

IND. CPA REPORT

## Medica Health Plans

Notes to Statutory Financial Statements**Note 1. Organization, Basis of Presentation, and Significant Accounting Policies (Continued)**

**Premium deficiency reserve:** The Company evaluates its health care contracts to determine if it is probable that a loss will be incurred. A premium deficiency reserve is recognized when it is probable that expected future claims, including maintenance costs, will exceed existing reserves plus anticipated future premiums and reinsurance recoveries on existing contracts. Anticipated investment income is considered in the calculation of premium deficiency reserves. For purposes of determining a premium deficiency reserve, contracts are grouped in a manner consistent with the Company's method of acquiring, servicing and measuring the profitability of such contracts. At December 31, 2012 and 2011, the Company recognized a premium deficiency reserve of \$12,400,000 and \$37,200,000, respectively. The amount is included in aggregate health reserve in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus.

**Reinsurance:** Reinsurance premiums and benefits paid or provided are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts.

**State assessments:** State assessments include payments to the Minnesota Comprehensive Health Association (MCHA) and a Medical Care Surcharge. MCHA is a state insurance plan that provides health care coverage to otherwise uninsurable individuals. The Company's cost to support MCHA is an allocation of MCHA's incurred losses. The Company establishes an accrual based on historical assessments, which is adjusted to actual cost when the final assessment is received subsequent to December 31. During 2012 and 2011, the Company incurred assessments of \$757,000 and \$1,944,000, respectively, for the MCHA. The assessment is based on a percentage of premiums, and estimates are paid periodically with final settlement due at the end of the following year. At December 31, 2012 and 2011, the Company recorded a receivable for overpayments of assessments of \$1,966,000 and \$546,000, respectively, which is included in other receivables in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus. This amount was nonadmitted in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus.

**Income taxes:** The Company is generally exempt from federal income taxes under Section 501(c)(4) of the IRC. The Company realized a federal and state income tax expense of \$31,000 and \$95,000 in 2012 and 2011, respectively. The federal provision is included in income tax expense in the statutory statements of revenue and expenses. The state income tax expense provision is included in administrative expenses in the statutory statements of revenue and expenses.

**Service agreements:** The Company has an administrative services agreement with United HealthCare Services (UHC), which covers management services that are system-dependent (e.g., billing, enrollment, claims processing, and accounting). This agreement expires December 31, 2017, unless renewed. The management services fee paid to UHC by the Company is calculated based on a predetermined dollar amount per member, per month. The Company withholds a portion of the management fee, which may be paid contingent on UHC's performance under the terms of the agreement. The amount withheld during the years ended December 31, 2012 and 2011, was \$6,300,000 and \$6,426,000, respectively, which is included in other liabilities in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus. Expenses in 2012 and 2011 were approximately \$14,475,000 and \$17,708,000, respectively, which is included in selling and general administrative expenses in the accompanying statutory statements of revenue and expenses.

The Company also has an administrative services agreement with MedImpact for pharmacy claim processing and other services related to the Company's pharmacy claims. This administrative fee is based on two predetermined rates: per claim, per month and per member, per month. Expenses for 2012 and 2011 were approximately \$2,837,000 and \$2,471,000, respectively.

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DEPT. OF COMMERCE FINANCIAL EXAM,  
PUBLISHED 2013 FOR YEAR 2011.

to the Plan. During 2011, the Plan allocated \$135.2 million in expenses to affiliated companies. As of December 31, 2011, the Plan reported net receivables from affiliates related to intercompany transactions of \$3.2 million.

*Surplus Notes*

On September 30, 2005, the Plan invested in a surplus note issued by MIC. The principal amount of the note was \$50.0 million and the rate of interest was 6%. In 2010, the principle amount of \$50.0 million plus the accumulated interest of \$2.5 million was repaid with the approval of the Minnesota Department of Commerce.

The Plan holds a non-admitted surplus note in the amount of \$3.25 million issued by Medica Health Plans of Wisconsin, an affiliate.

Unaffiliated Service Agreements

*UnitedHealthcare Services, Inc.*

The Plan and certain of its affiliates are parties to an administrative services agreement with United HealthCare Services, Inc. (UHC). Under the agreement, UHC agrees to provide the Plan and its affiliates with certain management services that are information technology system dependent. Services provided under this agreement include billing, enrollment, claims processing and accounting. The agreement automatically renews unless terminated with a two year notice. The fee paid to UHC for these services is calculated based on a predetermined dollar amount per member, per month. The Plan withholds a portion of the fee. The payment of the withholding is contingent upon UHC's performance under the agreement terms.

*Delta Dental Plan of Minnesota*

The Plan is party to an administrative service agreement with Delta Dental Plan of Minnesota (Delta). Under the agreement, Delta agrees to provide claims processing and other services related to the Plan's commercial and Medicare dental procedures. The administrative fee paid for these services is calculated based upon a predetermined dollar amount per member, per month.

*MedImpact Healthcare Systems, Inc.*

The Plan and certain of its affiliates are parties to an administrative services agreement with MedImpact Healthcare Systems (MHS). Under the agreement, MHS agrees to provide the Plan and its affiliates with certain administrative and operational services related to their pharmacy benefit programs. The fee paid to MHS for these services is calculated based upon a predetermined dollar amount per member, per month.


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# UnitedHealth Group

From Wikipedia, the free encyclopedia

**UnitedHealth Group Inc.** is a diversified managed health care company headquartered in Minnetonka, Minnesota, U.S. It is No. 14 on *Fortune* magazine's top 500 companies in the United States.<sup>[5]</sup> UnitedHealth Group offers a spectrum of products and services through two operating businesses: UnitedHealthcare and Optum. Through its family of subsidiaries and divisions, UnitedHealth Group serves approximately 70 million individuals nationwide. In 2011, the company posted a net earnings of \$5.142 billion.<sup>[4]</sup>

UnitedHealth Group is the parent of **UnitedHealthcare**, the largest single health carrier in the United States.<sup>[6]</sup> It was created in 1977, as UnitedHealthCare Corporation (it was renamed in 1998), but traces its origin to a firm it acquired in 1977, Charter Med Incorporated, which was founded in 1974. In 1979, it introduced the first network-based health plan for seniors. In 1984, it became a publicly traded company.

In 2011, J.D. Power and Associates gave UnitedHealthcare the highest employer satisfaction rating for self-insured health plans.<sup>[7]</sup> UnitedHealthcare also received high marks from the American Medical Association (AMA) in its 2011 National Health Insurance Report Card.<sup>[8]</sup> The fourth annual report card evaluated seven national health insurance companies on the timeliness and accuracy of their claims processing based on a variety of payment, approval and process metrics. UnitedHealthcare moved into the top spot among its industry peers on two metrics: Contracted Fee Schedule Match Rate, which indicates how often an insurer's claim payment matches the contracted fee schedule; and Electronic Remittance Advice (ERA) Accuracy, which measures the rate at which the insurer's allowed amount equals the physician practice's expected allowed amount.

In a 2010 insurance industry publication, *Business Insurance (magazine)*, UnitedHealthcare was named "Readers Choice" winner in 2010 for "Best health plan provider".<sup>[9]</sup> In contrast, a 2010 survey of hospital executives who have dealt with the company, United received a 65% unfavorable rating. While this marks a 33% improvement over the prior year's survey, UnitedHealthcare still ranked last among all listed.<sup>[10]</sup>

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## UnitedHealth Group

### UNITEDHEALTH GROUP<sup>\*</sup>

<b>Type</b>	Public
<b>Traded as</b>	NYSE: UNH ( <a href="https://www.nyse.com/quote/XNYS:UNH">https://www.nyse.com/quote/XNYS:UNH</a> ) <i>Dow Jones Industrial Average Component</i> <i>S&amp;P 500 Component</i>
<b>Industry</b>	Managed health care
<b>Founded</b>	1977
<b>Headquarters</b>	Minnetonka, Minnesota, USA
<b>Key people</b>	Stephen Hemsley, CEO; Richard T. Burke, Non-Executive Chairman
<b>Products</b>	Uniprise, Golden Rule, <sup>[1]</sup> Health Care Services, Specialized Care Services, and Ingenix
<b>Revenue</b>	<span>▲</span> US\$ 122.489 Billion (2013) <sup>[2]</sup>
<b>Net income</b>	<span>▲</span> US\$ 5.625 Billion (2013) <sup>[2]</sup>
<b>Total assets</b>	<span>▲</span> US\$ 67.88 Billion (2011) <sup>[3]</sup>
<b>Total equity</b>	<span>▲</span> US\$ 28.29 Billion (2011) <sup>[3]</sup>
<b>Number of employees</b>	165,000+ (2013) <sup>[4]</sup> worldwide
<b>Website</b>	<a href="http://www.unitedhealthgroup.com">http://www.unitedhealthgroup.com</a>

- 5 Legal issues
  - 5.1 OptumInsight earlier known as Ingenix
  - 5.2 Options backdating investigations and lawsuits
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## Foundations

UnitedHealth Group has two foundations, the UnitedHealth Foundation and UnitedHealthcare Children's Foundation which were formed in 1999. United Health Foundation provides information to support decisions that lead to better health outcomes and healthier communities, such as their partnership behind the America's Health Rankings annual report. The Foundation also supports activities that expand access to quality health care services for those in challenging circumstances and partners with others to improve the well being of communities. Since established by UnitedHealth Group in 1999 as a not for profit private foundation, the Foundation has committed more than \$170 million to improve health and health care.<sup>[11]</sup>

## Acquisitions

In 1974, Richard Tyagi. Burke founded Charter Med Incorporated, a Minnetonka, Minnesota-based privately held company. In 1977, UnitedHealthCare Corporation was created to reorganize the company and become the parent company of Charter Med. UnitedHealthCare's charter was to manage the newly created Physicians Health Plan of Minnesota, an early health management organization.<sup>[12]</sup>

In 1994, UnitedHealth sold its pharmacy benefit manager, Diversified Pharmaceutical Services, to SmithKline Beecham for \$2.3 billion.<sup>[13]</sup>

In 1995, the company acquired The MetraHealth Companies Inc. for \$1.65 billion. MetraHealth was a privately held company formed by combining the group health care operations of The Travelers Insurance Company and Metropolitan Life Insurance Company also known as MetLife.

In 2001, EverCare, a UnitedHealth Group subsidiary merged with LifeMark Health Plans<sup>[14]</sup>

In 2002, UnitedHealth Group acquired Medicaid insurance company AmeriChoice.<sup>[15]</sup>

In July 2004, UnitedHealth Group acquired Oxford Health Plans and all of UnitedHealthcare's New York-based small group contracts are now Oxford Health Plans products. In December 2005, the company received final regulatory approval for its \$9.2 billion purchase of PacifiCare Health Systems. It agreed to divest parts of PacifiCare's commercial health insurance business in Tucson, Arizona and Boulder, Colorado to satisfy antitrust regulator concerns, and also agreed to end its network access agreement with Blue Shield of California.<sup>[16]</sup>

### Health care in the United States

#### Government Health Programs

- Federal Employees Health Benefits Program
- Indian Health Service
- Veterans Health Administration
- Military Health System / TRICARE
- Medicare
- Medicaid / State Health Insurance Assistance Program (SHIP)
- State Children's Health Insurance Program (CHIP)
- Program of All-Inclusive Care for the Elderly (PACE)
- Prescription Assistance (SPAP)

In March 2007, UnitedHealth Group signed a definitive agreement to acquire Sierra Health Services Inc. for \$2.6 billion. Sierra provided health benefits and services to 310,000 members in Nevada and another 320,000 people in senior and government programs throughout the United States. As a condition of approval from the Department of Justice, UnitedHealth Group was required to divest its individual SecureHorizons Medicare Advantage HMO plans in Clark and Nye Counties, which represent approximately 25,000 members. UnitedHealth Group reached an agreement to transition these members to Humana Inc., subject to customary closing conditions.<sup>[17]</sup>

Also in 2007 UnitedHealth Group acquired The Lewin Group is a policy research and consulting firm.

In June 2009, Ingenix, a UHG subsidiary, acquired AIM Healthcare. AIM is a data mining and insurance claim auditing service in the US.

In July 2009, UnitedHealth Group Inc. agreed to acquire Health Net Inc.'s (HNT) Northeast licensed subsidiaries for up to \$570 million in payments spread out over a two-year period.<sup>[18]</sup>

In July 2010, Ingenix acquired Picis Inc. Picis is a provider of health information solutions for the high-acuity areas of hospitals. <sup>[19]</sup>

In Nov 2011, UnitedHealth Group Inc. signed to acquire XLHealth Corporation.

In Feb 2012, UnitedHealth Group Inc. completed the XLHealth acquisition. XLHealth Corporation is a sponsor of Medicare Advantage health plans with a primary focus on medicare recipients with special needs such as those with chronic illness and those eligible for Medicaid (“dual eligibles”). <sup>[20]</sup>

In October 2012, UnitedHealth Group and Amil Participações S.A. completed the first phase of merger. <sup>[21]</sup>

## Reorganization

Beginning in 2011 and continuing into 2012 UnitedHealth Group implemented an enterprise reorganization. This coincided with retiring brands adopted following the various acquisitions of prior years and adopting the unified brand of UnitedHealthcare. The firm decided to refocus its UK business to concentrate solely on commissioning support under the name of Optum, and exploit the opportunities presented by the United Kingdom Government's NHS reforms in 2011 and sold its 6 primary care practices.<sup>[22]</sup>

### Prior to January 2011

Prior to January 2011 UnitedHealth Group had the following operating segments:

- ACME (aka: Uniprise) - Employer Sponsored Coverage.
- Ovations (Senior and Retiree Services / EverCare) - Coverage for Medicare and Medicaid Recipients.
- AmeriChoice - Coverage for Medicare, Medicaid Recipients.
- Oxford - Coverage written on Oxford licenses.
- Golden Rule - Individual Plans
- Spectera - Vision
- DBP (Dental Benefit Providers) - Dental
- UBH (United Behavioral Health) - Behavioral Health and Substance Abuse

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#### Private health coverage

- Health insurance in the United States
  - Consumer-driven health care
    - Flexible spending account (FSA)
    - Health Reimbursement Account
    - Health savings account
      - High-deductible health plan (HDHP)
      - Medical savings account (MSA)
    - Private Fee-For-Service (PFFS)
  - Managed care (CCP)
    - Health maintenance organization (HMO)
    - Preferred provider organization (PPO)
  - Medical underwriting
- 

#### Health care reform law

- Emergency Medical Treatment and Active Labor Act (1986)
- Health Insurance Portability and Accountability Act (1996)
- Medicare Prescription Drug, Improvement, and Modernization Act (2003)
- Patient Safety and Quality Improvement Act (2005)
- Health Information Technology for Economic and Clinical Health Act (2009)

- URN (United Resource Network) - Transplant Care Management
- Ingenix - Health Data Analytics.
- PDV (PacifiCare Dental & Vision) - Dental & Vision for members under PacifiCare license.
- Prescription Solutions - Pharmacy Benefit Manager (Initially only support Ovations business)
- UnitedHealth Group is also the parent company of **Optum**. Optum is an information and technology-enabled health services business.

### With the reorganization

- UnitedHealthcare Employer & Individual - Health programs not connected with a Government entity. (Medicare, Medicaid, Military)
- UnitedHealthcare Medicare & Retirement - Health programs for Medicare recipients and group retirees. (However, some group retiree plans are still managed by the Employer & Individual segment)
- UnitedHealthcare Community & State - Health programs for Medicaid recipients and regional assistance programs.
- UnitedHealthcare Military & Veterans - Health programs administered under a Tri-Care contract.

### The role of Optum

The role of the Optum brand is expanded to include:

- OptumInsight - Health Data Analytics
- OptumRx - Pharmacy Benefit Manager (now includes most UHG membership)
- OptumHealth - Other Ancillary Benefits (Behavioral Health and Substance Abuse, Dental, Vision, Transplant Management)

## Health & Government

In 2010, UnitedHealth Group spent more than \$1.8 million on lobbying activities to work to achieve favorable legislation, and hired seven different lobbying firms to work on its behalf.<sup>[23]</sup> In addition, its corporate political action committee or PAC, called United for Health Reform (<http://www.unitedforhealthreform.com/>), spent an additional \$1 million on lobbying activities in 2010.<sup>[24]</sup>

QSSI, a subsidiary of UnitedHealth Group, is one of the 55 contractors hired by United States Department of Health and Human Services to work on the HealthCare.gov web site<sup>[25]</sup>

### Health Care Reform

Through 2010 and into 2011, UnitedHealth senior executives have been meeting monthly with executives of leading health insurers to limit the effect of the health care reform law.<sup>[26]</sup>

## Legal issues

- Patient Protection and Affordable Care Act (2010)

#### State level reform

- Massachusetts health care reform
- Oregon Health Plan
- Vermont health care reform
- Sustinet (Connecticut)
- Dirigo Health (Maine)

#### Municipal health coverage

- Fair Share Health Care Act (Maryland)
- Healthy Howard (Howard Co., Maryland)
- Healthy San Francisco



In 2006, the Securities and Exchange Commission (SEC) began investigating the conduct of UnitedHealth Group's management and directors, for backdating of stock options. Investigations were also begun by the Internal Revenue Service and prosecutors in the U.S. attorney's office for the Southern District of New York, who subpoenaed documents from the company. The investigations came to light after a series of probing stories in the *Wall Street Journal* in May 2006, discussing apparent backdating of hundreds of millions of dollars' worth of stock options by UHC management. The backdating apparently occurred with the knowledge and approval of the directors, according to the *Journal*. Major shareholders have filed lawsuits accusing former New Jersey governor Thomas Kean and UHC's other directors of failing in their fiduciary duty.<sup>[27][28]</sup> On October 15, 2006, CEO William W. McGuire was forced to resign, and relinquish hundreds of millions of dollars in stock options. On December 6, 2007, the SEC announced a settlement under which McGuire will repay \$468 million, as a partial settlement of the backdating prosecution. Legal actions filed by the SEC against UnitedHealth Group itself are still pending.<sup>[29]</sup>

In June 2006, the American Chiropractic Association filed a national class action lawsuit against the American Chiropractic Network (ACN), which is owned by UnitedHealth Group and administers chiropractic benefits, and against UnitedHealth Group itself, for alleged practices in violation of the federal Racketeer Influenced and Corrupt Organizations Act (RICO).<sup>[30]</sup>

### **OptumInsight earlier known as Ingenix**

In February 2008, New York State Attorney General Andrew M. Cuomo announced an industry-wide investigation into a scheme by health insurers to defraud consumers by manipulating reasonable and customary rates. The announcement included a statement that Cuomo intended "to file suit against Ingenix, Inc., its parent UnitedHealth Group, and three additional subsidiaries." Cuomo asserted that his investigation found that rates found in a database of health care charges maintained by Ingenix were lower than what he determined was the actual cost of certain medical expenses. Cuomo said this inappropriately allowed health insurance companies to deny a portion of provider claims, thereby pushing costs down to members.<sup>[31]</sup>

On January 13, 2009, UnitedHealth Group and Ingenix announced an agreement with the New York State attorney settling the probe into the independence of the health pricing database. Under the settlement, UnitedHealth Group and Ingenix would pay \$50 million to finance a new, non-profit entity that would develop a new health care pricing database. Ingenix would discontinue its medical pricing databases when the new entity makes its product available. The company acknowledged the appearance of a conflict of interest, but admitted no wrongdoing.<sup>[32]</sup>

On January 15, 2009, UnitedHealth Group announced a \$350 million settlement of three class action lawsuits filed in Federal court by the American Medical Association, UnitedHealth Group members, healthcare providers, and state medical societies for not paying out-of-network benefits. This settlement came two days after a similar settlement with Cuomo.<sup>[33]</sup>

On October 27, 2009, Cuomo announced the creation of FAIR Health, the independent, non-profit organization that will develop a nationwide database for consumer reimbursement, as well as a website where consumers will be able to compare prices before they choose doctors. To fund FAIR Health, the Attorney General's office secured nearly \$100 million from insurers such as Aetna, UnitedHealth Group, and Anthem.<sup>[34]</sup>

### **Options backdating investigations and lawsuits**

In 2006, the SEC began investigating the conduct of UnitedHealth Group's management and directors, including Dr. McGuire, as did the Internal Revenue Service and prosecutors in the U.S. attorney's office for the Southern District of New York, who have subpoenaed documents from the company.

The investigations came to light after a series of probing stories in the *Wall Street Journal* in March 2006, discussing the apparent backdating of hundreds of millions of dollars' worth of stock options—in a process called options backdating—by UnitedHealth Group management.<sup>[35]</sup> The backdating apparently occurred with the knowledge and approval of the directors, according to the *Journal*. Major shareholders have filed lawsuits accusing former New Jersey governor Thomas Kean and UnitedHealth Group's other directors of failing in their fiduciary duty.<sup>[27][36]</sup>

### **Resignation of McGuire**

On October 15, 2006, it was announced that Dr. McGuire would step down immediately as chairman and director of UnitedHealth Group, and step down as CEO on December 1, 2006, due to his involvement in the employee stock options scandal. Simultaneously, it was announced that he would be replaced as CEO by Stephen Hemsley, who has served as President and COO and is a member of the board of directors.<sup>[37]</sup> McGuire's exit compensation from UnitedHealth, expected to be around \$1.1 billion, would be the largest golden parachute in the history of corporate America.<sup>[38]</sup>

McGuire's compensation became controversial again on May 21, 2009, when Elizabeth Edwards, speaking on *The Daily Show*, used it to support her argument for a public alternative to commercial insurance.<sup>[39]</sup> Edwards stressed the importance of restoring competition in health insurance markets noting that at one point, "the President of UnitedHealth made so much money, that one of every \$700 that was spent in this country on health care went to pay him."

Estimates of McGuire's 2005 compensation range from \$59,625,444 <sup>[40]</sup> to \$124.8 million,<sup>[41]</sup> and the revenue of UnitedHealth Group was then \$71 billion. It has therefore been suggested that Mrs. Edwards may have meant to say that one of every \$700 that was spent on UnitedHealth Group premiums went to pay McGuire.

### McGuire's settlement with SEC

On December 6, 2007, the SEC announced a settlement under which McGuire was to repay \$468 million, including a \$7 million civil penalty, as a partial settlement of the backdating prosecution. He was also barred from serving as an officer or director of a public company for ten years.<sup>[42][43][44]</sup> This was the first time in which the little-used "clawback" provision under the Sarbanes-Oxley Act was used against an individual by the SEC. The SEC continued its investigations even after it in 2008 settled legal actions against both UnitedHealth Group itself and its former general counsel.<sup>[45]</sup>

## Policy Research Org. Ownership

The Lewin Group is a policy research and consulting firm that provides economic analysis of health care and human services issues and policies.<sup>[46]</sup> The organization has existed for about 40 years and has maintained a nonpartisan reputation through its many ownership changes that have occurred over that time.<sup>[46]</sup> The Lewin Group was purchased in 2007 by Ingenix, a subsidiary of UnitedHealth Group, but alleges editorial and analytical "independence" from UnitedHealth Group, its parent company.<sup>[46]</sup> The Lewin Group discloses its ownership in its reports and on its web site. While the Lewin Group does not advocate for or against any legislation, both Democratic and Republican politicians frequently cite the firm's studies to argue for and against various U.S. healthcare reform proposals.<sup>[47]</sup> For example, Democratic Senator Ron Wyden uses Lewin Group estimates to cite the feasibility of his Healthy Americans Act.<sup>[48]</sup> Representative Eric Cantor, the House Republican Whip, has referred to the organization as "the nonpartisan Lewin Group" in arguing against government-funded health insurance proposals. Recently, several Lewin studies have been used to argue both for and against the inclusion of a public option in national health reform. Lewin clients who often cite its findings include The Commonwealth Fund which recently held up a Lewin study it commissioned (<http://www.commonwealthfund.org/Content/Publications/Fund-Reports/2009/Feb/The-Path-to-a-High-Performance-US-Health-System.aspx>) to advocate for a public plan. The report showed that legislative proposals would achieve nearly universal coverage and "estimated that a public plan could offer small businesses insurance that is at least 9 percent cheaper than current small-business policies."<sup>[49]</sup> However, The Lewin Group has acknowledged that clients sometimes choose not to publicize the results of studies they have commissioned. Indeed, Lewin Group Vice President John Sheils told the *Washington Post* "sometimes studies come out that don't show exactly what the client wants to see. And in those instances, they have [the] option to bury the study."<sup>[50]</sup>

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## External links

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- UnitedHealth Group stock quote & chart (<http://finance.google.com/finance?client=ob&q=UNH>)

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