

UnitedHealthcare of North Carolina, Inc.

Greensboro, NC

Report on Examination

As of December 31, 2014

UnitedHealthcare of North Carolina, Inc.

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UnitedHealthcare of North Carolina, Inc.

Report on Examination

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

Sir:

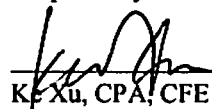
Pursuant to your instructions and in accordance with Section (“§”) 58-67-100 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of **UnitedHealthcare of North Carolina, Inc.** (“Company”) as of December 31, 2014. The Department’s last examination was as of December 31, 2010. In determining the nature and scope of the examination, the Department considered the financial statement review and analysis of the Company.

The examination was a coordinated examination and was conducted concurrently with examinations of the affiliates of the Company (collectively “Subgroup”), and included participation from the States of Arkansas, Georgia, Nebraska, Missouri, Illinois, Kansas, North Carolina, Rhode Island, and Massachusetts. Ohio served as lead state of the coordinated examination of the Subgroup.

The coordinated examination was conducted in accordance with auditing standards established by each participating state and procedures established by the National Association of Insurance Commissioners (“NAIC”). The coordinated 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 Subgroup’s key activities. This process included a determination of the quality and reliability of the Subgroup’s corporate governance structure and risk management programs, as well as, verification of specific portions of the financial statements.

As a participating state of the coordinated examination, the Department focused on high risk areas of the Company and performed additional procedures to address specific risk areas identified based on the Department’s review and analysis of the Company’s financial statement. The specific aspects of the Company’s 2014 Annual Statement are specified in the Scope of the Examination on page 4. The scope of this examination was not comprehensive, but included a risk focused review of the Company’s practices and procedures, its corporate and accounting records, details of certain transactions, and an evaluation of certain assets and liabilities reported as of December 31, 2014. This report is not intended to communicate all matters of importance but only the concerns on the specific risk areas for an understanding of the Company’s financial condition as of December 31, 2014. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific risk areas of concern identified and are provided in the Summary of Examination Objectives and Findings on page 5.

Respectfully submitted,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

December 31, 2015

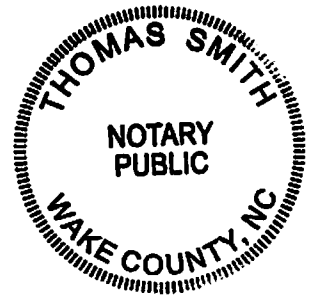
STATE OF NORTH CAROLINA
COUNTY OF WAKE

Venus Ang, 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: 2-19-16
Eileen Culliney

Sworn and subscribed before me this 19 day of February, 2016.

Notary Public Signature: Thomas Smith Notary Public Seal:



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1. Company Background

The Company was incorporated in North Carolina in 1985 as a health maintenance organization (“HMO”) and commenced business on May 21, 1985. The Company is licensed in all counties of North Carolina and offers a variety of managed care programs and products through contractual arrangements with healthcare providers. The Company is ultimately controlled by UnitedHealth Group, Inc. through its holding company system.

2. Appointed Actuary

All HMOs are required to file annual statements 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 the statement of the appointed actuary setting forth an opinion relating to claim reserves and any other actuarial items included in or attached to the annual statement. Actuarial opinions regarding the Company’s reserves were issued by an appointed actuary for the examination period. The appointed actuary evaluated the reserves of the unpaid claims, unpaid claims adjustment expenses, and accrued medical incentive pool and bonus amounts provided by the Company for reasonableness and consistency. According to the actuarial opinion, the Company’s reserves 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 obligations of the Company.

3. Scope of the Examination

The scope of this examination was limited to the following areas relative to the 2014 Annual Statement:

- a) Premiums
- b) Claims and Reserves
- c) Investments
- d) Operations and Related Party Transactions
- e) Other Assets, Liabilities and Surplus

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4. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Review and verification of supporting documentation for reported balances;
- 2) Substantive testing of underlying data and transactions;
- 3) Analytical procedures and recalculation of account balances;
- 4) Review of the Company's underwriting practice and procedures;
- 5) Review of the Company's contracts and agreements;
- 6) Actuarial review of the Company's reserves by the Department's Actuarial Services Division;
- 7) Other examination procedures deemed necessary to meet the established objectives.

5. Summary of Examination Objectives and Findings

a) Premiums

- 1) Examination Objective: To verify that written premiums totaling \$1,011,855,321 reported in the Underwriting and Investment Exhibit of the Company's 2014 Annual Statement were fairly stated.

Findings: No adverse findings were noted.

- 2) Examination Objective: To verify that premiums receivable totaling \$13,050,757 reported in the Company's 2014 Annual Statement are being collected on a timely basis.

Findings: No adverse findings were noted.

- 3) Examination Objective: To verify premiums received in advance totaling \$6,006,603 reported in the Company's 2014 Annual Statement were fairly stated.

Findings: No adverse findings were noted.

b) Claims and Reserves

- 1) Examination Objective: To verify the accuracy and completeness of paid claims totaling \$807,288,599 reported in the Underwriting and Investment Exhibit of the Company's 2014 Annual Statement.

Findings: No adverse findings were noted.

- 2) Examination Objective: To review the reasonableness and adequacy of unpaid claims totaling \$102,729,712 and unpaid claims adjustment expense totaling \$1,056,539 reported in the Company's 2014 Annual Statement.

Findings: No adverse findings were noted.

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- 3) Examination Objective: To review whether the Company is in compliance with premium deficiency reserve requirements pursuant to the Statement of Statutory Accounting Principles ("SSAP") No 54, Individual and Group Accident and Health Contracts.

Findings: No adverse findings were noted.

c) Investments

- 1) Examination Objective: To confirm the par value of bonds totaling \$163,955,267, the balance of short-term investments and cash equivalents totaling \$14,390,758 and \$2,999,835, respectively, reported in the Company's 2014 Annual Statement.

Findings: No adverse findings were noted.

d) Operations and Related Party Transactions

- 1) Examination Objective: To verify the reasonableness of liabilities totaling \$1,506,078 for contributions payable due to Affordable Care Act ("ACA") Reinsurance disclosed under Risk Sharing Provisions of ACA in the Company's 2014 Annual Statement.

Finds: No adverse findings were noted.

- 2) Examination Objective: To verify that the amounts due to parent, subsidiaries, and affiliates totaling \$10,793,825 were fairly stated.

Findings: No adverse findings were noted.

e) Other Assets, Liabilities, and Surplus

- 1) Examination Objective: To verify that amounts receivable relating to uninsured plans totaling \$23,606,825 were fairly stated.

Findings: No adverse findings were noted.

- 2) Examination Objective: To review health care receivables totaling \$20,375,365 for compliance with the SSAP No. 84, Certain Health Care Receivables and Receivables Under Government Insured Plans.

Findings: No adverse findings were noted.

- 3) Examination Objective: To verify total capital and surplus of \$130,820,339 was properly reported in the Company's 2014 Annual Statement.

Findings: No adverse findings were noted.

- 4) Examination Objective: To review accrued medical incentive pool and bonus amounts totaling \$4,174,983 were properly reported in the Company's 2014 Annual Statement.

Findings: No adverse findings were noted.

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Appendix A – Report Distribution

**Andrea Leafblad, Senior Regulatory Affairs Analyst
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Minnetonka, MN 55343**

**Garland G. Scott III, President & Chief Executive Officer
3803 North Elm Street
Greensboro, NC 27455**