

Report on Examination
of
Medica HealthCare Plans, Inc.
Miami, Florida
as of
December 31, 2016



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

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David Altmaier, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399

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 Medica HealthCare Plans, Inc. as of December 31, 2016. Our report on the examination follows.

Florida Office of Insurance Regulation
April 30, 2018

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2016 of Medica HealthCare Plans, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2013 through December 31, 2016 and took place primarily in the office of the Company's affiliate in Hartford, Connecticut. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2012.

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 June 19, 2003 and licensed by the Office as Medicare Plus Choice provider-sponsored organization on September 2, 2004 and as an HMO on April 30, 2012. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S.

CORPORATE RECORDS

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

Dividends and Capital Contributions

The Company distributed dividends in the amount of \$25.0 million in 2016. It received capital contributions in the amounts of \$30.5 million, \$15.0 million and \$22.0 million in years 2013, 2014 and 2015, respectively.

MANAGEMENT AND CONTROL

The Company was wholly owned by United HealthCare Services, Inc. (UHS) which was wholly owned by UnitedHealth Group Incorporated (UHG), a diversified managed care company with headquarters in Minnetonka, Minnesota. The common stock of UHG was traded on the New York Stock Exchange.

Its senior officers and directors were:

Senior Officers	
Name	Title
Roger Rodriguez	President and Chief Executive Officer
Benjamin N. Eklo	Chief Financial Officer
N. Brent Cottington	Vice President
Robert W. Oberrender	Treasurer
Kristine M. Weikel	Secretary
Heather A. Lang Jacobsen	Assistant Secretary
Erin E. Weber	Assistant Secretary

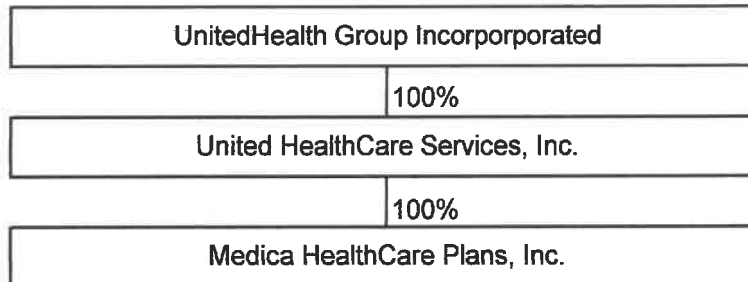
Board of Directors	
Name	Location
Benjamin N. Eklo	Chaska, Minnesota
William J. Hnath	Rogers, Minnesota
Timothy J. Noel	Minneapolis, Minnesota
Annette C. Onorati	Miami, Florida
Roger Rodriguez	Miami, Florida

Audit Committee
Clint Egenes
Marc Briggs
Timothy J. Noel

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 27, 2017.

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

**Medica HealthCare Plans, Inc.
Abbreviated Organizational Chart
December 31, 2016**



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

Management Services Agreement

UHS provided management and administrative services to the Company pursuant to an agreement effective December 14, 2012 and later amended, to provide or arrange for services such as integrated personal health management solutions.

Various Administrative Agreements with Affiliates

The Company directly contracted with related parties to provide services to its members which are expensed as capitation fees, administrative services and access fees. Medical Transportation Services, LLC provided transportation services to enrolled members of the Company. Preferred Care Partner Medical Group, Inc. provided primary care services. Spectera, Inc. provided administrative services related to vision benefit management and claims processing. The Company contracted with OptumRx to provide administrative services related to pharmacy management and pharmacy claims processing for its enrollees.

Tax Allocation Agreement

The results of the Company's operations were included in UHG's consolidated federal income tax returns pursuant to a 2012 tax allocation agreement. Per the agreement, taxes were allocated to the Company as if it were filing on a separate return basis with credit given for the tax benefit of any net operating losses, capital losses and tax credits to the extent they reduced the consolidated federal income tax liability.

Revolving Credit Agreement

The Company held a \$40.0 million revolving credit agreement with UHG at an interest rate of London InterBank Offered Rate plus a margin of 0.5%. The credit agreement was subordinate to the extent it does not conflict with any credit facility held by either party. The credit agreement was effective until terminated by either party upon sixty days prior written notice. There was no interest paid or accrued on borrowings during the examination period.

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 crime policy issued by a licensed Florida carrier, as required by Section 641.22(7), F.S., in the amount of \$5.0 million.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of UHS performed functions on behalf of the Company under the terms of a management agreement.

TERRITORY AND PLAN OF OPERATION

The Company provided Medicare Advantage and Medicare Part D prescription drug coverage to Medicare members pursuant to an agreement with the Centers for Medicare & Medicaid Services. Effective January 1, 2015, the Company contracted with the state of Florida Agency for Health Care Administration (AHCA) to provide services to Medicare members who are dually eligible for Medicaid. The Company was authorized to conduct business in the Florida counties of Broward and Miami-Dade.

COMPANY GROWTH

The Company reported the following for years 2013 through 2016:

(Dollars are in millions)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Member months	392,450	392,709	425,478	455,134
Year-end enrollment	32,790	33,327	35,810	38,568
Premiums	\$ 514.1	\$ 487.4	\$ 524.2	\$ 534.9
Revenues	\$ 513.4	\$ 486.6	\$ 523.1	\$ 533.9
Underwriting deductions	\$ 540.0	\$ 501.6	\$ 499.0	\$ 492.3
Net income (loss)	\$ (21.6)	\$ (7.4)	\$ 11.6	\$ 24.9
Shareholder dividends	\$ -	\$ -	\$ -	\$ 25.0
Paid-in surplus received	\$ 30.5	\$ 15.0	\$ 22.0	\$ -
Admitted assets	\$ 100.3	\$ 118.8	\$ 132.9	\$ 139.6
Liabilities	\$ 80.3	\$ 98.4	\$ 78.8	\$ 78.2
Capital and surplus	\$ 20.0	\$ 20.4	\$ 54.1	\$ 61.4

REINSURANCE

The Company did not have any reinsurance in place.

