

REPORT OF MEDICAL LOSS RATIO EXAMINATION
OF THE
UNITEDHEALTHCARE INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

Filed September 17, 2013

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Los Angeles, California
May 31, 2013

Honorable Dave Jones
Insurance Commissioner
California Department of
Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, a Medical Loss Ratio examination was made of the

UnitedHealthcare Insurance Company

(hereinafter also referred to as the Company) at its local office located at 5995 Plaza Drive, Cypress, California 90630. The Company's main administrative office is located at 185 Asylum Street, Hartford, Connecticut 06103.

SCOPE OF EXAMINATION

We have performed a Medical Loss Ratio (MLR) examination of UnitedHealthcare Insurance Company to determine compliance with California Insurance Code (CIC) Section 10112.25 related to minimum medical loss ratio requirements. CIC Section 10112.25 grants the Insurance Commissioner authority to adopt regulations to implement the medical loss ratio as described under Section 2718 of the federal Public Health Service Act. Section 2718 of the federal Public Health Service Act authorizes the U.S. Code of Federal Regulation (CFR) Title 45 – Public Welfare Part 158 to be implemented. This examination covers the twelve months ending December 31, 2011.

We examined the MLR Annual Reporting Form as completed by the Company and submitted to the U.S. Department of Health & Human Services (HHS) for the 2011 MLR reporting year, to ensure the validity of the underlying data, accuracy of the calculations,

and accuracy and timeliness of the rebate payments made and reported in compliance with 45 CFR Part 158. 45 CFR §158.403(a)(2) permits HHS to accept the State's audit provided it, amongst other things, reports on the validity of the data regarding expenses and premiums that the issuer reported to the Secretary of HHS, including the appropriateness of the allocations of expenses used in such reporting and whether the activities associated with the issuer's reported expenditures for quality improving activities meet the definition of such activities. 45 CFR §158.403(a)(3) further permits HHS to accept the State's audit provided it, amongst other things, reports on the accuracy of rebate calculations and the timeliness and accuracy of rebate payments.

Although the Company writes accident and health business in multiple states, the MLR examination of the Company is limited only to business written in California and does not include business written in other states where the Company is required to submit an MLR Annual Reporting Form to HHS.

OWNERSHIP

The Company, domiciled in the State of Connecticut, is a wholly owned subsidiary of UHIC Holdings, Inc., which in turn is wholly-owned by United Healthcare Services, Inc. Its ultimate parent company is UnitedHealth Group Incorporated which is a publicly held company traded on the New York Stock Exchange.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact life and disability insurance and specializes in writing group accident and health insurance in Washington D.C., the United States territories of American Samoa, Guam, Puerto Rico, the U.S. Virgin Islands, Northern Mariana Islands, and all states except New York. Direct premiums collected during 2011 totaled \$37.3 billion, of which \$37.2 billion are accident and health premiums. The top five states with the highest accident and health premiums were: Florida, 13.7%; Texas, 9.8%; Georgia, 5.5%; California, 5.0%; and Ohio, 5.0%.

The Company markets health benefits products primarily through three business groups: UnitedHealthcare Employer & Individual, UnitedHealthcare Medicare & Retirement, and UnitedHealthcare Community & State. These businesses share contracted networks of physicians, health care professionals, hospitals and other facilities, information technology infrastructure and other resources. In addition to health benefits, the Company markets health services through its OptumHealth business.

The Company's marketing and distribution system consists primarily of brokers, direct, and internet sales for the individual market, brokers for the small employer group market, and brokers and other consultant-based or direct sales for large employer and public sector groups.

The Company does not have its own employees. Services are provided to the Company by its parent, United Healthcare Services, Inc. through a Management Services Agreement.

MEDICAL LOSS RATIO REPORTING FORM

Title 45 of the U.S. Code of Federal Regulations (CFR) §158.110(b) requires that a report for each Medical Loss Ratio (MLR) reporting year be submitted to the Secretary of the U.S. Department of Health and Human Services by June 1st of the year following the end of an MLR reporting year, on a form and in the manner prescribed by the Secretary. Based on our review, the Company filed an acceptable form by June 1, 2012 for the 2011 reporting year and is in compliance with 45 CFR §158.110(b).

