



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

**United HealthCare of Utah
(now known as UnitedHealthcare of Utah, Inc.)**

of

Salt Lake City, Utah

as of

December 31, 2007

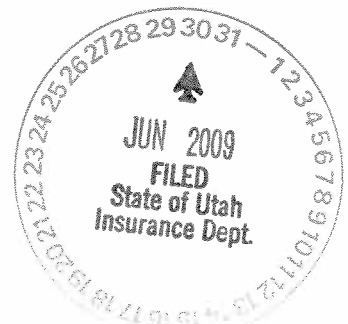


TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION.....	1
Period Covered by Examination	1
Examination Procedure Employed	1
Status of Prior Examination Findings	2
HISTORY	2
General.....	2
Capital Stock.....	3
Dividends to Stockholders	3
Management.....	3
Conflict of Interest Procedure.....	5
Corporate Records	6
Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance.....	6
Surplus Debentures	6
AFFILIATED COMPANIES	6
Transactions with Affiliates.....	6
FIDELITY BOND AND OTHER INSURANCE	10
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	10
STATUTORY DEPOSITS	10
INSURANCE PRODUCTS AND RELATED PRACTICES	10
Policy Forms and Underwriting.....	10
Territory and Plan of Operation.....	11
Advertising and Sales Material.....	11
Treatment of Policyholders.....	12
REINSURANCE.....	12
ACCOUNTS AND RECORDS.....	12
EVENTS SUBSEQUENT TO EXAMINATION “AS OF DATE”	14
FINANCIAL STATEMENTS	15
Balance Sheet.....	16
as of December 31, 2007	16
Statement of Revenue and Expenses	17
for the Year Ended December 31, 2007.....	17
Reconciliation of Capital and Surplus	18
2005 through 2007	18
NOTES TO FINANCIAL STATEMENTS.....	19
SUMMARY OF EXAMINATION FINDINGS.....	20
ACKNOWLEDGEMENT	21

May 28, 2009

Honorable D. Kent Michie
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2007, has been made of the financial condition and business affairs of:

United HealthCare of Utah
Salt Lake City, Utah

hereinafter referred to in this report as the "Organization", and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from January 1, 2005, through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Certificates of representation attesting to the Organization's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Organization's management at the initiation and conclusion of the examination.

Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement

instructions in accordance with the laws, rules and procedures prescribed by the state of Utah.

Accounts and activities of the Organization were considered in accordance with the risk-focused examination process; and included a general review and analysis of the Organization's operations and the manner in which its business was conducted and a determination of its financial condition as of December 31, 2007.

Status of Prior Examination Findings

The previous examination was performed by the Utah Insurance Department (Department) as of December 31, 2004. Items of significance commented on in the prior report of examination were addressed by the Organization during the current examination period.

HISTORY

General

The Organization was issued a Certificate of Incorporation, under the name of Physicians Health Plan of Utah, by the Office of the Lieutenant Governor of the state of Utah during March 1984. The initial Articles of Incorporation authorized the issuance of 5,000,000 shares of stock at a par value of \$.01 each. The Organization was issued a Certificate of Authority by the Department and commenced business during August 1984.

The Organization was federally qualified as an independent practice association model health maintenance organization on October 4, 1985. It voluntarily relinquished its federal qualification on November 9, 1991.

The Organization became part of an insurance holding company system on December 30, 1986, when United HealthCare Services, Inc. (UHS), a Minnesota corporation, then known as Charter Med Inc., acquired 50% equity interest in the Organization. In 1987, the Articles of Incorporation were amended to change the common stock to 5,000 authorized shares at \$50.00 per share.

A cash offer was made to purchase all outstanding shares of the Organization in November of 1990 by UHS, then known as UHC Management Company. The offer expired January 31, 1991, at which time UHS stock ownership approximated 85% of the total outstanding shares. UHS again increased its ownership of the Organization to approximately 92% in December of 1994 through a tender offer. UHS was a wholly owned subsidiary of United HealthCare Corporation (UHC), the ultimate controlling entity of the holding company system.

The Articles of Incorporation were amended during July 1992 to change the name of the Organization to United HealthCare of Utah.

Effective March 6, 2000, UHC changed its name to UnitedHealth Group Incorporated (UHG). The holding company system was then restructured when UHS transferred all of its outstanding shares of the Organization to its wholly owned subsidiary, UnitedHealthcare, Inc. (UHI), on June 30, 2000. UHI's primary function was that of a holding company. During the years 2000, 2001 and 2002, UHI, the immediate parent of the Organization, acquired 66 shares of the Organization from minority shareholders, thereby increasing its aggregate ownership of the stock to 2,279 shares, representing approximately 96% ownership.

The Organization received \$27,000,000 as additional paid-in capital contributions during 2000 and 2001. UHI contributed \$3,000,000 in the year 2000 and \$23,000,000 in the year 2001. UHS contributed \$1,000,000 to the Organization during the year 2000.

Capital Stock

As of December 31, 2007, the Organization had 5,000 shares of common capital stock authorized at a par value of \$50.00 per share. The number of shares issued and outstanding was 2,379, with a total value of \$118,950. There were no changes in capital stock or gross paid in surplus since the last examination, through December 31, 2007. The Organization was immediately controlled by UnitedHealthcare, Inc. (UHI), with other minority shareholders, and ultimately controlled by UnitedHealth Group Incorporated (UHG). At December 31, 2007, UHI owned 96% of the Organization's stock.

Dividends to Stockholders

No dividends were declared or paid during the examination period ending December 31, 2007.

Management


The Organization's most recent bylaws of July 1992, specify the number of directors shall be no less than three, and shall be elected annually.

U.C.A. § 31A-5-407(2) requires a majority of the Organization's directors to be residents of the state of Utah. Two of the Organization's three directors were non-residents during 2005 and 2006, a violation of U.C.A. § 31A-5-407(2). On August 23, 2005, the Organization requested the Department provide a waiver from this requirement. The Organization stipulated to this violation and paid a forfeiture assessed by the Department. The Department granted a waiver, effective January 1, 2005, allowing the Organization to operate without a majority of its directors being residents of Utah. The Department has the discretion to rescind the waiver at any time if it is determined there is inadequate attention to compliance with Utah statutes and rules.

The following persons served as directors of the Organization as of December 31, 2007:

<u>Name</u>	<u>Principal Occupation</u>
Benton V. Davis Scottsdale, AZ	Chief Executive Officer Western States United Healthcare, Inc. President, and Chief Executive Officer, United HealthCare of Utah
Morris C. Howell Park City, UT	Vice President and Executive Director, United HealthCare of Utah
Pamela J. Gold Salt Lake City, UT	Vice President of Sales, Account Management, Small Business and Key Accounts United HealthCare of Utah

Kenneth Burdick and Jaron Johnson's terms expired in 2007, both of whom served on the board in 2005 and 2006. The two positions were filled by Morris C. Howell and Pamela J. Gold in the annual shareholder meeting of December 17, 2007.

Morris C. Howell resigned effective February 24, 2009, and Benton V. Davis resigned effective March 10, 2009 as directors. Both resignations were accepted at the March 10, 2009 shareholder meeting. Two new board of directors members were elected, Christopher Hard (a UT resident) and Michael Plumb to replace the outgoing members. Pamela Gold was re-elected as a director at the same meeting, for a total of three directors to serve through the remainder of 2009, two of whom are UT residents.  **Note**

The Organization's bylaws provide for principal officers to consist of a Chairman of the Board, President, Vice Presidents as necessary, Secretary and Treasurer. Any two offices may be held by the same person, except that of President and Secretary, and there shall be at least three persons as officers.

The officers of the Organization as of December 31, 2007, elected by the board of directors were as follows:

<u>Principal Officer</u>	<u>Office</u>
Benton V. Davis	President and Chief Executive Officer
Donald A. Powers	Vice President Finance and Assistant Treasurer
Juanita V. Bolland Luis	Assistant Secretary
Kenneth A. Burdick	Vice President
Robert W. Oberrender	Treasurer
Forrest G. Burke	Secretary
Timothy G. Caron	Assistant Secretary
Mary L. Stanislav	Assistant Secretary

During the March 10, 2009 annual board of directors meeting, three new officers were elected. Christopher Hard was elected as President and Chief Executive Officer, replacing Benton V. Davis, who continues as President and Chief Executive Officer of the affiliated Arizona HMOs, as part of a restructuring of the management team related to expansion into the Medicare business. Michael Plumb was appointed as Chief Financial Officer, a new position subsequent to the December 31, 2007 examination date.

Forrest G. Burke resigned as Secretary, to accept new roles with affiliated companies. Effective May 30, 2008, the board of directors elected Timothy G. Caron to fill the position of Secretary. Christina Palme-Krizak was elected Secretary to replace Caron at the March 10, 2009 annual board of directors meeting.

Donald A. Powers resigned as Vice President Finance and Assistant Treasurer, effective July 31, 2008. The board of directors elected Nyle Brent Cottingham as Vice President, Assistant Treasurer, and Regulatory Controller effective August 1, 2008.

The Organization's bylaws did not require the board of directors to form any committees, however the bylaws state the board of directors may by resolution designate one or more committees. At December 31, 2007 there were no committees of the board of directors. The Organization meets the exemption from requirements of an audit committee pursuant to U.C.A. § 31A-5-412(2)(a).

Conflict of Interest Procedure

The Organization had an established procedure for disclosure of any material conflict of interest known by officers, members of the board of directors and key personnel. Conflict

of interest disclosures were obtained annually during the examination period. No violations of established Organization procedures were noted.

Corporate Records

In general, the minutes of the meetings of stockholders and directors adequately approved and supported Organization transactions and events. The board of directors reviewed the prior examination report in a meeting held on February 20, 2006. Much of the business conducted by the directors was done telephonically and recorded as written action in lieu of meetings. The last such 2007 written action was made on December 17, 2007, approved and signed by each of the three board members on such date.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Organization participated in no acquisitions, mergers, disposals or purchases or sales through reinsurance during the examination period.

Surplus Debentures

There were no surplus debentures issued or outstanding during the examination period.

AFFILIATED COMPANIES

The Organization is a member of the UnitedHealth Group Incorporated insurance holding company system as shown in the following abbreviated, straight-down organizational chart derived from the Annual Statement, Schedule Y as of December 31, 2007.

UnitedHealth Group Incorporated (UHG)
 United HealthCare Services, Inc. (UHS)
 UnitedHealthcare, Inc. (UHI)
 United HealthCare of Utah
 (now known as UnitedHealthcare of Utah, Inc.)

Transactions with Affiliates

Agreements with affiliates, as itemized below, defined and controlled various aspects of the Organization's transactions and operations.

Management Agreement with United HealthCare Services, Inc.

The Organization has a management services agreement with its parent, United HealthCare Services, Inc. (UHS). The agreement was initially executed as of January 1, 1993, and amended June 10, 1997, for inclusion of post termination claims services language. The Organization pays UHS monthly management fees for services based on a percentage of the Organization's monthly gross revenues. UHS provides comprehensive HMO management services necessary for the Organization's operation under the agreement. Those services include:

- Claims processing, payment to providers, and other administrative activities
- Development and implementation of standardized contracts
- Assistance in compliance with applicable laws and regulations
- General administrative and financial services
- Underwriting services/internal audit services
- Support and oversight of marketing, sales, member services, and medical services
- Legal services
- Assistance in marketing, membership, and public relations material
- Recruitment, compensation, and supervision of on-site personnel
- Marketing, advertising, promotional, and educational material
- Retention of adequate office space, furniture, and equipment
- Payments related to consultants or third party advisors.

Tax Sharing Agreement with United HealthCare Corporation (now UnitedHealth Group, Incorporated.)

The Organization's federal tax obligations were reported in the ultimate controlling parent's consolidated federal income tax return pursuant to an agreement effective January 1, 1990, as amended effective January 1, 1996. The agreement provided for an allocation method for the payment of federal, state and local income taxes to the subsidiaries of the parent, related to the consolidated federal income tax returns filed each year.

Short Term Investment Pool Agreement (Affiliate)

By addendum dated March 1, 2002, the Organization indicated its acceptance of the terms of the Pooling Agreement for the Short Term Investment Pool dated as of July 1, 1997 among Travelers Asset Management International Corporation ("TAMIC"), State Street Bank and Trust Company and United HealthCare Services, Inc., as amended March 1, 2002 by the substitution of BancOne for TAMIC, and agrees to be bound by its terms.

The addendum provides that the Organization acknowledges that United HealthCare Services, Inc. is authorized to enter into the Pooling Agreement pursuant to the agreement between United HealthCare of Utah and United HealthCare Services, Inc. pursuant to which United HealthCare Services, Inc. provides various administrative services including

investment and cash management services. Form D submitted to the Department for this addendum, and the Commissioner specifically will not disapprove.

The Pooling Agreement provides that the Organization shall at all times together with other participants of the pool be the beneficial owners of 100 percent (100%) of the assets of the Pool. BancOne has been issued instructions that all Pool Assets must qualify as "admitted assets" for the Organization and shall be rated 1 or 2 or equivalent rating by SVO.

*Subordinated Revolving Credit Agreement with United HealthCare Corporation
(UnitedHealth Group Incorporated)*

The Organization has a subordinated revolving credit agreement with UnitedHealth Group Incorporated, under which the parent agreed to lend and re-lend amounts to the Organization for up to \$6,000,000. Repayments are subordinate to claims of non-affiliated creditors and loans from non-affiliate lenders of the Organization. Interest is payable at the one month London InterBank Offered Rate (LIBOR) in effect on the last business day of the calendar month prior to the calendar month for which interest is calculated plus fifty basis points. No amounts were outstanding under the line of credit as of December 31, 2007.

Premium Allocation Agreement with United HealthCare Insurance Company

The Organization is party to an agreement dated January 1, 1998 between United HealthCare Insurance Company (UHIC) and United HealthCare Services, Inc. (UHS), whereby UHIC receives consideration for insurance coverage marketed and issued in conjunction with the products provided by HMO's under common ownership. Section II of the agreement provides that premiums allocated to UHIC shall be (i) fair and reasonable; (ii) determined according to actuarial review conducted at least annually; (iii) allocated in conformity with customary insurance accounting practices consistently applied.

Insolvency Reinsurance Agreement with United HealthCare Insurance Company

Reference the REINSURANCE section of this report.

Contract with United Behavioral Systems, Inc.

On January 1, 1994, the Organization contracted with United Behavioral Systems, Inc., now known as United Behavioral Health, to provide or arrange for the provision of mental health and substance abuse services to members. Payment for services provided is calculated on a per member per month basis.

Transplant Services Agreement with United Resources Networks division of United HealthCare Services, Inc.

Effective January 1, 1994, the Organization contracted with United Resources Networks, a division of UHS, to provide enrollees access to transplant related health care

services and supplies. Payment for services provided is calculated on a per member per month basis.

Master Services Agreement with American Chiropractic Network (now ACN Group, Inc.)

The Organization has an agreement, effective October 1, 2001, and last amended on April 1, 2007, with ACN Group, Inc. to provide network management of chiropractic, complementary and alternative medicine services for its enrollees. Payment structures for such services are disclosed in the original agreement and as changed through succeeding amendments.

Spectera Master Services Agreement

Effective January 1, 2005, the Organization entered into a Participating Organization Addendum to the January 1, 2004, Spectera Master Services Agreement. Under the Agreement, Spectera, Inc. is responsible for developing, contracting and managing a network of vision providers, who provide vision services and/or products for the Organization's enrollees. Payment for services provided is calculated on a per member per month basis.

Dental Benefit Providers Master Services Agreement

Effective January 1, 2005, the Organization entered into a Participating Organization Addendum to the January 1, 2004, Dental Benefit Providers Master Services Agreement. Under the Agreement, Dental Benefit Providers, Inc. (DBP) is responsible for developing, contracting and managing a network of dental providers to provide dental health care services for the Organization's enrollees. Payment for services provided is calculated on a per member per month basis.

Healthy Pregnancy Services Agreement

The Organization is party to a January 1, 1999 agreement between UHI and Optum®, a division of UHS, through which enrollees received healthy pregnancy services by registered nurse by telephone. The referenced healthy pregnancy services, includes educational information and periodic telephonic pregnancy screening assessments regarding potential risks. Payment for services provided is calculated on a "Per Case Rate".

Optum® Services Agreement

The Organization transitioned from previous agreements with the Optum® division of UHS to using a Participating Plan Addendum to the Optum® Services Agreement. The Optum® Services Agreement includes an Optum®24 Services Addendum which includes the Care24 and nurseline services plus additional services under the Optum® Health and Well Being Information Services Addendum. The agreement was amended, effective January 1, 2005, to update the fee structure.

RxSolutions, Inc. (Affiliate)

Effective January 1, 2007, the Organization offers pharmacy services provided by RxSolutions d/b/a Prescription Solutions to customers. The Form D was submitted for this new agreement, and the Commissioner's office did not disapprove.

FIDELITY BOND AND OTHER INSURANCE

As employees of a subsidiary of UnitedHealth Group Incorporated, officers of United HealthCare of Utah and employees of affiliates performing the functions necessary for the Organization's operations were covered by a blanket crime policy with a coverage limit of \$25,000,000 as of December 31, 2007. The blanket crime coverage exceeded the minimum \$500,000 to \$600,000 suggested by the National Association of Insurance Commissioners (NAIC).

In addition to blanket crime coverage, the Organization was named as an insured on policies providing for executive and organization liability coverage, managed care professional liability coverage, general liability coverage, business auto coverage, and umbrella liability coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization has no employees. Employees of United HealthCare Services, Inc., the parent of UnitedHealthcare, Inc., performed many of the functions necessary for the Organization's operation. With no employees, the Organization does not provide any employee benefits such as group life and medical insurance, cafeteria plans or unfunded pension plans.

STATUTORY DEPOSITS

At December 31, 2007, the Organization's statutory deposit requirement was \$556,457 pursuant to U.C.A. § 31A-8-211(1). The examination confirmed the Organization maintained a statutory deposit consisting of a US Treasury Note with a par value of \$700,000, and a reported fair value of \$746,921, which was adequate to cover the required deposit at December 31, 2007.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2007, the Organization's core products were commercial health maintenance products and Medicare products.

Territory and Plan of Operation

As of December 31, 2007, the Organization had a Certificate of Authority authorizing it to operate as a health maintenance organization (HMO) in all counties throughout the state of Utah. It has contracts with approximately 4,400 independent physicians and other health care providers using a network model to deliver health care services to its members.

During the examination period, the Organization primarily marketed its products through licensed producers. An account executive (internal sales representative) solicits new and renewal business through independent producers. The number of producers utilized was approximately 700.

The Organization targets groups in two dynamics, those having one hundred or more employees and those with ninety-nine or less. Groups with as few as two members are accepted. The Organization does not accept individual members except as conversions from group contracts.

The Organization introduced Medicare products in January of 2005. Since then, the Organization has seen an increase in revenue and membership related to this line of business, and is expected to continue this trend in the coming years. The Organization has shown steady underwriting profits throughout the examination period, 2005-2007

Commercial business producer appointments and terminations must be filed with the Utah Insurance Department and be kept current and accurate. A full comparison of the Organization's producer listings to that of the Department found significant discrepancies, resulting in non compliance with U.C.A. § 31A-23a-115. There were forty-six (46) differences in the individual producer appointments and thirty-six (36) differences in the agency producer appointments, between the Organization's records and those on file at the Department.

For clarification and for future reference, it is recognized that during the examination period ending December 31, 2007, producer appointments for Medicare business were not required to be filed with the Utah Insurance Department. Beginning in October 2008, it became a requirement.

Advertising and Sales Material

As of December 31, 2007, the Organization had a limited marketing and advertising plan. No television, radio or billboard ads were ran in the media. Local advertising was placed on an ad hoc basis. Products were generally advertised through sales brochures and complementary items distributed at enrollment meetings. At times, it sponsors local community events such as the American Heart Association Heart Walk and Heart Ball to gain positive name recognition in the Utah marketplace. The Utah plan was not included in any National United HealthCare campaigns. Printed ads ran in trade magazines and regional publications.

Treatment of Policyholders

The Organization maintains a complaint log to identify membership complaints and the processing status of those complaints. During the examination period there were only two complaints one in 2006 and one in 2007, both expeditiously resolved. The Department database showed one formal consumer complaint filed with the Insurance Commissioner's office in 2005 which was satisfactorily settled and closed.

REINSURANCE

Prior to January 1, 2005, the Organization had an excess risk stop loss reinsurance agreement with an affiliate, United HealthCare Insurance Company. The agreement was superseded by an "Insolvency Reinsurance Agreement" with the same reinsurer, effective January 1, 2005.

The Insolvency Reinsurance Agreement provides coverage only in the event of the Organization's insolvency (defined by the agreement as: insolvency, liquidation, rehabilitation of the Organization or the appointment of a liquidator, receiver or statutory successor for Organization). Upon insolvency, any claims payments are payable by the reinsurer directly to the Organization's liquidator, receiver or statutory successor on the basis of the liability of the Organization under the policies without diminution because of the insolvency.

ACCOUNTS AND RECORDS

As of December 31, 2007, many of the functions necessary for the Organization's operations were performed by a parent or affiliate companies under the terms of a management services agreement with United HealthCare Services. See section of this report entitled AFFILIATED COMPANIES. The Organization's accounting transactions and records were maintained on electronic data processing systems owned and operated by the parent or affiliate companies. The systems were interactive, allowing the Organization on-line access to the information.

The Organization identified the primary processing functions and locations where those functions are conducted as follows:

<u>Processing Function</u>	<u>Location</u>
Actuarial	Hartford, Connecticut
Advertising-National	Edina, Minnesota
Claims	Kingston, New York; Greensboro, North Carolina; Tampa, Florida; Springfield, Missouri
Compliance-Regional	Phoenix, Arizona
Corporate Record Keeping	Minnetonka, Minnesota
General Ledger	Edina, Minnesota
Investments	Minnetonka, Minnesota
Cash Receipts	Oldsmar, Florida; Duluth, Minnesota;
Cash Disbursements-AP	Minnetonka, Minnesota
Cash Disbursements-Claims	Duncan, South Carolina
Marketing-National	Edina, Minnesota
Policy Forms	Salt Lake City, Utah
Provider Oversight Functions	Salt Lake City, Utah
Premium Oversight Functions	Oldsmar, Florida; Duluth, Minnesota; Edina, Minnesota

The Organization provided the examiners with electronic trial balances of general ledger accounts as of December 31 of each year in the examination period. The general ledger account balances were grouped by financial statement account balance.

An independent certified public accounting firm audited the Organization's records in conjunction with an audit of the group, during the period covered by this examination. Audit reports generated by the auditors for the years 2005 through 2007 were made available for the examiner's use.

On February 10, 2006, the Organization and the Utah Department of Health (the state agency responsible for the administration of the Utah Medical Assistance Program pursuant to Title XIX) entered into a Settlement Agreement. This agreement provided that the Department of Health and the Organization settle long outstanding amounts receivable and payable to each other. The Department of Health agreed to pay the Organization \$1,282,765.03, and the Organization agreed to pay the Department of Health \$612,996.95 to completely resolve all issues or claims raised related to reinsurance receivables for fiscal year 2001 and coordination of benefits payments related to the Sixth Omnibus Reconciliation Act (SOBRA) for Medicaid Members of the Organization under any of the contracts between the parties from July 1, 1994 to August 31, 2002, including all contract amendments and extensions.

At December 31, 2007, a significant amount of the Organization's invested assets were held through Custodian Agreements (Agreements) with State Street Bank and Trust Company and with US Bank, N.A. These agreements did not include all of the safeguards required by

the Utah Administrative Code (U.A.C.) Rule R590-178, as amended in 2006. During our examination, the Organization executed revised custodial agreements with both financial institutions, which were approved by the board of directors, on March 10, 2009, meeting all requirements of U.A.C. Rule R590-178. The Department admitted the assets for examination purposes once the Organization became compliant with the Rule during the examination. The respective assets will be considered admitted assets at December 31, 2007.

EVENTS SUBSEQUENT TO EXAMINATION “AS OF DATE”

During 2008 UnitedHealthcare, Inc. (UHI) bought out the remaining minority shareholders through a Purchase Agreement and Stock Power, giving UHI a 100% ownership of the Organization as of December 31, 2008. UHI, in turn, remains a subsidiary of United HealthCare Services, Inc. (UHS), a first tier subsidiary of UnitedHealth Group Incorporated (UHG), whereby UHG remains the ultimate parent of the Organization.

During 2009, the Organization changed its name from “United HealthCare of Utah” to “UnitedHealthcare of Utah, Inc.” It filed the amended Articles of Incorporation with the Department, which were approved on March 10, 2009. The Organization also amended its bylaws to reflect the name change, effective January 31, 2009. This name change was made in order to provide more consistency in naming conventions throughout the holding company system.

A 2008 correction was made for previous errors made in the amount of \$215,664, due to overstatement of the December 31, 2007 capitation expense. This amount was not material for purposes of our examination, and examiners would not have been cognizant of any error during our regular examination approach, as heavy reliance was placed on Organization controls and CPA test work. This 2008 correction related to capitation fees, which according to the independent CPA’s and the Organization, resulted from an error found in another United Healthcare entity, which they researched and found in several of the group entities, including the Utah insurance entity. The amount is immaterial for purposes of this examination, and no comment or adjustment is determined necessary.

On December 17, 2008 the Board declared an extraordinary dividend to the sole shareholder UnitedHealthcare, Inc., in the amount of \$15,700,000. This dividend was approved by the Utah Insurance Department, to be paid on or before December 30, 2008.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2007

STATEMENT OF REVENUE AND EXPENSES for the Year Ended
December 31, 2007

RECONCILIATION OF CAPITAL AND SURPLUS – 2005 through 2007

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

United HealthCare of Utah
Balance Sheet
as of December 31, 2007

ASSETS

	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 33,049,026	
Cash and short-term investments	16,540,969	(1)
Investment income due and accrued	374,793	
Uncollected premiums and agents' balances in course of collection	540,237	
Net deferred tax asset	59,760	
Health care and other amounts receivable	248,096	
Total assets	<u>\$ 50,812,881</u>	

LIABILITIES, SURPLUS, AND OTHER FUNDS

Claims unpaid	\$ 6,426,908	
Unpaid claims adjustment expenses	132,560	
Aggregate health policy reserves	486,417	
Aggregate health claim reserves	140,785	
Premiums received in advance	89,034	
General expenses due or accrued	127,466	
Current federal and foreign income tax payable	323,278	
Amounts withheld or retained for the account of others	3,176	
Amounts due to parent, subsidiaries and affiliates	386,947	
Liability for amounts held under uninsured plans	613,416	
Total liabilities	<u>8,729,987</u>	
Common capital stock	118,950	
Gross paid in and contributed surplus	36,148,589	
Unassigned funds (surplus)	5,815,355	(1)
Total capital and surplus	<u>42,082,894</u>	
Total liabilities, capital and surplus	<u>\$ 50,812,881</u>	

United HealthCare of Utah
Statement of Revenue and Expenses
for the Year Ended December 31, 2007

	Total	Notes
Net premium income	\$ 46,089,498	
Change in unearned premium reserves and reserve for rate credits	(443,835)	
Total revenues	45,645,663	
Medical and Hospital:		
Hospital/medical benefits	27,399,257	
Other professional services	154,334	
Prescription drugs	3,659,639	
Subtotal	31,213,230	
Less:		
Net reinsurance recoveries	0	
Total medical and hospital	31,213,230	
Claims adjustment expenses	1,140,049	
General administrative expenses	5,805,736	
Increase in reserves for life and a&h contracts	95,450	
Total underwriting deductions	38,254,465	
Total underwriting gain or (loss)	7,391,198	
Net investment income earned	2,685,030	
Net realized capital gains or (losses)	(3,092)	
Net investment gains or (losses)	2,681,938	
Net income or (loss) before federal income taxes	10,073,136	
Federal and foreign income taxes incurred	3,298,108	
Net income (loss)	\$ 6,775,028	

United HealthCare of Utah
Reconciliation of Capital and Surplus
2005 through 2007

	2005	2006	Per Exam 2007	†
Capital and surplus prior reporting year	\$ 28,225,993	\$ 31,699,887	\$ 39,253,495	
Net income or (loss)	3,655,425	7,687,346	6,775,028	
Change in net deferred tax asset	(176,803)	139,048	(100,056)	
Change in nonadmitted assets	(4,727)	(272,786)	(3,845,573)	
Cumulative effect of changes in accounting principles	-	-	-	
Paid in surplus	-	-	-	
Aggregate write-ins for gains (losses) in surplus	-	-	-	
Change in minority interest	-	-	-	
Net change in capital and surplus	<u>3,473,895</u>	<u>7,553,608</u>	<u>2,829,399</u>	
Rounding	(1)			
Capital and surplus end of reporting year	<u><u>\$ 31,699,887</u></u>	<u><u>\$ 39,253,495</u></u>	<u><u>\$ 42,082,894</u></u>	

NOTES TO FINANCIAL STATEMENTS

1) Cash and Short-Term Investments \$16,540,969

The Organization's cash and short-term investments balance was determined by the examination to be \$3,877,571 less than the \$20,418,540 reported in the annual statement as of December 31, 2007. At December 31, 2007, the Organization included in short-term investments various money market funds totaling \$3,877,571, which were not held in accordance with U.C.A. § 31A-4-108, nor were they protected under a custodial agreement as defined by U.A.C. Rule R590-178. Securities of an insurer reported in violation of U.C.A. § 31A-4-108 shall be disregarded in determining the financial condition of the insurer or in reporting the financial condition of the insurer.

2) Capital and Surplus \$42,082,894

The Organization's capital and surplus was determined by examination to be \$3,877,571 less than the \$45,960,465 reported in the annual statement as of December 31, 2007, as a result of the reduction in short-term investments. The following schedule identifies the examination changes:

<u>Description</u>	<u>Annual Statement Dr (Cr)</u>	<u>Per Examination</u>	<u>Change in Surplus Inc. (Dec.)</u>	<u>Notes</u>
Cash and Short-Term Investments	\$ 20,418,540	\$ 16,540,969	\$ (3,877,571)	(1)
Total examination changes			<u>(3,877,571)</u>	
Total capital and surplus per Organization			<u> </u>	
Total capital and surplus per examination			<u><u>\$ (3,877,571)</u></u>	

The Organization's minimum capital requirement was \$100,000 as defined in U.C.A. § 31A-8-209. As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted capital of \$37,736,547, which exceeded the Organization authorized control level risk-based capital (RBC) requirement of \$5,245,383 by \$32,491,164. The Organization's Risk Based Capital per examination is 21.58 as of December 31, 2007.

SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on in this report are summarized below:

1. Commercial business producer appointments and terminations were not kept current and accurate with the Utah Insurance Department, resulting in a violation of U.C.A. § 31A-23a-115. There were forty-six (46) differences in the individual producer appointments, and thirty-six (36) differences in the agency producer appointments, between the Organization's records and those on file at the Department.

Recommendation: We recommend the Organization take necessary corrective action to establish compliance with U.C.A. § 31A-23a-115. It is the responsibility of the Organization to reconcile records of appointed producers and ensure that appointments and terminations are filed with the Utah Insurance Department and kept current and accurate.

2. At December 31, 2007, there were two Custodial Agreements (Agreements) in place, neither of which included all of the safeguards required by the revised U.A.C. Rule R590-178. During examination fieldwork, the Organization executed revised agreements with both financial institutions, which were approved by the board of directors on March 10, 2009, therefore, meeting all requirements of U.A.C. Rule R590-178. The Department admitted the assets for examination purposes once the Organization became compliant with the Rule during the examination.
3. At December 31, 2007, the Organization included in short-term investments various money market funds totaling \$3,877,571, which were not held in accordance with U.C.A. § 31A-4-108, nor were they protected under a custodial agreement as defined by U.A.C. Rule R590-178. Securities of an insurer reported in violation of U.C.A. § 31A-4-108 are disregarded in determining the financial condition of the insurer or in reporting the financial condition of the insurer. Accordingly, the examination adjustment of \$3,877,571 to non-admit these securities was made in the examination report. Please refer to the section on FINANCIAL STATEMENTS for adjustments to Organization's reported Cash and Short-Term Investments and to Capital and Surplus, at December 31, 2007.

Recommendation: We recommend that the Organization take necessary actions to become and maintain compliance with U.C.A. § 31A-4-108.

Subsequent Event: Although not a remedy to the requirements of U.C.A. § 31A-4-108, the Company redeemed the remaining funds. The redemptions were reflected as a zero balance on the broker's statement at May 1, 2009.

ACKNOWLEDGEMENT

In addition to the undersigned, Michael A. Mayberry, F.S.A., M.A.A.A., of L&E Actuaries and Consultants; Brandon Thomas, HISP, of Huff, Thomas and Company; Malis Rasmussen, APIR, and Clarissa Crisp, APIR, Utah Financial Examiners Donald Catmull, CFE, Utah Review Examiner; and Colette Hogan Sawyer, CFE, CPM, Assistant Chief Examiner, participated in the examination representing the Utah Insurance Department, and join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Carolyn Maynard".

Carolyn Maynard, CFE, Examiner-in-Charge
Huff, Thomas and Company
Representing the Utah Insurance Department