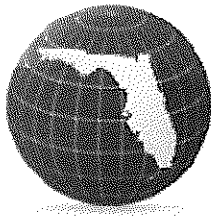


**Report on Examination**  
**of**  
**CAPITAL HEALTH PLAN, INC.**

**Tallahassee, Florida**

**as of**

**December 31, 2014**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**

David Altmaier, 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 Capital Health Plan, Inc. as of December 31, 2014. Our report on the examination follows.

Florida Office of Insurance Regulation  
March 9, 2016

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## **SCOPE OF EXAMINATION**

We have completed a financial condition examination as of December 31, 2014 of Capital Health Plan, Inc. (the "Plan"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2011 through December 31, 2014. The last financial condition examination of the Plan by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2010.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (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.

## **PLAN HISTORY**

The Plan was incorporated in Florida as a not-for-profit corporation on June 26, 1978 and licensed by the Office as an HMO on May 25, 1982. 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.).

Effective January 1, 2014, the Plan reorganized under a policyholder owned, not-for-profit mutual insurance holding company system. The new mutual insurance holding company, GuideWell Mutual Holding Corporation (GuideWell Mutual), replaced Blue Cross Blue Shield of Florida, Inc. (Blue Cross) as the controlling organization and is owned by the policyholders.

#### Dividends and Capital Contributions

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

### **CORPORATE RECORDS**

The recorded minutes of the Plan's members, Board of Directors (Board) and its committees were reviewed for the period under examination. The Board's approval of Plan transactions, including the authorization of investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

### **MANAGEMENT AND CONTROL**

Blue Cross controlled 51% of the Plan's corporate membership. The Plan's senior officers, directors and committee members were as follows:

### Senior Officers

<u>Name</u>	<u>Title</u>
John Hogan	Chief Executive Officer
Sabin Bass	Chief Financial Officer
Nancy Van Vessem, M.D.	Chief Medical Officer
Eric M. Smith	Chief Information Officer
Thomas A. Barron	Secretary
David K. Coburn	Treasurer

### Board of Directors

<u>Name</u>	<u>Location</u>
C. Dubose Ausley	Tallahassee, FL
Thomas A. Barron	Tallahassee, FL
Lillie M. Bogan	Tallahassee, FL
W. Kenneth Boutwell, Jr., Ph.D.	Tallahassee, FL
David K. Coburn	Tallahassee, FL
Johnathan Gavras*	Jacksonville, FL
J. Thomas Herndon	Tallahassee, FL
Patricia C. Hayward, Ph.D.	Tallahassee, FL
Joyce A. Kramzer	Jacksonville, FL
Isaac Moore, M.D.	Tallahassee, FL
Winifred H. Schmeling, Ph.D.	Tallahassee, FL
J. Brian Sheedy, M.D.	Tallahassee, FL

\* Resigned November 2014

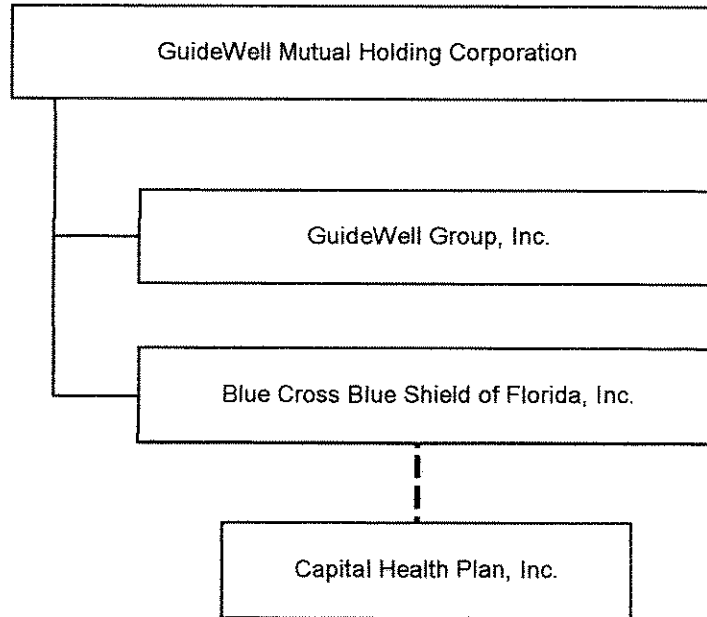
**Committees of the Board of Directors**

<b>Executive Committee</b>	<b>Finance and Strategic Planning Committee</b>	<b>Audit Committee</b>
C. Dubose Ausley Thomas A. Barron W. Kenneth Boutwell, Jr., Ph.D. David K. Coburn Joyce A. Kramzer Winifred H. Schmeling, Ph.D.	C. Dubose Ausley Thomas A. Barron David K. Coburn J. Thomas Herndon Joyce A. Kramzer Isaac Moore, M.D. Winifred H. Schmeling, Ph.D.	Lillie M. Bogan Patricia C. Hayward J. Thomas Herndon
<b>Compensation Committee</b>	<b>Personnel Committee</b>	<b>Health Delivery Committee</b>
Lillie M. Bogan Patricia C. Hayward Winifred H. Schmeling, Ph.D. James B. Sheedy	Thomas A. Barron Herndon Winifred H. Schmeling, Ph.D.	Lillie M. Bogan Jonathan Gavras* Patricia C. Hayward Isaac Moore, M.D. Winifred H. Schmeling, Ph.D. James B. Sheedy

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 March 30, 2014.

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

**Capital Health Plan, Inc.  
Abbreviated Organizational Chart  
December 31, 2014**



The following agreements were in effect between the Plan and its affiliates:

Affiliation and Administration Agreement

The Plan entered into an Affiliation and Administration Agreement with Blue Cross effective December 4, 1981 giving Blue Cross majority control of the Plan's corporate membership. The agreement provided that Blue Cross supply certain administrative services and products to the Plan and committed it to lend operating funds to the Plan.



### Accounting Agreement

The Plan and Blue Cross entered into an accounting agreement, effective July 1, 1992, later amended, in order to manage any rating, finance, accounting, reporting, and regulatory issues arising from the administration of joint venture-type programs provided by them to group purchasers.

### Pharmacy Benefit Service Agreement

The Plan entered into a pharmacy benefit service agreement with Prime Therapeutics, LLC (Prime), effective January 1, 2014, to provide certain pharmacy benefit management and other prescription drug benefit programs to the Plan. The agreement was amended January 1, 2014 to add a Commercial Delegated Services Addendum to the agreement to clarify and expand the scope of services provided by Prime.

### Medicare Part D Pharmacy Benefit Service Agreement

The Plan entered into a Medicare Part D pharmacy benefit service agreement with Prime, effective January 1, 2014, to provide Medicare Part D pharmacy benefit management and other prescription drug benefit programs to the Plan. The agreement was amended January 1, 2014 to add a Medicare Part D Delegated Services Addendum to the agreement to clarify and expand the scope of services provided by Prime.

### Anti-Fraud Investigative Services Agreement

Blue Cross provided anti-fraud investigative services to the Plan pursuant to a May 1, 2000, later amended, agreement in return for monthly fees.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Plan maintained general liability and medical malpractice insurance for the Plan and its employed physicians at acceptable levels, in accordance with Rule 69O-191.069, F.A.C. The policies provided for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Plan was insured by a blanket fidelity bond issued by a licensed Florida carrier, as required by Section 641.22(7), F.S., in the amount of \$2,000,000.

## **PENSION AND INSURANCE PLANS**

The Plan provided various benefits to eligible employees. They included group medical, life, short-term and long-term disability, and dental insurance; paid time off, and a simplified employee defined contribution pension plan.

## **TERRITORY AND PLAN OF OPERATION**

The Plan provided Medicare and comprehensive benefits through a variety of plans for employer groups and government-sponsored programs in the Florida counties of Leon, Wakulla, Jefferson, Gadsden, Calhoun, Liberty and Franklin. 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 May 29, 2016. The Plan did not participate in the Healthcare Exchange.

the annual reinsurance fee mandated by the ACA. For 2014, the Plan recorded \$7,000,000 in reinsurance fees. The Reinsurance Program is temporary for the years 2014 through 2016.

### **STATUTORY DEPOSITS**

The Plan 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.

### **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 is identified, the impact of such adjustment will be documented separately following the Plan's financial statements. Financial statements, as reported and filed by the Plan with the Florida Office of Insurance Regulation, are reflected in the following:

**Capital Health Plan, Inc.**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2014**

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 319,034,838	\$ -	\$ 319,034,838
Common stocks	84,352,349	-	84,352,349
Properties occupied by the company	23,658,232	-	23,658,232
Cash, cash equivalents and short-term investments	6,006,053	-	6,006,053
Receivables for securities	3,522,521	-	3,522,521
	436,573,993	-	436,573,993
Investment income due and accrued	1,817,565	-	1,817,565
Uncollected premiums and agents' balances	13,116,194	-	13,116,194
Electronic data processing equipment and software	895,063	-	895,063
Healthcare and other amounts receivable	6,279,293	-	6,279,293
Aggregate write-ins for other than invested assets	2,609,079	-	2,609,079
<b>Total assets</b>	<b>\$ 461,291,187</b>	<b>\$ -</b>	<b>\$ 461,291,187</b>

**Liabilities**

Claims unpaid	\$ 53,207,691	\$ -	\$ 53,207,691
Unpaid claims adjustment expense	450,000	-	450,000
Premiums received in advance	10,554,861	-	10,554,861
General expenses due or accrued	3,123,903	-	3,123,903
Payable for securities	7,079,332	-	7,079,332
Aggregate write-ins for liabilities	18,103,257	-	18,103,257
<b>Total liabilities</b>	<b>92,519,044</b>	<b>-</b>	<b>92,519,044</b>

**Surplus and Other Funds**

Aggregate write-ins for special surplus funds	6,553,712	-	6,553,712
Unassigned funds	362,218,431	-	362,218,431
<b>Total surplus and other funds</b>	<b>368,772,143</b>	<b>-</b>	<b>368,772,143</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 461,291,187</b>	<b>\$ -</b>	<b>\$ 461,291,187</b>

**Capital Health Plan, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Plan)**  
**December 31, 2014**

Net premium income	\$ 677,203,334
Fee-for-service	2,020,282
<hr/> Total revenues	<hr/> 679,223,616
 Hospital/medical benefits	 520,525,794
Outside referrals	1,238,071
Emergency room and out-of-area	53,536,402
Prescription drugs	65,637,590
	<hr/> 640,937,857
Net reinsurance recoveries	48,340
<hr/> Total hospital and medical	<hr/> 640,889,517
Claims adjustment expense	8,405,283
General administrative expenses	41,620,322
<hr/> Total underwriting deductions	<hr/> 690,915,122
Net underwriting loss	(11,691,506)
Net investment gains	15,247,969
Aggregate write-ins for other income or expenses	42,257
<hr/> Net income	<hr/> \$ 3,598,720 <hr/>

**Capital Health Plan, Inc.**  
**Statement of Changes in Capital and Surplus**  
**For The Four Years Ended December 31, 2014**

Capital and surplus - December 31, 2010	\$	266,203,552
Net income		52,550,699
Change in net unrealized capital gains (losses)		(4,801,686)
Change in nonadmitted assets		(888,268)
<hr/>		
Capital and surplus - December 31, 2011		313,064,297
Net income		22,955,960
Change in net unrealized capital gains (losses)		6,920,014
Change in nonadmitted assets		(712,713)
<hr/>		
Capital and surplus - December 31, 2012		342,227,558
Net income		13,762,202
Change in net unrealized capital gains (losses)		10,817,027
Change in nonadmitted assets		(866,452)
<hr/>		
Capital and surplus - December 31, 2013		365,940,335
Net income		3,598,720
Change in net unrealized capital gains (losses)		821,138
Change in nonadmitted assets		(1,588,051)
<hr/>		
Capital and surplus - December 31, 2014	\$	368,772,143

**Capital Health Plan, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2014**

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

<b>Capital and surplus, December 31, 2014 - per annual statement</b>			<b>\$ 368,772,143</b>
	<b>Per</b>	<b>Per</b>	<b>Increase</b>
	<b>Company</b>	<b>Examination</b>	<b>(Decrease)</b>
			<b>In Capital</b>
			<b>&amp; Surplus</b>
Total assets	\$461,291,187	\$461,291,187	\$ -
Total liabilities	\$ 92,519,044	\$ 92,519,044	\$ -
			-
<b>Capital and surplus, December 31, 2014 - per examination</b>			<b><u>\$ 368,772,143</u></b>

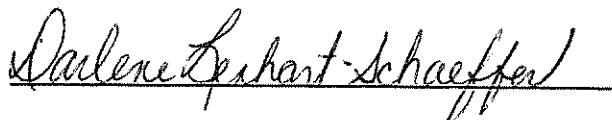
## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Capital Health Plan, Inc. as of December 31, 2014, consistent with the insurance laws of the State of Florida.

At December 31, 2014, the Plan's capital and surplus was \$368,772,143 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 this examination: Luke Stavenau, Financial Specialist, Lisa Parker, Actuary and Examination Resources, LLC.

Respectfully submitted,



Darlene L. Lenhart-Schaeffer, PIR, CFE, CISA  
Chief Examiner  
State of Florida  
Office of Insurance Regulation  
Life and Health Financial Oversight