

Report on Examination
of
CarePlus Health Plans, Inc.

Coral Gables, Florida

as of

December 31, 2007

By The
State of Florida
Office of Insurance Regulation

CONTENTS

SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDING FROM PRIOR EXAMINATION	2
HISTORY	3
GENERAL	3
CAPITAL STOCK	3
PROFITABILITY	4
DIVIDENDS	4
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE	5
CORPORATE RECORDS	5
AFFILIATED COMPANIES	6
ORGANIZATIONAL CHART	8
FIDELITY BOND AND OTHER INSURANCE	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
STATUTORY DEPOSITS	9
INSURANCE PRODUCTS AND RELATED PRACTICES	10
TERRITORY AND PLAN OF OPERATION	10
TREATMENT OF MEMBERS.....	10
ACCOUNTS AND RECORDS	11
FINANCIAL STATEMENTS PER EXAMINATION	12
ASSETS	13
LIABILITIES, CAPITAL AND SURPLUS	14
STATEMENT OF REVENUE AND EXPENSES	15
CAPITAL AND SURPLUS ACCOUNT	16
COMMENTS ON FINANCIAL STATEMENTS	17
COMPARATIVE ANALYSIS OF CHANGES IN CAPITAL AND SURPLUS	18
SUBSEQUENT EVENTS	19
SUMMARY OF FINDINGS	19
COMPLIANCE WITH PREVIOUS DIRECTIVES.....	19
CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION	19
CONCLUSION	20

Tallahassee, Florida

June 11, 2009

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street, Room 101
Tallahassee, Florida 32399-0301

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2007, of the financial condition and corporate affairs of:

CarePlus Health Plans, Inc.
55 Alhambra Plaza
Coral Gables, Florida 33134

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2005 through December 31, 2007. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2003.

Planning for the current examination began on December 15, 2008. The fieldwork commenced on December 22, 2008 and concluded on April 9, 2009. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial condition examination conducted in accordance with the NAIC *Financial Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions*, with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value, and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, various ratio results, *Best's Insurance Reports*, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2007 annual statement. Transactions subsequent to December 31, 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

STATUS OF ADVERSE FINDING FROM PRIOR EXAMINATION

The following is a summary of a significant adverse finding reported in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Company in connection therewith.

Bonds

In its 2003 annual statement, the Company incorrectly reported bonds as cash equivalents in the total amount of \$25,871,139. Resolution: The current examination did not result in a similar finding.

HISTORY

GENERAL

The Company was incorporated in Florida on August 2, 1985 as Florida 1st Health Plans, Inc., and commenced business on November 20, 1986. Its name was changed to CarePlus Health Plans, Inc. on August 9, 2002.

As of the date of this examination, the Company was authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S.

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

CAPITAL STOCK

As of December 31, 2007, the Company's capitalization was as follows:

	Common Stock
Shares authorized	100,000
Shares issued and outstanding	90,189
Total capital stock	\$902
Par value per share	\$0.01

At December 31, 2007, the Company was wholly-owned and controlled by CPHP Holdings, Inc., which was wholly-owned by Humana Inc. CPHP Holdings, Inc. was acquired by Humana Inc. on February 16, 2005. An abbreviated organizational chart appears on page 8.

PROFITABILITY

For the period of this examination, the Company reported the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Year-end enrollment	53,057	53,534	49,602
In millions:			
Net premiums	\$733.6	\$641.5	\$556.1
Total revenues	\$733.6	\$641.5	\$556.1
Net income	\$56.2	\$35.1	\$22.0
Total capital and surplus	\$80.7	\$69.8	\$63.4

DIVIDENDS

The Company paid shareholder dividends in the amounts of \$30 million and \$35 million in 2006 and 2007, respectively.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 607.0803, F.S. Directors serving as of December 31, 2007 were:

Directors

<u>Name and Location</u>	<u>Principal Occupation</u>
Jonathan T. Lord, M.D. Louisville, Kentucky	Senior Vice President and Chief Innovation Officer Humana Inc.
Michael B. McCallister Louisville, Kentucky	President and Chief Executive Officer Humana Inc.
James E. Murray Louisville, Kentucky	Chief Operating Officer Humana Inc.

The Company's senior officers as of December 31, 2007, as appointed by its board of directors in accordance with the Company's bylaws, were:

Senior Officers

<u>Name</u>	<u>Title</u>
David K. Jarboe	Chief Executive Officer
Michael B. McCallister	President
James H. Bloem	Chief Financial Officer and Treasurer
Thomas J. Liston	Senior Vice President
Jonathan T. Lord, M.D.	Senior Vice President
Heidi S. Margulis	Senior Vice President
Steven O. Moya	Senior Vice President
Joan O. Lenahan	Vice President and Secretary

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 641.35(7), F.S. A review of the prior report of examination by the Office was documented in the minutes of the Board.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (F.A.C.). 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, F.A.C., on February 29, 2008.

The following agreements were in force between the Company and its affiliates:

Indemnity Agreement

The Company entered into an agreement with Humana Inc. on March 10, 2005, providing for the indemnification of the Company by Humana Inc. in the event of the Company's insolvency or inability to provide contractually-obligated health care services.

Management Agreement

Humana Inc. provided management services to the Company pursuant to an April 22, 2006 corporate service agreement in return for fees amounting to \$14.0 million and \$12.6 million in years 2006 and 2007, respectively. The fees were based on a fixed percentage of premiums and a per member fee. Services provided included medical and executive management, information systems, claims processing, billing and enrollment, and telemarketing services.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax return of Humana Inc. pursuant to a tax sharing agreement dated March 10, 2005. The federal income tax liability of the consolidated return group was allocated to members based on the ratio that each member's separate return tax liability was to the sum of the separate return liabilities of all members. The final settlement was made after the filing of the consolidated return.

Primary and Ancillary Care Agreement

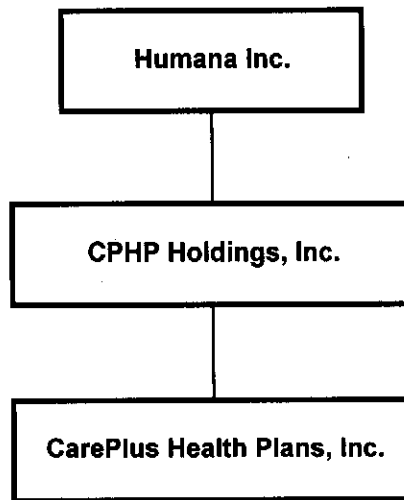
The Company entered into two agreements with affiliates to provide medical services to its members.

CAC Florida Medical Centers, Inc. provided primary care services to the Company's members in return for fees and costs amounting to \$81.6 million and \$94.6 million in years 2006 and 2007, respectively.

Humana Pharmacy Inc., d/b/a Prescribit, provided ancillary care services to the Company's members in return for fees and costs amounting to \$32.1 million and \$33.9 million in years 2006 and 2007, respectively.

An abbreviated organizational chart as of December 31, 2007 reflecting the holding company system is shown below. Schedule Y of the Company's 2007 annual statement provided the names of all related companies in the holding company group.

**CarePlus Health Plans, Inc.
Organizational Chart
December 31, 2007**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained acceptable levels of general liability insurance in compliance with Rule 69O-191.069, F.A.C., and was insured by a blanket fidelity bond, as required by Section 641.22, F.S., in the amount of \$10 million. As an individual practice association (IPA) model HMO, the Company maintained adequate professional liability insurance. It required in its provider contracts that its providers 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

Company employees were eligible to participate in a defined contribution retirement plan and a 401(k) savings plan sponsored by Humana Inc. Certain of the Company's employees were granted Humana Inc. stock options. Eligible employees received other benefits to include medical and dental benefits, healthcare spending accounts, long-term care and life insurance.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$600,000 in accordance with Section 641.285, F.S.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. 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 November 26, 2009.

The Company used its own sales force to market its products, operated as an IPA model, and provided health care services to Medicare members. Its total membership at December 31, 2007 was 53,057.

The Company operated in the Florida counties of Broward, Hillsborough, Miami-Dade and Palm Beach.

TREATMENT OF MEMBERS

The Company established procedures for handling written complaints in accordance with Section 641.511, F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2005, 2006 and 2007, pursuant to Section 641.26(1)(c), F.S.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office was located in Coral Gables, Florida. A significant portion of its books and records were located in Louisville, Kentucky, where this examination was conducted.

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

Custodial Agreement

JPMorgan Chase Bank provided securities custodial services to the Company pursuant to a January 31, 2005 agreement. Fees for the services were not allocated to the Company.

