

Report on Examination
of
Florida Health Care Plan, Inc.
Holly Hill, Florida
as of
December 31, 2018



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

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COMMISSIONER OF AGRICULTURE

David Altmaier, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399

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, 2018. Our report on the examination follows.

Florida Office of Insurance Regulation
April 24, 2020

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2018 of Florida Health Care Plan, Inc. (Company), a single-state insurer domiciled in Florida. The examination covered the period of January 1, 2014 through December 31, 2018 and took place primarily in the Company's Holly Hill office and Tallahassee, Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (Office) was as of December 31, 2013.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook required that we plan and perform our examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. Our examination also included identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statement.

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 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.

SUMMARY OF SIGNIFICANT FINDINGS

The Company was not in compliance with Section 641.35 (7), F.S. *Directors Must Authorize or Ratify Investments*. Recommendation relating to this finding was summarized on page 13.

COMPANY HISTORY

The Company was incorporated in Florida on August 7, 2008 and licensed by the Office as a health maintenance organization (HMO) on December 9, 2008. It was authorized by the State of Florida to operate as an HMO in accordance with Part 1 of Chapter 641, F.S. In addition, the Company was licensed as a Florida third party administrator pursuant to Part VII of Chapter 626, F.S.

Mergers and Acquisitions

There were no mergers or acquisitions to report during the examination period.

CORPORATE RECORDS

The minutes of meetings held by the Company's Board of Directors (Board) were reviewed for the period under examination. The Company was not in compliance with Section 641.35 (7), F.S. *Directors Must Authorize or Ratify Investments* regarding maintenance of evidence of minutes, and the regular reporting/submission of such records to the Board for years 2015 through 2018. A recommendation relating to this finding is shown on page 13.

DIVIDENDS AND CAPITAL CONTRIBUTIONS

The Company distributed stockholder dividends in the following amounts: \$12.0 million in 2014, \$12.0 million in 2017, and \$12.0 million in 2018. The Company did not receive capital contributions during the examination period.

MANAGEMENT AND CONTROL

The Company was wholly owned by Diversified Health Services, Inc. (DHS). DHS was a wholly owned subsidiary of GuideWell Group, Inc. (GGI), and GGI was 100% owned by GuideWell Mutual Holding Corporation. The Company had three wholly owned subsidiaries: Atlantic Institute of Clinical Research, Inc., East Coast Bariatrics, Inc., and Florida Health Care Plan Provider Option, Inc.

Its senior officers, directors, and members of principal board committees were:

Senior Officers

Name	Title
Wendy A. Myers, M.D. *	President and Chief Executive Officer
David C. Schandel	Chief Financial Officer and Assoc. CEO
Arezou C. Jolly, Esq.	Secretary
Pamela J. Thomas, Esq.	Assistant Secretary

* Wendy A. Myers retired October 3, 2019 replaced by David C. Schandel

Melanie Ruel was elected as Chief Financial Officer October 14, 2019

Board of Directors

Name	Location
William A. Coats	Jacksonville, Florida
Wendy A. Myers, M.D. *	Daytona Beach, Florida
David C. Schandel	Ormond Beach, Florida
Elana Schrader, M.D.	Jacksonville, Florida
Shawn Trotter-Mitchell	Jacksonville, Florida
Jon R. Urbanek	Jacksonville, Florida

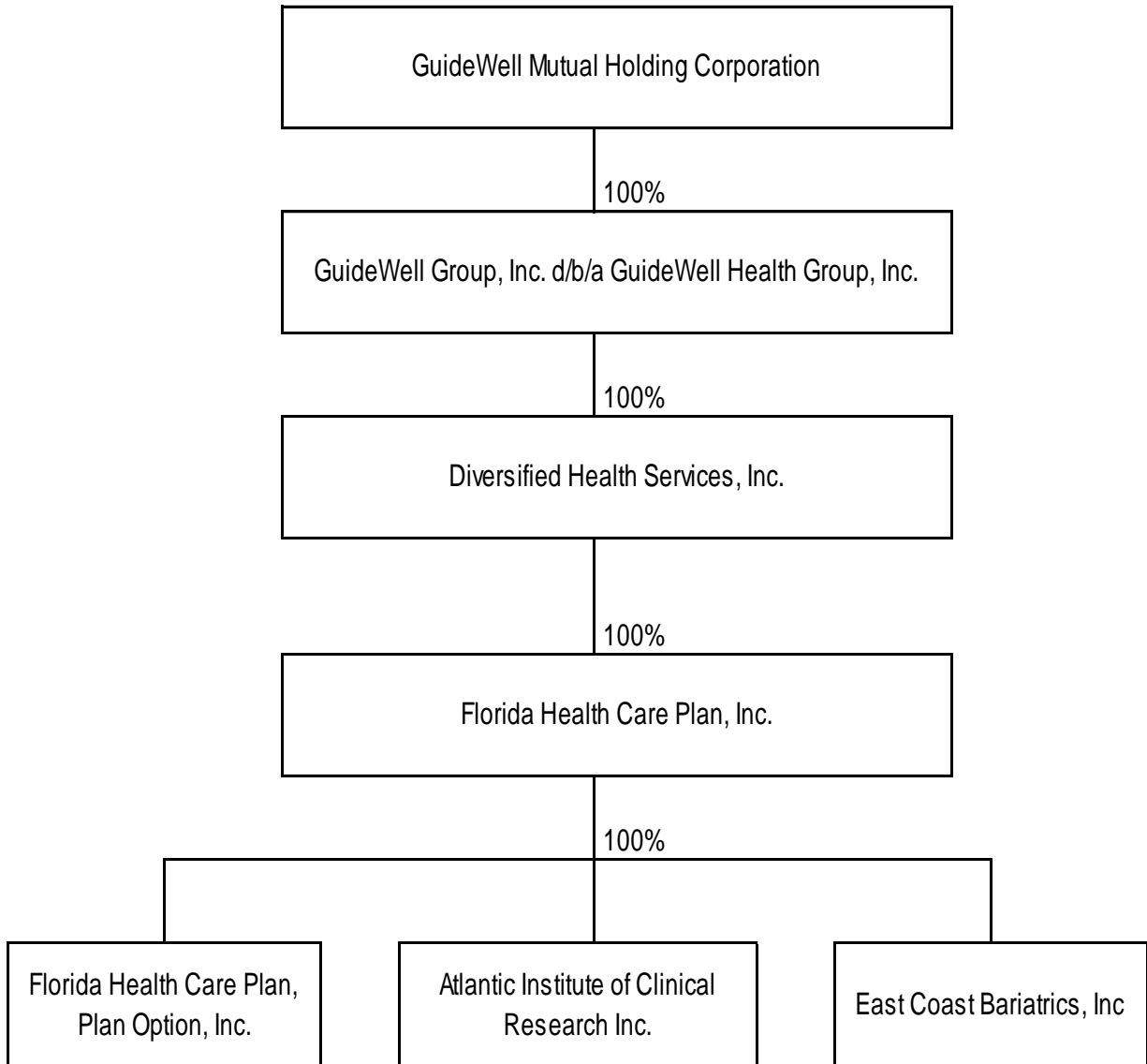
* Wendy A. Myers retired October 3, 2019

Ravi Govila, M.D. was elected as Director effective September 16, 2019

The Holding Company Registration Statement for 2018 was filed timely with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.).

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

**Florida Health Care Plan, Inc.
Abbreviated Organizational Chart
December 31, 2018**



AFFILIATED AND OTHER AGREEMENTS

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

Administrative Services Agreement

The Company and other affiliates were party to an administrative services agreement effective December 31, 2007 and later amended on December 15, 2014. Pursuant to the agreement, each affiliate was entitled to provide and/or receive administrative services. Services included accounting, tax and auditing, underwriting, claims, investment and other functional support services.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of the group pursuant to an amended tax allocation agreement, effective January 1, 2014, and amended subsequent to the period under examination. 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.

TERRITORY AND PLAN OF OPERATION

During the examination period, the Company provided health care services to members residing in its service areas of Brevard, Flagler, St. Johns, Seminole and Volusia Counties. In 2014 and 2015, the Company's service area also included Collier County. Members are comprised of three major product lines: Commercial Group, Individual and Medicare. In 2014 and 2015, the Company also provided health care services to Florida Healthy Kids members. Effective January

1, 2018, and as permissible by Section 641.2017, F.S., the Company entered into HMO Self-Funded arrangements with two employer groups to provide certain administrative services along with limiting the groups' risk of hospital inpatient claims exceeding specific dollar thresholds.

COMPANY GROWTH

The Company reported the following for years 2014 through 2018:

(Dollars are in millions)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Member months	638,800	628,465	804,428	950,568	1,028,901
Year-end enrollment	53,462	49,707	67,768	77,093	84,005
Revenues	\$ 342.7	\$ 358.1	\$ 428.0	\$ 501.7	\$ 611.9
Underwriting deductions	\$ 337.0	\$ 346.9	\$ 409.3	\$ 480.2	\$ 579.7
Net income	\$ 5.0	\$ 7.5	\$ 12.0	\$ 16.4	\$ 25.6
Shareholder dividends	\$ 12.0	\$ -	\$ -	\$ 12.0	\$ 12.0
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 117.3	\$ 115.8	\$ 166.4	\$ 192.6	\$ 202.4
Liabilities	\$ 42.7	\$ 40.3	\$ 78.9	\$ 104.8	\$ 98.6
Capital and surplus	\$ 74.6	\$ 75.5	\$ 87.5	\$ 87.8	\$ 103.8

REINSURANCE

Effective March 1, 2015, the Company changed its excess risk reinsurance carrier from Blue Cross and Blue Shield of Florida, Inc. to RGA Reinsurance Company (RGA). Pursuant to the agreement with RGA effective March 1, 2018, the Company ceded 80% of its eligible expenses in excess of \$500,000 per member per agreement year, up to \$3,000,000 per member per agreement period.

ACCOUNTS AND RECORDS

There were no significant examination findings related to the Company's accounts and records.

SURPLUS NOTES

There were no surplus notes issued by the Company during the examination period.

STATUTORY DEPOSITS

The Company maintained 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.

Holder	Description	Par Value	Market Value
Florida	Cash deposit	\$ 300,000	\$ 300,000
Florida	Cash deposit	10,000	10,000
Total deposits		\$ 310,000	\$ 310,000

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If, during the examination an adjustment were 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:

Florida Health Care Plan, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2018

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 83,927,596	\$ -	\$ 83,927,596
Properties occupied by the company	15,008,375	-	15,008,375
Cash, cash equivalents and short-term investments	77,228,372	-	77,228,372
	176,164,343	-	176,164,343
Investment income due and accrued	104,771	-	104,771
Uncollected premiums and agents' balances	5,392,371	-	5,392,371
Accrued retrospective premiums	3,472,709	-	3,472,709
Amounts recoverable from reinsurers	41,391	-	41,391
Amounts receivable relating to uninsured plans	834,618	-	834,618
Current federal and foreign income tax recoverable	920,327	-	920,327
Net deferred tax asset	3,512,983	-	3,512,983
Electronic data processing equipment and software	2,526,434	-	2,526,434
Furniture and equipment	3,308,899	-	3,308,899
Health care and other amounts receivable	6,167,103	-	6,167,103
Total admitted assets	\$ 202,445,948	\$ -	\$ 202,445,948
Liabilities			
Claims unpaid	\$ 68,746,466	\$ -	\$ 68,746,466
Accrued medical incentive pool and bonus amounts	1,364,037	-	1,364,037
Unpaid claims adjustment expenses	1,000,000	-	1,000,000
Aggregate health policy reserves	7,950,579	-	7,950,579
Premiums received in advance	5,154,557	-	5,154,557
General expenses due or accrued	6,675,706	-	6,675,706
Ceded reinsurance premiums payable	243,161	-	243,161
Amounts withheld or retained for the account of others	1,464,291	-	1,464,291
Amounts due to parent, subsidiaries and affiliates	1,140,787	-	1,140,787
Payable for securities	2,656,354	-	2,656,354
Liability for amounts held under uninsured plans	2,119,518	-	2,119,518
Aggregate write-ins for other liabilities	88,051	-	88,051
Total liabilities	\$ 98,603,507	\$ -	\$ 98,603,507
Capital and Surplus			
Common capital stock	\$ 1,000	\$ -	\$ 1,000
Gross paid in and contributed surplus	22,231,695	-	22,231,695
Unassigned funds (surplus)	81,609,747	-	81,609,747
Total capital and surplus	103,842,441	-	103,842,441
Total liabilities, capital and surplus	\$ 202,445,948	\$ -	\$ 202,445,948

Florida Health Care Plan, Inc.
Statement of Revenue and Expenses
Year Ended December 31, 2018

Net premium income	\$ 609,752,644
Fee-for-service	1,385,574
Risk revenue	618,713
Aggregate write-ins for other health care revenues	179,623
Total revenues	611,936,553
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Hospital and medical benefits	209,995,268
Other professional services	143,273,013
Outside referrals	9,769,635
Emergency room and out-of-area	78,602,620
Prescription drugs	40,501,893
Aggregate write-ins for other hospital and medical	18,963,619
Incentive pool, withhold adjustments and bonus amou	1,666,155
	502,772,202
Net reinsurance recoveries	1,421,222
Total hospital and medical	501,350,981
Claims adjustment expenses	6,211,800
General administrative expenses	72,118,691
Total underwriting deductions	579,681,472
Net underwriting gain	32,255,081
Net investment gains	595,706
Aggregate write-ins for other income or expenses	871,591
Net income after capital gains tax	33,722,379
Federal and foreign income taxes incurred	8,115,871
Net income	\$ 25,606,508

