

Report of Examination of

Paramount Care, Inc.
dba
Paramount Health Care
Maumee, Ohio

As of December 31, 2010

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Columbus, Ohio
September 7, 2011

Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
50 West Town Street, Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Paramount Care, Inc.
dba
Paramount Health Care

an Ohio domiciled, for-profit health insuring corporation, hereinafter referred to as the “Company.”

A report of this examination is hereby respectfully submitted.

Scope of Examination

The Department last examined the Company as of December 31, 2005. The Department’s current full scope examination covers the period of January 1, 2006 through December 31, 2010.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system 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.

For all years under examination, the Certified Public Accounting Firm of Deloitte & Touche LLP (“Deloitte & Touche”) provided an unqualified opinion on the financial statements based on statutory accounting principles. The Deloitte & Touche audit reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Kent E. Bishop, M.D.	OB/GYN, ProMedica Physician Group
Richard L. Munk, M.D.	Pediatric Orthopedic Surgeon, ProMedica Physician Group
Russell L. Dempsey	Partner, Dempsey & Dempsey, P.C.
Harold L. Dunn, Jr.	Chairman, President and CEO, Bank of Maumee
Richard D. Heltzel	Business Banking Market Executive, PNC Financial Services Group
Calvin J. Lawshe	Director, Toledo-Lucas County Planning Commission
Jane M. Miller	President and CEO, Central Travel & Ticket, Inc.
Deborah D. Peters	Owner, CNP of Ohio, LTD
Timothy I. Martindale	President, The Kiemle-Hankins Company
John C. Randolph	President, The Company
Garry W. Roberts	Partner, Sobb, Roberts & Pribis, Inc.

James F. Weber	Partner, Weber O'Brien LTD
Steven R. Zirkel	Director of Commercial Building & Strategy, Owens Corning
Thomas P. Cox, M.D.	Family Physician, ProMedica Physician Group

Officers

As of the examination date, the following officers were serving in the designated position.

Name	Title
Harold L. Dunn	Chairman
John C. Randolph	President
Kathleen S. Hanley	Treasurer
Jeffrey C. Kuhn	Secretary

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32 and is ultimately controlled by ProMedica Health System, Inc. (“PHS”). PHS operates acute care hospitals, ancillary facilities and primary care and specialist physician practices in northwest Ohio and southeast Michigan.

Territory and Plan of Operations

The Company is a managed care plan that provides comprehensive health care services on a prepaid basis to its members. Commercial products are marketed to both large and small groups through a 25-county service area in northwest and north central Ohio. The commercial product portfolio includes health maintenance organization (“HMO”), point of service (“POS”), administrative services only (“ASO”), and Medicare wrap products. The Company also provides a Medicare Advantage plan to retirees in Lucas, Wood, Fulton, and Ottawa counties in northwest Ohio.

Reinsurance

Assumed

The Company does not assume any reinsurance.

Ceded

The Company cedes reinsurance under an excess reinsurance agreement with effective dates of January 1, 2010 through December 31, 2010. The agreement covers hospital and medical services provided to commercial HMO and commercial POS members. The Company retains the first \$400,000 of losses per member per agreement period and is reimbursed 90% of eligible losses (50% for non-approved transplants) in excess of the retention. The maximum amount reimbursable per member is \$3,000,000 per agreement period and \$5,000,000 lifetime.

The Company also cedes reinsurance under an excess loss reinsurance agreement with effective dates of January 1, 2010 through December 31, 2010. The agreement covers hospital and medical services provided to Medicare members. The Company retains the first \$400,000 of losses per member per agreement period and is reimbursed 90% of eligible losses (50% for non-approved transplants) in excess of the retention. The maximum amount reimbursable per member is \$2,000,000 per agreement period.

Financial Statements

The financial condition and the results of its operations for the period under examination, as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2010**

Bonds	\$ 80,543,613
Common stocks	22,533,337
Cash, cash equivalents, and short-term investments	26,149,691
Receivables for securities	20,144,811
Subtotal, cash and invested assets	149,371,453
Investment income due and accrued	800,635
Uncollected premiums and agents' balances	552,763
Amounts recoverable from reinsurers	485,941
Current federal and foreign income tax recoverable	365,316
Net deferred tax asset	4,709,560
Electronic data processing equipment and software	402,647
Receivables from parent, subsidiaries and affiliates	3,360,182
Health care and other amounts receivable	622,924
Total admitted assets	\$ 160,671,421
Claims unpaid	\$ 24,079,362
Accrued medical incentive pool and bonus amounts	210,873
Unpaid claims adjustment expenses	1,199,128
Aggregate health policy reserves	840,601
Premiums received in advance	2,358,443
General expenses due or accrued	31,932,521
Amounts withheld or retained for the account of others	302,205
Amounts due to parent, subsidiaries and affiliates	4,456,235
Payable for securities	45,865,129
Liability for amounts held under uninsured plans	6,369,004
Total liabilities	117,613,501
Common capital stock	4,700,000
Gross paid in and contributed surplus	40,619,246
Unassigned funds	(2,261,326)
Total capital and surplus	43,057,920
Total liabilities, capital and surplus	\$ 160,671,421

