

**REPORT ON EXAMINATION**

**of the**

**CARITEN INSURANCE COMPANY  
1420 CENTERPOINT BLVD.  
KNOXVILLE, TENNESSEE**

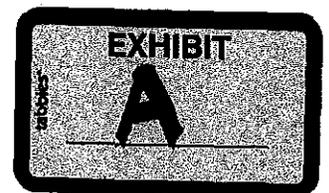
**as of**

**DECEMBER 31, 2009**

**DEPARTMENT OF COMMERCE AND INSURANCE**

**STATE OF TENNESSEE**

**NASHVILLE, TENNESSEE**



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Nashville, Tennessee  
June 24, 2011

Honorable Julie Mix McPeak  
Commissioner  
State of Tennessee  
Department of Commerce and Insurance  
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a financial examination and market conduct review was made of the condition and affairs of the

**CARITEN INSURANCE COMPANY**  
1420 CENTERPOINT BOULEVARD  
KNOXVILLE, TENNESSEE

hereinafter and generally referred to as the "Company", and a report thereon is submitted as follows:

### **INTRODUCTION**

This examination was called by the Commissioner of Commerce and Insurance, State of Tennessee ("Commissioner") and commenced on February 4, 2011. The examination was conducted under the association plan of the NAIC by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee ("Department").

### **SCOPE OF EXAMINATION**

This examination report covers the period from December 31, 2005, the date of the previous examination, to the close of business on December 31, 2009, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the NAIC Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2009. The financial condition of the Company and its

degree of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

In addition, the following topics were reviewed:

- Company History
- Charter and Bylaws
- Management and Control
- Corporate Records
- Fidelity Bonds and Other Insurance
- Territory
- Plan of Operation (includes inforce/premium by state)
- Market Conduct Activities (includes privacy statement)
- Retirement Plan and Other Employee Benefits
- Loss Experience
- Accounts and Records
- Statutory Deposits
- Agreements with Parent, Subsidiaries and Affiliates
- Pecuniary Interest - Tenn. Code Ann. § 56-3-103
- Dividends or Distributions
- Litigation
- Subsequent Events
- Financial Statement

The previous full scope examination of the Company was conducted as of December 31, 2005, by examiners of the Tennessee Department of Commerce and Insurance. The previous examination produced several adverse findings. These findings and their resolutions are as follows:

- The Company's bylaws remained in a previous entity's name. This was also noted in the December 31, 2001 examination.

*Amended and Restated Bylaws were adopted on December 12, 2007. The bylaws now reflect the correct name of the Company.*

- No approval was given for the HMO's financial transactions and events in the Board of Directors' minutes as required by Tenn. Code Ann. § 56-3-408(b)(1).

*Board of Directors minutes were reviewed for the current examination period and*

*show approval of the Company's financial and investment transactions.*

- An inquiry made by the Department noted that the Physicians' manual and the provider contracts need to be updated as required by Tenn. Code Ann. § 56-26-114.

*It appears that the Physicians' Manual and provider contracts have been updated to comply with the statute.*

- The Company should implement a consistent system for responding to all grievances, including Department inquiries. This system should comply with Tenn. Code Ann. § 56-51-131.

*It appears that the Company has updated its grievance procedures to comply with the statute.*

### **COMPANY HISTORY**

The Company was incorporated as the National Burial Insurance Company, Memphis, Tennessee, on August 28, 1964, under the laws of the State of Tennessee. Its charter authorized issuance of 30,000 shares of common capital stock with a par value of \$10 per share.

On September 12, 1977, the total outstanding shares of the Company were purchased by Southern Affiliated Services, Inc., Knoxville, Tennessee, a Tennessee corporation. Southern Affiliated Services, Inc. subsequently changed its name to Bankers' Affiliated Services, Inc. on October 13, 1977.

Following the purchase of the National Burial Insurance Company, the Company's name and principal office were changed by charter amendment effective October 13, 1977, to The Bankers' Service Life Insurance Company, Knoxville, Tennessee.

In 1984 Bankers' Affiliated Services, Inc. changed its name to Financial Technology Corporation. Financial Technology Corporation liquidated in 1985 and Ralph E. Newman, Jr. received the 30,000 shares of the Company. The shares were not transferred on the Company's books until April 25, 1989.

On April 17, 1989, Millard V. Oakley and Somerset Holdings, Inc. purchased all of the issued and outstanding capital stock of the Company which consisted of 30,000 shares of Class A common stock with a par value of \$10 per share for a total purchase price of \$300,000.

At a shareholders meeting on August 4, 1989, an amendment was adopted to change the principal office location to Nashville, Tennessee. This amendment was approved by the Commissioner on June 1, 1990. The amendment was filed with the Secretary of State, State of Tennessee on June 4, 1990.

On February 17, 1994, Methodist Medical Center of Oak Ridge, Inc. and Fort Sanders Alliance, Inc. entered into a Stock Purchase Agreement to purchase all the outstanding shares of stock in The Bankers' Service Life Insurance Company from Millard V. Oakley and Somerset Holdings, Inc.

Fort Sanders Alliance, Inc. and Methodist Medical Center of Oak Ridge, Inc. filed a plan of acquisition with the Department on February 24, 1994. On April 12, 1994, the Commissioner approved the acquisition of the Company by the two entities.

At the shareholders meeting on February 2, 1994, an amendment was adopted to change the name from The Bankers' Service Life Insurance Company to FutureHealth Insurance Company of America. This amendment was approved by the Commissioner on May 2, 1994. The amendment was recorded with the Tennessee Secretary of State on May 3, 1994.

On May 6, 1994, Fort Sanders Alliance, Inc. and Methodist Medical Center of Oak Ridge, Inc. became owners of the Company. Each party purchased 15,000 shares of the 30,000 issued and outstanding shares of the Company.

At the May 6, 1994 shareholders meeting, charter amendments moving the principal office of the Company to Knox County and designating a new registered agent were approved. The Commissioner approved the amendments on May 6, 1994. The amendments were recorded with the Tennessee Secretary of State on May 9, 1994.

The shareholders consented to amend the charter on September 28, 1995. Effective October 5, 1995, the total number of shares authorized for issuance was increased to 100,000 with a par value of \$10 per share. Effective on the same date, the 30,000 outstanding shares were exchanged for the 100,000 shares of stock authorized by the amendment. This amendment was approved by the Commissioner on October 3, 1995 and recorded with the Tennessee Secretary of State on October 5, 1995.

On November 20, 1996, the sole shareholder, PHP Companies, Inc. (PHP), adopted an amendment to change the name of the Company to Cariten Insurance Company. This amendment was approved by the Commissioner on November 27, 1996. The amendment was recorded with the Secretary of State, State of Tennessee.

On October 30, 2008, PHP was acquired by Humana, Inc. making the Company a subsidiary of Humana, Inc.

At December 31, 2009, the Company had \$1,000,000 of common stock, \$41,433,610 of contributed capital, and \$(24,690,062) in unassigned funds

At December 31, 2009, the Company was licensed to transact business only in the State of Tennessee. The Company engages in the sale of health insurance products, including preferred provider organization and point-of-service products primarily in the East Tennessee area.

### GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company since the previous examination, according to annual statements filed with the Department:

<u>Date</u>	<u>Net Premium</u>	<u>Net Investment Income</u>	<u>Medical &amp; Hospital Expenses</u>	<u>Claims &amp; Admin. Expenses</u>	<u>Net Income/ (Loss)</u>	<u>Admitted Assets</u>	<u>Capital and Surplus</u>
12/31/05	\$118,725,615	\$2,228,228	\$77,715,173	\$15,741,916	\$8,598,205	\$57,764,987	\$33,175,508
12/31/06	120,726,678	2,840,471	103,691,432	16,622,753	1,415,653	60,181,797	36,484,103
12/31/07	114,513,474	2,626,086	99,620,554	15,667,244	1,484,569	61,890,127	38,184,026
12/31/08	87,408,033	160,849	70,464,651	13,125,839	8,217,553	62,218,438	46,810,459
12/31/09	68,768,758	1,674,194	57,482,078	10,799,339	2,334,108	25,162,446	17,743,548

### CHARTER AND BYLAWS

#### Charter:

The original charter of National Burial Insurance Company dated August 28, 1964, was filed and recorded with the Secretary of State, State of Tennessee on August 31, 1964, after having been approved by the Department on August 27, 1964. The objectives and purposes for which the said Company is organized are as follows:

The nature of the corporation is to operate generally as a life insurance company including the authority to write all types of insurance policy contracts insuring the lives of individuals from all type injuries, sickness, accidents, hospitalization, hazards of any nature, and death including but not limited to those classes of insurance generally referred to as life, health, accident, sickness, hospitalization, disability, annuity and endowment contract and all forms of insurance written on the lives of individuals and to further do any and all things necessary, germane or pertinent thereto .

The original charter established the general powers set forth for the corporation. Charter amendments were discussed under the caption "Company History". The charter has not been amended since the previous examination date of December 31, 2005.

**Bylaws:**

The Bylaws of the Company in effect at December 31, 2009, were adopted December 12, 2007.

The Bylaws may be amended or repealed either by the shareholders or the Board of Directors as provided by statute. Any change in the bylaws made by the Board of Directors, however, may be amended or repealed by the shareholders.

An annual meeting of shareholders shall be held on such date as designated by the Directors. Special meetings of the shareholders may be called by the Board of Directors, the president or the secretary, or by the holders of at least 10% of the votes entitled to be cast on any issue to be considered at such special meeting. Shareholder meetings shall be held at the principal office of the corporation or at any other place, within or without the State of Tennessee, as designated.

The Board of Directors of the Company shall be the Board of Directors of PHP Companies, Inc., the parent company of the corporation. The number of directors and composition of the board, the qualification of board members, the method of election and term of office of each member, the resignation and removal of directors, and the method of filling vacancies on the board shall be determined under the provisions of Article II of the bylaws of PHP Companies, Inc.

The officers of the HMO shall be the chairman and vice chairman of the board of directors, the president/chief executive officer, the treasurer/chief financial officer, the secretary and such other officers of PHP as may be elected by the board of directors of PHP or appointed by the president of PHP. The election and qualification of officers, resignation and removal of officers, and the method of filling vacancies shall be determined under the provisions of Article V of the bylaws of PHP Companies, Inc. to the same extent and with the same force and effect as if such provision were incorporated expressly into the Company's bylaws.

**MANAGEMENT AND CONTROL**

**Management:**

The Bylaws provide all corporate powers shall be exercised by or under the authority of and the business and affairs of the Company managed under the direction of the Board

of Directors. As of December 31, 2009, the Board of Directors of the Company was composed of the following:

James Harry Bloem  
Michael Benedict McCallister  
James Elmer Murray

As of December 31, 2009, the following persons held office in the HMO:

Michael B. McCallister	President and Chief Executive Officer
Larry D. Savage	Regional Chief Executive Officer
Douglas E. Haaland	Market President - Senior Products/Tennessee
C. Evans Looney	Market President - Tennessee
James H. Bloem	Senior Vice President, Chief Financial Officer & Treasurer
Thomas J. Liston	Senior Vice President - Senior Products
George A. Andrews M.D.	Vice President - Chief Medical Officer/Tennessee
George G. Bauernfeind	Vice President
J. Gregory Catron	Vice President
Joan O. Lenahan	Vice President and Corporate Secretary
Kathleen Pellegrino	Vice President & Assistant Secretary
George Renaudin	Vice President and Division Leader - Southern Division
William J. Tait	Vice President
Gary D. Thompson	Vice President
Melissa L. Weaver M.D.	Vice President
Ralph M. Wilson	Vice President
Frank M. Amrine	Appointed Actuary

The administrative and executive functions of the Company are performed by staff provided by Humana, Inc. under execution of a management agreement.

**Control:**

The Company is 100% owned by PHP, a Tennessee company. PHP is a wholly-owned subsidiary of Humana Inc., which is a holding company domiciled in Delaware. An organizational chart is included at the last page of this examination report.

**CORPORATE RECORDS**

Minutes of meetings of the shareholders and Board of Directors of the Company were reviewed for the period under examination and were found to be complete as to necessary detail and appear to adequately reflect the acts of the respective bodies.

### FIDELITY BOND AND OTHER INSURANCE

The Company is covered by a fidelity bond issued to Humana Inc., which specifies that any subsidiary of Humana Inc. is an insured. The coverage limits are as follows:

<u>Type of Coverage</u>	<u>Coverage Limits</u>
Employee Dishonesty Coverage	\$15,000,000

Retention on the policy is \$1,000,000. Coverage is underwritten by National Union Fire Insurance Company of Pittsburgh, Pa. which is licensed in Tennessee.

### TERRITORY

As of December 31, 2009, the Company was licensed to transact business only in the State of Tennessee. The Certificate of Authority for the State of Tennessee was reviewed.

As of December 31, 2009, the Company had written direct premium as follows:

<u>State</u>	<u>Accident and Health</u>	<u>Medicare Title XVIII</u>
Tennessee	<u>\$67,977,642</u>	<u>\$791,116</u>
Total	<u>\$67,977,642</u>	<u>\$791,116</u>

### PLAN OF OPERATION

The Company was formed for the purpose of providing all types of insurance contracts insuring the lives of individuals from all types of injuries, sickness, accidents, hospitalization, hazards of any nature, and death including but not limited to those classes of insurance generally referred to as life, health, accident, sickness, hospitalization, disability, annuity and endowment contracts and all forms of insurance written on the lives of individuals. Effective October 13, 1977, the charter was amended to include the writing of credit life insurance and credit accident and health insurance.

The Company is engaged in the sale of commercial health insurance products, including insured preferred provider organization and point-of-service products.

The Company contracts with healthcare professionals, healthcare facilities and group providers.

- Agreements with healthcare professionals reimburse providers through a fee-for-service basis for covered services at the lesser of the provider's billed charges or the most current appropriate point of service and preferred provider benefit program fee schedule.
- Healthcare facilities agreements compensate providers for inpatient services, outpatient services and emergency services, to be reimbursed at the lesser of billed charges or the scheduled rates included in the agreement.
- Group Provider agreements reimburse providers through a fee-for-service basis for covered services at the lesser of the provider's billed charges or the most current appropriate point of service and preferred provider benefit program fee schedule.
- Pharmacy benefits are serviced through a single prescription benefits manager who administers the claims processing program.

The Company's target market consists of both small employer groups consisting of 3 to 25 employees and large employer groups consisting of 26 or more employees. The Company utilizes a network of brokers to market its fully funded products and a licensed sales staff for onsite or offsite Medicare seminars.

Pharmacy costs develop through a services agreement with ProCare Rx. ProCare Rx provides consultation on prescription benefit programs, claims processing capabilities, offers pharmacy provider retail and mail service networks, and maintains a drug formulary. Before December 29, 2004, pharmacy benefits were contracted through Express Scripts.

Enrollment History:

<u>Year</u>	<u>Total members</u>	<u>Group</u>	<u>Title XVIII Medicare</u>
2005	43,111	43,069	42
2006	44,735	44,677	58
2007	36,076	36,020	56
2008	23,258	23,190	68
2009	16,504	16,410	94

**MARKET CONDUCT ACTIVITIES**

In accordance with the policy of the Department, a market conduct review was made of the Company as of December 31, 2009, in conjunction with this examination. The following items were addressed:

**Filing and Approval of Policy Forms:**

The Company is aware of the filing responsibility for various forms, agreements, etc., as well as "hold harmless" requirements for provider contracts pursuant to Tenn. Code Ann. § 56-2-124. Inquiries were made to the Department regarding any issues with current filings. The filings with the Department made by the Company during the examination period were reviewed and no deficiencies were noted.

**Underwriting:**

The Company's underwriting guidelines were reviewed. The Company maintains basic underwriting eligibility requirements for commercial groups and Medicare advantage customers.

**Advertising:**

All advertising is based on individual products. The product advertising consists of direct mail, television spots, newspaper ads, member newsletters, and employer brochures, as well as the Company's website ([www.cariten.com](http://www.cariten.com)). It is noted that as of the date of this Examination Report, the website redirects users to Humana Inc.'s website.

**Prompt Payment - Tenn. Code Ann. § 56-7-109**

At the Department's request, the Company provided a data download of claims paid during 2009. This information included the date a claim was received, the date it became a "clean" claim, and the date that payment was issued. The examiners then used a random sample of this data to measure timeliness of payment. Tenn. Code Ann. § 56-7-109 requires payment within 21 days for electronic clean claims and 30 days for paper clean claims. The results of this claim review are as follows:

	<b>Total</b>	<b>Paper</b>	<b>Electronic</b>
Total Claims in Sample	77	19	58
Claims marked clean	77	19	58
Claims paid in 21 days or less	74	17	57
Claims paid in 22-30 days	1	1	0
Claims paid in 31-60 days	1	0	1
Claims paid in 61-90 days	0	0	0
Claims paid in 91-120 days	0	0	0
Claims paid in 121+ days	1	1	0
Claims timely paid		95%	98%

The above numbers indicate that the Company was in compliance with Tenn. Code Ann. § 56-7-109.

**Privacy Policy:**

The Company has a written privacy statement supplied to its members annually in compliance with Tenn. Comp. R. & Regs., ch. 0780-1-72. Such privacy statement is included on the Company's website ([www.cariten.com](http://www.cariten.com)) under the section titled "Important Member Information". It is noted that as of the date of this Examination Report, the website redirects users to Humana Inc.'s website, where the information is located under "Privacy Practices".

**Policyholder Complaints:**

The Company's complaint handling practices were reviewed during the examination. The Company maintains a complaint register that records all pertinent information regarding the complaint including date received, date closed, complainant name, nature of complaint, and disposition. It appears that the Company responds to complaints in a timely manner.

**EXCESS LOSS AGREEMENT**

Prior to October 1, 2004, the Company had a reinsurance agreement in place for commercial products. It was determined this agreement was not cost beneficial and the coverage ended. At that time, the Company established a reserve based on the monthly amount approximately equal to the per-member per-month premium rate of the prior catastrophic claim coverage.

**RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS**

The Company has no employees. All business functions are performed by Humana Insurance Company and Humana Inc. under service agreements discussed under the caption, "Agreements with Parent, Subsidiaries and Affiliates".

**LOSS EXPERIENCE**

As developed from applicable amounts included in the Company's annual statements filed with The Department of Commerce and Insurance, State of Tennessee, the ratios of net losses incurred to net premiums earned for the period subject to this examination were as follows:

<u>Year</u>	<u>Medical Expenses Incurred</u>	<u>Net Premiums Earned</u>	<u>Loss Ratio</u>
2006	\$103,691,432	\$120,726,676	85.9%
2007	\$99,620,554	\$114,513,474	87.0%
2008	\$70,464,651	\$87,408,033	80.6%
2009	\$57,482,078	\$68,768,758	83.6%
Total	\$331,258,715	\$391,416,941	84.6%

### ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2006, 2007, 2008, and 2009.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company files an annual Risk Based Capital Report. Total adjusted capital, post tax at December 31, 2009 was \$17,743,548. This amount exceeds the authorized control level risk-based capital amount of \$2,764,149.

An audit of the Company is conducted annually by the accounting firm of PricewaterhouseCoopers, LLP.

Books and records of the Company are kept at the home office location:

1420 Centerpoint Blvd.  
Knoxville, Tennessee 37932

### STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2009:

<u>Where Deposited and Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
<b>Tennessee</b>			
US Treasury Note, Due 11/15/12, 4.0%, Cusip # 912828AP5	\$210,000	\$209,932	\$224,322
<b>Total deposits held for the benefit of all enrollees of the Company in Tennessee</b>	<b>\$210,000</b>	<b>\$209,932</b>	<b>\$224,322</b>
<b>Total</b>	<b><u>\$210,000</u></b>	<b><u>\$209,932</u></b>	<b><u>\$224,322</u></b>

### AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company had three agreements with affiliated companies in effect as of December 31, 2009. The following are summaries of the agreements:

#### Administrative Services Agreement

This agreement between the Company, Humana Insurance Company and Humana Inc. became effective on January 1, 2009. Under the agreement, Humana Insurance Company agrees to provide administrative services to the Company, including salaries, benefits and payroll taxes, telephone and data communication, travel and entertainment expenses, printing, postage, dues and subscriptions, office supplies and software. Such services will be charged at cost. Settlement of fees due under the agreement is to take place weekly, based on an estimate of expected costs. A final settlement is to be made quarterly, which is to be supported by a statement of actual costs. Fees will be collected by Humana Inc., who will also perform any necessary banking and accounting administrative duties necessary to fulfill the terms of the agreement.

The agreement is automatically renewed on the first day of each January for an additional one year term, unless notice is given of non-renewal by any party to the others at least 90 days prior to the end of the current term. This agreement was filed on Form D and was approved by the Tennessee Department of Commerce and Insurance on January 26, 2010.

#### Corporate Services Agreement

This agreement between the Company and Humana Inc. became effective on January 1, 2009. Under the agreement, Humana Inc. agrees to provide services, management and oversight to the Company, including medical and product management, executive management, information systems, financial services, legal services, and human resources management. The Company will pay a maximum of 14% of premium, plus a maximum of \$22 per member per month for ASO membership for the service provided. Settlement of fees due under the agreement is to take place weekly, based on an estimate of expected costs. A final settlement is to be made quarterly, which is to be

supported by a statement of actual costs.

The agreement is automatically renewed on the first day of each January for an additional one year term, unless notice is given of non-renewal by any party to the others at least 90 days prior to the end of the current term. This agreement was filed on Form D and was approved by the Tennessee Department of Commerce and Insurance on January 26, 2010.

#### Tax Allocation Agreement

This agreement between the Company and Humana Inc. was made effective as of October 31, 2008. Under the agreement, Humana Inc. will file consolidated tax returns for all members of its affiliated group. The consolidated tax liability will be apportioned among the members of the affiliated group in accordance with the ratio which that portion of the consolidated tax liability attributable to each member of the group having tax liability bears to the consolidated tax liability, pursuant to Internal Revenue Code Section 1552(a)(1) and Regulation 1.1522-1(a)(2). The parties are to settle balances owed within 30 days. This agreement was filed on Form D and was approved by the Tennessee Department of Commerce and Insurance on January 26, 2010.

#### PECUNIARY INTEREST - TENN. CODE ANN. § 56-3-103

All Humana Inc. employees, including directors and officers, file an annual Conflict of Interest Information Disclosure and Agreement and complete an annual Ethics Training course. Such policies require the individual to disclose any potential conflicts as they arise. No conflicts with regards to pecuniary interests have been disclosed.

#### COMMISSION EQUITY

There is no excess of loss agreement in effect at December 31, 2009. Therefore, no commission equity could exist.

#### DIVIDENDS OR DISTRIBUTIONS

The Board of Directors declared an extraordinary dividend of \$300 per share, for a total of \$30,000,000, to be paid to PHP on March 27, 2009. This dividend was approved by the Commissioner of the Tennessee Department of Commerce and Insurance on May 9, 2009, and paid on May 14, 2009. PHP then distributed the dividend to Humana Inc.

### **LITIGATION**

As of December 31, 2009, the Company was not currently involved in any legal proceeding which was deemed to be material.

### **SUBSEQUENT EVENTS**

On March 22, 2010, the Board of Directors declared an ordinary dividend of \$20 per share to be paid to PHP. This dividend was paid on May 13, 2010.

On April 7, 2011, the Board of Directors declared an extraordinary dividend of \$150 per share to be paid to PHP.

As of March 31, 2011, the Company had transferred all of its members to affiliated entities and reported no membership.

## FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2009, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$20,384,567		\$20,384,567
Cash, cash equivalents, and short-term investments	<u>3,446,687</u>	_____	<u>3,446,687</u>
Subtotals, cash and invested assets	23,831,254	0	23,831,254
Investment income due and accrued	301,504		301,504
Uncollected premiums and agents' balances in the course of collection	2,614	2,614	0
Accrued retrospective premiums	3,093		3,093
Net deferred tax asset	407,118		407,118
Receivables from parent, subsidiaries and affiliates	1,630,940	1,630,940	0
Health care and other amounts receivable	<u>619,477</u>	_____	<u>619,477</u>
Totals	<u>\$26,796,000</u>	<u>\$1,633,554</u>	<u>\$25,162,446</u>

**LIABILITIES, SURPLUS, AND OTHER FUNDS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$4,809,282	\$369,432	\$5,178,714
Unpaid claim adjustment expenses	350,553		350,553
Aggregate health policy reserves	147		147
Aggregate health claim reserves	9,750	750	10,500
Premiums received in advance	1,360,842		1,360,842
General expenses due or accrued	503,970		503,970
Aggregate write-ins for other liabilities	<u>14,172</u>		<u>14,172</u>
Total Liabilities	7,048,716	370,182	7,418,898
Common capital stock			\$1,000,000
Gross paid in and contributed surplus			41,433,610
Unassigned funds (surplus)			<u>(24,690,062)</u>
Total capital and surplus			17,743,548
Total liabilities, capital and surplus			<u>\$25,162,446</u>

**STATEMENT OF REVENUE AND EXPENSES**

	Uncovered	Total
Member months	XXX	224,940
Net premium income	XXX	\$68,768,758
Aggregate write-ins for other health care related revenues		<u>4,932</u>
Total revenues	XXX	\$68,773,690
<b><u>MEDICAL AND HOSPITAL</u></b>		
Hospital/medical benefits	\$3,470,375	\$41,304,249
Other professional services		504,416
Emergency room and out of area	630,208	3,864,205
Prescription drugs	<u>                    </u>	<u>11,809,208</u>
Subtotal	\$384,467	\$57,482,078
<b><u>LESS</u></b>		
Total medical and hospital	\$4,100,583	\$57,482,078
Claims adjustment expenses		1,184,877
General administrative expenses	<u>                    </u>	<u>9,614,462</u>
Total underwriting deductions	\$4,100,583	\$68,281,417
Total underwriting gain or (loss) (Total revenue less Total underwriting deductions)	XXX	\$492,273
Net Investment income earned		\$1,174,404
Net realized capital gains or losses		<u>499,790</u>
Net investment gains or (losses)		\$1,674,194
Net income or (loss) before income taxes (Total underwriting gain or (loss) plus Net investment gains or (losses))		\$2,166,467
Federal income taxes incurred		<u>\$(167,641)</u>
Net income (Net income or (loss) before income taxes minus Federal income taxes incurred)		<u>\$2,334,108</u>

**CAPITAL AND SURPLUS ACCOUNT**

Capital and surplus prior reporting year		\$46,810,459
Net income	\$2,334,108	
Change in net deferred income tax	(13,962)	
Change in non-admitted assets	(1,387,057)	
Dividends to stockholders	<u>(30,000,000)</u>	
Change in surplus as regards policyholders for the year		<u>\$(29,066,911)</u>
Capital and surplus end of reporting period		<u>\$17,743,548</u>

**RECONCILIATION OF CAPITAL AND SURPLUS  
FOR THE PERIOD UNDER EXAMINATION**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Surplus as regards policyholders December 31, Previous Year</b>	\$27,959,274	\$33,175,508	\$36,484,103	\$38,184,026	\$46,810,459
Net Income	7,325,536	1,415,653	1,484,569	8,217,553	2,334,108
Change in net unrealized capital gains and (losses)	0	0	0	149,715	0
Change in net deferred income tax	546,149	2,723,833	(2,104,991)	(663,298)	(13,962)
Change in non-admitted assets	(2,619,505)	(866,840)	2,320,345	922,463	(1,387,057)
Cumulative effect of changes in accounting principles	0	0	0	0	0
Surplus adjustments: paid in	0	0	0	0	0
Dividends to stockholders	0	0	0	0	(30,000,000)
Aggregate write-ins for gains or (losses) in surplus	<u>(35,946)</u>	<u>35,949</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Surplus as regards to policyholders December 31 Current Year</b>	<b><u>\$33,175,508</u></b>	<b><u>\$36,484,103</u></b>	<b><u>\$38,184,026</u></b>	<b><u>\$46,810,459</u></b>	<b><u>\$17,743,548</u></b>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS  
RESULTING FROM EXAMINATION**

Although minor differences in various items were noted during the course of the examination, none were considered to produce a material effect on surplus, either singly or in the aggregate.

**SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES  
IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION"  
AS THEY AFFECT SURPLUS**

No schedule or comment is applicable. All noted differences were below the threshold established for examination purposes.

**COMMENTS AND RECOMMENDATIONS**

The following list presents a summary of comments noted in this report:

**Comments:**

The Custodial Agreement with JP Morgan Chase Bank did not contain the required language as referenced in Tenn. Comp. R. & Regs. § 0780-1-46. It was recommended to the Company that the agreement be modified to fully comply with this regulation. An amendment containing the language required by Tenn. Comp. R. & Regs. § 0780-1-46 was executed prior to the completion of the examination.

## CONCLUSION

Insurance examination practices and procedures, as promulgated by the NAIC, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Cariten Insurance Company of Knoxville, Tennessee.

In such manner, it was determined, as of December 31, 2009, the Company had admitted assets of \$25,162,446 and liabilities, exclusive of capital, of \$7,418,898. Thus, there existed for the additional protection of the policyholders/enrollees, the amount of \$17,743,548 in the form of common capital stock, gross paid-in and contributed surplus, and unassigned funds (surplus).

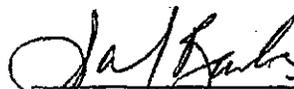
The above amount of net worth does comply with the amount required pursuant to Tenn. Code Ann. § 56-2-114. At December 31, 2009, the required net worth under the referenced statute is \$1,000,000.

The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,



Rhonda Bowling-Black, C.F.E.  
Examiner- in-Charge  
State of Tennessee  
Southeastern Zone, N.A.I.C.



Sandy Banks  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, N.A.I.C.



David Bobo  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, N.A.I.C.

**AFFIDAVIT**

The undersigned deposes and says that she has duly executed the attached examination report of Cariten Insurance Company dated June 24, 2011, and made as of December 31, 2009, on behalf of The Department of Commerce and Insurance, State of Tennessee. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

*Rhonda Bowling-Black*

Rhonda Bowling-Black, CFE  
Examiner-in-Charge  
State of Tennessee  
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 24<sup>th</sup> day of  
June, 2011

Notary *Kira Burnett*

County *Davidson*  
State *TN*

Commission Expires *January 6, 2014*

