

Report on Examination
of
HealthSpring of Florida, Inc.
Doral, Florida
as of
December 31, 2014



**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 HealthSpring of Florida, Inc. as of December 31, 2014. Our report on the examination follows.

Florida Office of Insurance Regulation
April 25, 2015

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SCOPE OF EXAMINATION

We have completed a financial condition examination of HealthSpring of Florida, Inc. (the "Company"), a Florida health maintenance organization (HMO). Our examination covered the period of January 1, 2011 through December 31, 2014 and took place primarily at the Cigna-HealthSpring Corporate office in Nashville, Tennessee. 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"). 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 may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

The Company was examined as part of the coordinated examination of Cigna-HealthSpring Subgroup 1 of which the Texas Department of Insurance was the facilitating state for the Subgroup. The Office and the Tennessee Department of Insurance actively participated in this examination.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statute 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 are separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was incorporated in Florida on June 12, 2001 and licensed by the Office as an HMO on October 17, 2002. On October 1, 2007 the Company was acquired by NewQuest, LLC, which was ultimately owned by HealthSpring, Inc. and subsequently changed its name to HealthSpring of Florida, Inc. from Leon Medical Centers Health Plans, Inc. On January 31, 2012, HealthSpring, Inc. and its subsidiaries, including HealthSpring of Florida, were acquired by Connecticut General Corporation, whose ultimate parent company is Cigna Corporation. The Company was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S.

Dividends and Capital Contributions

The Company distributed \$9,700,000 in shareholder dividends during 2011. No dividends were distributed during 2012 through 2014. The Company did not receive capital contributions during the period covered by the examination.

CORPORATE RECORDS

The minutes of the Company's shareholder and Board of Directors ("the Board") meetings were reviewed for the period examined. The 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.

MANAGEMENT AND CONTROL

The Company was wholly owned by NewQuest, LLC, a single member limited liability company which was owned by HealthSpring, Inc. HealthSpring, Inc. is wholly owned by Connecticut General Corporation, which in turn is wholly owned by Cigna Corporation. The Company was affiliated with various other entities through common ownership.

The Company's senior officers and directors as of December 31, 2014 were:

| Senior Officers | |
|------------------------|--|
| Name | Title |
| Albert R. Maury | President and Chief Executive Officer |
| Matthew S. Morris | Co-Chief Executive Officer |
| Ryan B. McGroarty | Chief Financial Officer |
| Gregory J. Allen | Vice President and Secretary |
| Scott R. Lampert | Vice President and Treasurer |
| Maureen H. Ryan | Vice President and Assistant Treasurer |
| Henry Hernandez | Vice President and Chief Operating Officer |
| Richard A. Appel | Compliance Officer |

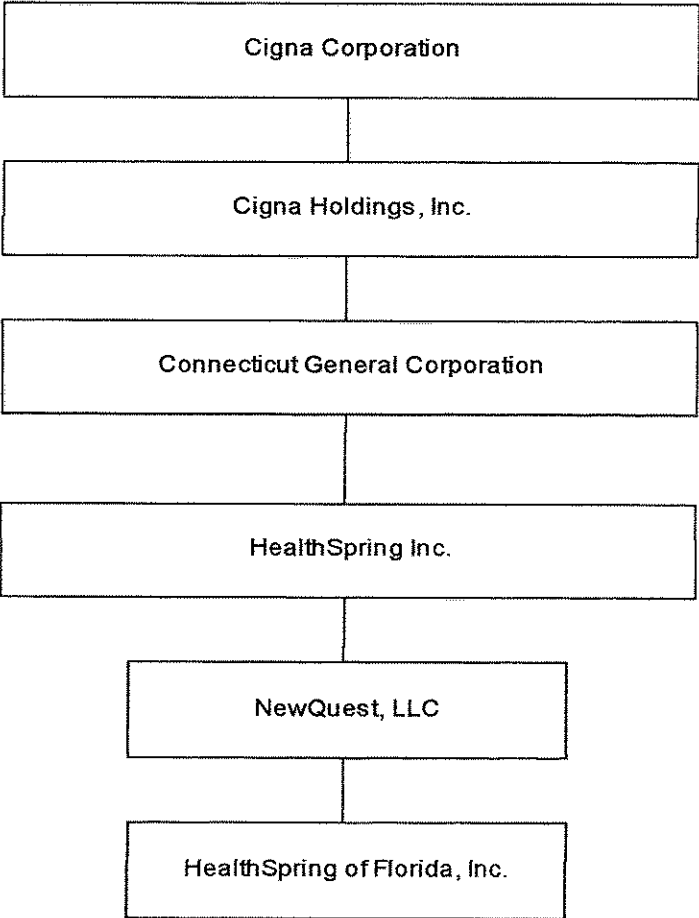
Board of Directors

| Name | Location |
|-------------------------|-----------------|
| Mercedes M. Kirkpatrick | Miami, Florida |
| Albert R. Maury | Miami, Florida |
| Alina Campos Vega, M.D. | Miami, Florida |

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 April 1, 2016.

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

**HealthSpring of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2014**



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

Tax Allocation Agreement

Effective January 31, 2012, the Company entered into an Amended and Restated Consolidated Federal Income Tax Agreement by and among Cigna Corporation and its subsidiaries for the filing of consolidated income tax returns statements. This agreement superseded the prior Tax Sharing Agreement by and between HealthSpring, Inc. and HealthSpring of Florida, Inc. which terminated on December 31, 2011.

Fee Sharing Agreement

Effective August 4, 2014, the Company was added as a party to a Fee Sharing agreement with Cigna Corporation ("Cigna"). The agreement allows Cigna to pay each year to the United States Department of Treasury ("the Treasury") the fee owed collectively by all covered entities in the group. The Treasury requires this to be remitted in the form of a single payment on behalf of all entities. The fee is imposed on an annual basis on entities that are engaged in the business of providing health insurance.

Management Agreement

The Company entered into a Management Agreement between NewQuest Management of Florida, LLC and HealthSpring of Florida, Inc., for the provision of management services necessary for the administration of the Company's operations and business, effective as of October 1, 2007, later amended.

Investment Advisory Agreement

Effective January 31, 2012, the Company entered into an Investment Advisory Agreement with Cigna Investments, Inc. Pursuant to the agreement, the adviser shall make and carry out

decisions with respect to acquisition, holding and disposition of securities. The Company shall pay to the adviser an annual fee based upon its proportionate share of the costs and expenses of the adviser incurred in providing advisory services to all clients of the adviser.

Network Access Agreement

The Company entered into a Network Access Agreement among health plan subsidiaries of Cigna Corporation and Connecticut General Life Insurance Company (CGLIC), whereby the parties are allowed to access provider networks of CGLIC. The party accessing an affiliate's provider would pay claims to the provider in accordance with the fees agreed to under the provider agreement between provider and the affiliate health plan owning the provider contract. The Company signed and entered into the contract on May 22, 2014.

Intercompany Services Agreement

The Intercompany Services Agreement is between Connecticut General Life Insurance Company, Cigna Health Corporation on behalf of health plan subsidiaries and Cigna Health Management, Inc. (fka International Rehabilitation Associates, Inc., dba Intracorp). Pursuant to the agreement each party is allowed to obtain health care administrative services from their affiliate, Cigna Health Management, Inc. including utilization, case, demand, disease, and care management. The Company was added to the agreement through a third amendment effective January 1, 2014.

Investment Pooling Agreement

The Company was added to a Investment Pooling Agreement on May 1, 2012. The agreement allows all participants contribute in a pool of investments to facilitate the effective management of their short-term assets and the advisor intends to invest assets in the accounts in short-term debt instruments and cash equivalent items; the agreement originated on October 1, 2004. Each Company is liable for obligations of the account only to the extent of its proportionate interest in the account at the time.

Pharmacy Rebate Agreement

Effective August 20, 2013, the Company entered into a Pharmacy Rebate Agreement with affiliated entities. The affiliates have entered into pharmacy rebate agreements with drug manufacturers to reduce costs of drug coverage related to their Medicare Part D prescription drug plan business. Under such arrangements, the drug manufacturers offer the affiliates rebates on certain drugs, as described in the rebate agreements between the affiliates and the pharmacy manufacturer, for utilization by members of the affiliates. Pharmacy manufacturers make the rebate payments directly to HealthSpring Life and Health (HSLH). HSLH allocated the rebate payments to the affiliates based on the membership and utilization contribution of each affiliate to the rebate payment. Allocation payments are made to affiliates, within a timeframe as agreed to by HSLH and the affiliates, upon receipt of the invoice from the pharmacy manufacturer.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on the general liability policy of HealthSpring, Inc. which was maintained at acceptable levels in compliance with Rule 690-191.069, F.A.C. The Company was insured on a crime policy in the amount of \$5,000,000 which adequately met the requirements of Section 641.22(7), F.S. As an Individual Practice Association (IPA) model HMO, the Company

maintained adequate professional liability insurance. 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 690-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of Cigna performed business functions on behalf of the Company. Cigna provided various benefits to eligible employees of the Company including defined benefit pension plans, health care, life insurance, and participation in a Section 401(k) savings plan.

