

**Report on Examination**  
**of**  
**HealthSun Health Plans, Inc.**  
**Coconut Grove, Florida**  
**as of**  
**December 31, 2016**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**



## OFFICE OF INSURANCE REGULATION

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AGRICULTURE

David Altmaier, Commissioner  
Florida Office of Insurance Regulation  
200 East Gaines Street  
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 HealthSun Health Plans, Inc. as of December 31, 2016. Our report on the examination follows.

Florida Office of Insurance Regulation  
January 17, 2018

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## SCOPE OF EXAMINATION

We have completed our single-state financial condition examination as of December 31, 2016 of HealthSun Health Plans, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2012 through December 31, 2016 and took place primarily in Tallahassee, Florida, and the Company's Coconut Grove, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2011.

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, 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.

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 March 18, 2004 and licensed by the Office on May 26, 2005. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S.

The Company was acquired by Highland Acquisition Holdings on November 30, 2016, along with HealthSun Management, LLC and Pasteur Medical Holdings.

## **CORPORATE RECORDS**

We reviewed the minutes of the Company's stockholder and board of directors' meetings. The Board's approval of Company transactions, including the authorization of its investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

### Dividends and Capital Contributions

The Company distributed stockholder dividends in the amounts of \$2.96 million, \$8.9 million, \$8.8 million, \$17.1 million, and \$9.2 million in years 2012 through 2016, respectively. The Company received a capital contribution in the amount of \$50.9 million during the year 2016.

## MANAGEMENT AND CONTROL

During the examination period, the Company was equally owned by Health Management Services, LLC; Healx, LLC; and Racor, LLC; and affiliated with various other entities through common ownership. The Company was acquired by Highland Acquisition Holdings on November 30, 2016, along with HealthSun Management, LLC and Pasteur Medical Holdings.

Its senior officers and directors as of December 31, 2016 were:

### Senior Officers

| <u>Name</u>     | <u>Title</u>            |
|-----------------|-------------------------|
| Ron Schutzen    | President and CEO       |
| Gale Lam        | Chief Financial Officer |
| Scott Griesemer | Chief Operating Officer |
| Peter Francis   | Secretary               |

### Board of Directors

| <u>Name</u>     | <u>Location</u>           |
|-----------------|---------------------------|
| Darren Black    | Waban, Massachusetts      |
| Peter Francis   | San Francisco, California |
| Richard Zoretic | Virginia Beach, Virginia  |

**Compensation Committee**

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Darren Black  
Ron Schutzen  
Jeff Folick

**Audit Committee**

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Peter Francis  
Ron Schutzen  
Richard Zoretic

**Compliance Oversight Committee**

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Jeff Folick  
Ron Schutzen  
Luiz Zalvidar  
Milagros Yzquierdo

**Credentialing Committee**

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Rafael Barrial  
Melvyn Fletcher  
Manrique Iriarte  
Patricia Leon  
Nyves Iglesia  
Antonio Mazzorana

**Grievance and Appeals Committee**

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Rafael Barrial  
Melvyn Fletcher  
Milagros Yzquierdo

**Risk Management Committee**

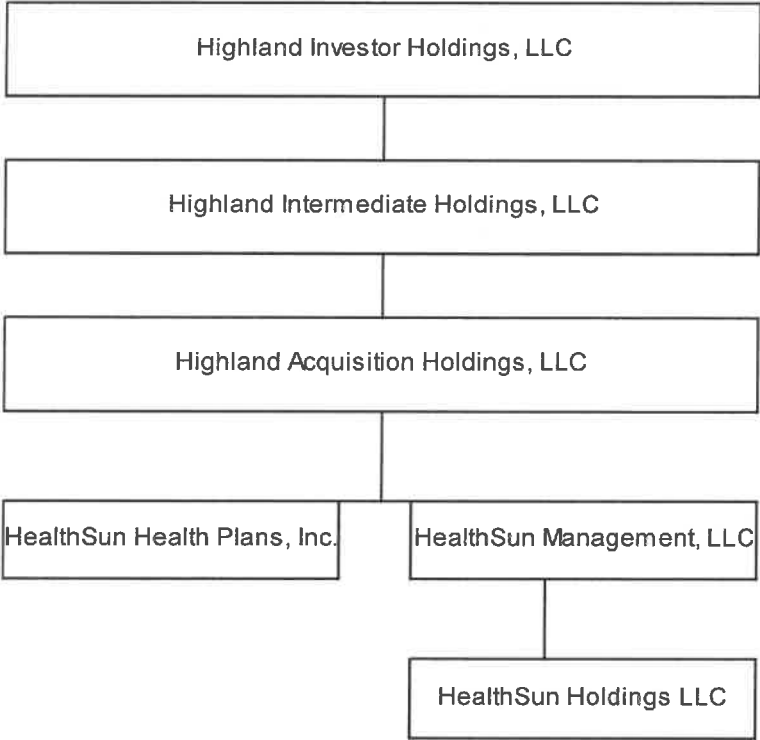
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Marianeía De La Llama  
Karen Connolly  
Milagros Yzquierdo  
Scott Griesemer  
Rafael Barrial

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 31, 2017.

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

**HealthSun Health Plans, Inc.  
Abbreviated Organizational Chart  
December 31, 2016**



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

Advertising Agreement

The Company entered into an Advertising Agreement with Wellmax Health Delivery Network, LLC on October 23, 2013. Wellmax Health Delivery Network, LLC provides advertising for the Company. Wellmax Health Delivery Network, LLC is responsible for establishing, monitoring, and reporting the advertising fees, cost and expenses.



#### OTC Fulfillment Agreement

The Company entered into an Over-the-Counter (OTC) Fulfillment Agreement with EasyScripts, LLC on January 1, 2013. EasyScripts, LLC provides Medicare-Prescription Drug Plans' beneficiaries access to coverage of certain health care services including OTC medications.

#### Shared Services Agreement (SSA)

The Shared Services Agreement (SSA) established a cooperative partnership between HealthSun Health Plans, Inc. and Human Resource Associates, LLC. The SSA is intended to outline services to be offered and working assumptions, quantify and measure service level expectations, outline the potential methods used to measure the quality of service provided, define mutual requirements and expectations for critical processes and overall performance.

#### Wellmax Health Delivery Network Risk Agreement

The Company entered into a ten-year term Network Risk Agreement with Wellmax Health Delivery Network, LLC, a Florida limited liability company (Network), on February 1, 2005 to engage Network to provide and arrange for the provision of services to the Company's members. The Company entered into the First Amended and Restated Transportation Agreement on June 1, 2012 with Wellmax Health Delivery Network, LLC. The Agreement was amended on January 29, 2015 renewing the agreement for an additional ten years starting on February 1, 2015 and ending on January 31, 2025.

#### Medical City Network Risk Agreement

The Company entered into a ten-year Network Risk Agreement with The Medical City, LLC, a Florida limited liability company (Network), on October 1, 2011, to engage Network to provide and arrange for the provision of services to the Company's members.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained general and professional liability insurance at acceptable levels and required its providers to certify and maintain appropriate levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069, F.A.C. The policies provided for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was insured by a blanket fidelity bond issued by a licensed Florida carrier, as required by Section 641.22(7), F.S., in the amount of \$5,000,000.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

Effective January 1, 2016, the Company established a 401k plan for the benefit of its employees, for which participation is voluntary. The Company offered various benefits to eligible employees including group health and dental insurance.

## **TERRITORY AND PLAN OF OPERATION**

As a Medicare Advantage organization, the Company provided health care services to Medicare members in Broward and Miami-Dade Counties, pursuant to an agreement with the Centers for Medicare & Medicaid Services. 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., valid until May 14, 2019.

## COMPANY GROWTH

The Company reported the following for years 2012 through 2016:

*(Dollars are in millions.)*

|                          | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Member months            | 169,098     | 226,005     | 303,097     | 347,888     | 415,227     |
| Year-end enrollment      | 16,248      | 21,405      | 27,682      | 31,033      | 36,811      |
| Premiums                 | \$ 309.6    | \$ 414.0    | \$ 503.8    | \$ 695.7    | \$ 709.1    |
| Revenues                 | \$ 309.6    | \$ 414.0    | \$ 503.8    | \$ 695.7    | \$ 709.1    |
| Underwriting deductions  | \$ 297.6    | \$ 402.9    | \$ 492.4    | \$ 683.6    | \$ 714.7    |
| Net income               | \$ 12.1     | \$ 11.3     | \$ 20.7     | \$ 23.5     | \$ (3.6)    |
| Shareholder dividends    | \$ (2.9)    | \$ (8.9)    | \$ (8.8)    | \$ (17.1)   | \$ (9.2)    |
| Paid in capital received | \$ -        | \$ -        | \$ -        | \$ -        | \$ 50.9     |
| Admitted assets          | \$ 56.3     | \$ 56.0     | \$ 74.1     | \$ 130.1    | \$ 134.8    |
| Liabilities              | \$ 43.0     | \$ 42.5     | \$ 50.7     | \$ 99.4     | \$ 104.9    |
| Capital and surplus      | \$ 13.3     | \$ 13.2     | \$ 23.3     | \$ 30.8     | \$ 29.9     |

## **REINSURANCE**

The Company maintained reinsurance with Zurich American Insurance Company pursuant to an agreement effective August 1, 2016. Effective August 1, 2016, the reinsurance covered 90% of the cost of specified health care services in excess of \$150,000.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office 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.

## **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:

**HealthSun Health Plans, Inc.**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2016**

|  | Per<br>Company        | Examination<br>Adjustments | Per<br>Examination    |
|--|-----------------------|----------------------------|-----------------------|
| <b>Admitted Assets</b>                                 |                       |                            |                       |
| Bonds  | \$ -                  | \$ -                       | \$ -                  |
| Cash, cash equivalents and short-term investments      | 116,017,419           | -                          | 116,017,419           |
|  | 116,017,419           | -                          | 116,017,419           |
| Investment income due and accrued                      | -                     | -                          | -                     |
| Uncollected premiums and agents' balances              | 7,087,842             | -                          | 7,087,842             |
| Amounts recoverable from reinsurers                    | 944,383               | -                          | 944,383               |
| Net deferred tax asset                                 | 617,311               | -                          | 617,311               |
| Electronic data processing equipment and software      | 91,538                | -                          | 91,538                |
| Receivables from parent, subsidiaries, and affiliates  | 10,000,000            | -                          | 10,000,000            |
| Healthcare and other amounts receivable                | 10,475                | -                          | 10,475                |
| Aggregate write-ins for other than invested assets     | -                     | -                          | -                     |
| <b>Total admitted assets</b>                           | <b>\$ 134,768,968</b> | <b>\$ -</b>                | <b>\$ 134,768,968</b> |
| <b>Liabilities</b>                                     |                       |                            |                       |
| Claims unpaid  | \$ 28,797,008         | \$ -                       | \$ 28,797,008         |
| Unpaid claims adjustment expenses                      | 477,604               | -                          | 477,604               |
| Aggregate health policy reserves                       | 7,763,616             | -                          | 7,763,616             |
| General expenses due and accrued                       | 4,983,793             | -                          | 4,983,793             |
| Current federal and foreign income tax payable         | 617,311               | -                          | 617,311               |
| Amounts withheld or retained for the account of others | 25,709,738            | -                          | 25,709,738            |
| Amounts due to parent, subsidiaries, and affiliates    | 14,701,380            | -                          | 14,701,380            |
| Liability for amounts held under uninsured plans       | 21,807,007            | -                          | 21,807,007            |
| <b>Total liabilities</b>                               | <b>104,857,457</b>    | <b>-</b>                   | <b>104,857,457</b>    |
| <b>Capital and Surplus</b>                             |                       |                            |                       |
| Common capital stock                                   | 15                    | -                          | 15                    |
| Gross paid in and contributed surplus                  | 53,052,154            | -                          | 53,052,154            |
| Unassigned funds (deficit)                             | (23,140,658)          | -                          | (23,140,658)          |
| <b>Total capital and surplus</b>                       | <b>29,911,511</b>     | <b>-</b>                   | <b>29,911,511</b>     |
| <b>Total liabilities, capital and surplus</b>          | <b>\$ 134,768,968</b> | <b>\$ -</b>                | <b>\$ 134,768,968</b> |

