REPORT OF MEDICAL LOSS RATIO EXAMINATION
OF THE
PACIFICARE LIFE AND HEALTH 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

PacifiCare Life and Health Insurance Company

(hereinafter also referred to as the Company) at its main administrative office located at 5995 Plaza Drive, Cypress, California 90630.

SCOPE OF EXAMINATION

We have performed a Medical Loss Ratio (MLR) examination of PacifiCare Life and Health 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 calculation, 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 is licensed to write 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 the HHS.

OWNERSHIP

The Company's common stock is 100% owned by United HealthCare Services, Inc. ("UHS"), effective as of July 1, 2012. At that time PacifiCare Health Plan Administrators ("PHPA") and PacifiCare Health Systems, LLC ("PHS") were merged into UHS and ceased to exist. Prior to July 1, 2012, the Company was 99% owned by PHPA and 1% owned by PHS. PHPA was a wholly-owned subsidiary of PHS, and PHS was a wholly-owned subsidiary of UnitedHealth Group Incorporated ("UHG"). UHS is a wholly-owned subsidiary of UHG, a publicly held company trading on the New York Stock Exchange. UHG is presently the Company's ultimate parent company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to sell life and accident and health insurance in all states, the District of Columbia, and the territory of U.S. Virgin Islands with the exception of New York. The Company is domiciled in the State of Indiana and commercially domiciled in the State of California. Accident and health

premiums written during 2011 totaled $205,934,786. The top five states with the highest accident and health premium were: Texas, 47.3%; California, 32.9%; Oklahoma, 13.1%; Washington, 1.8%; and Wisconsin, 1.5%.

The Company provides traditional group insurance products, such as, Preferred Provider Organization ("PPO"), life, dental, and vision as well as providing insurance products and individual life and health insurance products to PacifiCare Senior Solutions market place and other PHS insured parties. This role provides the Company with significant competitive advantages, including expense efficiencies and access to managed care and other ancillary services provided by PHS affiliates. The Company's operating strategy is to provide commercial PPO products and services to individuals serviced by PacifiCare in the states of California, Oklahoma, and Texas. The Company also writes a variety of Medicare and Senior Supplement coverage in states other than California.

During 2012 the Company decided to close down the remaining individual Medicare Supplemental and Individual and Group PPO block of businesses, and discontinue the writing of any new business. On December 27, 2012, the Company notified policyholders of its California individual PPO business that their coverage was terminating effective December 31, 2013. The Company is maintaining the small group PPO business in Oklahoma and Texas and Individual Medical Supplement policies in 22 other states but not writing new business.

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	$38,653,476	$(31,616)	$15,186,469	
Plus: Quality Improvement Expenses	$4,137	$38	$798,172	
MLR Numerator	$38,657,614	$(31,578)	$15,984,641	(1)
Premium Earned	$38,647,747	$(15,719)	$21,030,654	
Less: Federal & State Taxes and Licensing or Regulatory Fees	$(4,292,873)	$(2,493,314)	$1,290,269	
MLR Denominator	$42,940,620	$2,477,595	$19,740,384	(2)
Preliminary MLR Before Credibility Adjustment	90.0%	80.0%	81.0%	
Credibility Adjustment	2.9%	N/A	N/A	(3)
Credibility-Adjusted MLR	92.9%	80.0%	81.0%	(4)
MLR Standard	80%	80%	85%	
Rebate Amount	$0	$0	$789,615	(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 45CFR §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 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 small group 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 individual market segment was partially-credible and a credibility factor of 2.4% was calculated. Both the small and large group segments did not report an average deductible, therefore, a deductible factor of 1 was assigned in accordance with 45 CFR §158.232(c). The individual market segments reported an average deductible of $3,206 and a deductible factor of 1.231 was calculated according to §158.232(c). 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 the individual and small group. The Company's MLR for the large group segment was less than the minimum MLR standard. As a result rebates totaling $789,615 were issued for the large group segment. The Company appropriately calculated and timely issued rebates for the large group segment enrollees.

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 individual and small group segments, but did not meet the minimum percentage for the

large group segment. Based on our review, the Company appropriately and timely issued rebate notices to its enrollees.

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 MLR standard for the individual and the small group segments, but did not meet the minimum MLR standard for the large group segment. 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/_____
Cuauhtémoc Beltran, CFE
Examiner-In-Charge
Department of Insurance
State of California