

**Report on Examination**  
**of**  
**Coventry Health Care of Florida, Inc.**  
**Sunrise, Florida**  
**as of**  
**December 31, 2015**



**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 Coventry Health Care of Florida, Inc. as of December 31, 2015. Our report on the examination follows.

Florida Office of Insurance Regulation  
March 28, 2017

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2015 of Coventry Health Care of Florida, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2011 through December 31, 2015 and took place primarily in the office of the Company's ultimate parent located in Hartford Connecticut. The last financial condition examination of the Company 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*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify current and 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 Statute (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.

## COMPANY HISTORY

The Company was incorporated in Florida as Vista Healthplan, Inc. on December 16, 1999 and licensed by the Office as an HMO on October 17, 2000. The Company's name was changed to Coventry Health Care of Florida, Inc. on February 25, 2010. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S.

### Mergers and Acquisitions

On August 19, 2012, the Company's parent, Coventry Health Care, Inc., Aetna Inc. and Jaguar Merger Subsidiary, Inc. (Merger Sub) entered into an Agreement and Plan of Merger (as amended, and as may be further amended), pursuant to which, subject to the satisfaction or waiver of certain conditions, Merger Sub was merged with and into the Company's parent, Coventry Health Care, Inc., with the Company's parent, Coventry Health Care, Inc. surviving the merger as a wholly owned subsidiary of Aetna Inc. The total transaction was estimated at approximately \$7.3 billion, including the assumption of the Company's debt, based on the closing price of Aetna Inc. common shares on August 17, 2012. The Company's stockholders approved the Merger on November 21, 2012. The Merger closed on May 7, 2013.

## CORPORATE RECORDS

The minutes of the meetings of the Company's stockholder and board of directors were reviewed for the period examined. The minutes of the Board adequately documented its meetings and approval of Company transactions, including the authorization of investments as required by Section 641.35(7), F.S.

### Dividends and Capital Contributions

The Company reported increases in paid in capital of \$101 million in 2015, \$3 million in 2012, and \$10 million in 2011. No dividends were distributed during the exam period.

### **MANAGEMENT AND CONTROL**

The Company is a wholly owned subsidiary of Aetna Inc. Aetna Inc. is a national-managed health care company that provides a full range of risk and fee-based managed care products and services, including HMO's, preferred provider organizations (PPO), point-of-service products (POS), Medicare Advantage, Medicare Prescription Drug Plans, Medicare Private Fee-For-Service Plans (PFFS), Medicaid, Worker's Compensation, and Network Rental to a broad cross section of individuals, employer and government-funded groups, government agencies, and other insurance carriers and administrators in all 50 states.

Its senior officers and directors were:

#### **Senior Officers**

<b>Name</b>	<b>Title</b>
Christopher A. Ciano	President and Chief Executive Officer
Robert J. Finkelman	Chief Financial Officer
Elaine R. Cofrancesco	Vice President and Treasurer
Edward C. Lee	Vice President and Secretary

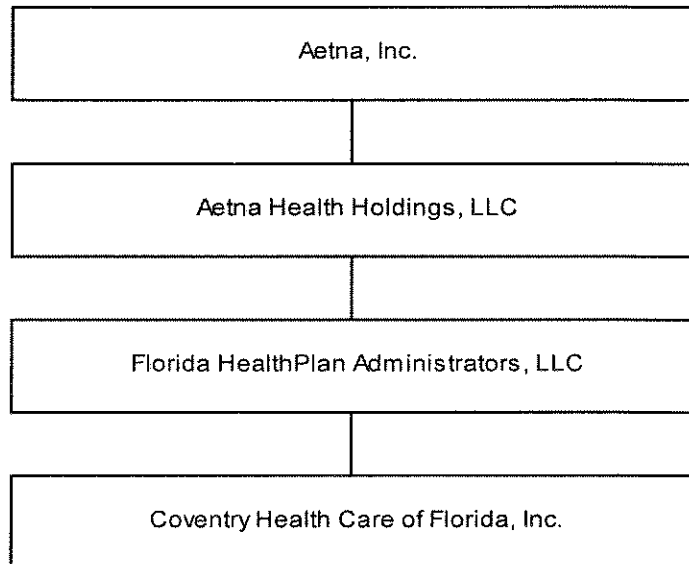
#### **Board of Directors**

<b>Name</b>	<b>Location</b>
Christopher A. Ciano	Ft. Lauderdale, Florida
Robert J. Finkelman	Coral Springs, Florida

The Company 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 17, 2016.

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

**Coventry Health Care of Florida, Inc.  
Abbreviated Organizational Chart  
December 31, 2015**



Management Services Agreement

The Company entered into an administrative services agreement effective January 1, 2014 with Aetna Health Management, LLC (AHM) to provide services with respect to the Commercial, Medicare Advantage, Medicare Part D, Medicare/Medicaid or standard Medicaid products. This agreement was amended September 1, 2015 and October 1, 2015.

### Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of Aetna Inc. pursuant to a 2013 tax allocation agreement. The income tax of the consolidated group was allocated to the Company as if the Company had filed tax returns on a separate return basis.

### Management Agreement

The Company entered into an administrative services agreement with Group Dental Service, Inc. effective March 1, 2014 to provide dental administrative services.

### Global Capitation Agreement

The Company is party to a global capitation network participation agreement with MHNet Specialty Services, LLC effective January 1, 2010 and amended annually. Services provided are related to mental health and substance abuse health care services.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained general and professional liability insurance at acceptable levels and required its providers to certify and maintain appropriate levels of medical malpractice insurance or its equivalent 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 Company 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 \$10 million.



## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees and did not directly provide employee benefits, nor sponsor retirement plans.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed as a health maintenance organization (HMO). The Company contracts to provide health care services to a defined, enrolled population for a predetermined, prepaid monthly fee. The Company offers individual exchange business, group and Medicaid prepaid health care plans primarily in South Florida, as well as certain counties in Central and North Florida.

The Company 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 September 16, 2016. As an individual practice association model HMO operating solely in Florida, the Company provided health care services to comprehensive, Medicare and Medicaid members. It had 335,205 members as of December 31, 2015, of which 79.3% were comprehensive and 20.7% were Medicaid members.

## COMPANY GROWTH

The Company reported the following for years 2011 through 2015:

*(Dollars are in millions.)*

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Member months	2,459,573	2,032,355	1,562,559	3,713,467	4,288,180
Year-end enrollment	201,406	160,429	130,764	346,168	335,205
Premiums	\$ 819.1	\$ 692.6	\$ 523.1	\$ 1,110.3	\$ 1,280.5
Revenues	\$ 819.1	\$ 692.6	\$ 523.1	\$ 1,110.3	\$ 1,280.5
Underwriting deductions	\$ 814.1	\$ 658.6	\$ 507.8	\$ 1,180.8	\$ 1,285.4
Net income	\$ 8.9	\$ 32.3	\$ 14.5	\$ (44.6)	\$ 6.9
Shareholder dividends	\$ -	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ 10.0	\$ 32.8	\$ -	\$ -	\$ 101.0
Admitted assets	\$ 158.2	\$ 167.4	\$ 178.6	\$ 476.5	\$ 515.7
Liabilities	\$ 99.6	\$ 75.0	\$ 75.2	\$ 421.8	\$ 387.0
Capital and surplus	\$ 58.6	\$ 92.4	\$ 103.4	\$ 54.8	\$ 128.7

## REINSURANCE

The company has no outside reinsurance arrangements other than participation in the Affordable Care Act programs.

## STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$5,453,000 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 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:

**Coventry Health Care of Florida, Inc.**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2015**

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 403,870,105	\$ -	\$ 403,870,105
Real estate - properties held for income production	2,281,667	-	2,281,667
Cash, cash equivalents and short-term investments	14,461,563	-	14,461,563
	420,613,335	-	420,613,335
Investment income due and accrued	3,513,155	-	3,513,155
Uncollected premiums and agents' balances	12,139,243	-	12,139,243
Accrued retrospective premiums	2,222,643	-	2,222,643
Amounts recoverable from reinsurers	48,241,795	-	48,241,795
Amounts receivable related to uninsured plans	2,562,717	-	2,562,717
Net deferred tax asset	3,258,281	-	3,258,281
Health care and other amounts receivable	283,219	-	283,219
Aggregate write-ins for other than invested assets	22,868,585	-	22,868,585
<b>Total admitted assets</b>	<b>\$ 515,702,973</b>	<b>\$ -</b>	<b>\$ 515,702,973</b>
<b>Liabilities</b>			
Claims unpaid	\$ 148,950,185	\$ -	\$ 148,950,185
Accrued medical incentive pool and bonus amounts	1,300,000	-	1,300,000
Unpaid claims adjustment expenses	2,529,078	-	2,529,078
Aggregate health policy reserves	132,701,634	-	132,701,634
Aggregate health claim reserves	1,285,954	-	1,285,954
Premiums received in advance	12,249,352	-	12,249,352
General expenses due or accrued	4,191,735	-	4,191,735
Current federal and foreign income tax payable	3,946,950	-	3,946,950
Amounts withheld or retained for account of others	1,835,668	-	1,835,668
Remittances and items not allocated	1,076,940	-	1,076,940
Amounts due to parents, subs and affiliates	794,773	-	794,773
Payable for securities	2,955,109	-	2,955,109
Liability for amounts held under uninsured plans	1,095,593	-	1,095,593
Aggregate write-ins for other liabilities	72,122,507	-	72,122,507
<b>Total liabilities</b>	<b>387,035,478</b>	<b>-</b>	<b>387,035,478</b>
<b>Capital and Surplus</b>			
Aggregate write-ins for special surplus funds	19,770,000	-	19,770,000
Common capital stock	1	-	1
Gross paid in and contributed surplus	265,373,962	-	265,373,962
Unassigned funds (deficit)	(156,476,468)	-	(156,476,468)
<b>Total capital and surplus</b>	<b>128,667,495</b>	<b>-</b>	<b>128,667,495</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 515,702,973</b>	<b>\$ -</b>	<b>\$ 515,702,973</b>

**Coventry Health Care of Florida, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**Year Ended December 31, 2015**

Net premium income	\$ 1,280,451,386
Hospital and medical benefits	680,207,883
Other professional services	35,840,015
Outside referrals	104,791,717
Emergency room and out-of-area	124,784,494
Prescription drugs	205,432,820
Incentive pool, withhold adjustments and bonus	(796,784)
	<hr/> 1,150,260,145
Net reinsurance recoveries	65,461,174
Total hospital and medical	1,084,798,971
Claims adjustment expenses	27,139,049
General administrative expenses	173,486,021
Increase in reserves	0
Total underwriting deductions	<hr/> 1,285,424,041
Net underwriting gain	(4,972,655)
Net investment gains	9,670,206
Income before federal income tax	4,697,551
Federal income tax	(2,206,102)
Net income	<hr/> <hr/> \$ 6,903,653

**Coventry Health Care of Florida, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2015**

Capital and surplus - December 31, 2010	\$ 39,714,238
Net income	8,873,520
Change in net deferred income tax	(1,164,178)
Change in nonadmitted assets	1,160,880
Surplus adjustment: Paid in	10,000,000
<hr/>	
Capital and surplus - December 31, 2011	58,584,460
Net income	32,287,969
Change in net deferred income tax	(5,063,082)
Change in nonadmitted assets	3,595,191
Surplus adjustment: Paid in	32,764,363
Aggregate write-ins for gains or (losses)	(29,764,363)
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Capital and surplus - December 31, 2012	92,404,538
Net income	14,541,348
Change in net deferred income tax	1,809,912
Change in nonadmitted assets	(2,180,249)
Aggregate write-ins for gains or (losses)	(3,199,652)
<hr/>	
Capital and surplus - December 31, 2013	103,375,897
Net income	(44,576,559)
Change in net deferred income tax	(6,824,988)
Change in nonadmitted assets	2,779,080
Dividends to stockholder	-
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Capital and surplus - December 31, 2014	54,753,430
Net income	6,903,653
Change in net deferred income tax	3,398,031
Change in nonadmitted assets	(38,200,478)
Surplus adjustment: Paid in	101,000,000
Aggregate write-ins for gains or (losses)	812,859
<hr/>	
	128,667,495
Examination adjustments	-
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Capital and surplus - December 31, 2015	\$ 128,667,495
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**Coventry Health Care of Florida, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2015**

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, 2015 - per annual statement</b>			<b>\$ 128,667,495</b>
	<b>Per Company</b>	<b>Per Examination</b>	<b>Increase (Decrease) In Capital &amp; Surplus</b>
Total assets	\$ 515,702,973	\$ 515,702,973	\$ -
Total liabilities	\$ 387,035,478	\$ 387,035,478	\$ -
<b>Capital and surplus, December 31, 2015 - per examination</b>			<b><u>\$ 128,667,495</u></b>

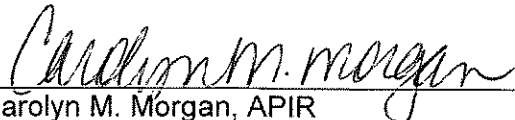
## CONCLUSION

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

At December 31, 2015, the Company's capital and surplus was \$ 128,667,495 and the Company 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: Joanne Campanelli, CFE, of Examination Resources, LLC. We also recognize Marshay Spencer, APIR, Financial Specialist; Lisa Parker, Actuary; Luke Stavenau, AFE, Financial Examiner Supervisor, participating in the examination.

Respectfully submitted,



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