

Report of Examination of

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

As of June 30, 2009

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Columbus, Ohio  
April 23, 2010

Honorable Mary Jo Hudson  
Director  
Ohio Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – 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 the

**WellCare of Ohio, Inc.**

an Ohio domiciled, health insuring corporation, hereinafter referred to as the “Plan.” The examination was conducted at the Plan’s administrative office located at 8735 Henderson Road, Tampa, Florida.

A report of this examination is hereby respectfully submitted.

**Scope of Examination**

The Department issued a qualifying examination of the Plan on July 31, 2006. The current full scope examination covers the intervening period to and including June 30, 2009.

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 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 Statutory Accounting Principles 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 the years ending 2008 and 2007, the Certified Public Accounting firm of Deloitte & Touche (“D&T”) provided an unqualified opinion on the financial statements based on

statutory accounting principles. The Department reviewed D&T's audit work papers and incorporated them into the exam work papers as deemed appropriate.

## **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><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Gary J. Clarke	Partner, Sternstein, Rainer and Clarke
William C. Epling	Regional President, WellCare of Ohio, Inc.
Daniel M. Parietti	President, North Division, WellCare Health Plans, Inc.
Heath G. Schiesser	President and Chief Executive Officer, WellCare Health Plans, Inc.
Thomas L. Tran	Senior Vice President and Chief Financial Officer, WellCare Health Plans, Inc.

### **Officers**

As of the examination date, the following officers were elected and serving in accordance with the Plan's Bylaws:

<b><u>Name</u></b>	<b><u>Title</u></b>
Heath G. Schiesser	President and Chief Executive Officer
Thomas L. Tran	Chief Financial Officer and Treasurer
William C. Epling	Regional President
Karen W. Mulroe	Secretary

## **Insurance Holding Company System**

The Plan is a member of a holding company system as defined in Section 3901.32 of the ORC. The ultimate controlling entity is WellCare Health Plans, Inc. ("WellCare"), a publicly traded company. WellCare provides managed care services exclusively for government-sponsored healthcare programs, focused on Medicaid and Medicare, including Prescription Drug Plans, serving approximately 2.3 million members nationwide.

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.

## **Territory and Plan of Operations**

The Plan is licensed as a Health Insuring Corporation pursuant to ORC 1751 and operates as prescribed by ORC 5101:3-26 of the Ohio Administrative Code ("OAC").

The Plan entered into an agreement with the State of Ohio Department of Job and Family Services ("ODJFS") to provide prepaid comprehensive health care services through the managed care program for the Covered Families and Children ("CFC") and Aged, Blind and Disabled ("ABD") Medicaid eligible populations in northeastern Ohio. The ABD segment was not renewed and expired June 30, 2008. The current agreement covering the CFC segment is effective through December 31, 2010.

The Plan entered into an agreement with the Centers for Medicare and Medicaid Services ("CMS") in 2008 to provide Medicare Advantage Coordinated Care Plans in eight counties in Ohio. The current agreement is effective through December 31, 2010.

At June 30, 2009, the Plan's membership included approximately 98,000 Medicaid and 2,500 Medicare members.

In September 2006, the Plan executed a five-year management agreement with Comprehensive Health Management, Inc. ("CHMI"), an affiliate, to perform claims processing services, utilization review, payroll services and the majority of the administrative functions of the Plan, excluding certain sales and marketing functions and other professional consulting services. The management agreement provides for charges of 10.5% of gross premium revenue earned. An adjustment of the fees payable is made annually to reflect actual costs.

### Significant Operating Results

The following schedule summarizes the operating results during the examination period, reported in thousands:

	2009 <sup>(1)</sup>	2008	2007	2006 <sup>(2)</sup>
Member months	588,082	1,092,975	419,945	2,314
Premiums earned	<u>\$130,590</u>	<u>\$286,040</u>	<u>\$161,662</u>	<u>\$ 431</u>
Hospital and medical expenses	93,561	248,738	141,242	481
Claims adjust. and admin. exp.	<u>23,093</u>	<u>50,436</u>	<u>28,360</u>	<u>578</u>
Total underwriting deductions	<u>116,654</u>	<u>299,174</u>	<u>169,602</u>	<u>1,059</u>
Net underwriting gain (loss)	<u>\$ 13,936</u>	<u>\$(13,134)</u>	<u>\$(7,940)</u>	<u>\$(628)</u>
Medical loss ratio	71.6	87.0	87.4	111.6
Administrative expense ratio	<u>17.7</u>	<u>17.6</u>	<u>17.5</u>	<u>134.1</u>
Combined ratio	<u>89.3</u>	<u>104.6</u>	<u>104.9</u>	<u>245.7</u>

Notes: (1) Through June 30, 2009

(2) From inception through December 31, 2006.

### Reinsurance

The Plan entered into a reinsurance agreement with Westport Insurance Company whereby the Plan retains the first \$1 million in losses per member. In addition, the Plan entered into a reinsurance agreement with Comprehensive Reinsurance, Ltd., an affiliate, with a retention limit of \$50,000 per member.

### Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Plan with the Department, 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  
June 30, 2009**

**Admitted assets**

Bonds	\$ 400,000
Cash and short-term investments	<u>113,319,207</u>
Total cash and invested assets	113,719,207
Accrued investment income	1,648
Uncollected premiums in course of collection	4,841,353
Accrued retrospective premiums	651,729
Amounts receivable relating to uninsured plans	145,209
Net deferred asset	1,794,581
Health care and other amounts receivable	<u>1,032,017</u>
Total admitted assets	<u>\$122,185,744</u>

**Liabilities, capital and surplus**

Liabilities:

Claims unpaid	\$ 33,449,330
Unpaid claims adjustment expenses	863,239
Premiums received in advance	19,220,446
General expenses due or accrued	4,893,088
Current federal income tax payable	9,414,055
Ceded reinsurance premiums payable	600,259
Remittances and items not allocated	44,567
Amounts due to parent and affiliates	<u>923,616</u>
Total liabilities	<u>69,408,600</u>

Capital and surplus:

Common capital stock	1,500
Gross paid in and contributed surplus	57,198,500
Unassigned funds	<u>(4,422,856)</u>
Total capital and surplus	<u>52,777,144</u>
Total liabilities, capital and surplus	<u>\$122,185,744</u>

**Statement of Revenue and Expenses  
As of June 30, 2009**

Total revenue	<u>\$ 130,590,148</u>
Hospital and medical:	
Hospital / medical benefits	70,819,444
Other professional services	5,908,199
Emergency room and out-of-area	7,469,051
Prescription drugs	<u>15,837,539</u>
Subtotal	100,034,233
Less net reinsurance recoveries	<u>6,473,315</u>
Total hospital and medical	93,560,918
Claims adjustment expenses	3,592,392
General administrative expenses	<u>19,500,917</u>
Total underwriting deductions	<u>116,654,227</u>
Net underwriting gain	<u>13,935,921</u>
Net investment income earned	<u>58,224</u>
Net investment gains	<u>58,224</u>
Net income before federal income taxes	13,994,145
Federal income taxes incurred	<u>6,148,224</u>
Net income	<u>\$ 7,845,921</u>

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

	2009 <sup>(1)</sup>	2008	2007	2006 <sup>(2)</sup>
Capital and surplus, prior year end	<u>\$ 39,088</u>	<u>\$ 15,768</u>	<u>\$ 2,323</u>	<u>\$ 0</u>
Net income (loss)	7,846	(7,046)	(5,271)	(583)
Change in net deferred income tax	(1,337)	1,783	1,138	211
Change in non-admitted assets	7,391	(7,154)	(922)	(5)
Paid in capital	0	0	0	2
Paid in surplus	0	36,000	18,500	2,698
Prior period adjustments	<u>(211)</u>	<u>(263)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>13,689</u>	<u>23,320</u>	<u>13,445</u>	<u>2,323</u>
Capital and surplus, current period	<u>\$ 52,777</u>	<u>\$ 39,088</u>	<u>\$ 15,768</u>	<u>\$ 2,323</u>

Notes: (1) Through June 30, 2009

(2) From inception through December 31, 2006.

**Notes to Financial Statements**

**Investments**

The Plan's investments were in compliance with ORC 3925.08 and within the Plan's investment policy. The Plan has deposited \$400,000 in US Treasury Notes with the Department pursuant to ORC 1751.27 as security for the fulfillment of the Plan's obligations to its enrollees. The investments were valued per the relevant Statements of Statutory Accounting Principles.

**Claims Unpaid**

Don Zhang, FSA, Vice President, Corporate Actuarial Services, CHMI, opined on the claims unpaid at year end 2008 and 2007.

Claims unpaid represent management's best estimate of the ultimate net cost of all unpaid reported and unreported claims incurred through June 30, 2009. The reserve for claims unpaid is estimated using individual case-based valuations and statistical analysis. These estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes the reserve for claims unpaid is adequate.

Alan Furan, FSA, the Department's Chief Health Actuary, performed an independent calculation of the Plan's claims incurred but unpaid as of June 30, 2009. Based on this analysis, the carried reserves are within a reasonable range of reserve estimates.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Plan as of June 30, 2009, and is summarized as follows:

Total Admitted Assets	<u>\$ 122,185,744</u>
Liabilities	\$ 69,408,600
Capital and Surplus	<u>52,777,144</u>
Total Liabilities, Capital and Surplus	<u>\$ 122,185,744</u>

### Subsequent Events

In December 2009, Heath Schiesser resigned from his officer and director positions with WellCare and its subsidiaries. In 2010, Alexander Cunningham was named Chief Executive Officer of WellCare. Mr. Cunningham was also elected as Director, President and Chief Executive Officer of the Plan.

The following individuals currently serve as directors and officers of the Plan

<u>Name</u>	<u>Title</u>
Alexander Cunningham	Director, President and Chief Executive Officer
Thomas Tran	Director, Chief Financial Officer and Treasurer
William Epling	Director, and Regional President
Maurice Herbert	Director and Chief Accounting Officer
Daniel Parietti	Director
Michele Boothe	Secretary

### **Acknowledgement**

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

In addition to the undersigned, Alan Furan, FSA, Chief Health Actuary of the Department, participated in this examination.

Respectfully,

  
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Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

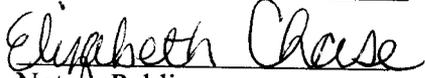
As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of June 30, 2009.

      5/4/2010  
Jeffery K. Ebert, CFE      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 4 day of May, 2010.



Notary Public

**ELIZABETH CHASE**

**NOTARY PUBLIC, STATE OF OHIO**

**MY COMMISSION EXPIRES MAY 22, 2012**

My Commission Expires