

**Report on Examination**  
**of**  
**WellCare Prescription Insurance, Inc.**  
**Tampa, Florida**  
**as of**  
**December 31, 2008**

**By The**  
**Florida Office of Insurance Regulation**

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Florida Office of Insurance Regulation  
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Chair, NAIC Financial Condition (E) Committee  
P.O. Box 1157  
Richmond, Virginia 23218

Gentlemen:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of WellCare Prescription Insurance, Inc. as of December 31, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation  
January 25, 2010

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## SCOPE OF EXAMINATION

We have completed an association financial condition examination as of December 31, 2008 of WellCare Prescription Insurance, Inc. (the "Company"), a multi-state insurer domiciled in Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2007.

This examination covered the period of January 1, 2008 through December 31, 2008. 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.

The Company's main administrative office was located in Tampa, Florida, where this examination was conducted.

## **COMPANY HISTORY**

The Company was incorporated in Florida on March 24, 2005 as WellCare Prescription Services, Inc. and, on April 12, 2005, changed its name to WellCare Prescription Insurance, Inc. It was licensed by the Office as an insurer on May 20, 2005 and commenced business on October 1, 2005.

The Company was formed for the purpose of contracting with the Centers for Medicare & Medicaid Services (CMS) to provide Medicare Part D prescription drug services to Medicare beneficiaries. It was authorized to transact accident and health insurance coverage in Florida in accordance with Section 624.401, Florida Statutes (F.S.), limited to the Medicare Part D prescription drug program.

### Dividends

The Company declared a dividend to its parent The WellCare Management Group, Inc. on December 31, 2008 in the amount of \$65 million. The dividend was paid on January 2, 2009.<sup>1</sup>

## **CORPORATE RECORDS**

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 625.304, F.S.

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<sup>1</sup> See the subsequent events section.

## MANAGEMENT AND CONTROL

The Company was wholly-owned by The WellCare Management Group, Inc., which in turn was wholly-owned by WCG Health Management, Inc., a wholly-owned subsidiary of WellCare Health Plans, Inc. (WHP). It was affiliated through common ownership with various other entities including WellCare of Florida, Inc., HealthEase of Florida, Inc., Comprehensive Health Management, Inc. (Comprehensive), and WellCare Health Insurance of Illinois, Inc.

The Company's senior officers and directors were as shown below.

### Senior Officers

<u>Name</u>	<u>Title</u>
Heath G. Schiesser	President and Chief Executive Officer
Karen W. Mulroe	Secretary
Thomas L. Tran	Treasurer and Chief Financial Officer

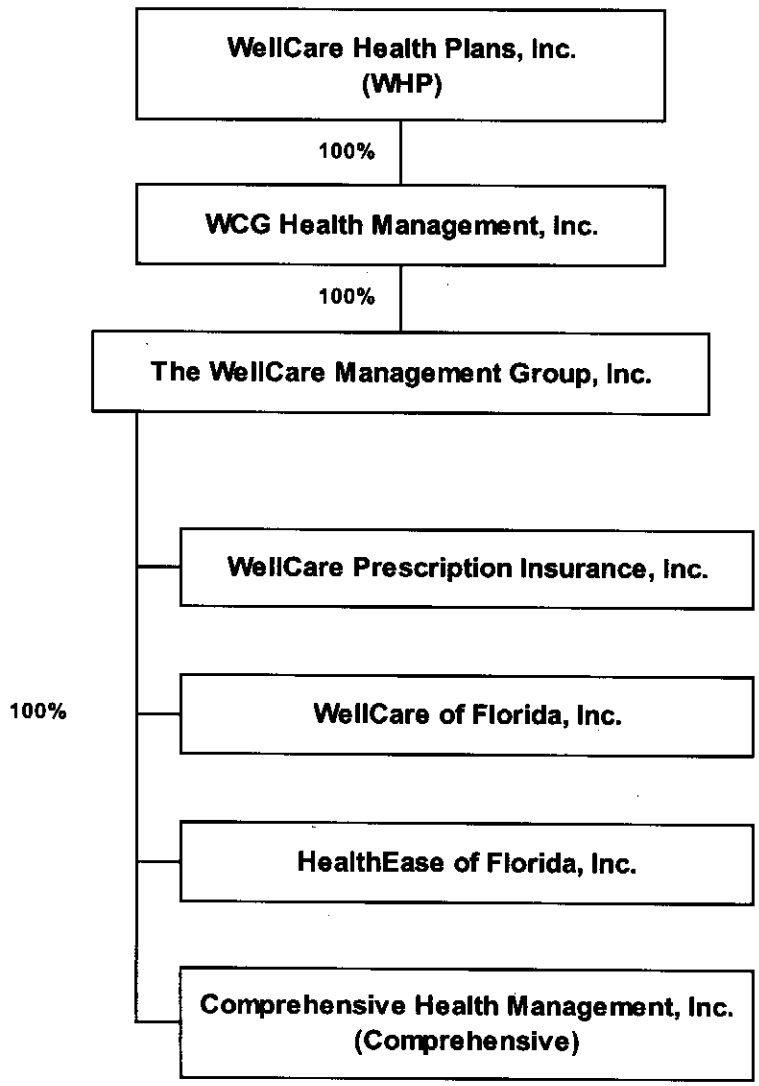
### Board of Directors

<u>Name</u>	<u>Location</u>
Gary J. Clarke	Tallahassee, Florida
Adam T. Miller	Tampa, Florida
Karen W. Mulroe	Tampa, Florida
Heath G. Schiesser	Lutz, Florida
Thomas L. Tran	Tampa, Florida

The Company was a member of an insurance holding company system as defined by Rule 69O-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 69O-143.046, F.A.C., on April 15, 2009.

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

**WellCare Prescription Insurance, Inc.  
Abbreviated Organizational Chart  
December 31, 2008**



At December 31, 2008, the Company's ultimate parent WHP was involved in significant legal matters.<sup>2</sup> WHP and its affiliates were under investigation by various federal and state authorities for conspiracy to defraud the Florida Medicaid program and the Florida Healthy Kids Corporation.

<sup>2</sup> See the subsequent events section.

In addition, the Company reported that WHP was responding to subpoenas issued by the Connecticut Attorney General's Office involving transactions between WHP and certain of its affiliates and their potential impact on the costs of Connecticut's Medicaid program. WHP was also a defendant in lawsuits which included allegations that WHP's financial condition and results, as reported in certain prior years, were materially misstated and misleading. The lawsuits could ultimately have a material adverse effect on the Company's financial condition and solvency.

Substantially all of the Company's administrative services, including management of its operations, were provided by Comprehensive, an affiliated third-party administrator licensed in Florida, pursuant to a February 1, 2005 agreement amended on December 21, 2008. Fees for the services were based on a percentage of total collected premiums.

The results of the Company's operations were included in the consolidated federal income tax return of WHP pursuant to a tax sharing agreement dated August 1, 2002 and amended on August 21, 2006. Tax allocations were based on separate company calculations with current credit given for losses and credits.

On July 18, 2008, the Company and WellCare Health Insurance of Illinois, Inc., an affiliate, entered into two agreements that became effective January 1, 2009. One of the agreements provided for the parties to furnish Medicare prescription drug plan services to Medicare Part D beneficiaries in their respective service areas. The other agreement provided for the Company's sale to the affiliate of the Company's rights and obligations under its CMS Medicare prescription drug benefit contract.



### **FIDELITY BONDS AND OTHER INSURANCE**

The Company was insured with a fidelity bond maintained by WHP in the amount of \$5 million with a deductible of \$100,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$4 million.

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

The Company had no employees and, therefore, no employee benefit plans. Substantially all of its administrative services were provided by Comprehensive pursuant to a management agreement.

## TERRITORY AND PLAN OF OPERATION

As a Medicare Advantage Organization, the Company contracted with CMS to provide Medicare Part D prescription drug services to Medicare beneficiaries. As of December 31, 2008, the Company was licensed in the District of Columbia and the following states:

Alaska	Maine	Oregon
Arizona	Maryland	Pennsylvania
California	Massachusetts	South Carolina
Delaware	Michigan	South Dakota
Florida	Mississippi	Tennessee
Georgia	Missouri	Texas
Hawaii	Nebraska	Utah
Idaho	Nevada	Vermont
Illinois	New Jersey	Virginia
Indiana	New Mexico	Washington
Iowa	New York	West Virginia
Kansas	North Dakota	Wisconsin
Kentucky	Ohio	Wyoming
Louisiana	Oklahoma	

## GROWTH OF COMPANY

The Company reported the following for years 2006, 2007 and 2008:

(In millions)	2006	2007	2008
Net premiums	\$995.1	\$1,111.7	\$1,058.7
Total revenues	\$995.1	\$1,111.7	\$1,058.7
Net income	\$61.1	\$66.1	\$6.2
Total capital and surplus	\$101.0	\$164.0	\$96.5

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with other states as required or permitted by law:

Holder	Description	Par Value	Market Value
Florida	Cash	\$100,000	\$100,000
Florida	U.S. Treasury notes	1,500,000	1,588,890
Total Florida deposits		1,600,000	1,688,890
California	Certificate of deposit	50,307	50,307
Indiana	Cash	111,321	111,321
Indiana	U.S. Treasury notes	100,000	103,594
Massachusetts	U.S. Treasury notes	100,000	101,414
Nevada	Cash	18,271	18,271
Nevada	U.S. Treasury notes	250,000	264,815
New Jersey	Cash	7,625	7,625
New Jersey	U.S. Treasury notes	155,000	159,372
New Mexico	U.S. Treasury notes	110,000	110,950
Oklahoma	U.S. Treasury notes	300,000	304,383
South Carolina	U.S. Treasury notes	125,000	128,794
Virginia	U.S. Treasury notes	526,000	530,376
Total deposits		\$3,453,524	\$3,580,112

**WellCare Prescription Insurance, Inc.**  
**Assets**  
**December 31, 2008**

	Per Company	Adjustments	Per Examination
Bonds	\$57,816,518	\$0	\$57,816,518
Cash, cash equivalents and short-term investments	44,063,468	0	44,063,468
	101,879,986	0	101,879,986
Investment income due and accrued	284,870	0	284,870
Uncollected premiums and agents' balances	8,422,700	0	8,422,700
Accrued retrospective premiums	24,393,646	0	24,393,646
Amounts receivable relating to uninsured plans	7,461,183	0	7,461,183
Net deferred tax asset	5,990,024	0	5,990,024
Health care and other amounts receivable	66,645,134	0	66,645,134
<b>Total assets</b>	<b>\$215,077,543</b>	<b>\$0</b>	<b>\$215,077,543</b>

**WellCare Prescription Insurance, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2008**

<b>Liabilities</b>	<b>Per Company</b>	<b>Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$39,996,823	\$0	\$39,996,823
Unpaid claims adjustment expenses	50,000	0	50,000
General expenses due or accrued	10,084,316	0	10,084,316
Current federal income tax payable	2,387,538	0	2,387,538
Due to parent, subsidiaries and affiliates	1,072,661	0	1,072,661
Dividends payable	65,000,000	0	65,000,000
<b>Total liabilities</b>	<b>118,591,338</b>	<b>0</b>	<b>118,591,338</b>
<b>Capital and Surplus</b>			
Common capital stock	2,500,000	0	2,500,000
Gross paid in and contributed surplus	37,500,000	0	37,500,000
Unassigned funds	56,486,205	0	56,486,205
<b>Total capital and surplus</b>	<b>96,486,205</b>	<b>0</b>	<b>96,486,205</b>
<b>Total liabilities, capital and surplus</b>	<b>\$215,077,543</b>	<b>\$0</b>	<b>\$215,077,543</b>

**WellCare Prescription Insurance, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**For The Year Ended December 31, 2008**

Net premium income	\$1,058,741,480
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Prescription drugs	943,157,946
Claims adjustment expenses	37,776,318
General administrative expenses	75,097,036
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Total underwriting deductions	1,056,031,300
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Net underwriting gain	2,710,180
Net investment income	7,059,672
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Income before income taxes	9,769,852
Federal income taxes	3,567,106
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Net income	\$6,202,746
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**WellCare Prescription Insurance, Inc.**  
**Statement of Changes in Capital and Surplus**  
**For The Year Ended December 31, 2008**

Capital and surplus - December 31, 2007	\$163,978,973
Net income	6,202,746
Change in net deferred income tax	4,183,312
Change in nonadmitted assets	(12,377,711)
Dividends to stockholder	(65,000,000)
Prior period adjustments	(501,115)
	<hr/> 96,486,205
Examination adjustments	0
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Capital and surplus - December 31, 2008	\$96,486,205
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**WellCare Prescription Insurance, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2008**

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

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital &amp; Surplus</u>	
<b>Capital and surplus, December 31, 2008 - per annual statement</b>				<b>\$96,486,205</b>
Total assets	\$215,077,543	\$215,077,543	\$0	
Total liabilities	\$118,591,338	\$118,591,338	\$0	
Net change in capital and surplus				<u>0</u>
<b>Capital and surplus, December 31, 2008 - per examination</b>				<b><u>\$96,486,205</u></b>



## SUMMARY OF RECOMMENDATIONS

### Litigation

As reported on page 5, WHP was a defendant in certain lawsuits which could ultimately have a material adverse effect on the Company's financial condition and solvency. **We recommend that the Company keep the Office fully informed as to the current status of the litigation on a regular basis.**

## SUBSEQUENT EVENTS

As reported on page 4, WHP and its affiliates were under investigation by various federal and state authorities as of December 31, 2008 for conspiracy to defraud the Florida Medicaid program and the Florida Healthy Kids Corporation. The U.S. Attorney's Office for the Middle District of Florida (USAO), the Florida Attorney General's Office (AGO), and WHP entered into a 36-month deferred prosecution agreement effective May 5, 2009. The agreement was in lieu of pursuit by the USAO and AGO of a criminal conviction of WHP, and required WHP to pay \$80 million to the USAO and retain an outside independent monitor to serve for 18 months. In May of 2009, WHP settled a related investigation by the U.S. Securities and Exchange Commission and was ordered to pay a civil penalty of \$10 million.

On March 7, 2009, CMS imposed intermediate sanctions on WHP including the suspension of WHP's marketing and enrollment activities for its Medicare Advantage and prescription drug contracts. On November 3, 2009, CMS released WHP from the sanctions.

In the second quarter of 2009, the Company distributed a \$6 million ordinary dividend and a \$15 million extraordinary dividend, as approved 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 WellCare Prescription Insurance, Inc. as of December 31, 2008, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2008 was determined to be \$96,486,205, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2008 was \$10,504,682.

In addition to the undersigned, the following participated in this examination: Walter F. Banas, CIE, Financial Specialist; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Russell K. Judge, Financial Examiner/Analyst; and Kerry A. Krantz, Actuary.

Respectfully submitted,

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