

Report on Examination
of
UnitedHealthcare of Florida, Inc.
Maitland, 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 UnitedHealthcare of Florida, Inc. as of December 31, 2011. Our report on the examination follows.

Florida Office of Insurance Regulation
March 11, 2013

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SCOPE OF EXAMINATION

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

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.

Our examination of the Company was part of a group examination of 28 UnitedHealth Group Incorporated (UHG) entities domiciled in 19 states. The Connecticut Insurance Department coordinated the group examination and the Office acted as facilitator of a subgroup of eight participating states.

COMPANY HISTORY

The Company was incorporated in Florida on May 26, 1970 and licensed by the Office as an HMO on March 6, 1973. Its name was changed from United HealthCare of Florida, Inc. to UnitedHealthcare of Florida, Inc. in 2009. The Company 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 shareholder dividends in the amounts of \$28.3 million, \$23.0 million and \$90.0 million in years 2007, 2008 and 2011, respectively. No dividends were distributed in years 2009 or 2010. The Company did not receive capital contributions during the period examined.

CORPORATE RECORDS

We reviewed the minutes of the Company's shareholder, board of directors, and audit committee meetings held during the period examined. 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.

MANAGEMENT AND CONTROL

The Company was wholly owned by UnitedHealthcare, Inc., a subsidiary of United HealthCare Services, Inc. (UHS), and affiliated with numerous other entities through common ownership and control. Headquartered in Minnetonka, Minnesota, UHG was the sole shareholder of UHS. The common stock of UHG traded on the New York Stock Exchange.

The Company's senior officers and directors were:

Senior Officers

Name	Title
Thomas D. Lewis	President & Chief Executive Officer
Ramon E. Coto	Chief Financial Officer
Peter J. Clarkson	Vice President, Government Programs
Cheryl A. Lippert	Vice President
Nicholas J. Zaffiris	Vice President
John J. Matthews	Secretary
Robert W. Oberrender	Treasurer

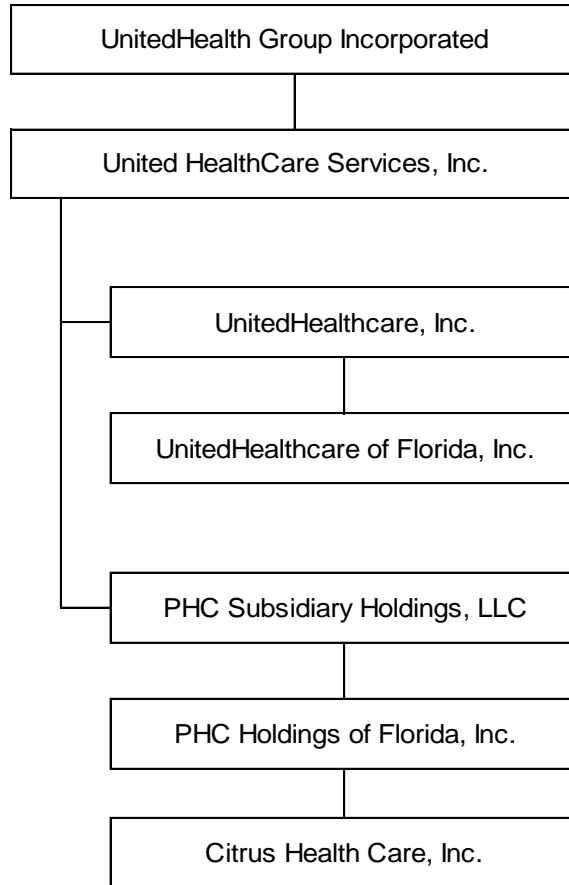
Board of Directors

Name	Location
Peter J. Clarkson	Oldsmar, Florida
Robert J. Friedrichs	Norcross, Georgia
Thomas D. Lewis	Tampa, Florida
Cheryl A. Lippert	Norcross, Georgia
Nicholas J. Zaffiris	Miramar, Florida

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 February 27, 2012.

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

**UnitedHealthcare of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2011**



The Company contracted with affiliates for various services. UHS, OptumHealth Care Solutions, Inc., and Spectera, Inc. provided to the Company management and administrative services, chiropractic and physical therapy services, and administrative services related to vision benefit management and claims processing, respectively. Dental Benefit Providers, Inc., United Behavioral Health, Inc., and UHS and OptumRX, Inc. provided to the Company dental care assistance services, mental health and substance abuse services, and administrative services related to pharmacy management and claims processing, respectively. OptumRx provided catalogues of the Company's health care products and OptumInsight (formerly Ingenix, Inc.) provided services related to the prevention and recovery of medical expense overpayments. HealthAllies Inc., United Behavioral Health, Inc., and Spectera, Inc. provided to the Company access to preferred pricing on health and health-related products and services.

The Company entered into a combined billing and disbursement agreement with PacifiCare Health Plan Administrators, Inc., UHS, and UnitedHealthcare Insurance Company to provide a common lockbox for premium collection and a zero balance disbursement account.

The results of the Company's operations were included in the consolidated federal income tax return of UHG pursuant to a tax sharing agreement. Under the agreement, income tax was allocated to the Company in the approximate amount that the Company would have paid had it filed on a separate company basis with the exception of net operating and capital losses. For those losses, the agreement provided that the Company would receive a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent losses could be utilized in the consolidated federal income tax return.

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 maintained a blanket crime policy issued by a licensed Florida insurer in the amount of \$25 million, which satisfied the requirement of Section 641.22(7), F.S.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees and, therefore, did not provide employee benefits or sponsor retirement plans. The Company's personnel were employees of UHS which provided services to the Company under the terms of a management agreement.

TERRITORY AND PLAN OF OPERATION

As an IPA model HMO, the Company provided managed health care benefits to comprehensive, Medicaid, and Medicare members. At December 31, 2011, 55% of its 321,335 members were comprehensive members, 36% were Medicaid members, and 9% were Medicare members. 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 May 11, 2013. The Company was licensed solely in the State of Florida and was authorized to operate in all Florida counties except Levy and Liberty Counties.

COMPANY GROWTH

The Company reported the following for years 2007 through 2011:

(Dollars are in millions.)

	2007	2008	2009	2010	2011
Member months	3,950,641	3,708,717	3,454,666	3,018,397	3,655,762
Year-end enrollment	321,948	294,691	287,313	270,530	321,335
Premiums	\$ 1,470.1	\$ 1,364.0	\$ 1,300.6	\$ 1,075.5	\$ 1,284.4
Total revenue	\$ 1,466.3	\$ 1,363.3	\$ 1,299.6	\$ 1,074.9	\$ 1,286.4
Underwriting deductions	\$ 1,425.6	\$ 1,394.5	\$ 1,301.4	\$ 1,005.6	\$ 1,188.6
Net income (loss)	\$ 44.2	\$ (15.9)	\$ 6.6	\$ 53.5	\$ 73.8
Shareholder dividends	\$ 28.3	\$ 23.0	\$ -	\$ -	\$ 90.0
Admitted assets	\$ 326.3	\$ 320.2	\$ 316.5	\$ 335.3	\$ 280.3
Liabilities	\$ 196.4	\$ 222.5	\$ 215.3	\$ 182.0	\$ 148.1
Capital and surplus	\$ 129.9	\$ 97.7	\$ 101.2	\$ 153.3	\$ 132.1

REINSURANCE

The Company entered into an insolvency reinsurance agreement with UnitedHealthcare Insurance Company to cover any losses which might occur in the event of the Company's insolvency. The agreement was effective January 1, 2005.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$320,000 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.

UnitedHealthcare of Florida, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2011

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 206,435,954	\$ -	\$ 206,435,954
Cash, cash equivalents and short-term investments	51,098,894	-	51,098,894
	257,534,848	-	257,534,848
Investment income due and accrued	2,322,681	-	2,322,681
Uncollected premiums and agents' balances	5,952,408	-	5,952,408
Amounts receivable relating to uninsured plans	1,168,223	-	1,168,223
Current income tax recoverable	5,962,502	-	5,962,502
Net deferred tax asset	5,736,045	-	5,736,045
Health care and other amounts receivable	1,575,111	-	1,575,111
Total admitted assets	\$ 280,251,818	\$ -	\$ 280,251,818
Liabilities			
Claims unpaid	\$ 120,071,365	\$ -	\$ 120,071,365
Accrued medical incentive pool and bonus amounts	2,993,038	-	2,993,038
Unpaid claims adjustment expenses	1,989,374	-	1,989,374
Aggregate health policy reserves	1,180,769	-	1,180,769
Aggregate health claim reserves	253,902	-	253,902
Premiums received in advance	6,757,798	-	6,757,798
General expenses due or accrued	6,087,504	-	6,087,504
Ceded reinsurance premiums payable	111,995	-	111,995
Remittances and items not allocated	2,288	-	2,288
Amounts due to parent, subsidiaries and affiliates	2,581,460	-	2,581,460
Liability for amounts held under uninsured plans	1,961,247	-	1,961,247
Aggregate write-ins for other liabilities	4,117,095	-	4,117,095
Total liabilities	148,107,835	-	148,107,835
Capital and Surplus			
Common capital stock	45	-	45
Gross paid in and contributed surplus	97,675,816	-	97,675,816
Unassigned funds	34,468,122	-	34,468,122
Total capital and surplus	132,143,983	-	132,143,983
Total liabilities, capital and surplus	\$ 280,251,818	\$ -	\$ 280,251,818

UnitedHealthcare of Florida, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2011

Net premium income	\$ 1,284,405,933
Change in unearned premium reserves and reserve for rate credits	1,979,785
Total revenue	1,286,385,718
Hospital and medical benefits	906,073,148
Other professional services	3,900,208
Prescription drugs	139,001,283
Incentive pool, withhold adjustments and bonus amounts	2,328,137
Total hospital and medical	1,051,302,776
Claims adjustment expenses	47,781,688
General administrative expenses	89,514,696
Total underwriting deductions	1,188,599,160
Net underwriting gain	97,786,558
Net investment gains	9,286,928
Aggregate write-ins for other income or expenses	(250,000)
Income before federal income tax	106,823,486
Federal income tax	32,985,565
Net income	\$ 73,837,921

UnitedHealthcare of Florida, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2011

Capital and surplus - December 31, 2006	\$ 115,361,829
Net income or (loss)	44,151,882
Change in net deferred income tax	(2,962,619)
Change in nonadmitted assets	1,629,445
Dividends to stockholder	(28,300,000)
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Capital and surplus - December 31, 2007	129,880,537
Net income or (loss)	(15,933,948)
Change in net deferred income tax	7,593,786
Change in nonadmitted assets	(2,428,121)
Dividends to stockholder	(23,000,000)
Aggregate write-ins for gains in surplus	1,563,607
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Capital and surplus - December 31, 2008	97,675,861
Net income or (loss)	6,576,021
Change in net unrealized capital gains (losses)	(16)
Change in net deferred income tax	(2,030,118)
Change in nonadmitted assets	(1,909,761)
Aggregate write-ins for gains in surplus	887,668
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Capital and surplus - December 31, 2009	101,199,655
Net income or (loss)	53,523,402
Change in net unrealized capital gains (losses)	24
Change in net deferred income tax	(1,575,464)
Change in nonadmitted assets	192,622
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Capital and surplus - December 31, 2010	153,340,239
Net income or (loss)	73,837,921
Change in net deferred income tax	(1,355,019)
Change in nonadmitted assets	(3,679,158)
Dividends to stockholder	(90,000,000)
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	132,143,983
Examination adjustments	-
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Capital and surplus - December 31, 2011	<u>\$ 132,143,983</u>

UnitedHealthcare of Florida, 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.

Capital and surplus, December 31, 2011 - per annual statement			\$ 132,143,983
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total admitted assets	\$ 280,251,818	\$ 280,251,818	\$ -
Total liabilities	\$ 148,107,835	\$ 148,107,835	\$ -
Net change in capital and surplus			-
Capital and surplus, December 31, 2011 - per examination			\$ 132,143,983

COMMENTS ON FINANCIAL STATEMENTS

Cash, Cash Equivalents and Short-Term Investments

In its 2011 annual statement, the Company reported short-term investments of \$56,096,715 which included the Company's share of an investment pool in the amount of \$47,916,983. The investment, described as 'UHC Liquidity Pool Pro Rata Share Portion', was properly reported as a short-term investment. However, it was classified in Part 1 of the Company's Schedule DA as a class one money market mutual fund. Upon examination, we determined that the investment did not meet the requirements of the NAIC annual statement instructions and the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* for the reported classification, and that it should have been included in the industrial and miscellaneous bonds category of the schedule.

SUMMARY OF RECOMMENDATIONS

Short-Term Investments

As reported on the previous page, the Company did not correctly report its share of an investment pool in Part 1 of Schedule DA to its 2011 annual statement. The investment should have been reported in the industrial and miscellaneous bonds category of the schedule rather than as a class one money market mutual fund. **We recommend that, in future statements filed with the Office, the Company correctly classify the investment in accordance with the annual statement instructions and the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*.**

SUBSEQUENT EVENTS

For the year 2012, the Company reported net income of \$48.0 million and the distribution of \$100.0 million in shareholder dividends.

CONCLUSION

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

At December 31, 2011, the Company's capital and surplus was \$132,143,983 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: Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor, and Richard Tan, Actuary.

Respectfully submitted,

Darlene L. Lenhart-Schaeffer, CFE, CISA
Financial Examiner/Analyst
Florida Office of Insurance Regulation