

Report on Examination
of
Molina Healthcare of Florida, Inc.
Doral, Florida
as of
December 31, 2018



**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 off Molina Healthcare of Florida, Inc. as of December 31, 2018. Our report on the examination follows.

Florida Office of Insurance Regulation
May 29, 2020

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2018 of Molina Healthcare of Florida, Inc. (Company), a single-state insurer domiciled in Florida. The examination covered the period of January 1, 2016 through December 31, 2018 and took place primarily in the Company's Doral office and Tallahassee, Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (Office) was as of December 31, 2015. This financial examination was part of a multi-state coordinated group examination with the Ohio Department of Insurance as lead state.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (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. 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 statement.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes (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.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings to include in this report.

COMPANY HISTORY

The Company was incorporated in Florida on May 9, 2007 and licensed by the Office as a health maintenance organization (HMO) on March 4, 2008. 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

The minutes of meetings held by the Company's Shareholder and Board of Directors (Board) were reviewed for the period under examination. 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 received capital contributions of \$110 million and \$205 million in 2016 and 2017 respectively. The Company did not distribute any stockholder dividends during the exam period.

MANAGEMENT AND CONTROL

The Company was wholly owned by Molina Healthcare, Inc., a multi-state managed care organization with headquarters in Long Beach, California. The common stock of Molina Healthcare, Inc. was traded on the New York Stock Exchange.

Its senior officers and directors were:

Senior Officers

Name	Title
Michael J. Jones	President
Angel A. Mongeotti	Chief Financial Officer
Jeffrey D. Barlow	Secretary

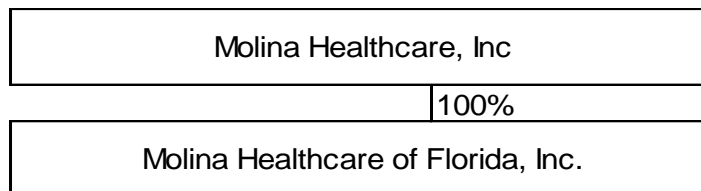
Board of Directors

Name	Location
Daniel J. Gudz	Waynesville, OH
Michael J. Jones	Riverview, FL
Ronald D. Kurtz	Pasadena, CA
Michelle A.B. Purrington	San Antonio, TX

The Holding Company Registration Statement for 2018 was filed timely with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.).

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

**Molina Healthcare of Florida, Inc
Abbreviated Organizational Chart
December 31, 2018**



AFFILIATED AND OTHER AGREEMENTS

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

Services Agreement

The Company is a party to a Third Amended and Restated Services Agreement with Molina Healthcare, Inc. (MHI), effective January 27, 2017. MHI was engaged to provide the following services; Accounting, Finance, Actuarial, Underwriting, Analytical Support and Report Generation, Appeals and Grievances, Claims Processing and Administration, Contract Development and Negotiations, Call Center, Enrollee Materials, Enrollment, Facilities Management, Human Resources, Information Technology, Insurance, Legal, Pharmacy, Premium Collection, Provider Credentialing, Quality Improvement, Unitization Review, Consulting and Advisory and Incidental.

Consolidated Tax Allocation Agreement

The Company is a party to an Amended and Restated Federal Tax Sharing Agreement with MHI, effective January 27, 2017. The results of the Company's operations were included in the consolidated federal income tax returns of MHI pursuant to a 2015 tax allocation agreement. The

income tax of the consolidated group was allocated to the Company as if the Company had filed tax returns on a separate return basis.

Providers Fee Payment Consent and Agreement

The Company is party to an Amended and Restated Health Insurance Providers Fee Payment Consent and Agreement with MHI, effective January 27, 2017. Pursuant to 26 C.P.R. §57.2(c) the Company appointed MHI to be the designated entity to act on behalf of the control group regarding the Health Insurance Providers Fee.

Premium Administration Agreement

The Company is party to a Premium Administration Agreement with Molina Healthcare, Inc. effective August 17, 2018. This agreement is the desire of the parties to memorialize their understanding and warranties related to any premiums to be held by MHI in connection with its performance of the Premium Collections Services provided to the Company noted as part of the Service Agreement between the parties effective January 1, 2017.

TERRITORY AND PLAN OF OPERATION

The Company provided comprehensive health care services to Medicaid members pursuant to a contract with the State of Florida. 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 October 31, 2017. The Company was authorized to operate in thirty-four (34) counties in Florida. The Company provided health care services to Medicare enrollees under a contract with the Centers for Medicare and Medicaid Services in seven (7) counties in Florida.

COMPANY GROWTH

The Company reported the following for years 2016 through 2018:

(Dollars are in millions)

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Premiums	\$ 1,937.4	\$ 2,577.1	\$ 1,845.7
Revenues	\$ 1,961.9	\$ 2,578.0	\$ 1,845.7
Net income	\$ (62.0)	\$ (259.7)	\$ 93.8
Shareholder dividends	\$ -	\$ -	\$ -
Paid in surplus received	\$ 110.0	\$ 205.0	\$ -
Admitted assets	\$ 802.9	\$ 1,155.3	\$ 662.0
Liabilities	\$ 602.9	\$ 922.3	\$ 327.3
Capital and surplus	\$ 200.0	\$ 233.0	\$ 334.7

REINSURANCE

The Company maintained HMO Excess Risk Reinsurance through RGA Reinsurance Company effective January 1, 2018. Covered member types include Medicare, Medicaid and Marketplace. The Company's deductible is \$650,000 per Medicare Member and \$1,300,000 per Medicaid and Marketplace Member during agreement period. The Company retains 10% and the reinsurance limits are \$2,000,000 per Member for Medicare and Medicaid members and unlimited per Marketplace Member per Agreement period.

ACCOUNTS AND RECORDS

There were no significant examination findings related to the Company's accounts and records.

SURPLUS NOTES

There were no surplus notes issued by the Company during the examination period.

STATUTORY DEPOSITS

The Company maintained an insolvency protection deposit of \$1,060,000 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.

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury Bond	<u>\$ 1,060,000</u>	<u>\$ 1,061,272</u>
Total Florida Deposit		\$ 1,060,000	\$ 1,061,272
		<u>\$ -</u>	<u>\$ -</u>
Total Deposits		<u>\$ 1,060,000</u>	<u>\$ 1,061,272</u>

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:

Molina Healthcare of Florida, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2018

Admitted Assets	
Bonds	\$ 300,298,234
Cash, cash equivalents and short-term investments	344,698,548
Subtotals, cash and invested assets	<u>644,996,782</u>
Investment income due and accrued	2,163,360
Uncollected premiums and agents' balances	5,930,926
Accrued retrospective premiums	600,859
Amounts recoverable from reinsurers	2,291,839
Amounts receivable relating to uninsured plans	695,264
Current federal and foreign income tax recoverable and interest thereon	1,584,220
Health care and other amounts receivable	3,756,214
Receivables from parent, subsidiaries and affiliates	
Aggregate write-ins for other than invested assets	
Total assets	<u>\$ 662,019,464</u>

Liabilities	
Claims unpaid	\$ 170,520,244
Accrued medical incentive pool and bonus amounts	3,898,477
Unpaid claims adjustment expenses	2,899,101
Aggregate health policy reserves	44,393,712
Premiums received in advance	3,911,206
General expenses due or accrued	7,547,613
Amounts withheld or retained for the account of others	226,581
Amount due to parent, subsidiaries and affiliates	5,581,723
Aggregate write-ins for other liabilities	88,343,849
Total liabilities	<u>\$ 327,322,506</u>

Capital and Surplus	
Common capital stock	\$ 100
Gross paid in and contributed surplus	663,762,888
Unassigned funds (surplus)	<u>(329,066,030)</u>
Total surplus and other funds	<u>334,696,958</u>
Total liabilities, capital and surplus	<u>\$ 662,019,464</u>

Molina Healthcare of Florida, Inc.
Statement of Revenue and Expenses
Year Ended December 31, 2018

Net premium income	\$ 1,845,699,007
Total revenues	1,845,699,007
Hospital and Medical:	
Hospital/medical benefits	794,696,304
Other professional services	152,961,001
Outside referrals	46,154,828
Emergency room and out-of-area	211,290,798
Prescription drugs	275,996,881
Incentive pool, withhold adjustments and bonus amounts	6,113,605
Subtotal	1,487,213,417
Less: Net reinsurance recoveries	2,603,128
Total hospital and medical	1,484,610,289
Claims adjustment expenses	50,434,765
General administrative expenses	199,796,822
Total underwriting deductions	1,734,841,876
Net underwriting gain or (losses)	110,857,131
Net investment income earned	15,661,967
Net realized capital gain or (losses)	11,982
Net investment gain or (losses)	15,673,949
Aggregate write-ins for other income or expenses	(1,503,942)
federal income taxes	125,027,138
Federal and foreign income taxes incurred	31,201,704
Net income	93,825,434

Molina Healthcare of Florida, Inc.
Statement of Changes in Capital and Surplus
Three Years Ended December 31, 2018

Capital and surplus - December 31, 2015	\$	136,959,272
Net income		(62,030,330)
Change in net unrealized capital gains (losses)		34,162
Change in nonadmitted assets		15,045,917
Paid in Surplus		110,000,000
<hr/>		
Capital and surplus - December 31, 2016		200,009,021
Net income		(259,657,766)
Change in net unrealized capital gains (losses)		13,107
Change in nonadmitted assets		87,663,944
Paid in Surplus		205,000,000
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Capital and surplus - December 31, 2017		233,028,306
Net income		93,825,434
Change in net unrealized capital gains (losses)		(25,144)
Change in nonadmitted assets		7,868,362
Capital and surplus - December 31, 2018		334,696,958

Molina Healthcare of Florida, Inc.
Comparative Analysis of Changes in Capital & Surplus
December 31, 2018

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, 2018 - per annual statement				\$ 334,696,958
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus	
Total assets	\$ 662,019,464	\$ 662,019,464	\$ -	
Total liabilities	\$ 327,322,506	\$ 327,322,506	\$ -	\$ -
Capital & surplus, December 31, 2018 - per examination				\$ 334,696,958

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

SUBSEQUENT EVENTS

In addition to reviewing board minutes and financial statements, the examination also considered notable subsequent events occurring after the December 31, 2018 examination date. The Company provided comprehensive health care services to Medicaid members pursuant to a contract with the State of Florida. Effective January 29, 2020, a new contract with the State of Florida, which resulted in a reduction in the number of counties from thirty-four (34) to seven (7) in which the Company is authorized to operate.

In March 2020, the World Health Organization recognized the coronavirus (COVID-19) outbreak as a pandemic. While the complete effects of COVID-19 on the economy and financial markets are still unknown, the Office recognizes that it could have a significant impact on all domestic insurers, including the Company. The Office will continue to closely monitor this situation and share information with the Company as appropriate regarding these developments.

CONCLUSION

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

At December 31, 2018, the Company's capital and surplus was \$334,696,958 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: Darlene L. Lenhart-Schaeffer, CFE, CISA, Examiner-in-Charge associated with the firm of Risk & Regulatory Consulting, LLC.

The following individuals from the Florida Office of Insurance Regulation also participated in the examination: Marshay Spencer, APIR, Financial Examiner/Analyst Supervisor and Glenn Coats, APIR, Financial Control Analyst.

Respectfully submitted,



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