Securities Lending Agreement

The Bank of New York provided securities lending services to the Company pursuant to a July 31, 2006 agreement. As of December 31, 2007, securities totaling \$42.8 million were loaned under the program in exchange for total income of \$347,000 during 2007.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2007, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

CarePlus Health Plans, Inc.
Assets
December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$109,374,780	\$0	\$109,374,780
Preferred stocks	581,740	0	581,740
Cash, cash equivalents and short-term investments	48,314,447	0	48,314,447
	<u>158,270,967</u>	<u>0</u>	<u>158,270,967</u>
Investment income due and accrued	1,012,487	0	1,012,487
Uncollected premiums and agents' balances	66,156	0	66,156
Accrued retrospective premiums	8,526,965	0	8,526,965
Net deferred tax asset	3,904,147	0	3,904,147
Electronic data processing equipment and software	869,096	0	869,096
Health care and other amounts receivable	2,463,699	0	2,463,699
	<u>\$175,113,517</u>	<u>\$0</u>	<u>\$175,113,517</u>
Total assets	<u>\$175,113,517</u>	<u>\$0</u>	<u>\$175,113,517</u>

CarePlus Health Plans, Inc.
Liabilities, Capital and Surplus
December 31, 2007

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$44,986,391	\$0	\$44,986,391
Accrued medical incentive pool and bonuses	21,800,000	0	21,800,000
Unpaid claims adjustment expenses	1,501,217	0	1,501,217
Aggregate health policy reserves	19,726,469	0	19,726,469
General expenses due or accrued	6,005,344	0	6,005,344
Amounts withheld or retained for others	16,795	0	16,795
Liability for amounts held under uninsured plans	353,974	0	353,974
Total liabilities	<u>94,390,190</u>	<u>0</u>	<u>94,390,190</u>
Capital and Surplus			
Common capital stock	902	0	902
Gross paid in and contributed surplus	26,362,342	0	26,362,342
Unassigned funds	54,360,083	0	54,360,083
Total capital and surplus	<u>80,723,327</u>	<u>0</u>	<u>80,723,327</u>
Total liabilities, capital and surplus	<u><u>\$175,113,517</u></u>	<u><u>\$0</u></u>	<u><u>\$175,113,517</u></u>

CarePlus Health Plans, Inc.
Statement of Revenue and Expenses
For The Year Ended December 31, 2007

Net premium income		\$733,630,145
Hospital and medical benefits	\$451,300,380	
Emergency room and out-of-area	8,586,613	
Prescription drugs	78,539,259	
Incentive pool, adjustments and bonuses	44,950,849	
Total hospital and medical	<u>583,377,101</u>	
Claims adjustment expenses	19,566,845	
General administrative expenses	<u>57,655,144</u>	
Total underwriting deductions		<u>660,599,090</u>
Net underwriting gain		73,031,055
Net investment income earned	10,628,384	
Net realized capital gains or (losses)	<u>(231,757)</u>	
Net investment gains		<u>10,396,627</u>
Income before income taxes		83,427,682
Federal income taxes		<u>27,185,717</u>
Net income		<u><u>\$56,241,965</u></u>

CarePlus Health Plans, Inc.
Capital and Surplus Account
For The Year Ended December 31, 2007

Capital and surplus - December 31, 2006	\$69,813,035
Net income	56,241,965
Change in net unrealized capital gains and losses	(92,176)
Change in net deferred income tax	(354,321)
Change in nonadmitted assets	(9,885,176)
Dividends to stockholder	<u>(35,000,000)</u>
	80,723,327
Examination adjustments	<u>0</u>
Capital and surplus - December 31, 2007	<u><u>\$80,723,327</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$66,214,077

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2007 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate liability was not materially misstated.

CarePlus Health Plans, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2007

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, 2007 - per annual statement			\$80,723,327
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Total assets	\$175,113,517	\$175,113,517	\$0
Total liabilities	\$94,390,190	\$94,390,190	\$0
Net change in capital and surplus			0
Capital and surplus, December 31, 2007 - per examination			\$80,723,327

SUBSEQUENT EVENTS

On May 29, 2008, the Company paid \$54 million in shareholder dividends.

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with comments contained in the 2003 examination report issued by the Office.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The current financial condition examination did not result in any material findings of non-compliance with statutes, rules or other requirements on the part of the Company.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **CarePlus Health Plans, Inc.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$80,723,327, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2007 was \$14,672,603.

In addition to the undersigned, the following participated in this examination: Christine N. Afolabi, Financial Specialist; Thomas I. Cook, CISA, Financial Examiner/Analyst; Stephen Feliu, CFE (Fraud), Financial Examiner/Analyst; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

Russell K. Judge, Financial Examiner/Analyst
Florida Office of Insurance Regulation