TERRITORY AND PLAN OF OPERATION

The Company operated as an HMO in the Florida counties of Bay, Escambia, Miami-Dade, and Santa Rosa. The Company is an HMO that wrote Medicare only, administered by the Centers for Medicare and Medicaid Services (CMS) and provided healthcare services on a prepaid basis for Medicare services for approved members. The Company 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 19, 2016. It provided health care services to 49,316 Medicare members as of December 31, 2014.

COMPANY GROWTH

The Company reported the following for years 2011 through 2014:

(Dollars are in millions.)

| | 2011 | 2012 | 2013 | 2014 |
|---------------------------------|---------|---------|---------|---------|
| Member months | 462,866 | 495,206 | 521,870 | 565,376 |
| Year-end enrollment | 39,470 | 42,106 | 44,088 | 49,316 |
| Premiums | \$613.6 | \$711.1 | \$752.5 | \$779.0 |
| Total revenues | \$613.6 | \$711.1 | \$752.5 | \$783.9 |
| Total underwriting deductions | \$600.8 | \$702.0 | \$731.3 | \$771.4 |
| Net income (loss) | \$8.2 | \$6.9 | \$14.8 | \$6.4 |
| Stockholder dividends | \$9.7 | \$0.0 | \$0.0 | \$0.0 |
| <i>Paid in surplus received</i> | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Admitted assets | \$66.4 | \$78.3 | \$98.7 | \$123.7 |
| Liabilities | \$39.2 | \$44.8 | \$50.2 | \$69.0 |
| Capital and surplus (deficit) | \$27.2 | \$33.5 | \$48.5 | \$54.7 |

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$578,150 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, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

HealthSpring of Florida, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2014

| Admitted Assets | As Reported | Examination Adjustments | Per Examination |
|---|------------------------|------------------------------------|----------------------------|
| Bonds | \$ 92,897,611 | \$ - | \$ 92,897,611 |
| Cash, cash equivalents and short-term investments | 1,891,997 | - | 1,891,997 |
| | 94,789,608 | - | 94,789,608 |
| Investment income due and accrued | 775,198 | - | 775,198 |
| Uncollected premiums and agents' balances | 10,390 | - | 10,390 |
| Accrued retrospective premiums | 11,456,874 | - | 11,456,874 |
| Net deferred tax asset | 650,365 | - | 650,365 |
| Healthcare and other amounts recoverable | 11,074,852 | - | 11,074,852 |
| Aggregate write-ins for other than invested assets | 4,945,323 | - | 4,945,323 |
| Total admitted assets | \$ 123,702,610 | \$ - | \$ 123,702,610 |
| Liabilities | | | |
| Claims unpaid | \$ 62,621,872 | \$ - | \$ 62,621,872 |
| Accrued medical incentive pool and bonus amounts | 491,016 | - | 491,016 |
| Unpaid claims adjustment expenses | 1,102,061 | - | 1,102,061 |
| Aggregate health policy reserves | 2,319,300 | - | 2,319,300 |
| General expense due or accrued | 266,142 | - | 266,142 |
| Current federal and foreign income tax payable | 493,065 | - | 493,065 |
| Amounts withheld or retained for the account of others | 176,464 | - | 176,464 |
| Amounts payable to parent, subsidiaries, and affiliates | 492,581 | - | 492,581 |
| Liability for amounts held under uninsured plans | 988,520 | - | 988,520 |
| Aggregate write-ins for other liabilities | 81,766 | - | 81,766 |
| Total liabilities | 69,032,787 | - | 69,032,787 |
| Capital and Surplus | | | |
| Aggregate write ins for special surplus funds | 15,597,129 | - | 15,597,129 |
| Common capital stock | 3 | - | 3 |
| Gross paid in and contributed surplus | 9,008,319 | - | 9,008,319 |
| Unassigned funds (deficit) | 30,064,373 | - | 30,064,373 |
| Total capital and surplus | 54,669,824 | - | 54,669,824 |
| Total liabilities, capital and surplus | \$ 123,702,610 | \$ - | \$ 123,702,610 |

HealthSpring of Florida, Inc.
Statement of Revenue and Expenses
(As Reported By The Company)
Year Ended December 31, 2014

| | |
|--|---------------------|
| Net premium income | \$ 779,033,843 |
| Aggregate write-ins for other health care related revenues | \$ 4,945,323 |
| Aggregate write-ins for other non-health revenues | 3 |
| Total revenues | 783,979,169 |
| Hospital and medical benefits | 456,122,580 |
| Other professional services | 574,850 |
| Outside referrals | 21,892,833 |
| Emergency room and out-of-area | 105,365,589 |
| Prescription drugs | 96,605,539 |
| Incentive pool, withhold adjustments and bonus amounts | (6,712,012) |
| Total hospital and medical | 673,849,379 |
| Claims adjustment expenses | 8,061,403 |
| General administrative expenses | 89,500,779 |
| Total underwriting deductions | 771,411,561 |
| Net underwriting gain | 12,567,608 |
| Net investment gains | 2,910,691 |
| Net gain (loss) from agents balances charged off | (24,103) |
| Income before federal income tax | 15,454,196 |
| Federal income tax | 9,047,126 |
| Net income | \$ 6,407,070 |

HealthSpring of Florida, Inc.
Statement of Changes in Capital and Surplus
Four Years Ended December 31, 2014

| | |
|---|----------------------|
| Capital and surplus - December 31, 2010 | \$ 26,500,343 |
| Net income | 8,225,338 |
| Change in net deferred income tax | 282,278 |
| Change in nonadmitted assets | 1,840,431 |
| Dividends to stockholder | (9,700,000) |
| Aggregate write-ins for gains or (losses) | - |
| <hr/> | |
| Capital and surplus - December 31, 2011 | 27,148,390 |
| Net income | 6,876,902 |
| Change in net deferred income tax | (313,534) |
| Change in nonadmitted assets | (201,931) |
| <hr/> | |
| Capital and surplus - December 31, 2012 | 33,509,827 |
| Net income | 14,816,559 |
| Change in net deferred income tax | (141,667) |
| Change in nonadmitted assets | 275,468 |
| <hr/> | |
| Capital and surplus - December 31, 2013 | 48,460,187 |
| Net income | 6,407,070 |
| Change in net deferred income tax | 125,141 |
| Change in nonadmitted assets | (322,574) |
| <hr/> | |
| | 54,669,824 |
| Examination adjustments | - |
| <hr/> | |
| Capital and surplus - December 31, 2014 | <u>\$ 54,669,824</u> |

HealthSpring of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2014

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

| | <u>As Reported</u> | <u>Per Examination</u> | Increase (Decrease) In Capital & Surplus | |
|---|------------------------|----------------------------|---|----------------------|
| Capital and surplus, December 31, 2014 - as reported | | | | \$ 54,669,824 |
| Total admitted assets | \$ 123,702,610 | \$ 123,702,610 | \$ - | |
| Total liabilities | \$ 69,032,788 | \$ 69,032,788 | \$ - | |
| Net change in capital and surplus | | | - | |
| Capital and surplus, December 31, 2014 - per examination | | | | <u>\$ 54,669,824</u> |

SUBSEQUENT EVENTS

On September 3, 2015, Anthem, Inc. filed a Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer (Form A) to acquire CIGNA and its subsidiaries for approximately \$54,200,000,000. The proposed acquisition was under review by the United States Department of Justice and the Form A was approved by the Florida Office of Insurance Regulation on March 31, 2016.

On January 21, 2016, CMS notified Cigna-HealthSpring, including the Company, of immediate sanctions imposed on the Cigna-HealthSpring Medicare Advantage and Prescription Drug Plan lines of business. CMS performed an audit covering operations between May 2015 and August 2015. The audit identified deficiencies in the operations of Cigna-HealthSpring entities' Parts C and D appeals and grievances, Part D formulary and benefit administration, and compliance program. CMS ordered the Cigna-HealthSpring entities to immediately suspend enrollment of new members and the marketing to new members. The suspension did not impact current Cigna-HealthSpring enrollees' benefits or plans. On February 12, 2016, Cigna-HealthSpring filed a Corrective Action Plan with CMS and simultaneously filed a Request for Hearing.


CONCLUSION

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

At December 31, 2014, the Company's capital and surplus was \$54,669,824 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: Luke Stavenau, Financial Specialist; Cathy S. Jones, CPA, CFE, Examination Manager; and Lewis and Ellis, Inc.

Respectfully submitted,



Darlene Lenhart-Schaeffer, PIR, CFE, CISA
Chief Examiner
Florida Office of Insurance Regulation