

**STATE OF TENNESSEE**  
**DEPARTMENT OF COMMERCE AND INSURANCE**

**REPORT OF EXAMINATION**

of

**HEALTHSPRING OF TENNESSEE, INC.**

as of

December 31, 2010

**RECEIVED**

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Company Examinations



**HEALTHSPRING of TENNESSEE, INC.**

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June 25, 2012

Honorable Julie Mix McPeak  
Commissioner  
State of Tennessee  
Department of Commerce and  
Insurance  
500 James Robertson Parkway  
Nashville, Tennessee 37243

Dear Commissioners:

Pursuant to your instructions and in accordance with Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of the

HEALTHSPRING OF TENNESSEE, INC.  
530 Great Circle Road  
NASHVILLE, TENNESSEE 37228-1513

hereinafter referred to as "the Company" or "HMO ." Such examination was conducted as of December 31, 2010 and the report thereon is herewith respectfully submitted.

## SCOPE OF EXAMINATION

The examination was a risked focused financial condition examination conducted in accordance with the guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the period from April 1, 2007 through December 31, 2010 and material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Our examination was conducted in accordance with examination policies and standards established by State of Tennessee Department of Commerce and Insurance and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the company, and evaluating system controls and procedures used to mitigate risks. An examination also includes assessing the principles used and significant estimates made by management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic regulations.

This report is written by exception, except for certain items of regulatory significance, and those matters examined and found to be substantially in compliance with statutes will not be commented on further.

## HISTORY

The HMO was incorporated on January 24, 1995, as a for-profit corporation under the provisions of the Tennessee Business Corporation Act and was organized as a health maintenance organization pursuant to Title 56, Chapter 32 Tennessee Code Annotated for the purpose of providing managed health care services to residents of Tennessee. The HMO was issued a Certificate of Authority by the Department of Commerce and Insurance, State of Tennessee effective April 19, 1995, to transact business in the State of Tennessee under the name of Health Net HMO, Inc.

At its incorporation, the HMO was authorized to issue 2,000 shares of common stock, with each share to have a par value of five dollars. In February, 1995, the HMO received \$1,000,000 from Health Net Management, Inc., formerly known as TCM, Inc., in exchange for ten shares of the HMO's common stock. Payment consisted of a \$900,000 capital surplus note and \$100,000 cash for paid-in capital.

Effective February 14, 1995, and prior to the commencement of business, the HMO accepted the assignment of "all agreements, contracts and undertakings" of Health Net HMO, Inc., a Tennessee not-for-profit corporation, formerly known as Total Care, Inc. which did business

under the same name as the HMO. The surviving HMO agreed to "perform fully and timely all of the duties and responsibilities" of the not-for-profit corporation.

The HMO was granted a new Certificate of Authority in the name of "HealthSpring, Inc." on October 10, 2001. The HMO's charter was amended on September 21, 2001, approved by the Department of Commerce and Insurance, State of Tennessee on September 26, 2001, and filed with the Secretary of State, State of Tennessee on September 28, 2001, in order to effect the said name change. At the same time, the name of the immediate parent corporation was changed from Health Net Management, Inc. to HealthSpring Management, Inc.

Effective March 1, 2005, through a plan of acquisition approved by the Commissioner of Commerce and Insurance, State of Tennessee on February 17, 2005, New Quest Holdings, Inc. was approved to become the new ultimate parent of the HMO. During 2003, 35 percent of the 50 percent of outside ownership of HealthSpring Management, Inc., the HMO's immediate parent, had been acquired by the old ultimate parent corporation, NewQuest, LLC. The outside ownership was vested in Baptist Hospital, Inc., Saint Thomas HealthServices, Inc., Tenet HealthCare Corporation and TennQuest. Effective March 1, 2005, NewQuest Holdings, Inc. acquired the remaining 15 percent of outside ownership.

A new ultimate parent corporation named HealthSpring, Inc. was incorporated as a Delaware Corporation in October, 2004, and owns 100 percent of NewQuest, Inc. The new ultimate parent corporation had been formed to complete the recapitalization of the HMO's direct parent, NewQuest, LLC on March 1, 2005.

Prior to the recapitalization, NewQuest, LLC was owned 43.9 percent by officers and employees, 38.2 percent by non-management directors of NewQuest, LLC and 17.9 percent by outside investors. After the recapitalization, ownership was 55.1 percent investment funds affiliated with GTCR Golder Rauner II, L.L.C. (GTCR), 28.7 percent executive officers and employees and 16.2 percent outside investors.

The details of the March 1, 2005, recapitalization of the parent as exhibited in HealthSpring, Inc.'s 10-K filed April 3, 2006, for the period December 31, 2005, are as follows:

"On March 1, 2005, in connection with the recapitalization, we sold and issued an aggregate of (a) 30,445,218 shares of our common stock, par value \$.01 per share to the GTCR Funds, members of our predecessor, and certain other investors at a purchase price of \$0.20 per share, or for an aggregate purchase price of \$6,089,043; and (b) 227,154 shares of our preferred stock, par value \$.01 per share, or for an aggregate purchase price of \$227,154,000. We also issued 1,286,250 shares of restricted common stock on March 1, 2005, to certain of our employees pursuant to restricted stock purchase agreements at a purchase price of \$0.20 per share, or an aggregate purchase price of \$257,250.

As part of the recapitalization, the parent also took on approximately \$200,000,000 debt under its senior credit facility and senior subordinated notes to fund cash

payments to members of NewQuest, L.L.C. and pay expenses relating to the recapitalization.”

The parent company, now known as HealthSpring, Inc. made its initial public offering (IPO) on February 8, 2006. The details of the IPO as exhibited in the HealthSpring, Inc. 10-K are as follows:

“We sold 10.6 million shares of common stock and the GTCR Funds sold 11.02 million shares of common stock at a price of \$19.50 per share, resulting in an aggregate offering price of approximately \$421.6 million.

The parent’s portion of the offering and approximately \$1.1 million in available cash was used to repay all outstanding debt.”

HealthSpring, Inc. announced an additional public offering of 11,600,000 shares of the Company’s common stock at \$18.98 per share on October 10, 2006. This offering included 11,030,433 shares sold by GTCR. The Manager of the purchase was a group of several securities dealers. The Company did not receive any proceeds from the sale of shares in this offering. As a result of the referenced sale, GTCR investment funds now own 4.7% of the Company’s outstanding shares of common stock.

A summary of the HMO’s paid in funding provided by the parent corporation since the prior examination is as follows:

<u>Statement Date</u>	<u>Paid in surplus</u>	<u>Paid in capital</u>
December 31, 2007	\$5,000,000	\$0
December 31, 2008	\$0	\$0
December 31, 2009	(\$4,988,722)	\$0
December 31, 2010	\$0	\$0
Total	<u>\$78</u>	<u>\$0</u>

### GROWTH OF THE COMPANY

The growth of the Company, as excerpted from filed Annual Statements, is presented as follows:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Premium Income</u>
2007	\$239,134,491	\$179,983,556	\$59,150,935	\$734,590,861
2008	203,061,178	109,249,141	93,812,037	919,106,704
2009	172,279,740	81,965,607	90,314,133	984,343,036
2010	163,119,603	85,367,081	77,752,522	896,573,503

## CHARTER AND BYLAWS

### Charter

The original Charter of the HMO dated January 13, 1995, was filed and recorded with the Secretary of State, State of Tennessee on January 24, 1995, after having been approved by the Department of Commerce and Insurance, State of Tennessee on January 18, 1995. Said Charter establishes the HMO as a for-profit corporation. It does not state that the HMO has a perpetual existence. The objects and purposes for which the said HMO is organized, and the natures of its powers and of the business to be carried on by it, are as follows:

- (1) The name of the HMO is Health Net HMO, Inc.
- (2) The purpose of the HMO is to do business as a health maintenance organization pursuant to Title 56, Chapter 32 Tennessee Code Annotated.
- (3) The HMO is authorized to issue two thousand (2,000) shares of common stock, with each share to have a par value of five dollars (\$5.00). These shares together shall have unlimited voting rights and full and equal rights to share in the profits of the HMO and its net assets upon dissolution.
- (4) The street address of the initial registered office of the HMO is 44 Vantage Way, Nashville, County of Davidson, Tennessee 37228, and the initial registered agent for the corporation at that office is John R. Hackworth.
- (5) The name and address of the incorporator is:  
  
K. L. Ross  
44 Vantage Way  
Suite 300  
Nashville, Tennessee 37228
- (6) The street address of the principal office of the corporation is 44 Vantage Way, Nashville, Tennessee 37228.
- (7) The HMO is for profit.
- (8) The HMO elects to have preemptive rights.
- (9) Nothing herein shall exempt an officer or director of the HMO from the provisions of Title 56 Tennessee Code Annotated.
- (10) To the extent allowed by the laws of the State of Tennessee, no present or future director of the HMO (or his or her estate, heirs and personal representatives) shall be liable to the HMO or its shareholders for monetary damages for breach of fiduciary duty as a director of the HMO. Any liability of

a director (or his or her estate, heirs and personal representatives) shall be further eliminated or limited to the fullest extent allowed by the laws of the State of Tennessee, as may hereafter be adopted or amended.

- (11) With respect to claims or liabilities arising out of service as a director or officer of the HMO, the HMO shall indemnify and advance expenses to each present and future director and officer (and his or her estate, heirs and personal representatives) to the fullest extent allowed by the laws of the State of Tennessee, both as now in effect and as hereafter adopted or amended.

The Charter was amended September 21, 2001, at which time the name of the HMO was changed from Health Net HMO, Inc. to HealthSpring, Inc. The Articles of Amendment were filed and recorded with the Secretary of State, State of Tennessee on September 28, 2001, after having been approved by the Department of Commerce and Insurance, State of Tennessee on September 26, 2001.

A Charter Amendment changing the name of the HMO from HealthSpring, Inc. to HealthSpring of Tennessee, Inc. was filed with the Secretary of State on September 20, 2005.

### **Bylaws**

The Amended Bylaws of the HMO in effect at March 31, 2007, were approved by a majority of the Board entitled to vote on October 5, 2004, in order to create a Consumer Advisory Committee in relation to the Illinois operations. This action implemented a mechanism to afford the enrollees an opportunity to participate in an advisory capacity in matters of policy and operations as required by Illinois state regulations. The Bylaws are such as those generally found in corporations of this type and contain no unusual provisions.

The original Bylaws were adopted March 17, 1995. Such Bylaws may be amended, altered, repealed or restated, and new Bylaws adopted by the affirmative vote of a majority of the stock represented at such meeting, or by the affirmative vote of a majority of the members of the Board who are present at any regular or special meeting. The Board may additionally amend the Bylaws without a meeting with the approval of a majority vote of the entire Board.

The Bylaws state that the Company may have offices, either within or without the State of Tennessee, as the Board may designate. The principal office of the HMO shall be that which is designated as such in its Charter.

An annual meeting of shareholders shall be held on the last Friday in April of each and every year, if not a legal holiday. If a legal holiday, the meeting shall be on the next succeeding business day which is not a legal holiday. The Board may by resolution fix the date of the annual meeting on any day within 60 days next succeeding the foregoing date. Special meetings of the shareholders may be called by the Board, the President or holders of at least ten percent of all the votes.

A Board of nine members shall be elected by the shareholders at the annual meeting. However; these Bylaws may be amended from time to time by the shareholders or by the Board to increase or decrease the number of Directors within the limits provided by law. Regular meetings of the Board of Directors may be held without notice at such time and place designated by the Board. Special meetings may be called by the President or any three Directors.

The Officers of the HMO shall be chosen by the Board and include President, Secretary, Treasurer and such other officers as may be appointed. The same individual may simultaneously hold more than one office except for the office of President and Secretary.

## MANAGEMENT AND CONTROL

### Management

The Bylaws provide that all corporate powers shall be exercised by or under the authority of and the business and affairs of the Company managed under the direction of the Board of Directors. Board members are elected by the shareholders. As of December 31, 2010, the Board of Directors of the Company was composed of the following:

<u>Name</u>	<u>Position</u>
Matthew Shawn Morris	President and Chairman
Gregory James Allen	Chief Operating Officer
Hardy Leigh Sorkin, MD	Medical Director
Robert Lambdin Dawson	Assistant Secretary
Randy Karl Fike	President, Illinois Division
Franklin Stewart Warren	Chief Financial Officer

As of June 21, 2012 the Directors were

<u>Name</u>	<u>Position</u>
Gregory James Allen	President and Chairman
Hardy Leigh Sorkin, MD	Medical Director
Robert Lambdin Dawson	Vice President
Franklin Stewart Warren	Chief Financial Officer
Heather Rene Peterson	Vice President
Sanjeev Kumar Srivastava	Cigna Senior Segment Lead

The administrative and executive functions of the HMO are performed by staff provided by HealthSpring Management, Inc. under recitals of a management agreement. The relationship with the mentioned firm is discussed under the heading "Agreements with Parent, Subsidiaries and Affiliates".

### **Control**

The HMO is wholly-owned by HealthSpring Management, Inc. which is a wholly-owned subsidiary of NewQuest, LLC. NewQuest, LLC is wholly-owned by NewQuest, Inc., which is wholly-owned by HealthSpring, Inc.

A holding company organizational chart, as it existed on the as of date of the examination, is included at the last page of this examination report.

### **Dividends to Stockholders**

During the period under examination, the Company paid an extraordinary dividend of \$32,000,000 in 2010.

### **Intercompany Agreements**

The Company has management agreements with affiliated companies to provide management, administrative, marketing, and certain clerical services through an administrative services contract. Management fees to these affiliates are calculated as a percentage of premiums and totaled \$130,133,398 in 2010.

The Company has a tax sharing agreement to file consolidated federal income tax returns with HealthSpring, Inc., and its subsidiaries. Under the terms of the agreement, the federal income tax expense of each party to the agreement was equal to its separate return liability or refund.

## **CORPORATE RECORDS**

Minutes of meetings of the Board of Directors of the Company were reviewed for the period under examination. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company was a named insured on a financial institution bond issued by Federal Insurance Company, which met the suggested minimum requirements of the NAIC *Financial Condition Examiners Handbook* and complies with Tenn. Code Ann. § 56-32-206 (b). 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 Loss Prevention
- Business and Personal Property Coverage
- Commercial Crime Coverage
- Fiduciary Liability Loss Prevention
- General Liability/Auto
- General Liability/Umbrella

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the HMO was licensed to transact business in the States of Tennessee, Illinois and Mississippi.

The Company's service area in Tennessee consists of the following counties:

Bedford	Franklin	Maury	Sumner
Bradley	Gibson	McMinn	Tipton
Cannon	Grundy	Meigs	Trousdale
Cheatham	Hamilton	Montgomery	Warren
Coffee	Hickman	Robertson	Williamson
Davidson	Macon	Rutherford	Wilson
Dekalb	Madison	Sequatchie	White
Dickson	Marion	Shelby	
Fayette	Marshall	Smith	

The Company's service area in Illinois consists of the following counties:

Cooke	Kane	Will
DuPage	Lake	

The Company's service area in Mississippi consists of the following counties:

Covington	Hancock	Jones	Pearl River
Desoto	Harrison	Lamar	Stone
Forrest	Jackson	Marion	Tunica
George			

The HMO was formed for the purpose of providing managed care services to residents of Tennessee. At December 31, 2010, the HMO was licensed in three states, Illinois, Mississippi and Tennessee. The HMO's commercial product is sold only in Tennessee. The HMO's Medicare Advantage product is sold in all three states in which it is licensed.

During 2010, the HMO provided Medicare Part D coverage in Tennessee, Illinois and Mississippi.

As reported in its December 31, 2010 annual statement, the HMO had direct written premium as follows:

<u>State</u>	<u>Accident &amp; Health</u>	<u>Medicare Title XVIII</u>
Alabama	\$0	\$0
Alaska	0	0
Arizona	0	0
Arkansas	0	0

<u>State</u>	<u>Accident &amp; Health</u>	<u>Medicare Title XVIII</u>
California	0	0
Colorado	0	0
Connecticut	0	0
Delaware	0	0
District of Columbia	0	0
Florida	0	0
Georgia	0	0
Hawaii	0	0
Idaho	0	0
Illinois	0	129,372,653
Indiana	0	0
Iowa	0	0
Kansas	0	0
Kentucky	0	0
Louisiana	0	0
Maine	0	0
Maryland	0	0
Massachusetts	0	0
Michigan	0	0
Minnesota	0	0
Mississippi	0	57,193,644
Missouri	0	0
Montana	0	0
Nebraska	0	0
Nevada	0	0
New Hampshire	0	0
New Jersey	0	0
New Mexico	0	0
New York	0	0
North Carolina	0	0
North Dakota	0	0
Ohio	0	0
Oklahoma	0	0
Oregon	0	0
Pennsylvania	0	0
Rhode Island	0	0
South Carolina	0	0
South Dakota	0	0
Tennessee	3,312,411	706,694,795
Texas	0	0
Utah	0	0
Vermont	0	0
Virginia	0	0
Washington	0	0
West Virginia	0	0
Wisconsin	0	0
Wyoming	0	0
Puerto Rico	0	0

	<u>Accident &amp; Health</u>	<u>Medicare Title XVIII</u>
<u>State</u>		
Total	<u>\$3,312,411</u>	<u>\$893,261,092</u>

The HMO contracts with healthcare providers on a discounted fee-for-service, capitated, or per diem basis. Pharmacy costs are contracted on a discount from average wholesale price through a pharmacy benefit management company. Supplemental benefits such as vision, transportation, and behavioral health are contracted with specialty vendors on a capitated basis.

#### Enrollment History

<u>Year</u>	<u>Total members</u>	<u>Group</u>	<u>Federal Employees</u>	<u>Title XVIII Medicare</u>	<u>Other (Part D Only)</u>
2007	211,536	12,335	0	59,990	139,211
2008	344,707	674	0	61,603	282,430
2009	74,829	725	0	74,104	0
2010	83,221	752	0	82,469	0

### **RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS**

The HMO has no employees. All business functions are performed by HealthSpring Management, Inc. under recitals of a management agreement discussed under the caption, "Intercompany Agreements." Personnel participate in HealthSpring Management, Inc's employee benefit Plans.

### **CONFLICT OF INTEREST PROCEDURES**

The Company's officers and directors complete conflict of interest statements at the annual meeting of the Board of Directors. No exceptions were noted for the period under examination.

### **STATUTORY DEPOSITS**

The Company maintained the following deposits at December 31, 2010:

<u>Where Deposited</u>	<u>Statement Value</u>	<u>Fair Value</u>
Illinois	\$335,365	\$352,707
Mississippi	531,804	557,840
Tennessee	5,415,810	5,585,891

## LOSS RESERVES

The Company's reserves for unpaid losses and loss adjustment expenses at December 31, 2010 were estimated based on accepted actuarial practices. The reported reserves were determined to be adequate based on an analysis performed and the resulting report generated by Lewis and Ellis, Inc. an independent consulting actuarial firm utilized during this examination.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records and supporting data were reviewed and tested to the extent available and as deemed necessary to substantiate the Company's financial statements. The trial balance prepared from the Company's general ledger for 2010 was agreed to the December 31, 2010 audited financial statements.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the HMO at the date of examination.

The HMO files a Risk-Based Capital Report; however, HMOs domiciled in Tennessee are not subject to the Risk-Based Capital Requirement.

The HMO's Independent Auditors' Report is issued annually by the accounting firm of KPMG LLP.

## SUBSEQUENT EVENTS

On January 31, 2012, Healthspring, Inc., completed a merger contemplated by the Agreement and Plan of Merger (the Merger Agreement), dated as of October 24, 2011, among the Healthspring, Inc., Cigna Corporation, a Delaware corporation (Cigna), and Cigna Magnolia Corp., a Delaware corporation and an indirect, wholly owned subsidiary of Cigna (Merger Sub). Pursuant to the Merger Agreement, Healthspring, Inc. was acquired by Cigna through a merger of Merger Sub with and into the Healthspring, Inc., (the merger), with Healthspring, Inc. surviving the Merger as an indirect, wholly owned subsidiary of Cigna.

At the effective time of the Merger (the Effective Time) (i) each outstanding share of Healthspring, Inc. common stock, par value \$0.01 per share (Healthspring Inc.'s common stock), other than restricted shares, treasury shares, shares owned by Healthspring, Inc., Cigna, Merger Sub, or any of their wholly owned subsidiaries, and shares for which appraisal was properly demanded, was converted into the right to receive \$55.00 in cash, without interest and subject to any applicable withholding taxes, and (ii) equity awards relating to Healthspring Inc. common stock were treated in accordance with the Merger Agreement and

agreement entered into in connection with the Merger, representing a transaction value of approximately \$3.8 billion.

The Company paid an ordinary dividend of \$15,000,000 in 2011 to its parent.

## FINANCIAL STATEMENT

Following is a statement of assets, liabilities and statement of revenue and expense at December 31, 2010, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

	<u>ASSETS</u>		
	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$122,965,643		\$122,965,643
Cash (\$-13,904,809), cash equivalents (\$5,059,880) and short-term investments (\$8,618,227)	(226,702)		(226,702)
Investment income due and accrued	1,231,301		1,231,301
Uncollected premiums and agents balances in course of collection	14,210,176		14,210,176
Amounts recoverable relating to uninsured plans	7,196,462		7,196,462
Receivables from parent, subsidiaries and affiliates	8,681,711	8,681,711	0
Health care and other amounts receivable	<u>17,742,723</u>	_____	<u>17,742,723</u>
<b>Totals</b>	<u><b>\$171,801,314</b></u>	<u><b>\$8,681,711</b></u>	<u><b>\$163,119,603</b></u>

**LIABILITIES, CAPITAL AND SURPLUS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$56,525,662	\$562,603	\$56,088,265
Accrued medical incentive pool and bonus amounts	8,528,931		8,528,931
Unpaid claim adjustment expenses	942,326		942,326
Premiums received in advance	133,837		133,837
General expenses due or accrued	567,849		567,849
Current federal income tax payable	1,402,647		1,402,647
Net deferred tax liability	4,210,037		4,210,037
Amounts due to parent, subsidiaries and affiliates	11,469,471		11,469,471
Aggregate write-ins for other liabilities	<u>2,023,718</u>	<u>          </u>	<u>2,023,718</u>
Total liabilities	\$84,804,478	\$562,603	\$85,367,081
Common capital stock			\$50
Gross paid in and contributed surplus			30,364,510
Surplus notes			900,000
Unassigned funds (surplus)			<u>46,487,962</u>
Total capital and surplus			\$77,752,522
Total liabilities, capital and surplus			<u>\$163,119,603</u>

**STATEMENT OF REVENUE AND EXPENSES**

	Uncovered	Total
Member months	0	986,935
Net premium income	\$0	<u>\$896,573,503</u>
Other income	0	87,753
Total revenues	0	\$896,661,256
 <b><u>MEDICAL AND HOSPITAL</u></b> 		
Hospital/medical benefits	\$0	\$342,162,609
Other professional services	0	286,466,075
Outside referrals	0	0
Emergency room and out of area	0	17,440,764
Prescription drugs		82,648,144
Aggregate write-ins for other medical and hospital	0	0
Incentive pool, withhold adjustments and bonus amounts		<u>4,035,163</u>
Subtotal	0	\$732,752,755
 <b><u>LESS</u></b> 		
Net reinsurance recoveries	0	0
Total medical and hospital	0	732,752,755
Claims adjustment expenses	0	0
General administrative expenses	0	131,635,855
Increase in reserves for accident and health contracts	<u>0</u>	<u>0</u>
Total underwriting deductions	0	\$864,388,610
 Total underwriting gain or loss	 0	 32,272,646
 Net Investment income earned	 0	 2,910,463
Net realized capital gains or losses	0	<u>64,746</u>
Net investment gains or losses	0	\$2,975,209
 Net income or (loss) before income taxes		 35,247,855
Federal income taxes incurred		<u>5,426,347</u>
Net income		<u>\$29,821,508</u>

**CAPITAL AND SURPLUS ACCOUNT**

Capital and Surplus as regards policyholders, December 31 prior year		\$90,314,133
Net income	\$29,821,508	
Change in net deferred income tax	(4,584,599)	
Change in non-admitted assets	(5,798,520)	
Cumulative effect of changes in accounting principles	0	
Dividend to stockholders	(32,000,000)	
Change in surplus as regards policyholders for the year		<u>(12,561,611)</u>
Capital and Surplus as regards policyholders, December 31, 2010		<u>\$77,752,522</u>

**RECONCILIATION OF CAPITAL AND SURPLUS  
FOR THE PERIOD UNDER EXAMINATION**

<b>Capital and Surplus</b>	<u><b>2007</b></u>	<u><b>2008</b></u>	<u><b>2009</b></u>	<u><b>2010</b></u>
Prior Period	\$31,767,252	\$59,150,935	\$93,812,037	\$90,314,133
Net Income	28,344,501	37,793,316	(6,364,236)	29,821,508
Net unrealized capital gains and (losses)	0	0	0	0
Change in net deferred income tax	1,040,710	(2,604,331)	(2,290,975)	(4,584,599)
Change in non-admitted assets	(7,001,528)	(527,883)	10,146,029	(5,798,520)
Cumulative effect of changes in accounting principles	0	0	0	0
Surplus adjustments: paid in	5,000,000	0	(4,988,722)	0
Dividends to stockholders	0	0	0	(32,000,000)
Aggregate Write ins for gains or (losses) in surplus	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Capital and Surplus Current Period</b>	<u><b>\$59,150,935</b></u>	<u><b>\$93,812,037</b></u>	<u><b>\$90,314,133</b></u>	<u><b>\$77,752,522</b></u>

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Comments

None

### Recommendations

None

## CONCLUSION

As a result of this examination, the financial condition of Healthspring of Tennessee, Inc. as of December 31, 2010 is summarized as follows:

Admitted Assets	<u>\$163,119,603</u>
Liabilities	85,367,081
Capital and Surplus	<u>77,752,522</u>
Total Liabilities, Capital and Surplus	<u>\$163,119,603</u>

It is concluded that the Company meets the minimum surplus requirements pursuant to Tenn. Code Ann. § 56-32-212 as of December 31, 2010.

In addition to the undersigned, representatives of Rector & Associates, Inc., appointed by the Commissioner to represent the State of Tennessee, Gerald Lambert, CFE, State of Tennessee Department of Commerce and Insurance, and Mike Mayberry, FSA, MAAA, Lewis & Ellis, Inc., participated in this examination and join the undersigned in gratefully acknowledging the timely and courteous cooperation extended by the officers and employees of the company during the course of the examination.

Respectfully submitted,



Eric C. Dercher, CFE  
Rector & Associates, Inc.  
Representing the State of Tennessee

**AFFIDAVIT**

The undersigned deposes and says that he has duly executed the attached examination report of Healthspring of Tennessee, Inc. dated June 25, 2012, on behalf of the State of Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

*Eric C. Dercher*

Eric C. Dercher, CFE  
Rector & Associates, Inc.  
Representing the State of Tennessee

Subscribed and sworn to before me this

25 day of July, 2012.

Notary: *Aaron Ridenour*

County: Johnson

State: Kansas

My commission expires: 9/21/14



# ORGANIZATIONAL CHART