**HealthSun Health Plans, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**Year Ended December 31, 2016**

|  |                   |
|--|-------------------|
| Net premium income   | \$ 709,048,918    |
| Hospital and medical benefits                              | 402,395,933       |
| Other professional services                                | 54,070,335        |
| Outside referrals  | 69,429,364        |
| Emergency room and out-of-area                             | 9,018,780         |
| Prescription drugs   | 54,764,730        |
| Aggregate write-ins for other health care related revenues | 10,283,697        |
|  | <hr/> 599,962,839 |
| Net reinsurance recoveries                                 | 6,131,033         |
|  | <hr/> 593,831,806 |
| Total hospital and medical                                 | 593,831,806       |
| Claims adjustment expenses                                 | 32,486,442        |
| General administrative expenses                            | 88,355,449        |
| Increase in reserves                                       | 0                 |
|  | <hr/> 714,673,697 |
| Total underwriting deductions                              | 714,673,697       |
| Net underwriting gain                                      | (5,624,779)       |
| Net investment gains                                       | 55,458            |
|  | <hr/> (5,569,321) |
| Income before federal income tax                           | (5,569,321)       |
| Federal income tax   | (1,951,676)       |
|  | <hr/> (3,617,645) |
| Net income   | \$ (3,617,645)    |

**HealthSun Health Plans, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2016**

|   |                           |
|---|---------------------------|
| Capital and surplus - December 31, 2011             | \$ 4,577,867              |
| Net income  | 12,056,788                |
| Change in nonadmitted assets                        | (406,752)                 |
| Dividends to stockholder                            | (2,963,085)               |
| <hr/> Capital and surplus - December 31, 2012       | <hr/> 13,264,818          |
| Net income  | 11,255,944                |
| Change in nonadmitted assets                        | (2,474,302)               |
| Dividends to stockholder                            | (8,893,674)               |
| <hr/> Capital and surplus - December 31, 2013       | <hr/> 13,152,786          |
| Net income  | 20,724,101                |
| Change in nonadmitted assets                        | (1,755,376)               |
| Dividends to stockholder                            | (8,791,113)               |
| <hr/> Capital and surplus - December 31, 2014       | <hr/> 23,330,398          |
| Net income  | 23,452,305                |
| Change in nonadmitted assets                        | 1,081,931                 |
| Dividends to stockholder                            | (17,109,097)              |
| <hr/> Capital and surplus - December 31, 2015       | <hr/> 30,755,537          |
| Net income  | (3,617,645)               |
| Change in net deferred income tax                   | 1,341,178                 |
| Change in nonadmitted assets                        | 255,512                   |
| Paid in capital                                     | 50,904,903                |
| Dividends to stockholder                            | (9,242,949)               |
| Aggregate write-ins for gains or losses in surplus  | (40,485,025)              |
|   | <hr/> 29,911,511          |
| Examination adjustments                             | -                         |
| <hr/> <hr/> Capital and surplus - December 31, 2016 | <hr/> <hr/> \$ 29,911,511 |

**HealthSun Health Plans, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2016**

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

|  | <u>Per<br/>Company</u> | <u>Per<br/>Examination</u> | <u>Increase<br/>(Decrease)<br/>In Capital<br/>&amp; Surplus</u> |                             |
|--|------------------------|----------------------------|---|-----------------------------|
| <b>Capital and surplus, December 31, 2016 - per annual statement</b> |                        |                            |   | <b>\$ 29,911,511</b>        |
| Total assets   | \$ 134,768,968         | \$ 134,768,968             | \$ -  |                             |
| Total liabilities  | \$ 104,857,457         | \$ 104,857,457             | \$ -  | -                           |
| <b>Capital and surplus, December 31, 2016 - per examination</b>      |                        |                            |   | <b><u>\$ 29,911,511</u></b> |



## **SUBSEQUENT EVENTS**

It was announced on September 20, 2017 that Anthem, Inc. was acquiring the Company from a consortium of investors led by Summit Partners, a global alternative investment firm, which is the owner of Highland Investor Holdings.

On January 10, 2018, the Office was notified that Claude Chevance replaced Gale Lam as acting CFO as of December 31, 2017.

## CONCLUSION

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

At December 31, 2016, the Company's capital and surplus was \$29,911,511 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: Ryne Davison, CFE, and Phil Schmoyer, AES, CISA, of Lewis & Ellis, Inc., and from the Florida Office of Insurance Regulation: Luke Stavenau, AFE, Financial Examiner Supervisor; Jorge Guzman, Financial Specialist; Lisa Parker, ASA, MAA, PIR, Actuary; and Shawn Steinly, ASA, Actuary.

Respectfully submitted,



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