

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of CIGNA HealthCare of St. Louis, Inc. for the period ended  
December 31, 2010

### ORDER

After full consideration and review of the report of the financial examination of CIGNA HealthCare of St. Louis, Inc. for the period ended December 31, 2010, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of CIGNA HealthCare of St. Louis, Inc as of December 31, 2010, be and is hereby ADOPTED as filed and for CIGNA HealthCare of St. Louis, Inc. to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 29th day of May, 2012.



A handwritten signature in black ink, reading "John M. Huff".

John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

CIGNA HealthCare of St. Louis, Inc.

As of:  
DECEMBER 31, 2010

**FILED**  
JUN 08 2012  
DIRECTOR OF INSURANCE &  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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February 23, 2012

St. Louis, MO

Honorable Joseph Torti III, Superintendent,  
Rhode Island Department of Business Regulation,  
Division of Insurance  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ted Nickel, Commissioner  
State of Wisconsin  
Office of the Commissioner of Insurance  
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

**CIGNA HealthCare of St. Louis, Inc.**

hereinafter referred to as the "Company." The Company's main office is located at 900 Cottage Grove Road C6ACC, Hartford, CT 06152; telephone number (860) 226-9155. Examination fieldwork began on November 14, 2011 and concluded on the above date.

**SCOPE OF EXAMINATION**

Period Covered

This examination covers the period from January 1, 2007 through December 31, 2010, and was conducted by examiners from the state of Missouri. This examination also considered material transactions or events occurring subsequent to December 31, 2010.

Procedures

This examination was conducted as a full scope comprehensive examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining

information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, 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. Key activities were: Investment and Cash Management; Underwriting and Premiums; and Claims and Reserving.

The examiners relied upon information and workpapers provided by the Company's independent auditor, PricewaterhouseCooper LLC for its audit covering the period from January 1, 2010 through December 31, 2010. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls. The examiners also relied on information obtained from the information system review workpapers from the 2008 examination conducted by the state of Connecticut Department of Insurance. In addition, workpapers from the state of South Carolina Department of Insurance 2009 examination were used specifically in obtaining an understanding of the various processes followed by the companies within the CIGNA family of companies.

### **SUMMARY OF SIGNIFICANT FINDINGS**

The Company has seen continued decline in premium and total assets. Adequate capital currently remains to support the business. The Company continues to experience positive underwriting results and has contributed to its surplus through strong earnings. The Company's overall financial condition remains sound and there were no material findings as a result of this examination.

### **SUBSEQUENT EVENTS**

Effective September 30, 2011, CIGNA HealthCare of St. Louis, Inc. was merged with CIGNA HealthCare of Ohio, with the Company being the surviving entity.

### **COMPANY HISTORY**

#### General

CIGNA HealthCare of St. Louis, Inc. was incorporated in the state of Missouri on May 2, 1985, and was certified as a Health Maintenance Organization under Sections 354.400 to 354.550 RSMo (Health Maintenance Organizations). The Company commenced business on February 1, 1986, and was federally qualified on April 14, 1986.

### Capital Stock

The Company has 1,000 shares of \$1 par value common stock authorized with all 1,000 shares issued and outstanding. All shares are owned by the parent, Healthsource, Inc.

### Dividends

The Company paid \$2.5 million in dividends during 2009.

### Surplus Debentures

The Company did not have any surplus debentures issued or outstanding during the current examination period.

### Mergers and Acquisitions

There were no mergers or acquisitions involving the Company during the examination period. However, subsequently, the Company merged with CIGNA HealthCare of Ohio in September, 2011.

## **CORPORATE RECORDS**

### Management

The Company's Bylaws call for no less than one or more than six directors. At December 31, 2010, the Company had three directors as follows:

| <u>Name</u>            | <u>Location</u>   | <u>Business Affiliation</u>             |
|------------------------|-------------------|---|
| Jordan H. Ginsburg     | West Hartford, CT | Director, CIGNA HealthCare of St. Louis |
| David Goldberg         | West Hartford, CT | Accounting Director, CIGNA Corporation  |
| Peter W. McCauley, Sr. | West Hartford, CT | Director, CIGNA HealthCare of St. Louis |

The officers appointed and serving as of December 31, 2010 were as follows:

| <u>Name</u>           | <u>Office</u>  |
|-----------------------|----------------|
| Frank A. Monahan      | President      |
| Steven M. Petrov      | Treasurer      |
| Shermona S. Mapp      | Secretary      |
| Glenn M. Gerhard      | Vice President |
| Jordan H. Ginsburg    | Vice President |
| David Goldberg        | Vice President |
| Kathleen M. Hockmuth  | Vice President |
| Asiam M. Khan         | Vice President |
| William A. McGean     | Vice President |
| Barry R. McHale       | Vice President |
| Robert D. Picinich    | Vice President |
| David M. Porcello     | Vice President |
| Maureen H. Ryan       | Vice President |
| Timothy S. Sheridan   | Vice President |
| Edward V. Stacey, Jr. | Vice President |

Joseph E. Turgeon III

Vice President

Conflict of Interest

Conflict of Interest disclosure statements are executed annually by all board members and company officers. A review of the conflict of interest disclosure statements for the period under current examination indicated no material conflicts.

Corporate Records

The Articles of Incorporation and the Bylaws were reviewed. No amendments were made to either document during the current examination period. The minutes of the meetings of the shareholder and the Board of Directors were reviewed for the current examination period. The minutes of the meetings appear to reflect proper approval of the significant transactions and corporate events for the current examination period.

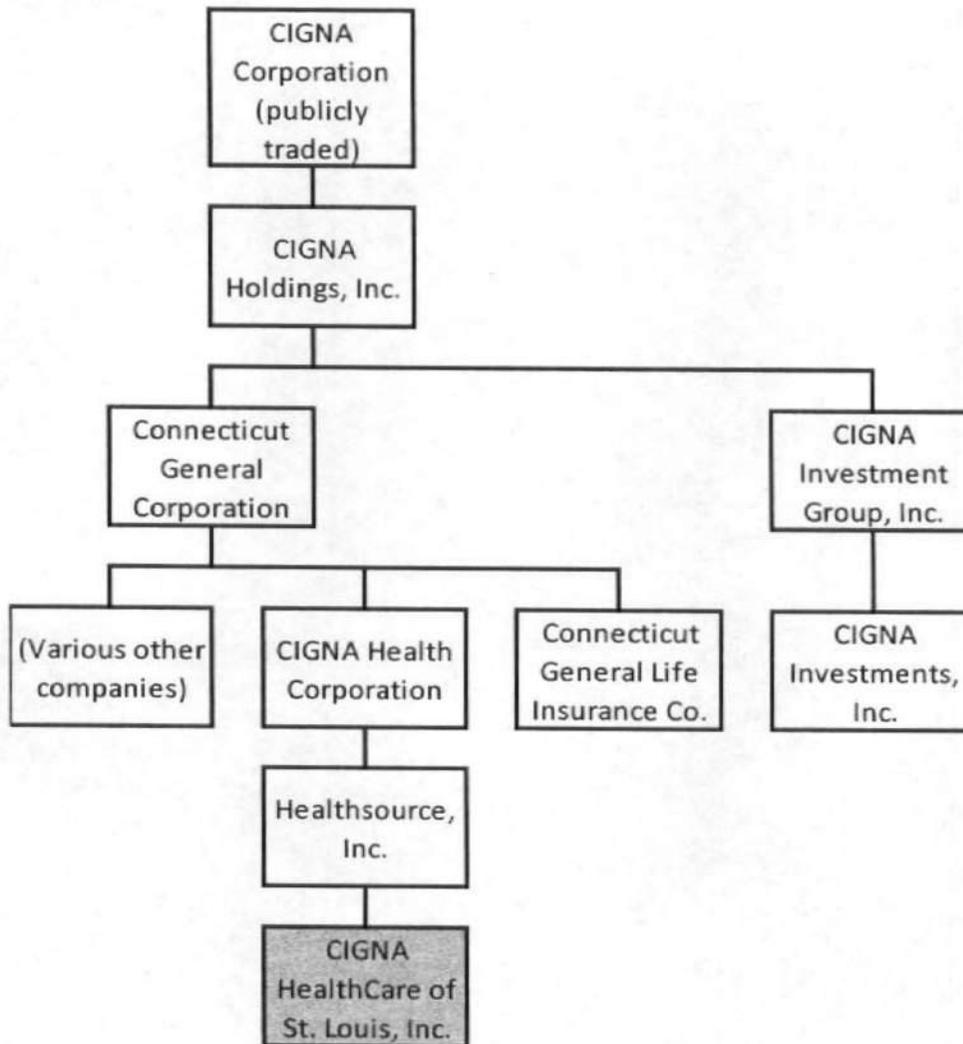
**MANAGEMENT AND CONTROL**

Holding Company

The Company is a member of an insurance holding company system as defined by Chapter 382 RSMo (Insurance Holding Companies).

Organizational Structure

The following chart shows the ownership structure of the companies within the holding company system:



Intercompany Transactions

The Company had submitted all intercompany agreements to the Department of Insurance, Financial Institutions and Professional Registrations prior to implementation. The Company is a party to the following affiliated agreements:

Management Services Agreement

Parties: CIGNA Health Corporation and other affiliates including CIGNA HealthCare of St. Louis, Inc.

Effective: January 1, 1994, amended January 1, 1996, and January 1, 2001, with CIGNA Health Corporation (CHC) and other affiliates. The second amendment was approved on November 20, 2000, and Amendment 3 was approved September 3, 2004.

Terms: Under this agreement, CHC agrees to provide underwriting, claims processing, financial services, personnel and payroll services, tax planning and return preparation, legal services, marketing and advertising services, and securing insurance coverage for the company.

Rate(s): Charges are based on expenses allocated to CIGNA HealthCare of St. Louis, Inc. Fees incurred for 2010 and 2009 were \$101,236 and \$212,214, respectively.

CIGNA Health Access Premium Billing Authorization Agreement

Parties: Connecticut General Life Insurance Company (CGLIC) and certain subsidiaries, including CIGNA HealthCare of St. Louis, Inc.

Effective: November 1, 1996, and approved October 23, 1996.

Terms: This arrangement allows CIGNA HealthCare of St. Louis, Inc. and CGLIC to provide CIGNA Health Access customers a single premium bill. This product is underwritten by both companies.

Rate(s): No Fees have been incurred under this agreement for several years.

Dental Consultation Agreement

Parties: CIGNA Dental Health, Inc., Connecticut General Life Insurance Company, International Rehabilitation Associates, Inc., and CIGNA Health Corporation subsidiaries including CIGNA HealthCare of St. Louis, Inc.

Effective: October 1, 2000. The Department approved the agreement on September 1, 2000.

Terms: CIGNA Dental Health, Inc. provides dental consultations at the request of CIGNA Health Corporation with respect to select dental cases.

Rate(s): Fees of \$80 are charged for each individual dental consultation. No fees have been incurred under this agreement for several years.

Investment Advisory Agreement

Parties: CIGNA HealthCare of St. Louis, Inc. and CIGNA Investments, Inc. (CII).

Effective: January 1, 2002. The Department approved an amended and restated agreement on August 14, 2009.

Terms: The services provided under this agreement include investment management and brokerage services.

Rate(s): The Company shall pay the quarterly fees for the services within 90 days after receipt of notice from CII or end of the quarter. Compensation is calculated based on the proportionate share of the value of the Company's assets managed by CII to the total value of all assets managed by CII multiplied by the total costs of managing the assets. Fees incurred for 2010 and 2009 were \$1,375 and \$3,515, respectively.

Intracorp Agreement

Parties: International Rehabilitation Associates (d/b/a Intracorp), Connecticut General Life Insurance Company, and certain CIGNA Health Corporation subsidiaries including CIGNA HealthCare of St. Louis, Inc.

Effective: January 1, 2001. The Department approved the agreement on November 7, 2002. Amended in 2004 and 2005 (fee adjustments). Department approved the last amendment on July 12, 2005.

Terms: Intracorp provides access to certain consulting services with respect to utilization, case, demand, disease and care management services and any other consultative services offered by Intracorp in order to administer care coverage plans.

Rate(s): Fee of \$1.76 per member per month, with an allowable annual fee adjustment of up to 5%. Fees incurred for 2010 and 2009 were \$3,010 and \$7,409, respectively.

Consolidated Federal Income Tax Agreement

Parties: CIGNA Corporation and its participating subsidiaries including CIGNA HealthCare of St. Louis, Inc.

Effective: April 1, 1982, and was Amended and Restated Consolidated Tax Allocation Agreement dated January 1, 1997, with the Department's approval on October 6, 1997.

Terms: Tax payments will be based on each subsidiary's taxable income. In the case of a loss, CIGNA Corporation will pay each subsidiary a refund based on the subsidiary's taxable loss to the extent that CIGNA Corporation is able to use the loss in the consolidated tax return.

Line of Credit Agreement

Parties: CIGNA HealthCare of St. Louis, Inc. and CIGNA Health Corporation (CHC).

Effective: October 1, 2005

Terms: Under the agreement CHC will lend funds to the Company from time to time to ensure the Company is able to meet its operational cash obligations while earning additional investment income. Loans are limited to the lesser of 3% of prior year admitted assets or 25% of the Company's surplus. The Department concluded no approval of the agreement was necessary.

Rate(s): No administrative fees have been incurred under this agreement the past 4 years.

Network Access Agreement

Parties: Connecticut General Life Insurance Company (CGLIC) along with participating subsidiaries including CIGNA HealthCare of St. Louis, Inc.

Effective: January 1, 1998, and amended June 1, 2001. The Department originally approved the agreement on May 11, 1998, and the amendment on November 9, 2001.

Terms: This agreement permits CGLIC and participating CIGNA HMO subsidiaries to utilize the networks of participating providers of affiliated health maintenance organizations. An HMO may also provide to or receive from other participants certain administrative services associated with network access. This agreement replaced a previous agreement known as the Flex Care Agreement.

Rate(s): The operating costs for network access and other delegated administrative functions are allocated to CGLIC and other participating HMO's on a per member per month basis. No fees have been incurred under this agreement the past 4 years.

Mental Health & Substance Abuse Agreement

Parties: CIGNA Behavioral Health, Inc. and CIGNA Health Corporation on behalf of its subsidiaries including CIGNA HealthCare of St. Louis, Inc.

Effective: January 1, 1990. The agreement has been amended eight times with the most recent effective January 1, 1999, and approved on November 18, 1999.

Terms: CIGNA Behavioral Health, Inc. provides mental health and substance abuse services to subsidiaries of CIGNA Health Corporation.

Rate(s): Charges are based on cost of services provided. Fees incurred for 2010 and 2009 were \$14,680 and \$40,938, respectively.

Participating Mail Order Pharmacy Agreement

Parties: Tel-Drug, Inc., Tel-Drug of Pennsylvania, L.L.C. and subsidiaries of CIGNA Health Corporation including CIGNA HealthCare of St. Louis, Inc.

Effective: October 1, 1997, and amended October 1, 1999, and January 1, 2001. The Department approved the amendments on November 8, 2000, and February 6, 2002.

Terms: Under this arrangement, Tel-Drug, Inc. provides mail order pharmaceutical services to members of the subsidiaries of CIGNA Health Corporation, including the Company.

**FIDELITY BOND AND OTHER INSURANCE**

CIGNA HealthCare of St. Louis, Inc. is a named insured on a \$5 million crime and fidelity policy, with a \$2.5 million deductible. The fidelity bond meets the suggested minimum coverage of the NAIC and the requirements of Section 354.425 RSMo, "Bonding of officers who disburse or invest funds – bond requirements." The Company is also a named insured on policies which have the following types of coverage: commercial general liability, employers' liability, automobile liability, umbrella liability, workers compensation, and errors and omissions. These insurance coverages provide adequate coverage for all of the company's insurance exposure.

**PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company has no employees; therefore employee benefits are not applicable. The Company enacted a freeze on its primary domestic defined benefit pension plans effective July 1, 2009, eliminating the accrual of benefits for active employees enrolled in these domestic pension plans. Pension expense is no longer allocated to the Company as of December 31, 2010.

The Company had previously provided certain postretirement benefits to retired employees through a plan sponsored by CIGNA. On October 19, 2010, the Company's unfunded postretirement benefit obligation was settled with an upstream affiliate to better reflect the liability with the appropriate payroll entity; therefore the Company's unfunded postretirement benefit liability was \$0 as of December 31, 2010.

## **TERRITORY AND PLAN OF OPERATION**

CIGNA HealthCare of St. Louis, Inc. is licensed as a Health Maintenance Organization with the Missouri Department of Insurance, Financial Institutions and Professional Registration ("DIFP") under Chapter 354 RSMo "Health Service Corporations, Health Maintenance Organizations and Prepaid Dental Plans." The Company is licensed to write business in the states of Missouri and Illinois.

The company offers a range of managed care products consisting of a gate-keeper Commercial HMO Plan, a gate-keeper Commercial HMO Plan with an opt-out benefit, a Commercial HMO Plan with open Access, and a Commercial HMO Plan with open Access and an opt-out benefit. The company contracts with an affiliate, Connecticut General Life Insurance Company, to utilize their network of participating providers. As of year-end 2010, the company wrote 75% of their direct premiums in Missouri and 25% of their direct premiums in Illinois.

The company does not utilize managing general agents or third party administrators to market their insurance products. The company contracts with an affiliate, Connecticut General Life Insurance Company, to utilize their network of participating providers. The company markets its products primarily to employer groups of 150 or more, and does not market to individuals or participate in Medicaid or Medicare markets. The company's membership base has substantially declined over the past several years, as members are moving away from HMO products offered by the company toward traditional indemnity products offered by other CIGNA affiliates.

## **GROWTH OF COMPANY**

Although the Company's membership base has declined significantly over the past several years, CIGNA HealthCare of St. Louis, Inc. has remained profitable over that time period. Membership dropped from a member enrollment of 3,502 at December 31, 2007 to a member enrollment of 202 as of December 31, 2010. This decline in customer base is mainly attributed to members moving away from HMO products toward traditional indemnity based products offered by other CIGNA affiliates. As of December 31, 2010, the Company wrote 75% of its direct premiums in the state of Missouri and 25% of its direct premiums in the state of Illinois, and those percentages have remained relatively constant for the current financial examination period.

## **LOSS EXPERIENCE**

As of December 31, 2010, CIGNA HealthCare of St. Louis, Inc. reported \$27,600 in life and health policy loss reserves. \$42,000 has been paid for incurred claims and loss adjustment expenses attributable to prior years. The Company realized a \$70,000

favorable loss reserve development in the year 2010. Karen Elsom, FSA, MAAA, of the actuarial firm Lewis & Ellis, Inc. Actuaries and Consultants, acting as the consulting actuary on behalf of the Missouri Department of Insurance, Financial Institutions and Professional Registration, reviewed the Company's loss reserve analysis and concluded the Company's loss reserve estimation to be reasonable and adequate.

## REINSURANCE

### Reinsurance Assumed

The Company does not assume any reinsurance.

### Reinsurance Ceded

Effective January 1, 1994, the Company entered into an Excess of Loss reinsurance agreement with Connecticut General Life Insurance Company ("CGLIC"). As of December 31, 2010, the company's retention limit under this agreement is \$150,000 per health plan member per calendar year. After the retention limit is reached, Cigna HealthCare of St. Louis, Inc. is responsible for 20% of the covered charges under the agreement and Connecticut General Life Insurance Company is responsible for 80% of the covered charges. The maximum per member per month premium rate for 2010 was \$1.00 for administration and \$8.00 for claims payment. Premiums paid to CGLIC under this agreement were \$36,190 and \$20,972 for the years 2009 and 2010 respectively. The Company reported \$0 in reinsurance recoverables from CGLIC for the years 2009 and 2010.

## ACCOUNTS AND RECORDS

### General

The Company's financial statements are prepared on statutory accounting principles. Accounting entries are recorded on the Oracle general ledger system. The Company uses the Power MHS claims processing system. CIGNA HealthCare of St. Louis, Inc. has maintained one Excess of Loss reinsurance agreement with Connecticut General Life Insurance Company since January 1, 1994.

### Independent Auditor

The Company's financial statements are audited annually by the accounting firm PricewaterhouseCoopers, LLP. The workpapers and reports of the most recent independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

### Independent Actuaries

Loss reserves, loss adjustment expense reserves and related actuarial accounts reported in the financial statements were opined on and certified by David A. Tobin, FSA, MAAA. His review concluded the Company's reserves make a reasonable provision in the

aggregate for all unpaid loss and loss adjustment expense obligations under the terms of its contracts and agreements.

Pursuant to a contract with the Missouri Department of Insurance, Financial Institutions and Professional Registration, Karen Elsom, FSA, MAAA of the consulting actuarial firm Lewis & Ellis, Inc. reviewed the adequacy of the Company's loss and loss adjustment expense reserves. This Statement of Actuarial Opinion of the Company's reserves concluded the Company's loss and loss adjustment expense reserves were adequate.

#### Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the Missouri Department of Insurance, Financial Institutions and Professional Registration conducted a review of CIGNA HealthCare of St. Louis, Inc.'s information systems. His evaluation did not identify any significant weaknesses.

### STATUTORY DEPOSITS

#### Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2010, as referenced below, were sufficient to meet the capital deposit requirements for the state of Missouri in accordance with Section 354.410 RSMo (Annual Deposit).

| <u>Type of Security</u> | <u>Par Value</u> | <u>Fair Value</u> | <u>Statement Value</u> |
|-------------------------|------------------|-------------------|------------------------|
| US Treasury Note        | \$325,000        | \$334,328         | \$331,162              |

#### Deposits with Other States

The Company also had funds on deposit with the state of Illinois, in which it is licensed. Those funds on deposit as of December 31, 2010 were as follows:

| <u>Type of Security</u> | <u>Par Value</u> | <u>Fair Value</u> | <u>Statement Value</u> |
|-------------------------|------------------|-------------------|------------------------|
| US Treasury Note        | \$380,000        | \$384,712         | \$381,834              |

### FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2010, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

**BALANCE SHEET**  
As of December 31, 2010

|  | <b>Assets</b>  | <b>Nonadmitted<br/>Assets</b> | <b>Net Admitted<br/>Assets</b> |
|--|----------------|-------------------------------|--------------------------------|
| Assets                                 |                |                               |                                |
| Bonds                                  | \$713,496      | \$0                           | \$713,496                      |
| Cash and short-term investments        | 863,497        | 0                             | 863,497                        |
| Investment income due and accrued      | 6,010          | 0                             | 6,010                          |
| Uncollected premiums                   | 4,396          | 0                             | 4,396                          |
| Current federal income tax recoverable | 106,685        | 0                             | 106,685                        |
| Premium tax receivable                 | 32,497         | 0                             | 32,497                         |
| State income tax                       | 15,965         | 0                             | 15,965                         |
| Total Assets                           | 1,742,546      | 0                             | <u>\$1,742,546</u>             |
| Liabilities                            | <b>Covered</b> | <b>Uncovered</b>              | <b>Total</b>                   |
| Claims unpaid                          | 26,000         | 0                             | 26,000                         |
| Unpaid claims adjustment expenses      | 1,400          | 0                             | 1,400                          |
| Aggregate health policy reserves       | 200            | 0                             | 200                            |
| Net deferred tax liability             | 184            | 0                             | 184                            |
| Ceded reinsurance premiums payable     | 1,727          | 0                             | 1,727                          |
| Amounts due to parent and affiliates   | 7,100          | 0                             | 7,100                          |
| Commission payable                     | 965            | 0                             | 965                            |
| Credit balances due to policyholders   | 7,902          | 0                             | 7,902                          |
| Escheat liabilities                    | 39             | 0                             | 39                             |
| Total Liabilities                      | \$45,517       | \$0                           | 45,517                         |
| Common capital stock                   |                |                               | 1,000                          |
| Gross paid in and contributed surplus  |                |                               | 1,350,000                      |
| Unassigned funds (surplus)             |                |                               | 346,029                        |
| Total capital and surplus              |                |                               | <u>1,697,029</u>               |
| Total Liabilities, Capital and Surplus |                |                               | <u>\$1,742,546</u>             |

**INCOME STATEMENT**  
**For Year Ending December 31, 2010**

|  |                |                  |
|--|----------------|------------------|
| Net premium income                                     |                | \$795,086        |
| Hospital/medical benefits                              | \$293,660      |                  |
| Other professional services                            | 21,061         |                  |
| Outside referrals                                      | 2,430          |                  |
| Emergency room and out-of-area                         | 38,297         |                  |
| Prescription drugs                                     | <u>174,300</u> |                  |
| Total hospital and medical (less)                      |                | 529,748          |
| Claims adjustment expenses                             |                | 23,685           |
| General administrative expenses (less)                 |                | 154,464          |
| Increase in reserves for accident and health contracts |                | <u>(730)</u>     |
| Total underwriting deductions                          |                | <u>707,167</u>   |
| Net underwriting gain or (loss)                        |                | 87,919           |
| Net investment income earned                           | 9,893          |                  |
| Net realized capital gains or (losses)                 | <u>(4)</u>     |                  |
| Net investment gains or (losses)                       |                | <u>9,889</u>     |
| Net income or (loss), after capital gains tax          |                | 97,808           |
| Federal and foreign income taxes incurred              |                | <u>(107,233)</u> |
| Net income (loss)                                      |                | <u>\$205,041</u> |

**RECONCILIATION OF SURPLUS**  
**Changes from January 1, 2007 to December 31, 2010**

| <b>Line</b>  | <b><u>2007</u></b> | <b><u>2008</u></b> | <b><u>2009</u></b> | <b><u>2010</u></b> |
|--|--------------------|--------------------|--------------------|--------------------|
| Capital and surplus prior reporting year             | \$3,051,689        | \$3,641,042        | \$3,882,986        | \$1,502,043        |
| Net income or (loss)                                 | 421,071            | 286,955            | 91,881             | 205,041            |
| Change in net deferred income tax                    | (27,631)           | (62,938)           | (12,116)           | (141,994)          |
| Change in nonadmitted assets                         | 219,788            | 17,927             | 39,292             | 131,939            |
| Dividends to stockholders                            | 0                  | 0                  | (2,500,000)        | 0                  |
| Aggregate write-ins for gains or (losses) in surplus | (23,875)           | 0                  | 0                  |                    |
| Changes per examination                              | 0                  | 0                  | 0                  | 0                  |
| Net change in capital and surplus                    | <u>589,353</u>     | <u>241,944</u>     | <u>(2,380,943)</u> | <u>194,986</u>     |
| Capital and surplus end of reporting year            | \$3,641,042        | \$3,882,986        | \$1,502,043        | \$1,697,029        |

**EXAMINATION CHANGES**

No changes were made as a result of this examination.

**COMMENTS ON FINANCIAL STATEMENTS**

There are no comments on the financial statements.

**SUMMARY OF RECOMMENDATIONS**

There are no recommendations as a result of this examination.

