

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Coventry Health Care of Missouri, Inc. f/k/a Group Health Plan, Inc.. for the period ended December 31, 2010

### ORDER

After full consideration and review of the report of the financial examination of Coventry Health Care of Missouri, Inc. f/k/a Group Health Plan, 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 Coventry Health Care of Missouri, Inc. f/k/a Group Health Plan, Inc.. as of December 31, 2010, be and is hereby ADOPTED as filed and for Coventry Health Care of Missouri, Inc. f/k/a Group Health Plan, 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.



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

REPORT OF  
FINANCIAL EXAMINATION

**Coventry Health Care of Missouri, Inc.**  
f/k/a  
**Group Health Plan, Inc.**

As of:  
DECEMBER 31, 2010

**FILED**  
JUN 08 2012  
DIRECTOR OF  
FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION



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

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February 23, 2012

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

Honorable Ted Nickel, Commissioner  
Department of Insurance  
State of Wisconsin  
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

Dear Sirs:

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

**Coventry Health Care of Missouri, Inc.**

hereinafter referred to as such or as "CHC MO" or as the "Company." The Company's main administrative office is located at 550 Maryville Centre Drive, Suite 300, St. Louis, MO 63141, telephone number (314) 506-1700. This examination began on August 8, 2011 and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The last full scope association financial examination of CHC MO was made as of December 31, 2007, by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope financial examination covers the period from January 1, 2008, through December 31, 2010, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating. This examination also included material transactions or events occurring subsequent to December 31, 2010.

### **Procedures**

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration ("DIFP") or statutes of the state of Missouri prevailed. 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. The following key activities were identified: Investments, Treasury, Reserves, Claims Handling, Premiums, Underwriting, and Intercompany Activity.

The examiners relied upon information and workpapers provided by the Company's independent auditor, Ernst & Young LLP, 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.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There are no significant findings.

### **SUBSEQUENT EVENTS**

The DIFP approved the merger of Mercy Health Plans of Missouri, Inc. (MHP MO) into the Company effective May 1, 2011. The U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS) approved the novation of its contract with MHP MO to the Company. Subsequently, the Company entered a reinsurance agreement, which cedes 100% of the portion of that business in southwestern Missouri to Coventry Health Care of Kansas, Inc. (CHC KS).

The DIFP approved the merger of ForeSee Health, Inc. into the Company effective June 1, 2011.

The Company declared a \$36 million extraordinary dividend in June 2011. The extraordinary dividend was approved by the DIFP, and was paid on June 22, 2011.

The DIFP approved the merger of MHP, Inc. into the Company effective December 31, 2011. MHP, Inc. was previously the holding company parent of two Missouri domestic insurance companies: Mercy Health Plans of Missouri, Inc., which was merged into the Company on May 1, 2011, and Mercy Health Plans, which was merged into a sister

Coventry Health Care, Inc. owned company, Coventry Health and Life Insurance Company, effective May 1, 2011. MHP, Inc. had a negative surplus at the merger date, but did not significantly impact the financial position of the Company.

Effective September 1, 2011, the Company legally changed its name from Group Health Plan, Inc. to Coventry Health Care of Missouri, Inc.

## COMPANY HISTORY

### General

The Company incorporated on March 2, 1978, as a not for profit health services corporation under the name Group Health Plan of Greater St. Louis. On October 13, 1982, the Company merged with Midwest Health Plan, another St. Louis plan, and changed its name to Group/Mid West Health Plan. The Company's name changed again on January 10, 1984, to Group Health Plan of Greater St. Louis.

In 1985, the company was converted to a for-profit corporation with the name New Group Health Plan, Inc., and registered the fictitious name, Group Health Plan, Inc.

On January 30, 1990, the Company was acquired by a subsidiary of Coventry Health Care, Inc., and renamed Group Health Plan, Inc. In June 2000, the Company became a direct subsidiary of Coventry Health Care, Inc.

On November 12, 1992, the Company registered a division of the Company that acts as a third party administrator for self-insured employer groups, with the fictitious name, Care Management Resources (CMR). CMR received its Certificate of Authority as a third party administrator on June 24, 1994, from the DIFP.

Coventry Health Care has subsequently merged other acquired entities into the Company.

### Capital Stock and Paid-In Surplus

The Company is authorized to issue 10 shares of common capital stock with a par value of \$1.00 per share. As of December 31, 2010, 10 shares were issued and outstanding resulting in a balance in the common capital stock account of \$10.

### Dividends

The Company paid the following cash dividends.

<u>Year</u>		<u>Amount</u>
Through 2007	\$	208,912,005
2008		41,300,000
2009		36,000,000
2010		48,925,764
2011		36,000,000
	\$	<u>371,137,769</u>

### **Acquisitions, Mergers and Major Corporate Events**

Effective December 28, 2009, the Company distributed its membership interest in Group Health Plan of Delaware, LLC to the Parent Company, via a dividend payment totaling \$67,308,643.

### **Surplus Debentures**

No surplus debentures were issued or outstanding during the current examination period.

## **CORPORATE RECORDS**

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to the articles of incorporation during the exam period. The bylaws were restated as of October 9, 2009.

The minutes and written consents of the shareholder and the Board of Directors were reviewed for the period under examination. The minutes and written consents appear to properly reflect and approve the Company's major transactions and events for the period under examination.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The management of the Company is vested in a board of five (5) directors authorized by the Company's bylaws. The directors serving at December 31, 2010, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Michael D. Bahr Bethesda, MD	Executive Vice President Coventry Health Care, Inc.
Roman T. Kulich St. Louis, MO	President CHC MO
Todd A. Petersen Champaign, IL	Chief Executive Officer CHC MO
Charles R. Stark Omaha, NE	Senior Vice President Coventry Health Care, Inc.
Thomas C. Zielinski Plymouth Meeting, PA	Executive Vice President and General Counsel Coventry Health Care, Inc.

### **Officers**

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2010, were as follows:

<u>Name</u>	<u>Position</u>
Todd A. Petersen	Chief Executive Officer

Roman T. Kulich	President
David A. Fagan	Chief Operating Officer
David W. Dickson	Chief Financial Officer, Treasurer
Shirley R. Smith	Secretary
Christopher W. Churchill	Actuary
Frank J. D'Antonio	Vice President, Regional Sales and Marketing
James M. Maxwell	Vice President, Finance
John J. Ruhlmann	Corporate Controller
Melinda L. Tuozzo	Assistant Treasurer
Jonathan D. Weinberg	Assistant Secretary

**Committees**

The Company had the following committees at December 31, 2010:

Executive Committee – Roman Kulich and Todd Petersen

Operations Committee – Roman Kulick, David Dickson, James Maxwell, Scott Spradlin, Ryan Voisey, Geneva Clark, Thor Anderson, Dawn Carson, Carrie Kloplic, Frank D'Antonio, Michael Portnoy and Jim Paprocki

Quality Improvement Committee – James Price, MD, Anthony Newell, MD, Joseph Hazan, MD, John Hoehn, MD, Marta Mortensen, MD, Lawrence Schacht MD

First Level Appeals Committee – James Price, MD, Anthony Newell, MD, Kathy Arca, RN, Anita Carter, RN, Cindy Derr

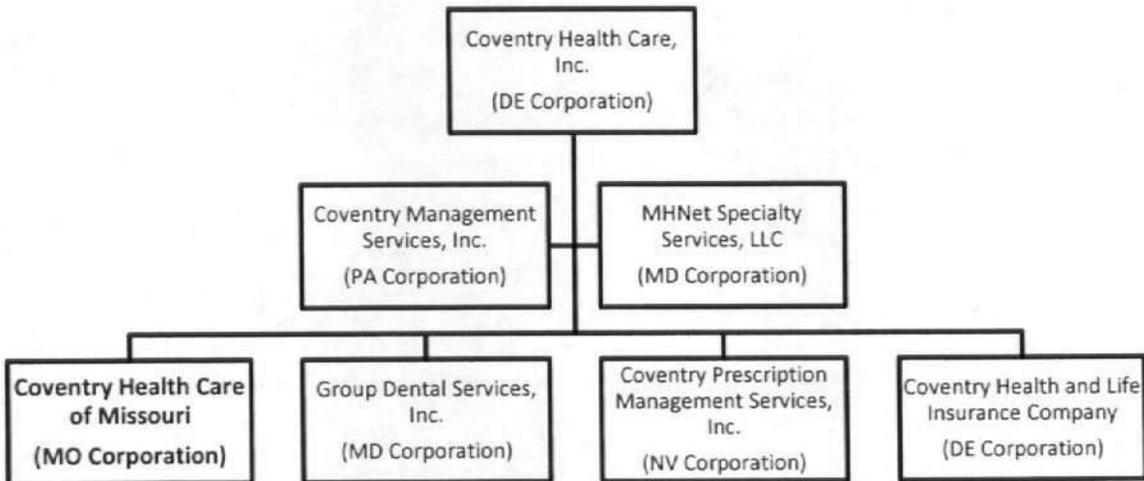
The Company does not have an Audit Committee. To comply with Sections 375.1025-1062 RSMo, the Company relies on the Audit Committee of Coventry Health Care, Inc., the ultimate parent of its holding company systems. That committee comprised three independent directors at December 31, 2010.

**Holding Company, Subsidiaries and Affiliates**

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of Coventry Health Care, Inc., a publicly traded Delaware holding company. Coventry Health Care, Inc. is the ultimate parent of the holding company system.

**Organization Chart**

The following organizational chart depicts an abbreviated portion of the holding company system at December 31, 2010. The following chart only includes the ultimate parent, the Company and other affiliates with which the Company has affiliated transactions.



**Affiliated Transactions**

The Company enters into various agreements with affiliates. Active agreements are discussed below:

**Management Services Agreement**

Affiliates: Coventry Health Care (Coventry)

Effective: January 1, 1999 and January 1, 2003, non-disapproved February 18, 1999 and January 30, 2003, with subsequent amendments. Last amended effective, March 1, 2010, non-disapproved February 1, 2010.

Terms: Coventry provides management services to the Company, including actuarial consulting, advertising, public relations, marketing, purchasing, pharmacy, corporate and legal services, regulatory compliance, government affairs and reporting, accounting, tax compliance, risk management, payroll, and human resources. First Amendment, Coventry will provide in addition to the services above, general management services, including but not limited to, senior management services and facilities management.

Rate(s): Current fees paid by the Company are \$5.26 PMPM. Fees paid by the Company during 2010 were \$11.7 million compared to \$9.6 million in 2009.

**Management Services Agreement**

Affiliates: Coventry Management Services, Inc. (CMS)

Effective: January 1, 2003, non-disapproved February 3, 2003, with four subsequent amendments. Last amended March 1, 2010, non-disapproved February 1, 2010.

Terms: Coventry Management Services, Inc. provides the information system and service center services, including application development, data center support, network support, claims processing services, data integrity services, premium billing and collection, and member services. These services were previously provided under the agreement above with Coventry from 1999 to January 1, 2003.

Rate(s): The information systems services rate were \$5.44 and the service center services rate were \$5.27 PMPM. Fees paid during 2010 were \$25.7 million compared to \$26.1 million in 2009.

**Administrative Service and Underwriting Agreement**

Affiliates: Coventry Health and Life Insurance Company (CHL)

Effective: January 1, 1996, non-disapproved February 29, 2000, with two subsequent amendments. Last amended July 1, 2008, non-disapproved January 14, 2009.

Terms: CHL agreed to underwrite the Point of Service ("POS") coverage offered by the Company. Services provided by the Company to CHL are certain administrative services related to the indemnity rider for the Company's members' out-of-network POS claims including claims payment, premium collection, premium allocation, sales, marketing, financial services, medical management, provider relations and contracting, and facilities and support. The First Amendment replaced the term "Indemnity Rider" with the term "Indemnity Product". Under the Second Amendment, all references to the "Third Amendment" within the First Amendment are deleted in their entirety and replaced with "First Amendment."

Rate(s): The Company receives fees of \$2.40 PMPM on the POS product. The Second Amendment changes the settlement of fees to be paid by CHL to the Company from a monthly to at least quarterly basis. Total fees received during 2010 were \$436 thousand compared to \$679 thousand during 2009.

**Administrative Services and Underwriting Agreement**

Affiliates: Coventry Health and Life Insurance Company (CHL)

Effective: February 11, 2002, non-disapproved March 14, 2002, with five subsequent amendments. Last amended January 1, 2010, non-disapproved October 21, 2009.

Terms: The Company provides administrative services relating to the indemnity (point of service rider) and preferred provider organization ("PPO") products insured by CHL, including claims payment, premium collection, premium allocation, general administrative services, sales and marketing, financial services, medical management services, provider relations and contracting, and facilities and support.

Rate(s): The Company receives fees of \$8.25 PMPM on the Commercial PPO business, \$15.10 PMPM on MC+ PPO members, \$3.25 PMPM for Commercial PPO business written in TN, MS and AR.

**Excess Risk Reinsurance Agreement**

Affiliates: Coventry Health and Life Insurance Company (CHL)

Effective: April 1, 2001, non-disapproved April 26, 2001, with ten subsequent amendments. Last amended April 1, 2010, non-disapproved March 18, 2010.

Terms: CHL has agreed to indemnify the Company for 90% of claims in excess of \$275,000 for HMO and POS Members and 80% of claims in excess of \$200,000 for Medicare Members.

Rate(s): The Company will pay premium of \$5.55 PMPM for HMO and POS Members, \$6.35 PMPM for Medicare Members and \$3.97 PMPM for Individual Members.

**Restated Guarantor Agreement**

Affiliates: Coventry Health Care, Inc. (Coventry), and Mercy Health Plans of Missouri, Inc. (MHP MO) (the Company and MHP MO collectively referred to as "HMOs")

Effective: October 1, 2010, non-disapproved October 27, 2010.

Terms: In the event of HMO's insolvency or inability to pay any amounts payable, Coventry agrees to pay all expenses and claims incurred by HMOs prior to such inability, and all expenses and claims incurred by HMOs subsequent to such inability pursuant to the obligations under its agreements with Groups and Subscribers, until the end of the contract period for payment has been made in accordance with such agreement. Such expenses and claims shall include, but not be limited to, all hospital charges and any other fee-for-service bills for services and/or benefits covered under a Member's plan for which HMOs are liable, capitation payments to health care providers who have contracted with HMOs, and payments to health care providers not under contract with HMOs for covered services rendered to a Member. Coventry agrees, beginning on the date first set forth above, until such time as the agreement is mutually terminated to provide capital contributions to HMOs in order to maintain, at all times, HMOs statutory net worth at or above the greater of (i) 2 percent of premiums or (ii) \$15 million.

Rate(s): The guarantee is issued at no cost to the Company or MHP MO.

### **Global Capitation Network Participation Agreement**

**Affiliates:** MHNet Specialty Services, LLC, fka Mental Health Network, Inc.(MHNet), and Coventry Health and Life Insurance Company.

**Effective:** January 1, 2001. Parties became affiliated when MHNet was acquired by Coventry Health Care, Inc. Agreement non-disapproved in February 2008, with thirteen subsequent amendments. The last amendment was effective January 1, 2010 and non-disapproved March 30, 2011.

**Terms:** MHNet provides the Company with administrative services, including utilization management, provider appeals, credentialing, claims payment, provider relations and contracting, customer service and furnishing encounter data. The agreement is now renewed automatically unless either party gives written notice of cancellation. In the event MHNet or its subcontractor performs services that require a TPA license; a license will be obtained and maintained at all times in accordance with Missouri law.

**Rates:** The capitation rate is \$4.76 PMPM for HMO business, \$3.47 PMPM for POS business, \$4.33 PMPM for PPO business, and \$3.09 PMPM for Medicare HMO business.

The administrative rate for the Company's ASO business, other than Special School District, is \$0.81 PMPM from 7/1/10 to 6/30/11; \$0.87 from 7/1/11 to 6/30/12 and \$0.93 PMPM from 7/1/12 and forward. The Company's ASO rate for the Special School District is \$0.60 PMPM.

The Company paid MHNet \$2.38 million under this agreement in 2010 and \$2.66 million in 2009.

### **Management Services & Global Capitation Network Agreement**

**Affiliates:** Group Dental Services of Maryland, Inc. (GDSM)

**Effective:** January 1, 2009, non-disapproved January 23, 2009, with one amendment, January 1, 2011, non-disapproved December 22, 2010.

**Terms:** GDSM provides the Company with dental benefit plan management and administration services, including dental utilization management, network contracting and credentialing and claims processing.

**Rate(s):** The Company will pay GDSM a management fee of \$9.93 PMPM for Plan #2125. For Self-Funded (ASO) Group Dental Products, the Company will pay 95% of the dental administrative fee it collects from the ASO group. GDSM has the right to bill the Company for certain expenses incurred by GDSM not in the ordinary course of business. The Company earned \$1,625 under this agreement during 2010 compared to \$1.1 million paid during 2009.

**Pharmacy Benefits Administration Agreement**

Affiliates: Coventry Prescription Management Services (CPMS)

Effective: January 1, 2011, non-disapproved December 22, 2010.

Terms: CPMS provides, or arranges to provide, the following services relating to the Company's commercial individual, group and self-funded business: pharmacy claims processing, formulary development and maintenance, developing and administering pharmacy utilization management standards, pharmacy network development and maintenance, drug rebate administration services, pharmacy benefit plan design development and recommendations, and other services reasonably necessary to administer outpatient pharmacy benefits.

Rate(s): The Company will pay CPMS a fixed PMPM fee for individual and group members. Self-funded customers are charged a PMPM administrative fee plus the cost of the claims paid by CPMS adjusted for a PMPM rebate credit.

**Pharmacy Benefits Administration Agreement**

Affiliates: Coventry Prescription Management Services (CPMS)

Effective: January 1, 2011, non-disapproved December 22, 2010.

Terms: CPMS provides, or arranges to provide, the following services relating to the Company's Medicare business: pharmacy claims processing, formulary development and maintenance, developing and administering pharmacy utilization management standards, pharmacy network development and maintenance, drug rebate administration services, pharmacy benefit plan design development and recommendations, and other services reasonably necessary to administer outpatient pharmacy benefits.

Rate(s): The Company will pay CPMS a PMPM administrative fee plus the cost of the claims paid by CPMS adjusted for a PMPM rebate credit.

**Restated Tax Sharing Agreement**

Affiliates: Coventry Health Care, Inc. (Coventry) and its subsidiaries, including the Company, HealthCare USA of Missouri, LLC (HCUSA) and Cambridge Life Insurance Company (Cambridge)

Effective: Tax-year ended 2008, non-disapproved January 28, 2011, Amendment effective tax-year end 2008, non-disapproved January 28, 2011, Amendment effective tax-year end 2008 for the Company and HCUSA and tax-year end 2010 for MHP & MHP MO, non-disapproved January 24, 2011.

Terms: Coventry and its subsidiaries will file a consolidated Federal (or state) income tax return. The Federal or state income tax liability (or benefit) and alternative minimum tax liability will be calculated for each subsidiary as if it were to file a separate Federal or state income tax return.

Coventry will act as agent for the group for the payment of all Federal or state income taxes, the receipt of all tax refunds, and all dealings with the IRS or other Federal or state agencies. Payments by the subsidiaries to Coventry will be made at such a time to reasonably permit Coventry to make required estimated payments. Differences between the estimated tax liabilities or benefit of loss carry forwards generated and the actual tax liabilities or tax benefit of loss carry forwards on the tax returns will be settled within ninety days of filing the income tax returns.

Rate(s): There are no costs associated with this agreement. The Company incurred payments of \$14.6 million during 2010.

#### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a financial institution bond which provides \$20 million in coverage with a \$500,000 deductible. This coverage meets the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also a named insured on policies that provide property insurance; general, automobile, employer, and professional liability coverages; and workers' compensation insurance. The Company's insurance coverages appear adequate.

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

Employees are provided a benefit package, which includes paid sick leave, holidays, vacation, medical, dental and vision plans, health care and dependent reimbursement account (cafeteria plan), short-term and long-term disability insurance, life insurance and accidental death and dismemberment, and education tuition reimbursement.

Company employees are eligible to participate in the Coventry Health Care Retirement Savings 401K plan. Coventry Health Care, Inc. also sponsors a Management Incentive Program designed to reward key employees, consultants and directors with bonus payments based on Coventry earnings per share and individual performance evaluation.

#### **TERRITORY AND PLAN OF OPERATION**

CHC MO is an individual practice association (IPA) model health plan licensed as a health maintenance organization (HMO) in Missouri under Chapter 354 (Health service corporations, health maintenance organizations and prepaid dental plans). The Company is also licensed in the state of Illinois.

As of December 31, 2010, the Company provided health care services to approximately 50,000 members. In addition, the Company serves approximately 151,000 members under self-funded ASO contracts. The Company's service area includes greater St. Louis/Metro East, Central Missouri, and Central and Southern Illinois. Approximately 75% of the Company's premium is written in Missouri.

## GROWTH OF COMPANY

The Company's premium has continued to decline over the examination period reflecting the changing healthcare market as members move to deductible products, which the Company does not offer. A portion of the decrease can also be attributed to the discontinuation of the Federal Health Employee Program and the Medicare Special Needs program in 2009.

<u>Year</u>	Health	Capital &	Health Premiums
	Premiums	Surplus	Written to Capital
2010	\$ 379,148,604	\$ 80,405,969	471.54%
2009	488,938,537	101,800,406	480.29%
2008	522,102,685	112,269,608	465.04%

## LOSS EXPERIENCE

The following exhibit reflects the Company's claims unpaid and medical expense experience over the examination period. The decreases in medical benefits during the exam period coincide with the decreases in membership.

<u>Year</u>	Claims	Medical	Medical
	Unpaid	Benefits	Loss Ratio
2010	32,142,843	238,526,990	80.30%
2009	48,702,990	328,212,006	85.80%
2008	45,009,938	334,304,572	81.60%

## REINSURANCE

### General

Direct written, assumed and ceded premium for the current examination period was as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Direct Business	\$379,148,604	\$488,938,537	\$522,102,685
Reinsurance Assumed	-	-	-
Reinsurance Ceded	<u>3,517,951</u>	<u>4,349,243</u>	<u>5,659,880</u>
<b>Net Premiums</b>	<b><u>\$375,630,653</u></b>	<b><u>\$484,589,294</u></b>	<b><u>\$516,442,805</u></b>

### Assumed

The Company did not assume any reinsurance during the period under examination.

### Ceded

The Company reinsures losses under an Excess Risk Reinsurance Agreement, effective April 1, 2001, with Coventry Health and Life Insurance Company, an affiliate. The maximum reinsurance coverage payable under the agreement for eligible charges as to

any one member is \$1,000,000. Ninety percent of the eligible charges in excess of the deductible are reinsured for HMO, POS, and Individual members; and eighty percent for Medicare Risk members.

The reinsurance agreement has been renewed each year since its effective date on April 1, 2001. For the effective year beginning April 1, 2010, the deductible for HMO and POS members was \$275,000, the deductible for Medicare Risk Members was \$250,000, and the deductible for Individual Risk Members was \$200,000.

## ACCOUNTS AND RECORDS

### **General**

The Company's financial statements were prepared using PeopleSoft financial accounting software.

Reserves and related actuarial items as of December 31, 2010, were reviewed and certified by Christopher W. Churchill, FSA, MAAA, Actuarial Manager for Coventry Health Care, Inc.

### **Independent Auditor**

The Company's financial statements for the period January 1, 2008 to December 31, 2010, were audited by Ernst & Young LLP, Certified Public Accountants. The workpapers and reports of the independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

### **Information Systems**

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company'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, were sufficient to meet the capital deposit requirements (\$456,510) for the State of Missouri in accordance with Section 354.410 RSMo (Issuance of Certificate; trust deposits and capital requirements):

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Bond	<u>\$470,000</u>	<u>\$472,533</u>	<u>\$470,326</u>

### Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2010, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Illinois	U.S. Treasury Bond	<u>\$ 315,000</u>	<u>\$ 318,434</u>	<u>\$ 318,156</u>

## 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 the 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 the Financial Statements." These differences, if any, 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.

## ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 119,400,318	\$	\$ 119,400,318
Cash, cash equivalents and short-term investments	33,438,480		33,438,480
Receivable for securities	363		363
Investment income due and accrued	1,356,933		1,356,933
Uncollected premiums	288,332		288,332
Amounts recoverable from reinsurers	329,766		329,766
Amounts receivable relating to uninsured plans	8,413,443		8,413,443
Net deferred tax asset	7,859,130	4,752,176	3,106,954
Furniture and equipment	848,770	848,770	-
Receivables from parent, subsidiaries and affiliates	39,242		39,242
Healthcare receivables	838,105		838,105
Intangible assets	17,114	17,114	-
Prepaid expenses	678,656	678,656	-
State income tax recoverable	110,605		110,605
Total assets	<u>\$ 173,619,257</u>	<u>\$ 6,296,716</u>	<u>\$ 167,322,541</u>

## LIABILITIES, CAPITAL, AND SURPLUS

Claims unpaid	\$ 32,142,843
Accrued medical incentive pool	1,919,931
Unpaid claim adjustment expenses	607,904
Aggregate health policy reserves	25,932
Premiums received in advance	2,390,457
General expenses due or accrued	15,146,935
Current federal and foreign income tax payable	75,258
Amounts withheld or retained for the account of others	15,271,496
Remittances and items not allocated	685,621
Amounts due parents, subsidiaries, and affiliates	16,592,471
Liability for amounts held under uninsured plans	206,741
OPM payable	1,271,908
Grants	36,552
Abandoned property	542,523
Total liabilities	<u>\$ 86,916,572</u>
Common capital stock	\$ 10
Gross paid in and contributed surplus	56,979,006
Contingency reserve	7,512,613
Unassigned funds (surplus)	15,914,340
Total capital and surplus	<u>\$ 80,405,969</u>
Total liabilities, capital and surplus	<u>\$ 167,322,541</u>

## STATEMENT OF REVENUE AND EXPENSES

Net premium income	\$ 375,630,653	
Gain (loss) on fixed assets	\$ 675	
Total revenues		\$ 375,631,328
Hospital/medical benefits	\$ 238,526,990	
Other professional services	15,850,671	
Emergency room and out-of-area	6,319,306	
Prescription drugs	43,493,397	
Incentive pool withhold	696,061	
Net reinsurance recoveries	(3,425,492)	
Claims adjustment expenses	20,294,404	
General administrative expenses	20,251,537	
Total underwriting deductions		342,006,874
Net underwriting gain (loss)		\$ 33,624,454
Net investment income earned	\$ 5,332,214	
Net realized capital gain (loss) less capital gains tax	881,362	
Net investment gains		6,213,576
Net loss from agents' or premiums balances charged off		(172,104)
Market conduct assessments		15,765
Net income (loss) after capital gains tax and before federal income tax		\$ 39,681,691
Federal income tax		12,755,657
Net income		<u>\$ 26,926,034</u>

## CAPITAL AND SURPLUS

Capital and surplus as of prior Examination (year end 2007)	\$ 108,305,849
Capital and surplus as of year end 2008	112,269,608
Capital and surplus prior reporting year	<u>\$ 101,800,406</u>
Net income	\$ 26,926,034
Change in net deferred income tax	(309,738)
Change in non-admitted assets	915,031
Dividends to stockholders	(48,925,764)
Net change in capital and surplus for the year	<u>\$ (21,394,437)</u>
Capital and surplus, December 31 current year	<u>\$ 80,405,969</u>

## **COMMENTS ON THE FINANCIAL STATEMENTS**

There are no comments on the Company's financial statements.

## **SUMMARY OF RECOMMENDATIONS**

There are no recommendations.

