

Report on Examination
of
CarePlus Health Plans, Inc.

Doral, Florida

as of

December 31, 2010

By The
Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street
Tallahassee, Florida 32399-0305

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 CarePlus Health Plans, Inc. as of December 31, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation
April 10, 2012

Contents

Scope of Examination	1
Company History	2
Corporate Records	2
Management and Control	3
Fidelity Bonds and Other Insurance	6
Pension, Stock Ownership and Insurance Plans	6
Territory and Plan of Operation	6
Company Growth.....	7
Accounts and Records	7
Statutory Deposits	7
Financial Statements	8
Comments on Financial Statements	13
Summary of Findings	13
Subsequent Events	14
Conclusion.....	15

SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of CarePlus Health Plans, Inc. (the "Company"), a Florida health maintenance organization (HMO). The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2007.

This examination covered the period of January 1, 2008 through December 31, 2010. 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.

A significant portion of the Company's books and records were located in Louisville, Kentucky, where this examination was primarily conducted.

COMPANY HISTORY

The Company was incorporated in Florida on August 2, 1985 and licensed by the Office as an HMO on November 25, 1985. Its name was changed from Florida 1st Health Plans, Inc. to CarePlus Health Plans, Inc. on August 9, 2002. The Company's parent CPHP Holdings, Inc. was acquired by Humana Inc. on February 16, 2005. The Company was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company distributed \$54 million, \$20 million, and \$67 million in shareholder dividends during 2008, 2009, and 2010, respectively.

CORPORATE RECORDS

The minutes of the meetings of the Company's shareholder and board of directors and the Humana Inc. Audit and Investment Committees were reviewed for the period examined. The 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.

MANAGEMENT AND CONTROL

The Company was wholly owned by CPHP Holdings, Inc., a subsidiary of Humana Inc. The common stock of Humana Inc., a Louisville, Kentucky health insurance company, traded on the New York Stock Exchange. The Company was affiliated through common ownership and control with numerous other entities including Humana Health Insurance Company of Florida, Inc., a Florida health insurer, and the Florida HMOs Humana Medical Plan, Inc. and Humana AdvantageCare Plan, Inc. The Company's senior officers and directors were as follows:

Senior Officers

<u>Name</u>	<u>Title</u>
David K. Jarboe	Chief Executive Officer
Michael B. McCallister	President
Craig A. Drablos	Regional Chief Executive Officer
Scott T. Latimer, M.D.	Regional President
Michael A. Seltzer	Regional President
James H. Bloem	Sr. Vice President, Chief Financial Officer and Treasurer
Thomas J. Liston	Sr. Vice President
Heidi S. Margulis	Sr. Vice President
Joan O. Lenahan	Vice President and Corporate Secretary
Roy Goldman, Ph.D.	Vice President and Chief Actuary
Frank M. Amrine	Appointed Actuary

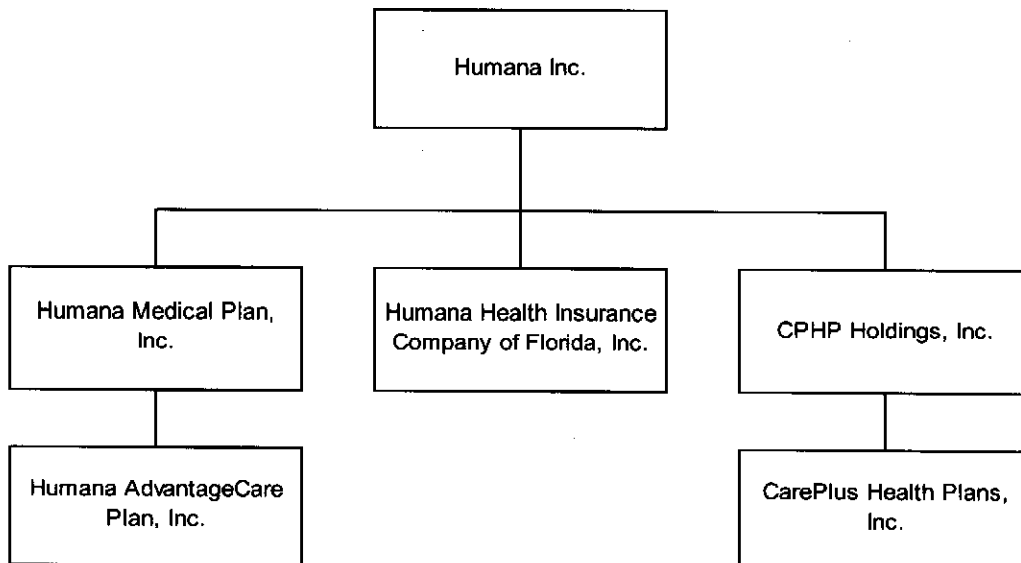
Board of Directors

<u>Name</u>	<u>Location</u>
Michael B. McCallister	Louisville, Kentucky
James E. Murray	Louisville, Kentucky
Melissa L. Weaver, M.D.	Louisville, Kentucky

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, 2012.

