

Report on Examination
of
AvMed, Inc.
d/b/a AvMed Health Plans
Miami, 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 AvMed, Inc. d/b/a AvMed Health Plans as of December 31, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation
February 5, 2014

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of AvMed, Inc. d/b/a AvMed Health Plans (the "Plan"), 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 Plan's Gainesville, Florida office. The last financial condition examination of the Plan 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 Plan. It required that we do so by obtaining information about the Plan including corporate governance, identifying and assessing inherent risks within the Plan, 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 Plan were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in findings that there was no record in the minutes of the Plan's board of directors meetings of the authorization or ratification of the Plan's investments; one of the Plan's agreements with an affiliate did not contain a required provision that the agreement would be canceled upon issuance of an order by the Office; another of the Plan's agreements with an affiliate was not in writing as required; and the Plan'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.

PLAN HISTORY

The Plan was incorporated in Florida on August 27, 1986 and licensed by the Office as an HMO on May 17, 1973. 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.), and as a third party administrator pursuant to Part VII of Chapter 626, F.S.

Distributions and Capital Contributions

The Plan distributed \$28.7 million, \$19.5 million, and \$4.3 million in years 2008 through 2010, respectively, and \$5.0 million in 2012 to SantaFe HealthCare, Inc. (SantaFe). The Plan did not receive capital contributions during the period examined.

CORPORATE RECORDS

We reviewed the minutes of the Plan's board of directors and audit, executive and finance committee meetings. The Board's approval of Plan transactions was recorded in the minutes of its meetings except that there was no record of the authorization or ratification of investments as required by Section 641.35(7), F.S.

MANAGEMENT AND CONTROL

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

The Plan's senior officers, directors, and members of its principal board committees were:

Senior Officers	
Name	Title
Michael P. Gallagher	President & Chief Executive Officer
Randall L. Stuart	Senior Vice President & Chief Financial Officer
Ann O. Wehr, M.D.	Senior Vice President & Chief Medical Officer
Steven M. Ziegler	Senior Vice President & General Counsel
Catherine E. Ayers	Senior Vice President
R. Bradford Bentley	Senior Vice President
Susan K. Pinnas	Senior Vice President
James M. Repp	Senior Vice President

Board of Directors

Name	Location
Joseph W. Davis	Gainesville, Florida
Joe G. Dunlap	Gainesville, Florida
Robert L. Epling	Homestead, Florida
Hugh J. Floyd	Sarasota, Florida
Michael P. Gallagher	Gainesville, Florida
Robert C. Hudson	Cedar Key, Florida
Gordon L. Johnson	Saint Petersburg, Florida
Pamela J. Mooney, Ph.D.	Cape Haze, Florida
Paul R. Philip	Weston, Florida
G. Ed Williamson, II	Miami, Florida

Committees of the Board

Executive

Joseph W. Davis
Joe G. Dunlap
Robert L. Epling
Michael P. Gallagher
G. Ed Williamson, II

Audit

Joseph W. Davis
Joe G. Dunlap
Robert L. Epling
Michael P. Gallagher
Paul R. Philip
G. Ed Williamson, II

Finance

Joseph W. Davis
Joe G. Dunlap
Robert L. Epling
Hugh J. Floyd
Michael P. Gallagher
Robert C. Hudson
Gordon L. Johnson
Pamela J. Mooney, Ph.D.
Paul R. Philip
G. Ed Williamson, II

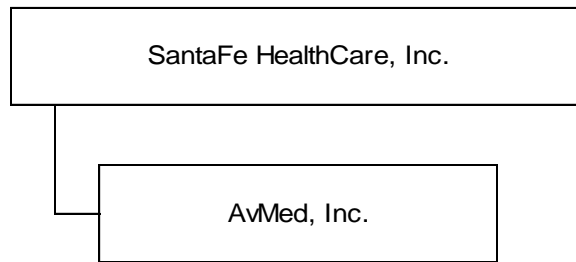
Quality

Joe G. Dunlap
Hugh J. Floyd
Michael P. Gallagher
Robert C. Hudson
Gordon L. Johnson
Pamela J. Mooney, Ph.D.
Paul R. Philip

The Plan 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 September 27, 2013.

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

AvMed, Inc.
Abbreviated Organizational Chart
December 31, 2012



The Plan provided finance and accounting, human resources, purchasing, legal, training and development, information systems, and management services to SantaFe in accordance with a January 1, 2002 agreement. Payments to the Plan under the agreement were \$733,337, \$892,488, \$859,877, \$912,272 and \$1,060,344 in years 2008 through 2012, respectively. The agreement did not contain a provision stating that the agreement would be canceled upon issuance of an order by the Office as required by Section 641.234(3) F.S. Subsequent to the period examined, the agreement was revised to include the cancellation provision.

SantaFe provided oversight and governance services to the Plan in return for fees in the amounts of \$1,544,824, \$1,886,004, \$2,340,655, \$1,331,178 and \$1,905,333 in years 2008 through 2012, respectively. The arrangement was not in writing as required by Statement of Statutory Accounting Principles No. 25. Subsequent to the period examined, the Plan and SantaFe entered into a written agreement for the services.

FIDELITY BONDS AND OTHER INSURANCE

As an individual practice association (IPA) model HMO, the Plan maintained an adequate amount of general and professional liability insurance and required its providers to maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Florida Statutes, as required by Rule 69O-191.069, F.A.C. The policies did not provide for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage in accordance with Rule 69O-191.069(2), F.A.C. However, the required provisions were added to the policies subsequent to the period examined.

The Plan was a named insured on a SanteFe crime policy issued by a licensed Florida carrier as required by Section 641.22(7), F.S., in the amount of \$1 million.

PENSION AND INSURANCE PLANS

The Plan provided various benefits to eligible employees. Benefits included group medical, life, short-term and long-term disability, dental and vision insurance, paid time off, and a defined contribution pension plan sponsored by SantaFe. In addition, the Plan maintained a section 457(b) deferred compensation plan for certain employees.

TERRITORY AND PLAN OF OPERATION

The Plan 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:

- Comprehensive plans for individuals under age 65 in Miami-Dade, Broward and Palm Beach Counties;
- Comprehensive plans for employer groups in 31 counties;
- Administrative services only for uninsured plans in 39 counties;
- A Medicare Advantage plan for Medicare eligible individuals in Miami-Dade and Broward Counties; and
- A health benefit plan for federal government employees in Miami-Dade, Broward and Palm Beach Counties.

Outside sales agents and brokers and an internal sales force were utilized to market the Plan's products.

As an IPA model HMO operating solely in Florida, there were 128,892 Plan members as of December 31, 2012, of which 73% were comprehensive, 3% were federal government employees, and 24% were Medicare members. The Plan 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 June 27, 2014.

The Plan was authorized to operate in the following Florida counties: Alachua, Baker, Bradford, Broward, Citrus, Clay, Columbia, Dixie, Duval, Flagler, Gilchrist, Hamilton, Hardee, Hernando, Highlands, Hillsborough, Indian River, Lake, Lee, Levy, Manatee, Marion, Martin, Miami-Dade, Nassau, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Saint Johns, Saint Lucie, Sarasota, Seminole, Sumter, Suwannee, Union, and Volusia.

PLAN GROWTH

The Plan 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	2,174,742	2,382,999	2,862,112	2,828,728	1,718,945
Year-end enrollment	187,280	214,934	245,353	230,111	128,892
<i>(In millions)</i>					
Premiums	\$ 916.8	\$1,064.6	\$1,243.8	\$1,279.9	\$ 902.2
Revenues	\$ 918.3	\$1,065.7	\$1,245.6	\$1,282.9	\$ 908.8
Underwriting deductions	\$ 887.5	\$1,071.3	\$1,251.7	\$1,356.1	\$ 892.5
Net income (loss)	\$ 39.0	\$ 8.6	\$ 8.3	\$ (61.6)	\$ 25.4
Capital distributions	\$ 28.7	\$ 19.5	\$ 4.3	\$ -	\$ 5.0
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 354.0	\$ 372.0	\$ 371.1	\$ 327.0	\$ 292.4
Liabilities	\$ 168.8	\$ 182.0	\$ 182.4	\$ 203.4	\$ 146.2
Capital and surplus	\$ 185.2	\$ 190.0	\$ 188.6	\$ 123.6	\$ 146.2

REINSURANCE

ACE American Insurance Company provided excess of loss reinsurance coverage to the Plan effective January 1, 2012. Pursuant to their agreement, the Plan ceded commercial and Medicare risk subject to retention limits of \$950,000 and \$675,000, respectively.

The Plan entered into a reinsurance agreement with Unimerica Insurance Company effective January 1, 2012. Pursuant to the agreement, the Plan ceded 100% of covered bone marrow and organ transplant services based on specific reimbursement rates. There was no Plan deductible under the agreement.

STATUTORY DEPOSITS

The Plan maintained on deposit with the Office an insolvency protection deposit of \$305,000 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.

