

Report on Examination
of
WellCare Prescription Insurance, Inc.
Tampa, Florida
as of
December 31, 2017



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

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COMMISSION**

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NICOLE "NIKKI" FRIED
COMMISSIONER OF
AGRICULTURE

David Altmaier, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399

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, 2017. Our report on the examination follows.

Florida Office of Insurance Regulation
April 10, 2019

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2017 of WellCare Prescription Insurance, Inc. (Company), a multi-state insurer domiciled in Florida. The examination covered the period of January 1, 2013 through December 31, 2017 and took place primarily in the Company's Tampa, Florida office and Tallahassee, Florida. Our examination was one of the coordinated financial condition examinations of companies in the WellCare Group conducted by 11 participating states. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (Office) was as of December 31, 2012.

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.

SUMMARY OF SIGNIFICANT FINDINGS

There were no findings of a significant nature to report for the period of this examination.

COMPANY HISTORY

The Company was incorporated in Florida on March 24, 2005 and licensed by the Office as an insurer on May 20, 2005. It was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, F.S.

CORPORATE RECORDS

The minutes of meetings held by the Company's Shareholder, Board of Directors, and its Audit Committee were reviewed for the period under examination. The Board's approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S., were recorded in the minutes of its meetings.

DIVIDENDS AND CAPITAL CONTRIBUTIONS

The Company distributed stockholder dividends in the amount of \$40 million for 2013. No dividends were distributed in 2014 through 2017. The Company did not receive capital contributions during the period examined.

MANAGEMENT AND CONTROL

The Company was wholly owned by The WellCare Management Group, Inc., which was an indirect wholly owned subsidiary of WellCare Health Plans, Inc., headquartered in Tampa, Florida. WellCare Health Plans, Inc. common stock traded on the New York Stock Exchange.

Its senior officers, directors, and members of principal board committees were:

Name	Senior Officers	Title
Laura M Hungiville		President and Chief Pharmacy Officer
Richard C Fisher		Vice President and Chief Financial Officer
Michael W Haber		Vice President and Secretary
Tammy L Meyer		Vice President and Assistant Secretary
Goran Jankovic		Vice President and Treasurer
Michael Troy Meyer		Vice President, Corporate Controller and Assistant Treasurer

Board of Directors

Name	Location
Andrew L Asher	Tampa, Florida
Michael W Haber	Tampa, Florida
Laura M Hungiville	Safety Harbor, Florida
Michael T Meyer	Lutz, Florida
Michael P Radu	Tampa, Florida

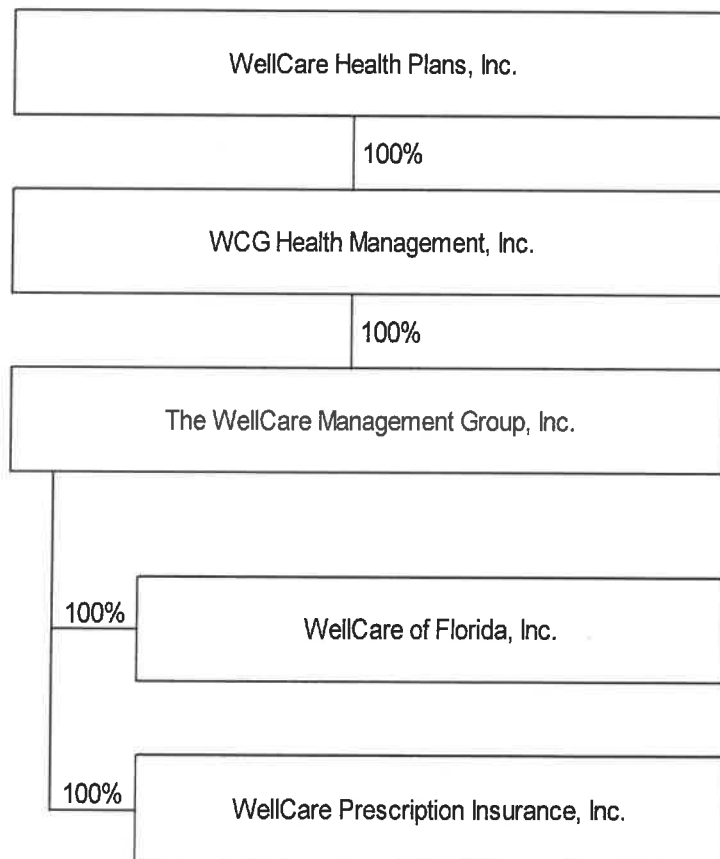
Audit Committee

Andrew L Asher
Michael T Meyer

The Company was a member of an insurance holding company system. Its 2017 holding company registration statement was filed timely with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.).

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

**WellCare Prescription Insurance, Inc.
Abbreviated Organizational Chart
December 31, 2017**



AFFILIATED AND OTHER AGREEMENTS

The following agreement(s) were in effect between the Company and its affiliates.

Management Services Agreement

Comprehensive Health Management, Inc. provided substantially all of the management and administrative services to the Company and other affiliates pursuant to an agreement effective February 1, 2005 and later amended. Fees under this agreement were \$70.6 million, \$88.0 million, \$88.3 million, \$86.9 million, and \$63.2 million in years 2013 through 2017, respectively.

Tax Allocation Agreement

The results of the Company's operations were included in WellCare Health Plan's consolidated federal income tax returns pursuant to a 2002 tax allocation agreement. Per 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 Company of Kentucky (f/k/a WellCare Health Insurance of Illinois, Inc.) entered into a joint enterprise and asset purchase 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 Center 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.

TERRITORY AND PLAN OF OPERATION

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, 2017, there were approximately 4.4 million WHP members in the United States.

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 43 states.

COMPANY GROWTH

The Company reported the following for years 2013 through 2017:

(Dollars are in millions.)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Member months	8,538,989	13,432,492	11,299,627	10,806,758	12,246,424
Year-end enrollment	733,424	1,183,102	929,561	894,215	1,050,633
Premiums	\$ 715.8	\$ 986.8	\$ 814.8	\$ 755.6	\$ 834.5
Revenues	\$ 715.8	\$ 986.8	\$ 814.8	\$ 755.6	\$ 834.5
Underwriting deductions *	\$ 690.4	\$ 1,001.2	\$ 763.7	\$ 648.6	\$ 784.7
Net income	\$ 17.1	\$ (14.8)	\$ 23.6	\$ 68.4	\$ 38.0
Shareholder dividends	\$ 40.0	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 205.6	\$ 822.2	\$ 721.2	\$ 852.9	\$ 1,491.3
Liabilities	\$ 87.0	\$ 713.2	\$ 579.9	\$ 643.4	\$ 1,246.1
Capital and surplus	\$ 118.6	\$ 109.0	\$ 141.3	\$ 209.5	\$ 245.2

REINSURANCE

The Company did not have any reinsurance agreements in place.

ACCOUNTS AND RECORDS

There were no significant examination findings related to the Company's accounts and records.

SURPLUS NOTES

There were no surplus notes issued by the Company during the examination period.

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 Deposit	\$ 100,000	\$ 100,000
Florida	U.S. Treasury Note	1,505,000	1,497,686
Total Florida deposits		\$1,605,000	\$1,597,686
California	Certificate of Deposit	150,000	152,045
Indiana	U.S. Treasury Bond	205,000	204,004
Massachusetts	U.S. Treasury Bond	110,000	109,608
Nevada	U.S. Treasury Bond	255,000	255,089
New Hampshire	U.S. Treasury Note	510,000	515,123
New Jersey	U.S. Treasury Bond	210,000	216,860
New Mexico	U.S. Treasury Bond	205,000	204,131
North Carolina	U.S. Treasury Bond	610,000	611,504
Oklahoma	Cash	3,050	3,050
Oklahoma	U.S. Treasury Note	305,000	303,518
South Carolina	U.S. Treasury Note	125,000	124,393
Virginia	U.S. Treasury Note	505,000	502,546
Total deposits		\$4,798,050	\$4,799,557

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If, during 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:

WellCare Prescription Insurance, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$ 143,271,733	\$ -	\$ 143,271,733
Cash, cash equivalents and short-term investments	911,858,752	-	911,858,752
	1,055,130,485	-	1,055,130,485
Investment income due and accrued	1,450,068	-	1,450,068
Uncollected premiums and agents' balances	15,261,114	-	15,261,114
Accrued retrospective premiums	8,117,277	-	8,117,277
Receivable relating to uninsured plans	44,458,892	-	44,458,892
Current income tax recoverable	158,574	-	158,574
Net deferred tax asset	3,057,098	-	3,057,098
Receivables from parent, subsidiaries, affiliate	77,349,423	-	77,349,423
Health care and other amounts receivable	285,476,400	-	285,476,400
Aggregate write-ins for other than invested assets	875,050	-	875,050
Total admitted assets	\$ 1,491,334,381	\$ -	\$ 1,491,334,381
Liabilities			
Claims unpaid	\$ 46,700,009	\$ -	\$ 46,700,009
Unpaid claims adjustment expenses	50,000	-	50,000
Aggregate health policy reserves	184,141,523	-	184,141,523
General expenses due or accrued	346,473	-	346,473
Liability for amount held under uninsured plans	1,014,169,052	-	1,014,169,052
Aggregate write-ins for other liabilities	733,151	-	733,151
Total liabilities	\$ 1,246,140,208	\$ -	\$ 1,246,140,208
Capital and Surplus			
Aggregate write-ins for other liabilities	\$ 17,132,000	\$ -	\$ 17,132,000
Common capital stock	2,500,000	-	2,500,000
Gross paid in and contributed surplus	37,500,000	-	37,500,000
Unassigned funds (deficit)	188,062,173	-	188,062,173
Total capital and surplus	\$ 245,194,173	\$ -	\$ 245,194,173
Total liabilities, capital and surplus	\$ 1,491,334,381	\$ -	\$ 1,491,334,381

WellCare Prescription Insurance, Inc.
Statement of Revenue and Expenses
Year Ended December 31, 2017

Net premium income	\$ 834,503,836
Prescription drugs	686,291,472
	<hr/> 686,291,472
Net reinsurance recoveries	0
Total hospital and medical	686,291,472
Claims adjustment expenses	9,608,077
General administrative expenses	88,834,357
	<hr/> 784,733,906
Total underwriting deductions	784,733,906
Net underwriting gain	49,769,930
Net investment gains	6,704,752
Aggregate write-ins for other expenses	(20,272)
	<hr/> 56,454,410
Income before federal income tax	56,454,410
Federal income tax	18,459,138
	<hr/> \$ 37,995,272
Net income	\$ 37,995,272

WellCare Prescription Insurance, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2017

Capital and surplus - December 31, 2012	\$148,142,549
Net income	17,077,385
Change in net deferred income tax	3,952,759
Change in nonadmitted assets	(12,272,580)
Dividends to stockholder	(40,000,000)
Aggregate write-ins for gains or (losses)	1,692,877
<hr/>	
Capital and surplus - December 31, 2013	118,592,990
Net income	(14,833,169)
Change in net deferred income tax	(2,373,824)
Change in nonadmitted assets	12,288,199
Aggregate write-ins for gains or (losses)	(4,675,014)
<hr/>	
Capital and surplus - December 31, 2014	108,999,182
Net income	23,645,985
Change in net deferred income tax	(483,893)
Change in nonadmitted assets	9,126,223
<hr/>	
Capital and surplus - December 31, 2015	141,287,497
Net income	68,382,010
Change in net unrealized capital gains (losses)	(1,371,037)
Change in net deferred income tax	(3,658,645)
Change in nonadmitted assets	4,813,228
<hr/>	
Capital and surplus - December 31, 2016	209,453,053
Net income	37,995,272
Change in net unrealized capital gains (losses)	14,315
Change in net deferred income tax	(2,126,245)
Change in nonadmitted assets	(142,222)
<hr/>	
	245,194,173
Examination adjustments	-
<hr/>	
Capital and surplus - December 31, 2017	<u>\$245,194,173</u>

WellCare Prescription Insurance, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2017

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, 2017 - per annual statement			\$ 245,194,173
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 1,491,334,381	\$ 1,491,334,381	\$ -
Total liabilities	\$ 1,246,140,208	\$ 1,246,140,208	\$ -
Capital and surplus, December 31, 2017 - per examination			\$ 245,194,173

WeillCare Prescription Insurance, Inc.
Comparative Analysis of Changes in Capital & Surplus
December 31, 2017

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, 2017 - per annual statement		\$245,194,173												
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%; text-align: center;"><u>Per Company</u></th> <th style="width: 33%; text-align: center;"><u>Per Examination</u></th> <th style="width: 33%; text-align: center;"><u>Increase (Decrease) In Capital & Surplus</u></th> </tr> </thead> <tbody> <tr> <td>Common stocks</td> <td style="text-align: right;">\$ 2,500,000</td> <td style="text-align: right;">\$ 2,500,000</td> </tr> <tr> <td>Net change in capital and surplus</td> <td></td> <td style="text-align: right;">-</td> </tr> <tr> <td>Capital & surplus, December 31, 2017 - per examination</td> <td></td> <td style="text-align: right;">\$245,194,173</td> </tr> </tbody> </table>	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	Common stocks	\$ 2,500,000	\$ 2,500,000	Net change in capital and surplus		-	Capital & surplus, December 31, 2017 - per examination		\$245,194,173	
<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>												
Common stocks	\$ 2,500,000	\$ 2,500,000												
Net change in capital and surplus		-												
Capital & surplus, December 31, 2017 - per examination		\$245,194,173												

COMMENTS ON FINANCIAL STATEMENTS

Liability for Amounts Held under Uninsured Plans

The \$445,144,176 reported by the Company in its 2016 annual statement as liability for amounts held under uninsured plans has been increased to \$1,014,169,052 in its 2017 annual statement. This liability includes amounts for the Medicare Reinsurance Subsidy, Low Income Cost Sharing (LICS) Subsidy and Part D Coverage Gap Discount Program (CGDP) subsidy which comprised 83% of the total balance at year-end 2017. Depending on the experience throughout the year, these items can be either a receivable or a payable. Payments for these liabilities are based on the original bids filed in the prior year.

The Company receives monthly reinsurance subsidy payments from CMS reflecting the estimated claims costs for risks retained by CMS. The LICS subsidy provides beneficiaries assistance with the premium, deductible and co-payments of the Part D program. CGDP reduces the insured Medicare beneficiaries' out-of-pocket drug costs when they reach the coverage gap. The Company receives payments each month from CMS for the expected costs of the program. Certain costs for this program are also funded by pharmaceutical companies.

The exam actuary was able to verify the claim data used in the payable and receivable calculations for the 2017 LICS, Medicare Reinsurance and CGDP amounts tied to the Company's reserving model.

Based on our review of the subsidy balance development for WPI and the reserving model used to develop the best estimate of the claims, the exam actuary concluded that the claims used in the calculations are reasonable.

SUMMARY OF RECOMMENDATIONS

There were no significant findings of facts to report and therefore no related recommendations for the examination period

SUBSEQUENT EVENTS

In November 2018, Aetna Inc. ("Aetna") has reached an agreement to sell its Medicare Part D prescription drug plan membership to WellCare Health Plans, which will be absorbed by the Company. Total approximate consideration of \$107.2 million is subject to certain true-up provisions. The business sold had about 2.2 million Medicare members, which is expected to increase the Company's Medicare Drug Plan membership to 3.3 million members. Per the terms of the agreement, Aetna will provide administrative services to, and retain financial risks of, the Aetna Part D membership through 2019. The Company is expected to assume control of the Aetna plans on December 31, 2019.

On March 26, 2019, WellCare Health Plans, Inc. entered into an Agreement and Plan of Merger (Merger Agreement) with Centene Corporation ("Centene"), Wellington Merger Sub I, Inc. (Merger Sub I) and Wellington Merger Sub II, Inc. (Merger Sub II). Pursuant to the Merger Agreement, and subject to the terms and conditions thereof, Centene will acquire all of the outstanding shares of the Company through a series of transactions in which (i) Merger Sub I will merge with and into the Company (First Merger), with the Company surviving as a direct, wholly owned subsidiary of Centene and (ii) immediately after the effective time of the First Merger, the Company will merge with and into Merger Sub II, with Merger Sub II continuing as the surviving corporation. Subject to the terms and conditions set forth in the Merger Agreement, the Company's stockholders will receive cash and shares of Centene. Completion of the transaction remains subject to certain closing conditions.

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, 2017, the Company's capital and surplus was \$245,194,173 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: David Palmer, CFE; Katerina Bolbas, CFE, CIA, MCM, Examiner-in-Charge; Lindsey Pittman, CPA, CFE, CISA, IT Supervisor and Financial Examiner; Darlene Lenhart-Schaeffer, CFE, CISA, IT examiner; Karen Elsom, FSA, MAAA, Exam Actuary, and Jessica Lynch associated with the firm of Lewis & Ellis, Inc.; and from the Florida Office of Insurance Regulation: Margaret McCrary, CPA, AFE, Chief Financial Examiner; Luke Stavenau, Financial Examiner/Analyst Supervisor; Shantia Simmons, APIR, Financial Specialist; Emmaculate Muambo, APIR, Financial Specialist, and Lisa Parker, ASA, MAAA, PIR, Actuary.

Respectfully submitted,



Carolyn M. Morgan, APIR
Director, Life & Health Financial Oversight
Florida Office of Insurance Regulation