STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Mercy Health Plans as of December 31, 2009

ORDER

After full consideration and review of the report of the financial examination of Mercy Health Plans for the period ended December 31, 2009, 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 report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER, 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 mentioned in the General Comments and/or 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 7th day of January, 2011.

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

FINANCIAL EXAMINATION

FILED
JAN 17 2011
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

Mercy Health Plans

As of:
DECEMBER 31, 2009

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

JEFFERSON CITY, MISSOURI

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October 18, 2010
Saint Louis, MO

Honorable Alfred W. Gross, Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
Chair of the NAIC Financial Condition (E) Committee

Honorable Mary Jo Hudson, Director
Department of Insurance
State of Ohio
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, MO 65101

Lady and Gentlemen:

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

Mercy Health Plans

also referred to as "Mercy" or the "Company." The examination was conducted at Mercy's home office at 14528 South Outer 40 Road, Suite 300, Chesterfield, MO 63017, telephone number (314) 214-8100. This examination began on February 16, 2010 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The previous examination of Mercy was performed as of December 31, 2006. That examination was conducted by examiners from the state of Missouri.

The current examination covers the period from January 1, 2007 through December 31, 2009. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC). No other zones participated in this examination. This examination also included material transactions or events occurring after December 31, 2009.

Procedures

We conducted the current examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations

of the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and to identify prospective risks of the Company. This process involves obtaining information, including corporate governance, about the Company, identifying and assessing inherent risks within the Company and evaluating the system controls and procedures used by the Company to mitigate those risks. The examination also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation including compliance with Statutory Accounting Principles and Annual Statement Instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. We identified the following key activities: Investments, Treasury, Premiums and Underwriting, Losses, Intercompany, Taxes and Governance.

Mercy's independent auditor, Ernst & Young, LLP, provided information and work papers from their audits in 2007, 2008 and 2009. We relied upon work performed by the independent auditor, including fraud risk analysis, internal control narratives, walk-throughs and tests of controls, when appropriate.

SUMMARY OF SIGNIFICANT FINDINGS

At year-end, the Company's risk-based capital ratio (RBC) was below 250%. (SUBSEQUENT EVENTS)

The Company's Board of Directors did not review investments as required by Missouri statutes. (CORPORATE RECORDS)

The Company improperly admitted certain Health Care Receivables totaling $1,597,000. (EXAMINATION CHANGES)

The Company improperly under-reported Advance Premiums by $3,147,000. (EXAMINATION CHANGES)

The Company improperly reported Premiums Receivable for retro-terminated members in the amount of $1,193,000. (EXAMINATION CHANGES)

The consulting actuary found the Company's Claims Unpaid to be overstated by $2,079,168. (EXAMINATION CHANGES)

SUBSEQUENT EVENTS

When the Company filed its 2009 annual statement, it reported a RBC ratio of 220.5% and triggered a Company Action Level Event. The Company properly filed a plan with the Department in accordance with RSMo 375.1225 (Company action level event…) on April 16, 2010. The Company also secured a series of capital contributions from its immediate and ultimate parents. These contributions totaled $9.5 million by the end of June 2010.

The Company should continue to monitor its operating results to ensure that the RBC ratio remains above 250%. The Company should prepare to secure the necessary capital infusion in case the RBC ratio falls below 250%. Currently the Company has a guaranty agreement in place with the Sisters of Mercy Health System. Under the agreement, the Sisters of Mercy Health System unconditionally guarantees that the Company will maintain an adequate level of capital to comply with all statutory and regulatory requirements.

On March 29, 2010, Christopher Knackstedt, formerly Interim President and Chief Executive Officer, was appointed President and Chief Executive Officer.

On June 29, 2010, Coventry Health Care, Inc. signed a definitive agreement with the Sisters of Mercy Health System to acquire ownership of MHP Holdings, Inc., the Company's parent. On August 26, 2010, the Department held a hearing related to the proposed acquisition. On September 14, 2010, the Department approved the acquisition.

Effective July 31, 2010, George Schneider resigned as Chief Financial Officer and Treasurer. Jason Schulz assumed the role of Interim Chief Financial Officer and Treasurer.

COMPANY HISTORY

General

The Company was organized on July 15, 2002, as Premier Health Insurance Company, Inc. and received a Certificate of Incorporation from the Missouri Secretary of State on September 12, 2002. On October 17, 2002, the Department issued the Company a Certificate of Authority to operate as a life insurance company under Chapter 376 RSMo. The Company began operations on January 1, 2003. The Company changed its name to Mercy Health Plans on August 23, 2007.

Capital Stock

The Company is authorized to issue up to 500,000 shares of common stock. The Company was initially capitalized with 15,743.13 shares of $1 par common stock issued to its parent for a value of $100 per share. On October 14, 2002, the Board of Directors amended the Company's articles of incorporation, changing the par value of its common stock to $100 per share and retiring 9,743.13 shares. The Company was left with 6,000 shares of $100 par common stock issued and outstanding. The amount received for the retired stock ($974,313) was credited to paid-in surplus. On December 9, 2004, an additional 10,000 shares of stock were issued bringing the capital stock balance to $1.6 million. At year-end 2009, the capital stock balance remained at $1.6 million.

Dividends

The Company paid no dividends during the current examination period.

Capital Contributions

The following schedule shows the capital contributions received by the Company from its inception through June 30, 2010:

Year	Amount
2002	$ 974,313
2003	-
2004	-
2005	10,650,000
2006	15,750,000
2007	6,200,000
2008	4,100,000
2009	13,400,000
2010	9,500,000
Total	$ 60,574,313

Mergers and Acquisitions

The Company's immediate parent changed its name from Mercy Health Plans, Inc. to MHP, Inc. d/b/a MHP Holdings, Inc. effective July 17, 2007. On July 1, 2009, MHP, Inc. merged with its immediate parent, Mercy Medical Services, Inc. with MHP, Inc. remaining as the surviving entity.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. The articles of incorporation were amended on August 29, 2007, changing the name of the Company from Premier Health Insurance Company, Inc. to Mercy Health Plans. The Company's bylaws were amended on September 12, 2007, to reflect the name change.

The minutes of the shareholder, the Board of Directors and committee meetings were reviewed. The minutes appeared to properly support and document the major transactions and events occurring during the examination period.

Section 376.293 RSMo (Permissible investments—written plan for investments required) requires an insurer's board of directors to annually evidence, by formal resolution, that investments have been made in accordance with the board's objectives. The statute further requires the board to review a summary report of investments, on at least a quarterly basis, to determine whether investment activity is consistent with the written investment plan and to review and revise the plan as appropriate. The meeting minutes do not indicate that the Board of Directors complied with these requirements. The Company should ensure that the Board of Directors reviews investment activity on at least a quarterly basis and annually certifies, by formal resolution, that investments comply with the Board's objectives. The Board of Directors' meeting minutes should document compliance with the statute.

MANAGEMENT AND CONTROL

At year-end 2009, the Company's Board consisted of the following members:

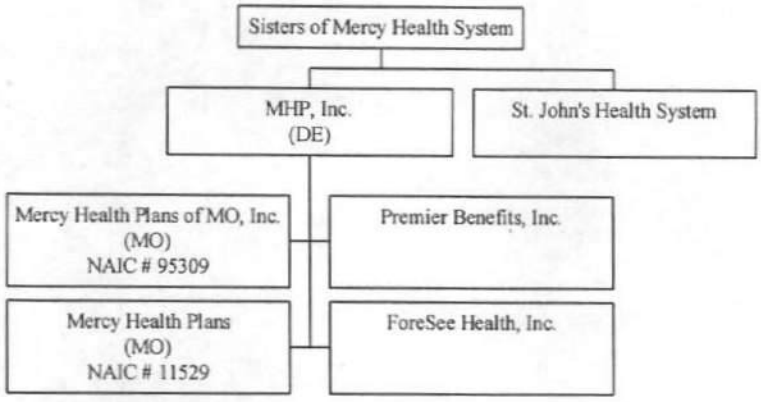
Name and Address	Principal Occupation and Business Affiliation
Ronald Ashworth Chesterfield, MO	Chair of the Board MHP, Inc.
James Britton Chesterfield, MO	President and Chief Executive Officer Sisters of Mercy Health System
Margaret DeNarvaez St. Louis, MO	President and Chief Executive Officer St. John's Mercy Health Care
Thomas Hale St. Louis, MO	Medical Director Sisters of Mercy Health System
James Jaacks St. Louis, MO	Vice-President and Chief Financial Officer Sisters of Mercy Health System
Timothy Johnsen Hot Springs, AR	Chief Executive Officer St. Joseph's Mercy Health Center
Christopher Knackstedt Springfield, MO	Senior Vice-President and Chief Financial Officer St. John's Health System
Ronald Meyer Columbia, MO	Retired
Cheryl Morley St. Louis, MO	Executive Monsanto Company
Robert Steele Springfield, MO	Physician St. John's Clinic-Whiteside Pediatrics
Robert Vogel Apollo Beach, FL	Retired

At year-end 2009, the Company's Officers consisted of the following:

Name	Office
Christopher Knackstedt	Interim President and Chief Executive Officer
Charles Gilham	Secretary
George Schnieder	Chief Financial Officer and Treasurer
Kenneth Treash	Chief Operating Officer

Mercy is a member of an Insurance Holding Company system as defined by Chapter 382 RSMo. The Company's immediate parent is MHP, Inc. (DE). The Company's ultimate parent is Sisters of Mercy Health System (MO). The chart below depicts the members of the holding company group with which the Company has a direct relationship or transacts business.

ORGANIZATIONAL CHART



At year-end 2009, the Company was party to the following intercompany agreements.

Tax Allocation Agreement

A tax allocation agreement was approved by the Department on May 9, 2006 and became effective as of December 31, 2005. Under the agreement the Company files a consolidated federal income tax return with MHP, Inc., Mercy Health Plans of Missouri, Premier Benefits, Inc. and ForeSee Health, Inc. The Company's tax liability is computed under the "Stand Alone" method. Tax liabilities are settled within 90 days of the filing of the consolidated return. The Company was assessed taxes of $(6,880,503) in 2009 and $612,279 in 2008.

Administrative Services Agreement

The Company is party to an administrative services agreement with Premier Benefits, Inc. Under the agreement, Premier Benefits, Inc. provides claims administration services to the Company. The agreement, originally effective January 1, 2005, was amended January 1, 2007 to change the fee structure. The Company pays a fee based on an allocation of the costs associated with claims processing. The Company incurred fees of $5,559,444 in 2009 and $4,718,830 in 2008.

Management Agreement

There is a management agreement among the Company, Mercy Health Plans of Missouri, Inc. and MHP, Inc. Under the agreement, MHP, Inc. assesses the Company for services based on an allocation of total expenses. Mercy Health Plans of Missouri, Inc. likewise assesses the Company for certain services rendered. The agreement, originally effective January 1, 2005, was amended January 1, 2007 to change the fee structure. The Company paid fees to MHP, Inc. of $3,919,693 in 2009 and $3,743,597 in 2008. The Company paid fees to Mercy Health Plans of Missouri, Inc. of $9,310,543 in 2009 and $8,112,794 in 2008.

Disease Management Services Agreement

The Company has an agreement with an affiliate, ForeSee Health, Inc., to provide disease management services. The agreement, originally effective January 1, 2005, was amended January 1, 2007 to change the fee structure. The Company paid ForeSee Health, Inc. $1,654,643 in 2009 and $1,492,705 in 2008.

Medical Management Agreement

The Company has an agreement with its parent, MHP, Inc., to provide medical management services. The agreement, originally effective January 1, 2005, was amended January 1, 2007 to change the fee structure. The Company incurred fees of $1,951,774 in 2009 and $2,004,684 in 2008.

Network Access Agreement

The Company is party to a network access agreement between its parent, MHP, Inc., (on behalf of its subsidiaries) and St. John's Health System, a wholly-owned subsidiary of the Sisters of Mercy Health System, and thus an affiliate. The agreement, effective January 1, 2008, was approved by the Department on October 22, 2008. Under the agreement, St. John's Health System provides access to its network of providers. The Company paid $1,456,217 for network access in 2009 and $1,638,854 in 2008.

Global Capitation Agreement

The Company is party to a global capitation agreement between its parent, MHP, Inc., (on behalf of its subsidiaries) and St. John's Health System. Under the agreement, the Company pays St. John's Health System for health care services provided to the Company's members. The Company paid $81,027,477 in 2009 and $81,302,913 in 2008 for these services.

Mental Health Network Agreement

The Company is party to a mental health network agreement between its parent, MHP, Inc. (on behalf of its subsidiaries) and St. John's Mercy Managed Behavioral Health. The agreement, originally effective January 1, 2002 and amended January 1, 2008 was approved by the Department January 14, 2009. Under the agreement, the Company receives mental health network services. The Company paid $326,737 for these services in 2009 and $287,238 in 2008.

Guaranty Agreement

The Company is party to a guaranty agreement between its ultimate parent, Sisters of Mercy Health System (Guarantor), and its immediate parent, MHP, Inc. Under the agreement, Guarantor unconditionally guarantees the due and punctual payment of all legal obligations of MHP, Inc. and its subsidiaries. Guarantor also unconditionally guarantees that MHP, Inc. and its subsidiaries will maintain an adequate level of capital to comply with all statutory and regulatory requirements. The guaranty terminates immediately upon a change of ownership of MHP, Inc. Following termination, the guaranty remains in effect for all liabilities outstanding on the effective termination date, including run-out liabilities incurred prior to but reported after the termination date.

During the examination period, the Company incurred intercompany fees in the following amounts:

Year	Amount
2007	$ 80,817,757
2008	105,485,521
2009	99,921,550
Total	$286,224,828

FIDELITY BOND AND OTHER INSURANCE

The Company is insured under a Fiduciary Liability and Crime policy issued to MHP, Inc. and its subsidiaries. The policy provides coverage of $1.25 million with a $50,000 deductible. This coverage exceeds the minimum amount of coverage recommended by the National Association of Insurance Commissioners.

The Company is also insured through other policies, including but not limited to, general liability, professional liability, workers' compensation, commercial property, automobile physical damage and automobile liability. The coverage appears to adequately protect the Company's operations.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any employees. Services are provided by MHP, Inc. in accordance with the management agreement described above.

Sisters of Mercy Health System provides an array of benefits to employees of its holding company including: vacation, sick leave, life insurance, disability coverage, medical, dental and vision benefits and flexible spending accounts. Employees are also eligible to participate in a matched savings plan and a defined benefit pension plan. The Company has no legal obligation for employee benefits. Expenses and liabilities associated with employee benefits appear to have been properly reported in the annual statement.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed by the Department as a health insurer under Chapter 376 RSMo (Life, Health and Accident Insurance) At year-end 2009, the Company was also licensed in Arkansas.

The Company offers PPO (preferred provider organization) coverage to groups and to Medicare enrollees. The Company's business is concentrated in the St. Louis and Springfield, Missouri metropolitan areas.

GROWTH OF COMPANY

The Company's net premiums have increased while surplus has declined over the examination period. The Company's premium to surplus ratio for the examination period is exhibited below:

	2009	2008	2007
Net Premiums Earned	$262,382,000	$249,238,000	$207,422,000
Change from prior year	5.3%	20.2%	38.1%
Total Surplus	$ 16,858,000	$ 23,947,000	$ 18,273,000
Change from prior year	-29.6%	31.1%	-3.6%
Premium:Surplus ratio	15.6	10.4	11.4

LOSS EXPERIENCE

The Department engaged the actuarial firm of Lewis & Ellis, Inc. to opine on the adequacy of the Company's year-end 2009 unpaid losses. The actuary found the reserves to be redundant by $2.1 million.

REINSURANCE

The Company does not assume reinsurance. The Company cedes reinsurance on an excess basis to Westport Insurance Company, a Missouri-domiciled subsidiary of Swiss Re. The Company retains the first $450,000 of exposure per enrollee. The reinsurance is limited to $2 million per member per agreement period and lifetime.

The Company's premiums on a direct written and ceded basis for the current examination period were as follows:

	2007	2008	2009
Direct premiums	$ 207,929,714	$ 249,764,094	$ 263,128,524
Ceded premiums	507,730	525,793	746,134
Net premiums	$ 207,421,984	$ 249,238,301	$ 262,382,390

ACCOUNTS AND RECORDS

Independent Accountants
Ernst & Young, LLP audited the Company's 2009 financial statements. The audit work papers were reviewed and were used in the course of the current financial examination as deemed appropriate.

Actuarial Opinion
Brent L. Greenwood, ASA, MAAA, of Ingenix Consulting provided the actuarial opinion for 2008. James E. Drennan, FSA, MAAA, of Ingenix Consulting provided the actuarial opinion for 2009. For 2008 and 2009, reserves were deemed adequate. However, due to reporting problems associated with the Company's information systems conversion, 2008 reserves were later determined to be underreported.

Information Systems
In conjunction with this examination, Andrew Balas, CFE, AES, CPA, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. Information systems controls were found to be ineffective and, as a result, were not relied upon during the course of the examination.

Consulting Actuary
The Department retained a consulting actuary, Karen Elsom, FSA, MAAA, of Lewis & Ellis, Inc. to review the adequacy of the Company's reserves and related liabilities. As noted above, the actuary found the reserves to be overstated.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department as of December 31, 2009, as reflected below, were sufficient in par and market value to meet the $600,000 minimum deposit requirement in accordance with Section 376.290 RSMo (Deposit and transfer of securities).

Description	Par Value	Market Value	Statement Value
U.S. Treasury Note	$615,000	$615,935	$614,980

Deposits with Other States

The Company also had funds on deposit with another state in which it is licensed to satisfy its statutory deposit requirements. The funds on deposit with another state as of December 31, 2009, are listed below.

State	Description	Par Value	Market Value	Statement Value
Arkansas	U.S. Treasury Note	$105,000	$105,160	$105,367

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2009, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements 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 were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the work papers for each individual financial statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 11,321,639	$ -	$ 11,321,639
Cash and short-term investments	27,554,954	-	27,554,954
Investment income due and accrued	150,967	-	150,967
Uncollected premiums (NOTES 3, 4)	7,753,426	2,100,025	5,653,401
Amounts recoverable from reinsurers	595,004	-	595,004
Amounts receivable relating to uninsured plans	132,881	-	132,881
Net deferred tax asset	10,673,004	10,673,004	-
Health care receivable (NOTES 1, 2)	5,294,557	4,439,783	854,774
Totals	$ 63,476,432	$ 17,212,812	$ 46,263,620

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid (NOTE 5)	$ 15,263,473	$ 1,340,498	$ 16,603,971
Accrued medical incentive pool and bonus amounts	218,498	-	218,498
Unpaid claims adjustment expenses	1,046,546	-	1,046,546
Aggregate health policy reserves	1,863,977	-	1,863,977
Premiums received in advance (NOTE 3)	3,766,777	-	3,766,777
General expenses due or accrued	815,808	-	815,808
Current federal income tax payable	658,249	-	658,249
Amounts due to parent, subsidiaries and affiliates	3,542,716	-	3,542,716
Total liabilities	$ 27,176,044	$ 1,340,498	$ 28,516,542
Common capital stock			$ 1,600,000
Gross paid in and contributed surplus			51,074,313
Unassigned funds (NOTES 1-5)			(34,927,233)
Total capital and surplus			$ 17,747,080
Total liabilities, capital and surplus			$ 46,263,622

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Net premium income		$ 262,382,391
Total revenues		262,382,391
Hospital/medical benefits	2,236,023	122,209,448
Other professional services	67,146	6,641,818
Emergency room and out-of-area	114,755	3,985,091
Prescription drugs	2,417,923	23,443,043
Global Capitation	-	81,027,477
Incentive pool, withhold adjustments and bonus amounts	-	201,726
Net reinsurance recoveries	-	693,249
Total hospital and medical	4,835,847	236,815,354
Claims adjustment expenses	-	12,701,411
General administrative expenses	-	26,561,630
Increase in reserves for life and accident and health contracts	-	1,808,000
Total underwriting deductions	4,835,847	277,886,395
Net underwriting (loss)		(15,504,004)
Net investment income earned	-	726,931
Federal and foreign income taxes incurred		(1,809,713)
Net income (loss)		$ (12,967,360)

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2008	$ 25,547,035
Net (loss)	(12,967,360)
Change in net deferred income tax	7,484,673
Change in nonadmitted assets	(15,006,436)
Paid in	13,400,000
Examination changes (NOTES 1-5)	(710,832)
Net change in capital and surplus	(7,799,955)
Capital and surplus, December 31, 2009	$ 17,747,080

EXAMINATION CHANGES

Total Capital and Surplus Per Company, December 31, 2009:				
Common capital stock				$ 1,600,000
Gross paid in and contributed surplus				51,074,313
Unassigned funds				(34,216,401)
Total Capital and Surplus				**$ 18,457,912**
		INCREASE IN SURPLUS	**DECREASE IN SURPLUS**	
Health care receivable	NOTE 1		(579,000)	
Health care receivable	NOTE 2		(1,018,000)	
Premium receivable	NOTE 3	3,147,000		
Advance premium	NOTE 3		(3,147,000)	
Premium receivable	NOTE 4		(3,249,000)	
Non-admitted premium receivable	NOTE 4	2,056,000		
Claims unpaid	NOTE 5	2,079,168		
Net Increase(Decrease) in Surplus				(710,832)
Total Policyholder Surplus per Examination, December 31, 2009:				
Common capital stock				1,600,000
Gross paid in and contributed surplus				51,074,313
Unassigned funds				(34,927,233)
Total Capital and Surplus				**$ 17,747,080**

COMMENTS ON FINANCIAL STATEMENTS

NOTE 1

Health care receivable	$ 854,774
Unassigned funds	(34,927,233)

The Company improperly admitted its third-quarter pharmaceutical rebate ($579,000), which was invoiced by the Company's administrator after the two-month deadline imposed by SSAP 84, Certain Health Care Receivables and Receivables Under Government Insured Plan, had passed.

NOTE 2

Health care receivable	$ 854,774
Unassigned funds	(34,927,233)

The Company improperly reported claim overpayment receivables ($1,018,000) for which it did not have corresponding claims payable. SSAP 84, Certain Health Care Receivables and

Receivables Under Government Insured Plan, allows claim overpayment receivables up to the amount payable to providers for reported claims (excluding incurred but not reported claims).

NOTE 3

Premium receivable	$5,563,401
Advance premium	(3,766,777)

Due to problems in the premium reporting system that were identified at the prior examination and remain unresolved, the Company underreported Advance premium ($3,147,000).

NOTE 4

Premium receivable	$5,563,401
Non-admitted premium receivable	2,100,025
Unassigned funds	(34,927,233)

The Company incorrectly reported premium receivables ($3,249,000) and corresponding non-admitted premium receivables ($2,056,000) for retro-terminated members.

NOTE 5

Unpaid claims	$(16,603,971)
Unassigned funds	(34,927,233)

The consulting actuary found the year-end reserves to be overstated ($2,079,168).

SUMMARY OF RECOMMENDATIONS

Subsequent Events — Page 2

The Company should continue to monitor its operating results to ensure that the RBC ratio remains above 250%. The Company should prepare to secure the necessary capital infusion in case the RBC ratio falls below 250%.

Corporate Records — Page 4

Section 376.293 RSMo (Permissible investments—written plan for investments required) requires an insurer's board of directors to annually evidence, by formal resolution, that investments have been made in accordance with the board's objectives. The statute further requires the board to review a summary report of investments, on at least a quarterly basis, to determine whether investment activity is consistent with the written investment plan and to review and revise the plan as appropriate. The meeting minutes do not indicate that the Board of Directors complied with these requirements. The Company should ensure that the Board of Directors reviews investment activity on at least a quarterly basis and annually certifies, by formal resolution, that investments comply with the Board's objectives. The Board of Directors' meeting minutes should document compliance with the statute.

ACKNOWLEDGMENT

The assistance and cooperation extended by Mercy Health Plans during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Douglas Daniels, CFE, Andrew Coppedge and Andrew T. Balas, CFE, AES, CPA, examiners for the Department of Insurance, Financial Institutions and Professional Registration, participated in this examination.

VERIFICATION

State of Missouri)

) ss

City of St. Louis)

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Thomas J. Cunningham, CPA, CFE
Examiner-in-Charge
Department of Insurance, Financial Institutions
and Professional Registration

Sworn to and subscribed before me this 20 day of September 2010.
My commission expires:

7/27/13

Kathy L. Egan
Notary Public

KATHY L. EGAN
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: July 27, 2013
Commission # 09644667

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting work papers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael Shadowens, CFE
Audit Manager
Department of Insurance, Financial Institutions
and Professional Registration

Ms. Rodieck,

Following are management's responses to the comments and recommendations contained within the Examination Report of Mercy Health Plans for the period ending December 31, 2009:

- The Company improperly admitted its third-quarter pharmaceutical rebate ($579,000), which was invoiced by the Company's administrator after the two-month deadline imposed by SSAP 84, Certain Health Care Receivables and Receivables Under Government Insured Plan, had passed.
    - Management's Response

      The Company is now actively communicating with its Pharmacy Benefit Manager (PBM) to ensure that invoices are received within the two-month deadline imposed by SSAP 84. In the event that a future invoicing deadline is missed, the Company will non-admit any such amounts.

- The Company improperly reported claim overpayment receivables ($1,018,000) for which it did not have corresponding claims payable. SSAP 84, Certain Health Care Receivables and Receivables Under Government Insured Plan, allows claim overpayment receivables up to the amount payable to providers for reported claims (excluding incurred but not reported claims).
    - Management's Response

      The Company is no longer admitting any claim overpayment receivables in its statutory reports.

- Due to problems in the premium reporting system that were identified at the prior examination and remain unresolved, the Company underreported Advance Premium ($3,147,000).
    - Management's Response

      A report which identifies advance premium was developed and implemented during 2010 and is now used on a monthly basis to determine the Company's reported Advance Premium.

- The Company incorrectly reported premium receivables ($3,249,000) and corresponding non-admitted premium receivables (2,056,000) for retro-terminated members.
    - Management's Response

      The Company has devoted significant effort and resources to the identification and resolution of premium receivable balances related to members which should be retro-terminated. Management feels that, from a historical perspective, this issue has been addressed and is now resolved. Timely reporting, review and collection processes are now in place which minimize the likelihood of a recurrence of this matter.

- The consulting actuary found the Company's year-end liability to be overstated ($2,079,168).
    - Management's Response

      The Company has continued throughout 2010 to closely monitor the quality of reported claims data and address opportunities for improvement as they arise. With the Company's sale to Coventry Health Care effective October 1, 2010, the Company is now utilizing Coventry's standard reserve models. The Company has also initiated a project to convert from its current claims administration system, QNXT, to Coventry's application, IDX, by November 2011.

- The Company should continue to monitor its operating results to ensure that the RBC ratio remains above 250%. The Company should prepare to secure the necessary capital infusion in case the RBC ratio falls below 250%.
    - Management's Response

      Management has monitored the company' operating results throughout 2010 and secured additional required capital as recently as the third quarter of 2010. Management is now working closely with the Company's new parent company, Coventry Health Care, to closely monitor the RBC ratio and to ensure that adequate capital infusions are made on a timely basis.

- Section 376.293 RSMo (Permissible investments – written plan for investments required) requires an insurer's board of directors to annually evidence, by formal resolution, that investments have been made in accordance with the board's objectives. The statute further requires the board to review a summary report of investments, on at least a quarterly basis, to determine whether investment activity is consistent with the written investment plan and to review and revise the plan as appropriate. The meeting minutes do not indicate that the Board of Directors complied with these requirements. The Company should ensure that the Board of Directors reviews investment activity on at least a quarterly basis and annually certifies, by formal resolution, that investments comply with the Board's objectives. The Board of Directors' meeting minutes should document compliance with the statute.
    - Management's Response

      The Company will ensure that the Board of Directors reviews investment activity on a quarterly basis. The Company will also ensure that the Board annually certifies, by formal resolution, that the Company's investments comply with the Board's objectives. Full documentation of the company's compliance with this statute will be reflected in the Board of Directors' meeting minutes.

Management consents to the inclusion of these responses in the report as a public document.

Please feel free to contact me if you have any questions.

David W. Dickson, FSA, MAAA
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