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

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$140,156,137	\$ -	\$140,156,137
Common stocks	28,693,098	-	28,693,098
Properties occupied by the company	7,588,176	-	7,588,176
Properties held for the production of income	7,542,091	-	7,542,091
Cash, cash equivalents and short-term investments	37,403,552	-	37,403,552
	221,383,054	-	221,383,054
Investment income due and accrued	1,397,274	-	1,397,274
Uncollected premiums and agents' balances	45,431,302	-	45,431,302
Amounts recoverable from reinsurers	840,887	-	840,887
Amounts receivable relating to uninsured plans	15,153,456	-	15,153,456
Electronic data processing equipment and software	1,321,097	-	1,321,097
Health care and other amounts receivable	6,559,072	-	6,559,072
Aggregate write-ins for other than invested assets	351,797	-	351,797
Total admitted assets	\$292,437,939	\$ -	\$292,437,939
Liabilities			
Claims unpaid	\$ 95,679,918	\$ -	\$ 95,679,918
Accrued medical incentive pool and bonuses	192,475	-	192,475
Unpaid claims adjustment expenses	2,605,227	-	2,605,227
Aggregate health policy reserves	3,551,510	-	3,551,510
Premiums received in advance	6,882,675	-	6,882,675
General expenses due or accrued	23,924,629	-	23,924,629
Remittances and items not allocated	382,381	-	382,381
Amounts due to parent, subsidiaries and affiliates	907,489	-	907,489
Payable for securities	2,402,111	-	2,402,111
Liability for amounts held under uninsured plans	7,175,222	-	7,175,222
Aggregate write-ins for other liabilities	2,507,288	-	2,507,288
Total liabilities	146,210,925	-	146,210,925
Capital and Surplus			
Gross paid in and contributed surplus	6,057,501	-	6,057,501
Unassigned funds	140,169,513	-	140,169,513
Total capital and surplus	146,227,014	-	146,227,014
Total liabilities, capital and surplus	\$ 292,437,939	\$ -	\$ 292,437,939

AvMed, Inc.
Statement of Revenue and Expenses
(As reported by the Plan)
Year Ended December 31, 2012

Net premium income	\$902,207,827
Aggregate write-ins for other health care revenues	76,790
Aggregate write-ins for other non-health revenues	6,540,335
Total revenues	908,824,952
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Hospital and medical benefits	591,122,387
Emergency room and out-of-area	52,682,860
Prescription drugs	113,543,293
Aggregate write-ins for other hospital and medical	30,481,836
Incentive pool, withhold adjustments and bonuses	253,105
	788,083,481
Net reinsurance recoveries	1,034,830
Total hospital and medical	787,048,651
Claims adjustment expenses	38,342,893
General administrative expenses	72,700,874
Increase (decrease) in reserves	(5,600,000)
Total underwriting deductions	892,492,418
Net underwriting gain	16,332,534
Net investment gains	9,037,772
Net income	\$ 25,370,306

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

Capital and surplus - December 31, 2007	\$ 194,059,414
Net income (loss)	39,021,186
Change in net unrealized capital gains and losses	(14,268,062)
Change in nonadmitted assets	(5,035,085)
Capital distributions	(28,700,000)
Aggregate write-ins for gains or (losses) in surplus	139,078
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Capital and surplus - December 31, 2008	185,216,531
Net income (loss)	8,559,793
Change in net unrealized capital gains and losses	10,357,604
Change in nonadmitted assets	5,333,599
Capital distributions	(19,500,000)
Aggregate write-ins for gains or (losses) in surplus	36,805
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Capital and surplus - December 31, 2009	190,004,332
Net income (loss)	8,326,551
Change in net unrealized capital gains and losses	4,774,209
Change in nonadmitted assets	(1,572,419)
Capital distributions	(4,300,000)
Aggregate write-ins for gains or (losses) in surplus	(8,613,360)
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Capital and surplus - December 31, 2010	188,619,313
Net income (loss)	(61,610,908)
Change in net unrealized capital gains and losses	(767,715)
Change in nonadmitted assets	(2,677,507)
Aggregate write-ins for gains or (losses) in surplus	50,351
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Capital and surplus - December 31, 2011	123,613,534
Net income (loss)	25,370,306
Change in net unrealized capital gains and losses	2,677,143
Change in nonadmitted assets	(447,780)
Capital distributions	(5,000,000)
Aggregate write-ins for gains or (losses) in surplus	13,811
<hr/>	
	146,227,014
Examination adjustments	-
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Capital and surplus - December 31, 2012	<u>\$ 146,227,014</u>

AvMed, 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 Plan and as determined by the examination.

	<u>Per Plan</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Capital and surplus, December 31, 2012 - per annual statement				\$146,227,014
Total admitted assets	\$292,437,939	\$292,437,939	\$ -	
Total liabilities	\$146,210,925	\$146,210,925	\$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2012 - per examination				<u><u>\$ 146,227,014</u></u>

SUMMARY OF RECOMMENDATIONS

As reported on page 4, there was no record in the minutes of the Board of Directors meetings of the authorization or ratification of the Plan's investments. **We recommend that the Plan's board of directors, or a committee, department or section of the Plan with the duty of supervising investments, authorize or ratify the Plan's investments as required by Section 641.35(7), F.S., and that the Board of Directors record or acknowledge the action in the minutes of its meetings.**

SUBSEQUENT EVENTS

In 2013, the Plan distributed to SantaFe \$12.5 million from its capital and surplus.

CONCLUSION

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

At December 31, 2012, the Plan's capital and surplus was \$146,227,014 and the Plan was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, the following individuals participated in the examination: Walter F. Banas, CIE, Financial Specialist; Rebecca L. Davis, APIR, CFE (Fraud), Financial Examiner/Analyst; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; and Kerry Krantz, Actuary.

Respectfully submitted,

Scott R. Slaughter, CPA
Financial Examiner/Analyst
Florida Office of Insurance Regulation