45 CFR §158.210(a) requires that an issuer must provide a rebate to enrollees if the issuer has an MLR of less than 85% for the large group market. 45 CFR §158.210(b) and (c) requires that an issuer must provide a rebate to enrollees if the issuer has an MLR of less than 80% for the small group market and the individual market. The

Company's MLR and rebate calculations from the MLR Annual Reporting Form, Part 5 (California only) are as follows:

MLR Components	Individual	Small Group	Large Group	Notes
Adjusted Incurred Claims	\$1,752,996	\$160,202,431	\$400,238,106	
Plus: Quality Improvement Expenses	\$1,072	\$2,013,189	\$5,901,226	
MLR Numerator	\$1,754,068	\$162,215,620	\$406,139,332	(1)
Premium Earned	\$950,849	\$200,486,511	\$474,705,659	
Less: Federal & State Taxes and Licensing or Regulatory Fees	\$(338,730)	\$7,382,421	\$16,635,183	
MLR Denominator	\$1,289,579	\$193,104,090	\$458,070,476	(2)
Preliminary MLR Before Credibility Adjustment	136.0%	84.0%	88.7%	
Credibility Adjustment	N/A	1.3%	N/A	(3)
Credibility Adjusted MLR	136.0%	85.3%	88.7%	(4)
MLR Standard	80.0%	80.0%	85.0%	
Rebate Amount	\$0	\$0	\$0	(5)

COMMENTS ON MEDICAL LOSS RATIO CALCULATION

(1) Medical Loss Ratio Numerator

According to Title 45 of the U.S. Code of Federal Regulations (CFR) §158.221(b), the numerator of the Medical Loss Ratio (MLR) calculation is comprised of incurred claims, as defined in 45 CFR §158.140, plus expenditures for activities that improve health care quality, as defined in 45 CFR §158.150, and 45 CFR §158.151. We verified the data used to calculate the adjusted incurred claims. Based on our review, the Company included appropriate adjusted incurred claims in the MLR numerator.

We reviewed the reasonableness of the health care quality improvement expenses including confirming that the methodology complies with the narrative provided within the Part 4 - Expense Allocation portion of the MLR Reporting Form and that it conforms

to the definition of Healthcare Quality Improvement Expenses as defined by 45 CFR §158.150, and 45 CFR §158.151. Based on our review, the Company's allocation methodology and health care quality improvement expenses reported in the MLR numerator is reasonable and conforms to the regulations.

(2) Medical Loss Ratio Denominator

According to 45 CFR §158.221(c), the denominator of the MLR calculation is comprised of premium revenue, as defined in 45 CFR §158.130, minus federal and state taxes and licensing and regulatory fees, described in 45 CFR §158.161(a), and 45 CFR §158.162(a) (1) and (b) (1). We verified the data used to calculate the premium revenue. Based on our review, the Company included appropriate premiums earned in the MLR denominator.

We reviewed the reasonableness and appropriateness of the federal and state taxes and regulatory fees including the appropriateness of allocations and the definition of such activities. Based on our review, the Company's allocation methodology and federal and state taxes and regulatory fees reported in the MLR denominator is reasonable and conforms to the regulations.

(3) Credibility Adjustment

According to 45 CFR §158.232, the credibility adjustment is the product of the base credibility factor multiplied by the deductible factor. The experience for the individual and large group market segments were non-credible and fully credible, respectively; therefore, there were no credibility adjustments calculated for these segments. The experience for the small group market segment was partially-credible and a credibility factor of 1.3% was calculated. Based on our review, the Company appropriately calculated the credibility adjustments.

(4) Credibility Adjusted Medical Loss Ratio

According to 45 CFR §158.221(a), the calculation of MLR is the ratio of the numerator to the denominator, subject to the applicable credibility adjustment, if any. Based on our review, the Company appropriately calculated the medical loss ratios for each market segment.

(5) Rebate Amount, Calculation and Distribution

According to 45 CFR §158.240, a rebate is required if an issuer's MLR is less than the minimum MLR standard. Based on our review, the Company's MLR exceeded the minimum percentage for all market segments, and therefore was not required to issue rebates.

REBATE NOTICE

According to Title 45 of the U.S. Code of Federal Regulations §158.250(a) and (b), a notice of rebate is required when the medical loss ratios do not exceed the minimum percentage. The Company's medical loss ratios exceeded the minimum percentage for all market segments, and therefore was not required to issue rebate notices.

MLR INFORMATION NOTICE

According to Title 45 of the U.S. Code of Federal Regulations §158.251(a), a one-time notice of Medical Loss Ratio (MLR) information is required when the medical loss ratio meets or exceeds the minimum MLR standard. The Company's medical loss ratios exceeded the minimum standard for all market segments. Based on our review, the Company appropriately issued MLR information notices to its enrollees.

REBATE PAYMENTS ON SOLVENCY

According to Title 45 of the U.S. Code of Federal Regulations §158.270(a), rebate payments having any adverse impact to the Company's Risk Based Capital (RBC) level requires notification by the California Department of Insurance to the Secretary of the U.S. Department of Health & Human Services (HHS). Based on our review, the rebates did not have an adverse impact on the RBC level that would warrant notification to the Secretary of HHS.

SUMMARY OF COMMENTS, FINDINGS AND RECOMMENDATIONS

Current Report of Examination

None

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_____/S/_____
Deanna Lo, CFE
Examiner-In-Charge
Department of Insurance
State of California