

**Report on Examination**  
**of**  
**Preferred Care Partners, Inc.**  
**Miami, Florida**  
**as of**  
**December 31, 2011**



**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 Preferred Care Partners, Inc. as of December 31, 2011. Our report on the examination follows.

Florida Office of Insurance Regulation  
January 17, 2013

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2011 of Preferred Care Partners, Inc. (the "Company"), a Florida health maintenance organization (HMO). The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2006. The current examination covered the period of January 1, 2007 through December 31, 2011 and took place primarily in the Company's Miami, Florida office.

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 October 9, 1998 and licensed by the Office as an HMO on May 27, 2005. 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.).

### Dividends and Capital Contributions

The Company distributed stockholder dividends in the amounts of \$13.5 million, \$17.0 million, and \$7.5 million in years 2009, 2010, and 2011, respectively. No dividends were distributed in years 2007 or 2008. The Company received a \$2 million capital contribution from its parent in 2007.

## **CORPORATE RECORDS**

We reviewed the minutes of the Company's stockholder and board of directors meetings held during the period examined. There was no record in the minutes of the Board of Directors meetings of the authorization or ratification of the Company's investments as required by Section 641.35(7), F.S. The report on our prior examination of the Company contained a similar finding.

## MANAGEMENT AND CONTROL

The Company was wholly owned by Preferred Care Partners Holding Corp. (Holding) and was affiliated with Preferred Care Partners Medical Group, Inc. Its senior officers and directors were:

### Senior Officers

<u>Name</u>	<u>Title</u>
Joseph L. Caruncho	Chief Executive Officer
Justo L. Pozo	President & Treasurer
Annette C. Onorati	Chief Compliance Officer & Secretary
Orlando Lopez-Fernandez, Jr., M.D.	Chief Medical Officer
Roger Rodriguez	Chief Operating Officer
Jose Velasco	Chief Marketing Officer
David Scherer	Chief Information Officer

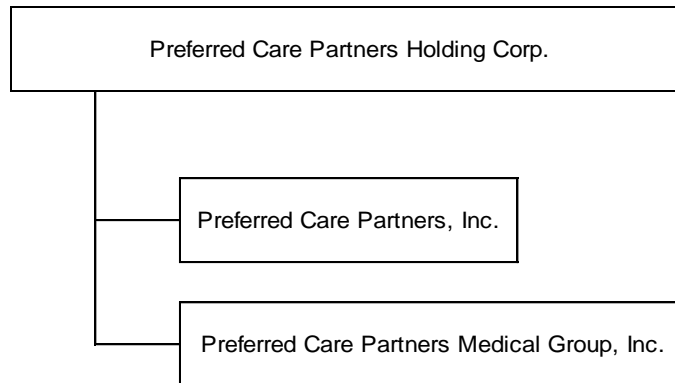
### Board of Directors

<u>Name</u>	<u>Location</u>
Joseph L. Caruncho	Miami, Florida
Carlos A. Ferrer	Greenwich, Connecticut
Keith J. Longson	Albuquerque, New Mexico
Justo L. Pozo	Miami, Florida
Arthur G. Shapiro, M.D.	Miami Beach, Florida
Milton J. Wallace	Miami, Florida
Theodore M. Wille, Jr.	Virginia Beach, Virginia

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(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 690-143.046, F.A.C., on August 2, 2011.

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

**Preferred Care Partners, Inc.  
Abbreviated Organizational Chart  
December 31, 2011**



Network Risk Agreement

Holding functioned as a provider network which engaged physicians and ancillary providers of health care services to the Company pursuant to an agreement effective January 1, 2003 and later amended.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of Holding pursuant to a 2005 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.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company was a named insured on Holding's general and professional liability insurance policies which were maintained at acceptable levels. It 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 a named insured on Holding's \$5 million crime policy which adequately met the requirements of Section 641.22(7), F.S.

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

The Company provided various benefits to eligible employees. The benefits included paid time off and group medical, life, short-term and long-term disability, dental and vision insurance.

## **TERRITORY AND PLAN OF OPERATION**

As an individual practice association (IPA) model HMO operating solely in Florida, the Company provided health care services to Medicare and Medicaid members 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 September 27, 2014. At December 31, 2011, the Company provided services to 49,268 members of which 91% were Medicare members, and operated in the Florida counties of Broward, Hernando, Hillsborough, Lake, Manatee, Marion, Miami-Dade, Orange, Osceola, Pasco, Pinellas, Polk, Seminole, Sumter, and Volusia.



## COMPANY GROWTH

The Company reported the following for years 2007 through 2011:

*(Dollars are in millions.)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Member months	321,032	269,889	250,789	376,936	544,262
Year-end enrollment	26,451	22,000	21,103	33,060	49,268
Premiums	\$ 331.4	\$ 302.1	\$ 329.9	\$ 431.8	\$ 574.0
Revenues	\$ 331.4	\$ 302.1	\$ 329.9	\$ 431.8	\$ 574.0
Underwriting deductions	\$ 319.0	\$ 287.8	\$ 306.1	\$ 412.4	\$ 558.3
Net income	\$ 3.1	\$ 3.2	\$ 9.5	\$ 11.6	\$ 8.9
Stockholder dividends	\$ -	\$ -	\$ 13.5	\$ 17.0	\$ 7.5
Paid in surplus received	\$ 2.0	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 67.7	\$ 62.5	\$ 72.8	\$ 74.9	\$ 78.9
Liabilities	\$ 50.6	\$ 29.8	\$ 31.4	\$ 43.7	\$ 66.9
Capital and surplus	\$ 17.1	\$ 32.7	\$ 41.4	\$ 31.2	\$ 12.0

## REINSURANCE

The Company maintained excess of loss insurance with HM Life insurance Company. Its Medicare policy covered 90% of eligible medical services and approved transplants, and 50% of non-approved transplants, in excess of \$250,000. Its Medicaid policy provided similar coverage in excess of \$100,000. The policies were subject to limits of \$1,000,000 per member per year and \$2,000,000 per member per lifetime.

## 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.

**Preferred Care Partners, Inc.**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2011**

<b>Admitted Assets</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$ 15,360,542	\$ -	\$ 15,360,542
Cash, cash equivalents and short-term investments	29,349,087	-	29,349,087
	44,709,629	-	44,709,629
Investment income due and accrued	155,635	-	155,635
Uncollected premiums and agents' balances	15,279,400	-	15,279,400
Amounts recoverable from reinsurers	799,883	-	799,883
Current income tax recoverable	402,693	-	402,693
Net deferred tax asset	8,129,791	-	8,129,791
Electronic data processing equipment and software	507,521	-	507,521
Health care and other amounts receivable	8,881,842	-	8,881,842
<b>Total admitted assets</b>	<b>\$ 78,866,394</b>	<b>\$ -</b>	<b>\$ 78,866,394</b>

<b>Liabilities</b>			
Claims unpaid	\$ 49,250,866	\$ -	\$ 49,250,866
Accrued medical incentive pool and bonuses	831,911	-	831,911
Unpaid claims adjustment expenses	884,438	-	884,438
Aggregate health policy reserves	2,239,724	-	2,239,724
Aggregate health claim reserves	2,109,646	-	2,109,646
Premiums received in advance	4,105,549	-	4,105,549
General expenses due or accrued	7,230,827	-	7,230,827
Aggregate write-ins for other liabilities	204,704	-	204,704
<b>Total liabilities</b>	<b>66,857,665</b>	<b>-</b>	<b>66,857,665</b>

<b>Capital and Surplus</b>			
Common capital stock	1	-	1
Gross paid in and contributed surplus	48,923,603	-	48,923,603
Unassigned funds (deficit)	(36,914,875)	-	(36,914,875)
<b>Total capital and surplus</b>	<b>12,008,729</b>	<b>-</b>	<b>12,008,729</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 78,866,394</b>	<b>\$ -</b>	<b>\$ 78,866,394</b>

**Preferred Care Partners, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**Year Ended December 31, 2011**

Net premium income	\$ 573,968,035
Hospital and medical benefits	381,950,932
Emergency room and out-of-area	8,025,417
Prescription drugs	103,608,634
Incentive pool, withhold adjustments and bonuses	3,147,518
	<hr/> 496,732,501
Net reinsurance recoveries	(483,686)
Total hospital and medical	496,248,815
Claims adjustment expenses	1,103,001
General administrative expenses	60,969,503
Total underwriting deductions	<hr/> 558,321,319
Net underwriting gain	15,646,716
Net investment gains (losses)	(102,909)
Aggregate write-ins for other income or expenses	(4,064,444)
Income before federal income tax	<hr/> 11,479,363
Federal income tax	2,596,571
Net income	<hr/> <hr/> \$ 8,882,792

**Preferred Care Partners, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2011**

Capital and surplus - December 31, 2006	\$ 24,377,144
Net income	3,050,688
Change in net deferred income tax	6,810,351
Change in nonadmitted assets	(19,418,550)
Paid in surplus	2,000,000
Aggregate write-ins for gains or (losses)	303,687
<hr/>	
Capital and surplus - December 31, 2007	17,123,320
Net income	3,241,192
Change in net deferred income tax	(3,227,978)
Change in nonadmitted assets	15,538,859
Aggregate write-ins for gains or (losses)	(4,626)
<hr/>	
Capital and surplus - December 31, 2008	32,670,767
Net income	9,507,881
Change in net deferred income tax	(2,374,417)
Change in nonadmitted assets	15,063,471
Dividends to stockholder	(13,500,000)
Aggregate write-ins for gains or (losses)	2
<hr/>	
Capital and surplus - December 31, 2009	41,367,704
Net income	11,596,882
Change in net deferred income tax	(99,759)
Change in nonadmitted assets	(5,286,538)
Paid in surplus adjustments	404,453
Dividends to stockholder	(17,000,000)
Aggregate write-ins for gains or (losses)	188,632
<hr/>	
Capital and surplus - December 31, 2010	31,171,374
Net income	8,882,792
Change in net deferred income tax	5,590,441
Change in nonadmitted assets	(26,135,878)
Dividends to stockholder	(7,500,000)
<hr/>	
	12,008,729
Examination adjustments	-
<hr/>	
Capital and surplus - December 31, 2011	<u>\$ 12,008,729</u>

**Preferred Care Partners, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2011**

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

<b>Capital and surplus, December 31, 2011 - per annual statement</b>		\$ 12,008,729																				
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;"></th> <th style="width: 33%; text-align: center;"><u>Per Company</u></th> <th style="width: 33%; text-align: center;"><u>Per Examination</u></th> <th style="width: 33%; text-align: center;"><b>Increase (Decrease) In Capital &amp; Surplus</b></th> </tr> </thead> <tbody> <tr> <td>Total assets</td> <td style="text-align: right;">\$ 78,866,394</td> <td style="text-align: right;">\$ 78,866,394</td> <td style="text-align: right;">\$ -</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: right;">\$ 66,857,665</td> <td style="text-align: right;">\$ 66,857,665</td> <td style="text-align: right;">\$ -</td> </tr> <tr> <td>Net change in capital and surplus</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">-</td> </tr> <tr> <td><b>Capital and surplus, December 31, 2011 - per examination</b></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;"><b>\$ 12,008,729</b></td> </tr> </tbody> </table>		<u>Per Company</u>	<u>Per Examination</u>	<b>Increase (Decrease) In Capital &amp; Surplus</b>	Total assets	\$ 78,866,394	\$ 78,866,394	\$ -	Total liabilities	\$ 66,857,665	\$ 66,857,665	\$ -	Net change in capital and surplus			-	<b>Capital and surplus, December 31, 2011 - per examination</b>			<b>\$ 12,008,729</b>	
	<u>Per Company</u>	<u>Per Examination</u>	<b>Increase (Decrease) In Capital &amp; Surplus</b>																			
Total assets	\$ 78,866,394	\$ 78,866,394	\$ -																			
Total liabilities	\$ 66,857,665	\$ 66,857,665	\$ -																			
Net change in capital and surplus			-																			
<b>Capital and surplus, December 31, 2011 - per examination</b>			<b>\$ 12,008,729</b>																			

## SUMMARY OF RECOMMENDATIONS

### Investments

As reported on page 2, there was no record in the minutes of the Board of Directors meetings of the authorization or ratification of the Company's investments as required by Section 641.35(7), F.S. **We recommend that the Company's board of directors, or a committee, department or section of the Company charged with the duty of supervising investments, authorize or ratify the Company's investments as required by Section 641.35(7), F.S., and that the Board of Directors record or acknowledge the action in the minutes of its meetings.**

## **SUBSEQUENT EVENTS**

On May 31, 2012, the Company's parent Preferred Care Partners Holding Corp. was acquired by a unit of UnitedHealth Group Incorporated following approval by the Office.

## CONCLUSION

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

As of December 31, 2011, the Company's capital and surplus was \$12,008,729 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 this examination: Christine N. Afolabi, CPA, Financial Specialist; Walter F. Banas, CIE, Financial Specialist; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; Richard Tan, Actuary; and Michael D. Young, CFE, Financial Examiner/Analyst.

Respectfully submitted,

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