

Report of Examination of

**WellCare of Ohio, Inc.**  
Independence, Ohio

As of December 31, 2011

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Columbus, Ohio  
May 3, 2013

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Lt. Governor/Director:

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

**WellCare of Ohio, Inc.**

an Ohio domiciled, health insuring corporation, hereinafter referred to as the “Plan.”

**Scope of Examination**

The Department last examined the Plan as of June 30, 2009. The Department’s current examination covers the intervening period through December 31, 2011.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Plan’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 Statements of Statutory Accounting Principles (“SSAPs”) and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Plan were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Deloitte & Touche LLP provided an unqualified opinion on the Plan’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

## Management and Control

### Board of Directors

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

<b>Name</b>	<b>Principal Occupation</b>
Alexander Cunningham	President and Chief Executive Officer, WellCare Health Plans, Inc.
William Epling	Regional President, WellCare of Ohio, Inc.
Maurice Hebert	Assistant Treasurer and Chief Accounting Officer, WellCare Health Plans, Inc.
Lisa Iglesias	Senior Vice President, General Counsel and Secretary, WellCare Health Plans, Inc.
Marc Russo	President, North Division, WellCare Health Plans, Inc.
Thomas Tran	Senior Vice President and Chief Financial Officer, WellCare Health Plans, Inc.

### Officers

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

<b>Name</b>	<b>Title</b>
Alexander Cunningham	President and Chief Executive Officer
Thomas Tran	Chief Financial Officer and Treasurer
Marc Russo	President, North Division
William Epling	Regional President
Maurice Hebert	Assistant Treasurer and Chief Accounting Officer
Lisa Iglesias	Secretary

## Insurance Holding Company System

The Plan is a member of an insurance holding company system as defined in ORC Section 3901.32. The Plan is a wholly-owned subsidiary of The WellCare Management Group, Inc., which, in turn, is a wholly-owned subsidiary of WCG Health Management, Inc. (“WCG”). WCG is a wholly-owned subsidiary of WellCare Health Plans, Inc. (“WellCare”), the ultimate controlling person in the holding company system.

## Territory and Plan of Operations

WellCare arranges for the delivery of managed care services targeted exclusively to government-sponsored healthcare programs. WellCare operates Medicaid health plans Florida, Georgia, Hawaii, Illinois, Kentucky, Missouri, New York and Ohio through its Health Maintenance Organization (“HMO”) subsidiaries. WellCare also operates Medicare Advantage coordinated care plans, administered through its HMO and insurance subsidiaries, in Connecticut, Florida, Georgia, Hawaii, Illinois, Louisiana, Missouri, New Jersey, New York, Ohio and Texas, as well as a stand-alone prescription drug plan in 49 states and the District of Columbia.

The Plan entered into a management agreement with Comprehensive Health Management, Inc. (“CHMI”), an affiliate, to provide certain management, administrative services, claims processing services, utilization review, payroll services and the majority of the Plan’s administrative functions. During 2011, the Plan paid CHMI \$29 million for services provided under the management agreement.

The Plan’s net premium income, reported in thousands, by contact during the exam period is as follows:

	<u>2011</u>		<u>2010</u>		<u>2009</u>	
Medicaid	\$ 232,077	89%	\$ 210,183	88%	\$ 227,865	90%
Medicare Advantage	<u>27,960</u>	<u>11%</u>	<u>28,524</u>	<u>12%</u>	<u>25,010</u>	<u>10%</u>
Total	<u>\$ 260,037</u>	<u>100%</u>	<u>\$ 238,707</u>	<u>100%</u>	<u>\$ 252,875</u>	<u>100%</u>

## Reinsurance

The Plan entered into a reinsurance agreement with Comprehensive Reinsurance Ltd, Cayman Islands (“Comp Re”), an affiliate, with a retention limit of \$50,000 up to \$500,000 for Medicare business and up to \$1 million for Medicaid business for the years ended December 31, 2011 and 2010.

The Plan’s reinsurance agreement with a non-affiliated company had a retention limit of \$500,000 up to \$2.5 million for Medicare and \$1 million up to \$3 million for Medicaid business for the years ended December 31, 2011 and 2010, respectively.

### Significant Operating Results

The Plan reported the following net underwriting results, reported in thousands, during the examination period:

	<u>2011</u>		<u>2010</u>		<u>2009</u>	
Revenue	\$ 260,037	100.0%	\$ 238,707	100.0%	\$ 252,875	100.0%
Underwriting deductions	<u>247,923</u>	<u>95.3%</u>	<u>243,091</u>	<u>101.8%</u>	<u>233,657</u>	<u>92.4%</u>
Underwriting gain (loss)	<u>\$ 12,114</u>	<u>4.7%</u>	<u>\$ (4,384)</u>	<u>(1.8%)</u>	<u>\$ 19,218</u>	<u>7.6%</u>

### Financial Statements

The Plan's financial condition and the results of its operations for the period under examination as reported and filed with the Department and audited by its 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, 2011**

**Assets**

Cash, cash equivalents, and short term investments	\$ <u>89,226,891</u>
Subtotal, cash and invested assets	89,226,891
Investment income due and accrued	22,104
Uncollected premiums in course of collection	12,024,038
Amounts recoverable from reinsurers	501,950
Amounts receivable relating to uninsured plans	151,338
Net deferred tax asset	1,769,966
Healthcare receivables	482,539
Miscellaneous assets	<u>217,617</u>
Total Assets	<u>\$ 104,396,443</u>

**Liabilities, Capital and Surplus**

Liabilities:

Claims unpaid	\$ 25,832,688
Unpaid claims adjustment expenses	666,433
Aggregate health policy reserves	406,966
General expenses due or accrued	5,802,534
Current federal income taxes payable	435,273
Ceded reinsurance premiums payable	8,634,303
Remittances and items not allocated	91,333
Amounts due to affiliates	19,676
Funds held under reinsurance treaties	<u>1,601,190</u>
Total liabilities	<u>43,490,396</u>

Capital and Surplus:

Common capital stock	1,500
Gross paid in and contributed surplus	57,198,500
Unassigned funds	<u>3,706,047</u>
Total capital and surplus	<u>60,906,047</u>
Total liabilities, capital and surplus	<u>\$ 104,396,443</u>

**Statement of Revenue and Expenses  
As of December 31, 2011**

Revenue:	
Net premium income	<u>\$ 260,036,893</u>
Hospital and Medical Expenses:	
Hospital / medical benefits	169,660,964
Other professional services	17,735,389
Emergency room and out of area	19,093,454
Prescription drugs	11,873,533
Less net reinsurance recoveries	<u>(23,155,358)</u>
Total medical and hospital expenses	195,207,982
Claims adjustment expenses	7,719,681
General administrative expenses	<u>44,994,839</u>
Total underwriting deductions	<u>247,922,502</u>
Net underwriting gain	12,114,391
Net investment gains	<u>350,375</u>
Net income before federal income taxes	12,464,766
Federal income taxes incurred	<u>4,463,863</u>
Net income	<u>\$ 8,000,903</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, beginning of the year	\$ <u>53,494</u>	\$ <u>57,232</u>	\$ <u>39,088</u>
Net income (loss)	8,001	(1,379)	11,530
Change in net deferred income tax	669	(872)	(1,159)
Change in non-admitted assets	(1,573)	(1,487)	7,984
Other gains (losses) to surplus	<u>315</u>	<u>0</u>	<u>(211)</u>
Change in surplus during the year	<u>7,412</u>	<u>(3,738)</u>	<u>18,144</u>
Capital and surplus, end of the year	<u>\$ 60,906</u>	<u>\$ 53,494</u>	<u>\$ 57,232</u>

## Notes to Financial Statements

### Investments

The Plan's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant SSAPs and the NAIC Securities Valuation Office.

### Unpaid Claims

The Plan's Board of Directors appointed Don Zhang, FSA, MAAA, Vice President and Chief Actuary, CHMI, to render the Plan's Statement of Actuarial Opinion ("Opinion"). The Opinions for each year end during the examination period were unqualified.

Daniel Moore, ASA, MAAA, the Department's Health Actuary, reviewed the Opinion and performed other procedures as considered necessary to evaluate the unpaid claims. Mr. Moore concluded the Plan's carried reserves fall within a reasonable range of reserve estimates at December 31, 2011.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Plan at December 31, 2011, and is summarized as follows:

Total Assets	<u>\$ 104,396,443</u>
Liabilities	43,490,396
Capital and Surplus	<u>60,906,047</u>
Total Liabilities, Capital and Surplus	<u>\$ 104,396,443</u>

### **Subsequent Events**

The Plan's Medicaid contract in Ohio expired on June 30, 2012 and the Plan was not awarded a Medicaid contract in Ohio for the 2013 fiscal year. However, the State of Ohio extended the Plan's current contract to allow the Plan to provide services to existing members through the transition period. The Plan estimates that the transfer of its Ohio Medicaid members to other plans should be substantially complete in the first quarter of 2013, but it may extend through June 30, 2013. The Ohio Medicaid contract accounted for \$232 million of the Plan's total revenue for the year ended December 31, 2011.

During 2012, Mr. Daniel Paquin was named President, National Health Plans and Mr. David Reynolds was named Regional President. Messrs. Paquin and Reynolds now serve on the Plan's Board of Directors.

### **Acknowledgement**

Appreciation is expressed for the assistance extended by the officers and employees of WellCare and its subsidiaries during the course of this examination.

Respectfully,



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Jeffrey K. Ebert, 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, 2011.

*[Signature]*      5/8/13  
Assistant Chief Examiner      Date

State of Ohio  
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert 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 May, 2013.

*Elizabeth Chase*  
(Notary) **ELIZABETH CHASE**  
**NOTARY PUBLIC, STATE OF OHIO**  
**MY COMMISSION EXPIRES MAY 22, 2017**  
My Commission Expires