Administration Services Agreements

The Company provides third party administration services covering health benefits for SFHC, North Central Florida Hospice, Inc., North Florida Retirement Village, Inc., East Ridge Retirement Village, Inc., Bonita Springs Retirement Village, Inc. and SantaFe Senior Living, Inc. For 2017 and 2016, fee revenue related to these services was approximately \$243,000 and \$234,000, respectively, and is included in general administrative expenses in the accompanying statutory-basis statements of revenues and expenses.

Provider Agreements

Haven and East Ridge are providers within the Company's network of physicians and health care facilities. For 2017 and 2016, total hospital and medical expenses in the accompanying statutory-basis statements of revenues and expenses included approximately \$112,000 and \$76,000, respectively, related to services provided to members by Haven and approximately \$507,000 and \$331,000, respectively, related to services provided by East Ridge.

TERRITORY AND PLAN OF OPERATIONS

The Company provided coordinated health and pharmacy benefits through a variety of plans for employer groups, individuals and government sponsored programs in the State of Florida. Its products included Medicare Advantage plans, comprehensive plans for small & large businesses, off-exchange individual & family plans and self-funded & administrative services only plans to large employers.

COMPANY GROWTH

The Company reported the following for years 2013 through 2017:

(In millions except member months and year-end enrollment)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Member months	1,334,742	1,225,286	1,416,816	1,747,190	2,071,843
Year-end enrollment	109,084	102,647	127,901	149,849	164,809
Premiums	\$ 778.3	\$ 720.8	\$ 818.4	\$ 964.7	\$ 1,073.2
Revenues	\$ 782.1	\$ 723.8	\$ 819.8	\$ 967.8	\$ 1,098.7
Underwriting deductions	\$ 767.2	\$ 780.3	\$ 837.6	\$ 989.8	\$ 1,114.2
Net income	\$ 20.4	\$ (48.5)	\$ (6.0)	\$ (15.5)	\$ 0.2
Transferred from capital	\$ 12.5	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 289.6	\$ 253.6	\$ 283.7	\$ 281.1	\$ 308.8
Liabilities	\$ 127.6	\$ 138.4	\$ 183.7	\$ 199.4	\$ 228.7
Capital and surplus	\$ 162.0	\$ 115.2	\$ 99.9	\$ 81.7	\$ 80.1

REINSURANCE

Effective January 1, 2017, the Company had an HMO Excess of Loss agreement in place with PartnerRe America Insurance Company. Coverage for Commercial and Medicare Advantage risk included a \$500,000 and \$400,000 deductible, respectively. The reimbursement percentage is 90% of covered expenses above the specific deductible up to \$1,000,000; reimbursement percentage is 100% of covered expenses in excess of \$1,000,000.

ACCOUNTS AND RECORDS

There were no examination findings related to the Company's accounts and records.

SURPLUS NOTES

The Company had no surplus note obligations during the period covered by this financial examination.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$315,000 in accordance with Section 641.285, F.S.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included. If, during the course of the examination an adjustment was identified, the impact of such adjustment would be documented separately following the Company's financial statements. Financial Statements, as reported and filed by the Company with the Office, are reflected in the following pages:

AvMed, Inc.

Admitted Assets, Liabilities, Capital and Surplus

December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$ 139,038,911	\$ -	\$ 139,038,911
Common Stock	\$ 39,715,495		\$ 39,715,495
Properties occupied by the company	\$ 6,452,937		\$ 6,452,937
Cash, cash equivalents and short-term investments	31,257,338	-	31,257,338
	216,464,681	-	216,464,681
Investment income due and accrued	1,195,693	-	1,195,693
Uncollected premiums and agents' balances	28,686,138	-	28,686,138
Amounts recoverable from reinsurers	6,791,175	-	6,791,175
Amounts receivable relating to uninsured plans	23,673,078		23,673,078
Electronic data processing equipment and software	1,004,521		1,004,521
Healthcare and other amounts receivable	30,979,139	-	30,979,139
Total admitted assets	\$ 308,794,425	\$ -	\$ 308,794,425
Liabilities			
Claims unpaid	\$ 112,423,193	\$ -	\$ 112,423,193
Accrued medical incentive pool and bonus amounts	1,430,819	-	1,430,819
Unpaid claims adjustment expenses	3,262,532	-	3,262,532
Aggregate health policy reserves	34,812,685	-	34,812,685
Premiums received in advance	7,731,499	-	7,731,499
General expenses due or accrued	20,481,484	-	20,481,484
Remittances and items not allocated	1,107,438		1,107,438
Amounts due to parent, subsidiaries and affiliates	2,767,458	-	2,767,458
Payable for securities	1,246,233		1,246,233
Liability for amounts held under uninsured plans	43,408,485	-	43,408,485
Total liabilities	\$ 228,671,826	\$ -	\$ 228,671,826
Capital and Surplus			
Aggregate write-ins for special surplus funds	\$ 31,639,987	\$ -	\$ 31,639,987
Gross paid in and contributed surplus	6,057,501	-	6,057,501
Unassigned funds (deficit)	42,425,111	-	42,425,111
Total capital and surplus	80,122,599	-	80,122,599
Total liabilities, capital and surplus	\$ 308,794,425	\$ -	\$ 308,794,425

