

Coventry Health Care of the Carolinas, Inc.

Morrisville, North Carolina

Report on Examination

As of December 31, 2013

Coventry Health Care of the Carolinas, Inc.
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Coventry Health Care of the Carolinas, Inc.

Report on Examination

December 31, 2013

Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-67-100 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

Coventry Health Care of the Carolinas, Inc.

(hereinafter referred to as the “Company”), at its main administrative office located at 9881 Mayland Drive, Richmond, Virginia 23233. The Company’s statutory home office is located at 2801 Slater Road, Suite 200, Morrisville, North Carolina 27560. The following report on examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2009 to December 31, 2013, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2008.

This examination was conducted in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (“NAIC”). We examined the Company to evaluate the financial condition and identify prospective risks by obtaining information regarding its corporate governance structure, identifying and assessing inherent risks, and evaluating system controls and other procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with GS Chapter 58.

This examination was risk-focused and consisted of a seven-phase process used to identify and assess risk, assess the adequacy and effectiveness of strategies and controls used to mitigate risk and assist in determining the extent and nature of testing procedures to review the Company’s critical risk areas. This process included a determination of the quality and reliability of the Company’s corporate governance structure and risk management programs, as well as, verification of specific portions of the financial statement. All accounts and activities of the Company were considered; however, the examination focused on areas of high risk and fewer tests were performed on the accounts identified as having a low risk of misstatement.

Our examination was directed specifically to the quality, value and integrity of the admitted assets and liabilities reported by the Company in its 2013 Annual Statement (“AS”), as those balances are critical to determining financial solvency.

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SUMMARY OF SIGNIFICANT FINDINGS

Comments, Recommendations and Directives

- a. The Company did not disclose the dollar amounts of its transactions with related parties in Note 10 of its 2013 AS Notes to Financial Statements as required by the AS Instructions. The Company is directed to comply with the AS Instructions in future filings as required by GS § 58-2-165(c).
- b. Aetna Inc (“Aetna”) entered into a custodian agreement in 2012 and included the Company as a party to the agreement during 2013 as part of Aetna’s acquisition of the Company’s parent, Coventry Health Care Inc. (“Coventry”). However, the Company failed to obtain the Commissioner’s approval prior to execution of the agreement. The Company is directed to comply with GS § 58-67-30(a) and file its custodian agreements and subsequent amendments for the Commissioner’s prior approval in the future.
- c. On January 1, 2014, Aetna completed the merger of Coventry into Aetna Health Holdings, LLC (“AHH”), a wholly owned subsidiary of Aetna. However, the Company failed to obtain an exemption from the provisions of GS §58-19-15(a) pursuant to GS §58-19-15(h) prior to effecting the merger. The Company is directed to comply with GS §58-19-15 with regard to future acquisitions or mergers.

SUBSEQUENT EVENTS

On January 1, 2014, the Company became subject to an annual fee under section 9010 of the Affordable Care Act (“ACA”). This annual fee is allocated to individual health insurers based on the ratio of the amount of an entity’s net premiums written during the preceding calendar year to the amount of health insurance for all U.S. health risk that is written during the preceding calendar year. A health insurance entity’s portion of the annual fee becomes payable once the entity provides health insurance for a United States health risk for each calendar year beginning on or after January 1, 2014. As of December 31, 2013, the Company has written health insurance subject to the ACA assessment and transferred \$4,625,000 to its parent in 2014 for its portion of the 2013 annual assessment. The Company continues to write health insurance business subject to the ACA assessment in 2014.

On January 1, 2014, Coventry, the direct parent of the Company, merged with and into AHH, as noted above.

The Company terminated its Excess Risk Reinsurance Agreement effective January 01, 2014. Refer to REINSURANCE section, Excess of Loss Coverage for a discussion of the agreement. The Company continues to operate under the Insolvency Continuation Agreement with its affiliate..

COMPANY HISTORY

The Company was incorporated on September 1, 1995, under the laws of the State of North Carolina as a health maintenance organization (“HMO”). The Company commenced business on January 1, 1996, with 100,000 shares of common stocks authorized. The Company was incorporated under the name of WellPath Community Health Plans, Inc. and experienced name changes, mergers and acquisitions since its incorporation. On May 7, 2013, Aetna completed its acquisition of Coventry.

The Company paid dividends in the amounts of \$6.3 million and \$14 million during 2013 and 2012, respectively.

The Company had 1,000 shares of \$0.01 par value common stock authorized, issued and outstanding, gross paid-in and contributed surplus of \$20,629,835, and \$16,539,478 in unassigned funds at December 31, 2013.

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CORPORATE RECORDS

We reviewed the written consents of the Board of Directors ("Board") and the minutes of the audit committee meetings for the period under examination. Based on our review, it appears that the consents and minutes documented the Company's significant transactions and events, and that the Board and audit committee members approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. On July 1, 2012, the Company amended its Articles of Incorporation and Bylaws to change its name from WellPath Select, Inc. to its current name, Coventry Health Care of the Carolinas, Inc.

MANAGEMENT AND CONTROL

Board of Directors

The business of the Company is managed by its management team and subject to review by the Board. The bylaws specify that the number of directors shall be not less than 3, but not more than 15. Directors are elected annually, at the annual meeting of shareholders, for a term of one year.

The following individuals were serving as directors at December 31, 2013:

<u>Name</u>	<u>Address</u>	<u>Principal Business Affiliation</u>
Tracy H. Baker	Morrisville, NC	President and CEO
John J. Ruhlmann	Hartford, CT	VP, Treasurer of Finance for Aetna
Jerry J. Bellizzi	Hartford, CT	VP, Corporate Tax & Finance for Aetna

Committee

The Board has the authority to establish committees including, but not limited to, an Audit Committee. The individuals elected and serving on the Audit Committee as of December 31, 2013, were Shawn Guertin and Jean Latorre.

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices, not inconsistent with each other, may be held by the same person.

The following individuals served as officers as of December 31, 2013:

Tracy H. Baker	President and CEO
William D. Brown, Jr.	Chief Financial Officer
Peter W. Chauncey	Chief Operating Officer
Elaine R. Cofrancesco	VP and Treasurer
Edward Chung-I Lee	VP and Secretary
John J. Ruhlmann	Corporate Controller
Stephen A. Stiles	Asst. Secretary

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Kevin J. Casey
Sandra M. Coombes

Asst. Secretary
Asst. Secretary

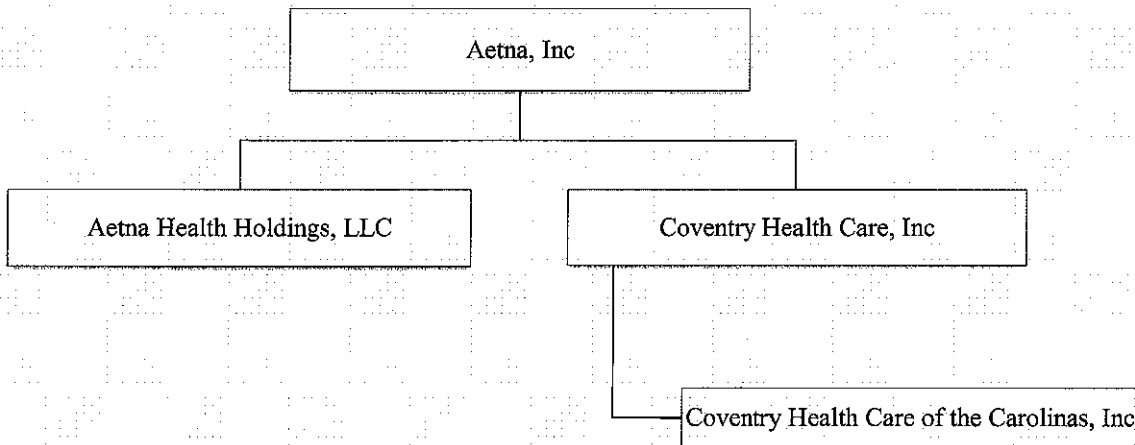
AFFILIATED COMPANIES

Holding Company

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is a wholly owned subsidiary of AHH, with Aetna being the ultimate controlling entity.

Organization Chart

The 2013 AS, Schedule Y, Part 1 contains a complete organizational chart; however, the following is an organizational chart for the Company at December 31, 2013, prior to the merger of Coventry with and into AHH.



Affiliated Transactions

The Company has a management agreement with Coventry, effective October 1, 2000, under which the Company is provided general services including: senior management services, advertising, marketing and public relations, purchasing services, corporate and legal relations and other services. The Company reimburses Coventry monthly for expenses paid on its behalf. Under this agreement, the Company paid management fees totaling \$11,125,919 and \$10,339,457 in 2013 and 2012, respectively.

The Company has a management agreement with Coventry Management Services, Inc ("CMS"), effective September 1, 2004, under which the Company is provided general management services including: information system equipment claims processing, data integrity services, fraud and recovery support, premium billing and collection services, enrollment and eligibility services, member services, and benefit and contract administration. The Company reimburses CMS monthly for expenses paid on its behalf. Under this agreement, the Company paid management fees totaling \$20,963,409 and \$20,132,192 in 2013 and 2012, respectively.

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The Company has a Global Capitation Network Agreement with Group Dental Service, Inc. ("GDS"), effective January 1, 2009. Under the agreement, GDS provides certain management services with respect to the administration of certain dental benefits to be offered under the Company's individual health insurance product. The Company made no payments to GDS in 2013 or 2012 under this agreement.

The Company has a Pharmacy Benefits Administration Agreement with Coventry Prescription Management Services, Inc. ("CPMS"), effective January 1, 2011. Under the agreement, CPMS provides certain pharmacy benefit administration services including: pharmacy claims processing services, formulary development and maintenance, developing and administering pharmacy utilization management standards, pharmacy network development and maintenance. Under this agreement, the Company paid pharmacy fees totaling \$42,786,740 and \$39,923,690 in 2013 and 2012, respectively.

The Company was included in a consolidated income tax return in accordance with a tax sharing agreement with Coventry prior to May 17, 2013. Effective May 17, 2013, the Company entered into a tax sharing agreement with Aetna. The provisions for federal income tax are computed as if the Company were filing a separate income tax return. Benefits, which arise from tax credits and net operating losses, are allocated to the company producing such results to the extent they are utilized in the consolidated income tax provisions. Intercompany tax balances are to be settled within 30 days. Under these agreements, the Company paid federal income taxes totaling \$1,993,740 and \$5,033,777 in 2013 and 2012, respectively.

The Company has an administrative services agreement with Coventry Health and Life Insurance Company, ("CHL"), effective July 1, 2000, whereby the Company provides certain administrative services including, but not limited to: management and general administrative services, sales and marketing, financial services, medical management, provider relations and contracting, facilities and support. Under this agreement, the Company received fees totaling \$2,738,663 and \$3,361,599 in 2013 and 2012, respectively.

The Company has a reinsurance agreement with CHL for the period August 1, 2001, and December 31, 2013. Refer to Reinsurance section for further discussion.

FIDELITY BONDS AND OTHER INSURANCE

The Company's ultimate parent, Aetna, has fidelity bond coverage for all Aetna subsidiaries totaling \$120,000,000 in the aggregate, of which the Company is a named insured. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the NAIC for the Company on a consolidated basis.

In addition, the Company had other insurance coverage on various corporate property and liability policies, which appeared to be adequate to cover risks in the normal course of business.

BENEFIT PLANS

The Company's employees are eligible to participate in a 401(k) defined contribution plan sponsored by Aetna. The Company matches 100% up to the first 3% and 50% of the next 3% of each employee's contributions to a maximum of 4.5% of their total salary. The Company contributed \$448,334 and \$431,352 to the 401(k) plan in 2013 and 2012, respectively.

The Company offers certain executives a 401(k) restoration and deferred compensation plan sponsored by Aetna. This is a non-qualified plan offering participants various investment fund options. The Company expensed \$100,768 and \$114,669 in 2013 and 2012, respectively.

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TERRITORY AND PLAN OF OPERATION

At December 31, 2013, the Company was licensed in the states of North Carolina and South Carolina. Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2013 AS Schedule E, Part 3 contains a complete description and listing, by state, of the Company's statutory deposits.

The Company provides or arranges managed care for health insurance, self-funded health care benefit plans, individuals, and other entities as a liaison with health care providers. The Company utilizes independent agents and the federally facilitated Health Insurance Market Place Exchange for the distribution of its product and solicitation of business. All policies are issued annually. Insureds may elect to pay on a monthly basis.

TRENDS OF THE COMPANY

The following data, obtained from AS filed with the Department and from the last report on examination, illustrate the trend of the Company for the five (5) year period ended December 31, 2013.

	Net Admitted	Capital and	Gross	Net Earned	Net
Year	Assets	Surplus	Premiums	Premiums	Income
			Written		
2009	54,335,585	29,549,835	232,073,750	227,751,979	5,214,847
2010	71,653,220	42,954,905	223,707,240	219,635,758	10,100,022
2011	93,174,097	42,554,810	252,575,214	247,463,407	9,243,404
2012	82,090,380	39,303,852	309,343,780	303,118,846	10,789,316
2013	89,788,518	37,769,313	314,526,994	307,529,382	3,612,098

ACTUARIAL OPINION

All HMOs are required to file an AS in accordance with the appropriate NAIC Annual Statement Instructions Handbook, pursuant to GS § 58-67-55 and § 58-2-165(c). The Annual Statement Instructions require, as part of the AS, a statement from an appointed actuary setting forth an opinion relating to claim reserves and any other actuarial items.

The statutory reserves and related items for 2013 were reviewed and certified by the Company's Appointed Actuary, Erik Axelsen, ASA, MAAA, with Coventry. Actuarial opinions regarding the Company's reserves for unpaid claims and claim adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the unpaid claims and claim adjustment expense reserves. According to the actuarial opinion, the Company's reserves on the unpaid claims and claim adjustment expense met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid claims and claim expense obligations of the Company.

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REINSURANCE

Reinsurance Ceded

Excess of Loss Coverage

The Company has an excess risk reinsurance agreement with its affiliate CHL, effective August 1, 2001, which covers 90% of eligible claims in excess of a \$150,000 deductible amount per member. The Company ceded premiums under this agreement totaling \$6,997,612 and \$6,224,934 in 2013 and 2012, respectively.

The Company has an insolvency continuation agreement with CHL, effective June 1, 2002, which provides coverage of up to \$5,000,000 in continued benefits to policyholders in the event of the Company's insolvency. The continuation of benefits by CHL is subject to a maximum of 365 days from the date of insolvency. The payments are included in the management fees under the management agreement with CHL.

ACCOUNTS AND RECORDS

The Company's books and records are maintained in Richmond, Virginia.

Independent Auditor

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). KPMG, LLC of Baltimore, Maryland, the designated independent public accountant of the Company, issued an unqualified opinion for the year ended December 31, 2013. Ernst & Young of Baltimore, Maryland issued an unqualified opinion each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2012.

Information System

The Company's computer systems are physically hosted in Scottsdale, Arizona. However, the logical management of the financial applications is handled from three separate locations, which are as follows:

1. Logical access management and business resumption activities are handled in Cranberry, Pennsylvania.
2. Logical access and company IT operations are handled in Phoenix, Arizona.
3. Change management and physical hosting activities are handled in Scottsdale, Arizona.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2013 AS Schedule E, Part 3 contains a complete description and listing, by state, of the Company's statutory deposits. As of December 31, 2013, the statutory deposits were sufficient to meet the capital deposit requirements for the states where the Company is doing business.

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FINANCIAL STATEMENTS

The accompanying financial statement presents the Company's statutory financial position as of December 31, 2013, and statutory results of operations for the period then ended as reported by the Company to the Department in its 2013 AS and adjusted, as necessary, based on the results of our examination. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the GS. The financial statement and supporting schedules as of December 31, 2012, are unexamined and are presented for comparative purposes only.

Coventry Health Care of the Carolinas, Inc.

Statutory Statement of Admitted Assets

	December 31,	
	2013	2012
		<i>(unexamined)</i>
<u>Admitted Assets</u>		
Bonds	\$ 61,930,402	53,105,942
Cash and short-term investments	21,483,854	23,457,564
Receivables for securities	6,311	
Total cash and invested assets	<u>83,420,567</u>	<u>76,563,506</u>
Investment income due and accrued	608,390	480,359
Uncollected premiums and agents' balances in course of collection	1,888,698	2,503,785
Amounts recoverable from reinsurers	777,380	432,172
Amounts receivable relating to uninsured plans	1,043,353	395,957
Federal income tax recoverable	96,590	1,005,668
Net deferred tax asset	1,850,380	606,736
Receivable from parent, subsidiaries and affiliates	1,410	1,337
Health care and other amounts receivable	101,750	
State taxes recoverable		100,860
Total admitted assets	<u>\$ 89,788,518</u>	<u>82,090,380</u>

See accompanying notes to statutory financial statement

Coventry Health Care of the Carolinas, Inc.
Statutory Statement of Liabilities, Capital and Surplus

	December 31,	
	2013	2012
		<i>(unexamined)</i>
<u>Liabilities</u>		
Claims unpaid	\$ 26,876,094	21,974,402
Unpaid claims adjustment expenses	355,909	284,393
Aggregate health policy reserves	12,826,337	9,818,471
Aggregate health claim reserves	313,854	
Premium received in advance	1,652,610	934,827
General expenses due or accrued	4,091,930	4,313,924
Amounts withheld or retained by Company for account of others	81,289	95,847
Remittances and items not allocated	334,090	295,163
Amounts due to parent, subsidiaries and affiliates	4,211,288	4,090,760
Liability for amounts held under uninsured plans	1,275,804	978,741
Total liabilities	52,019,205	42,786,528
<u>Capital and Surplus</u>		
Common capital stock	600,000	600,000
Gross paid in capital	20,629,835	20,629,835
Surplus	16,539,478	18,074,017
Total capital and surplus	37,769,313	39,303,852
Total liabilities, capital and surplus	\$ 89,788,518	82,090,380

See accompanying notes to statutory financial statement

Coventry Health Care of the Carolinas, Inc.

Statutory Statement of Operations

	December 31,	
	2013	2012
		<i>(unexamined)</i>
<u>Revenue</u>		
Net premium income	\$ 307,529,382	303,118,846
Aggregate write-ins for other health care related revenues	161,423	245,542
Total revenues	<u>307,690,805</u>	<u>303,364,388</u>
<u>Underwriting Deductions</u>		
Hospital/medical benefits	197,103,394	188,167,144
Other professional services	2,506,367	2,710,152
Emergency room and out-of-area	15,796,773	14,461,076
Prescription drugs	38,138,720	35,414,734
Incentive pool, withhold adjustments and bonus amounts		618
Total medical and hospital	<u>253,545,254</u>	<u>240,753,724</u>
Net reinsurance recoveries	5,206,176	4,637,533
Total hospital and medical	248,339,078	236,116,190
Claims adjustment expenses	16,631,751	18,144,385
General administrative expenses	39,284,331	35,141,620
Increase (decrease) in reserves for life and accident and health contract	(991,887)	776,533
Total underwriting deductions	<u>303,263,273</u>	<u>290,178,728</u>
Net underwriting gain (loss)	<u>4,427,532</u>	<u>13,185,659</u>
Net investment income earned	1,598,944	1,760,552
Net realized capital gain	493,148	587,827
Net investment gain	<u>2,092,092</u>	<u>2,348,379</u>
Net loss form agents' or premium balances charged off	<u>(15,253)</u>	<u>(27,468)</u>
Net income before federal income taxes	6,504,371	15,506,570
Federal income tax incurred	<u>2,892,273</u>	<u>4,717,254</u>
Net income	<u>\$ 3,612,098</u>	<u>10,789,316</u>

See accompanying notes to statutory financial statement

Coventry Health Care of the Carolinas, Inc
Statutory Statement of Capital and Surplus

	December 31,	
	2013	2012
		<i>(unexamined)</i>
Capital and surplus, beginning of year	\$ 39,303,852	42,554,810
Capital and surplus increases (decreases):		
Net income	3,612,098	10,789,316
Change in net unrealized capital losses	(100,183)	
Change in net deferred income tax	1,268,043	(183,492)
Change in non-admitted assets	(57,934)	143,218
Dividends to stockholders	(6,300,000)	(14,000,000)
Correction of deferred income taxes in prior period	43,437	
	(1,534,539)	(3,250,958)
Change in capital and surplus for the year		
Capital and surplus, end of year	\$ 37,769,313	39,303,852

See accompanying notes to statutory financial statement

Coventry Healthcare of the Carolinas, Inc.

Statutory Statement of Cash Flow

	December 31,	
	2013	2012
Cash From Operations		
		<i>(unexamined)</i>
Premiums collected net of reinsurance	\$ 311,870,118	296,749,414
Net investment income	2,006,367	2,207,149
Miscellaneous income	161,423	245,542
Totals	<u>314,037,908</u>	<u>299,202,105</u>
Benefit and loss related payments	242,476,853	235,464,036
Commissions, expenses paid and aggregate write-ins for deductions	56,432,147	53,901,177
Federal income taxes paid net of tax on capital gains	2,348,332	7,005,758
Totals	<u>301,257,332</u>	<u>296,370,970</u>
Net cash from operations	<u>12,780,576</u>	<u>2,831,134</u>
Cash From (Used by) Investments		
Proceeds from investments sold, matured or repaid	51,128,998	43,327,678
Cost of investments acquired	<u>(59,822,973)</u>	<u>(34,412,097)</u>
Net cash (used by) investments	<u>(8,693,975)</u>	<u>8,915,581</u>
Cash From (Used by) Financing and Miscellaneous Sources		
Dividends to stockholders	(6,300,000)	(14,000,000)
Other cash provided (applied)	<u>239,689</u>	<u>(670,577)</u>
Net cash from (used by) financing and miscellaneous sources	<u>(6,060,311)</u>	<u>(14,670,577)</u>
Reconciliation of Cash and Short-Term Investments		
Net change in cash and short-term investments	(1,973,710)	(2,923,862)
Cash and short-term investments, beginning of year	<u>23,457,564</u>	<u>26,381,426</u>
Cash and short-term investments, end of year	<u>\$ 21,483,855</u>	<u>23,457,564</u>

See accompanying notes to statutory financial statement

Coventry Health Care of the Carolinas, Inc.

Notes to the Statutory Financial Statement

December 31, 2013

1. Basis of Presentation

The accompanying financial statement has been prepared in conformity with the accounting practices prescribed by the GS. The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost or fair value based on their NAIC rating.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Earned over the policy period and reduced for reinsurance ceded.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are accounted on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Unpaid claims are reported net of reinsurance ceded.

Unpaid Claims and Unpaid Claims Adjustment Expense: Unpaid claims and unpaid claims adjustment liabilities include estimates of payments to be made under health insurance coverage provided by the Company for reported claims and for claims incurred but not yet reported. Management develops these estimates using actuarial methods based upon historical data for claim payment patterns, cost trends, product mix, seasonality, utilization of health care services and other relevant factors. When estimates change, the Company records the adjustment in medical and hospital expenses in the period the change in estimate occurs. Unpaid claims adjustment expenses include a reserve for additional administrative expenses associated with unpaid health claims that are in the process of settlement, as well as those that have been incurred but not yet reported. This reserve is based on the historical relationship between claims handling expenses and incurred claims.

Coventry Health Care of the Carolinas, Inc.

Notes to the Statutory Financial Statement

December 31, 2013

2. Analysis of Admitted Assets

The following represents an analysis of the Company's net admitted assets:

	December 31, 2013		
	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$ 61,930,402		61,930,402
Cash and short-term investments	21,483,854		21,483,854
Receivable for securities	6,311		6,311
Total cash and invested assets	83,420,567		83,420,567
Investment income due and accrued	608,390		608,390
Uncollected premiums and agents' balances in course of collection	1,888,698		1,888,698
Amounts recoverable from reinsurers	777,380		777,380
Amounts receivable relating to uninsured plans	1,043,353		1,043,353
Federal income tax recoverable	96,590		96,590
Net deferred tax asset	1,972,159	121,779	1,850,380
Furniture and equipment, including health care delivery assets	59,028	59,028	-
Receivable from subsidiaries	1,410		1,410
Health care and other amounts receivable	101,750		101,750
Prepared expenses	132,794	132,794	-
Total admitted assets	<u>\$ 90,102,119</u>	<u>313,601</u>	<u>89,788,518</u>

3. Reinsurance

The Company has an excess risk reinsurance agreement to minimize its risk exposure. The reinsurance agreement does not relieve the Company of its primary obligation to policyholders. Failure of the reinsurer to discharge its obligations could result in losses to the Company.

Direct ceded premiums written and earned are as follows

	2013	2012
		<i>(unexamined)</i>
Direct written	\$ 314,526,994	309,343,780
Ceded written	6,997,612	6,224,934
Net written	<u>307,529,382</u>	<u>303,118,846</u>
Direct earned	314,526,994	309,343,780
Ceded earned	6,997,612	6,224,934
Net earned	<u>\$ 307,529,382</u>	<u>303,118,846</u>

Coventry Health Care of the Carolinas, Inc.

Notes to the Statutory Financial Statement

December 31, 2013

4. Unpaid Claims Reserves

The Company's reserve for claims unpaid includes a reserve for claims incurred but not reported ("IBNR"). The liability for IBNR is actuarially estimated based on the most current historical claims experience, changes in the number of members and participants, and estimates of health care trend changes. The reserves are reviewed and adjusted as necessary based on experience and development or as new information becomes available.

The following provides a reconciliation of the Company's reserves for claims unpaid and unpaid claim adjustment expenses:

	Year ended December 31,	
	2013	2012
		<i>(unexamined)</i>
Unpaid claims and claim adjustment expenses, beginning of year	<u>\$ 22,258,795</u>	<u>20,844,089</u>
Add:		
Provision for claims and claim adjustment expenses, current year	267,461,269	254,109,131
Change in estimated claims and claim adjustment expenses, prior years	<u>(2,490,440)</u>	<u>151,444</u>
Total incurred	<u>264,970,829</u>	<u>254,260,575</u>
Deduct:		
Claim and claim adjustment expenses paid, current year	240,513,659	232,319,655
Claims and claim adjustment expenses paid, prior years	<u>19,483,962</u>	<u>20,526,214</u>
Total paid	<u>259,997,621</u>	<u>252,845,869</u>
Reserves for claims and claim adjustment expenses, end of year	<u>27,232,003</u>	<u>22,258,795</u>
Decrease in unpaid claims and claim adjustment expenses	<u>\$ 4,973,208</u>	<u>1,414,706</u>

Unpaid claims and claims adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance agreement. The reinsurance recoverable on the Company's year-end unpaid claims totaled \$777,380 and \$432,172 at December 31, 2013, and 2012, respectively.

Coventry Health Care of the Carolinas, Inc.

Notes to the Statutory Financial Statement

December 31, 2013

5. Capital and Surplus

The following, in conjunction with the Statutory Statement of Capital and Surplus (see page 13), represents the changes in the Company's surplus since the Department's last examination.

	2011	2010	2009
	<i>(unexamined)</i>	<i>(unexamined)</i>	<i>(unexamined)</i>
Capital and surplus, beginning of year	\$ 42,954,905	29,549,835	24,519,092
Surplus increases (decreases):			
Net income	9,243,404	10,100,022	5,214,847
Change in deferred income tax	(331,148)	336,990	(738,213)
Change in non-admitted assets	687,649	700,664	647,866
Aggregate write-ins for gains and (losses)		(332,606)	(93,757)
Paid in capital		2,600,000	
Dividends to stockholders	(10,000,000)		
Changes in capital and surplus for the year	(400,095)	13,405,070	5,030,743
Capital and surplus, end of the year	\$ 42,554,810	42,954,905	29,549,835

6. Contingencies and Commitments

The Company is involved in routine legal and administrative proceedings in the normal course of business. The Company is of the opinion that these proceedings will not have a material effect on the financial position of the Company.

Coventry Health Care of Carolinas, Inc.

Appendix A – Report Distribution

December 31, 2013

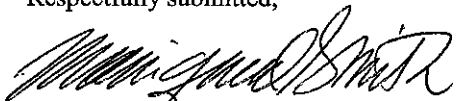
Denise Bartlett, Controller
9881 Mayland Drive
Richmond, VA 23233

W. Dewey Brown, CFO
2801 Slater Road, Suite 200
Morrisville, NC 27760

Tracy H. Baker, President and CEO
2801 Slater Road, Suite 200
Morrisville, NC 27760

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-67-100 for the kinds of insurance that the Company has been authorized to write, which is \$1,000,000.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Monique D. Smith", written over a horizontal line.

Monique D. Smith, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

January 5, 2015

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Eileen Culliney, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: Eileen Culliney Date: 1/23/15
Eileen Culliney

Sworn and subscribed before me this 23 day of January, 2015.

Notary Public Signature: [Signature] Notary Public Seal:

