

Report on Examination
of
Florida MHS, Inc.

Miami, 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 Florida MHS, Inc. as of December 31, 2015. Our report on the examination follows.

Florida Office of Insurance Regulation
April 14, 2017

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SCOPE OF EXAMINATION

We have completed a financial condition examination of Florida MHS, Inc. (the "Company"), a Florida health maintenance organization (HMO). Our examination covered the period of January 1, 2015 through December 31, 2015. The last financial condition examination of the Company conducted by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2014. The examination was conducted by Lewis & Ellis, Inc. on behalf of 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.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes (F.S.) and general information about the insurer and its financial conditions. 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 on December 14, 2011 and licensed by the Office as a HMO on September 26, 2012. It was authorized by the State of Florida to operate as a HMO in accordance with Part I of Chapter 641, F.S.

CORPORATE RECORDS

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

Dividends and Capital Contributions

The Company received capital contributions in the amount of \$31.5 million in 2015. No dividends were distributed during the period examined.

MANAGEMENT AND CONTROL

The Company was wholly owned by Magellan Healthcare, Inc. which was wholly owned by Magellan Health, Inc., a publicly traded company.

Its senior officers and directors as of December 31, 2015 were:

Senior Officers

Name	Title
Kerry McDonald	Chief Executive Officer
Matthew B. Peary	Chief Financial Officer
Anne M. McCabe	Senior Vice President
Jonathan N. Rubin	Vice President and Treasurer
Daniel N. Gregoire	Vice President and Secretary

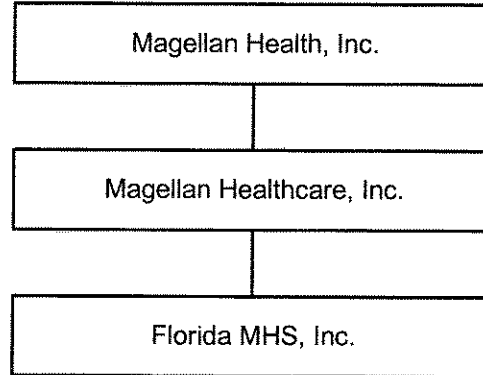
Board of Directors

Name	Location
Daniel N. Gregoire	Avon, Connecticut
Jonathan N. Rubin	Avon, Connecticut
Sam Srivastava	Avon, Connecticut

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 30, 2016.

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

**Florida MHS, Inc.
Abbreviated Organizational Chart
December 31, 2015**



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

Master Services Agreement

Magellan Health, Inc. (formerly known as Magellan Health Services, Inc.) provided administrative services to the Company pursuant to an agreement effective April 1, 2012 and later amended. Compensation for the costs of dedicated staff and the office facility is reimbursed based on direct cost. Compensation for non-dedicated staff services is based on a monthly administrative fee equal to two percent (2.0%) of all capitation revenue. Additionally, in the event that during any calendar year the Company experiences an underwriting loss, Magellan Health, Inc. will forgive the compensation otherwise payable under this agreement to the extent of the loss.

Guaranty Agreement

Magellan Health Services, Inc. (Guarantor) entered into a guaranty agreement effective April 1, 2012 in favor of the Office in connection with the Company's application for a certificate of

authority to operate as a HMO. Guarantor unconditionally and irrevocably guaranties to the Office and becomes surety to the Office for the obligations of the Company to maintain surplus as required by F.S. 641.225 and to make payment of covered subscriber claims and to satisfy all other liabilities of the Company. In the event that any such obligation of the Company is not met, Guarantor promptly shall pay to the Company or the Office amounts sufficient for the Company to meet such obligations.

Tax Allocation Agreement

The results of the Company's operations were included in Magellan Health, Inc.'s consolidated federal income tax return pursuant to a tax allocation agreement effective January 1, 2013. Per the agreement, federal income taxes of the group were allocated to the Company on a separate return basis with credit given for realizable tax benefits of pre-tax losses.

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 a named insured on Magellan's commercial crime policy issued by a licensed Florida carrier, in the amount of \$15 million with a deductible of \$250,000. This adequately met the requirements of Section 641.22 (7), F.S.

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 provided comprehensive health care services to Medicaid members pursuant to a contract with the State of Florida. 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 September 23, 2018. As an IPA model HMO, the Company had 42,320 Medicaid members as of December 31, 2015. The Company was authorized to operate in the following Florida counties: Baker, Bay, Brevard, Broward, Calhoun, Clay, Duval, Flagler, Franklin, Gadsden, Gulf, Hardee, Highlands, Hillsborough, Holmes, Indian River, Jackson, Jefferson, Leon, Liberty, Madison, Manatee, Martin, Miami-Dade, Monroe, Nassau, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Saint Johns, Saint Lucie, Seminole, Taylor, Volusia, Wakulla, and Washington.

COMPANY GROWTH

The Company reported the following for 2015:

(Dollars are in millions)

	<u>2015</u>
Member months	489,934
Year-end enrollment	42,320
Premiums	\$ 435.0
Total revenues	\$ 440.9
Total underwriting deductions	\$ 472.3
Net income (loss)	\$ (21.5)
Stockholder dividends	\$ -
Paid in surplus received	\$ 31.5
Admitted assets	\$ 122.9
Liabilities	\$ 83.7
Capital and surplus (deficit)	\$ 39.2

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.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Office, are reflected on the following pages:

Florida MHS, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2015

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	\$ 112,215,978	\$ -	\$ 112,215,978
	112,215,978	-	112,215,978
Investment income due and accrued	870,864	-	870,864
Current income tax recoverable	9,639,592	-	9,639,592
Aggregate write-ins for other than invested assets	175,965	-	175,965
Total admitted assets	\$ 122,902,399	\$ -	\$ 122,902,399

Liabilities			
Claims unpaid	\$ 71,577,122	\$ -	\$ 71,577,122
Unpaid claims adjustment expenses	474,202	-	474,202
General expenses due and accrued	2,882,191	-	2,882,191
Amounts withheld or retained for accounts of others	960,320	-	960,320
Amounts due to parent, subsidiaries, and affiliates	7,774,228	-	7,774,228
Total liabilities	83,668,063	-	83,668,063

Capital and Surplus			
Aggregate write-ins for special surplus funds	8,840,000	-	8,840,000
Common capital stock	10	-	10
Gross paid in and contributed surplus	77,801,613	-	77,801,613
Unassigned funds (deficit)	(47,407,287)	-	(47,407,287)
Total capital and surplus	39,234,336	-	39,234,336
Total liabilities, capital and surplus	\$ 122,902,399	\$ -	\$ 122,902,399

Florida MHS, Inc.
Statement of Revenue and Expenses
(As Reported by the Company)
Year Ended December 31, 2015

Net premium income	\$ 434,987,175
Aggregate write-ins for other health care related revenues	5,899,593
Total revenues	440,886,768
Hospital and medical benefits	165,902,472
Other professional services	170,197,757
Prescription drugs	90,537,011
Total hospital and medical	426,637,240
Claims adjustment expenses	16,881,188
General administrative expenses	28,829,531
Total underwriting deductions	472,347,959
Net underwriting loss	(31,461,191)
Net investment gains	311,255
Income before federal income tax	(31,149,936)
Federal income tax	(9,639,592)
Net income (loss)	\$ (21,510,344)

Florida MHS, Inc.
Statement of Changes in Capital and Surplus
Three Years Ended December 31, 2015

Capital and surplus - December 31, 2014	29,295,322
Net income (loss)	(21,510,344)
Change in nonadmitted assets	(11,832)
Paid in surplus	31,461,190
	<hr/> 39,234,336
Examination adjustments	-
	<hr/>
Capital and surplus - December 31, 2015	<u>\$ 39,234,336</u>

Florida MHS, 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.

Capital and surplus, December 31, 2015 - per Annual Statement			\$ 39,234,336
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total admitted assets	\$ 122,902,399	\$ 122,902,399	\$ -
Total liabilities	\$ 83,668,063	\$ 83,668,063	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2015 - per examination			\$ 39,234,336

SUBSEQUENT EVENTS

Anna McCabe was appointed President effective January 1, 2016. In addition, Mary Hamilton replaced Matthew Peary as Chief Financial Officer effective February 1, 2016.

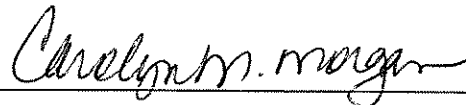
CONCLUSION

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

At December 31, 2015, the Company's capital and surplus was \$ 39,234,336 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: Amy L. Carter, CFE, CPA, and Ryne Davison, CFE, Participating Examiners, of Lewis & Ellis, Inc. We also recognize Margaret M. McCrary, CPA, CGMA, Financial Examiner/Analyst Supervisor; Marshay Spencer, Financial Specialist; and Lisa Parker, ASA, MAA, Actuary, participating in the examination.

Respectfully submitted,

A handwritten signature in cursive script, reading "Carolyn M. Morgan", is written over a horizontal line.

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