

Report on Examination
of
Florida Health Care Plan, Inc.
Holly Hill, Florida
as of
December 31, 2013



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, 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 Florida Health Care Plan, Inc. as of December 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation
January 9, 2015

Contents

Scope of Examination.....	1
Summary of Significant Findings.....	2
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
Reinsurance	7
Accounts and Records.....	7
Statutory Deposits	8
Financial Statements	9
Comments on Financial Statements.....	13
Recommendation	14
Subsequent Events.....	14
Conclusion	15

SCOPE OF EXAMINATION

We have completed a financial condition examination of Florida Health Care Plan, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of December 9, 2008 through December 31, 2013 and took place primarily in the Company's Holly Hill, Florida office. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

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.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in a finding that the Company overstated the amounts of certain of its admitted assets in its 2013 annual statement. Detail information is on page 13 and a recommendation related to the finding is contained on page 14.

COMPANY HISTORY

The Company was incorporated in Florida on August 7, 2008 and licensed by the Office as an HMO on December 9, 2008. 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.). In addition, the Company was licensed as a Florida third party administrator pursuant to Part VII of Chapter 626, F.S.

Dividends and Capital Contributions

The Company distributed stockholder dividends in the amount of \$13.0 million in 2012. It received capital and surplus contributions of \$26.8 million in 2008.

CORPORATE RECORDS

We reviewed the minutes of the Company's stockholder and board of directors meetings. The Board's approval of Company transactions, including the authorization of its investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

MANAGEMENT AND CONTROL

The Company was wholly owned by Diversified Health Services, Inc., a subsidiary of Blue Cross and Blue Shield of Florida, Inc. (BCBSF), a licensed Florida life and health insurer. The Company owned three subsidiaries and was affiliated with numerous affiliates through common ownership. Its senior officers and directors were:

Senior Officers

<u>Name</u>	<u>Title</u>
Wendy A. Myers, M.D.	President and Chief Executive Officer
Arezou C. Jolly, Esq.	Secretary
Pamela J. Thomas, Esq.	Assistant Secretary
David C. Schandel	Treasurer and Chief Financial Officer

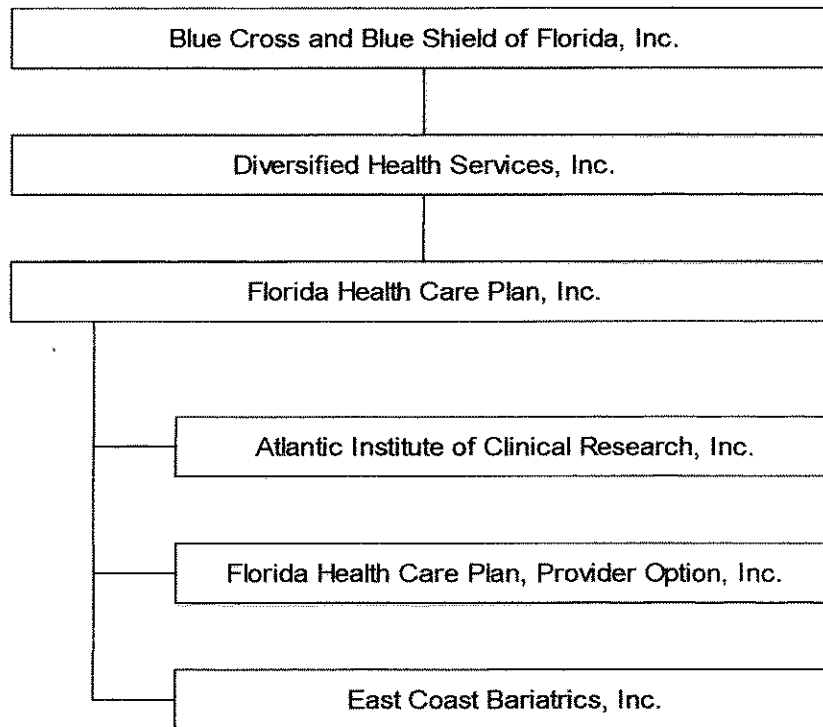
Board of Directors

<u>Name</u>	<u>Location</u>
William A. Coats	Jacksonville, Florida
R. Chris Doerr	Jacksonville, Florida
Joyce A. Kramzer	Jacksonville, Florida
Deanna M. McDonald	St. Johns, Florida
Wendy A. Myers, M.D.	Daytona Beach, Florida
David C. Schandel	Ormond Beach, Florida
Jon Urbanek	Jacksonville, 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 February 28, 2014.

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

**Florida Health Care Plan, Inc.
Abbreviated Organizational Chart
December 31, 2013**



Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of BCBSF pursuant to a 2001 tax allocation agreement. Per the agreement, federal income taxes of the group were allocated to the Company as if it were filing on a separate return basis with credit given for the tax benefit of any net operating losses, capital losses and tax credits to the extent they reduced the consolidated federal income tax liability.

Administrative Services Agreement

The Company became party to an administrative services agreement dated December 31, 2007 with BCBSF. The agreement provided that each affiliate was entitled to provide and or receive administrative services. Services include accounting, tax and auditing, underwriting, claims, investment and functional support services. Payment is for actual cost and becomes due in 90 days. The agreement did not contain a provision that it would be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S., and Consent Order No. 100215-08. Subsequent to the period examined, the agreement was revised to include the cancellation provision.

Medical Service Agreement

East Coast Bariatrics, Inc. (ECB), a wholly owned subsidiary of the Company, provided medical services to patients in the treatment of obesity. The Company furnished necessary staff, facilities, equipment and supplies to ECB pursuant to a December 29, 2010 agreement. ECB reimbursed the Company for the actual costs incurred by the Company in providing the services. The agreement did not contain a provision that it would be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S., and Consent Order 100215-08. Subsequent to the period examined, the agreement was revised to include the cancellation provision.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained general liability and medical malpractice insurance for the Company 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 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 \$20 million.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided various benefits to eligible employees. Benefits included group medical, life, and disability insurance and paid time off. In addition, the Company maintained a 401(k) deferred compensation plan for eligible employees. The Company provided in its financial statements as of December 31, 2013 for matching benefit obligations.

TERRITORY AND PLAN OF OPERATION

The Company provided coordinated health and pharmacy benefits through a variety of plans for employer groups, government-sponsored programs and Florida Healthy Kids program. 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 29, 2016. As a mixed model HMO, the Company had 48,505 members as of December 31, 2013, of which 64% were comprehensive members, 26% were Medicare members, and 10% were Florida Healthy Kids program members. It operated in the Florida counties of Collier, Flagler, Seminole and Volusia.

COMPANY GROWTH

The Company reported the following for years 2008 through 2013:

(Dollars are in millions.)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Member months	0	587,609	589,928	589,052	579,775	580,886
Year-end enrollment	51,254	48,510	48,780	48,789	48,005	48,505
Premiums	\$ -	\$ 295.5	\$ 300.6	\$ 301.9	\$ 305.1	\$ 310.0
Revenues	\$ -	\$ 296.6	\$ 301.8	\$ 302.8	\$ 306.0	\$ 310.8
Underwriting deductions	\$ -	\$ 284.2	\$ 278.4	\$ 280.9	\$ 288.8	\$ 296.1
Net income	\$ -	\$ 10.9	\$ 18.1	\$ 18.1	\$ 13.8	\$ 12.3
Shareholder dividends	\$ -	\$ -	\$ -	\$ -	\$ 13.0	\$ -
Paid in surplus received	\$ 26.8	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 67.1	\$ 64.9	\$ 81.4	\$ 99.1	\$ 101.3	\$ 114.1
Liabilities	\$ 44.9	\$ 31.9	\$ 31.7	\$ 32.8	\$ 31.8	\$ 32.4
Capital and surplus	\$ 22.2	\$ 33.0	\$ 49.7	\$ 66.3	\$ 69.4	\$ 81.7

REINSURANCE

The Company entered into an excess risk reinsurance agreement with BCBSF, effective March 1, 2013. Pursuant to the agreement, the Company ceded to BCBSF 100% of business in excess of \$275,000 per member for inpatient hospital services.

ACCOUNTS AND RECORDS

One of the Company's provider agreements did not contain a provision that the subscriber is not liable to the provider for any services for which the HMO is liable, as required by Section 641.315, F.S. Subsequent to the period examined, the agreement was amended to include the required provision.

STATUTORY DEPOSITS

The Company 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.

Florida Health Care Plan, Inc.
Admitted Assets, Liabilities and Capital and Surplus
December 31, 2013

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 61,321,598	\$ (5,044,900)	\$ 56,276,698
Properties occupied by the company	6,995,275		6,995,275
Cash, cash equivalents and short-term investments	28,638,418	-	28,638,418
	96,955,291	(5,044,900)	91,910,391
Investment income due and accrued	119,132	-	119,132
Uncollected premiums and agents' balances	1,482,214	-	1,482,214
Accrued retrospective premiums	3,883,954	-	3,883,954
Amounts recoverable from reinsurers	422,729	-	422,729
Amounts receivable relating to uninsured plans	697,086	-	697,086
Net deferred tax asset	3,925,186	-	3,925,186
Electronic data processing equipment and software	1,784,407	-	1,784,407
Furniture and equipment, including health care delivery assets	4,241,789	(1,684,207)	2,557,582
Health care and other amounts receivable	629,357	-	629,357
Total admitted assets	\$ 114,141,145	\$ (6,729,107)	\$ 107,412,038

Liabilities			
Claims unpaid	\$ 24,450,611	\$ -	\$ 24,450,611
Unpaid claims adjustment expenses	750,000	-	750,000
Aggregate health policy reserves	94,532	-	94,532
Premiums received in advance	729,505	-	729,505
General expenses due or accrued	4,437,814	-	4,437,814
Current federal and foreign income tax payable	1,660,171	-	1,660,171
Amounts withheld or retained for the accounts of others	277,725	-	277,725
Aggregate write-ins for other liabilities	36,244	-	36,244
Total liabilities	32,436,602	-	32,436,602

Capital and Surplus			
Common capital stock	1,000	-	1,000
Gross paid in and contributed surplus	22,231,695	-	22,231,695
Unassigned funds	59,471,848	(6,729,107)	52,742,741
Total capital and surplus	81,704,543	(6,729,107)	74,975,436
Total liabilities, capital and surplus	\$ 114,141,145	\$ (6,729,107)	\$ 107,412,038

Florida Health Care Plan, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2013

Net premium income	\$ 309,981,552
Fee-for-service	694,653
Aggregate write-ins for other health care related revenues	151,787
Total Revenues	310,827,992
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Hospital and medical benefits	118,899,639
Other professional services	86,589,117
Outside referrals	3,166,169
Emergency room and out-of-area	26,248,410
Prescription drugs	18,139,549
Aggregate write-ins for other hospital and medical	10,976,614
	264,019,498
Net reinsurance recoveries	907,814
Total hospital and medical	263,111,684
Claims adjustment expenses	3,793,067
General administrative expenses	29,154,062
Total underwriting deductions	296,058,813
Net underwriting gain	14,769,179
Net investment income earned	924,108
Aggregate write-ins for other income or expenses	1,237,752
Income before federal income tax	16,931,039
Federal income tax	4,653,392
Net income	\$ 12,277,647

Florida Health Care Plan, Inc.
Statement of Changes in Capital and Surplus
Six Years Ended December 31, 2013

Capital and surplus - December 31, 2007	\$ -
Change in net deferred income taxes	22,566,770
Change in nonadmitted assets	(27,131,746)
Paid in capital	1,000
Paid in surplus	26,796,670
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Capital and surplus - December 31, 2008	22,232,694
Net income	10,854,059
Change in deferred income tax	(1,718,705)
Change in nonadmitted assets	1,622,786
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Capital and surplus - December 31, 2009	32,990,834
Net income	18,070,108
Change in net deferred income tax	(1,739,234)
Change in nonadmitted assets	389,958
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Capital and surplus - December 31, 2010	49,711,666
Net income	18,148,701
Change in net deferred income tax	(2,182,028)
Change in nonadmitted assets	642,276
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Capital and surplus - December 31, 2011	66,320,615
Net income	13,802,066
Change in net deferred income tax	(835,987)
Change in nonadmitted assets	421,988
Cummulative effect of changes in accounting principles	2,730,030
Dividends to stockholder	(13,000,000)
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Capital and surplus - December 31, 2012	69,438,712
Net income	12,277,647
Change in deferred income tax	(1,566,062)
Change in nonadmitted assets	1,554,246
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	81,704,543
Examination adjustments	(6,729,107)
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Capital and surplus - December 31, 2013	\$ 74,975,436
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Florida Health Care Plan, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2013

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, 2013 - per annual statement				\$ 81,704,543
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Bonds	\$ 61,321,598	\$ 56,276,698	\$ (5,044,900)	
Health care delivery assets	\$ 4,241,789	\$ 2,557,582	\$ (1,684,207)	(6,729,107)
Capital and surplus, December 31, 2013 - per examination				<u><u>\$ 74,975,436</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Bonds

The \$61,321,598 reported by the Company in its 2013 annual statement as bonds has been reduced by \$5,044,900 to \$56,276,698. The amount reported by the Company incorrectly included a certificate of deposit in the amount of \$5,044,900 which was pledged to the Florida Department of Management Services. Upon examination, the asset was nonadmitted in accordance with Section 641.35(1)(h) F.S. and paragraph 3 of Statement of Statutory Accounting Principles (SSAP) No. 4 because it was unavailable to satisfy policyholder obligations.

Health Care Delivery Assets

The \$4,241,789 reported by the Company in its 2013 annual statement as 'furniture and equipment, including health care delivery assets' has been reduced by \$1,684,207 to \$2,557,582. The amount reported by the Company incorrectly included cash deposits held by pharmaceutical vendors for future orders. Upon examination, the asset was nonadmitted in accordance with Section 641.35(1)(h), F.S. and paragraph 3 of Statement of Statutory Accounting Principles (SSAP) No. 4 because it was unavailable to satisfy policyholder obligations.

RECOMMENDATION

Accounting and Reporting Errors

As reported on page 13, the Company overstated the amounts of certain of its admitted assets in its 2013 annual statement. **We recommend that, in future statements filed with the Office, the Company accurately report its assets in accordance with Part I of Chapter 641, F.S. and SSAP.**

SUBSEQUENT EVENTS

Effective January 1, 2014, BCBSF reorganized under a policyholder-owned, not-for-profit mutual insurance holding company system, as approved by the Office on August 16, 2013. A new mutual insurance holding company, GuideWell Mutual Holding Corporation, replaced BCBSF as the Company's ultimate parent and BCBSF became a stock company wholly owned by the mutual insurance holding company.

In November of 2014, the Company distributed a \$12 million dividend to its stockholder.


CONCLUSION

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

At December 31, 2013, the Company's capital and surplus was \$74,975,436 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: Lisa M. Parker, ASA, MAAA, Actuary and Scott R. Slaughter, CPA, Financial Examiner/Analyst.

Respectfully submitted,


Darlene L. Lenhart-Schaeffer, CFE, CISA, APIR
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation