

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



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

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AGRICULTURE

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

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 WellCare of Florida, 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 of Florida, Inc. (Company), a Florida health maintenance organization (HMO). 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 May 17, 1985 and licensed by the Office as an HMO on February 28, 1986. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, 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 641.35(7), F.S., was recorded in the minutes of its meetings.

DIVIDENDS AND CAPITAL CONTRIBUTIONS

The Company distributed stockholder dividends in the amounts of \$40 million, \$35 million, \$125 million and \$125 million in years 2013, 2014, 2016 and 2017, respectively. No dividends were distributed in 2015. The Company received a capital contribution of \$40 million in 2015.

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 and directors, and members of its audit committee were:

Senior Officers

<u>Name</u>	<u>Title</u>
Elizabeth M Miller	President
Richard C Fisher	Vice President & Chief Financial Officer
Michael W Haber	Vice President & Secretary
Tammy L Meyer	Vice President & Assistant Secretary
Goran Jankovic	Vice President & Treasurer
Michael T Meyer	Vice President, Assistant Treasurer & Corporate Controller

Board of Directors

<u>Name</u>	<u>Location</u>
Andrew L Asher	Tampa, Florida
Gregg D MacDonald	Odessa, Florida
Michael T Meyer	Lutz, Florida

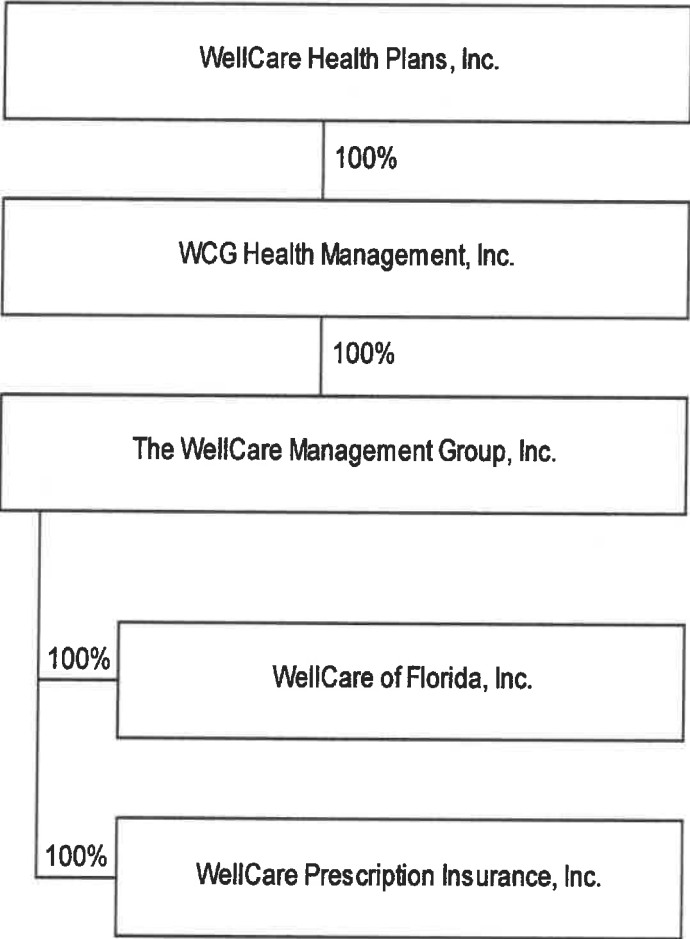
Audit Committee

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 the holding company system is shown below.

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



AFFILIATED AND OTHER AGREEMENTS

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

Management Services Agreement:

Comprehensive Health Management, Inc. (Comprehensive) provided substantially all of the Company's management and administrative services in return for fees based on premiums

pursuant to a five-year agreement effective February 1, 2010, and amended and restated January 1, 2016 and January 1, 2017. Fees under the agreements were \$196.9 million, \$267.3 million, \$248.6 million, \$300.9 million, and \$380.6 million in years 2013 through 2017, 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 credit to the extent they reduced the consolidated federal income tax liability.

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 provided coordinated health and pharmacy benefits exclusively to Medicaid, Medicare, and FHKC members under contracts with the Florida Agency for Health Care Administration (AHCA), the Florida Department for Elder Affairs, FHKC and the Centers for Medicare & Medicaid Services. It held a current health care provider certificate issued by AHCA pursuant to Part III of Chapter 641, F.S, valid until June 26, 2020. At December 31, 2017, it was licensed to operate in all service regions in Florida. As an Individual Practice Association model

HMO, the Company had 852,394 members as of December 31, 2017, of which 80% were Medicaid members, 12% were Medicare members, and 8% were FHKC members.

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	6,641,783	8,570,678	10,525,131	10,428,407	10,380,320
Year-end enrollment	567,222	825,570	887,998	874,122	852,394
Premiums	\$ 2,021.8	\$ 2,812.0	\$ 3,554.9	\$ 3,679.1	\$ 3,850.1
Revenues	\$ 2,021.8	\$ 2,812.0	\$ 3,554.9	\$ 3,679.1	\$ 3,835.7
Underwriting deductions	\$ 1,962.1	\$ 2,874.1	\$ 3,459.0	\$ 3,452.4	\$ 3,626.7
Net income	\$ 42.8	\$ (55.3)	\$ 49.6	\$ 128.0	\$ 137.5
Shareholder dividends	\$ 40.0	\$ 35.0	\$ -	\$ 125.0	\$ 125.0
Paid in surplus received	\$ -	\$ -	\$ 40.0	\$ -	\$ -
Admitted assets	\$ 402.1	\$ 537.4	\$ 568.1	\$ 688.9	\$ 761.8
Liabilities	\$ 251.4	\$ 460.9	\$ 401.0	\$ 518.1	\$ 579.4
Capital and surplus	\$ 150.7	\$ 76.5	\$ 167.1	\$ 170.8	\$ 182.4

REINSURANCE

PartnerRe America Insurance Company, Inc. provided an excess of loss reinsurance coverage to the Company and certain of its affiliates effective January 1, 2017 pursuant to an excess of loss agreement effective January 1, 2017. The Company retains \$2,750,000 per covered person, per agreement term. The reinsurer's maximum payable is \$2,000,000 per covered person per agreement term.

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 Company maintained on deposit with the Office an insolvency protection deposit of \$2,001,069 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.

In addition, the Company held \$56,742,000 in money market mutual funds for the benefit of AHCA.

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 of Florida, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$ 195,347,891	\$ -	\$ 195,347,891
Cash, cash equivalents and short-term investments	477,169,329	-	477,169,329
	672,517,220	-	672,517,220
Investment income due and accrued	1,893,313	-	1,893,313
Uncollected premiums and agents' balances	54,830,211	-	54,830,211
Accrued retrospective premiums	2,929,098	-	2,929,098
Amounts receivable relating to uninsured plans	1,122,125	-	1,122,125
Net deferred tax asset	4,437,622	-	4,437,622
Health care and other amounts receivable	24,035,109	-	24,035,109
Total admitted assets	\$ 761,764,698	\$ -	\$ 761,764,698
Liabilities			
Claims unpaid	\$ 488,045,603	\$ -	\$ 488,045,603
Unpaid claims adjustment expenses	2,848,552	-	2,848,552
Aggregate health policy reserves	15,249,640	-	15,249,640
Premiums received in advance	636,613	-	636,613
General expense due or accrued	13,989,285	-	13,989,285
Current federal income tax payable	11,866,735	-	11,866,735
Amounts due to parent, subsidiaries, and affiliates	4,484,395	-	4,484,395
Liability for amounts held under uninsured plans	39,902,812	-	39,902,812
Aggregate write-ins for other liabilities	2,349,931	-	2,349,931
Total liabilities	\$ 579,373,566	\$ -	\$ 579,373,566
Capital and Surplus			
Aggregate write-ins for special surplus funds	\$ 74,761,000	\$ -	\$ 74,761,000
Common stock	52,753	-	52,753
Gross paid in and contributed surplus	61,997,191	-	61,997,191
Unassigned funds (deficit)	45,580,188	-	45,580,188
Total capital and surplus	\$ 182,391,132	\$ -	\$ 182,391,132
Total liabilities, capital and surplus	\$ 761,764,698	\$ -	\$ 761,764,698

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

Net premium income	\$ 3,850,143,413
Change in unearned premium reserve	\$ (14,446,367)
Total revenue	\$ 3,835,697,046
Hospital and medical benefits	2,184,287,742
Other professional services	195,480,945
Emergency room and out-of-area	184,864,817
Prescription drugs	631,761,989
Total hospital and medical	3,196,395,493
Claims adjustment expenses	44,859,532
General administrative expenses	385,485,927
Total underwriting deductions	3,626,740,952
Net underwriting gain	208,956,094
Net investment gains	6,644,316
Aggregate write-ins for other expenses	(6,399,748)
Income before federal income tax	209,200,662
Federal income tax	71,713,840
Net income	\$ 137,486,822

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

Capital and surplus - December 31, 2012	\$ 153,337,284
Net income	42,790,073
Change in net deferred income tax	422,491
Change in nonadmitted assets	(5,120,834)
Change in unauthorized and certified reinsurance	(4,813,774)
Dividends to stockholders	(40,000,000)
Aggregate write-ins for gains in surplus	4,042,439
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Capital and surplus - December 31, 2013	150,657,679
Net loss	(55,337,400)
Change in net deferred income tax	5,187,929
Change in nonadmitted assets	6,461,642
Change in unauthorized and certified reinsurance	4,506,719
Dividends to stockholder	(35,000,000)
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Capital and surplus - December 31, 2014	76,476,569
Net income	49,574,022
Change in net deferred income tax	(4,034,689)
Change in nonadmitted assets	4,759,901
Change in unauthorized and certified reinsurance	307,055
Paid in surplus adjustment	40,000,000
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Capital and surplus - December 31, 2015	167,082,858
Net income	128,014,902
Change in net deferred income tax	(1,276,597)
Change in nonadmitted assets	1,960,490
Dividends to stockholder	(125,000,000)
<hr/>	
Capital and surplus - December 31, 2016	170,781,653
Net income	137,486,822
Change in net deferred income tax	(5,020,813)
Change in nonadmitted assets	4,143,470
Dividends to stockholder	(125,000,000)
<hr/>	
	182,391,132
Examination adjustments	-
<hr/>	
Capital and surplus - December 31, 2017	<u>\$ 182,391,132</u>

**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.

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Capital and surplus, December 31, 2017 - per annual statement				\$ 182,391,132
Total assets	\$ 761,764,698	\$ 761,764,698	\$ -	
Total liabilities	\$ 579,373,566	\$ 579,373,566	\$ -	-
Capital and surplus, December 31, 2017 - per examination				<u>\$ 182,391,132</u>

WellCare of Florida, 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				\$ 182,391,132
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus	
Common stocks	\$ 52,753	\$ 52,753	\$ -	
Net change in capital and surplus				-
Capital & surplus, December 31, 2017 - per examination				\$ 182,391,132

COMMENTS ON FINANCIAL STATEMENTS

Claims Unpaid

The Company reported \$488,045,603 as Claims Unpaid in its 2017 annual statement. This balance represents liability for claims unpaid for both Medicare and Medicaid plans, and is supported by estimated from various models as prepared by the Company's actuarial department. A sample of models was reviewed by the exam actuary, with an understanding that all models use similar assumptions and methodologies. Additionally, a retrospective analysis was completed based on September 30, 2018 data.

The exam actuary concluded that the assumptions and methodologies used by the Company to develop the Claims Unpaid liabilities is 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 April 2018, the Company received a Notice of Agency Decision from AHCA to award the Company a new five-year contract to provide managed care services to Medicaid-eligible beneficiaries, including Managed Medical Assistance and Long-Term Care beneficiaries in 10 of 11 regions. As part of the Medicaid Managed Care Program, the Company provides statewide managed care services to beneficiaries in the Serious Mental illness Specialty Plan ("SMI") which currently has more than 75,000 beneficiaries. The Company is one of only two managed care plans in the state offering managed care services to the SMI beneficiaries. The new statewide Medicaid Managed Care program began on December 1, 2018.

In July 2018, the Company received a Notice of Intent to Award a contract from the Florida Department of Health to provide statewide-managed care services to more than 60,000 children with medically complex conditions through the Children's Medical Services Managed Care Plan ("CMS Plan"). The five-year contract award began on February 1, 2019.

The Company is expected to receive additional \$1.5 billion in incremental annualized revenues from these new contracts starting January 1, 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 of Florida, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2017, the Company's capital and surplus was \$182,391,132 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: 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