

Report on Examination
of
Cigna Healthcare of Florida, Inc.
Tampa, Florida
as of
December 31, 2016



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

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

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 Cigna Healthcare of Florida, Inc. as of December 31, 2016. Our report on the examination follows.

Florida Office of Insurance Regulation
April 23, 2018

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2016 of Cigna HealthCare of Florida, Inc. ("Company"), a single-state health maintenance organization (HMO) domiciled in Florida. The examination covered the period of January 1, 2012 through December 31, 2016 and took place in Tallahassee, Florida and at the Company's Tampa, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2011.

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.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes (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

Recommendations relating to these examination findings are summarized beginning on Page 18.

Two affiliated agreements did not contain a provision that the agreements would be cancelled upon issuance of an order by the Office pursuant to Section 641.234(3), F.S.

The holding company registration statement (Form B) filing did not include the affiliated investment pooling agreement.

COMPANY HISTORY

The Company was incorporated in Florida on February 10, 1981 and licensed by the Office as an insurer on February 14, 1983. It was authorized by the State of Florida to operate as health maintenance organization (HMO) in accordance with Part 1 of Chapter 641, Florida Statutes. The Company operates as an individual practice association (IPA) model.

The Company is licensed only in the State of Florida with the authorized service areas being the counties of Brevard, Broward, Clay, Dade, Duval, Hillsborough, Lake, Nassau, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Seminole, and Volusia.

The Company is a subsidiary of Healthsource, Inc. (Parent), and the ultimate parent is Cigna Corporation, an insurance holding company incorporated in the State of Delaware.

CORPORATE RECORDS

We reviewed the minutes of meetings held by the Company's shareholder and Board of Directors (Board), and by its audit and finance committees. The Board's approval of Company transactions, including the authorization of its investments as required by Section 641.35(7), Florida Statutes, was recorded in the minutes of its meetings.

Dividends and Capital Contributions

The Company neither distributed dividends nor received capital contributions during the period examined.

MANAGEMENT AND CONTROL

The Company was wholly owned by Healthsource, Inc. which was wholly owned by Cigna Health Corporation. The ultimate parent is Cigna Corporation, a Delaware corporation. Cigna Corporation common stock is publicly traded on the New York Stock Exchange. The Company's senior officers and directors were:

Senior Officers

<u>Name</u>	<u>Title</u>
Dean Mirabella	President
Scott Lambert	Treasurer
Anna Krishtul	Secretary

Board of Directors

<u>Name</u>	<u>Location</u>
Michael Crompton	Bloomfield, CT
Edward Hunsinger	Lewisville, NC
Scott Josephs	Raleigh, NC

The Company was a member of an insurance holding company system during the period of examination. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code (F.A.C.), on March 29, 2017.

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

**Cigna Healthcare of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2016**



AFFILIATED AGREEMENTS

The following agreements were in effect between the Company and its affiliates.

Investment Advisory Agreement with Cigna Investments, Inc.

There is an Investment Advisory Agreement between Cigna Investments, Inc. and the Company whereby Cigna Investments, Inc. acts as the investment adviser of the Company's investment portfolio.

Consolidated Federal Income Tax Agreement with Cigna Corporation

There is a Consolidated Federal Income Tax Agreement between Cigna Corporation and each of its subsidiaries, including the Company whereby the subsidiaries of Cigna Corporation file a consolidated federal income tax return with Cigna Corporation.

Investment Pooling Agreement with Cigna Investments, Inc.

There is an Investment Pooling Agreement between Cigna Investments, Inc. and certain Cigna Corporation subsidiaries, including the Company, whereby Cigna Corporation pools the investments of each party of the agreement. This agreement was not included in the Company's Form B filings for years 2013-2016 and this agreement did not contain the "Cancellation Clause" required by Section 641.234(3), Florida Statutes.

Line of Credit Agreement with Cigna Health Corporation

There is a Line of Credit Agreement between Cigna Health Corporation and certain Cigna Corporation subsidiaries, including the Company, whereby Cigna Health Corporation will loan funds to ensure the Company will be able to continue to meet its operational cash obligations while earning additional investment income.

Management Services Agreement with Cigna Health Corporation

There is a Management Services Agreement between Cigna Health Corporation and certain Cigna Corporation subsidiaries, including the Company, whereby Cigna Health Corporation provides management services to the Company.

Network Access Agreement with Connecticut General Life Insurance Company

There is a Network Access Agreement between Connecticut General Life Insurance Company and certain Cigna Corporation subsidiaries, including the Company, whereby each of the HMOs utilizes the networks of Participating Providers maintained by affiliated HMOs.

Mail Order Pharmaceutical Services Agreement with Tel-Drug, Inc.

There is a Mail Order Pharmaceutical Services Agreement with Tel-Drug, Inc., Tel-Drug of Pennsylvania, its affiliates, and certain subsidiaries of Cigna Health Corporation, including the Company. Under this agreement, Tel-Drug, Inc. and Tel-Drug of Pennsylvania provide mail order pharmaceutical services to the Company.

Dental Consultation Agreement with Cigna Dental Health, Inc.

There is a Dental Consultation Agreement with Cigna Dental Health, Inc. and certain subsidiaries of Cigna Health Corporation, including the Company. Under this agreement, Cigna Dental Health, Inc. provides dental consultations at the request of the Company with respect to selected dental cases.

Health Access Premium Billing Authorization Agreement with Connecticut General Life Insurance Company

There is a Health Access Premium Billing Authorization Agreement with Connecticut General Life Insurance Company and certain subsidiaries of Cigna Corporation, including the Company. The Company offers group and individual standard service agreements providing coverage of "in-network" health care services, and Connecticut General Life Insurance Company supplements the Company's service agreements by providing group insurance coverage of "out-of-network" health care services. This agreement did not contain the "Cancellation Clause" required by Section 641.234(3), Florida Statutes.

Health Management Agreement with Cigna Health Management, Inc. (formerly known as International Rehabilitation Associates, Inc.), Connecticut General Life Insurance Company, and Cigna Health Corporation

There is a Health Management Agreement with Cigna Health Management, Inc. (formerly known as International Rehabilitation Associates, Inc.), Connecticut General Life Insurance Company, and Cigna Health Corporation and certain subsidiaries of Cigna Corporation, including the Company. Under this agreement, Cigna Health Management, Inc. provides consultative services with respect to utilization management, case management, demand management, disease management, and care management to the Company.

Fee Sharing Agreement with Cigna Corporation

There is a Fee Sharing Agreement between Cigna Corporation and certain of its subsidiaries, including the Company, whereby the Company pays Cigna Corporation their share of the Affordable Care Act fee and Cigna pays the fee on behalf of the subsidiaries as one payment.

Mental Health Services Agreement with Cigna Behavioral Health, Inc. and Cigna Health Corporation

There is a Mental Health Services Agreement with Cigna Behavioral Health, Inc., Cigna Health Corporation and certain subsidiaries of Cigna Corporation, including the Company. Cigna Behavioral Health, Inc. provides mental health and substance abuse services to the enrollees of the HMOs on behalf of their subsidiaries, including the Company.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of \$10,000,000 with a deductible of \$2,500,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$100,000.

As an IPA model HMO, the Company maintained adequate professional liability insurance and required its providers to 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 had no employees; instead employees of Cigna Health Life Insurance Company (“CHLIC”), an affiliate, performed all functions on behalf of the Company.

CHLIC provided certain other postretirement benefits to retired employees, spouses and other eligible dependents through a plan sponsored by Cigna Corporation. CHLIC also participates in a capital accumulation 401 (k) plan sponsored by Cigna Corporation in that employee contributions on a before tax basis are supplemented by the Company’s matching contributions. The Company

has no legal obligation for benefits under these plans. CHLIC allocates amounts to the Company based on salary ratios and member months. The Company's expenses for such benefits were included within administrative expenses and totaled \$2,582 and \$3,077 for 2016 and 2015, respectively.

Cigna Corporation froze its primary domestic defined benefit pension plans July 1, 2009. As a result, pension expense is no longer allocated to the Company.

TERRITORY AND PLAN OF OPERATION

The Company held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Chapter 641, Florida Statutes and Section 59-12.003 F.A.C., valid until June 8, 2018.

As an IPA model HMO operating solely in Florida, the Company provided health care services to 197 members as of December 31, 2016. Member months for 2016 were reported at 2,335.

The Company is licensed only in the State of Florida with the authorized service areas being the counties of Brevard, Broward, Clay, Dade, Duval, Hillsborough, Lake, Nassau, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Seminole, and Volusia.

COMPANY GROWTH

The Company reported the following for years 2012 through 2016:

(Dollars are in millions.)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Member months	2,335	2,768	2,960	2,561	15,276
Year-end enrollment	197	235	241	238	1,114
Premiums	\$ 1.0	\$ 1.3	\$ 1.3	\$ 1.2	\$ 5.6
Revenues	\$ 1.0	\$ 1.3	\$ 1.3	\$ 1.2	\$ 5.6
Underwriting deductions	\$ 1.2	\$ 1.5	\$ 1.6	\$ 0.9	\$ 6.0
Net income	\$ (0.1)	\$ (0.1)	\$ (0.2)	\$ 0.2	\$ (0.2)
Shareholder dividends	\$ -	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 4.2	\$ 4.3	\$ 4.4	\$ 4.6	\$ 5.1
Liabilities	\$ 0.4	\$ 0.5	\$ 0.4	\$ 0.5	\$ 1.2
Capital and surplus	\$ 3.8	\$ 3.8	\$ 4.0	\$ 4.1	\$ 3.9

REINSURANCE

Effective January 1, 1994, the Company entered into a reinsurance agreement with CGLIC. Effective January 1, 2013, the agreement was amended to change the reinsurer to CHLIC for all claims incurred on or after January 1, 2013. The Company pays a monthly premium based on an established rate per health plan member and in return, the Company is reimbursed a percentage of costs in excess of a deductible for hospital and related services provided to individual health plan members.

ACCOUNTS AND RECORDS

Two affiliated contracts did not contain a provision that the agreements would be cancelled upon issuance of an order by the Office pursuant to Section 641.234(3), F.S.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411,

Florida Statutes:

Holder	Description	Par Value	Market Value
Florida	Palm Beach County FL Bond	\$ 1,230,000	\$ 1,230,123
Florida	Utah State Bond	395,000	464,876
Florida	Wake County, NC Bond	395,000	460,570
Total Florida deposits		2,020,000	2,155,569
Total deposits		\$ 2,020,000	\$ 2,155,569

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. 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:

Cigna HealthCare of Florida, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$ 2,274,654	\$ -	\$ 2,274,654
Cash, cash equivalents and short-term investments	1,670,340	-	1,670,340
	3,944,994	-	3,944,994
Investment income due and accrued	20,250	-	20,250
Uncollected premiums and agents' balances	19,322	-	19,322
Current income tax recoverable	166,522	-	166,522
Total admitted assets	\$ 4,151,088	\$ -	\$ 4,151,088
Liabilities			
Claims unpaid	\$ 251,553	\$ -	\$ 251,553
Unpaid claims adjustment expenses	2,335	-	2,335
Aggregate health policy reserves	81,010	-	81,010
Premiums received in advance	6	-	6
General expenses due or accrued	5,296	-	5,296
Ceded reinsurance premiums payable	1,552	-	1,552
Amounts withheld or retained for the account of others	2,034	-	2,034
Aggregate write-ins for other liabilities	38,621	-	38,621
Total liabilities	382,407	-	382,407
Capital and Surplus			
Common capital stock	500	-	500
Gross paid in and contributed surplus	15,070,135	-	15,070,135
Unassigned funds (deficit)	(11,301,954)	-	(11,301,954)
Total capital and surplus	3,768,681	-	3,768,681
Total liabilities, capital and surplus	\$ 4,151,088	\$ -	\$ 4,151,088

Cigna HealthCare of Florida, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2016

Net premium income	\$ 962,896
Hospital and medical benefits	608,484
Other professional services	46,896
Outside referrals	26,123
Emergency room and out-of-area	79,541
Prescription drugs	141,912
Incentive pool, withhold adjustments and bonus amounts	1,247
Total hospital and medical	904,203
Claims adjustment expenses	30,005
General administrative expenses	286,383
Increase in reserves	(29,860)
Total underwriting deductions	1,190,731
Net underwriting gain	(227,835)
Net investment gains	76,168
Net gain from agents' balances charged off	104
Income before federal income tax	(151,563)
Federal income tax	(44,424)
Net income	\$ (107,139)

Cigna HealthCare of Florida, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2016

Capital and surplus - December 31, 2011	\$ 4,069,178
Net income	(206,531)
Change in net deferred income tax	13,167
Change in nonadmitted assets	37,547
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Capital and surplus - December 31, 2012	3,913,361
Net income	221,290
Change in net deferred income tax	66,786
Change in nonadmitted assets	(51,602)
Aggregate write ins for gains and losses in surplus	(36,776)
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Capital and surplus - December 31, 2013	4,113,059
Net income	(174,339)
Change in net deferred income tax	40,555
Change in nonadmitted assets	24,908
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Capital and surplus - December 31, 2014	4,004,183
Net income	(105,123)
Change in net deferred income tax	(19,604)
Change in nonadmitted assets	(16,470)
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Capital and surplus - December 31, 2015	3,862,986
Net income	(107,139)
Change in nonadmitted assets	12,834
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	3,768,681
Examination adjustments	-
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Capital and surplus - December 31, 2016	<u>\$ 3,768,681</u>

Cigna HealthCare of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2016

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, 2016 - per annual statement				\$ 3,768,681
	<u>Per</u>	<u>Per</u>	Increase	
	Company	Examination	(Decrease)	
			In Capital	
			& Surplus	
Total assets	\$4,151,088	\$4,151,088	\$ -	
Total liabilities	\$ 382,407	\$ 382,407	\$ -	-
Capital and surplus, December 31, 2016 - per examination				<u>\$ 3,768,681</u>

SUMMARY OF RECOMMENDATIONS

Cancellation Clause

Two affiliated agreements did not contain a provision that the agreements would be cancelled upon issuance of an order by the Office pursuant to Section 641.234(3), F.S. **We recommend that the Company take such steps as are necessary to ensure that all contracts contain the Cancellation Clause required by Section 641.234(3), Florida Statutes.**

Holding Company Registration Statement

The holding company registration statement (Form B) filing did not include the affiliated investment pooling agreement. **We recommend that the Company take such steps as are necessary to ensure that all affiliated agreements are included in the holding company registration statement (Form B) filing.**

CONCLUSION

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

At December 31, 2016, the Company's capital and surplus was \$3,768,681 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: Patricia Casey Davis, CFE, CPA (Examiner-in-Charge); and Shelby Lambert, of Noble Consulting Services, Inc. and from the Florida Office of Insurance Regulation: Margaret McCrary, CPA, Chief Financial Examiner; Marshay Spencer, APIR, Examination Manager; and Lisa Parker, ASA, MAAA, PIR, Actuary.

Respectfully submitted,



Carolyn M. Morgan, APIR
Director, Life & Health Oversight
Florida Office of Insurance Regulation