

Report on Examination
of
Medica Health Plans of Florida, Inc.

Coral Gables, Florida

as of

December 31, 2012



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, 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 Medica Health Plans of Florida, Inc. as of December 31, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation
February 11, 2014

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of Medica Health Plans of Florida, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2009 through December 31, 2012 and took place primarily in the Company's Coral Gables, Florida office. Our examination of the Company was one of eighteen coordinated financial condition examinations of companies in the Unitedhealth group by ten participating states. The exams were coordinated by the Texas Department of Insurance. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of 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. 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.

COMPANY HISTORY

The Company was incorporated in Florida on August 25, 2005 and licensed by the Office as an HMO on September 29, 2006. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.). The Company was acquired by a subsidiary of UnitedHealth Group Incorporated (UHG) on April 30, 2012.

Dividends and Capital Contributions

No stockholder dividends were distributed during the period examined. The Company received capital contributions of \$7,951,869 in 2012.

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 investments as required by Section 641.35(7), F.S., was recorded in the meeting minutes.

MANAGEMENT AND CONTROL

The Company was wholly owned by United HealthCare Services, Inc. (UHS) which was wholly owned by UHG, a diversified managed health care company with headquarters in Minnetonka, Minnesota. UHG's common stock traded on the New York Stock Exchange. The Company was affiliated through common ownership and control with numerous other entities including the Florida domiciled HMOs Citrus Health Care, Inc., Medica HealthCare Plans, Inc. (MHCP), Neighborhood Health Partnership, Inc., Preferred Care Partners, Inc., and UnitedHealthcare of Florida, Inc. Its senior officers, directors, and members of principal board committees were:

Senior Officers

Name	Title
Rafael P. Perez	Chief Executive Officer
Cynthia L. Polich	President
Martiniano J. Perez	Chief Financial Officer
John W. Kelly	Vice President, Tax Services
Robert W. Oberrender	Treasurer

