

REPORT OF EXAMINATION
OF THE

SIERRA HEALTH AND LIFE
INSURANCE COMPANY, INC.

AS OF
DECEMBER 31, 2011

Filed April 3, 2013

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Los Angeles, California
February 4, 2013

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

SIERRA HEALTH AND LIFE INSURANCE COMPANY, INC.

(hereinafter also referred to as the Company) at its home office located at 2720 North Tenaya Way, Las Vegas, Nevada, 89128. The Company's statutory office is located at 300 South Grand, Suite 2200, Los Angeles, California 90071.

SCOPE OF EXAMINATION

We have performed our coordinated multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2011. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the

Company were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination and was conducted concurrently with other insurance entities within the UnitedHealth Group including United Healthcare Insurance Company (Connecticut). Connecticut served as the coordinating state whereas Washington served as the facilitating state.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, insurance plans; growth of company; loss experience; and statutory deposits.

SUBSEQUENT EVENTS

On September 25, 2012, the California Department of Insurance approved the Company's filed application to redomesticate from California to Nevada effective January 1, 2013.

COMPANY HISTORY

The Company is a wholly-owned subsidiary of Sierra Health Services, Inc. (SHS), a Nevada company. On March 12, 2007, the Company's parent, SHS, announced that it had entered into an Agreement and Plan of Merger, dated March 11, 2007 (the "Merger Agreement"), with UnitedHealth Group, Inc. (UHG), a Minnesota corporation and Sapphire Acquisition, Inc., a Nevada corporation and an indirect wholly-owned subsidiary of UHG ("Merger Sub"). UHG is a publically-held company listed on the New York Stock Exchange, and a registered insurance holding company. The Merger Agreement provided that, upon the terms and subject to the conditions set forth in the Merger Agreement, the Merger Sub will merge with and into SHS, with SHS continuing as the surviving company. Effective February 25, 2008, pursuant to the Merger Agreement, the Merger Sub merged with and into SHS and SHS continuing after the merger as an indirect, wholly-owned subsidiary of UHG.

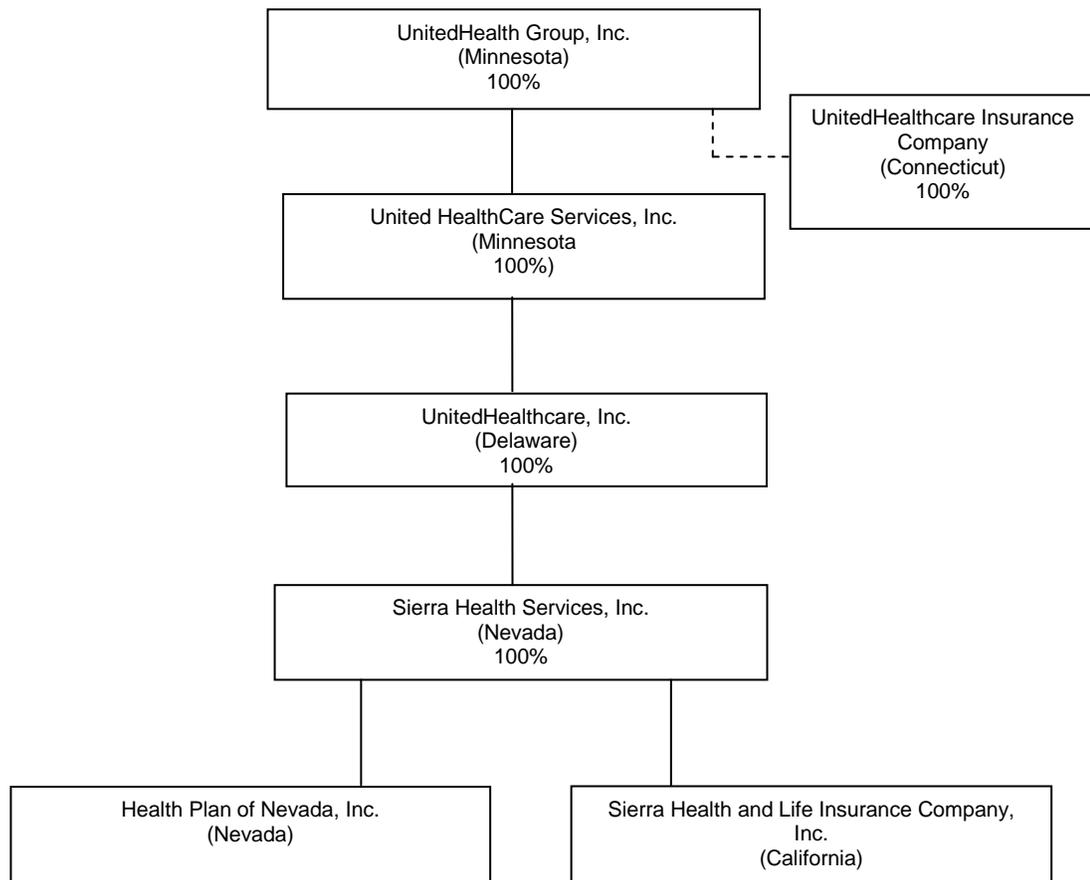
The Company has 250,000 authorized, issued, and outstanding common stock shares with a par value of \$14.40. All issued and outstanding shares of common stock are held by the Company's parent, SHS.

Dividends Paid to Parent

Ordinary cash dividends paid by the Company to its parent, SHS, totaled \$13,954,000, \$7,000,000, and \$17,000,000 for the years 2009, 2010, and 2011, respectively. No dividends were paid during 2008.

MANAGEMENT AND CONTROL

Ultimate control of the Company is maintained by UnitedHealth Group, Inc. The following abbreviated organizational chart depicts the Company's relationship within the holding company system:



Members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2011:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Marc R. Briggs Henderson, Nevada	Senior Vice President, Treasurer, and Chief Operating Officer Sierra Health and Life Insurance Company
Scott G. Cassano Las Vegas, Nevada	President and Secretary Northern Nevada Health Network, Inc.
Frank E. Collins Las Vegas, Nevada	Chairman of the Board, Senior Executive Vice President, and Secretary Sierra Health Services, Inc.
Donald J. Giancursio Las Vegas, Nevada	President and Chief Executive Officer Sierra Health and Life Insurance Company
Christopher L. Hard Salt Lake City, Utah	Vice President of Special Products UnitedHealth Group, Inc.
Laurence S. Howard Las Vegas, Nevada	Former President of Health Plan of Nevada, Inc.
Robert L. Schaich Las Vegas, Nevada	Senior Vice President and Chief Information Officer Sierra Health and Life Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Donald J. Giancursio	President and Chief Executive Officer
Glen W. Stevens	Secretary
Frank E. Collins	Assistant Secretary
Marc R. Briggs ^(a)	Senior Vice President, Treasurer, and Chief Operating Officer
Robert L. Schaich	Senior Vice President and Chief Information Officer
Sachin D. Shah ^(a)	Vice President, Assistant Treasurer, and Chief Financial Officer

Management Agreements

Management Service Agreement: The Company maintains a management service agreement with United HealthCare Services, Inc. (UHS). The agreement provides for the reimbursement of costs for certain services and materials that UHS may provide either directly or through its other subsidiaries. The services provided by UHS include, but are not limited to, information systems, treasury, legal, tax, and human resources. In conjunction with the acquisition of Sierra Health Services, Inc. (SHS) by UHS, an amendment, which was approved by the California Department of Insurance (CDI) on January 6, 2009, provided for the assignment by SHS (original party to the agreement) of all rights, duties, and obligations under the agreement to UHS, effective January 1, 2009. Effective January 1, 2012, the agreement was amended to provide for a continuous term. Approval of the amendment was granted by the CDI on October 31, 2011. Fees charged to the Company for management services are predicated on UHS's direct costs and exclude a profit factor. The Company paid UHS fees totaling \$1,670,925, \$2,344,554, and \$1,984,559 for the years 2009, 2010, and 2011, respectively.

^(a) Effective March 27, 2012, Sachin D. Shah replaced Marc R. Briggs as Treasurer; other officer positions held by Mr. Briggs were transferred to Kyle E. Cingo under the newly bestowed title of Vice President – Operations. Mr. Briggs remained a director. In addition, Mr. Cingo was appointed to the position of Assistant Treasurer on the above referenced date. Effective September 17, 2012, Mr. Collins resigned and has not been replaced.

Service Agreement: Effective July 1, 2011, the Company entered into an agreement with Health Plan of Nevada, Inc. (HPN) whereby these related parties perform services for the mutual benefit of each other (mainly related to underwriting, marketing, claims, and information services) and allocate those expenses in accordance with the actual cost incurred. The expenses, applicable to this agreement are pooled, allocated, and settled at regular intervals via the intercompany settlement process. Approval of the agreement was granted by the CDI on December 10, 2010. During 2011, the expenses paid by the Company to HPN totaled \$1,548,314.

Tax Reimbursement Agreement: The Company is included in a consolidated income tax return with its ultimate parent, UnitedHealth Group, Inc. (UHG). Federal income taxes are paid to or refunded by UHG pursuant to the terms of a tax-sharing agreement under which taxes approximate the amount that would have been computed on a separate company basis, with the exception of net operating losses and capital losses. With respect to the aforementioned losses, the Company receives a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent losses can be utilized in UHG's consolidated federal income tax return. The inclusion of the Company in the consolidated income tax agreement was approved by the CDI on January 22, 2009. Taxes recovered totaled \$5,776,043, \$7,893,890, and \$4,716,840 for the year 2009, 2010, and 2011, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to transact health and life insurance business in the following 43 states and the District of Columbia:

Alabama	Illinois	Montana	Rhode Island
Alaska	Indiana	Nebraska	South Carolina
Arizona	Iowa	Nevada	South Dakota
Arkansas	Kansas	New Jersey	Tennessee
California	Kentucky	New Mexico	Texas
Colorado	Louisiana	North Carolina	Utah
Connecticut	Maine	North Dakota	Virginia
Delaware	Maryland	Ohio	Washington
Georgia	Massachusetts	Oklahoma	West Virginia
Hawaii	Mississippi	Oregon	Wyoming
Idaho	Missouri	Pennsylvania	

The Company's primary business is the sale of managed indemnity Preferred Provider Organization (PPO) plans to employer groups and individuals. In addition, the Company provides Medicare Advantage PPO plans, a Health Savings Account plan, and Medicare Supplement products.

During 2011, the Company wrote \$262.6 million of direct business. Of the direct business written, \$10,000 (.005%) was written in California and \$224.6 million (86%) was written in Nevada. Individual and group products are marketed through established sales channels that include independent brokers, agents, and consultants.

In 2008, the Company did not qualify as a sponsor for dual eligible Medicare/Medicaid beneficiaries in California or other states and did not offer the Enhanced Benefit Medicare Part D product. The remaining stand-alone Medicare Part D contract with the Center for Medicare & Medicaid Services was novated to UnitedHealthcare Insurance Company, an indirect subsidiary of UnitedHealth Group, Inc., on January 1, 2009.

Pursuant to the Healthcare Reform Legislation, the Company recorded a minimum loss

ratio rebate payable of approximately \$1 million at December 31, 2011.

REINSURANCE

Assumed

The Company maintains an assumed reinsurance agreement with its affiliate, Health Plan of Nevada, Inc. (HPN). Under the terms of the agreement, HPN pays the first \$200,000 in commercial hospital claims per individual member. At this attachment point, the Company is then responsible for paying claims, up to a maximum of \$400,000 calculated at a maximum daily rate of \$1,500 per day per member in aggregate.

Ceded

The Company did not cede any reinsurance during the examination period.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Summary of Operations and Capital and Surplus Account for the Year
ended December 31, 2011

Reconciliation of Capital and Surplus from December 31, 2007
through December 31, 2011

Statement of Financial Condition
as of December 31, 2011

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 86,446,075	\$	\$ 86,446,075	
Real estate	3,737,449		3,737,449	
Cash and short-term investments	28,004,892		28,004,892	
Investment income due and accrued	390,597		390,597	
Uncollected premiums and agents' balance				
In course of collection	1,081,300		1,081,300	
Amounts recoverable from reinsurers	2,814		2,814	
Amounts receivable relating to uninsured plans	719,673	3,317	716,357	
Current federal and foreign income tax recoverable and interest thereon	1,553,153		1,553,153	
Net deferred tax asset	1,288,182	54,404	1,233,778	
Guaranty funds receivable or on deposit	177,194		177,194	
Electronic data processing equipment and software	8,230	8,230	0	
Furniture and equipment, including health care delivery assets	57	57	0	
Receivable from parent, subsidiaries and affiliates	4,945,676	34,440	4,911,236	
Health care (\$362,219) and other amounts receivable	1,106,893	744,674	362,219	
Aggregate write-ins for other than invested assets	<u>214,073</u>	<u>176,161</u>	<u>37,912</u>	
 Total assets	 <u>\$ 129,676,260</u>	 <u>\$ 1,021,283</u>	 <u>\$ 128,654,977</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for accident and health contracts			\$ 2,411,985	(1)
Contract claims - Life			123,313	(1)
Contract claims – Accident and health			46,650,044	(1)
Premiums and annuity considerations received				
In advance			2,083,475	
Provision for experience rating refunds			1,067,651	
Commissions to agents due or accrued			755,486	
General expenses due or accrued			1,544,882	
Taxes, licenses and fees due or accrued			395,481	
Remittances and items not allocated			166,564	
Asset valuation reserve			401,346	
Liability for amounts held under uninsured plans			289,867	
Aggregate write-ins for liabilities			<u>38,774</u>	
 Total liabilities			 55,928,868	
Common capital stock		\$ 3,600,000		
Gross paid-in and contributed surplus		11,624,960		
Unassigned funds (surplus)		<u>57,501,149</u>		
Surplus as regards policyholders			<u>72,726,109</u>	
 Total liabilities, surplus and other funds			 <u>\$ 128,654,977</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2011

Statement of Income

Premiums and annuity considerations	\$ 261,823,901	
Net investment income	1,997,797	
Amortization of interest maintenance reserve (IMR)	(18,785)	
Aggregate write-ins for miscellaneous income	<u>98,139</u>	
Total		<u>\$263,901,052</u>
Death benefits	1,017,223	
Disability benefits and benefits under accident and health contracts	224,815,023	
Increase in aggregate reserves for life and accident and health contracts	(4,826,836)	
Commissions on premiums, annuity considerations and deposits	7,734,729	
General insurance expenses	16,436,748	
Insurance taxes, licenses and fees	<u>5,117,580</u>	
Total		<u>250,294,467</u>
Net gain from operations before federal income taxes and realized capital gains		13,606,585
Federal income taxes incurred		3,088,334
Net realized capital gains		<u>2,870</u>
Net income		<u>\$ 10,521,121</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2010		\$ 81,327,529
Net income	\$ 10,521,121	
Change in net deferred income tax	(1,501,407)	
Change in nonadmitted assets	(444,567)	
Change in asset valuation reserve	(8,123)	
Dividends to stockholders	(17,000,000)	
Aggregate write-ins for gains and losses in surplus	<u>(168,444)</u>	
Net change in capital and surplus for the year		<u>(8,601,420)</u>
Capital and Surplus, December 31, 2011		<u>\$ 72,726,109</u>

Reconciliation of Capital and Surplus
from December 31, 2007 through December 31, 2011

Surplus as regards policyholders, December 31, 2007 per Examination			\$ 63,061,071
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 47,562,383	\$	
Change in net deferred income tax		1,234,183	
Change in nonadmitted assets	1,418,579		
Change in asset valuation reserve	34,352		
Dividends to stockholders		37,954,000	
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>162,093</u>	
Total gains and losses	<u>\$ 49,015,314</u>	<u>\$ 39,350,276</u>	
Net increase in surplus as regards policyholders			<u>9,665,038</u>
Surplus as regards policyholders, December 31, 2011, per Examination			<u>\$ 72,726,109</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

- (1) Aggregate Reserve for Accident and Health Contracts
- (1) Contract Claims - Life
- (1) Contract Claims – Accident and Health

For the purpose of assessing the reasonableness of the above reserves, the California Department of Insurance (CDI) retained the services of a consulting actuary. Predicated on the consulting actuary's analysis and the review of such by a Life Actuary from the CDI, the Company's reported reserves are deemed to be reasonably stated as of December 31, 2011 and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

The current examination report contains no recommendations.

Previous Report of Examination

Comments on Financial Statement Items - Bonds (Page 12): During the period covered by the previous examination, the Company's securities were held under a custodial agreement which was not approved by the California Department of Insurance. Effective July 31, 2008, a new custodial agreement was executed which complies with California Insurance Code (CIC) Section 1104.9.

Comments on Financial Statement Items - Cash and short-term investments (Page 12): For the purpose of complying with CIC Section 1104.1, it was recommended that cash funds held outside of California be transferred to a California depository. The Company is in compliance with the recommendation.

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/_____
David A. Fischman CFE
Examiner-In-Charge
Department of Insurance
State of California