

Report on Examination
of
Preferred Care Partners, Inc.
Miami, Florida
as of
December 31, 2016



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

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COMMISSIONER

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COMMISSION**

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ATTORNEY GENERAL

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COMMISSIONER OF
AGRICULTURE

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 Preferred Care Partners, 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 Preferred Care Partners, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2012 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, 2011.

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 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, F.S.

CORPORATE RECORDS

We reviewed the minutes of the Company's stockholder and board of directors' minutes. 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 distributed stockholder dividends in the amount of \$73.1 million in year 2015. No dividends were distributed in 2012, 2013, 2014, or 2016. The Company received capital contributions of \$1.0 million, \$27.0 million and \$5.0 million in years 2012, 2013 and 2016, respectively.

MANAGEMENT AND CONTROL

The Company was wholly owned by Preferred Care Partners Holding Corp. (Holding) and affiliated with numerous other entities through common ownership and control. Holding was wholly owned by United HealthCare Services, Inc. (UHS). Headquartered in Minnetonka, Minnesota, UnitedHealth Group Incorporated (UHG) was the sole shareholder of UHS. 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
Timothy J. Noel	Chief Financial Officer
N. Brent Cottington	Vice President
Robert W. Oberrender	Treasurer
Kristine M. Weikel	Secretary
Heather A. Lang Jacobsen	Assistant Secretary
Annette C. Onorati	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

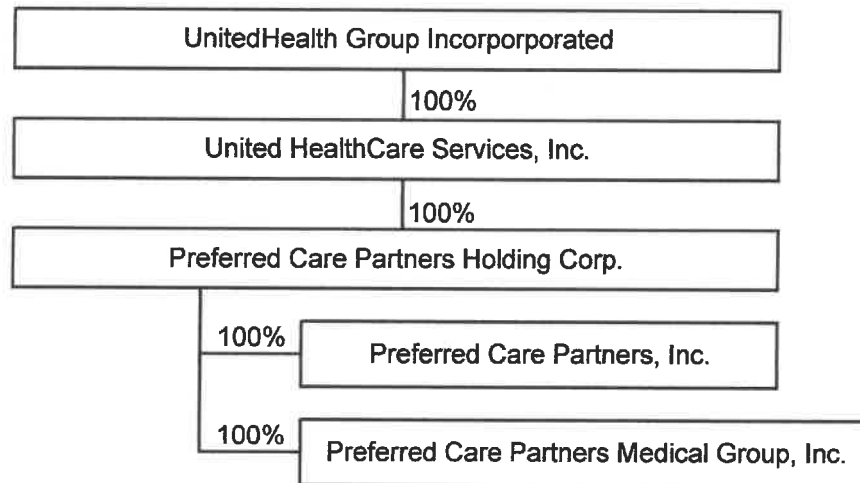
Audit Committee

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.

**Preferred Care Partners, 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. OptumHealth Care Solutions, Inc. delivered chiropractic, physical therapy and complex medical conditions services. Dental Benefits Providers, Inc. provided dental care assistance. 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. Additionally, the Company contracted with OptumRx to provide personal health products catalogues showing the healthcare products and the specific benefits credits that were needed to redeem the products. OptumRx also distributed personal health products to individual members based upon the terms of the agreement.

Agreements with OptumInsight, Inc. were in place for claim analytics, recovery of medical expense overpayments, retroactive fraud, waste and abuse, subrogation, and premium audit services.

Tax Allocation Agreement

The results of the Company's operations were included in UHG's consolidated federal income tax returns pursuant to a 1994 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 \$7.5 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 and no amounts were outstanding 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 fidelity bond 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

As an individual practice association (IPO) model HMO operating solely in Florida, the Company provided health care services to Medicare members pursuant to an agreement with the Centers for Medicare and Medicaid Services. At December 31, 2016, the Company provided services to 131,156 Medicare members and operated in 48 counties in Florida.

COMPANY GROWTH

The Company reported the following for years 2012 through 2016:

(Dollars are in millions)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Member months	680,258	610,171	537,782	671,280	1,491,487
Year-end enrollment	57,118	50,594	44,971	59,585	131,156
Premiums	\$ 670.6	\$ 571.7	\$ 582.8	\$ 741.5	\$ 1,487.1
Revenues	\$ 671.1	\$ 566.5	\$ 585.1	\$ 732.4	\$ 1,484.4
Underwriting deductions	\$ 657.9	\$ 555.5	\$ 551.9	\$ 692.0	\$ 1,455.1
Net income (loss)	\$ (0.0)	\$ 14.1	\$ 19.9	\$ 24.2	\$ 13.8
Shareholder dividends	\$ -	\$ -	\$ -	\$ 73.1	\$ -
Paid-in surplus received	\$ 1.0	\$ 27.0	\$ -	\$ -	\$ 5.0
Admitted assets	\$ 110.2	\$ 110.5	\$ 196.9	\$ 169.4	\$ 325.0
Liabilities	\$ 119.1	\$ 86.6	\$ 87.3	\$ 114.5	\$ 242.4
Capital and surplus	\$ (8.9)	\$ 23.9	\$ 109.6	\$ 54.9	\$ 82.6

REINSURANCE

The Company does not have any reinsurance agreements as of December 31, 2016.

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:

Preferred Care Partners, Inc.
Assets, Liabilities, Capital and Surplus
December 31, 2016

Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 146,353,409	\$ -	\$ 146,353,409
Cash, cash equivalents and short-term investments	65,429,280	-	65,429,280
Other invested assets (Schedule BA)	30,012,190	-	30,012,190
Receivables for securities	750,000	-	750,000
	<u>242,544,879</u>	<u>-</u>	<u>242,544,879</u>
Investment income due and accrued	1,158,372	-	1,158,372
Uncollected premiums and agents' balances	6,362,763	-	6,362,763
Accrued retrospective premiums	46,489,686	-	46,489,686
Amounts receivable relating to uninsured plans	3,193,524	-	3,193,524
Current federal income tax recoverable	12,751,441	-	12,751,441
Net deferred tax asset	5,385,911	-	5,385,911
Health care and other amounts receivable	7,158,454	-	7,158,454
Total assets	\$ 325,045,030	\$ -	\$ 325,045,030
Liabilities			
Claims unpaid	\$ 160,378,063	\$ -	\$ 160,378,063
Accrued medical incentive pool and bonus amounts	27,035,907	-	27,035,907
Unpaid claims adjustment expenses	1,650,463	-	1,650,463
Aggregate health policy reserves	15,373,277	-	15,373,277
Aggregate health claim reserves	61,662	-	61,662
Premiums received in advance	127,214	-	127,214
General expenses due or accrued	10,085,098	-	10,085,098
Remittances and items not allocated	5,041	-	5,041
Amounts due to to parent, subsidiaries and affiliates	16,019,586	-	16,019,586
Payable for securities	890,352	-	890,352
Liability for amounts held under uninsured plans	10,608,417	-	10,608,417
Aggregate write-ins for other liabilities	152,942	-	152,942
Total liabilities	242,388,022	-	242,388,022
Surplus and Other Funds			
Common capital stock	1	-	1
Gross paid in and contributed surplus	48,877,071	-	48,877,071
Unassigned funds (surplus)	33,779,936	-	33,779,936
Total surplus and other funds	82,657,008	-	82,657,008
Total liabilities, surplus and other funds	\$ 325,045,030	\$ -	\$ 325,045,030

Preferred Care Partners, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2016

Net premium income	\$ 1,487,118,238
Change in unearned premium reserves and reserve for rate credits	(2,729,860)
Total revenues	1,484,388,378
Hospital/medical benefits	1,098,114,674
Other professional services	7,198,331
Emergency room and out-of-area	17,134,478
Prescription drugs	114,885,455
Incentive pool, withhold adjustments and bonus amounts	39,354,808
	1,276,687,746
Claims adjustment expenses	49,456,560
General administrative expenses	128,959,077
	1,455,103,383
Net underwriting gain or (loss)	29,284,995
Net investment income earned	1,837,518
Net realized capital gains (losses)	6,769
Net investment gains (losses)	1,844,287
Net gain or (loss) from agents' or premium balances charged off	(92,908)
Net income or (loss) after capital gains tax and before all other federal income taxes	31,036,374
Federal and foreign income taxes incurred	17,218,055
Net income	\$ 13,818,319

Preferred Care Partners, Inc.
Statement of Changes in Capital and Surplus
For The Five Years Ended December 31, 2016

Capital and surplus - December 31, 2011	\$ 12,008,729
Net income (loss)	(17,001)
Change In net deferred income tax	18,648,525
Change in nonadmitted assets	(38,881,047)
Cumulative effect of changes in accounting principles	(1,691,739)
Surplus adjustments: Paid in	1,000,000
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Capital and surplus - December 31, 2012	(8,932,533)
Net income (loss)	14,053,654
Change In net deferred income tax	(7,142,358)
Change in nonadmitted assets	(2,402,736)
Cumulative effect of changes in accounting principles	1,357,537
Transferred from surplus (stock dividend)	25,252,225
Surplus adjustments: Paid in	27,000,000
Transferred to capital (stock dividend)	(25,252,225)
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Capital and surplus - December 31, 2013	23,933,564
Net income (loss)	19,920,999
Change in net deferred income tax	(21,317,912)
Change in nonadmitted assets	87,063,892
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Capital and surplus - December 31, 2014	109,600,543
Net income (loss)	24,165,688
Change in net deferred income tax	2,395,050
Change in nonadmitted assets	(8,223,086)
Surplus adjustments: Paid in	(7,794,307)
Dividends to stockholders	(65,278,058)
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Capital and surplus - December 31, 2015	54,865,830
Net income (loss)	13,818,319
Change in net deferred income tax	(5,117,339)
Change in nonadmitted assets	14,090,198
Surplus adjustments: Paid in	5,000,000
	82,657,008
Examination adjustments	-
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Capital and surplus - December 31, 2016	\$ 82,657,008
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Preferred Care Partners, 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			\$ 82,657,008
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 325,045,030	\$ 325,045,030	-
Total liabilities	\$ 242,388,022	\$ 242,388,022	-
Capital & surplus, December 31, 2016 - per examination			\$ 82,657,008

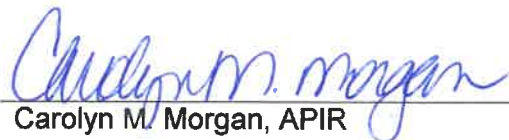
CONCLUSION

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.

At December 31, 2016, the Company's capital and surplus was \$82,657,008 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