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

**CarePlus Health Plans, Inc.
Abbreviated Organizational Chart
December 31, 2010**



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

Pursuant to a March 10, 2005 agreement, the Company was indemnified by Humana Inc. in the event of the Company's insolvency or inability to provide health care services for which it is contractually obligated.

The results of the Company's operations were included in the consolidated federal income tax returns of Humana Inc. pursuant to a tax allocation agreement. Consolidated tax liability was allocated among members of the consolidated group on a pro rata basis according to the separate return tax liabilities of included members. The agreement required that intercompany balances be settled within 30 days after the calculation of income tax attributable to the Company. In the event of a refund, the agreement required settlement within 30 days after receipt of the refund.

Pursuant to a 2006 agreement, Humana Inc. provided medical management, product management, executive management, information systems management, financial, legal, and human resources management services to the Company. The agreement was later amended to reflect changes required by the Centers for Medicare & Medicaid Services (CMS).

The Company utilized health care provider networks developed by Health Value Management, Inc. pursuant to an agreement effective in 2007.

The Company entered into two agreements with affiliates to provide medical services to its members. CAC-Florida Medical Centers, LLC provided primary care services and Humana Pharmacy Inc. provided ancillary care services.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on the general liability insurance policy of Humana Inc. The policy was maintained at acceptable levels in accordance with Rule 69O-191.069, F.A.C. The Company was also a named insured on the crime policy of Humana Inc. in the amount of \$15 million which adequately met the requirements of Section 641.22(7), F.S. As an individual practice association 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 as required by Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered to eligible employees participation in the Humana Inc. defined contribution and 401(k) retirement plans. The Company, through its affiliates, also provided to eligible employees fringe benefits including medical, dental and vision insurance; short-term and long-term disability insurance; and life insurance.

TERRITORY AND PLAN OF OPERATION

The Company provided coordinated health and pharmacy benefits to Medicare-eligible members under a Medicare Advantage contract with CMS. 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 May 21, 2012, and provided health care services to 64,906 Medicare members as of December 31, 2010. The Company operated in the Florida counties of Brevard, Broward, Charlotte, Hillsborough, Indian River, Lake, Lee, Marion, Martin, Miami-Dade, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Sarasota, Seminole, and St. Lucie.

COMPANY GROWTH

The Company reported the following for years 2008, 2009 and 2010:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Year-end enrollment (In millions)	59,613	64,227	64,906
Premiums	\$ 823.5	\$ 992.5	\$ 1,032.8
Revenues	\$ 823.5	\$ 992.5	\$ 1,032.8
Net income	\$ 22.3	\$ 67.5	\$ 50.5
Capital and surplus	\$ 54.3	\$ 99.8	\$ 91.3

ACCOUNTS AND RECORDS

The examination included a review of the Company's paid and unpaid claims in order to determine the extent to which the Company provided for its unpaid loss and loss expense obligations under the terms of its subscriber agreements. In connection with the review, examiners requested from the Company certain claims-related data and supporting documents. The Company did not always provide the items to examiners by the dates and in the manner requested, prolonging the examination and making it more difficult to conduct.

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., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S.

CarePlus Health Plans, Inc.
Assets
December 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 233,389,323	\$ -	\$ 233,389,323
Cash, cash equivalents and short-term investments	49,004,766	-	49,004,766
Securities lending reinvested collateral assets	2,345,729	-	2,345,729
	284,739,818	-	284,739,818
Investment income due and accrued	2,083,927	-	2,083,927
Uncollected premiums and agents' balances	339,507	-	339,507
Accrued retrospective premiums	8,772,791	-	8,772,791
Amounts receivable relating to uninsured plans	73,872	-	73,872
Net deferred tax asset	4,905,951	-	4,905,951
Electronic data processing equipment and software	367,640	-	367,640
Health care and other amounts receivable	2,215,971	-	2,215,971
Total assets	\$ 303,499,477	\$ -	\$ 303,499,477

CarePlus Health Plans, Inc.
Liabilities, Capital and Surplus
December 31, 2010

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 158,820,601	\$ -	\$ 158,820,601
Accrued medical incentive pool and bonuses	264,518	-	264,518
Unpaid claims adjustment expenses	546,564	-	546,564
Aggregate health policy reserves	2,894,220	-	2,894,220
General expenses due or accrued	8,640,784	-	8,640,784
Current federal income tax payable	4,998,326	-	4,998,326
Amounts withheld or retained for others	66,135	-	66,135
Amounts due to parent, subsidiaries and affiliates	7,958,294	-	7,958,294
Payable for securities lending	2,425,731	-	2,425,731
Liability for amounts held under uninsured plans	9,985,776	-	9,985,776
Aggregate write-ins for other liabilities	15,610,928	-	15,610,928
Total liabilities	212,211,877	-	212,211,877
Capital and Surplus			
Common capital stock	902	-	902
Gross paid in and contributed surplus	27,741,937	-	27,741,937
Unassigned funds	63,544,761	-	63,544,761
Total capital and surplus	91,287,600	-	91,287,600
Total liabilities, capital and surplus	\$ 303,499,477	\$ -	\$ 303,499,477

CarePlus Health Plans, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2010

Net premium income	\$ 1,032,764,016
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Hospital and medical benefits	694,497,235
Other professional services	15,911,122
Emergency room and out-of-area	28,743,645
Prescription drugs	95,548,722
Incentive pool, withhold adjustments and bonuses	769,800
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Total hospital and medical	835,470,524
Claims adjustment expenses	54,814,021
General administrative expenses	75,137,935
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Total underwriting deductions	965,422,480
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Net underwriting gain	67,341,536
Net investment income	9,174,175
Net realized capital gains (losses)	(124,881)
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Income before income tax	76,390,830
Federal income tax	25,885,921
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Net income	\$ 50,504,909
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CarePlus Health Plans, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2010

Capital and surplus - December 31, 2007	\$ 80,723,327
Net income	22,348,256
Change in net unrealized capital gains (losses)	(230,865)
Change in net deferred income tax	(1,521,617)
Change in nonadmitted assets	6,936,047
Dividends to stockholder	(54,000,000)
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Capital and surplus - December 31, 2008	54,255,148
Net income	67,472,495
Change in net unrealized capital gains (losses)	323,982
Change in net deferred income tax	4,228,415
Change in nonadmitted assets	(6,888,570)
Paid in surplus adjustments	412,339
Dividends to stockholder	(20,000,000)
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Capital and surplus - December 31, 2009	99,803,809
Net income	50,504,909
Change in net unrealized capital gains (losses)	113,395
Change in net deferred income tax	(4,350,501)
Change in nonadmitted assets	11,780,124
Paid in surplus adjustments	967,256
Dividends to stockholder	(67,000,000)
Aggregate write-ins for gains or (losses) in surplus	(531,392)
	<hr/> 91,287,600
Examination adjustments	-
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Capital and surplus - December 31, 2010	\$ 91,287,600
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CarePlus Health Plans, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2010

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, 2010 - per annual statement		\$ 91,287,600	
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 303,499,477	\$ 303,499,477	\$ -
Total liabilities	\$ 212,211,877	\$ 212,211,877	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2010 - per examination			\$ 91,287,600

COMMENTS ON FINANCIAL STATEMENTS

Claims Unpaid

\$158,820,601

The amount of the Company's liability for unpaid claims, as reported in its 2010 annual statement, significantly exceeded the amount required by Section 641.35(3), F.S.

SUMMARY OF FINDINGS

Claims-Related Data and Supporting Documents

During the examination, the Company did not always provide claims-related data and supporting documents to examiners by the dates and in the manner requested, as discussed on page 7. **We recommend that, in future regulatory examinations, the Company adequately respond to examiner requests for data and supporting documents in a timely manner.**

SUBSEQUENT EVENTS

In April of 2011, the Company distributed \$50.0 million in shareholder dividends following approval by the Office.

In its 2011 annual statement, the Company reported net premium income and total revenues of \$1,185.2 million and net income of \$65.5 million for the year, and total capital and surplus of \$110.6 million as of December 31, 2011.

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. consistent with the insurance laws of the State of Florida.

The Company's capital and surplus at December 31, 2010 was determined to be \$91,287,600 which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$21,221,188.

In addition to the undersigned, the following individuals participated in this examination: Walter F. Banas, CIE, Financial Specialist; Chester A. Irvin, MBA, MTax, CGMA, CPA, Financial Administrator; Darlene L. Lenhart-Schaeffer, CFE, Financial Examiner/Analyst; Richard Tan, Actuary; and Michael D. Young, CFE, Financial Examiner/Analyst.

Respectfully submitted,

Cathy S. Jones, CPA, AFE
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation