

Report on Examination
of
MedAmerica Insurance Company
of Florida
Orlando, Florida
as of
December 31, 2008

By The
Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street, Room 101
Tallahassee, Florida 32399-0301

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 MedAmerica Insurance Company of Florida as of December 31, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
August 11, 2009

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2008 of MedAmerica Insurance Company of Florida (the "Company"), a single-state insurer domiciled in Florida.

This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

This examination covered the period of June 14, 2007 through December 31, 2008. 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 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.

The Company's main administrative office was in Rochester, New York. This examination was conducted in the Company's Orlando, Florida office.

SUMMARY OF SIGNIFICANT FINDINGS

As reported below, the Company failed to maintain its financial and corporate records in the State of Florida as required by Section 628.271(1), Florida Statutes (F.S.), and Consent Order 89686-07 issued by the Office on March 29, 2007.

COMPANY HISTORY

The Company was incorporated in Florida on March 29, 2007, licensed by the Office as an insurer on June 14, 2007, and commenced business on October 1, 2007. It was authorized by the State of Florida to operate as an accident and health insurer in accordance with Section 624.401, F.S.

Dividends and Capital Contributions

No shareholder dividends were distributed by the Company during 2007 or 2008. In 2007, the Company received capital contributions in the total amount of \$3 million.

CORPORATE RECORDS

The recorded minutes of the meetings of the shareholder and Board of Directors 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 625.304, F.S.

The Company failed to maintain its financial and corporate records in the State of Florida as required by Section 628.271(1), F.S., and Consent Order 89686-07 issued by the Office on March 29, 2007.

MANAGEMENT AND CONTROL

As of December 31, 2008, the Company was wholly-owned by MedAmerica Insurance Company (MedAmerica), a Pennsylvania insurer which was owned by New York corporations MedAmerica, Inc. and Excellus Ventures, Inc. MedAmerica, Inc. was wholly-owned by Excellus Health Plan, Inc. (EHP), a New York insurer. EHP was wholly-owned by Lifetime Healthcare, Inc., a New York corporation, holding company and parent of EHP and Excellus Ventures, Inc.

The Company's senior officers, directors and members of the principal committees of its board of directors were as shown below.

Senior Officers	
Name	Title
David H. Klein	Chief Executive Officer
Christopher D. Perna	Chief Operating Officer & President
Emil D. Duda	Chief Financial Officer & Treasurer
Christopher C. Booth	Secretary

Board of Directors

Name	Location
Hermes L. Ames, III	Menands, New York
Natalie L. Brown	Barneveld, New York
Randall L. Clark	East Amherst, New York
Thomas S. Coughlin	Brackney, Pennsylvania
Geoffrey H. Davis, Ph.D.	Little Falls, New York
John G. Doyle, Jr.	Rochester, New York
Deborah A. Freund, Ph.D.	Jamesville, New York
David T. Griffith	New Hartford, New York
Thomas Y. Hobart, Jr.	East Amherst, New York
David H. Klein	Pittsford, New York
Joseph F. Kurnath, M.D.	Rochester, New York
Daniel R. Mackenzie, M.D.	Trumansburg, New York
Thomas L. Mahoney, M.D.	Pittsford, New York
Edward J. Pettinella	Webster, New York
Carol Raphael	New York, New York
Leonard E. Redon	Pittsford, New York
David D. Reh	Victor, New York
Casper F. Sedgwick	Fayetteville, New York
Albert J. Simone, Ph.D.	Penn Yan, New York
George F. T. Yancy, Jr.	Rochester, New York

Audit Committee

Leonard E. Redon
 Casper F. Sedgwick
 George F. T. Yancy, Jr.

Finance Committee

Hermes L. Ames, III
 Randall L. Clark
 John G. Doyle, Jr.
 Joseph F. Kurnath, M.D.

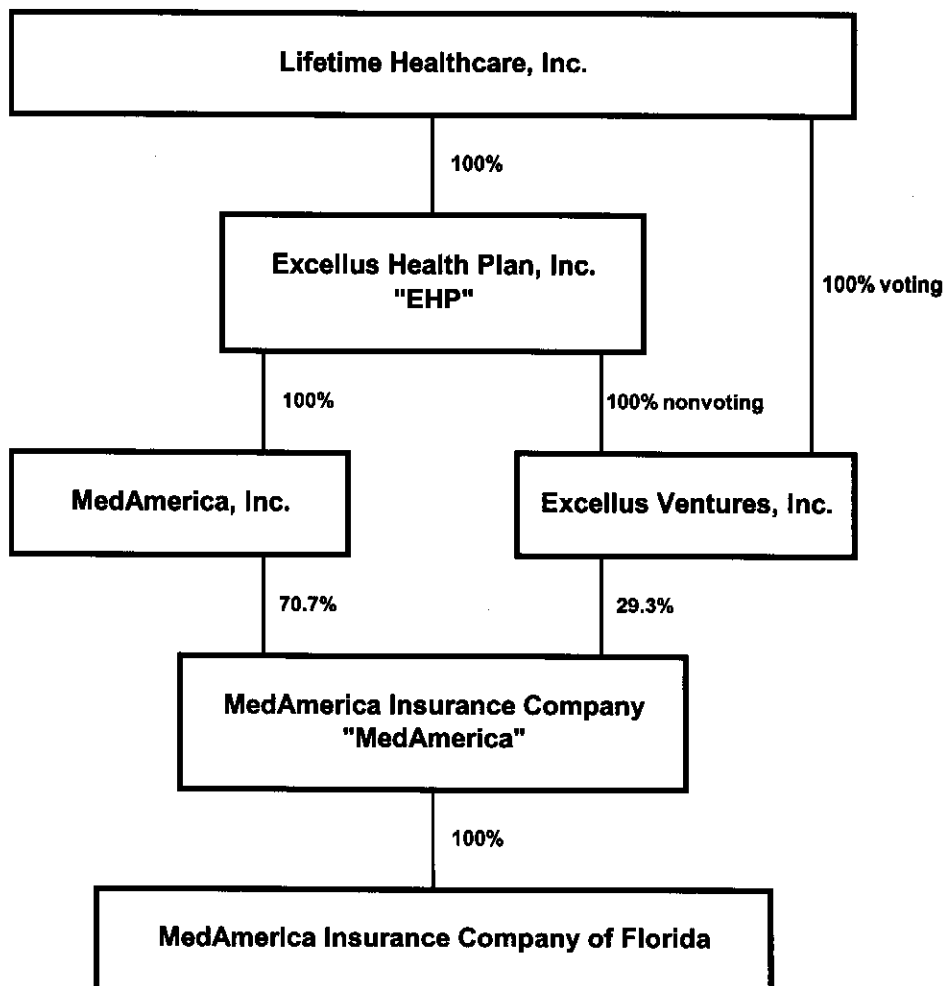
Edward J. Pettinella
 Carol Raphael
 David D. Reh
 George F. T. Yancy, Jr.

The Company was required by its articles of incorporation to maintain a board consisting of from 5 to 15 directors. However, at December 31, 2008, the Company's board consisted of 20 directors. The Company's bylaws and articles of incorporation were subsequently amended to require 18 members including the Company's chief executive officer.

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 April 1, 2009.

An abbreviated organizational chart as of December 31, 2008, reflecting the holding company system, is shown below.

**MedAmerica Insurance Company of Florida
Organizational Chart
December 31, 2008**



MedAmerica provided administrative services to the Company pursuant to an agreement which became effective April 1, 2007. Pursuant to the agreement, the Company reimbursed MedAmerica for the full amount of operating expenses paid on its behalf.

The Company paid commissions to Excellus Insurance Agency, Inc., an affiliate, for providing sales and agent and agency recruitment, training and supervision services to the Company pursuant to a supervising general agent agreement effective in December of 2007.

Pursuant to a January 1, 2007 tax allocation agreement, the results of the Company's operations were included in the consolidated federal income tax return of its ultimate parent Lifetime Healthcare, Inc. Income taxes were allocated to included companies on a separate return basis.

EHP reported that it reached an agreement with the New York Office of Attorney General associated with an industry-wide investigation of out-of-network reimbursement practices including the use of databases maintained by Ingenix, Inc., a wholly-owned subsidiary of UnitedHealth Group, Incorporated. EHP also reported that it agreed to reimburse certain of its members for any claim shortages which may be identified, and to contribute towards the funding of a not-for-profit entity charged with developing a new database to replace those maintained by Ingenix, Inc.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$7.5 million with a deductible of \$250,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$5 million.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees and, as a result, did not provide pension or other employee benefits.

TERRITORY AND PLAN OF OPERATION

At December 31, 2008, the Company operated solely in the State of Florida and was authorized to transact business as an accident and health insurer in accordance with Part III of Chapter 624, F.S. The Company provided long-term care insurance through a brokerage distribution channel of long-term care specialist agencies.

GROWTH OF COMPANY

The Company reported the following for years 2007 and 2008:

	<u>2007</u>	<u>2008</u>
(In millions)		
Net premiums	\$2.3	\$4.2
Total revenues	\$2.4	\$4.3
Net loss	\$0.3	\$0.8
Total capital and surplus	\$2.7	\$1.8

REINSURANCE

The Company assumed 100% of the risk for certain long-term care insurance policies issued by Combined Insurance Company of America. The assumption was pursuant to an indemnity and assumption reinsurance agreement which became effective on December 31, 2008.

ACCOUNTS AND RECORDS

The Company incorrectly reported its December 31, 2008 risk-based capital as a result of omitting assumed premiums from the calculation. However, its risk-based capital as of that date, as correctly determined, was adequate.

STATUTORY DEPOSITS

The Company maintained a deposit with the State of Florida in the amount of \$107,036 as required by Section 624.411, F.S.

MedAmerica Insurance Company of Florida
Assets
December 31, 2008

	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	\$6,945,933	\$0	\$6,945,933
Uncollected premiums and agents' balances	38,679	0	38,679
Funds held by or deposited with reinsured companies	1,403,500	0	1,403,500
Net deferred tax asset	34,797	0	34,797
Receivables from parent, subsidiaries and affiliates	204,823	0	204,823
Total assets	\$8,627,732	\$0	\$8,627,732

MedAmerica Insurance Company of Florida
Liabilities, Surplus and Other Funds
December 31, 2008

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for accident and health contracts	\$6,678,250	\$0	\$6,678,250
Contract claims - accident and health	29,390	0	29,390
Premiums received in advance	21,813	0	21,813
Commissions to agents	597	0	597
General expenses due or accrued	70,323	0	70,323
Taxes, licenses and fees	4,328	0	4,328
Payable to parent, subsidiaries and affiliates	26,294	0	26,294
Aggregate write-ins for liabilities	5,398	0	5,398
Total liabilities	6,836,393	0	6,836,393
Capital and Surplus			
Common capital stock	10,000	0	10,000
Gross paid in and contributed surplus	2,990,000	0	2,990,000
Unassigned funds (deficit)	(1,208,661)	0	(1,208,661)
Total capital and surplus	1,791,339	0	1,791,339
Total liabilities, capital and surplus	\$8,627,732	\$0	\$8,627,732

MedAmerica Insurance Company of Florida
Summary of Operations
(As reported by the Company)
For The Year Ended December 31, 2008

Premiums and annuity considerations	\$4,192,788
Net investment income	148,593
Total revenues	4,341,381
Disability benefits under accident and health contracts	112,862
Increase in aggregate reserves for accident and health contracts	4,202,155
Commissions on premiums	707,995
Commissions and expense allowances on reinsurance assumed	16,500
General insurance expenses	363,744
Insurance taxes, licenses and fees	69,983
	5,473,239
Income (loss) before federal income taxes	(1,131,858)
Federal income taxes (benefit)	(308,768)
Net income (loss)	(\$823,090)

**MedAmerica Insurance Company of Florida
Statement of Changes in Capital and Surplus
For The Two Years Ended December 31, 2008**

Capital and surplus - December 31, 2006	\$0
Net loss	(256,642)
Change in net deferred income tax	12,860
Change in nonadmitted assets	(31,135)
Paid in capital and surplus	3,000,000
<hr/>	
Capital and surplus - December 31, 2007	2,725,083
Net loss	(823,090)
Change in net deferred income tax	21,938
Change in nonadmitted assets	(132,592)
<hr/>	
	1,791,339
Examination adjustments	0
<hr/>	
Capital and surplus - December 31, 2008	<u>\$1,791,339</u>

**MedAmerica Insurance Company of Florida
Comparative Analysis of Changes in Capital and Surplus
December 31, 2008**

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, 2008 - per annual statement			\$1,791,339
	<u>Per</u>	<u>Per</u>	<u>Increase</u>
	<u>Company</u>	<u>Examination</u>	<u>(Decrease)</u>
			<u>In Capital</u>
			<u>& Surplus</u>
Total assets	\$8,627,732	\$8,627,732	\$0
Total liabilities	\$6,836,393	\$6,836,393	\$0
Net change in capital and surplus			<u>0</u>
Capital and surplus, December 31, 2008 - per examination			<u><u>\$1,791,339</u></u>

SUMMARY OF RECOMMENDATIONS

Records

As reported on page 2, the Company failed to maintain its financial and corporate records in the State of Florida as required by Section 628.271(1), F.S., and Consent Order 89686-07. **We recommend that the Company maintain its financial and corporate records in the State of Florida as required.**

Board of Directors

As reported on page 4, the Company was required by its articles of incorporation to maintain a board consisting of from 5 to 15 directors. However, at December 31, 2008, the Company's board consisted of 20 directors. The Company's bylaws and articles of incorporation were subsequently amended to require 18 members including the Company's chief executive officer. **We recommend that the Company maintain its board of directors in accordance with its bylaws and articles of incorporation.**

Risk-Based Capital

As reported on page 8, the Company incorrectly calculated and reported its December 31, 2008 risk-based capital. **We recommend that, in the future, the Company accurately report its risk-based capital in accordance with Section 624.4085, F.S., and the NAIC annual statement instructions.**

SUBSEQUENT EVENTS

On April 29, 2009, the Company received additional paid in surplus in the amount of \$1.5 million.

On June 9, 2009, the credit rating agency A. M. Best Company, Inc. downgraded the Company's financial outlook to negative.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of MedAmerica Insurance Company of Florida as of December 31, 2008, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2008 was determined to be \$1,791,339, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2008 was \$1,500,000.

In addition to the undersigned, the following participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Russell K. Judge, Financial Examiner/Analyst; and Kerry A. Krantz, Actuary.

Respectfully submitted,

M. Alison Miele, CFE, Financial Examiner/Analyst
Florida Office of Insurance Regulation