

Report on Examination
of
Humana Medical Plan, Inc.

Miramar, Florida

as of

December 31, 2005

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

December 19, 2006

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2005, of the financial condition and corporate affairs of:

**Humana Medical Plan, Inc.
3501 SW 160th Ave.
Miramar, Florida 33027**

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2003 through December 31, 2005. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2001.

Planning for the current examination began on April 5, 2006. The fieldwork commenced on April 19, 2006 and concluded on September 22, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial condition examination conducted in accordance with the NAIC *Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions*, with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value, and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, various ratio results, *Best's Insurance Reports*, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2005 annual statement. Transactions subsequent to December 31, 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA for the following accounts:

- EDP equipment and software
- Net deferred tax liability
- Furniture and equipment
- Amounts withheld or retained for others
- Aggregate write-ins for other liabilities - unclaimed property

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2001, along with resulting action taken by the Company in connection therewith.

Contract Provisions

The prior examination resulted in a finding that the Company had entered into contracts that did not provide for their cancellation upon issuance of an order by the Office, in violation of Section 641.234, F.S. Resolution: The Company revised its agreements to comply with Section 641.234, F.S.

Amounts Due to Parent, Subsidiaries and Affiliates

The prior examination resulted in a finding that the Company failed to record expenses associated with claims paid on its behalf by its parent Humana Inc. in the total amount of \$8,630,079. As a result, the Company understated the amount it owed Humana Inc. at December 31, 2001, and overstated its 2001 net income in the amount of \$8,630,079. The Company was directed to provide the Office with documentation that it properly recorded these claims expenses and the related obligation to Humana Inc. Resolution: The Company complied with the directive.

HISTORY

GENERAL

The Company was incorporated in Florida on August 12, 1986, and commenced business on June 1, 1987.

As of the date of this examination, the Company was authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S.

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

CAPITAL STOCK

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	500,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Stated value per share	\$1.00

At December 31, 2005, the Company was wholly-owned and controlled by Humana Inc. An abbreviated organizational chart appears on page 8.

PROFITABILITY

For the period of this examination, the Company reported the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Year-end enrollment	465,552	455,056	464,112
In \$ millions:			
Net premium income	\$2,993.6	\$2,629.1	\$2,361.6
Total revenues	\$2,993.6	\$2,629.1	\$2,361.6
Net income	\$102.2	\$164.9	\$61.6
Total capital & surplus	\$199.4	\$258.6	\$163.8

DIVIDENDS

The Company distributed dividends in the amounts of \$45.0 million, \$61.0 million, and \$164.8 million in years 2003, 2004, and 2005, respectively.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S. Directors serving as of December 31, 2005 were:

Directors	
Name and Location	Principal Occupation
Jonathan T. Lord, M.D. Louisville Kentucky	Sr. Vice President and Chief Innovation Officer of Humana, Inc.
Michael B. McCallister Louisville Kentucky	President and Chief Executive Officer of Humana, Inc.
James E. Murray Louisville Kentucky	Chief Operating Officer of Humana, Inc.

The following were the Company's senior officers as of December 31, 2005, as appointed by its board of directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Michael B. McCallister	President & Chief Executive Officer
James H. Bloem	Chief Financial Officer, Treasurer & Senior Vice President
Joan O. Lenahan	Secretary
John M. Bertko	Chief Actuary & Vice President
Jonathan T. Lord, M.D.	Senior Vice President
Thomas J. Liston	Senior Vice President
Heidi S. Margulis	Senior Vice President
Steven O. Moya	Senior Vice President
Steve A. Lee, M.D.	Market Vice President/CMO - Senior Products (Central Florida)
Terry G. Smith, M.D.	Market Vice President/CMO - Senior Products (South Florida)
Craig A. Drablos	Regional Chief Executive Officer (FL/GA/LA/NC/SC)
Michael A. Seltzer	Regional Chief Executive Officer – Senior Products (Florida)
Colin P. D'Arcy	Market President - South Florida
Scott T. Latimer, M.D.	Market President - Senior Products (Central Florida)
Bruno A. Littleton	Market President - Jacksonville
Kathleen S. Pellegrino	Vice President & Assistant Secretary

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the meetings of the Company's shareholder and Board of Directors, and the recorded minutes of the meetings of the Humana Inc. Investment and Audit Committees were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 641.35(7), F.S.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (F.A.C.). 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, F.A.C., on March 14, 2005.

The following agreements were in force between the Company and its affiliates:

Indemnity Agreement

The Company entered into an agreement with Humana Inc. on June 30, 1995, providing for the indemnification of the Company by Humana Inc. in the event of the Company's insolvency or inability to provide health care services for which it is contractually obligated.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax return of Humana Inc. and its wholly owned subsidiaries (including the Company) pursuant to a tax sharing agreement dated June 16, 2003. Pursuant to the agreement, the consolidated tax liability was allocated among the members of the consolidated return group based on the ratio that each member's separate return tax liability for the year was to the sum of the separate return liabilities of all members.

Corporate Services Agreement

Humana Inc. provided corporate services to the Company pursuant to an agreement dated June 16, 2003. Fees for the services amounted to \$127.5 million, \$119.0 million, and \$141.7 million for the years 2003, 2004, and 2005, respectively.

Telemarketing Services Agreements

Humana Inc., Humana Insurance Company, Inc. (WI), and Humana Health Plan of Texas, Inc. provided telemarketing services to the Company pursuant to agreements that became effective June 16, 2003. Fees for the services amounted to \$7.5 million, \$8.0 million, and \$14.1 million for the years 2003, 2004, and 2005, respectively.

Service Center Service Agreement

The Company provided claims processing, customer service, and other services to Humana Inc. and Humana Insurance Company, Inc. (WI) pursuant to a June 16, 2003 agreement. Fees received were \$22.5 million, \$2.0 million, and \$1.3 million in years 2003, 2004, and 2005, respectively.

Service Center Service Agreements

Humana Inc. and Humana Insurance Company, Inc. (WI) provided senior leadership, education and development, financial management, claims processing, billing and enrollment, customer service, and other services to the Company, pursuant to June 16, 2003 agreements. Fees paid for these services amounted to \$43.6 million, \$39.5 million, and \$60.4 million in 2003, 2004, and 2005, respectively.

Marketing Cost Allocation Agreement

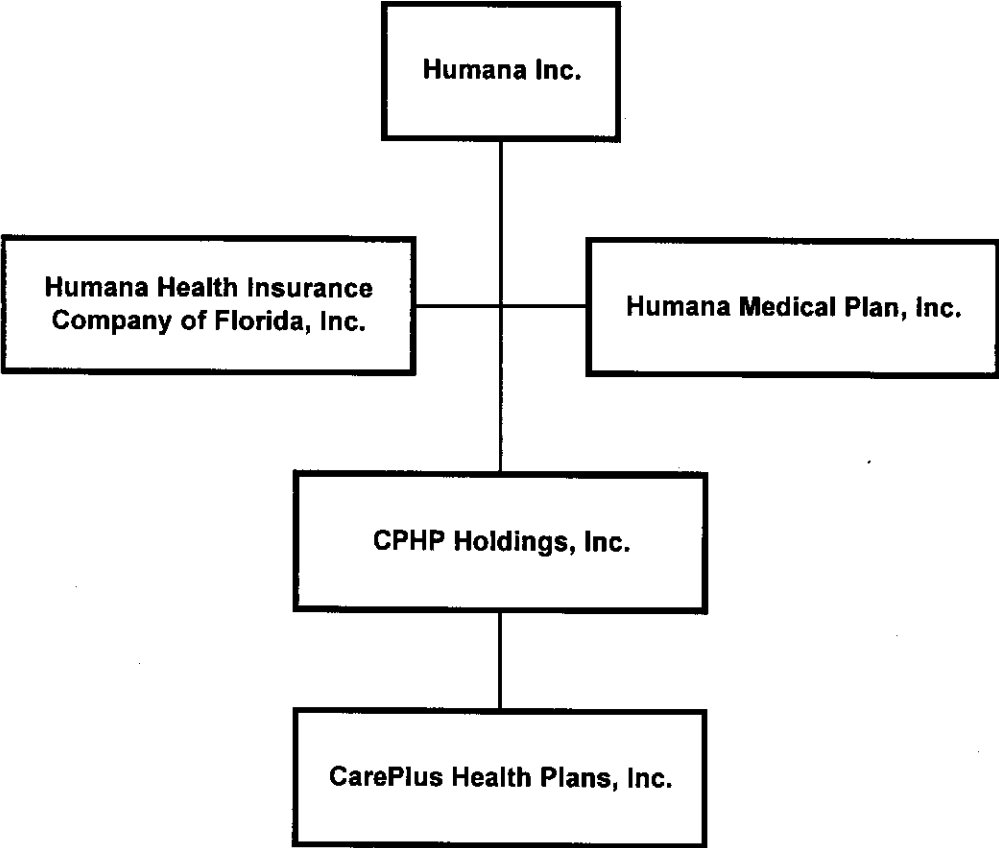
Humana Inc., Humana Health Insurance Company of Florida, Inc., and the Company entered into an agreement effective June 17, 2003 for the purpose of providing for the sharing of expenses of operating in shared markets. Fees for these services amounted to \$14.7 million, \$17.3 million, and \$31.3 million in years 2003, 2004, and 2005, respectively.

Medicare Risk Marketing Agreement

Humana Inc. provided marketing services to the Company related to the Company's Medicare Risk product pursuant to a June 12, 2003 agreement. Fees for these services amounted to \$15.6 million, \$16.5 million, and \$23.5 million in years 2003, 2004, and 2005, respectively.

An abbreviated organizational chart as of December 31, 2005 reflecting the holding company system is shown below. Schedule Y of the Company's 2005 annual statement provided the names of all related companies in the holding company group.

**Humana Medical Plan, Inc.
Organizational Chart
December 31, 2005**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and had a blanket fidelity bond in the amount of \$9 million, as required by Section 641.22, F.S. It required in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent, in compliance with Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Company employees participated in a Humana Inc. defined contribution retirement plan. In addition, the Company, through its affiliates, provided to eligible employees medical and dental insurance, short-term and long-term disability insurance, and life insurance.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$350,000 in accordance with Section 641.285, F.S.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2005, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. 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., which is valid until February 9, 2007.

The Company used a network of general agents and brokers, and operated as an individual practice association (IPA) model. It provided health care services to individual and group comprehensive (33.9%), federal employees health benefit plan (2.1%), Medicare (52.3%), and Medicaid (11.8%) members. Its total membership at December 31, 2005 was 465,552.

The Company was licensed to operate in the Florida counties of Alachua, Baker, Bradford, Brevard, Broward, Citrus, Clay, Columbia, Dixie, Duval, Flagler, Gilchrist, Glades, Hardee, Hendry, Hernando, Highlands, Hillsborough, Indian River, Lake, Levy, Manatee, Marion, Martin, Miami-Dade, Monroe, Nassau, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Putnam, Sarasota, Seminole, St. Johns, St. Lucie, Union, and Volusia.

TREATMENT OF MEMBERS

The Company established procedures for handling written complaints in accordance with Section 641.511, F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

On September 5, 2005, the Company entered into a behavior health services specific excess of loss reinsurance agreement with American Re-insurance Company. The agreement was reviewed during the examination and found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines. However, the reinsurance agreement was not filed with and approved by the Office, as required by Rule 69O-191.072, F.A.C. In addition, the agreement was not disclosed in the Company's 2005 annual statement, as required by the Annual Statement Instructions.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for years 2003, 2004, and 2005, pursuant to Section 641.26(1)(c), F.S.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office was located in Miramar, Florida. A significant portion of its books and records were located in Louisville, Kentucky, where most of this examination was conducted.