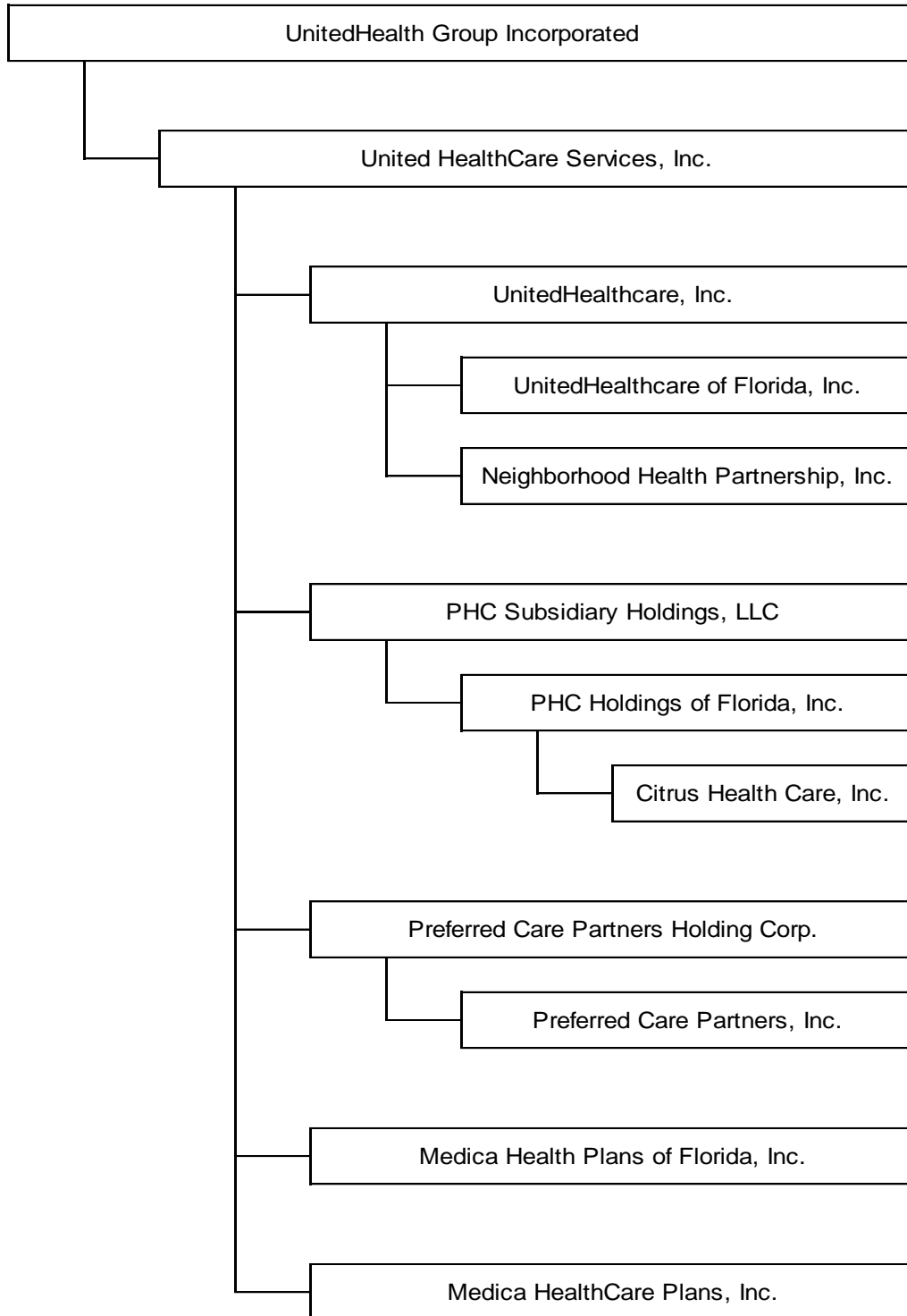
Board of Directors

Name	Location
Joseph L. Caruncho	Miami, Florida
Peter J. Clarkson	Minnetonka, Minnesota
Rafael P. Perez	Miami, Florida
Cynthia L. Polich	Minnetonka, Minnesota
Scott E. Theisen	Minnetonka, Minnesota

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 25, 2013.

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

**Medica Health Plans of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2012**



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

Management Services Agreements

MHCP provided management and administrative services to the Company in accordance with a services agreement effective July 1, 2006 in return for fees of \$300,000 per year. The agreement was terminated effective December 14, 2012.

UHS provided management and operational support services to the Company pursuant to a December 14, 2012 management services agreement. Fees under the arrangement were based on expenses for services provided solely to the Company and were payable monthly.

Tax Allocation Agreement

Effective April 30, 2012, the results of the Company's operations were included in the consolidated federal income tax returns of UHG pursuant to a tax allocation agreement. In accordance with the agreement, federal income taxes of the group 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.

Ancillary Services Agreement

Medical Transportation Services, LLC provided non-emergency transportation services to the Company's members in return for per member per month fees in accordance with an August 7, 2008 agreement in return for fees of \$91,638, \$116,426, \$83,634, and \$88,470 in years 2009 through 2012, respectively.

FIDELITY BONDS AND OTHER INSURANCE

As an individual practice association (IPA) model HMO, the Company maintained an adequate amount of professional liability insurance and required its providers to maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Florida Statutes, as required by Rule 69O-191.069, F.A.C. The policies provided for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was a named insured on a crime policy of UHG in the amount of \$25 million which satisfied the requirement of Section 641.22(7), F.S.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Effective August 2012, the Company had no employees and UHS performed functions on behalf of the Company. UHS provided various benefits to eligible employees including medical, dental, and vision insurance; and participation in 401(k) savings and employee stock purchase plans.

TERRITORY AND PLAN OF OPERATION

The Company provided health care services to individuals, groups, and Medicaid members. The Company marketed its products primarily through radio, television, billboard, and newspaper advertising. 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 August 19, 2014. As an IPA model HMO, there were 8,583 members as of December 31, 2012, of which 18% were comprehensive and 82% were 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 2009 through 2012:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Member months	20,040	70,227	100,779	104,097
Year-end enrollment	2,857	7,576	8,708	8,583
<i>(In millions)</i>				
Premiums	\$ 5.0	\$ 18.3	\$ 29.2	\$ 34.4
Revenues	\$ 5.0	\$ 18.3	\$ 29.2	\$ 34.4
Underwriting deductions	\$ 7.3	\$ 20.2	\$ 30.0	\$ 36.3
Net loss	\$ 2.2	\$ 1.9	\$ 0.7	\$ 1.2
Stockholder dividends	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ 8.0
Admitted assets	\$ 4.8	\$ 7.2	\$ 7.1	\$ 9.2
Liabilities	\$ 2.4	\$ 5.3	\$ 5.4	\$ 6.2
Capital and surplus	\$ 2.4	\$ 2.0	\$ 1.7	\$ 3.0

REINSURANCE

The Company maintained stop loss reinsurance with RGA Reinsurance Company. The reinsurance covered 90% of specified health care services in excess of \$175,000 up to a maximum of \$3,000,000 per member per year.

