



**NC DEPARTMENT**  
*of* **INSURANCE**  
**MIKE CAUSEY, COMMISSIONER**

**COMPANY SERVICES GROUP**  
**FINANCIAL EXAMINATION DIVISION**

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I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina, do hereby certify that: I have caused to UnitedHealthcare of North Carolina, Inc., as of December 31, 2019, with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 5th day March 2021.



Mike Causey  
Commissioner of Insurance

Ke Xu, CPA, CFE  
Chief Financial Examiner  
Financial Examination Division

**UnitedHealthcare of North Carolina, Inc.**

Greensboro, North Carolina

**Report on Examination**

As of December 31, 2019

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May 3, 2021

Honorable Mike Causey  
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

**UnitedHealthcare of North Carolina, Inc.**

(hereinafter referred to as the “Company”), at its main administrative office and statutory home office located at 3803 North Elm Street, Greensboro, North Carolina. The following report on examination is respectfully submitted.

**SCOPE OF THE EXAMINATION**

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2015 to December 31, 2019, 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, 2014.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

Our examination was conducted as part of a multi-state coordinated financial examination of sixteen (16) insurance company subsidiaries of the UnitedHealth Group Incorporated (“UHG”). Connecticut is the Lead State for the UnitedHealth Group, however, Missouri served as the Facilitating State for the current examination. North Carolina was one of sixteen (16) participating states in the coordinated examination for the subgroup.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate

system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Investments  
Claims Handling  
Premiums and Underwriting  
Reserving  
Related Parties  
Reinsurance  
Financial Reporting

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Deloitte and Touche, LLP, of Minneapolis, Minnesota, the designated independent public accountant of the Company, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2019.

## REPORT ACRONYMS

Affordable Care Act	“ACA”
Board of Directors	“Board”
Financial Condition Examiners Handbook	“Handbook”
General Statutes of North Carolina	“GS”
National Association of Insurance Commissioners	“NAIC”
North Carolina Department of Insurance	“Department”
UnitedHealthcare, Inc.	“UHI”
UnitedHealthcare of North Carolina, Inc.	“Company”
United Healthcare Services, Inc.	“UHS”
UnitedHealth Group Incorporated	“UHG”
Neighborhood Health Partnership, Inc.	“NHP”
High-Cost Risk Pool	“HCRP”
Risk Adjustment Data Validation	“RADV”
UnitedHealthcare of Wisconsin, Inc.	“UHCWI”

## ORGANIZATION STRUCTURE

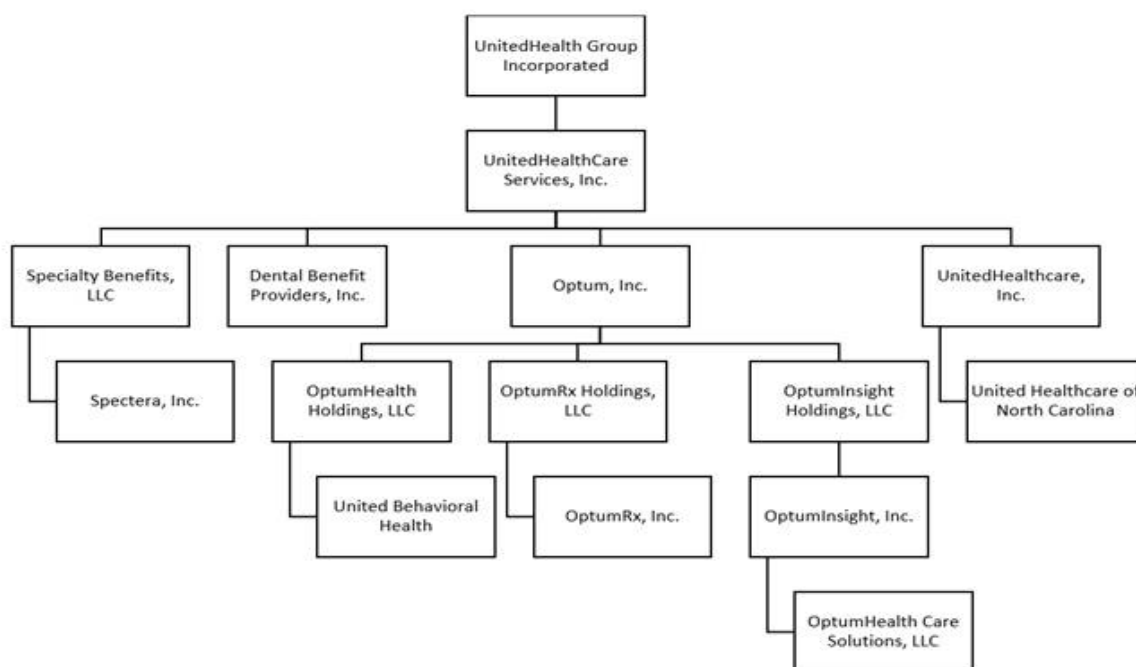
The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is a wholly owned subsidiary of United Healthcare, Inc. (“UHI”), which is wholly owned by United HealthCare Services, Inc. (“UHS”), which is wholly owned by UnitedHealth Group Incorporated, (“UHG”), a publicly traded insurance holding company incorporated in the state of Delaware.

UHG operates through two platforms, UnitedHealthcare and Optum. UnitedHealthcare provides health benefits and Optum provides health services. Within the UnitedHealthcare platform, there are four business segments: Employer and Individual; Medicare and Retirement; Community and State; and Global. The Employer and Individual business segment serves employers ranging from sole proprietorships to large national employers, public sector employees and individuals. The Medicare and Retirement business segment provides health benefits for Medicare beneficiaries and retirees. The Community and State business segment manages health care benefit programs on behalf of state Medicaid systems and the Global segment supports globally mobile populations through a comprehensive range of in-house solutions developed using a breadth of capabilities and resources.

The Company is part of the UnitedHealthcare platform and primarily writes commercial employer and individual insurance, with a small portion of Medicare.

## ORGANIZATIONAL CHART

The Company's 2019 Annual Statement Schedule Y contains a complete organizational chart. The following is a summarized organizational chart of the Company within the UHG holding company group as of December 31, 2019:



## COMPANY HISTORY

The Company was incorporated in North Carolina in 1985 and commenced business as a Health Maintenance Organization on May 21, 1985.

Effective December 31, 2006, Optimum Choice of the Carolinas, Inc. was merged into UnitedHealthcare of North Carolina, Inc. These entities were previously wholly owned subsidiaries of Mid Atlantic Medical Services, LLC and UnitedHealthcare, Inc.

Effective January 1, 2016, the Company novated its Centers for Medicare and Medicaid Services contracts to an affiliate, UnitedHealthcare of Wisconsin, Inc. The novation agreement transferred full rights under the contracts for dates of service on or after January 1, 2016 to UnitedHealthcare of Wisconsin, Inc. ("UHCWI").

## CAPITAL STOCK

As of December 31, 2019, the Company's capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	1,000
Number of shares issued and outstanding	100
Total common capital stock	1
Par value per share	\$0.01

No additional shares were issued during the period under examination. As of December 31, 2019, all outstanding shares are held by UHI.

The Company received additional paid in and contributed surplus totaling \$76 million from its parent, UHI, on April 2, 2019. The Company reported \$115,129,185 in gross paid-in and contributed surplus and \$53,617,731 in unassigned funds at December 31, 2019.

## DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors ("Board") of the Company. Under the insurance regulations of North Carolina, the maximum ordinary dividends which the Company may pay to its shareholders is limited to the greater of 10% of the most recent year-end surplus or net income (excluding realized capital gains) earned for that same year-end. Any dividends in excess of this are considered extraordinary.

The Company paid \$15 million and \$30 million in ordinary dividends to UHI in 2015 and 2018, respectively. In 2017, the Company paid \$25.5 million in ordinary dividends and \$45 million in extraordinary dividends to UHI.

## MANAGEMENT AND CONTROL

### CORPORATE GOVERNANCE

#### Shareholders

The bylaws of the Company provide that an annual meeting of the shareholders be held at such time and place as the Board may appoint. Special meetings of the shareholders may be called at any time by the chairman of the Board, the president or by a majority of the Board.

#### Board of Directors

The business of the Company is conducted by its management team and is subject to review by the Board. The bylaws specify that the number of directors shall be not less than three (3) nor more than ten (10).



Directors are elected annually, at the annual meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors at December 31, 2019:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
Thomas Clifton Choate	Maitland, FL	Vice President, Chief Executive Officer UHI Markets
Garland Greever Scott III	Greensboro, NC	President, Chief Executive Officer, Chair of the Board
Thomas Patrick O'Connor	Greensboro, NC	Vice President, Government Programs

The Company designated the Audit Committee of UHS to serve as its Audit Committee to provide group level oversight.

The following individuals served on the committee at December 31, 2019:

**Audit Committee - UHS Southeast Region**

Salli J. Thompson - Chair

James Y. Huang

Juliet T. Scott

**Officers**

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company shall consist of a chairman of the Board, president, secretary, treasurer, assistant secretaries, vice presidents and such other officers as the Board may appoint from time to time. Any two or more offices may be held by the same person, except the offices of President and Secretary, but no officer may act in more than one capacity where action of two or more officers is required.

The following individuals served as officers of the Company at December 31, 2019:

<b>Name</b>	<b>Title</b>
Garland Greever Scott III	President and Chief Executive Officer, Chair of the Board
John Joseph Matthews	Secretary
Elizabeth Madren Kasai	Chief Financial Officer
Peter Marshall Gill	Treasurer
Thomas Clifton Choate	Vice President, Chief Executive Officer of UHI Markets
Jessica Leigh Zuba	Assistant Secretary
Nyle Brent Cottingham	Vice President, UHI Regulatory Controller
Thomas Patrick O'Connor	Vice President, Government Programs
Heather Anastasia Lang	Assistant Secretary

**CODE OF CONDUCT AND CONFLICT OF INTEREST**

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the

examination period revealed the Company acted in accordance with its policy and procedure for disclosure of conflicts of interest.

## **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. During the examination period, the Company has not amended its Articles of Incorporation and Bylaws for any purpose. The minutes of the meetings of the Board and Audit Committee were reviewed for the period under examination. Based on the review, it appears that the Company acted in accordance with policy and procedure for its Articles of Incorporation and Bylaws.

## **STATUTORY DEPOSITS**

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2019 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state. The Company reported a statutory deposit with North Carolina only.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company is a named insured under a fidelity bond issued to UHI with coverage totaling \$25 million. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for UHI on a consolidated basis.

In addition, the Company is a named insured on various corporate property and liability policies issued to UHI, which appeared to be adequate to cover risks in the normal course of business.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company has no defined benefit plans, defined contribution plans, multiemployer plans, consolidated/holding company plans, postemployment benefits, or compensated absences plans and is not impacted by the Medicare Modernization Act on postretirement benefits, since all personnel are employees of UHS, which provides services to the Company under a management service agreement. UHS does not have an employee pension plan.

## **RELATED PARTY AGREEMENTS**

The Company is a member of an insurance holding company system and related-party activities have a significant impact on the financial condition of the Company. Most of the Company's agreements in place as of December 31, 2019 were with affiliated entities and are summarized as follows:

### Management Services Agreement

Effective January 1, 2011, the Company entered into a Management Services Agreement with UHS, whereby UHS provides various services to the Company including human resources, legal, facilities, general administration, treasury and investment functions, claims adjudication and payment, benefit administration, disease management, health care decision support, provider networks, quality oversight and wellness management. The Company paid management fees totaling \$39,295,702 under this agreement for 2019.

### Facility Participation Agreement

Effective January 1, 2009, the Company entered into a Facility Participation Agreement with OptumRx, Inc., whereby OptumRx, Inc. provides durable medical equipment and hearing aids to registrant members of the Company. An amendment to the agreement was filed and approved by the Department to have an effective date of January 1, 2013. The amendment clarified HealthInnovation's facility locations, identified the products that will be used for this benefit, and updated the services, standards and fees for hearing aids. The Company paid fees totaling \$1,079,689 under this agreement for 2019.

### Medicare Prescription Drug Benefit Administration Agreement

Effective January 1, 2013, the Company entered into a Medicare Prescription Drug Benefit Administration Agreement with OptumRx, Inc., whereby OptumRx, Inc. provides pharmacy benefit administration services to registrant medicare members of the Company. There have been several amendments to this agreement. The Company has a net credit totaling (\$442) under this agreement for 2019.

### Prescription Drug Benefit Administration Agreement

Effective January 1, 2013, the Company entered into a Prescription Drug Benefit Administration Agreement with OptumRx, Inc., whereby OptumRx, Inc. provides pharmacy benefit administration services to registrant commercial members of the Company. There have been several amendments to this agreement. The Company paid administration fees totaling \$2,463,391 under this agreement for 2019.

### Health Supplies Agreement

Effective January 1, 2009, the Company entered into a Health Supplies Agreement with OptumRx, Inc., whereby OptumRx, Inc. provides a catalogue benefit to the Company's medicare members for them to purchase items from the catalogue through points accumulated over the year or purchase outright. The items included in the catalogue are over-the-counter drugs, canes, and other durable medical equipment. There have been several amendments to this agreement. The Company did not pay any fees under this agreement for 2019.

### Administrative Services Agreements

Effective March 1, 2013, the Company entered into an Administrative Services Agreement with Optumhealth Care Solutions, Inc., whereby Optumhealth Care Solutions, Inc. manages a network of therapy

providers and other administrative functions in order to provide physical health solutions such as chiropractic and physical, occupation and speech therapy for the Company's registrant commercial and medicare members. There have been several amendments to this agreement. The Company paid administrative fees totaling \$1,738,377 under this agreement for 2019.

Effective July 1, 2011, the Company entered into an Administrative Services Agreement with Optuminsight, Inc., whereby Optuminsight Inc. provides claim analytics and recovery services, retrospective fraud, waste and abuse services and subrogation services to the Company's registrant commercial and medicare members. All subrogation recoveries are returned to the Company by Optuminsight, Inc. on a monthly basis. There have been several amendments to this agreement. The Company paid administrative fees totaling \$1,201,621 under this agreement for 2019.

#### Behavioral Health Services Agreement

Effective March 1, 2012, the Company entered into a Behavioral Health Services Agreement with United Behavioral Health, whereby United Behavioral Health provides services related to mental health and substance abuse treatment. There have been several amendments to this agreement. The Company paid fees totaling \$5,500,967 under this agreement for 2019.

#### Vision Services Agreement

Effective January 1, 2012, the Company entered into a Vision Services Agreement with Spectera, Inc., whereby Spectera, Inc. manages a network of vision service providers, processes claims, and performs other administrative functions related to vision services provided to the Company's registrant commercial and medicare members. There have been several amendments to this agreement. The Company paid fees totaling \$89,747 under this agreement for 2019.

#### Dental Services Agreement

Effective January 1, 2012, the Company entered into a Dental Services Agreement with Dental Benefit Providers, Inc. whereby Dental Benefit Providers, Inc. manages a network of dental service providers, processes claims, and performs other administrative functions related to dental services provided to the Company's registrant medicare members. There have been several amendments to this agreement. The Company paid fees totaling \$283,945 under this agreement for 2019.

#### Consolidated Federal Income Tax Agreement

The Company is included in a consolidated income tax return in accordance with a tax sharing agreement between UHG and its affiliates, effective March 29, 1996. The agreement sets forth the parties' obligations in connection with their filing as a consolidated tax filing group. The Company shall pay UHG an amount equal to the full separate federal, state and local (if any) income tax liability attributable to the net taxable income of the Company that would have been paid if the Company had filed separate federal, state and local income tax returns. UHG shall, within sixty (60) days after filing the return, refund to the the Company any overpayment. Any underpayment of tax shall be due and payable by the Company to UHG within sixty (60) days of receiving notice from UHG as to the amount due.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed to write health care insurance in all counties of North Carolina and provides managed care programs and products through contractual arrangements with healthcare providers for a predetermined, prepaid monthly fee. Effective April 5, 2019, the Company became licensed as a Prepaid Health Plan with authority to provide services under the North Carolina Medicaid and Health Choice programs.

### TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended 2019:

<b>Year</b>	<b>Net Admitted Assets</b>	<b>Capital and Surplus</b>	<b>Gross Premiums Written</b>	<b>Net Earned Premiums</b>	<b>Net Income(loss)</b>
2019	\$261,053,083	\$178,400,615	\$506,668,792	\$506,097,771	\$19,317,387
2018	\$180,675,911	\$81,752,049	\$497,275,499	\$496,712,230	(\$1,246,184)
2017	\$181,309,828	\$109,364,592	\$390,238,574	\$389,761,906	\$31,589,065
2016	\$403,700,856	\$148,429,729	\$933,607,625	\$929,547,919	\$26,386,782
2015	\$375,513,514	\$126,929,329	\$1,291,720,882	\$1,288,613,548	\$6,538,432

### ACTUARIAL OPINION

Every health maintenance organization doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary in accordance with GS § 58-2-165(c).

The statutory reserves and related items for 2019 were reviewed and certified by the Company's Appointed Actuary, Allen J. Sorbo, FSA, MAAA, Vice President, Corporate Actuarial Services of UHS. Actuarial opinions regarding the Company's reserves for claims unpaid and unpaid claims 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 claims unpaid and unpaid claims adjustment expense reserve. According to the actuarial opinions, the Company's reserve on the claims unpaid and unpaid adjustment expenses 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 claims unpaid and claims unpaid expense obligations of the Company.

## **REINSURANCE PROGRAM OVERVIEW**

### **REINSURANCE CEDED**

The Company has an insolvency-only reinsurance contract with United Healthcare Insurance Company, an affiliate, effective January 1, 2005 to provide insolvency protection for all business written by the Company. Reinsurance premiums are paid monthly based on a percentage of premiums earned by the Company.

The Company entered into an excess of loss contract with United Healthcare Insurance Company, an affiliate, effective April 1, 2019. When the Company begins writing Medicaid business on July 1, 2021, the Company will reinsure 80% of the losses over the \$300,000 deductible per Medicaid member per contract year under this contract. The Company will pay a monthly reinsurance premium based on an estimate of the number of Medicaid members covered by the Company, plus an adjustment for the previous month's actual versus the estimated Medicaid members. The Company ceded no premiums under this contract in 2019.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2018, are unexamined and are presented for comparative purposes only.

**UnitedHealthcare of North Carolina, Inc.**  
**Statutory Statement of Admitted Assets**  
**December 31, 2019**

	<b>2019</b>	<b>2018</b> <i>(unexamined)</i>
Bonds	\$125,427,752	\$121,367,377
Cash and short-term investments	117,471,939	40,979,759
<b>Total cash and invested assets</b>	<b>242,899,691</b>	<b>162,347,136</b>
Investment income due and accrued	779,806	770,803
Premiums and agents' balances in course of collection	2,033,458	3,005,173
Accrued retrospective premiums	816,995	413,831
Amounts recoverable from reinsurers	-	143,472
Current federal income tax recoverable	-	2,775,959
Net deferred tax asset	1,306,813	1,417,646
Receivable from parent, subsidiaries and affiliates	86,061	-
Healthcare receivable	13,130,259	9,801,507
Federally facilitated exchange user fees receivable	-	384
<b>Total admitted assets</b>	<b>\$261,053,083</b>	<b>\$180,675,911</b>

**UnitedHealthcare of North Carolina, Inc.**  
**Statutory Statement of Liabilities, Capital, and Surplus**  
**December 31, 2019**

	<b>2019</b>	<b>2018</b> <i>(unexamined)</i>
Claims unpaid	\$49,320,045	\$57,346,419
Accrued medical incentive pool and bonus amounts	815,678	986,756
Unpaid claims adjustment expenses	229,969	249,247
Aggregate health policy reserves	16,969,616	16,826,669
Premiums received in advance	13,048,287	12,971,053
General expenses due and accrued	1,261,086	3,609,907
Current federal and foreign income taxes	311,392	-
Ceded reinsurance premiums payable	47,626	51,856
Amounts withheld or retained for the account of others	216,869	190,199
Remittances and items not allocated	2,752	1,035
Amounts due to parent, subsidiaries and affiliates	-	1,349,695
Payable for securities	-	5,013,273
Liability for amounts held under uninsured plans	394,223	309,486
Unclaimed property	34,925	18,267
<b>Total Liabilities</b>	<b>82,652,468</b>	<b>98,923,862</b>
Surplus appropriated for CY ACA Section 9010 Fee	9,653,698	-
Common capital stock	1	1
Gross paid in and contributed surplus	115,129,185	39,129,185
Unassigned funds (surplus)	53,617,731	42,622,863
<b>Total capital and surplus</b>	<b>178,400,615</b>	<b>81,752,049</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$261,053,083</b>	<b>\$180,675,911</b>



**UnitedHealthcare of North Carolina, Inc.**  
**Statutory Statement of Operations**  
**December 31, 2019**

	<b>2019</b>	<b>2018</b> <i>(unexamined)</i>
<b>Underwriting Income</b>		
Total Revenues	\$505,458,870	\$496,899,936
<b>Hospital and Medical:</b>		
Hospital/medical benefits	335,398,158	355,187,889
Other professional services	137,949	116,553
Prescription Drugs	66,831,254	60,444,187
Incentive pool, withhold adjustments and bonus amounts	1,229,910	136,431
Subtotal	403,597,271	415,885,060
<b>Less:</b>		
Net reinsurance recoveries	113,203	-
Total hospital and medical	403,484,068	415,885,060
Claims adjustment expenses	18,251,972	18,040,257
General administrative expenses	66,582,161	63,338,877
Increase in reserves for life and accident and health contracts	(1,821,000)	1,821,000
Total underwriting deductions	486,497,201	499,085,194
Net underwriting gain	18,961,669	(2,185,258)
<b>Investment Income:</b>		
Net investment income earned	5,288,355	3,520,350
Net realized capital losses	(14,863)	(3,101)
Net investment gain	5,273,492	3,517,249
<b>Other Income</b>		
Net loss from agents' or premium balances charged off	(135,857)	(359,687)
Net income after capital gains tax and before federal income tax	24,099,304	972,304
Federal and foreign income taxes incurred	4,781,917	2,218,488
<b>Net Income (Loss)</b>	<b>\$19,317,387</b>	<b>(\$1,246,184)</b>

**UnitedHealthcare of North Carolina, Inc.**  
**Statutory Statement of Capital and Surplus**  
**December 31, 2019**

	<b>2019</b>	<b>2018</b> <i>(unexamined)</i>
Capital and surplus, beginning of year	\$81,752,049	\$109,364,592
Net Income	19,317,387	(1,246,184)
Change in unrealized capital gains	37,553	43,986
Change in net deferred income tax	(100,850)	(42,260)
Change in non-admitted assets	(588,963)	2,129,582
Surplus adjustment paid in	76,000,000	-
Dividends to stockholders	-	(30,000,000)
Correction of an error	1,983,439	1,502,333
Net change in capital and surplus	96,648,566	(27,612,543)
<b>Capital and surplus, end of year</b>	<b>\$178,400,615</b>	<b>\$81,752,049</b>

**UnitedHealthcare of North Carolina, Inc.**  
**Statutory Statement of Cash Flow**  
**December 31, 2019**

	<b>2019</b>	<b>2018</b> <i>(unexamined)</i>
<b>Cash From (Used By) Operations</b>		
Premiums collected net of reinsurance	\$507,930,145	\$506,228,777
Net investment income	5,642,791	3,973,317
Total	513,572,936	510,202,094
Benefit and loss related payments	415,343,309	397,528,740
Commissions, expenses paid and aggregate write-ins	84,670,483	73,795,013
Federal income taxes paid	2,225,041	7,127,910
Total	502,238,833	478,451,663
<b>Net cash (used by) from operations</b>	<b>11,334,103</b>	<b>31,750,431</b>
<b>Cash (Used By) Investments</b>		
Proceeds from investments sold, matured, or repaid	44,838,616	45,613,476
Cost of Investments acquired	54,234,380	44,272,735
<b>Net cash (used by) investments</b>	<b>(9,395,764)</b>	<b>1,340,741</b>
<b>Cash From (Used By) Financing and Miscellaneous Sources</b>		
Capital and paid in surplus, less treasury stock	76,000,000	-
Dividends to stockholders	-	30,000,000
Other cash provided (applied)	(1,446,159)	147,975
<b>Net cash from financing and miscellaneous sources</b>	<b>74,553,841</b>	<b>(29,852,025)</b>
<b>Reconciliation of Cash and Short-Term Investment</b>		
Net change in cash and short-term investments	76,492,180	3,239,147
Cash and short-term investments, beginning of year	40,979,759	37,740,612
Cash and short-term investments, end of year	<b>\$117,471,939</b>	<b>\$40,979,759</b>

## COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

### **Basis of Presentation and Summary of Significant Accounting Policies:**

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

**Bonds:** Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or fair value.

**Cash and Cash Equivalents:** Carried at amortized cost (which approximates fair value) and includes debt securities with maturities of less than one year.

**Premiums:** Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

**Non-admitted Assets:** Certain assets, such as premiums over 90 days past due, are charges against surplus.

**Claims Unpaid and Unpaid Claims Adjustment Expenses:** Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported.

**Healthcare Receivables:** Consist of pharmacy rebates estimated based on the most currently available data from the Company's claims processing systems and from data provided by the Company's affiliated pharmaceutical benefit manager.

### Analysis of Assets:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$125,427,752	-	\$125,427,752
Cash and short-term investments	117,471,939	-	117,471,939
<b>Total cash and invested assets</b>	<b>242,899,691</b>	<b>-</b>	<b>242,899,691</b>
Investment income due and accrued	779,806	-	779,806
Premiums and agents' balances in course of collection	2,291,066	\$257,608	2,033,458
Accrued retrospective premiums	816,995	-	816,995
Net deferred tax asset	1,306,813	-	1,306,813
Receivable from parent, subsidiaries, and affiliates	86,061	-	86,061
Health care and other amounts receivable	15,923,821	2,793,562	13,130,259
Prepaid Commissions	36,816	36,816	-
Service fee billing	33,192	33,192	-
<b>Total admitted assets</b>	<b>\$264,174,261</b>	<b>\$3,121,178</b>	<b>\$261,053,083</b>

### Reinsurance Activity:

The Company has a reinsurance contract to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company.

Direct and ceded premiums written and earned are as follows:

	2019	2018
Direct written	\$506,668,791	\$497,275,499
Ceded written	571,020	563,269
<b>Net earned</b>	<b>\$506,097,771</b>	<b>\$496,712,230</b>
Direct earned	\$506,668,791	\$497,275,499
Ceded earned	571,020	563,269
<b>Net earned</b>	<b>\$506,097,771</b>	<b>\$496,712,230</b>

The types of contract and retention limit are described under the Reinsurance Program Overview section.

The Company ceded premiums totaling \$571,020 and \$563,269 in 2019 and 2018, respectively, under its insolvency-only reinsurance contract with United Healthcare Insurance Company, an affiliate.

## **Summary of Reserves:**

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

	<b>2019</b>	<b>2018</b>
Reserve for claims unpaid and unpaid claims adjustment expenses, beginning of year	\$58,582,422	\$46,492,190
<b>Add:</b>		
Provision for claims unpaid and unpaid claims adjustment expenses, current year	444,969,907	441,058,087
Change in estimated claims unpaid and unpaid claims adjustment expenses, prior years	(19,572,078)	(13,376,289)
<b>Total incurred</b>	<b>425,397,829</b>	<b>427,681,798</b>
<b>Deduct:</b>		
Claims unpaid and unpaid claims adjustment expenses paid, current year	398,363,077	389,797,555
Claims unpaid and unpaid claims adjustment expenses paid, prior year	35,251,482	25,794,011
<b>Total paid</b>	<b>433,614,559</b>	<b>415,591,566</b>
Reserve for claims unpaid and unpaid claims adjustment expenses, end of year	50,365,692	58,582,422
Increase in reserve for claims unpaid and unpaid claims adjustment expenses	(\$8,216,730)	\$12,090,232

At December 31, 2019, there was no reduction in the liability for claims unpaid and unpaid claims adjustment expenses for amounts to be recovered from reinsurers.

The Company did not have any reinsurance recoverable for unpaid claims at December 31, 2019.

## **Aggregate Health Policy Reserves**

The Affordable Care Act ("ACA") created a permanent risk adjustment mechanism that transfers funds from lower risk, non-grandfathered plans to higher risk, non-grandfathered plans in the individual and small group markets, for plans effective on or after January 1, 2014. The Company's calculation of its risk adjustment accruals for 2019 was based on available 2019 claims data paid through March 31, 2020. All reporting on claims must be submitted to the Department of Health and Human Services by April 30, 2020. The Company's aggregate health policy reserves totaling \$16,969,616 at December 31, 2019 were subsequently determined to be significantly deficient based on a notification received in August 2020 from the Center for Medicaid Services resulting from risk adjustment audits performed for the 2019 benefit year for the small group market. (Refer to Subsequent Events)

### **Capital and Surplus:**

The following, in conjunction with the Statutory Statement of Capital and Surplus, represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2014:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Capital and surplus, beginning of year	\$148,429,729	\$126,929,329	\$130,820,339
Capital and surplus increases (decreases):			
Net income(loss)	31,589,065	26,386,782	6,538,432
Change in unrealized capital gains	(327)	-	-
Change in net deferred income tax	(4,305,486)	(4,855,860)	8,040,908
Change in non-admitted assets	4,151,611	(30,522)	(3,470,350)
Dividends to stockholders	(70,500,000)	-	(15,000,000)
Change in surplus as regards policyholders for the year	(39,065,137)	21,500,400	(3,891,010)
Capital and surplus, end of year	\$109,364,592	\$148,429,729	\$126,929,329

### **Contingencies and Commitments:**

The Company has given the National Affordable Housing Trust a commitment of providing additional funding to the current low income housing tax credit investment for the Crestfield North Carolina project. The Company is expected to pay approximately \$1.9 million in 2021, \$122,000 in 2022 and approximately \$5,000 each year in 2023-2027. The Company has the ability to sell the low income housing tax credit investment prior to the additional contribution being required.

## SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic has continued to develop throughout 2020. During the second quarter of 2020, the global health system experienced unprecedented levels of care deferral. As the pandemic advanced, access to and demand for care was most constrained from mid-March through April 2020, began to recover in May and June 2020 and restored to near normal seasonal levels in the third quarter of 2020. Care patterns continued to normalize in the fourth quarter of 2020, returning to, and even exceeding, seasonal baselines, including COVID-19 treatment and testing costs, towards the end of the quarter. The temporary deferral of care experienced in 2020 may cause care patterns to moderately exceed normal baselines in future periods as utilization of health system capacity continues to increase. From time to time, health system capacity may be subject to possible increased volatility due to the pandemic. While the temporary care deferral impacted the Company's results of operations for the year ended December 31, 2020, the ultimate overall impact is uncertain and dependent on the future pacing and intensity of the pandemic, the duration of policies and initiatives to address COVID-19, and general economic uncertainty.

The full effect of COVID-19 on the United States and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators with the assistance of the NAIC are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The Department along with the other insurance regulators have been in communication with UHC regarding the impact of COVID-19 on its business operations and the financial position, including its Pandemic Preparedness Plan and material Third Party Vendors business continuity plans. No current material operational, solvency or liquidity concerns resulted from the high-level assessment of the Company's operational and solvency position as a result of COVID-19.

In August 2020, the Company received notification from the Center for Medicaid Services regarding amounts which will be due in 2022 for the Risk Adjustment Data Validation ("RADV") audits applicable to the 2019 benefit year for the small group market. Based on updated information related to the 2019 RADV and the ACA Risk Adjustment reported amounts, the total Aggregate Health Policy Reserves reported by the Company for all lines of business are deficient by approximately \$23.1 million at December 31, 2019. The assumptions and methodologies used by the Company to develop the risk adjustment receivables and payables at December 31, 2019 were determined to be reasonable based on the information available at the time the estimates were developed. The Company's risk in relation to the overall state risk determines how much the Company will ultimately pay or receive for a benefit year and the overall state risk was unknown when the Company estimated its aggregate health policy reserves for year-end 2019. The Company updated its reported reserves in 2020 to reflect the new information regarding the 2019 RADV amounts due.

On July 1, 2021, the Company plans to begin writing Medicaid business to eligible North Carolina beneficiaries.

Effective January 1, 2022, UHCWI is planning to novate and transfer the ACA business that UHCWI is currently writing in 2021 to the Company at the time of each policy renewal. There is no transfer or assumption of risk among and between UHCWI and the Company as part of this transfer.



**UnitedHealthCare of North Carolina, Inc.**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**December 31, 2019**

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## CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-67-110 for the kinds of insurance that the Company has been authorized to write, which is \$2,000,000.

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

Respectfully submitted,



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

May 3, 2021

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Keith Greene, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Keith Greene Date: 5/3/2021  
Keith Greene

Sworn and subscribed before me this 3<sup>rd</sup> day of May, 2021.

Notary Public Signature: Jennifer L. Ishihara Notary Public Seal:

