

**Report on Examination**  
**of**  
**WellCare Prescription Insurance, Inc.**  
**Tampa, 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 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, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation  
March 27, 2014

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of WellCare Prescription Insurance, Inc. (the "Company"), a multi-state insurer domiciled in Florida. The examination covered the period of January 1, 2009 through December 31, 2012 and took place primarily in the Company's Tampa, Florida office. Our examination of the Company was one of seven coordinated financial condition examinations of companies in the WellCare group by the States of Florida, Arizona, Connecticut, Illinois and New Jersey. The exams were coordinated by the Office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of 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.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The examination resulted in a finding that there was no record in the minutes of the Company's board of directors meetings of the authorization of its investments. In addition, the examination resulted in findings that the Company failed to report suspected fraudulent insurance acts to the Florida Department of Financial Services Division of Insurance Fraud (DIF) and was unable to demonstrate that its actuarial functions were conducted in accordance with the annual statement instructions. Recommendations related to the findings are on page 15 of this report.

## **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. The Company was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

### Dividends and Capital Contributions

The Company distributed dividends in the amounts of \$21 million, \$35 million and \$35 million in years 2009, 2011 and 2012, respectively. It did not receive capital contributions during the period examined.

## **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Company's stockholder, board of directors, and audit and finance committee. There was no record in the minutes of the meetings of the Company's board of directors or a committee authorized by the Board of the authorization of the Company's investments as required by Section 625.304, F.S.

## MANAGEMENT AND CONTROL

The Company was affiliated with numerous other entities including WellCare of Florida, Inc., a Florida health maintenance organization which provided coordinated health and pharmacy benefits to Medicaid, Medicare and Florida Healthy Kids Corporation participants. The Company was wholly owned by The WellCare Management Group, Inc., which was an indirect wholly owned subsidiary of WellCare Health Plans, Inc. (WHP). WHP was a leading provider of managed care services to government-sponsored health care programs, focusing on Medicaid and Medicare. Headquartered in Tampa, Florida, WHP provided a variety of health plans for families, children, and the aged, blind and disabled, as well as prescription drug plans. At December 31, 2012, there were approximately 2.7 million WHP members in the United States. The common stock of WHP traded on the New York Stock Exchange.

The Company's senior officers, directors and members of its audit and finance committee were:

### Senior Officers

Name	Title
Daniel R. Paquin	President, National Health Plans
Thomas L. Tran	Chief Financial Officer & Treasurer
Lisa G. Iglesias	Secretary
Maurice S. Hebert	Chief Accounting Officer & Assistant Treasurer
Walter W. Cooper	Chief Administrative Officer

### Board of Directors

Name	Location
Walter W. Cooper	Tampa, Florida
Maurice S. Hebert	Lutz, Florida
Lisa G. Iglesias	Tampa, Florida
Daniel R. Paquin	Tampa, Florida
Thomas L. Tran	Tampa, Florida

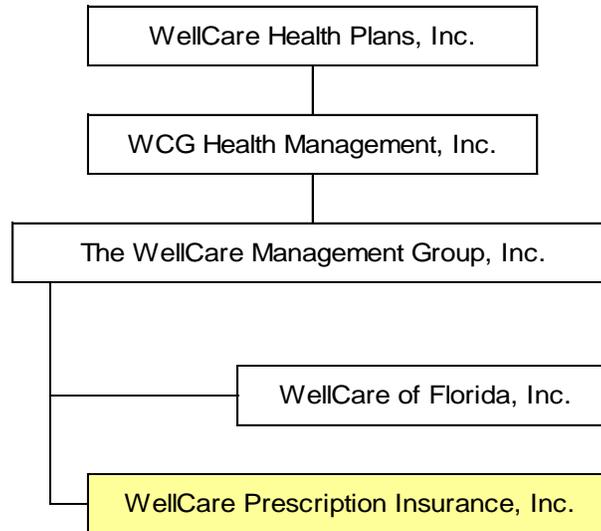
### Audit & Finance Committee

Carol J. Burt
Christian P. Michalik
William L. Trubeck
Paul E. Weaver

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, 2014.

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

**WellCare Prescription Insurance, Inc.  
Abbreviated Organizational Chart  
December 31, 2012**



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

Management Services Agreement

Comprehensive Health Management, Inc. (Comprehensive) provided substantially all of the Company's management and administrative services pursuant to an agreement effective February 1, 2005 and subsequently amended. Fees under the agreement were based on a percentage of earned premiums and amounted to \$74.7 million, \$72.2 million, \$98.9 million and \$93.8 million in years 2009, 2010, 2011 and 2012, respectively.

Tax Allocation Agreement

The results of the Company's operations were included in WHP's consolidated federal income tax returns pursuant to a 2002 tax allocation agreement. In accordance with the agreement, federal income taxes of the group 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.

Joint Enterprise Agreement

The Company and WellCare Health Insurance of Illinois, Inc. entered into a joint enterprise agreement effective January 1, 2009 and subsequently amended providing for each company to provide a stand-alone prescription drug plan to Medicare-eligible beneficiaries in its respective service area. Under the agreement, payments received from the Centers for Medicare & Medicaid Services (CMS) pursuant to the agreement were to be allocated to the companies based upon the number of beneficiaries covered in each service area.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained fidelity bond coverage of \$2,000,000 with a deductible of \$50,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1,750,000.

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

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of Comprehensive performed functions on behalf of the Company. Comprehensive provided various benefits to eligible employees including health, dental, and vision insurance, family medical leave and participation in a 401(k) savings plan.

## **TERRITORY AND PLAN OF OPERATION**

The Company was licensed by CMS as a federally qualified Medicare provider. It provided stand-alone Medicare Part D prescription drug plans to Medicare-eligible beneficiaries. The Company was licensed in the District of Columbia and the following U.S. states:

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

## COMPANY GROWTH

The Company reported the following for years 2009 through 2012:

<i>(In millions)</i>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Premiums	\$ 778.2	\$ 734.0	\$ 967.7	\$ 929.3
Total revenues	\$ 778.2	\$ 734.0	\$ 967.7	\$ 929.3
Total underwriting deductions	\$ 781.7	\$ 678.1	\$ 909.8	\$ 833.0
Net income (loss)	\$ (3.1)	\$ 38.3	\$ 36.7	\$ 62.4
Stockholder dividends	\$ 21.0	\$ -	\$ 35.0	\$ 35.0
Paid in surplus received	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 222.4	\$ 189.6	\$ 275.8	\$ 274.8
Liabilities	\$ 123.0	\$ 67.7	\$ 147.6	\$ 126.7
Capital and surplus	\$ 99.4	\$ 122.0	\$ 128.3	\$ 148.1

## ACCOUNTS AND RECORDS

The examination resulted in a finding that the Company failed to report suspected fraudulent insurance acts to DIF as required by Section 626.9891, F.S., and Rule 69D-2.003, F.A.C.

The Company was unable to demonstrate that its appointed actuary reported to the Company's board of directors or audit committee on the items within the scope of the actuarial opinion, or that its actuarial opinion and actuarial memorandum had been made available to the Company's board of directors as required by the annual statement instructions.

## STATUTORY DEPOSITS

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

Holder	Description	Par Value	Market Value
Florida	Cash	\$ 100,000	\$ 100,000
Florida	U.S. Treasury note	1,500,000	1,529,175
Total Florida deposits		1,600,000	1,629,175
California	Certificate of deposit	51,000	51,199
Indiana	U.S. Treasury note	200,000	203,890
Massachusetts	U.S. Treasury note	100,000	100,461
Nevada	U.S. Treasury note	250,000	254,863
New Hampshire	U.S. Treasury note	500,000	501,350
New Jersey	U.S. Treasury note	175,000	175,275
New Mexico	U.S. Treasury note	110,000	110,047
North Carolina	U.S. Treasury note	600,000	622,638
Oklahoma	U.S. Treasury note	300,000	302,625
South Carolina	U.S. Treasury note	125,000	127,431
Virginia	U.S. Treasury note	500,000	501,270
Total deposits		\$4,511,000	\$4,580,224

**WellCare Prescription Insurance, 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	\$ 37,202,404	\$ -	\$ 37,202,404
Cash, cash equivalents and short-term investments	58,101,135	-	58,101,135
	95,303,539	-	95,303,539
Investment income due and accrued	96,496	-	96,496
Uncollected premiums and agents' balances	5,922,886	-	5,922,886
Amounts receivable relating to uninsured plans	84,288,291	-	84,288,291
Net deferred tax asset	7,746,946	-	7,746,946
Health care and other amounts receivable	81,482,304	-	81,482,304
<b>Total admitted assets</b>	<b>\$ 274,840,462</b>	<b>\$ -</b>	<b>\$ 274,840,462</b>

<b>Liabilities</b>			
Claims unpaid	\$ 19,603,461	\$ -	\$ 19,603,461
Unpaid claims adjustment expenses	50,000	-	50,000
Aggregate health policy reserves	59,315,477	-	59,315,477
General expenses due or accrued	6,614,153	-	6,614,153
Current federal income tax payable	40,738,945	-	40,738,945
Amounts due to parent, subsidiaries and affiliates	375,877	-	375,877
<b>Total liabilities</b>	<b>126,697,913</b>	<b>-</b>	<b>126,697,913</b>

<b>Capital and Surplus</b>			
Common capital stock	2,500,000	-	2,500,000
Gross paid in and contributed surplus	37,500,000	-	37,500,000
Unassigned funds	108,142,549	-	108,142,549
<b>Total capital and surplus</b>	<b>148,142,549</b>	<b>-</b>	<b>148,142,549</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 274,840,462</b>	<b>\$ -</b>	<b>\$ 274,840,462</b>

**WellCare Prescription Insurance, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**Year Ended December 31, 2012**

Net premium income	\$ 929,284,470
Prescription drugs	729,602,625
Claims adjustment expenses	25,536,092
General administrative expenses	77,892,783
<hr/> Total underwriting deductions	<hr/> 833,031,500
Net underwriting gain	96,252,970
Net investment income	405,733
<hr/> Income before federal income tax	<hr/> 96,658,703
Federal income tax	34,245,954
<hr/> Net income	<hr/> <hr/> \$ 62,412,749

**WellCare Prescription Insurance, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Four Years Ended December 31, 2012**

Capital and surplus - December 31, 2008	\$ 96,486,206
Net income or (loss)	(3,079,160)
Change in net deferred income tax	(2,531,616)
Change in nonadmitted assets	15,763,996
Dividends to stockholder	(21,000,000)
Aggregate write-ins for gains or (losses) in surplus	13,795,277
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Capital and surplus - December 31, 2009	99,434,703
Net income or (loss)	38,317,085
Change in net deferred income tax	(620,695)
Change in nonadmitted assets	(3,734,485)
Aggregate write-ins for gains or (losses) in surplus	(11,420,532)
<hr/>	
Capital and surplus - December 31, 2010	121,976,076
Net income or (loss)	36,707,475
Change in net deferred income tax	(258,877)
Change in nonadmitted assets	4,847,888
Dividends to stockholder	(35,000,000)
<hr/>	
Capital and surplus - December 31, 2011	128,272,562
Net income or (loss)	62,412,749
Change in net deferred income tax	5,168,110
Change in nonadmitted assets	(13,510,397)
Dividends to stockholder	(35,000,000)
Aggregate write-ins for gains or (losses) in surplus	799,525
<hr/>	
	148,142,549
Examination adjustments	-
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Capital and surplus - December 31, 2012	<u>\$ 148,142,549</u>

**WellCare Prescription Insurance, 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.

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital &amp; Surplus</u>
<b>Capital and surplus, December 31, 2012 - per annual statement</b>			\$ 148,142,549
Total admitted assets	\$ 274,840,462	\$ 274,840,462	\$ -
Total liabilities	\$ 126,697,913	\$ 126,697,913	\$ -
Net change in capital and surplus			-
<b>Capital and surplus, December 31, 2012 - per examination</b>			<u>\$ 148,142,549</u>

## COMMENTS ON FINANCIAL STATEMENTS

### Bonds

In its 2012 annual statement, the Company reported bonds with a carrying value of \$37,202,404 and an estimated fair value of \$35,259,512. Included in the total amount reported as bonds were two auction rate securities (ARS) with a total carrying value of \$31,700,000 and an estimated fair value of \$29,731,993. The Company was receiving interest payments on the ARS and determined that it was more likely than not that it would be able to hold the securities until maturity or market stability is restored.

## RECOMMENDATIONS

### Authorization of Investments

As reported on page 3, 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 625.304, F.S., and that the Board of Directors record or acknowledge the action in the minutes of its meetings.**

### Reporting of Suspected Fraud

As reported on page 8, the Company failed to report suspected fraudulent insurance acts to DIF as required by Section 626.9891, F.S., and Rule 69D-2.003, F.A.C. **We recommend that the Company report all instances of suspected fraudulent insurance acts to DIF as required.**

### Actuarial Function

The Company was unable to demonstrate that its actuarial functions were conducted in accordance with the annual statement instructions, as reported on page 8. **We recommend that the Company's appointed actuary report to the Company's board of directors or audit committee on the items within the scope of the actuarial opinion, and that its actuarial opinion and actuarial memorandum be made available to the Company's board of directors in accordance with the annual statement instructions.**

## **SUBSEQUENT EVENTS**

In 2013, Daniel R. Paquin and Walter W. Cooper resigned as officers and directors, Thomas L. Tran was appointed president, and Michael R. Polen and Blair W. Todt were elected as directors.

In 2014, the Company indicated that Thomas L. Tran would be replaced as an officer and director.

## 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. consistent with the insurance laws of the State of Florida.

At December 31, 2012, the Company's capital and surplus was \$148,142,549 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination: Christine N. Afolabi, CPA, Financial Specialist; Rebecca L. Davis, MBA, APIR, CFE (Fraud), Financial Examiner/Analyst; Faisal Harianawalla, Financial Examiner/Analyst; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; Kerry Krantz, Actuary; and Robert Y. Meszaros, AFE, Financial Specialist.

Respectfully submitted,

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