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.

Medica Health Plans of Florida, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2012

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	\$ 8,226,879	\$ -	\$ 8,226,879
Investment income due and accrued	4,870	-	4,870
Uncollected premiums and agents' balances	7,551	-	7,551
Current income tax recoverable	929,500	-	929,500
Total admitted assets	\$ 9,168,800	\$ -	\$ 9,168,800

Liabilities			
Claims unpaid	\$ 4,640,279	\$ -	\$ 4,640,279
Unpaid claims adjustment expenses	85,013	-	85,013
Aggregate health policy reserves	1,136,443	-	1,136,443
Premiums received in advance	99,237	-	99,237
General expenses due or accrued	100,203	-	100,203
Amounts due to parent, subsidiaries and affiliates	130,812	-	130,812
Total liabilities	6,191,987	-	6,191,987

Capital and Surplus			
Common capital stock	1,235	-	1,235
Gross paid in and contributed surplus	11,635,634	-	11,635,634
Unassigned funds (deficit)	(8,660,056)	-	(8,660,056)
Total capital and surplus	2,976,813	-	2,976,813
Total liabilities, capital and surplus	\$ 9,168,800	\$ -	\$ 9,168,800

Medica Health Plans of Florida, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2012

Net premium income	\$ 34,391,774
Hospital and medical benefits	13,640,192
Other professional services	4,732,312
Outside referrals	4,175,569
Emergency room and out-of-area	5,289,054
Prescription drugs	4,513,686
	<hr/> 32,350,813
Net reinsurance recoveries	290,742
Total hospital and medical	32,060,071
Claims adjustment expenses	1,475,797
General administrative expenses	2,304,124
Increase in reserves	489,954
Total underwriting deductions	<hr/> 36,329,946
Net underwriting gain (loss)	(1,938,172)
Net investment gains (losses)	(407,958)
Income (loss) before federal income tax	<hr/> (2,346,130)
Federal income tax	(1,161,500)
Net income (loss)	<hr/> <hr/> \$ (1,184,630)

Medica Health Plans of Florida, Inc.
Statement of Changes in Capital and Surplus
Four Years Ended December 31, 2012

Capital and surplus - December 31, 2008	\$ 2,826,295
Net income or (loss)	(2,211,055)
Change in net deferred income tax	873,718
Change in nonadmitted assets	(885,716)
Change in surplus notes	1,800,000
<hr/>	
Capital and surplus - December 31, 2009	2,403,242
Net income or (loss)	(1,868,104)
Change in net deferred income tax	901,747
Change in nonadmitted assets	(875,569)
Change in surplus notes	1,400,000
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Capital and surplus - December 31, 2010	1,961,316
Net income or (loss)	(737,707)
Change in net deferred income tax	571,117
Change in nonadmitted assets	(595,075)
Change in surplus notes	550,000
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Capital and surplus - December 31, 2011	1,749,651
Net income or (loss)	(1,184,630)
Change in net deferred income tax	(3,323,993)
Change in nonadmitted assets	3,288,916
Change in surplus notes	(5,505,000)
Paid in surplus	7,951,869
<hr/>	
	2,976,813
Examination adjustments	-
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Capital and surplus - December 31, 2012	<u>\$ 2,976,813</u>

Medica Health Plans of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2012

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, 2012 - per annual statement		\$ 2,976,813	
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total admitted assets	\$ 9,168,800	\$ 9,168,800	\$ -
Total liabilities	\$ 6,191,987	\$ 6,191,987	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2012 - per examination			\$ 2,976,813

SUBSEQUENT EVENTS

The Company entered into a subordinated revolving credit agreement with UHG effective January 1, 2013. The agreement provided that the Company could borrow up to \$1 million from UHG on a short-term basis payable with interest calculated at the applicable currency one month London InterBank Offered Rate (LIBOR) plus 50 basis points.

For the year ended December 31, 2013, the Company reported a net loss of \$2.4 million and total premium income of \$35.7 million.

The Company elected to not participate in the Medicaid program beginning in 2014. In addition, it began to withdraw from the commercial market and not renew members beginning with September 2013 renewal dates. As a result of these actions, the Company has indicated that it expects to have no membership by the end of 2014.

CONCLUSION

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

At December 31, 2012, the Company's capital and surplus was \$2,976,813 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: Faisal Harianawalla, Financial Examiner/Analyst; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

Stephen Feliu, CFE (Fraud)
Financial Examiner/Analyst
Florida Office of Insurance Regulation