

**Report on Examination**  
**of**  
**Humana Medical Plan, 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 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 Humana Medical Plan, 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 Medical Plan, Inc. (the "Company"), a Florida health maintenance organization (HMO). 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 current and 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 August 12, 1986 and licensed by the Office as an HMO on June 1, 1987. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, (F.S.).

### Mergers and Acquisitions

A Form A Exemption Notification Letter was filed with the Office on October 3, 2013 and approved on November 5, 2013 to merge Arcadian Health Plan of North Carolina, Inc., a North Carolina health maintenance organization with and into the Company effective December 31, 2013. The Company was the survivor of the merger. A Form A Exemption Notification Letter was filed with the Office on March 18, 2014 and approved on April 28, 2014 to merge Humana AdvantageCare Plan, Inc., a Florida licensed health maintenance organization with and into the Company effective June 30, 2014. The Company was the survivor of the merger. A Form A Exemption Notification Letter was filed with the Office on September 8, 2014 and approved on October 16, 2014 to merge American Dental Plan of North Carolina, Inc., a North Carolina licensed health maintenance organization with and into the Company effective December 31, 2014. The Company was the survivor of the merger.

## **CORPORATE RECORDS**

The minutes of the meetings of the Company's shareholder and board of directors. Audit and Investment Committees were reviewed for the period examined. The minutes of the Board adequately documented its meetings and approval of Company transactions, including the authorization of investments as required by Section 641.35(7), F.S.

### Dividends and Capital Contributions

The Company distributed shareholder dividends in the amounts of \$276 million, \$430 million, \$460 million, \$300.73 million, and \$305 million in years 2011 through 2015, respectively. The Company received capital contributions in the amounts of \$13 million, \$34.9 million, and \$100 million in the years 2013 through 2015, respectively.

## 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 Health Insurance Company of Florida, Inc. (HHICF), a Florida health insurer.

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
John Edward Barger, III	VP of Dual Eligible & Medicaid Programs
Elizabeth Diane Bierbower	President - Group Segment
Renee Jacqueline Buckingham	VP & Division Leader
Jonathan Albert Canine	VP & Appointed Actuary
John Gregory Catron	VP & Chief Compliance Officer
Steven James DeRaleau	President - HumanaOne
Mark Sobhi El-Tawil	VP & Division Leader
Jeffrey Carl Fernandez	Segment VP of Medicare
Louis Manuel Fernandez	VP & Chief Medical Officer
Deborah Maureen Galloway	Regional President - Sr. Products
James Burnett Laughlin III	Regional President - Sr. Products
Brian Phillip LeClaire	VP & Chief Info Officer
Heidi Suzanne Margulis	Sr. Vice President
Steven Edward McCulley	SVP of Medicare
Kevin Ross Meriwether	VP & Divisional Leader - SE Division
William Mark Preston	VP - Investment Management
Tamara Lynn Quiram	Segment VP & President - Small Business and Large Group
Richard Donald Remmers	VP - Group Segment
George Renaudin, II	Segment VP - Medicare
Donald Hank Robinson	VP - Tax
Fernando Jose Valverde	Regional President - Senior Products/South Florida
Joseph Christopher Ventura	Assistant Corporate Secretary
Timothy Alan Wheatley	President - Retail Segment
Ralph Martin Wilson	VP
Cynthia Hillebrand Zipperle	VP & Chief Accounting Officer

**Board of Directors**

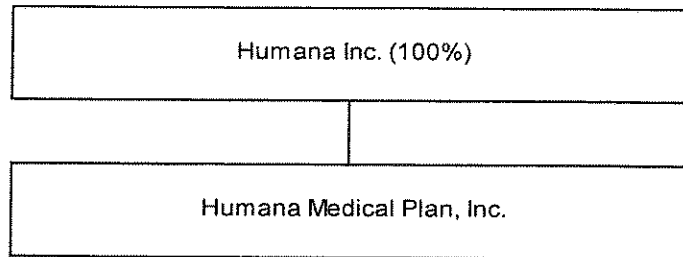
<b>Name</b>	<b>Location</b>
Bruce Dale Broussard	Louisville, Kentucky
Brian Andrew Kane	Louisville, Kentucky
James Elmer Murray	Louisville, Kentucky

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.

**Humana Medical Plan, Inc.  
Abbreviated Organizational Chart  
December 31, 2015**



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

Corporate Services 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. The agreement was amended for the State of North Carolina effective May 2, 2010 where the Company was indemnified offering health care services and coverage to individuals, employers, and other groups in the State of North Carolina.

#### Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of Humana Inc. pursuant to a tax allocation agreement effective June 16, 2003. Consolidated tax liability was allocated among members of the consolidated group on a pro rata basis according to the separate return tax liabilities of included members. The agreement required that intercompany balances be settled within 30 days after the calculation of income tax attributable to the Company. In the event of a refund, the agreement required settlement within 30 days after receipt of the refund.

#### Medicare Risk Marketing Service Agreement

Effective June 16, 2003, 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.

#### Payor Agreement

Effective July 31, 2007, the Company entered into a Payor Agreement with Health Value Management, Inc. Pursuant to the agreement, the Company utilizes the health care provider networks developed by Health Value Management and the Company reimburses Health Value

Management at a rate per the Company's subscriber per month. The reimbursement only applies to those Company subscribers who are accessing the Health Value Management provider networks.

### **FIDELITY BONDS AND OTHER INSURANCE**

The Company was a named insured on the general liability insurance policy of Humana Inc. The policy was maintained at acceptable levels in accordance with Rule 690-191.069, F.A.C. The Company was also a named insured on the crime policy of Humana Inc. in the amount of \$25 million which adequately met the requirements of Section 641.22(7), F.S. As an individual practice association model HMO, the Company maintained adequate professional liability insurance.

### **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**

Humana Medical Plan, Inc. (the "Company") is a wholly owned subsidiary of Humana, Inc. ("Humana"). The Company was licensed as a health maintenance organization ("HMO") on June 1, 1987.

The Company offers coordinated health and pharmacy insurance coverage and related medical services through Medicare Parts A, B, and D. In addition, the Company's services have been provided to Medicare-eligible individuals under a Medicare Advantage contract with the Centers for Medicare and Medicaid Services ("CMS") and to Medicaid-eligible individuals under a Medicaid HMO contract with AHCA.

Humana Medical Plan also offers commercial Health Maintenance Organization (HMO) services which provide prepaid health insurance coverage to members through a network of independent primary care physicians, and other health care providers who contract with the HMO to furnish such services. As an extension of its commercial portfolio, the Company offers a National Point of Service product underwritten by an affiliated PPO company.

Humana Medical Plan also participates in the Federal Employee Health Benefits Program, or FEHBP, primarily with the HMO offering in certain markets. This program is the government's health insurance program for Federal employees, retirees, former employees, family members, and spouses.

Humana Medical Plan, Inc. markets to employer groups and members of the Exchange, provides medical coverage to Medicare-eligible individuals under a Medicare Advantage contract with CMS in Florida, Mississippi, North Carolina, and Oregon and to Medicaid eligible individuals under a Medicaid HMO contract with State of Florida Agency for Health Care Administration.

## 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	5,628,132	5,749,011	6,118,952	10,236,442	14,451,527
Year-end enrollment	459,441	484,970	532,712	1,048,992	1,204,094
Premiums	\$ 4,935.1	\$ 5,239.0	\$ 5,391.4	\$ 6,965.1	\$ 8,838.8
Revenues	\$ 4,931.3	\$ 5,242.2	\$ 5,391.4	\$ 6,965.8	\$ 8,867.8
Underwriting deductions	\$ 4,498.4	\$ 4,781.0	\$ 5,042.8	\$ 6,632.9	\$ 8,539.5
Net income	\$ 432.9	\$ 461.2	\$ 348.6	\$ 332.9	\$ 328.3
Shareholder dividends	\$ 276.0	\$ 430.0	\$ 460.0	\$ 300.7	\$ 305.0
Paid in surplus received	\$ -	\$ -	\$ 13.0	\$ 100.0	\$ 34.9
Admitted assets	\$ 1,660.9	\$ 1,618.6	\$ 1,594.7	\$ 1,742.2	\$ 2,013.8
Liabilities	\$ 1,061.9	\$ 987.1	\$ 1,064.3	\$ 1,150.7	\$ 1,330.7
Capital and surplus	\$ 599.1	\$ 631.5	\$ 530.7	\$ 591.5	\$ 683.1

## REINSURANCE

Effective October 1, 2015, Humana, Inc. entered into a Medical Excess of Loss Reinsurance Agreement with Axis Insurance Company, in which the Company was a participating subsidiary of the agreement. Under the terms of the agreement, Axis agrees to reinsure the excess liability of the fully insured medical business, including group, individual, and conversion policies. Axis is 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. The liability in respect of any one member shall not exceed 100% of \$9,000,000 during the term of the agreement.

## STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$1,014,987 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.

The Company had the following deposits with other states:

State	Description	Par Value	Market Value
NC	USTNTS 1.5%	\$ 530,000	\$ 532,899
NC	USTNTS 1.0%	140,000	140,290
OR	USTNTS 1.38%	300,000	303,967
VA	USTNTS 1.38%	800,000	810,578
TOTAL OTHER DEPOSITS		\$ 1,770,000	\$ 1,787,734

## 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 Medical Plan, Inc.**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2015**

	Per Company	Examination Adjustments	Per Examination
<b>Admitted Assets</b>			
Bonds	\$1,462,306,726	\$ -	\$1,462,306,726
Real Estate - Properties held for production	1,297,660	-	1,297,660
Cash, cash equivalents and short-term investments	158,713,667	-	158,713,667
	1,622,318,053	-	1,622,318,053
Investment income due and accrued	10,982,029	-	10,982,029
Uncollected premiums and agents' balances	21,619,988	-	21,619,988
Accrued retrospective premiums	35,359,350	-	35,359,350
Amounts recoverable from reinsurers	135,526,308	-	135,526,308
Amounts receivable relating to uninsured plans	51,902,816	-	51,902,816
Net deferred tax asset	73,391,626	-	73,391,626
Electronic data processing equipment and software	129,844	-	129,844
Healthcare and other amounts receivable	62,180,627	-	62,180,627
Aggregate write-ins for other than invested assets	371,215	-	371,215
<b>Total admitted assets</b>	<b>\$2,013,781,856</b>	<b>\$ -</b>	<b>\$2,013,781,856</b>
<b>Liabilities</b>			
Claims unpaid	\$ 971,356,641	\$ -	\$ 971,356,641
Accrued medical incentive pool and bonus amounts	\$ 2,736,613	-	2,736,613
Unpaid claims adjustment expenses	4,818,530	-	4,818,530
Aggregate health policy reserves	139,268,511	-	139,268,511
Aggregate health claim reserves	95,000	-	95,000
Premiums received in advance	33,227,205	-	33,227,205
General expenses due or accrued	36,065,879	-	36,065,879
Current federal and foreign income tax payable	57,399,833	-	57,399,833
Ceded reinsurance premiums payable	9,853,740	-	9,853,740
Amounts withheld or retained for the account of others	3,178	-	3,178
Remittances and items not allocated	352,549	-	352,549
Liability for amounts held under uninsured plans	75,532,987	-	75,532,987
Aggregate write-ins for other liabilities	-	-	-
<b>Total liabilities</b>	<b>1,330,710,666</b>	<b>-</b>	<b>1,330,710,666</b>
<b>Capital and Surplus</b>			
Aggregate write-ins for special surplus funds	157,530,450	-	157,530,450
Common capital stock	1,000	-	1,000
Gross paid in and contributed surplus	303,896,208	-	303,896,208
Unassigned funds (deficit)	221,643,532	-	221,643,532
<b>Total capital and surplus</b>	<b>683,071,190</b>	<b>-</b>	<b>683,071,190</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 2,013,781,856</b>	<b>\$ -</b>	<b>\$ 2,013,781,856</b>