Florida Health Care Plan, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2018

Capital and surplus - December 31, 2013	\$ 81,704,541
Net income	4,954,133
Change in net deferred income tax	(1,078,047)
Change in nonadmitted assets	1,031,084
Dividends to stockholders	(12,000,000)
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Capital and surplus - December 31, 2014	74,611,711
Net income	7,539,302
Change in net deferred income tax	1,261,858
Change in nonadmitted assets	(7,947,450)
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Capital and surplus - December 31, 2015	75,465,421
Net income	12,045,868
Change in net deferred income tax	(550,429)
Change in nonadmitted assets	466,363
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Capital and surplus - December 31, 2016	87,427,223
Net income	16,398,081
Change in net deferred income tax	(6,116,205)
Change in nonadmitted assets	2,075,523
Dividends to stockholders	(12,000,000)
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Capital and surplus - December 31, 2017	87,784,621
Net income	25,606,508
Change in net deferred income tax	(1,696,189)
Change in nonadmitted assets	4,147,501
Dividends to stockholders	(12,000,000)
<hr/>	
	103,842,441
Examination adjustments	-
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Capital and surplus - December 31, 2018	<u>\$ 103,842,441</u>

Florida Health Care Plan, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2018

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, 2018 - per annual statement				\$ 103,842,441
	<u>Per</u>	<u>Per</u>	<u>Increase</u>	
	<u>Company</u>	<u>Examination</u>	<u>(Decrease)</u>	
			<u>In Capital</u>	
			<u>& Surplus</u>	
Total assets	\$ 202,445,948	\$ 202,445,948	\$ -	
Total liabilities	\$ 98,603,507	\$ 98,603,507	\$ -	
Capital and surplus, December 31, 2018 - per examination				\$ 103,842,441

COMMENTS ON FINANCIAL STATEMENTS

The actuarial reserves and claims liabilities were reviewed and it was determined that the reserves as reported by the Company are acceptable. There were no material changes required to be made to the Company's financial statements.

SUMMARY OF RECOMMENDATIONS

Investments – Corporate Records

As reported on page 2, the Company was not in compliance with Section 641.35 (7), F.S., "No investment or loan shall be made or engaged in by any health maintenance organization unless the same has been authorized or ratified by the organization's board of directors or by a committee, department, or section of the organization charged with the duty of supervising investments and loans. The minutes or records of any such committee, department, or section shall be maintained and regular reports of such committee, department, or section shall be submitted to the board of directors." The examination was unable to verify evidence of the maintenance of minutes or records, and the regular reporting/submission of such records to the Board as required by Section 641.35(7), F.S. **We recommend the Company document and maintain the records related to the Company's reporting/submission of investments to the Board in accordance with Section 641.35(7), F.S.**

SUBSEQUENT EVENTS

In addition to reviewing board minutes and financial statements, the examination also considered notable subsequent events occurring after the December 31, 2018 examination date. Effective October 3, 2019 Wendy A. Myers, M.D. retired as President and Chief Executive Officer and was replaced by David C. Schandel; Melanie Ruel was elected as Chief Financial Officer October 14, 2019. Ms. Myers also retired as a Director, and Ravi Govila, M.D. was elected to the Board September 16, 2019.

The Company's Centers for Medicare and Medicaid Services contract for its Medicare products was novated to Health Options, Inc. (HOI) effective for the 2019 calendar year. The Company will serve as a delegated entity and as such will render certain medical and administrative services of the designated HOI Medicare plans.

In March 2020, the World Health Organization recognized the coronavirus (COVID-19) outbreak as a pandemic. While the complete effects of COVID-19 on the economy and financial markets are still unknown, the Office recognizes that it could have a significant impact on all domestic insurers, including the Company. The Office will continue to closely monitor this situation and share information with the Company as appropriate regarding these developments.

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, 2018, the Company's capital and surplus was \$103,842,441 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

The following individuals participated in the examination: Joseph R. May, CFE, CPA, CMA, CIE, Examiner-in-Charge; Francois Houde, CFE, CISA, AES, CPA, CA, IT Specialist; Sharon Stuber, CPA, Participating Examiner; Robin Brown, CFE, Participating Examiner, associated with the firm of Carr, Riggs & Ingram, LLC; as well as Kirk Braunius, ASA, MAAA, Actuary associated with the firm of Merlinos & Associates, Inc.

The following individuals from the Florida Office of Insurance Regulation also participated in the examination: Marshay Spencer, APIR, Examination Manager and Glenn Coats, APIR Participating Examiner.

Respectfully submitted,



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