

**Report on Examination**  
**of**  
**Sunshine State Health Plan, Inc.**  
**Sunrise, 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 Sunshine State Health Plan, Inc. as of December 31, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation  
February 7, 2014

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of Sunshine State Health Plan, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of May 7, 2008 through December 31, 2012 and took place partially in the Company's Sunrise, Florida office. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office"). Our examination of the Company was one of six coordinated financial condition examinations of companies in the Centene Corporation (Centene) group by the States of Florida, Mississippi, Ohio, Texas, and Wisconsin. The exams were coordinated by the Texas Department of Insurance.

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.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The examination resulted in findings that there was no record in the minutes of the meetings of the Company's board of directors of the authorization or ratification of the Company's investments and that the Company's general and professional liability insurance policies did not provide for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage.

## **COMPANY HISTORY**

The Company was incorporated in Florida on April 3, 2007 and licensed by the Office as an HMO on May 7, 2008. 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

No dividends were distributed by the Company during the period examined. The Company received contributions to its capital and surplus in the amounts of \$21.5 million, \$49.8 million, \$14.6 million and \$2.5 million in 2009, 2010, 2011, and 2012, respectively.

## **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Company's board of directors and Centene's audit committee. The Board's approval of Company transactions was recorded in the minutes of its meetings except that there was no record in the minutes of the authorization or ratification of the Company's investments as required by Section 641.35(7), F.S.

## MANAGEMENT AND CONTROL

The Company was wholly owned by Sunshine Health Holding LLC (formerly, Sunshine Health Holding Company), a wholly owned subsidiary of Centene. With headquarters in Saint Louis, Missouri, Centene was a diversified, multi-line health care enterprise providing programs and services to government sponsored health care programs and focusing on under-insured and uninsured individuals. Centene's common stock traded on the New York Stock Exchange.

The Company's senior officers and directors were:

### Senior Officers

<b>Name</b>	<b>Title</b>
Chris E. Paterson, Ph.D.	President & Chief Executive Officer
Jason Delimitros	Chief Operating Officer
Christopher Bowers	Senior Vice President
Mark W. Eggert	Vice President
Jesse N. Hunter	Vice President
Nathan Landsbaum	Vice President
William N. Scheffel	Vice President
Keith H. Williamson	Secretary
Jeffrey A. Schwaneke	Treasurer

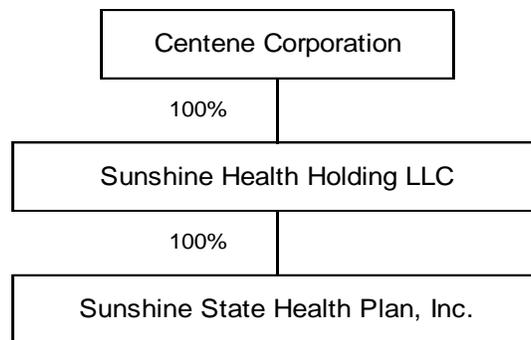
### Board of Directors

<b>Name</b>	<b>Location</b>
Nelson L. Adams, M.D.	North Miami Beach, Florida
Christopher Bowers	Ladue, Missouri
Jesse N. Hunter	Ladue, Missouri
William N. Scheffel	Town and Country, Missouri
Keith H. Williamson	St. Louis, Missouri

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 April 1, 2013.

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

**Sunshine State Health Plan, Inc.  
Abbreviated Organizational Chart  
December 31, 2012**



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

Tax Sharing Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of Centene. Income taxes were allocated to the Company in accordance with a tax sharing agreement. The allocation was primarily on a separate return basis using a percentage method to allocate a tax asset for any benefit derived by the consolidated group for the Company's losses or credits which offset consolidated taxable income.

### Management Agreement

Pursuant to a September 1, 2008 agreement, Centene Management Company, LLC provided program planning and development, information systems, financial, claims administration, utilization review, and other management services to the Company. Fees under the agreement were based on 12% of gross revenues and amounted to \$12.9 million, \$34.1 million, \$59.2 million, and \$67.0 million in years 2009 through 2012, respectively.

### Services Agreement

NurseWise LP provided triage and outbound calling services to the Company's members pursuant to an agreement with the Company effective September 1, 2008 in return for fees of \$0.7 million, \$1.8 million, \$2.8 million, and \$2.7 million in years 2009 through 2012, respectively.

### Disease Management Services Agreement

Nurtur Health, Inc. provided disease management services to the Company's members pursuant to an agreement with the Company effective August 18, 2008 in return for fees of \$0.3 million, \$1.2 million, \$2.3 million, and \$2.5 million in years 2009 through 2012, respectively.

### Behavioral Services Agreement

Cenpatco Behavioral Health, LLC provided behavioral management services to the Company's members pursuant to an April 1, 2008 agreement with the Company. Fees under the agreement were determined on a per member per month basis and amounted to \$11.4 million, \$27.7 million, \$37.0 million, and \$37.6 million in years 2009 through 2012, respectively.

### Vision Management Services

Ocucare Systems, Inc. provided vision management services to the Company's members pursuant to a December 1, 2007 agreement with the Company. Fees under the agreement

were determined on a per member per month basis and amounted to \$0.6 million, \$1.6 million, \$2.5 million, and \$2.7 million in years 2009 through 2012, respectively.

#### Pharmacy Benefit Management Services

US Script, Inc. provided pharmacy claims administration services to the Company and pharmacy benefits to the Company's members pursuant to an agreement with the Company effective December 1, 2007. Fees related to the agreement were \$20.4 million, \$48.5 million, \$77.2 million, and \$82.8 million in years 2009 through 2012, respectively.

## **FIDELITY BONDS AND OTHER INSURANCE**

As an individual practice association (IPA) model HMO, 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. We found that its general liability and professional liability insurance policies did not provide for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage, as required by Rule 69O-191.069(2), F.A.C. However, the required provisions were added to the policies in November of 2013. The Company was a named insured on the crime policy of its parent in the amount of \$5 million which adequately met the requirements of Section 641.22(7), F.S.

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

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of Centene Management Company, LLC, an affiliate, performed functions on behalf of the Company. Centene Management Company, LLC provided various benefits to the Company's employees including dental, vision, life, and disability insurance, health care, and participation in a section 401(k) savings plan.

## **TERRITORY AND PLAN OF OPERATION**

The Company provided managed health care benefits and services to Medicaid and long-term care members pursuant to agreements with the Florida Agency for Health Care Administration and the Florida Department of Elder Affairs. It provided products under the Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), and Nursing Home Diversion programs, as well as the State Children's Health Insurance Program (SCHIP). It marketed its products primarily through billboards, written ads in provider journals, newsletters, and health fairs.

The Company 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 April 21, 2014. As an IPA model HMO, there were 213,501 Company members as of December 31, 2012, of which 99% were Medicaid members. The Company was authorized to operate in the following Florida Counties: Alachua, Brevard, Broward, Citrus, Clay, Duval, Escambia, Flagler, Indian River, Hardee, Hernando, Highlands, Hillsborough, Lake, Manatee, Marion, Martin, Miami-Dade, Monroe, Okaloosa, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Santa Rosa, Sarasota, Seminole, St. Lucie, Volusia and Walton.

## COMPANY GROWTH

The Company reported the following for years 2008 through 2012:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Member months	-	532,612	1,436,592	2,269,890	2,465,353
Year-end enrollment	-	102,667	194,900	198,238	213,501
<i>(In millions)</i>					
Premiums	\$ -	\$ 106.8	\$ 283.0	\$ 488.0	\$ 559.1
Revenues	\$ -	\$ 106.8	\$ 283.0	\$ 488.0	\$ 559.1
Underwriting deductions	\$ -	\$ 120.8	\$ 336.0	\$ 495.3	\$ 559.8
Net income (loss)	\$ -	\$ (10.8)	\$ (38.1)	\$ 1.1	\$ 0.4
Stockholder dividends	\$ -	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ 21.5	\$ 49.8	\$ 14.6	\$ 2.5
Admitted assets	\$ 3.1	\$ 64.8	\$ 116.8	\$ 94.8	\$ 86.9
Liabilities	\$ -	\$ 51.3	\$ 93.4	\$ 58.4	\$ 46.1
Capital and surplus	\$ 3.0	\$ 13.6	\$ 23.4	\$ 36.4	\$ 40.8

## REINSURANCE

The Company maintained reinsurance with Bankers Reserve Life Insurance Company of Wisconsin, an affiliate. The reinsurance agreement provided for reimbursement to the Company of 90% of the cost of specified health care services for claims received by November 1, 2013 and 50% of the cost of certain transplants performed by non-approved providers in excess of \$150,000 up to \$2,000,000 per member.

## STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$300,000 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.

**Sunshine State Health Plan, Inc.**  
**Admitted Assets, Liabilities, and Capital and Surplus**  
**December 31, 2012**

<b>Admitted Assets</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$58,202,754	\$ -	\$58,202,754
Cash, cash equivalents and short-term investments	16,213,207	-	16,213,207
Receivables for securities	5,000	-	5,000
	74,420,961	-	74,420,961
Investment income due and accrued	544,108	-	544,108
Uncollected premiums and agents' balances	2,948,743	-	2,948,743
Health care and other amounts receivable	739,000	-	739,000
Aggregate write-ins for other than invested assets	8,269,302	-	8,269,302
<b>Total admitted assets</b>	<b>\$86,922,114</b>	<b>\$ -</b>	<b>\$86,922,114</b>
<b>Liabilities</b>			
Claims unpaid	\$ 42,148,781	\$ -	\$ 42,148,781
Accrued medical incentive pool and bonus amounts	613,750	-	613,750
Unpaid claims adjustment expenses	807,000	-	807,000
Premiums received in advance	720,328	-	720,328
General expenses due or accrued	276,004	-	276,004
Current federal and foreign income tax payable	1,062,998	-	1,062,998
Amounts due to parent, subsidiaries and affiliates	451,223	-	451,223
<b>Total liabilities</b>	<b>46,080,084</b>	<b>-</b>	<b>46,080,084</b>
<b>Capital and Surplus</b>			
Common capital stock	10	-	10
Gross paid in and contributed surplus	91,444,945	-	91,444,945
Unassigned funds (deficit)	(50,602,925)	-	(50,602,925)
<b>Total capital and surplus</b>	<b>40,842,030</b>	<b>-</b>	<b>40,842,030</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 86,922,114</b>	<b>\$ -</b>	<b>\$ 86,922,114</b>

**Sunshine State Health Plan, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**Year Ended December 31, 2012**

Net premium income	\$559,096,420
Hospital and medical benefits	289,182,059
Other professional services	52,512,413
Emergency room and out-of-area	69,463,445
Prescription drugs	79,828,066
Incentive pool, withhold adjustments and bonuses	21,000
	<hr/> 491,006,983
Net reinsurance recoveries	(1,918,635)
Total hospital and medical	492,925,618
Claims adjustment expenses	16,706,460
General administrative expenses	50,151,162
Total underwriting deductions	<hr/> 559,783,240
Net underwriting gain (loss)	(686,820)
Net investment gains	939,041
Income before income taxes	252,221
Federal and foreign income taxes	(141,906)
Net income	<hr/> <hr/> <b>\$ 394,127</b>

**Sunshine State Health Plan, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2012**

Capital and surplus - December 31, 2007	\$ 3,004,999
Net income (loss)	36,793
<hr/>	
Capital and surplus - December 31, 2008	3,041,792
Net income or (loss)	(10,826,683)
Change in net deferred income tax	14,110
Change in nonadmitted assets	(168,846)
Paid in surplus	21,500,000
<hr/>	
Capital and surplus - December 31, 2009	13,560,373
Net income or (loss)	(38,096,093)
Change in net deferred income tax	(14,110)
Change in nonadmitted assets	(1,852,165)
Transferred to surplus	1,750
Paid in surplus	49,800,000
<hr/>	
Capital and surplus - December 31, 2010	23,399,755
Net income or (loss)	1,116,422
Change in nonadmitted assets	(2,770,324)
Paid in surplus	14,644,955
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Capital and surplus - December 31, 2011	36,390,808
Net income or (loss)	394,127
Change in nonadmitted assets	1,557,095
Paid in surplus	2,500,000
<hr/>	
	40,842,030
Examination adjustments	-
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Capital and surplus - December 31, 2012	<u>\$ 40,842,030</u>

**Sunshine State Health Plan, 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.

<b>Capital and surplus, December 31, 2012 - per annual statement</b>			\$40,842,030
	<b>Per company</b>	<b>Per Examination</b>	<b>Increase (Decrease) In Capital &amp; Surplus</b>
Total admitted assets	\$86,922,114	\$ 86,922,114	\$ -
Total liabilities	\$46,080,084	\$ 46,080,084	\$ -
Net change in capital and surplus			-
<b>Capital and surplus, December 31, 2012 - per examination</b>			<b>\$ 40,842,030</b>

## **SUMMARY OF RECOMMENDATIONS**

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. **We recommend that the Company's board of directors, or a committee, department or section of the Company 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.**

## **CONCLUSION**

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

At December 31, 2012, the Company's capital and surplus was \$40,842,030 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor, participated in the examination.

Respectfully submitted,

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Christine N. Afolabi, CPA  
Financial Specialist  
Florida Office of Insurance Regulation