



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

UNITEDHEALTHCARE OF UTAH, INC.

of

Salt Lake City, Utah

as of

December 31, 2016



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May 9, 2018

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2016, has been made of the financial condition and business affairs of:

UnitedHealthcare of Utah, Inc.
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

The last financial examination of the Organization was completed as of December 31, 2011. The current examination is a full scope examination covering the period from January 1, 2012 through December 31, 2016, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to assess the financial condition of the Organization and its holding company system. The examination was conducted by representatives of the Utah Insurance Department (Department). The examination was part of a coordinated examination led by representatives from Connecticut Insurance Department. The examination was divided into six subgroups; Utah was under subgroup 6, with Arizona acting as the facilitating state.

We conducted our examination in accordance with the risk-focused examination approach as prescribed by the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks that could cause the Organization's surplus to be materially misstated, and evaluate controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating management's compliance with Statutory Accounting Principles and annual statement instructions. The examination, however, does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment was identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

Workpapers of the Organization's independent auditors, Deloitte & Touche, LLP, were reviewed and relied upon whenever possible and applicable to assist in the completion of examination procedures.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

Utah Code Annotated (U.C.A.) § 31A-26-301.6(3) requires that claim payments are made within 30 days, unless there are matters beyond the control of the Organization. If the claim processing exceeds 30 days, the Organization should notify the provider and insured in writing the reason of the delay, and anticipated resolution date.

Examiners sampled 40 of the 2016 claims that exceed the 30-day requirement. Examiners found one claim did not have proper notification for the delay.

The examiners recommend the Organization reviews its claim processes to ensure claims are paid in a timely manner or proper notices are provided should any claims exceed 30 days.

HISTORY OF ORGANIZATION

General

On March 16, 1984, State of Utah issued a Certificate of Incorporation to the Organization under the name Physicians Health Plan of Utah. In August 1984, the Organization received a Certificate of Authority from the Department to operate as a health maintenance organization (HMO).

Over the years, the Organization's ownership changed several times. Effective 2008, the Organization became a wholly owned subsidiary of UnitedHealthcare, Inc. (UHI). On January 14, 2009, the Organization amended its Articles of Incorporation to reflect its new name, UnitedHealthcare of Utah, Inc.

Dividends and Capital Contributions

The Organization paid cash dividends in the amount of \$10,000,000, and \$7,500,000 as of December 31, 2016, and 2015, respectively. In addition, a stock dividend of 17,621 shares was declared December 31, 2015, which was recorded in January 2016. The stock dividend increased capital stock value by \$881,050, which decreased contributed capital by the same amount.

Mergers and Acquisitions

There were no mergers or acquisitions for the period of the examination.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

The Organization's bylaws state that the number of directors shall be no less than three.

The following persons served as directors of the Organization as of December 31, 2016:

Name and Location	Primary Occupation
Marc R Briggs Salt Lake City, Utah	President and Chair UnitedHealthcare of Utah, Inc.
Pamela Jean Gold Salt Lake City, Utah	Director of Account Management UnitedHealth Group, Inc.
Susan Elizabeth Vogel Las Vegas, Nevada	Chief Financial Officer UnitedHealthcare of Utah, Inc.

Officers

The following persons served as officers of the Organization as of December 31, 2016:

Name	Title
Marc R Briggs	President
Susan Elizabeth Vogel	Chief Financial Officer
Christina Regina Palme-Krizak	Secretary
Robert Worth Oberrender	Treasurer
Nyle Brent Cottington	Vice President
Donald James Giancrusio	President, Commercial Services Group
Heather Anastasia Lang Jacobsen	Assistant Secretary

Committees

The following persons served as Audit Committee members of the Organization as of December 31, 2016:

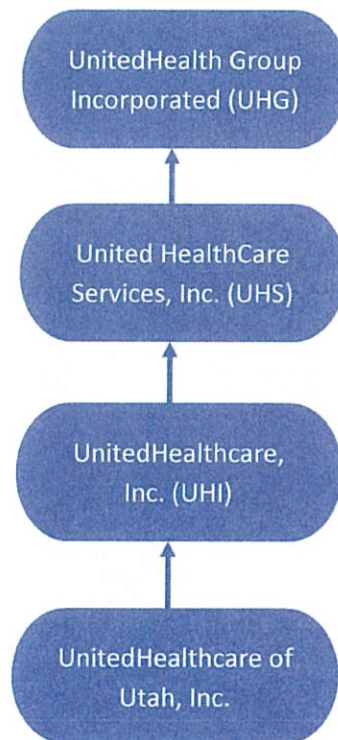
Name
Thomas Roos
Sachin Shah
Claire Hannan

Holding Company

The Organization is part of a holding company system as defined in U.C.A. § 31A-16. The ultimate controlling entity of the holding company is UnitedHealth Group Incorporated (UHG). There were numerous companies within the holding company system, which were not included in the organizational chart below.

Holding Company Organizational Chart

The organizational chart below reflects the ownership of the Organization:



Transactions and Agreements with Affiliates

The following are the most significant affiliated agreements and transactions in place as of December 31, 2016:

Management Services Agreement with UHS

The Organization entered into a Management Services Agreement with UHS, effective January 1, 2011. Pursuant to the Agreement, UHS provides management and operational support to the Organization.

The Agreement was amended twice, with the last amendment effective April 1, 2017. Total cost associated with this Agreement for calendar year 2016 was \$28,742,184.

Tax Sharing Agreement with UHG

The Organization entered into a Tax Sharing Agreement with UHG effective January 1, 1990. The Agreement establishes a formal method for the allocation and payment of federal, state, and local income tax liabilities related to the consolidated tax returns filed each year.

The Agreement was amended effective January 1, 1996. Total tax liability associated with this Agreement for calendar year 2016 was \$6,082,565.

Insolvency Reinsurance Agreement with UnitedHealthcare Insurance Company (UHIC)

The Organization entered into an Insolvency Reinsurance Agreement with UHIC effective January 1, 2005. The Agreement provides coverage in the case of the Organization's insolvency.

The premium paid to UHIC for calendar year 2016 was \$515,791.

Behavioral Health Services Agreement with United Behavioral Health (UBH)

The Organization entered into a Behavioral Health Services Agreement with UBH effective April 1, 2012. Pursuant to the Agreement, UBH is responsible for arranging for the provision of certain mental health and substance abuse treatment services for the Organization's Commercial and Medicare members, but the ultimate responsibility remains with the Organization.

The Agreement was amended six times with the last amendment effective April 1, 2017. Total cost associated with this Agreement for calendar year 2016 was \$326,091.

OptumInsight Services Agreement with OptumInsight, Inc. (OptumInsight)

The Organization entered into an OptumInsight Services Agreement with OptumInsight effective July 1, 2011. Pursuant to the Agreement, OptumInsight provides claim analytics and recovery services, retrospective fraud, waste and abuse services, and subrogation services.

The Agreement was amended six times, with the last amendment effective March 1, 2017. Total cost associated with this Agreement for calendar year 2016 was \$67,121.

Administrative Services Agreement with OptumHealth Care Solutions, Inc. (OptumHealth)

The Organization entered into an Administrative Services Agreement with OptumHealth effective March 1, 2013. Pursuant to the Agreement OptumHealth is responsible for managing a network of therapy providers and other administrative functions in order to provide physical health solutions such as chiropractic and physical, occupation and speech therapy and CAM Network Access for the Organization's Commercial and Medicare members.

The Agreement was amended twice, with the last amendment effective February 1, 2016. Total cost associated with this Agreement for the calendar year 2016 was \$111,272.

Subordinated Revolving Credit Agreement with UHG

The Organization entered into a Subordinated Revolving Credit Agreement with UHG effective November 1, 2012. Pursuant to the Agreement, the Organization may borrow funds up to \$15,000,000.

There have been no amendments or costs associated with this Agreement for the calendar year 2016.

Agreement for Combined Billing and Disbursement Operations with UHIC

The Organization, represented by UHS, entered into an Agreement for Combined Billing and Disbursement Operations with UHIC effective April 1, 2010. Pursuant to the Agreement, UHIC provides a common lockbox for premium collection and a zero balance disbursement account for paying certain bills.

There have been no amendments or costs associated with this Agreement for calendar year 2016.

Premium Allocation Agreement with UHIC

The Organization, represented by UHS, entered into a Premium Allocation Agreement with UHIC effective January 1, 1998. Pursuant to the Agreement, UHIC receives consideration for marketing the Organization's products.

There have been no amendments or costs associated with this Agreement for calendar year 2016.

Dental Services Agreement with Dental Benefit Providers, Inc. (DBP)

The Organization entered into a Dental Services Agreement with DBP effective January 1, 2014. Pursuant to the Agreement, DBP is responsible for managing a network of providers, claim processing, and other administrative functions in order to provide dental services for the Organization's Commercial and Medicare members.

The Agreement was amended three times with the last amendment effective April 1, 2017. Total cost associated with this Agreement for calendar year 2016 was \$573,656.

Health Services Agreement - LifePrint Health, Inc. (LifePrint)

The Organization entered into a Health Services Agreement with LifePrint effective January 1, 2015. Pursuant to the Agreement, LifePrint provides medical management services, referral services and out-of-area services for the Organization's Medicare Advantage Plan members.

The Agreement was amended twice with the last amendment effective January 1, 2017. Total cost associated with this Agreement for the calendar year 2016 was \$399,464,701.

Facility Participation Agreement with Wellness, Inc.

The Organization entered into a Facility Participation Agreement with Wellness, Inc., currently known as Optum Biometrics, Inc. (Optum Biometrics), effective October 1, 2010. Pursuant to the Agreement, Optum Biometrics provides influenza and pneumococcal vaccination services to the Organization's Commercial and Medicare members.

There have been no amendments or costs associated with this Agreement for the calendar year 2016.

Facility Participation Agreement with OptumRx, Inc. (OptumRx)

The Organization entered into a Facility Participation Agreement with OptumRx effective January 1, 2012. Pursuant to the Agreement, OptumRx provides durable medical equipment services and hearing aids to the Organization's Commercial and Medicare members.

The Agreement was amended twice with the last amendment effective January 1, 2014. Total cost associated with this Agreement for the calendar year 2016 was \$23,430.

In addition, the Organization entered into another Facility Participation Agreement with OptumRx effective December 1, 2015. Pursuant to the Agreement, OptumRx provides specialty pharmacy medications and services covered under the member's pharmacy and medical benefits.

There have been no amendments or costs associated with this Agreement for calendar year 2016.

Medicare Advantage Durable Medical Equipment and Supplies Mail Order Network Agreement with OptumRx

The Organization entered into a Medicare Advantage Durable Medical Equipment and Supplies Mail Order Network with RxSolutions, Inc., now OptumRx effective February 1, 2009. Pursuant to the Agreement, OptumRx provides durable medical equipment and diabetic testing supplies to the Organization's Medicare Advantage members.

There have been no amendments or costs associated with this Agreement for calendar year 2016.

Health Supplies Agreement with OptumRx

The Organization entered into a Health Supplies Agreement with OptumRx effective January 1, 2008. Pursuant to the Agreement, OptumRx provides a catalog to the Organization's members to purchase items from the catalog through points accumulated over the year.

The Agreement was amended eight times with the last amendment effective January 1, 2017. There were no costs associated with this Agreement for calendar year 2016.

Medicare Prescription Drug Benefit Administration Agreement with OptumRx

The Organization entered into a Medicare Prescription Drug Benefit Administration Agreement effective January 1, 2013. Pursuant to the Agreement, OptumRx provides

Pharmacy Benefit Manager for the Organization's Commercial members. This agreement was superseded by the below Amended and Restated Medicare Prescription Drug Benefit Administration Agreement as of January 1, 2017.