SURPLUS NOTES

The Company repaid the surplus note of \$10,000,000 and \$487,975 of surplus note interest to UHS on October 10, 2013. The repayment was approved by the Office.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$1,000,000 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:

Medica HealthCare Plans, Inc.
Assets, Liabilities, Capital and Surplus
December 31, 2016

Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 82,667,319	\$ -	\$ 82,667,319
Cash, cash equivalents and short-term investments	32,011,321	-	32,011,321
	114,678,640	-	114,678,640
Investment income due and accrued	614,939	-	614,939
Uncollected premiums and agents' balances	58,024	-	58,024
Accrued retrospective premiums	18,767,077	-	18,767,077
Amounts receivable relating to uninsured plans	1,159,125	-	1,159,125
Current federal income tax recoverable	1,297,845	-	1,297,845
Net deferred tax asset	1,040,795	-	1,040,795
Health care and other amounts receivable	1,944,891	-	1,944,891
Total assets	\$ 139,561,336	\$ -	\$ 139,561,336
Liabilities			
Claims unpaid	\$ 48,231,718	\$ -	\$ 48,231,718
Accrued medical incentive pool and bonus amounts	12,626,567	-	12,626,567
Unpaid claims adjustment expenses	803,872	-	803,872
Aggregate health policy reserves	3,953,052	-	3,953,052
Premiums received in advance	246	-	246
General expenses due or accrued	1,758,483	-	1,758,483
Amounts due to parent, subsidiaries and affiliates	3,600,564	-	3,600,564
Liability for amounts held under uninsured plans	7,120,704	-	7,120,704
Aggregate write-ins for other liabilities	61,007	-	61,007
Total liabilities	78,156,213	-	78,156,213
Surplus and Other Funds			
Common capital stock	21	-	21
Preferred capital stock	85	-	85
Gross paid in and contributed surplus	74,679,973	-	74,679,973
Unassigned funds (surplus)	(13,274,956)	-	(13,274,956)
Total surplus and other funds	61,405,123	-	61,405,123
Total liabilities, surplus and other funds	\$ 139,561,336	\$ -	\$ 139,561,336

Medica HealthCare Plans, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2016

Net premium income	\$ 534,906,720
Change in unearned premium reserves and reserve for rate credits	(992,628)
Total revenues	533,914,092
Hospital/medical benefits	371,443,847
Other professional services	3,012,801
Prescription drugs	50,677,499
Incentive pool, withhold adjustments and bonus amounts	17,382,937
	442,517,084
Claims adjustment expenses	4,970,380
General administrative expenses	44,853,831
	492,341,295
Net underwriting gain or (loss)	41,572,797
Net investment income earned	1,500,323
Net realized capital gains (losses)	(42,587)
Net investment gains (losses)	1,457,736
Net income or (loss) after capital gains tax and before all other federal income taxes	43,030,533
Federal and foreign income taxes incurred	18,167,302
Net income	\$ 24,863,231

Medica HealthCare Plans, Inc.
Statement of Changes in Capital and Surplus
For The Four Years Ended December 31, 2016

Capital and surplus - December 31, 2012	\$ 21,327,372
Net income (loss)	(21,634,012)
Change in nonadmitted assets	(162,949)
Change in surplus notes	(10,000,000)
Surplus adjustments: Paid in	30,487,975
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Capital and surplus - December 31, 2013	20,018,386
Net income (loss)	(7,374,436)
Change in nonadmitted assets	(7,277,270)
Surplus adjustments: Paid in	15,000,000
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Capital and surplus - December 31, 2014	20,366,680
Net income (loss)	11,647,748
Change in net deferred income tax	5,033,844
Change in nonadmitted assets	(4,911,364)
Surplus adjustments: Paid in	22,000,000
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Capital and surplus - December 31, 2015	54,136,908
Net income (loss)	24,863,231
Change in net deferred income tax	(3,993,049)
Change in nonadmitted assets	11,398,033
Dividends to stockholders	(25,000,000)
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	61,405,123
Examination adjustments	-
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Capital and surplus - December 31, 2016	\$ 61,405,123
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Medica HealthCare Plans, Inc.
Comparative Analysis of Changes in Capital & 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.

Capital & surplus, December 31, 2016 - per annual statement				\$ 61,405,123
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus	
Total assets	\$ 139,561,336	\$ 139,561,336	-	
Total liabilities	\$ 78,156,213	\$ 78,156,213	-	-
Capital & surplus, December 31, 2016 - per examination				\$ 61,405,123

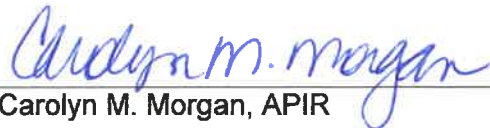
CONCLUSION

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

At December 31, 2016, the Company's capital and surplus was \$61,405,123 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: Cathie A. Stewart, CFE, associated with the firm of Risk & Regulatory Consulting, LLC; and from the Florida Office of Insurance Regulation: Margaret M. McCrary, CPA, Chief Financial Examiner; Luke Stavenau, AFE, Financial Examiner/Analyst Supervisor; and Shawn Steinly, ASA, Actuary.

Respectfully submitted,



Carolyn M. Morgan, APIR

Director, Life & Health Financial Oversight
Florida Office of Insurance Regulation