**Humana Medical Plan, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**Year Ended December 31, 2015**

Net premium income	\$ 8,838,780,560
Change in unearned premium reserves	\$ 28,995,801
<b>Total revenues</b>	<b>\$ 8,867,776,361</b>
Hospital and medical benefits	5,898,203,195
Other professional services	134,550,525
Outside referrals	-
Emergency room and out-of-area	410,815,743
Prescription drugs	923,937,937
Incentive pool, withhold adjustments and bonus	1,636,952
	<b>7,369,144,352</b>
Net reinsurance recoveries	145,483,131
<b>Total hospital and medical</b>	<b>7,223,661,221</b>
Claims adjustment expenses	307,298,851
General administrative expenses	860,905,721
Increase in reserves	(23,774,422)
<b>Total underwriting deductions</b>	<b>8,368,091,371</b>
Net underwriting gain	499,684,990
Net investment gains	62,232,260
Aggregate write-ins for other income	(34,293)
<b>Income before federal income tax</b>	<b>561,882,957</b>
Federal income tax	233,608,062
<b>Net income</b>	<b>\$ 328,274,895</b>



**Humana Medical Plan, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2015**

Capital and surplus - December 31, 2010	\$ 447,462,659
Net income	432,879,152
Change in net unrealized capital gains	13,019,266
Change in net deferred income tax	2,024,832
Change in nonadmitted assets	(20,120,402)
Dividend to stockholders	(276,000,000)
Aggregate write-ins for gains or (losses)	(161,277)
<hr/>	
Capital and surplus - December 31, 2011	599,104,230
Net income	461,235,463
Change in net unrealized capital gains	1,604,309
Change in net deferred income tax	3,956,425
Change in nonadmitted assets	(7,786,784)
Cumulative effect of changes in accounting principles	2,499,885
Dividends to stockholder	(430,000,000)
Aggregate write-ins for gains or (losses)	926,468
<hr/>	
Capital and surplus - December 31, 2012	631,539,996
Net income	348,568,127
Change in net unrealized capital gains	(5,722,449)
Change in net deferred income tax	14,511,021
Change in nonadmitted assets	(15,526,132)
Paid in surplus	13,046,000
Dividends to stockholder	(460,000,000)
Aggregate write-ins for gains or (losses)	4,252,219
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Capital and surplus - December 31, 2013	530,668,782
Net income	332,911,594
Change in net unrealized capital gains	(27,150,726)
Change in net deferred income tax	12,641,488
Change in nonadmitted assets	15,396,925
Paid in surplus	34,969,458
Dividends to stockholder	(300,730,000)
Aggregate write-ins for gains or (losses)	(7,158,018)
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Capital and surplus - December 31, 2014	591,549,503
Net income	328,274,895
Change in net unrealized capital gains	(507)
Change in net deferred income tax	14,068,857
Change in nonadmitted assets	(45,821,558)
Paid in surplus	100,000,000
Dividends to stockholder	(305,000,000)
<hr/>	
	683,071,190
Examination adjustments	-
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Capital and surplus - December 31, 2015	<u>\$ 683,071,190</u>

**Humana Medical Plan, 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.

<b>Capital and surplus, December 31, 2015 - per annual statement</b>			<b>\$683,071,190</b>
	<u>Per</u>	<u>Per</u>	<u>Increase</u>
	<u>Company</u>	<u>Examination</u>	<u>(Decrease)</u>
			<u>In Capital</u>
			<u>&amp; Surplus</u>
Total assets	\$2,013,781,856	\$2,013,781,856	\$ -
Total liabilities	\$ 1,330,710,666	\$ 1,330,710,666	\$ -
<b>Capital and surplus, December 31, 2015 - per examination</b>			<b>\$683,071,190</b>

## COMMENTS ON FINANCIAL STATEMENTS

### Aggregate Health Policy Reserves and Claims Unpaid

The Florida Office of Insurance Regulation actuary reviewed the actuarial health reserves and claims liabilities for the Company as of December 31, 2015. The actuary determined that the health reserves and claim liabilities as stated by the Company are reasonable and 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 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's 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, Inc. will receive a breakup fee of \$1 billion, or approximately \$630 million, net of tax, from Aetna Inc. Additionally, Aetna Inc. 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.

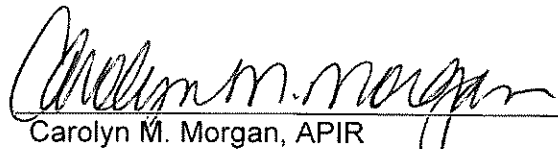
## CONCLUSION

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

At December 31, 2015, the Company's capital and surplus was \$683,071,190 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: 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 Lisa Parker, Actuary, participating in the examination.

Respectfully submitted,



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