The Agreement was amended thrice with the last amendment effective January 1, 2014. Total cost associated with this Agreement for calendar year 2016 was \$3,281,679.

Amended and Restated Medicare Prescription Drug Benefit Administration Agreement with OptumRx

The Organization, represented by UHS, entered into an Amended and Restated Medicare Prescription Drug Benefit Administration Agreement with OptumRx effective January 1, 2017. This Agreement supersedes the previous Medicare Prescription Drug Benefit Administration Agreement.

There have been no amendments or costs associated with this Agreement for calendar year 2016.

Prescription Drug Benefit Administration Agreement with OptumRx

The Organization entered into a Prescription Drug Benefit Administration Agreement with OptumRx effective January 1, 2013. Pursuant to the Agreement, OptumRx provides Core Prescription Drug Benefit Services and maintain a network of pharmacies to service the benefit plans, provide claims processing services, benefits administration, clinical services and finance an analytical support services. The Organization will remain ultimately responsible for the pharmacy benefit administration.

The Agreement was amended twice with the last amendment effective September 1, 2015. Total costs associated with this Agreement and amendments for calendar year 2016 was \$71,424.

Vision Services Agreement with Spectera, Inc. and Specialty Benefits, LLC

The Organization entered into a Vision Services Agreement with Spectera, Inc. (Spectera) effective January 1, 2012. Pursuant to the Agreement, Spectera manages a network of vision providers to perform vision services and products, claims processing, and other administrative functions for the Organization's Commercial and Medicare members.

Through an amendment effective April 1, 2014, Specialty Benefits, LLC (SB) became party to the Agreement. Pursuant to the amendment, SB provides prescription optometric materials, such as eyeglasses and contact lenses, for the Organization's Commercial and Medicare members. SB also has retail optical stores in Maryland and the District of Columbia that provide vision exams and optometric materials.

The Agreement was amended six times with the last amendment effective February 1, 2017. Total costs associated with this Agreement and subsequent amendments for calendar year 2016 was \$260,930.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Organization was licensed to operate as an HMO in the State of Utah, and subsequently became licensed in the State of Idaho. For Medicare services, the Organization is authorized to service the following Utah counties: Box Elder, Cache, Davis, Morgan, Salt Lake, Summit, Tooele, Utah, Wasatch, and Weber.

The Organization's Medicare products provide health and well-being services to individuals age 50 and older, allowing them to address unique needs for preventive and acute health care services, as well as services dealing with chronic disease and other specialized issues common among older individuals. The Organization sells its Medicare Advantage and Medicare Part D products directly to consumers, utilizing properly licensed and trained agents and brokers in compliance with specific Medicare guidelines.

In addition, the Organization offers comprehensive commercial products to employer groups. Each contract outlines the coverage provided and renewal provisions.

REINSURANCE

Assumed

The Organization did not have any assumed reinsurance.

Ceded

Effective January 1, 2005, the Organization entered into an Insolvency Reinsurance Agreement with UHIC. The Agreement provides coverage in the case of the Organization's insolvency. The premium paid to UHIC for calendar year 2016 was \$515,791. As of August 3, 2017, UHIC had an AM Best financial strength rating of A (Excellent).

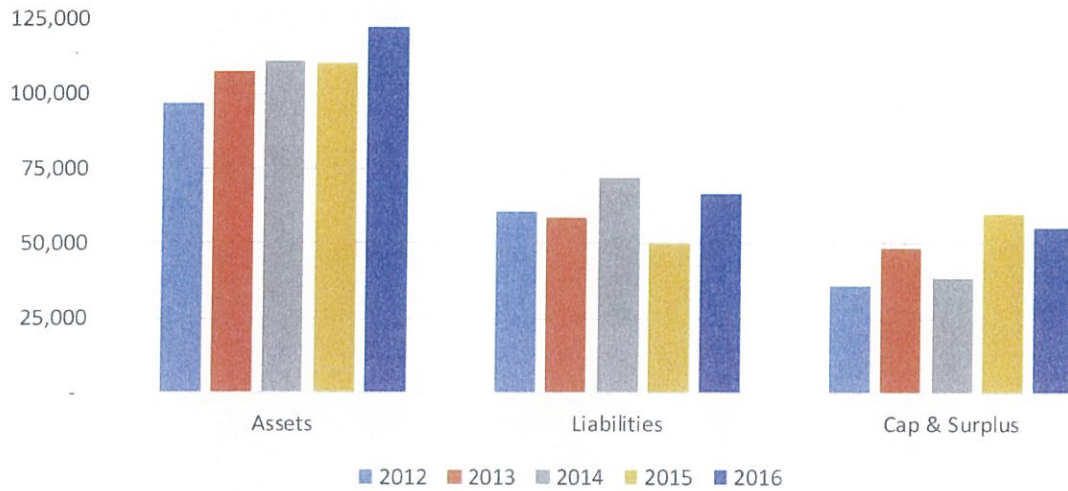
GROWTH OF COMPANY

During the examination period, the Organization experienced a stable financial condition as evidenced by an A rating from AM Best, an increase in assets, and capital and surplus.

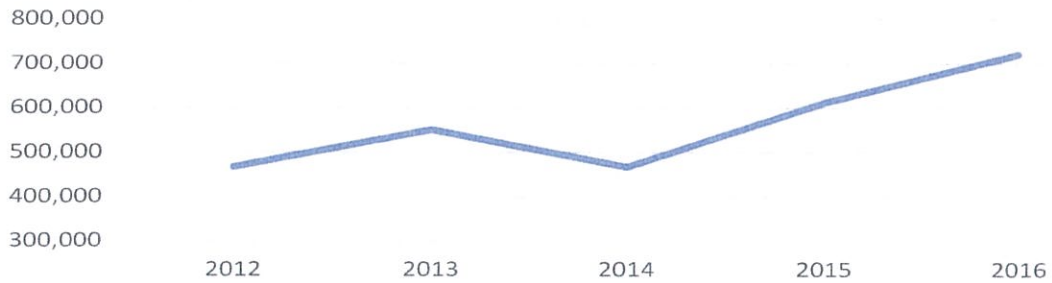
The Organization's premium revenue increased 16% from 2015 to 2016 and member months increased 17% over the same period. The increase was primarily due to strong performance of the Medicare Advantage program and recognition of the CMS risk adjustment.

The following graphs reflect the Organization's financial condition for the examination period:

Assets, Liabilities, and Capital and Surplus (\$'000)



Member Months



Premiums (\$'000s)



Sources: 2012-2016 Financial Statements

FINANCIAL STATEMENTS

The following financial statements are based on the statutory annual statement filed by the Organization with the Department and present the financial condition of the Organization for the period ending December 31, 2016. The accompanying comments (if any) on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

UNITEDHEALTHCARE OF UTAH, INC.
BALANCE SHEET
as of December 31, 2016

	Net Admitted Assets
ASSETS	
Bonds	\$ 70,335,026
Cash, equivalents, and short-term investments	23,715,065
Investment income due and accrued	381,953
Uncollected premiums and agents' balances in the course of collection	813,458
Contracts subject to redetermination	10,348,171
Amounts receivable relating to uninsured plans	2,128,643
Currend federal and foreign income tax recoverable and interest thereon	1,766,434
Net deferred tax asset	753,201
Health care and other amounts receivable	11,225,037
Aggregate write-ins for other than invested assets	329,360
Total Assets	\$ 121,796,348
 LIABILITIES	
Claims unpaid	\$ 18,563,288
Accrued medical incentive pool and bonus amounts	47,233
Unpaid claims adjustment expenses	18,588
Aggretage health policy reserves, include MLR rebate	4,694,329
Premiums received in advance	882,239
General expenses due or accrued	3,041,693
Ceded reinsurance premiums payable	42,652
Amounts withheld or retained for the account of others	29,431
Remittances and items not allocated	14,137
Amounts due to parent, subsidiaries, and affiliates	33,518,063
Payable for securities	197,571
Liability for amounts held under uninsured plans	5,751,784
Aggregate write-ins for other liabilities	5,544
Total Liabilities	66,806,552
 CAPITAL AND SURPLUS	
Common capital stock	1,000,000
Gross paid in and contributed surplus	46,467,539
Unassigned surplus funds	7,522,257
Total Capital and Surplus	54,989,796
 Total Liabilities, Capital and Surplus	 \$ 121,796,348

UNITEDHEALTHCARE OF UTAH, INC.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2016

	Total
REVENUE:	
Net premium income	\$ 515,584,541
Change in unearned premium reserves and reserve for rate credits	(926,524)
Total Revenue	514,658,017
 HOSPITAL AND MEDICAL EXPENSES:	
Hospital and medical benefits	417,492,317
Other professional services	1,436,400
Prescription drugs	25,782,018
Incentive pool, withhold adjustments and bonus amounts	30,258
Total Hospital and Medical	444,740,993
 GENERAL AND ADMINISTRATIVE EXPENSES:	
Claims adjustment expenses	17,074,710
General administrative expenses	45,006,986
Total underwriting deductions	506,822,689
Net underwriting gain	7,835,328
Net investment income earned	1,540,642
Net realized capital gains	331,511
Net investment gains	1,872,153
Net loss from agent's or premium balances charged off	(272,055)
Aggregate write-ins for other expenses	(15)
Net income after capital gains, before federal income taxes	9,435,411
Federal and foreign income taxes incurred	5,896,107
Net Income	\$ 3,539,304

UNITEDHEALTHCARE OF UTAH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2012 through 2016

	2012	2013	2014	2015	2016
Capital and Surplus, December 31, prior year	\$ 19,121,698	\$ 35,748,276	\$ 48,808,495	\$ 38,264,011	\$ 59,890,010
Net income / (loss)	(11,179,819)	11,296,951	(21,648,224)	31,407,210	3,539,304
Change in net deferred income tax	68,062	2,010,733	350,294	(1,230,717)	(856,350)
Change in nonadmitted assets	(1,617,513)	(247,465)	(1,246,554)	(1,050,494)	2,416,832
Capital changes: Transferred from surplus (Stock Dividend)	-	-	-	-	881,050
Surplus adjustments: Transferred to capital (Stock Dividend)	-	-	-	-	(881,050)
Surplus adjustments: Paid in	30,000,000	-	12,000,000	(7,500,000)	(10,000,000)
Aggregate write-ins for losses in surplus	(644,152)	-	-	-	-
Net change in Capital and Surplus for the year	16,626,578	13,060,219	(10,544,484)	21,625,999	(4,900,214)
Capital and Surplus, December 31, current year	<u>\$ 35,748,276</u>	<u>\$ 48,808,495</u>	<u>\$ 38,264,011</u>	<u>\$ 59,890,010</u>	<u>\$ 54,989,796</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No financial adjustments were made to surplus as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

The Organization's capital and surplus in the amount of \$54,989,796 was determined to be the same as that reported in the Organization's annual statement as of December 31, 2016. The capital and surplus significantly exceeded the authorized control level risk-based capital.

SUBSEQUENT EVENTS

In March 2017, the Organization was granted a license to sell its Medicare Advantage product in the State of Idaho.

ACKNOWLEDGEMENT

Jacob W. Garn, CFE, CPA, Chief Examiner, Utah Insurance Department, supervised the examination. In addition, Natasha Robinson, and Mike Porter, Financial Examiners, Utah Insurance Department, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Organization.

Respectfully Submitted,



Malis Rasmussen, MSA, CFE, SPIR
Examiner-in-Charge
Deputy Chief Examiner
Utah Insurance Department