

Report on Examination

of

Humana Health Insurance Company of Florida, Inc.

Miramar, 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 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Humana Health Insurance Company of Florida, Inc. as of December 31, 2015. Our report on the examination follows.

Florida Office of Insurance Regulation
March 23, 2017

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2015 of Humana Health Insurance Company of Florida, Inc. (the "Company"), a multi-state insurer domiciled in Florida. The examination covered the period of January 1, 2011 through December 31, 2015 and took place primarily in the Company's Louisville, Kentucky office. 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 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 on December 19, 1983 and licensed by the Office as an insurer on February 8, 1984. It was authorized by the State of Florida to operate as an accident and health insurer in accordance with Section 624.401, F.S. As approved by the Office on August 10, 1998, Life Insurance was added as a line of business to the Certificate of Authority of the Company (due to the merger of PCA Life Insurance Company into the Company). As approved by the Office on March 28, 2003, Individual Life was added as a line of business to the Certificate of Authority of the Company.

CORPORATE RECORDS

We reviewed the minutes of meetings held by the Company's shareholder and board of directors, and by its audit and finance committees. The Board's approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S., was recorded in the minutes of its meetings.

Dividends and Capital Contributions

The Company distributed shareholder dividends in the amounts of \$10 million and \$36 million in years 2012 and 2011, respectively. The Company received paid-in surplus contributions in the amounts of \$1.8 million, \$1.4 million, and \$1.8 million in the years 2011, 2012, and 2015, respectively. The Company distributed an extraordinary dividend in the amount of \$50 million in 2013, and an ordinary dividend in the amount of \$5 million in 2014.

MANAGEMENT AND CONTROL

The Company was wholly owned by Humana Inc., a Louisville, Kentucky health insurance company. The common stock of Humana, Inc. is traded on the New York Stock Exchange. The Company was affiliated through common ownership and control with numerous other entities including CarePlus Health Plans, Inc., a Florida HMO, and Humana Medical Plan, Inc., a Florida HMO.

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

Senior Officers

Name	Title
Bruce Dale Broussard	President & CEO
Brian Andrew Kane	Sr. VP & CFO
Joan Olliges Lenahan	VP & Corporate Secretary
Kenny Waitem Kan	VP & Chief Actuary
Stephen Michael Arnhold	Vice President
Alan James Bailey	VP & Treasurer
Elizabeth Diane Bierbower	President - Group Segment
Jonathan Albert Canine	VP & Appointed Actuary
John Gregory Catron	VP & Chief Compliance Officer
Steven James DeRaleau	President - HumanaOne
Louis Manual Fernandez	VP & Chief Medical Officer
Deborah Maureen Galloway	Regional President - Sr. Products
Brian Phillip LeClaire	VP & Chief Info Officer
Heidi Suzanne Margulis	Sr. Vice President
Mark Matthew Matzke	VP of Group Segment
Steven Edward McCulley	SVP of Medicare
Kevin Ross Meriwether	VP & Division Leader
William Mark Preston	VP - Investments
Tamara Lynn Quiram	Segment VP
Richard Donald Remmers	VP of Group Segment
George Renaudin	Segment VP - Medicare
Donald Hank Robinson	VP- Tax
Fernando Jose Valverde	Regional President - Sr. Products
Joseph Christopher Ventura	Assistant Corporate Secretary
Timothy Alan Wheatley	President - Retail Segment
Ralph Martin Wilson	Vice President
Cynthia Hillebrand Zipperle	VP & Chief Accounting Officer

Board of Directors

<u>Name</u>	<u>Location</u>
Elizabeth Diane Bierbower	Louisville, Kentucky
Bruce Dale Broussard	Louisville, Kentucky
Brian Andrew Kane	Louisville, Kentucky
James Elmer Murray	Louisville, Kentucky
Timothy Alan Wheatley	Louisville, Kentucky

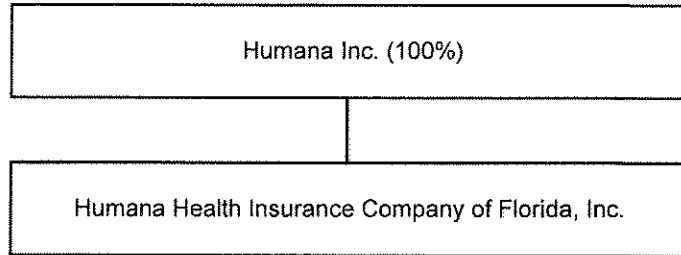
Audit Committee

Frank A. D'Amelio
William E. Mitchell
David B. Nash, M.D.
James J. O'Brien

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 690-143.046, Florida Administrative Code (F.A.C.), on March 30, 2016.

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

**Humana Health Insurance Company of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2015**



The following agreement(s) were in effect between the Company and its affiliates.

Corporate Service Agreement

Effective June 16, 2003, the Company entered into a Corporate Service Agreement with Humana Inc. Pursuant to the Agreement Humana Inc. will furnish its health care management/service expertise to the Company. The agreement was later amended to reflect changes required by the Centers for Medicare & Medicaid Services (CMS).

Indemnity Agreement

Pursuant to a June 30, 1995 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.

Medicare Risk Marketing Service Agreement

Effective June 7, 2006, the Company entered into a Service Agreement with Humana MarketPOINT, Inc. and Humana Inc. Pursuant to the Agreement, Humana MarketPOINT will furnish its health care management/service expertise to the Company. The agreement was later amended to reflect changes required by CMS.

Service Center Service Agreement

Effective June 16, 2003, the Company entered into a Service Center Service Agreement with Humana Inc. as repository, and Humana Insurance Company, as the service provider. Pursuant to the Agreement, the Company is provided with services such as claims processing, billing and enrollment, customer service, and front end operations. This agreement was later amended to reflect the required language changes required by CMS.

Tax Allocation Agreement

Effective June 16, 2003, the Company entered into a Tax Allocation Agreement with Humana Inc. Pursuant to the Agreement, Humana Inc. will file a consolidated tax return. The consolidated tax liability for each year shall be apportioned among Humana and Subsidiary in accordance with the ratio which that portion of the consolidated tax liability attributable to each member of the group.

FIDELITY BONDS AND OTHER INSURANCE

Humana Inc. maintained a fidelity bond which included coverage of its subsidiaries including the Company. The bond provided coverage of \$25 million with a deductible of \$5 million for each claim mass or class action and \$3 million for each individual claim which exceeded the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1 million.

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 insurance coverage through a variety of plans for employer groups and government-sponsored programs. It also provided health and pharmacy insurance coverage to Medicare members pursuant to an agreement with CMS. The Company was authorized to transact insurance in Florida and Kentucky, but only wrote business in Florida.

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	1,591,517	1,538,778	1,614,553	1,091,948	1,000,368
Year-end enrollment					
Premiums	\$ 259.9	\$ 328.5	\$ 313.3	\$ 286.0	\$ 264.2
Revenues	\$ 248.9	\$ 326.9	\$ 323.7	\$ 287.2	\$ 265.6
Underwriting deductions	\$ 238.8	\$ 301.0	\$ 313.5	\$ 281.2	\$ 252.8
Net income	\$ 10.1	\$ 25.9	\$ 10.2	\$ 6.0	\$ 12.8
Shareholder dividends	\$ 36.0	\$ 10.0	\$ -	\$ -	\$ -
Paid in surplus received	\$ 1.8	\$ 1.4	\$ (48.0)	\$ (3.3)	\$ 1.8
Admitted assets	\$ 160.0	\$ 167.9	\$ 125.8	\$ 134.6	\$ 133.5
Liabilities	\$ 86.9	\$ 72.8	\$ 69.3	\$ 75.5	\$ 61.0
Capital and surplus	\$ 73.0	\$ 95.0	\$ 56.4	\$ 59.1	\$ 72.5

REINSURANCE

Fully Insured Medical Excess of Loss Reinsurance Contract

Effective October 1, 2015, Humana Inc. entered into an Excess of Loss Reinsurance Agreement with AXIS Insurance Company on behalf of some of its subsidiaries, including HHIFL. Pursuant to the Agreement, AXIS will be liable for 100% of the Ultimate Net Loss in excess of the Company's retention of \$3,000,000 as a result of any one Member, during the term of the agreement. The Reinsurer's liability for Ultimate Net Loss in respect of any one Member shall not exceed 100% of \$9,000,000 during the term of the agreement.

Stop Loss Medical Excess of Loss Reinsurance Contract

Effective October 1, 2015, Humana Inc. entered into a Stop Loss Medical Excess of Loss Reinsurance Agreement with AXIS Insurance Company on behalf of some of its subsidiaries, including the Company. Pursuant to the Agreement, AXIS will be liable for 100% of the Ultimate

Net Loss in excess of the Company's retention of \$3,000,000 as respects to any one Member, any one Policy Period, which is inclusive of the Member's self-insured retention. The Reinsurer's liability for Ultimate Net Loss in respect for any one Member shall not exceed 100% of \$9,000,000 during any one Policy Period.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with other jurisdictions as required:

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury bond	\$1,700,000	\$1,700,170
Florida	U.S. Treasury bond	225,000	225,675
Florida	U.S. Treasury bond	600,000	601,800
Florida	U.S. Treasury bond	500,000	500,050
Total Florida deposits		3,025,000	3,027,695

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:

Humana Health Insurance Company of Florida, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$ 92,552,009	\$ -	\$ 92,552,009
Cash, cash equivalents and short-term investments	18,062,233	-	18,062,233
	110,614,242	-	110,614,242
Investment income due and accrued	822,311	-	822,311
Uncollected premiums and agents' balances	617,693	-	617,693
Accrued retrospective premiums	934,420	-	934,420
Amounts recoverable from reinsurers	1,321,420	-	1,321,420
Other amounts receivable under reinsurance contracts	18,487	-	18,487
Amounts receivable relating to uninsured plans	2,699,088	-	2,699,088
Net deferred tax asset	13,135,599	-	13,135,599
Electronic data processing equipment and software	1,659,950	-	1,659,950
Health care and other amounts receivable	1,691,884	-	1,691,884
Total admitted assets	\$133,515,094	\$ -	\$133,515,094
Liabilities			
Claims unpaid	\$ 23,332,749	\$ -	\$ 23,332,749
Unpaid claims adjustment expenses	177,233	-	177,233
Aggregate health policy reserves	7,902,173	-	7,902,173
Aggregate life policy reserves	2,173,324	-	2,173,324
Aggregate health claim reserves	4,000	-	4,000
Premiums received in advance	1,525,313	-	1,525,313
General expenses due and accrued	15,487,033	-	15,487,033
Current federal and foreign income tax payable	135,489	-	135,489
Ceded reinsurance premiums payable	177,230	-	177,230
Amounts withheld or retained for the account of others	101,440	-	101,440
Remittances and items not allocated	49,033	-	49,033
Amounts dues to parent, subsidiaries, and affiliates	9,906,146	-	9,906,146
Liability for amounts held under uninsured plans	74,643	-	74,643
Total liabilities	61,045,806	-	61,045,806
Capital and Surplus			
Common capital stock	1,000,000	-	1,000,000
Aggregate write-ins for special surplus funds	4,454,999	-	4,454,999
Gross paid in and contributed surplus	135,702,713	-	135,702,713
Unassigned funds (deficit)	(68,688,424)	-	(68,688,424)
Total capital and surplus	72,469,288	-	72,469,288
Total liabilities, capital and surplus	\$133,515,094	\$ -	\$133,515,094

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

Net premium income	\$ 264,159,692
Change in unearned premium reserves	1,467,710
Total revenues	\$ 265,627,402
Hospital and medical benefits	182,475,145
Other professional services	7,333,165
Outside referrals	-
Emergency room and out-of-area	7,584,919
Prescription drugs	23,094,111
	<u>220,487,340</u>
Net reinsurance recoveries	2,059,939
Total hospital and medical	218,427,401
Non-health claims	26,430
Claims adjustment expenses	13,306,440
General administrative expenses	25,795,879
Increase in reserves	(3,368,082)
Total underwriting deductions	254,188,068
Net underwriting gain	11,439,334
Net investment gains	4,503,136
Aggregate write-ins for other income	756
Income before federal income tax	15,943,226
Federal income tax	3,130,956
Net income	\$ 12,812,270

Humana Health Insurance Company of Florida, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2015

Capital and surplus - December 31, 2010	\$ 97,802,103
Net income	10,105,447
Change in net deferred income tax	2,114,373
Change in net unrealized capital gains	(19,101)
Change in nonadmitted assets	(2,801,322)
Paid-in surplus	1,829,538
Dividends to stockholder	(36,000,000)
Aggregate write-ins for gains or (losses)	(5,344)
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Capital and surplus - December 31, 2011	73,025,694
Net income	25,902,698
Change in net deferred income tax	(10,950,356)
Change in net unrealized capital gains	27,249
Change in nonadmitted assets	7,765,321
Cumulative effect of changes in accounting principles	7,937,057
Paid-in surplus	1,384,512
Dividends to stockholder	(10,000,000)
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Capital and surplus - December 31, 2012	95,092,175
Net income	10,196,502
Change in net deferred income tax	941,195
Change in net unrealized capital gains	(9,340)
Change in nonadmitted assets	(1,744,308)
Paid-in surplus	(48,026,834)
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Capital and surplus - December 31, 2013	56,449,390
Net income	6,007,399
Change in net deferred income tax	98,549
Change in net unrealized capital gains	7,952
Change in nonadmitted assets	(227,529)
Paid-in surplus	(3,256,988)
Aggregate write-ins for gains or (losses)	(6,953)
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Capital and surplus - December 31, 2014	59,071,820
Net income	12,812,270
Change in net deferred income tax	(3,596,675)
Change in net unrealized capital gains	(12,597)
Change in nonadmitted assets	2,428,757
Paid-in surplus	1,765,712
Rounding	1
<hr/>	
	72,469,288
Examination adjustments	-
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Capital and surplus - December 31, 2015	<u>\$ 72,469,288</u>

**Humana Health Insurance Company 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.

Capital and surplus, December 31, 2015 - per annual statement			\$72,469,288
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$133,515,094	\$133,515,094	\$ -
Total liabilities	\$ 61,045,806	\$ 61,045,806	\$ -
Capital and surplus, December 31, 2015 - per examination			<u>\$72,469,288</u>

COMMENTS ON FINANCIAL STATEMENTS

Aggregate Health and Life Policy Reserves and Claims Unpaid

The Florida Office of Insurance Regulation actuary reviewed the actuarial life and health reserves and claims liabilities for the Company as of December 31, 2015. The actuary determined that the life insurance and health insurance reserves reported by the Company are acceptable. The claim liabilities reported for life, accident, and health claims are acceptable.

SUBSEQUENT EVENTS

On July 2, 2015, Humana, Inc. entered into a Merger Agreement and Plan of Merger, with Aetna Inc. (Aetna) which sets forth the terms and conditions under which Humana, Inc. will merge with, and become a wholly owned subsidiary of Aetna. On October 19, 2015, Humana's stockholders approved the adoption of the Merger Agreement at a special stockholder meeting. Also on October 19, 2015, the holders of Aetna outstanding shares approved the issuance of Aetna common stock in the Merger at a special meeting of Aetna shareholders.

Aetna Inc. and Humana Inc. have ended their merger agreement in an announcement on February 14, 2017. The announcement comes after a federal judge ruled to block the planned transaction in January, saying the deal would "substantially lessen" competition in the individual Medicare Advantage market in every county cited in the Justice Department's lawsuit to stop the merger. The Companies said soon after the ruling that they would consider all available options for the deal. Humana will receive a breakup fee of \$1 billion, or approximately \$630 million, net of tax, from Aetna. Additionally, Aetna terminated its previously announced agreement to sell certain Medicare Advantage assets to Molina Healthcare Inc. and will pay the applicable fees associated with that termination.

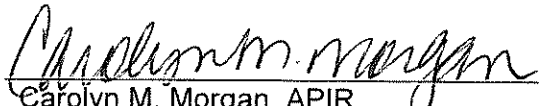
CONCLUSION

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

At December 31, 2015, the Company's capital and surplus was \$72,469,288 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination: David Palmer, CFE, Examiner-in-Charge; Ryne Davison, CFE; JJ Pan, CFE; and Emily Cheng, CFE, Participating Examiners, of Lewis & Ellis, Inc. We also recognize Luke Stavenau, Financial Examiner/Analyst Supervisor; and Kerry Krantz, Actuary participating in the examination.

Respectfully submitted,


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