**Statement of Revenue and Expenses
As of December 31, 2010**

Net premium income	\$ 280,859,301
Total revenues	<u>280,859,301</u>
Hospital/medical benefits	194,651,351
Other professional services	2,067,196
Emergency room and out-of-area	20,554,396
Prescription drugs	28,137,570
Incentive pool, withhold adjustments and bonus amounts	1,153,694
Less: Net reinsurance recoveries	<u>814,429</u>
Total hospital and medical	245,749,778
Claims adjustment expenses	7,491,495
General administrative expenses	<u>44,809,896</u>
Total underwriting deductions	<u>298,051,169</u>
Net underwriting gain	<u>(17,191,868)</u>
Net investment income earned	1,660,038
Net realized capital gains	<u>4,142,258</u>
Net investment gains	<u>5,802,296</u>
Aggregate write-ins for other income or expenses	<u>22,083</u>
Net income before federal income taxes	<u>(11,367,489)</u>
Federal and foreign income taxes incurred	<u>2,806,712</u>
Net income	<u>\$ (14,174,201)</u>

**Statement of Changes in the Capital and Surplus Account
(in thousands)**

	2010	2009	2008	2007	2006
Capital & surplus, December 31, prior year	\$ 56,060	\$ 48,685	\$ 64,499	\$ 59,274	\$ 59,194
Net income (loss)	(14,174)	10,520	2,816	7,345	14,894
Net unrealized capital gains (losses)	829	1,278	(1,569)	(57)	911
Change in net deferred income tax	8,115	(1,068)	(3,946)	(989)	718
Change in nonadmitted assets	(5,272)	3,659	4,394	7,357	1,157
Dividends to stockholders	(2,500)	(7,000)	(17,500)	(8,000)	(17,600)
Aggregate write-ins	-	(14)	(9)	(431)	-
Net change in capital and surplus	<u>(13,002)</u>	<u>7,375</u>	<u>(15,814)</u>	<u>5,225</u>	<u>80</u>
Capital & surplus, December 31, current year	<u>\$ 43,058</u>	<u>\$ 56,060</u>	<u>\$ 48,685</u>	<u>\$ 64,499</u>	<u>\$ 59,274</u>

Notes to Financial Statements

Investments

The Company's investment in a Federal National Mortgage Corporation 30-year Fixed TBA security were not in compliance with ORC 1751. In August 2011, the Company took the necessary steps in order to comply with ORC 1751 which resulted in a net capital loss of \$11,834.

Claims Unpaid and Unpaid Claims Adjustment Expenses

Timothy Gustafson, FSA, MAAA, a Principal with Deloitte Consulting LLP, analyzed the reserves of the Company and provided an actuarial opinion on the Company's reserves for the year ended December 31, 2010.

Mary Miller, FCAS, MAAA, Assistant Director of Product Regulation and Actuarial Services of the Ohio Department of Insurance, reviewed the work performed by the Company's appointed actuary and determined that the total reserves presented in the Company's 2010 Annual Statement are good and sufficient and that any adverse development is highly unlikely.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Admitted Assets	<u>\$ 160,671,421</u>
Liabilities	\$ 117,613,501
Capital and Surplus	<u>43,057,920</u>
Total Liabilities, Capital and Surplus	<u>\$ 160,671,421</u>

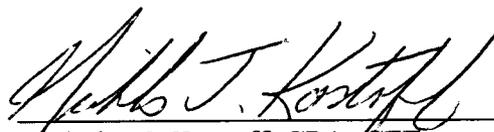
Subsequent Events

There are no events subsequent to December 31, 2010 that would have a material impact on the Company's financial position.

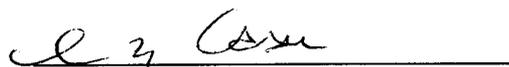
Acknowledgement

In addition to the undersigned, David Finkler, CPA; Ryan Gibson, CFE, FLMI; Jeff Ferris, CFE, CISA, AES; Vicky Hugo, CFE, CPA, CISA, AES; Floyd Meeks, CFE, CPA, CISA, AES; Larry Rice, CFE, CPA, CISA, AES; Mary Miller, FCAS, MAAA; and Brad Schroer of the Department participated in this examination.

Respectfully,



Nicholas J. Kostoff, CPA, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2010.

Nicholas J. Kostoff 9/8/11 [Signature] 9/8/11
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of September, 2011.

Elizabeth Chase
~~ON~~ ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of September 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires