

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION

OF

HealthSpring of Alabama, Inc.

HOOVER, ALABAMA

AS OF DECEMBER 31, 2012

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EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF JEFFERSON**

Rhonda B. Ball, CFE, being duly sworn, states as follows:

1. I have the authority to represent Alabama in the examination of HealthSpring of Alabama, Inc.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of HealthSpring of Alabama, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Rhonda B Ball
Examiner-in-charge

Subscribed and sworn before me by Rhonda Ball on this
9th day of August, 2013.

(SEAL)

Glice Armin
(Signature of Notary Public)

My commission expires December 28, 2013.



ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 502
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DEPUTY COMMISSIONER
CHARLES M. ANGELL (acting)

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
REYN NORMAN

Birmingham, Alabama
August 9, 2013

Jim L. Ridling, Commissioner
Alabama Department of Insurance
P.O. Box 303351
Montgomery, Alabama 36130-3351

Dear Commissioner Ridling:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

HealthSpring of Alabama, Inc.
Hoover, Alabama

at its home office located at Two Chase Corporate Drive, Suite 300, Hoover, Alabama 35244 as of December 31, 2012. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate HealthSpring of Alabama, Inc.

SCOPE OF EXAMINATION

The Company was last examined for a three-year period ended December 31, 2009, by examiners representing the State of Alabama. The current examination covers the intervening period from the date of the last examination through December 31, 2012 and was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to 2012 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the State of Alabama for Health Maintenance Organizations as provided for in Title 27, Chapter 21A and in accordance with Alabama Insurance Department regulations and bulletins in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2012, and to identify the Company's prospective risks by obtaining information about the Company including corporate governance, by identifying and assessing inherent risks within the Company and by evaluating system controls and procedures used to mitigate those risks. The 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 statutory accounting principles and annual statement instructions.

The Company's annual statements for all years under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examination. The IS examination included a review of management and organizational controls, logical and physical security controls, changes in application controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory and plan of operation, management and control, complaint handling, marketing and sales, policyholder services, producer licensing, underwriting and rating and privacy standards. See "Market Conduct Activities" on page 20 for further discussion of the market conduct examination.

Pricewaterhouse Coopers, LLC (PwC) was the Company's certified public accountants (CPAs) for 2012. Prior to 2012, the Company was audited by KPMG, LLP. The examiners reviewed the CPA's workpapers for 2010 – 2011, copies of which were incorporated into the examination as deemed appropriate.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2012.

ORGANIZATION AND HISTORY

The Company began operations on April 1, 1985, as a health maintenance organization, licensed by the state of Alabama. The original name of the Company was “Sunmark Health Plans.”

On May 28, 1986, the Company was purchased by Baptist Health Systems, Inc. (BHS), formerly Baptist Medical Centers, and the name was changed to “Samaritan Health Plans.” On February 28, 1988, the name of the Company was changed to “Partners Health Plan of Alabama, Inc.” On September 22, 1992, the Company’s name was changed to “Health Partners of Alabama, Inc.”

On January 1, 1995, the Company merged with Gulf Health Plans HMO, Inc. (GHP) with the Company as the surviving entity. Infirmary Health System, Inc. (IHS), parent of GHP, had its shares in GHP converted into 620 shares of the Company, making it a minority shareholder. As a result of the merger, the Company was owned 89% by BHS and 11% by IHS.

On March 1, 1995, the Company purchased a third party administrator, Gulf Health Plans, Inc., and purchased HPA Administrative Services, Inc. from BHS. Upon the effective date of the purchase, HPA Administrative Services, Inc. was merged into Gulf Health Plans, Inc. with HPA Administrative Services, Inc. as the surviving corporation. It was a wholly owned subsidiary of the Company.

On August 16, 1996, BHSA and IHS formed a holding company, Health Partners Southeast, Inc. (HPSE). BHSA and IHS each contributed their ownership interest in the Company to HPSE. Upon consummation of the transaction, HPSE became 100% owner of the Company, and HPSE was owned 89% by BHS and 11% by IHS.

On September 23, 1996, HPSE purchased PCA Health Plan of Alabama, Inc., PCA Health Plan of Georgia, Inc., and Health Strategies, Inc. The name of PCA Health Plan of Alabama, Inc. was changed to “Merit Health Plan of Alabama, Inc.” (Merit). PCA Health Plan of Georgia’s name was changed to “HPC Health Plans of Georgia, Inc.” Both of these HMOs were affiliates of the Company. Health Strategies, Inc. was an affiliate of the Company.

On September 30, 1999, the Company merged with Merit. The Company remained as the surviving corporation after the merger. The outstanding shares of Merit were cancelled as of September 30, 1999, and HPSE owned 5,000 shares of the Company.

On November 13, 2000, the Company’s name was changed to The Oath - A Health Plan for Alabama, Inc.

On November 19, 2002, NewQuest, LLC acquired the Company and changed the Company’s name to HealthSpring of Alabama, Inc.

On January 1, 2003, NewQuest Management of Alabama, LLC was formed to act as a management company for the Company.

HealthSpring, Inc. was formed in October 2004 in connection with a recapitalization transaction, which was accounted for using the purchase method, involving the Company's parent, NewQuest, LLC, its members, GTCR Golden Rauner II, L.L.C., a private equity firm, and its related funds, or the GTCR Funds, and certain other investors and lenders. The recapitalization was completed in March 2005.

The Company is owned 100% by NewQuest, LLC. NewQuest, LLC is owned 100% by HealthSpring, Inc. HealthSpring, Inc. issued an initial public offering on February 8, 2006 and was listed under the symbol HS on the New York Stock Exchange. In connection with the initial public offering, HealthSpring, Inc. sold 10.6 million shares of common stock at a price of \$19.50 per share. The total proceeds to HealthSpring, Inc. were \$188.7 million, net of the \$18 million of offering costs. From the offering and available cash, HealthSpring, Inc. repaid all of its long-term debt and accrued interest, including a \$1.1 million prepayment penalty, totaling \$189.8 million. Additionally, HealthSpring, Inc. issued approximately 12.6 million shares of common stock in exchange for all of the outstanding preferred stock, including dividends.

On November 4, 2011, Cigna Corporation disclosed their intentions via a Form A, to acquire control of the Company pursuant to a Merger Agreement, dated October 24, 2011, among HealthSpring, Inc., a Delaware corporation and the Company's ultimate controlling person ("HealthSpring"), Cigna Magnolia Corporation ("Merger Subsidiary") and Cigna (the "Merger Agreement"). Pursuant to the Merger Agreement, Cigna Magnolia Corporation will be merged with and into HealthSpring in accordance with Delaware law, at which time the separate existence of Cigna Magnolia Corporation shall cease and HealthSpring shall be the surviving corporation (the "Merger") with Cigna as its ultimate controlling person. Thus upon consummation of the Merger, Cigna will acquire indirect control over the Domestic HMO. Pursuant to the Merger Agreement, all shares of HealthSpring common stock will be exchanged for \$55.00 per share (or aggregate consideration of \$3.8 billion).

On November 11, 2011, Cigna issued a \$600 million aggregate principle amount of 2.750% Senior Notes due 2016 (the "5-Year notes"), \$750 million aggregate principle amount of 4.000% Senior Notes due 2022 (the "10-Year Notes"), and \$750 million aggregate principle amount of 5.375% Senior Notes due 2042 (the "30-year Notes" and together with the 5-Year Notes and the 10-Year Notes, the "Notes"). In the aggregate, Cigna raised \$2.1 billion in cash through the issuance of the Notes, which Cigna contributed to the Merger Subsidiary to fund the aggregate consideration of approximately \$3.8 billion (the "Merger Consideration"). The remaining \$1.7 billion was financed through the net proceeds from the sale of Cigna common stock, the net proceeds from the issuance of commercial paper prior to the closing date of the acquisition (collectively, "External Financing") and internal capital resources.

The acquisition of control of the Company by CIGNA was approved, done and ordered on January 20, 2012. The purchase was effective January 31, 2012.

The Company's authorized capital stock consisted of 120,000 shares of common stock. At December 31, 2012, there were 5,620 shares issued and outstanding at a \$20 stated value per share resulting in \$112,400 issued and outstanding.

MANAGEMENT AND CONTROL

Stockholder

At December 31, 2012, NewQuest, LLC owned 100% of the Company's common capital stock.

Board of Directors

According to the Company's Charter and Bylaws, the board of directors shall manage its business and dealings. The following directors were elected by the shareholder and were serving at December 31, 2012:

<u>Director/Address</u>	<u>Principal Occupation</u>
James Patrick Foley Bryn Mawr, Pennsylvania	President and Chief Executive Officer HealthSpring of Alabama, Inc.
Robert Lambdin Dawson Birmingham, Alabama	Chief Market Officer HealthSpring, Inc.
Sanjeev Kumar Srivastava Wilson, Connecticut	Vice President HealthSpring of Alabama, Inc.

Committees

The Company had no Board committees during the examination period.

Officers

Officers of the Company elected by the Board of Directors and serving at December 31, 2012 were as follows:

<u>Officer</u>	<u>Title</u>
James Patrick Foley	Chief Executive Officer, President and Chairman
Robert Lambdin Dawson	Co-Chief Executive Officer and Vice Chairman
Scott Christian Huebner	Co-Chief Executive Officer
Matthew Shawn Morris	Co-Chief Executive Officer
James Rusty Hailey	President – Pharmaceutical Operations
Mark Andrew Tulloch	Vice President and Secretary
Brian David Setzer	Chief Financial Officer
Kenneth Bruce Botsford, M.D.	Chief Medical Officer
Richard Alan Appel	Compliance Officer
David Lowell Terry	Chief Actuary
Sanjeev Kumar Srivastava	Vice President
Barry Richard McHale	Vice President and Treasurer
Maureen Hardiman Ryan	Vice President and Assistant Treasurer
Scott Robert Lambert	Vice President and Assistant Treasurer
Jumana Nadeem Siddiqui	Assistant Treasurer

Kevin James Oleksak	Assistant Secretary
Rhiannon Ashley Bernier	Assistant Secretary
Anna Krishtul	Assistant Secretary
Natalie Choy Deitrich	Assistant Secretary

Conflict of Interest

Health Spring, Inc. and all of its subsidiaries have adopted a Conflict of Interest Policy. The purpose of the policy is to ensure that all employees, officers and downstream entities act in the best interest of HealthSpring, Inc. and its subsidiaries when fulfilling their obligations as an employee, officer, director, or contracted vendor of provider. The Company requires officers, directors and responsible employees of Health Spring, Inc. and HealthSpring of Alabama, Inc. to sign conflict of interest statements on an annual basis. These statements were reviewed for each year under examination. No conflicts were noted and all requested statements were provided.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected and found to provide for the operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings and actions of the Board of Directors during the examination period were reviewed. The minutes appeared to be complete with regards to recording actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATE MATTERS

The Company was not subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE § 27-29-1 (1975), except as expressly required by other statutes and regulations. Generally HMOs are subject to regulation in regard to changes in control, but are not subject to the holding company reporting requirements that apply to insurance companies

Dividends to Stockholder

The following dividends were issued to the sole stockholder during the examination period:

2011	\$22,000,000
2010	\$ 9,400,000

Management and Service Agreements

As of December 31, 2012, the Company was a party to the following agreements with its affiliates:

Management services agreement between NewQuest Management of Alabama, LLC and HealthSpring of Alabama, LLC

The agreement was effective January 1, 2003. Throughout the agreement, HealthSpring of Alabama was referred to as (“HealthSpring”) and NewQuest was referred to as (“Manager”).

This agreement states:

- Manager is the sole and exclusive agent for management and administration of certain business functions for HealthSpring. Authority was delegated to Manager and HealthSpring without restriction.
- Manager shall provide management and administrative services in accordance with HealthSpring’s operational needs, laws, rules, and regulations.
- Manager shall assist HealthSpring to establish and monitor procedures that promote the consistency, quality, and appropriateness of health care.
- Manager shall maintain all regulatory permits for the operation of HealthSpring.
- Manager is responsible for all aspects of its personnel.
- Manager shall act under special powers of attorney for HealthSpring and have access to HealthSpring’s bank account.
- HealthSpring shall deliver an annual fiscal operational budget to Manager 60 days in advance.
- Manager shall administer all accounting procedures and controls. Manager shall supervise the preparation and deliver to HealthSpring end of year and monthly statements.
- HealthSpring has the right to examine and audit all accounts maintained by Manager.
- Manager shall be responsible for all HealthSpring’s tax returns and reports.
- Manager shall create, prepare, and file timely reports and records on HealthSpring’s behalf.
- Manager shall keep HealthSpring’s information confidential.
- Manager shall maintain its own insurance.
- Manager shall be responsible for the preparation of all premium tax and regulatory assessment filings at its own expense. At HealthSpring’s request, Manager shall, at HealthSpring expense, file protests and applications regarding government of taxing authorities.
- All personal property, lease payments either for real estate or equipment, shall be at Manager’s expense, even if the lease is in HealthSpring’s name.
- HealthSpring shall arrange for medical care through its providers.
- HealthSpring shall at its own expense maintain appropriate insurance.
- HealthSpring agrees to pay Manager monthly management fees by the 10th of each month as evidenced in Exhibit A.
- The agreement is binding for one year and shall be reviewed each year or within 60 days notice of cancellation.
- If either party defaults, it has 30 days, or 10 days for nonpayment of fees, to cure the default.

- Upon termination of the agreement, neither party shall have any further liabilities except those accrued. Promises and covenants expressly made to extend beyond the termination date shall remain in force.
- This agreement supersedes all previous agreements.

Amendments to management services agreement by and between HealthSpring of Alabama, Inc. and NewQuest Management of Alabama, LLC

Within the amendments, HealthSpring of Alabama, Inc. is referred to as HealthSpring and NewQuest Management of Alabama, LLC is referred to as Manager.

Effective January 1, 2004, the management service agreement shall be amended as follows:

- Section 3.12- Manager's Insurance shall be deleted and replaced in its entirety with Section 3.12- Manager's Insurance as set for in this amendment, effective January 1, 2004. Section 3.12- Manager's Insurance- Throughout the Term, Manager shall, at HealthSpring's expense, obtain and maintain with commercial carriers, self-insurance or some combination of these, appropriate workers' compensation coverage for Manager's employed personnel provided pursuant to this Agreement, and casualty and comprehensive general liability insurance, including an employee dishonesty policy, covering Manager, Manager's personnel and all of Manager's equipment in such amounts, on such basis and upon such terms and conditions as Manager deems appropriate.

The management fee reimbursement schedule was amended effective January 1, 2004, 2005, 2006, and 2007. This agreement was also amended, effective January 1, 2011, to update the regulatory requirements of CMS.

The management services agreement and the amendments to this agreement were approved by the Alabama Department of Insurance.

Tax Sharing Agreement between Cigna and the Company

As of February 1, 2012, the Company entered into a Consolidated Federal Income Tax Agreement with Cigna Corporation and its domestic subsidiaries. Pursuant to the Agreement, federal income taxes are allocated to the Company as if it were filing on a separate return basis. The tax benefit of net operating losses, capital losses, and tax credits are funded to the extent they reduce the consolidated federal income tax liability.

Investment Advisory Agreement

The Investment Advisory Agreement was entered into January 31, 2012 between CIGNA Investments, Inc. ("Adviser") and HealthSpring of Alabama, Inc. In this agreement, the Adviser has the sole discretion, in accordance with applicable law and as stipulated within the agreement, to make and carry out decisions regarding acquisitions, holdings and dispositions of securities on behalf of the Company. The fees related to this agreement are due no later than 90 days after receipt of the invoice. This agreement may be terminated by either party at any time through a written notice.

Right to Offset Agreement

The Right to Offset Agreement was entered into on May 21, 2012, among HealthSpring of Alabama, Inc., health plan affiliates of HealthSpring of Alabama, Inc. and NewQuest, LLC, as a result of a financial exam recommendation by the California Department of Managed Health Care (CDMHC). The CDMHC exam disclosed that the health plan affiliates were offsetting payable and receivable accounts on financial reporting forms without an executed agreement in place for the right to offset. This agreement is for an initial term of one year and will renew annually unless any party to the agreement provides thirty days advance notice of termination/non-renewal.

Expense Sharing Agreement

The Expense Sharing Agreement is entered into by and among entities within the CIGNA Corporation and includes those affiliated companies within the CIGNA Corporation that become signatories to this agreement. Under the agreement, the parties may share expenses for certain shared services that are provided by or contracted for one party to the agreement. When a party contracts for shared services, the contracting party for such shared services shall be responsible for the allocation of costs of the shared service expenses to each party utilizing the shared services. The contracting party shall establish an allocation method for the shared service expenses in accordance with generally accepted accounting principles with respect to the particular type of expense. The agreement states that on the fifth business day following the close of the month, the paying party will pay the invoice and absorb the costs for the shared services. On that same day an equal amount will be allocated to and paid by the other sharing parties. The Company became a party to this agreement on August 31, 2012. This agreement is for an initial term of one year and will renew annually unless any party to the agreement provides thirty days advance notice of termination/non-renewal.

Organizational Chart

The following presents the identities and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2012.

Cigna CORPORATION

A Delaware Corporation and Ultimate Parent Company

- | Cigna Holdings, Inc.
- | | Cigna Intellectual Property, Inc.
- | | Cigna Investment Group, Inc.
- | | | Cigna International Finance Inc.
- | | | Former Cigna Investments, Inc.
- | | | Cigna Investments, Inc.
- | | | | Cigna Mezzanine Partners III, LP
- | | | | Cottage Grove Real Estate, Inc.
- | | | | Cigna Mezzanine Partners III, Inc.

| | | | Tennessee Quest, LLC
 | | | | HealthSpring Pharmacy Services, LLC
 | | | | HealthSpring Pharmacy of Tennessee, LLC
 | | *Cigna Arbor Life Insurance Company
 | | (EI # 03-0452349, NAIC # 13733, CT)
 | | Cigna Behavioral Health, Inc.
 | | | Cigna Behavioral Health of California, Inc.
 | | | (EI# 94-3107309)
 | | | Cigna Behavioral Health of Texas, Inc.
 | | | (EI# 75-2751090)
 | | | MCC Independent Practice Association of New York, Inc.
 | | Cigna Dental Health, Inc.
 | | | Cigna Dental Health of California, Inc.
 | | | (EI# 59-2600475, CA)
 | | | Cigna Dental Health of Colorado, Inc.
 | | | (EI# 59-2675861, NAIC # 11175, CO)
 | | | Cigna Dental Health of Delaware, Inc.
 | | | (EI# 59-2676987, NAIC # 95380, DE)
 | | | Cigna Dental Health of Florida, Inc.
 | | | (EI# 59-1611217, NAIC # 52021, FL)
 | | | Cigna Dental Health of Illinois, Inc.
 | | | (EI# 06-1351097, IL)
 | | | Cigna Dental Health of Kansas, Inc.
 | | | (EI# 59-2625350, NAIC # 52024, KS)
 | | | Cigna Dental Health of Kentucky, Inc.
 | | | (EI# 59-2619589, NAIC # 52108, KY)
 | | | Cigna Dental Health of Missouri, Inc.
 | | | (EI#06-1582068, NAIC # 11160, MO)
 | | | Cigna Dental Health of New Jersey, Inc.
 | | | (EI# 59-2308062, NAIC # 11167, NJ)
 | | | Cigna Dental Health of North Carolina, Inc.
 | | | (EI# 56-1803464 , NAIC # 95179, NC)
 | | | Cigna Dental Health of Ohio, Inc.
 | | | (EI# 59-2579774, NAIC # 47805, OH)
 | | | Cigna Dental Health of Pennsylvania, Inc.
 | | | (EI# 52-1220578, NAIC # 47041, PA)
 | | | Cigna Dental Health of Texas, Inc.
 | | | (EI# 59-2676977, NAIC # 95037, TX)
 | | | Cigna Dental Health of Virginia, Inc.
 | | | (EI# 52-2188914, NAIC # 52617, VA)
 | | | Cigna Dental Health Plan of Arizona, Inc.

| | | | (EI# 86-0807222, NAIC # 47013, AZ)

| | | | Cigna Dental Health of Maryland, Inc.

| | | | (EI#20-2844020, NAIC #48119, MD)

| | | | Cigna Health Corporation

| | | | Healthsource, Inc.

| | | | | Cigna HealthCare of Arizona, Inc.

| | | | | (EI# 86-0334392, NAIC#95125, AZ)

| | | | | Cigna HealthCare of California, Inc.

| | | | | (EI# 95-3310115, CA)

| | | | | Cigna HealthCare of Colorado, Inc.

| | | | | (EI# 84-1004500, NAIC # 95604, CO)

| | | | | Cigna HealthCare of Connecticut, Inc.

| | | | | (EI# 06-1141174, NAIC # 95660, CT)

| | | | | Cigna HealthCare of Florida, Inc.

| | | | | (EI# 59-2089259, NAIC # 95136, FL)

| | | | | Cigna HealthCare of Illinois, Inc.

| | | | | (EI# 36-3385638, NAIC # 95602, IL)

| | | | | Cigna HealthCare of Maine, Inc.

| | | | | (EI# 01-0418220, NAIC # 95447, ME)

| | | | | Cigna HealthCare of Massachusetts, Inc.

| | | | | (EI# 02-0402111, NAIC # 95220, MA)

| | | | | Cigna HealthCare Mid-Atlantic, Inc.

| | | | | (EI# 52-1404350, NAIC # 95599, MD)

| | | | | Cigna HealthCare of New Hampshire, Inc.

| | | | | (EI# 02-0387749, NAIC # 95493, NH)

| | | | | Cigna HealthCare of New Jersey, Inc.

| | | | | (EI# 22-2720890, NAIC # 95500, NJ)

| | | | | Cigna HealthCare of Pennsylvania, Inc.

| | | | | (EI# 23-2301807, NAIC # 95121, PA)

| | | | | Cigna HealthCare of St. Louis, Inc.

| | | | | (EI# 36-3359925, NAIC # 95635, MO)

| | | | | Cigna HealthCare of Utah, Inc.

| | | | | (EI# 62-1230908, NAIC # 95518, UT)

| | | | | Cigna HealthCare of Georgia, Inc.

| | | | | (EI# 58-1641057, NAIC # 96229, GA)

| | | | | Cigna HealthCare of Texas, Inc.

| | | | | (EI# 74-2767437, NAIC # 95383, TX)

| | | | | Cigna HealthCare of Indiana, Inc.

| | | | | (EI# 35-1679172, NAIC # 95525, IN)

| | | | | Cigna HealthCare of New York, Inc.

| | | | | (EI# 11-2758941, NAIC # 95488, NY)

| Cigna HealthCare of Tennessee, Inc.
 | (EI# 62-1218053, NAIC # 95606, TN)
 | Cigna HealthCare of North Carolina, Inc.
 | (EI# 56-1479515, NAIC# 95132, NC)
 | Cigna HealthCare of South Carolina, Inc.
 | (EI# 06-1185590, NAIC # 95708, SC)
 | *Temple Insurance Company Limited (Bermuda)
 | Arizona Health Plan, Inc.
 | Healthsource Properties, Inc.
 | Managed Care Consultants, Inc.
 | Choicelinx Corporation
 | Sagamore Health Network, Inc.
 | Cigna Healthcare Holdings, Inc.
 | (EI# 84-0985843)
 | Great-West Healthcare of Illinois, Inc.
 | (EI# 93-1174749, NAIC 95388, IL)
 | Cigna Healthcare, Inc.
 | *Cigna Life Insurance Company of Canada (Canada)
 | (AA1560515)
 | *Cigna Life Insurance Company of New York
 | (EI# 13-2556568, NAIC # 64548, NY)
 | *Connecticut General Life Insurance Company
 | (EI# 06-0303370, NAIC # 62308, CT)
 | CARING – Albuquerque, LLC
 | (EI# 27-5402936, DE)
 | CG Gillette Ridge, LLC
 | Gillette Ridge Apartments LLC
 | CG Merrick, LLC
 | Merrick Park LLC
 | Merrick Park Parking LLC
 | CG Morrison LLC
 | Civic Holding LLC
 | CG Mystic Center LLC
 | Station Landing Holding LLC
 | CG Mystic Land LLC
 | ND/CG Holding LLC
 | CG Pinnacle, L.L.C.
 | Pinnacle Industrial Center, LP
 | CG Skyline, LLC
 | Skyline ND/CG LLC
 | ND Mystic Center Note LLC

| | | | Skyline Mezzanine Borrower, LLC
 | | | | Skyline at Station Landing, LLC
 | Careallies, LLC
 | Carson Bayport 1 LP
 | CG Bayport LLC
 | | Bayport Colony Apartments LLC
 | CG Shirlington LLC
 | | Shirlington Apartments LLC
 | CG Wheaton, LLC
 | CG-LINA Bayport I LLC
 | CG-LINA Colonial LLC
 | | ND/CG Colonial LLC
 | | | PHF-ND Colonial LLC
 | CG-LINA Commonwealth LLC
 | | Unico/CG Commonwealth LLC
 | | | Commonwealth Acquisition LLC
 | CG-LINA Jacob Way, LLC
 | CG-LINA Lovejoy LLC
 | | Unico-CG Lovejoy LLC
 | Cigna Onsite Health, LLC
 | CR Longwood Investors, LP
 | | ND/CR Longwood LLC
 | | ARE/ND/CR Longwood LLC
 | Gillette Ridge Community Council, Inc.
 | Gillette Ridge Golf LLC
 | Hazard Center Investment Company LLC
 | Secon Properties, LP.
 | Teal Rock 501 Grant Street GP, LLC
 | Teal Rock 501 Grant Street, LP
 | Tel-Drug of Pennsylvania, LLC
 | AEW/FDG, LP
 | CR Washington Investors LP
 | ND/CR Unicorn LLC
 | Union Wharf Apartments LLC
 | AMD Apartments Limited Partnership
 | SP Newport Crossing LLC
 | PUR Arbors Apartment Venture LLC
 | CG Seventh LLC
 | Ideal Properties II LLC
 | CG-LINA Realty Investors LLC
 | | CG-LINA Alessandro II LLC

| | | | 115 Sansome Street Associates, LLC
 | | | | 121 Tasman Apartments LLC
 | | | | Alto Apartments LLC
 | | | | CG-LINA Paper Box LLC
 | CG-LINA 10 Brookline, LLC
 | | ND/CR 10 Brookline LLC
 | Cigna Affiliates Realty Investment Group, LLC
 | (EI# 27-5402196, DE)
 | | Market Street Residential Holdings LLC
 | | | Arborpoint at Market Street LLC
 | | Market Street Retail Holdings LLC
 | | | Market Street South LLC
 | | Diamondview Tower CM-CG LLC
 | Cigna Dulles Town, LLC
 | | Dulles Town Center Mall, LLC
 | CORAC LLC
 | | Bridgepoint Office Park Associates, LLC
 | | (EI# 27-3923999, DE)
 | | Fairway Center Associates, LLC
 | | (EI# 27-3126102, DE)
 | | Henry on the Park Associates, LLC
 | | (EI 27-3582688, DE)
 | *Cigna Health and Life Insurance Company
 | (EI # 59-1031071, NAIC # 67369, CT)
 | | CarePlexus, LLC
 | | (EI# 45-2681649; DE)
 | | Cigna Corporate Services, LLC
 | | (E22 4EI 27-3396038, DE)
 | | Cigna Insurance Agency, LLC
 | | (EI # 27-1903785, CT)
 | | Ceres Sales of Ohio, LLC
 | | (EI # 34-1970892, OH)
 | | Central Reserve Life Insurance Company
 | | (EI # 34-0970995, NAIC # 61727, OH)
 | | | Provident American Life and Health Insurance Company
 | | | (EI # 23-1335885, NAIC # 67903, OH)
 | | | | United Benefit Life Insurance Company
 | | | | (EI # 75-2305400, NAIC # 65269, OH)
 | | Loyal American Life Insurance Company
 | | (EI # 63-0343428, NAIC # 65722, OH)
 | | | American Retirement Life Insurance Company

| | | | | (EI # 59-2760189, NAIC # 88366, OH)
 | | Cigna Health Management, Inc.
 | | (EI# 23-1728483, DE)
 | | | Kronos Optimal Health Company
 | | | (20-8064696, AZ)
 | | | *Life Insurance Company of North America
 | | | (EI# 23-1503749, NAIC # 65498, PA)
 | | | | *Cigna & CMC Life Insurance Company Limited (China) (50%)
 | | | | (remaining interest owned by an unaffiliated party)
 | | | | *LINA Life Insurance Company of Korea (Korea)
 | | | | Cigna Direct Marketing Company, Inc.
 | | | Tel-Drug, Inc.
 | | | Vielife Holdings Limited (United Kingdom)
 | | | | Vielife Limited (United Kingdom)
 | | | | | Vielife Services, Inc.
 | | | | Businesshealth UK Limited
 | | | CG Individual Tax Benefit Payments, Inc.
 | | | CG Life Pension Benefits Payments, Inc.
 | | | Cigna Federal Benefits, Inc.
 | | | Cigna Healthcare Benefits, Inc.
 | | | Cigna Integratedcare, Inc.
 | | | Cigna Managed Care Benefits Company
 | | | Cigna Re Corporation
 | | | | Blodget & Hazard Limited
 | | | Cigna Resource Manager, Inc.
 | | | Connecticut General Benefit Payments, Inc.
 | | | Healthsource Benefits, Inc.
 | | | IHN, Inc.
 | | | LINA Benefit Payments, Inc.
 | | | Mediversal, Inc.
 | | | | Universal Claims Administration
 | | Cigna Global Holdings, Inc.
 | | | Cigna International Corporation, Inc. (Delaware)
 | | | Cigna International Services (Delaware)
 | | | Cigna International Marketing (Thailand) Limited (Thailand)
 | | | CGO Participatos LTDA
 | | | YCFM Servicios LTDA
 | | | *Cigna Global Reinsurance Company, Ltd. (Bermuda)
 | | | | Cigna Holdings Overseas, Inc.
 | | | | | Cigna Bellevue Alpha LLC
 | | | | | Cigna Hayat Sigorta, A.S.

- | Cigna Nederland Alpha Cooperatief U.A. (Netherlands)
- | | Cigna Nederland Beta B.V. (Netherlands)
- | | Cigna Nederland Gamma B.V. (Netherlands)
- | *Cigna Life Insurance Company of Europe S.A.-N.V. (Belgium) (99.998%)
- | (remaining interest owned by Cigna Global Holdings, Inc. -- AA-1240009)
- | *Cigna Europe Insurance Company S.A.-N.V. (Belgium) (99.999%)
- | (remaining interest owned by Cigna Global Holdings, Inc.)
- | Cigna European Services (UK) Limited (United Kingdom)
- | | Cigna 2000 UK Pension LTD
- | Cigna Health Solution India Pvt. Ltd. (India)
- | Cigna International Services Australia Pty Ltd (Australia)
- | Cigna Apac Holdings Limited (New Zealand)
- | | *Cigna Life Insurance New Zealand Limited (New Zealand)
- | | Cigna Taiwan Life Assurance Company Limited (Thailand)
- | | *Cigna Taiwan Life Insurance Company Limited (New Zealand)
- | | Cigna Hong Kong Holdings Company Limited (Hong Kong)
- | | | Cigna Data Services (Shanghai) Company Limited (China)
- | | | Cigna HLA Technology Services Limited (Hong Kong)
- | | | *Cigna Worldwide General Insurance Company Limited (Hong Kong)
- | | | *Cigna Worldwide Life Insurance Company Limited (Hong Kong)
- | PT GAR Indonesia
- | | PT PGU Indonesia
- | RHP (Thailand) Limited
- | | Cigna Brokerage Services (Thailand) Limited (75%)
- | | (remaining interest owned by Cigna Holdings Overseas, Inc.)
- | | *Cigna Non-Life Insurance Brokerage (Thailand) Limited (74.975%)
- | | (25% interest owned by Cigna Holdings Overseas, Inc.
- | | remaining interest owned by unaffiliated parties)
- | | KDM (Thailand) Limited (Thailand) (99.999%)
- | | | *Cigna Insurance Public Company Limited (75%)
- | | | (24.999% interest owned by Cigna Holdings Overseas, Inc.)
- | *Cigna Global Insurance Company Limited (Guernsey) (99.9999%)
- | (remaining interest owned by Cigna Global Holdings, Inc.)
- | Vanbreda International NV(Brussels)
- | | Vanbreda International Sdn. Bhd. (Malaysia)
- | | Vanbreda International (Beijing) Consultants and Administrators Co., Ltd (China)
- | | Vanbreda International, LLC (FL)
- | | Vanbreda International (Dubai) Limited (United Arab Emirates)
- | *Cigna Worldwide Insurance Company
- | (EI# 23-2088429, NAIC # 90859, DE)
- | | *PT. Asuransi Cigna (Indonesia) (80%)

					(remaining interest owned by unaffiliated parties – AA-5360003)
					FirstAssist Group Holdings Limited (UK)
					FirstAssist Group Limited (UK)
					FirstAssist Administration Limited (UK)
					Brighter Business Limited (UK)
					FirstAssist Legal Protection Limited (UK)
					FirstAssist Insurance Services Limited (UK)

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on a financial institution bond issued by National Union Fire Insurance Co. of Pittsburgh, Pennsylvania, which met the suggested minimum requirements of the NAIC *Financial Examiners Handbook*. In addition to the aforementioned fidelity bond, the Company also maintained the following coverages to protect the Company against hazards to which it may be exposed:

- Executive and Organization Liability
- Employment Practices Liability and Loss Prevention
- Business and Personal Property Coverage
- Commercial Crime Coverage
- Fiduciary Liability Loss Prevention
- General Liability

The coverages and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company’s interests at the examination date.

SECTION 1033 OF TITLE 18 OF THE U.S. CODE

Compliance with ALA. ADMIN. CODE 482-1-121

Under ALA. ADMIN. CODE 482-1-121, the Company is required to comply with the Violent Crime Control and Law Enforcement Act of 1994, US Code, Title 18, Section 1033 (e)(1)(A), which prohibits individuals who have been convicted of any criminal felony involving dishonesty, breach of trust or a violation of this Act from engaging in the business of insurance in interstate commerce without the specific written consent from the Commissioner of Insurance. As part of the pre-employment screening process all employees regardless of their position within the Company as well as temporary and contracted positions are required to sign an authorization for a background check. In addition, an annual check is conducted. For any employees or contracted individuals who require a license to perform their duties, the applicable license verification is also performed prior to employment or engagement and at least annually thereafter.

EMPLOYEE AND AGENT WELFARE

All individuals who performed administrative and operational functions for the Company were employees of NewQuest Management of Alabama, LLC. These employees were offered the following benefits:

- Paid Time Off (Personal Vacation Days and Sick Days)
- Company Holidays
- Military Leave
- Bereavement Leave
- Civic Responsibilities
- Family and Medical leave
- Health and Dental Plans
- Vision Care
- Basic Group Life Insurance
- 401(k) Plan
- Employee Assistance Program
- Short and Long Term Disability
- Health Care Spending Account
- Education Benefits

SCHEDULE T – PREMIUMS AND OTHER CONSIDERATIONS

States	Medicare Title XVIII
Alabama	\$ <u>473,659,653</u>
TOTAL	\$ 473,659,653

STATUTORY DEPOSITS

In accordance with the requirements of ALA. CODE § 27-21A-12, as amended, the Company maintained the following deposits with the State of Alabama, at December 31, 2012.

Description	Book/Adjusted Carrying Value	Fair Value
Certificates of Deposit	\$1,613,043	\$1,613,043

FINANCIAL CONDITION/GROWTH OF COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated.

	Admitted		Capital and	Net Premium
	Assets	Liabilities	Surplus	Income
2012*	\$ 141,475,627	\$ 49,172,695	\$ 92,302,932	\$ 473,659,653
2011	102,878,159	35,739,098	67,139,061	412,370,252
2010	94,818,135	35,281,458	59,536,677	394,773,240
2009*	70,256,034	36,743,337	33,512,697	376,489,076

*Per Examination

LOSS EXPERIENCE

The loss experience as developed by the Company over the examination period is as follows:

	2010	2011	2012
Revenue	\$ 394,789,016	\$ 412,015,161	\$ 473,673,779
Underwriting Deductions	352,242,936	368,808,559	436,703,217
Underwriting Gain	42,546,080	43,206,602	36,970,562
Member Months	372,277	395,395	456,751
Cost Per Member Months	946.19	932.76	956.11
Loss Experience	75.38%	75.59%	77.93%

This table shows that the Company has made an underwriting profit each year under examination.

MARKET CONDUCT ACTIVITIES

Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to transact business in the State of Alabama. The Certificate of Authority was inspected for the period under review and found to be in order. The Company was licensed to write its products in the following counties:

Autauga	Cullman	Fayette	Madison	St. Clair
Baldwin	Dallas	Jefferson	Mobile	Talladega
Bibb	Dekalb	Lamar	Montgomery	Tuscaloosa
Cherokee	Elmore	Limestone	Morgan	Walker
Chilton	Etowah	Lowndes	Shelby	

Policy Forms and Underwriting

The Company filed no new policy forms with the Alabama Department of Insurance during the examination period. At December 31, 2012, the Company was only issuing Medicare Advantage policies. The Company's Medicare policy forms are approved by CMS (Centers for Medicare and Medicaid Services).

Marketing and Sales

During the examination period, the Company offered Medicare Advantage products available and administered through a contract with the Centers for Medicare and Medicaid Services (CMS). Advertising materials are regulated by CMS. The Company disclosed the name HealthSpring, its home office address and the contract or health service plan advertised in its print advertising materials.

Sales materials are provided for distribution by its agency force and its publicly accessible website. The Company utilized multiple lines of producers to sell its products including employed sales representatives, who are full-time employees, and independent contracted brokers. These independent brokers included directly contracted brokers, brokers contracted with general agents and brokers contracted with field marketing organizations.

The Company's website indicated that the Company advertised, sold and serviced Medicare Advantage plans and a stand-alone prescription drug plan to Medicare beneficiaries. The website included the Company's telephone number, TTY (Text Telephone Device) number, hours of operation and mailing address.

Policyholder Complaints

The Company maintained a Complaint Data System and complied with the complaint handling data file information requirements as stated in the NAIC *Market Regulation Handbook*. The complaint register included the NAIC code, case number, case date, state, member number, identification number, type of coverage, name, reason for complaint, last date and grievance detail. Based on the review of the Company grievance policy, it was determined that sufficient procedures were in place for the handling of complaints/grievances.

During the examination period, the Company recorded grievances of 12 for 2010, three for 2011 and two for 2012 in their complaint register. Complaints filed with the Alabama Department of Insurance were ten in 2010, four in 2011 and two in 2012. A review was made of the complaints for completeness and compliance with Alabama statutes for complaint handling. Each complaint/grievance was addressed by the Company and communicated to the member in accordance with Alabama statutes without exception.

Compliance with Producer Licensing Requirements

An inspection of the Company's records was conducted by the examiners to determine that agents were duly licensed and appointed by the State of Alabama. A register of licensed producers was obtained from the Producers' Licensing Division of the Alabama Department of

Insurance. A sample of 116 policy applications was reviewed in order to determine if the producers were licensed and appointed prior to the writing of these applications. No exceptions were noted.

Privacy Standards

Compliance with ALA. ADMIN. CODE 482-1-122

The Company does not disclose nonpublic personal financial information to nonaffiliated third parties. The Company documented in its Corporate Privacy policies and procedures the steps taken to safeguard confidential member information, such as: disposing of member information in a secure shred in or shredded prior to disposal; imposing strict guidelines for employees to adhere to when discussing member information; maintaining personal work areas in order to minimize disclosure of individually identifiable health information (IIHI); maintaining employee only access to the office premises; and, establishing IIHI confidentiality and disclosure guidelines.

The Company appropriately trained its employees, indicated the authorized personnel that have access to personal health information, and established that the Company does have security practices and procedures in place in compliance with ALA. ADMIN. CODE 482-1-122-.07 (6), which states, "A licensee describes its policies and procedures with respect to protecting the confidentiality and security of nonpublic personal financial information if it does both of the following: (a) Describes in general terms who is authorized to have access to the information. (b) States whether the licensee has security practices and procedures in place to ensure the confidentiality of the information in accordance with the licensee's policy..."

The Company has appropriate policies and procedures in place for the protection against the disclosure of member's nonpublic personal medical information. The Company does not collect or disclose nonpublic personal financial information. The Company's Privacy notice content and notice delivery procedures complied with ALA. ADMIN. CODE 482-1-122. The Company is also required to comply with the Health Insurance Portability and Accountability Act (HIPAA) privacy rule as promulgated by the U.S. Department of Health and Human Services.

REINSURANCE

Reinsurance Ceded

The Company did not cede any business during the period covered by this examination.

Reinsurance Assumed

The Company did not assume any business during the period covered by this examination.

ACCOUNTS AND RECORDS

The Company's principle accounting records were maintained on electronic data processing (EDP) equipment. The Company's finance department was mainly responsible for maintaining the accounting records including the general ledger and supporting ledgers. It was also responsible for the accounting of the Company's assets and liabilities, processing accounts payable checks, collecting receivables, and preparing and filing the Company's financial statements. The Company's claims processing and information systems were conducted at HealthSpring, Inc.'s corporate office in Nashville, Tennessee, which was approved by the Alabama Department of Insurance on June 10, 2004. The Company's investment systems were managed at Cigna Investment, Inc. in Hartford, Connecticut.

The Company was audited in 2012 by the independent certified public accounting (CPA) firm of PricewaterhouseCoopers, LLC (PwC). Prior to 2012, the Company was audited by KPMG, LLP. The examiners reviewed the CPAs workpapers, copies of which were incorporated into the examination as deemed appropriate. The audit reports issued by the CPAs were reviewed for the examination period.

During the previous examination, it was noted that the Company's record retention policy required that the Company maintain certain of its documents less than five years, which did not comply with ALA. ADMIN. CODE 482-1-118-.03. This regulation states "Every insurers, which term shall include every domestic insurer, foreign insurer, health care services corporation, health maintenance organization, prepaid dental plan, managing general agent or any other legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years." The Company's record retention policy was not amended to maintain all documents for at least five years.

It was noted in the previous examination that the Company was incorrectly reporting items in the Aggregate Write-ins for Expenses line within the Underwriting and Investment Exhibit - Part 3. The Company included nine items totaling \$1,027,092 in the Aggregate Write-ins for Expenses line in its 2012 Annual Statement. According to the NAIC *Annual Statement Instructions* for Details of Write-ins Aggregated on Line 25 for Expenses, "List separately all expenses for which there is no pre-printed line." After the review of the nine items with the definitions of the pre-printed lines within the Underwriting and Investment Exhibit - Part 3 in the NAIC *Annual Statement Instructions*, the examiner determined that the Company should have reported four items totaling \$460,696 in various pre-printed lines. The remaining five items were correctly reported as Aggregate Write-ins for Expenses.

The Company did not always provide requested information within ten working days, as required by ALA. ADMIN. CODE 482-1-118-.06, which states "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner." This issue was also noted in the previous examination.

FINANCIAL STATEMENTS

The financial statements included in this report reflect the financial condition of the Company as of December 31, 2012, and its operations for the years under examination. The statements were presented in the following order.

Statement of Assets, Liabilities, Surplus and Other Funds	Page 25
Statement of Revenue and Expenses	Page 26
Capital and Surplus Account	Page 27

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

HealthSpring of Alabama, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds
for the Year Ended December 31, 2012

<u>Assets</u>	<u>Assets</u>	<u>Non- admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$ 61,388,685	\$ -	\$ 61,388,685
Cash, cash equivalents and short-term investments	59,891,755	-	59,891,755
Subtotals, cash and invested assets	121,280,440	-	121,280,440
Investment income due and accrued	536,965	-	536,965
Premiums and considerations: Uncollected premiums agents' balances in the course of collection	4,667,595	-	4,667,595
Accounts receivable relating to uninsured plans	1,648,596	-	1,648,596
Current federal and foreign income tax recoverable and interest thereon	2,505,463	-	2,505,463
Net deferred tax asset	320,845	29,767	291,078
Receivable from parent, subsidiaries or affiliates	2,365,479	-	2,365,479
Health care and other amounts receivable	8,180,359	348	8,180,011
Other current assets	7,003	7,003	-
Total Assets	\$ 141,512,745	\$ 37,118	\$ 141,475,627

<u>Liabilities, Surplus and Other Funds</u>	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims Unpaid	\$ 32,913,581	\$ 2,046,565	\$ 34,960,146
Accrued medical incentive pool and bonus amounts	6,065,230	-	6,065,230
Unpaid claims adjustment expenses	562,879	-	562,879
Aggregate health policy reserves	1,694,614	-	1,694,614
Premiums received in advance	30,706	-	30,706
General expenses due or accrued	2,258,155	-	2,258,155
Amounts withheld or retained for the account of others	239,270	-	239,270
Amounts due to parent, subsidiaries or affiliates	60,801	-	60,801
Liability for amounts held under uninsured plans	3,300,894	-	3,300,894
Total Liabilities	\$ 47,126,130	\$ 2,046,565	\$ 49,172,695
Common capital stock			\$ 112,400
Gross paid in and contributed surplus			5,010,875
Unassigned funds (surplus) (Note 2)			87,179,657
Surplus as regards policyholders			\$ 92,302,932
Totals			\$ 141,475,627

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

HealthSpring of Alabama, Inc.
Statement of Revenue and Expenses
for the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Net premium income	\$ 473,659,653	\$ 412,370,252	\$ 394,773,240
Other income	<u>14,126</u>	<u>(355,091)</u>	<u>15,776</u>
Total revenues	<u>\$ 473,673,779</u>	<u>\$ 412,015,161</u>	<u>\$ 394,789,016</u>
Hospital and Medical:			
Hospital/medical benefits	\$ 324,802,616	\$ 272,234,383	\$ 257,954,959
Other professional services	3,959,275	3,233,860	-
Prescription drugs	37,988,124	30,753,879	29,783,705
Incentive pool, withhold adjustments and bonus amounts	<u>2,389,968</u>	<u>5,505,275</u>	<u>9,868,125</u>
Subtotal	<u>\$ 369,139,983</u>	<u>\$ 311,727,397</u>	<u>\$ 297,606,789</u>
Less:			
Total hospital and medical	\$ 369,139,983	\$ 311,727,397	\$ 297,606,789
Claim adjustment expenses	12,259,665	9,169,662	12,241,714
General administrative expenses	55,303,569	47,911,500	42,761,776
Increase in reserves for life and accident and health contracts	<u>-</u>	<u>-</u>	<u>(367,343)</u>
Total underwriting deductions	<u>\$ 436,703,217</u>	<u>\$ 368,808,559</u>	<u>\$ 352,242,936</u>
Net underwriting gain or (loss)	36,970,562	43,206,602	42,546,080
Net investment income earned	1,647,306	1,577,478	1,093,276
Net realized capital gains (losses)	<u>1,645</u>	<u>67,378</u>	<u>13,567</u>
Net investment gains (losses)	\$ 1,648,951	\$ 1,644,856	\$ 1,106,843
Net gain or (loss) from agents' or premium balances charged off	(200,437)	-	-
Penalties	<u>-</u>	<u>(7,699)</u>	<u>-</u>
Net income or (loss) after capital gains tax and before other federal income taxes	\$ 38,419,076	\$ 44,843,759	\$ 43,652,923
Federal and foreign income taxes incurred	<u>12,195,935</u>	<u>16,977,263</u>	<u>15,562,769</u>
Net income (loss)	<u>\$ 26,223,141</u>	<u>\$ 27,866,496</u>	<u>\$ 28,090,154</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

HealthSpring of Alabama, Inc.
Statement of Revenue and Expenses (Continued)
for the Years Ended December 31, 2012, 2011 and 2010

Capital and Surplus Account

Capital and surplus prior reporting period	\$ 67,139,062	\$ 59,536,677	\$ 41,923,427
Net income	26,223,141	27,866,496	28,090,154
Change in net deferred income tax	(2,438,574)	1,014,890	924,140
Change in nonadmitted assets	1,364,557	720,999	(2,001,044)
Cumulative effect of changes in accounting principles	14,746	-	-
Dividends to stockholders	-	(22,000,000)	(9,400,000)
Net change in capital & surplus	<u>\$ 25,163,870</u>	<u>\$ 7,602,385</u>	<u>\$ 17,613,250</u>
Capital and surplus end of reporting period	<u>\$ 92,302,932</u>	<u>\$ 67,139,062</u>	<u>\$ 59,536,677</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1- Cash, cash equivalents, and short-term investments \$58,891,755

The captioned amount is the same as reported by the Company in its 2012 Annual Statement.

The Company incorrectly classified the Corporate PASTI investment as a Class One Money Market Fund. The investment should have been classified at Bonds – Industrial and Miscellaneous (Unaffiliated) – Issuer Obligations on Schedule DA - Part 1 in accordance with the NAIC *Annual Statement Instructions*. There was no impact on the Company's surplus for this misclassification.

Note 2 – Claims unpaid \$34,960,146

The captioned amount is the same as reported by the Company in its 2012 Annual Statement.

The detail provided for the Company's 2012 Claims paid was \$1,104,223 less than the amount reported in the Company's reconciliation to its corresponding Statement of Revenue and Expenses located within the Annual Statements. According to a Company official, "Warehouse payments are pulled from the warehouse at the point in time. The original data set is not saved. When checks are voided, the system shows the void as a reduction in the original payment month, not the void month. Therefore, when a report is pulled at a later date, the results do not tie to the original results." According to the actuarial examiner, these variances had no effect on the carried reserves. The carried reserves are based upon the service date and the paid date and the carried reserve is an estimate based upon the completion study. After the end of the fiscal year, there will always be voided checks and perhaps refunds from insured's whose claim was overpaid. However, at the end of any fiscal year end this is true and for the most part, the amounts of voided checks and refunds do not vary much from year to year. Therefore, the completion methodology takes into account the voided checks and refunds automatically and thus the carried reserves are an accurate estimate from year to year. The data was not incomplete in the computation of the carried reserves. Because the Company did not freeze a year end number, the data would change from month to month based upon the voided checks and refunds being subtracted from the claims paid, but this would have no impact on the accuracy of the carried reserves. The Company is not maintaining the detail of its claims paid that reconciles to its Annual Statements is not in accordance with ALA. ADMIN. CODE 482-1-079-.15 (1987). This regulation states that: "Every domestic HMO shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of business transacted."

Note 3 – Unassigned funds (surplus) \$87,179,657

The captioned amount is the same as reported by the Company in its 2012 Annual Statement.

The following schedule presents a reconciliation of the unassigned funds per the Company's filed statement to this examination's findings:

Unassigned funds (surplus) per Company		\$87,179,657
Examination increase/(decrease) to assets:	0	
Total increase/(decrease) to assets	<u>0</u>	<u>0</u>
Examination (increase)/decrease to liabilities:	0	
Total (increase)/decrease to liabilities	<u>0</u>	<u>0</u>
Unassigned funds (surplus) per Examination		<u>\$87,179,657</u>

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by management, a review of pending litigation including the CPA's workpapers in this area, and a general review of the Company's records and files conducted during the examination. These reviews did not disclose any items that had a material effect on the Company's financial condition in the event of an adverse outcome.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations with the exception of the following:

ACCOUNTS AND RECORDS

During the previous examination, it was noted that the Company's record retention policy required that the Company maintain certain of its documents less than five years, which did not comply with ALA. ADMIN. CODE 482-1-118-.03. This regulation states "Every insurers, which term shall include every domestic insurer, foreign insurer, health care services corporation, health maintenance organization, prepaid dental plan, managing general agent or any other legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years." The Company's record retention policy has not been amended to maintain all documents for at least five years.

It was noted in the previous examination that the Company was incorrectly reporting items within the Aggregate Write-ins for Expenses line within the Underwriting and Investment Exhibit - Part 3. The Company included nine items totaling \$1,027,092 within the Aggregate Write-ins for Expenses line in its 2012 Annual Statement. According to the NAIC *Annual Statement Instructions* for Details of Write-ins Aggregated on Line 25 for Expenses, "List separately all expenses for which there is no pre-printed line." After review of the nine items with the definitions of the pre-printed lines within the Underwriting and Investment Exhibit - Part 3 in the NAIC *Annual Statement Instructions*, the examiner determined that the Company

should have reported four items totaling \$460,696 in various pre-printed lines. The remaining five items were correctly reported as Aggregate Write-ins for Expenses.

The Company did not always provide requested information within ten working days, as required by ALA. ADMIN. CODE 481-1-118-.06, which states, “The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner.” This issue was also noted in the previous examination.

Claims unpaid

During the prior examination, it was recommended that the Company maintain the complete detail of its paid claims that reconciles to the Underwriting and Investment Exhibit – Part 2 in accordance with ALA. ADMIN. CODE 482-1-079-.15, which states “Every domestic HMO shall have, and maintain, its principal place of business and home office in the state, and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of business transacted.” During this examination, the Company did not provide the complete detail of its paid claims for each year under examination. See “Note 2 – Claims unpaid” on page 28.

COMMENTS AND RECOMMENDATIONS

ACCOUNTS AND RECORDS - Page 23

It is again recommended that the Company maintain all of its records for not less than five years in accordance with ALA. ADMIN. CODE 482-1-118-.03 which states “Every insurers, which term shall include every domestic insurer, foreign insurer, health care services corporation, health maintenance organization, prepaid dental plan, managing general agent or any other legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer’s financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years.”

It is again recommended that the Company correctly report expenses for which there is a pre-printed line within its Underwriting and Investment Exhibit - Part 3 in accordance with the NAIC *Annual Statement Instructions*.

It is again recommended that the Company provide requested information within ten working days, as required by ALA. ADMIN. CODE 482-1-118-.06, which states “The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner.”

Cash, cash equivalents, and short-term investments - Page 28

It is recommended that the Company correctly classify its short-term investments in accordance with the NAIC *Annual Statement Instructions*.

Claims unpaid - Page 28

It is again recommended that the Company maintain the detail supporting its claims paid in accordance with ALA. ADMIN. CODE 482-1-079-.15 (1987), which states “Every domestic HMO shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of business transacted.”

SUBSEQUENT EVENTS

A review of events subsequent to the December 31, 2012 examination date was done. The following events were noted:

Changes in Officers and Directors

James Patrick Foley (Chief Executive Officer, President and Chairman) and Mark Tulloch (Vice President and Secretary) transferred to other positions within the organization. Robert Dawson was elected as the Company’s President, Chief Executive Officer and Chairman. Gregory Allen was elected as a Vice President, Secretary, Vice Chairman and a Board member. Matthew Ray Chance was elected as a Vice President and Chief Operating Officer. Sheffield Young was elected as a Vice President.

Sequestration

Effective April 1, 2013, as was required by law, President Obama issued a sequestration order to implement automatic across-the-board spending cuts, which resulted in a two percent cut in payments for Medicare services. The sequestration was required by the Budget Control Act that was signed into law in August 2011, which called for approximately \$900 billion in cuts to discretionary programs. The Budget Control Act also required an automatic process of across-the board spending cuts in budgetary resources, if Congress failed to enact a bill containing at least \$1.2 trillion in deficit reduction by January 2, 2013, which was not done. The Company is actively evaluating the impact of the sequestration on its members, providers, and its operations and will implement the necessary changes to meet its obligations under the sequestration.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing HealthSpring of Alabama, Inc. during the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Lori Brock, CFE, examiner; Charles Turner, CISA, examiner; and Harland A. Dyer, ASA, MAAA, actuarial examiner; all representing the Alabama Department of Insurance, participated in the examination of HealthSpring of Alabama, Inc.

Respectfully submitted,



Rhonda B. Ball, CFE
Examiner-in-charge
Alabama Department of Insurance