AvMed, Inc.
Statement of Revenue and Expenses
Year Ended December 31, 2017

Net premium income	\$ 1,073,162,581
Aggregate write-ins for other health care revenues	\$ 1,393
Aggregate write-ins for other non-health revenues	\$ 25,496,914
Total Revenues	1,098,660,888
Hospital and medical benefits	791,404,371
Emergency room and out-of-area	33,033,838
Prescription drugs	124,630,315
Aggregate write-ins for other hospital and medical	37,902,342
Incentive pool, withhold adjustments and bonus amounts	1,257,041
	988,227,907
Net reinsurance recoveries	7,646,818
Total hospital and medical	980,581,089
Claims adjustment expenses	53,239,624
General administrative expenses	80,393,671
Total underwriting deductions	1,114,214,384
Net underwriting gain (loss)	(15,553,496)
Net investment income earned	3,948,571
Net realized capital gains (losses)	11,852,427
Net investment gains	15,800,998
Net income	\$ 247,502

AvMed, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2017

Capital and surplus - December 31, 2012	\$ 146,227,014
Net income	20,396,654
Change in net unrealized capital gains(loss) less capital gains tax of \$0	8,402,270
Change in nonadmitted assets	(538,649)
Surplus Adjustments Transferred from Capital	(12,500,000)
Aggregate write-ins for gains or (losses)	(7,980)
<hr/>	
Capital and surplus - December 31, 2013	\$ 161,979,309
Net income	(48,531,739)
Change in net unrealized capital gains(loss) less capital gains tax of \$0	(1,415,308)
Change in nonadmitted assets	3,158,906
Aggregate write-ins for gains or (losses)	12,106
<hr/>	
Capital and surplus - December 31, 2014	\$ 115,203,274
Net income	(6,036,987)
Change in net unrealized capital gains(loss) less capital gains tax of \$0	(5,069,635)
Change in nonadmitted assets	(4,150,005)
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Capital and surplus - December 31, 2015	\$ 99,946,647
Net income	(15,476,791)
Change in net unrealized capital gains(loss) less capital gains tax of \$0	2,021,888
Change in nonadmitted assets	(4,806,217)
<hr/>	
Capital and surplus - December 31, 2016	81,685,527
Net income	247,502
Change in net unrealized capital gains(loss) less capital gains tax of \$0	(5,478,495)
Change in nonadmitted assets	3,668,065
	<hr/>
	80,122,599
Examination adjustments	-
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Capital and surplus - December 31, 2017	\$ 80,122,599

AvMed, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2017

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, 2017 - per Annual Statement			\$ 80,122,599
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 308,794,425	\$ 308,794,425	\$ -
Total liabilities	\$ 228,671,826	\$ 228,671,826	\$ -
Capital and surplus, December 31, 2017 - per examination			<u>\$ 80,122,599</u>

COMMENTS ON FINANCIAL STATEMENTS

There were no comments or material changes to the Company's financial statements.

SUMMARY OF RECOMMENDATIONS

There were no recommendations to include in this report.

SUBSEQUENT EVENTS

The examination also considered notable subsequent events occurring after the December 31, 2017 examination date:

The Company's Chief Executive Officer (CEO) and Director, Michael Patrick Gallagher had announced his retirement in the 3rd quarter of 2018. He retired effective March 1, 2019. On March 28, 2019 the Company announced the selection of Lawrence Schreiber, as the President & CEO of SFHC & its Affiliates. Mr. Schreiber's first day will be April 15, 2019.

In September 2018, the Company entered into a multi-year agreement with a global technology services and business process outsourcing firm, which provides for the delivery of information technology services and administration of certain business processes. Management anticipates the conversion of all core systems and transition of key business processes will be completed by the end of first quarter 2020.

Two members are no longer part of the Board of Directors; Richard McLemore Anderson, M.D. and Robert Charles Hudson.

CONCLUSION

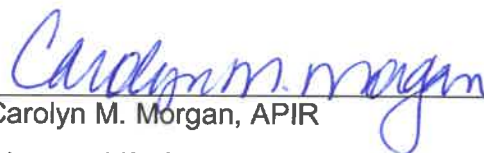
The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of AvMed, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2017, the Company's capital and surplus was \$80,122,599 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

The following individuals participated in the examination: Tracy D. Gates, CFE, CISA, Examiner-in-Charge, IT Specialist; Sheri Kenney, CFE, Participating Examiner; Travis Harrison, Participating Examiner; Lori Jester, Participating Examiner of Highland Clark, LLC and Scott Guarduno, FSA, MAAA, Examination Actuary of Taylor-Walker Consulting, LLC.

The following individuals from the Florida Office of Insurance Regulation also participated in the examination: Marshay L. Spencer, APIR, Financial Examiner/ Analyst Supervisor; Emmaculate Muambo, APIR, Financial Specialist and Glenn Coats, Financial Specialist.

Respectfully submitted,



Carolyn M. Morgan, APIR

Director, Life & Health Financial Oversight
Florida Office of Insurance Regulation