This examination included a review of the Company's paid and unpaid claims for the purpose of determining whether the Company adequately provided for all unpaid loss and loss expense obligations under the terms of its agreements. In conjunction with that review, examiners requested from the Company certain claims-related data and supporting documentation. While the Company did eventually provide the requested data and documentation to examiners, it did not do so in a timely manner. As a result, completion of the examination was significantly delayed. On January 4, 2006 examiners requested that the Company provide a database of claims paid and outstanding by April 17, 2006. On June 5, 2006, the Company requested an extension until June 16, 2006; however, it was not until July 14, 2006 that the database was actually provided. On July 17, 2006 examiners made a request for documentation supporting certain claims. While part of the requested documentation was provided on August 3, 2006, the remainder was not provided until September 13, 2006.

The following agreements were in effect between the Company and non-affiliates:

Custodial Agreement

On December 10, 1997, the Company entered into a custodial agreement with the Chase Manhattan Bank (now known as JPMorganChase), which was amended on May 6, 1999, for the holding and safekeeping of the Company's securities. Fees related to this agreement were \$14,000, \$17,000, and \$15,000 in years 2003, 2004, and 2005, respectively.

Independent Auditor Agreement

The Company contracted with an independent CPA, PricewaterhouseCoopers LLP, to conduct annual audits of the Company's statutory-basis financial statements.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2005 as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

Humana Medical Plan, Inc.
Assets
December 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$463,211,487	\$0	\$463,211,487
Properties held for the production of income	2,683,964	0	2,683,964
Properties held for sale	3,645,020	0	3,645,020
Cash, cash equivalents, and short-term investments	63,332,679	0	63,332,679
Receivables for securities	<u>5,549,946</u>	<u>0</u>	<u>5,549,946</u>
	538,423,096	0	538,423,096
Investment income due and accrued	4,430,116	0	4,430,116
Uncollected premiums and agents' balances	18,493,186	0	18,493,186
Net deferred tax asset	21,645,062	0	21,645,062
Electronic data processing equipment and software	780,751	0	780,751
Furniture and equipment	2,071,124	0	2,071,124
Health care and other amounts receivable	1,646,719	0	1,646,719
Aggregate write-ins for other than invested assets	<u>23,810,137</u>	<u>0</u>	<u>23,810,137</u>
Total	<u><u>\$611,300,191</u></u>	<u><u>\$0</u></u>	<u><u>\$611,300,191</u></u>

Humana Medical Plan, Inc.
Liabilities, Capital and Surplus
December 31, 2005

	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$205,086,020	\$0	\$205,086,020
Accrued medical incentive pool & bonus amounts	129,557,566	0	129,557,566
Unpaid claims adjustment expenses	6,183,465	0	6,183,465
Aggregate health policy reserves	9,000,000	0	9,000,000
Aggregate health claim reserves	728,995	0	728,995
Premiums received in advance	3,772,338	0	3,772,338
General expenses due or accrued	46,516,532	0	46,516,532
Net deferred tax liability	307,742	0	307,742
Amounts withheld or retained for others	59,877	0	59,877
Payable for securities	5,747,809	0	5,747,809
Aggregate write-ins for other liabilities	4,936,710	0	4,936,710
Total liabilities	<u>411,897,054</u>	<u>0</u>	<u>411,897,054</u>
Common capital stock	1,000	0	1,000
Gross paid in and contributed surplus	155,784,845	0	155,784,845
Unassigned funds (surplus)	43,617,292	0	43,617,292
Total capital and surplus	<u>199,403,137</u>	<u>0</u>	<u>199,403,137</u>
Total liabilities, capital and surplus	<u>\$611,300,191</u>	<u>\$0</u>	<u>\$611,300,191</u>

Humana Medical Plan, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2005

Net premium income		\$2,993,590,016
Hospital/medical benefits	\$1,986,461,882	
Other professional services	14,091,846	
Emergency room and out-of-area	65,387,317	
Prescription drugs	280,441,922	
Aggregate write-ins for other hospital and medical	4,387,710	
Incentive pool, withhold adjustments and bonuses	<u>104,556,577</u>	
	2,455,327,254	
Net reinsurance recoveries	<u>687,692</u>	
Total hospital and medical	2,454,639,562	
Claims adjustment expenses	68,592,911	
General administrative expenses	310,775,378	
Increase in reserves	<u>8,327,000</u>	
Total underwriting deductions		<u>2,842,334,851</u>
Net underwriting gain		151,255,165
Net investment income earned	21,011,861	
Net realized capital gains	<u>786,891</u>	21,798,752
Aggregate write-ins for other income or expenses		<u>(4,646,869)</u>
Net income before federal income taxes		168,407,048
Federal and foreign income taxes incurred		<u>66,195,742</u>
Net income		<u><u>\$102,211,306</u></u>

Humana Medical Plan, Inc.
Capital and Surplus Account
For the Year Ended December 31, 2005

Capital and surplus, December 31, 2004	\$258,623,755
Net income	102,211,306
Change in net unrealized capital gains (losses)	(22,490)
Change in net deferred income tax	8,974,436
Change in nonadmitted assets	(5,583,870)
Dividends to stockholder	<u>(164,800,000)</u>
	199,403,137
Examination adjustments	<u>0</u>
Capital and surplus, December 31, 2005	<u><u>\$199,403,137</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$350,556,046

The Company's actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2005 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate liability was not materially misstated.

Humana Medical Plan, Inc.
Comparative Analysis of Changes in Capital & Surplus
December 31, 2005

The following is a reconciliation of total capital and surplus between that reported by the Company and as determined by the examination.

Capital & Surplus - December 31, 2005, per annual statement			\$199,403,137
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) in Surplus</u>
Assets	\$611,300,191	\$611,300,191	\$0
Liabilities	\$411,897,054	\$411,897,054	<u>\$0</u>
Net change in capital & surplus			<u>0</u>
Capital & Surplus - December 31, 2005, per examination			<u>\$199,403,137</u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the prior examination report issued by the Office as of December 31, 2001.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

Reinsurance Agreements

As discussed on page 11, the Company's reinsurance agreement was not filed with and approved by the Office, as required by Rule 69O-191.072, F.A.C. In addition, the agreement was not disclosed in the Company's 2005 annual statement, as required by the Annual Statement Instructions. **We recommend that the Company file its reinsurance agreement with and obtain the approval of the Office as required by Rule 69O-191.072, F.A.C., and disclose its reinsurance agreements in its future annual statements as required by the Annual Statement Instructions.**

Accounts and Records

As discussed on page 12, this examination included a review of the Company's paid and unpaid claims for the purpose of determining whether the Company adequately provided for all unpaid loss and loss expense obligations under the terms of its agreements. In conjunction with that review, examiners requested from the Company certain claims-related data and supporting documentation. While the Company did eventually provide the requested data and documentation to examiners, it did not do so in a timely manner. As a result, completion of the examination was significantly delayed. **We recommend that the Company respond to examiner requests and provide requested data and documentation in a timely manner during the course of future regulatory examinations.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Humana Medical Plan, Inc.** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$199,403,137, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2005 was \$59,871,800.

In addition to the undersigned, the following individuals participated in this examination: Tom Cook, Financial Examiner/Analyst; M. Alison Miele, Financial Examiner/Analyst; David C. Schleit, CPA, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

Robert Y. Meszaros, Financial Specialist
Florida Office of Insurance Regulation