

Report of Examination of

**Envision Insurance Company**  
Twinsburg, Ohio

As of December 31, 2011

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Columbus, Ohio

November 21, 2012

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 Madam:

In accordance with Section 3901.07 of the Ohio Revised Code “ORC”, an examination was made of

**Envision Insurance Company**

an Ohio domiciled, stock, life insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 2181 East Aurora Road, Twinsburg, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2008, by the Ohio Department (“Department”). Representatives of the Department conducted the current examination covering intervening period to and including December 31, 2011.

**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.

<b>Name</b>	<b>Principal Occupation</b>
Barry I. Katz, R. Ph.	Chief Operating Officer The Company
Kimberly S. Kirkbride	Treasurer The Company

Kevin M. Nagle	President The Company
Eugene P. Samuels, JD	Secretary The Company
Catherine H. Strautman	Executive Vice President The Company

**Officers**

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

<b>Name</b>	<b>Title</b>
Kevin M. Nagle	President
Catherine H. Strautman	Executive Vice President
Eugene P. Samuels, JD	Secretary
Kimberly S. Kirkbride	Treasurer
Barry I. Katz, R. Ph.	Chief Operating Officer

**Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the chain of ownership of the insurance companies as of December 31, 2011:

- Envision Pharmaceutical Holdings, Inc.
  - RxOptions, Inc.
  - Orchard Pharmaceutical Services, Inc.
  - Envision Pharmaceutical Services, Inc. (Nevada)
  - First Florida Insurers of Tampa, Inc.
    - Advance Benefits, Inc.
    - Envision Pharmaceutical Services, Inc. (Ohio)
    - Design Rx Holdings Corporation (Delaware)
      - Design Rx, LLC
      - Design Rxclusives, LLC
      - Rx Initiatives, LLC
    - Envision Medical Solutions, Inc.
    - Envision Insurance Company

## Reinsurance

### Assumed

The Company has no assumed reinsurance.

### Ceded

Effective January 1, 2009, the Company entered into a quota share ceded reinsurance agreement with Hannover Life Reassurance Company of America (“Hannover”). The reinsurance agreement covers both the individual and group business. In 2011, the Company reduced its cession to Hannover for the individual business from 50% to 25%. Effective January 1, 2012, the Company began ceding 75% of the individual business to Hannover. Cession rate for the group business has remained unchanged at 50%.

## Territory and Plan of Operations

The Company was licensed to transact business in the following states:

Alabama	Alaska	Arizona	Arkansas
California	Colorado	Connecticut	Delaware
District of Columbia	Florida	Georgia	Hawaii
Idaho	Illinois	Indiana	Iowa
Kansas	Kentucky	Louisiana	Maine
Maryland	Massachusetts	Michigan	Minnesota
Mississippi	Missouri	Montana	Nebraska
Nevada	New Hampshire	New Jersey	New Mexico
New York	North Carolina	North Dakota	Ohio
Oklahoma	Oregon	Pennsylvania	Rhode Island
South Carolina	South Dakota	Tennessee	Texas
Utah	Virginia	Washington	West Virginia
Wisconsin	Wyoming		

## **Scope of Examination**

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2011. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting (CPA) firm of Skoda Minotti has provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

## **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, Surplus and Other Funds  
Statement of Operations  
Statement of Changes in the Capital and Surplus Account

## Statement of Assets, Liabilities, Surplus and Other Funds

December 31, 2011

### Admitted assets

#### Cash and invested assets:

Bonds	\$6,542,738
Real estate	212,202
Cash	381,527
Total cash and invested assets	<u>7,136,467</u>

Accrued investment income	35,023
Uncollected premiums and agents' balances	406,193
Accrued retrospective premiums	10,143,398
Amounts recoverable from reinsurers	1,356,404
Amounts receivable relating to uninsured plans	74,160,498
Total admitted assets	<u>\$93,237,983</u>

### Liabilities, capital and surplus

#### Liabilities:

Claims unpaid	\$6,527,589
Unpaid claims adjustment expenses	955,416
Premiums received in advance	327,843
General expenses due or accrued	141,631
Ceded reinsurance premiums payable	2,308,336
Amounts withheld or retained for account of others	846,952
Amounts due to parent, subsidiaries and affiliates	43,085,299
Funds held under reinsurance contracts	18,292,591
Total liabilities	<u>72,485,657</u>

#### Capital and surplus:

Common capital stock	2,000,000
Gross paid in and contributed surplus	23,700,000
Unassigned funds	<u>(4,947,674)</u>
Total capital and surplus	<u>20,752,326</u>
Total liabilities, capital and surplus	<u>\$93,237,983</u>

## Statement of Operations

	<u>December 31, 2011</u>
Net premium income	\$121,134,753
Total revenues	<u>121,134,753</u>
<b>Hospital and Medical:</b>	
Prescription drugs	142,400,323
Subtotal	<u>142,400,323</u>
<b>Less:</b>	
Total hospital and medical	34,695,424
Total hospital and medical	107,704,899
Claims adjustment expenses	7,075,188
General administrative expenses	4,801,407
Total underwriting expenses	<u>119,581,494</u>
Net underwriting gain	<u>1,553,259</u>
Net investment income earned	<u>86,427</u>
Net investment gains	<u>86,427</u>
Net loss from agents' or premium balances charged off	(239,842)
Aggregate write-ins for other income or expenses	(358)
Net loss	<u>\$1,399,486</u>

## Statement of Changes in the Capital and Surplus Account

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Capital and Surplus, December 31, prior year	5,226,115	21,588,402	19,328,472
Net income or (loss)	2,357,861	575,360	1,399,486
Change in net unrealized capital gains or (losses)	(40,662)	-	-
Change in non-admitted assets	(954,912)	(2,735,290)	24,368
Surplus paid-in	15,000,000	-	-
Aggregate write-ins for gains or (loss) in surplus	-	(100,000)	-
Change in reserves and unassigned Funds	<u>16,362,287</u>	<u>(2,259,930)</u>	<u>1,423,854</u>
Capital and Surplus, December 31, current year	<u>21,588,402</u>	<u>19,328,472</u>	<u>20,752,326</u>

## Notes to Financial Statements

### Investments

The Company's investments were in compliance with Section 3907.14 of the ORC.

### Loss and Loss Adjustment Expense Reserves

The Company had an outside actuary, Courtney R. White, FSA, MAAA; certify the total reserves for the years covered by the examination. The Department's actuary, Thomas S. Botsko, ACAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2011.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2011.

### Retrospective Premiums Receivable

As of the examination date, the Company reported \$1,045,940 in retrospective premium receivable from the Center for Medicare and Medicaid Services (CMS). This amount represents an outstanding portion of \$17,173,832 initially recognized in 2007. During the 2008 annual reconciliation process between CMS and the Company, CMS determined the Company was eligible to receive only a portion of the \$17,173,832 due to the Company's own actuarial errors.

The Company has a pending request with CMS to reopen the payment reconciliation for contract year 2007 in order to recover receivables due from CMS. A determination from CMS has not yet been communicated to the Company. If the determination by CMS is unfavorable, the Company intends to pursue the matter through an administrative hearing pursuant to CMS regulations. The Company has engaged outside counsel to assist in this process.

### Conclusion

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

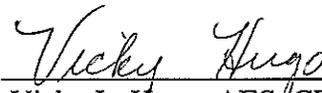
Total Admitted Assets	<u>\$93,237,983</u>
Liabilities	\$72,485,657
Surplus as Regards Policyholders	<u>20,752,326</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$93,237,983</u>

### Acknowledgement

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

In addition to the undersigned, the following representatives of the Department participated in this examination: Methuselah Nyangoro, CFE, CPA.

Respectfully,



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Vicky L. Hugo, AES, CFE, CISA, CPA  
Examiner-In-Charge  
Ohio Department of Insurance



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David A. Cook, CFE  
Assistant Chief Examiner  
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.

Vicky Hugo  
Examiner-In-Charge

1/24/2013  
Date

[Signature]  
Assistant Chief Examiner

1/24/13  
Date

State of OHIO

County of Franklin

Personally appeared before me the above named, Vicky L. Hugo, 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 her knowledge and belief.

Subscribed and sworn to before me this 24 day of January, 2013.

Elizabeth Chase  
(Notary Public)

**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
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 knowledge and belief.

Subscribed and sworn to before me this 24 day of January, 2013.

Elizabeth Chase  
(Notary Public)

**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires