

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE INSURANCE COMMISSIONER

MMM HEALTHCARE, INC.  
NAIC CODE 11157

REPORT ON EXAMINATION  
AS OF  
DECEMBER 31, 2012

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August 27, 2014

Mr. Rubén N. Gely Rodríguez  
Deputy Commissioner  
of Supervision and Compliance  
Office of the Commissioner of Insurance  
B5 Tabonuco Street - Suite 216  
PMB 356  
Guaynabo, PR 00968-3029

Dear Mr. Gely:

In compliance with the instructions and pursuant to the Exam Order EX-2013-10 dated July 17, 2013, and the Puerto Rico Insurance Laws and Regulations, a comprehensive risk focused examination and financial affairs examination was made of the books, records, and financial condition of

**MMM Healthcare, Inc.**  
350 Chardon Avenue, Suite 500  
San Juan, Puerto Rico 00917,

hereinafter referred to as MMM or the Company.

**Scope of Examination**

The current examination was conducted at the home office of the Company located at 350 Chardon Avenue, Suite 500, San Juan, Puerto Rico. This examination covers the period of January 1, 2006 through December 31, 2012, including any material relevant transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, 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, as applicable to the Puerto Rico Insurance Laws and Regulations. All accounts and activities of the Company were considered in accordance with the risk focused examination process.

### **Summary of Significant Findings**

#### ***Current Examination Findings***

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during the examination.

#### ***Audit Committee***

The Company failed to comply with Rule 14-A, Section 14(e) of the Regulations of the Insurance Code of Puerto Rico. The rule requires the controlling person of an insurer to notify the Office of the Insurance Commissioner (OCS) in writing regarding the exercising of the election to have the parent company's audit committee function as the

committee for the insurer. The Company has not filed an election letter with the OCS designating the audit committee of InnovaCare, Inc. as the audit committee for MMM.

#### *Articles of Incorporation*

The Articles of Incorporation for MMM Healthcare, Inc. did not correctly list the location of the Company and the Corporation's registered agent.

#### *Board of Directors Investment Resolution*

The Company did not comply with Article 6.040(2) of the Insurance Code of Puerto Rico. The article requires that the Board of Directors of the insurer shall certify in writing, through a formal resolution to be adopted at least once a year, that all investments have been made pursuant to the delegation, standards, limitations and investment goals established by the Board with the responsibility to administer the investments of the insurer.

#### *Annual Meeting of Shareholders*

Article I, Section 1.1 of MMM Healthcare, Inc.'s bylaws stipulates that the annual stockholders meeting shall be held for the election of directors at such date, time and place as may be designated by resolution of the Board of Directors. An annual meeting of the stockholders was not held during the 2012 calendar year. The Company did not conform to the terms of Article I, Section 1.1 of the bylaws.

### **History**

MMM Healthcare, Inc. was organized under the laws of the Commonwealth of Puerto Rico on December 28, 2000, and is a wholly owned subsidiary of MMM Holdings, Inc. (Holdings), a corporation organized under the laws of the Commonwealth of Puerto

Rico. Until December 12, 2012, Holdings was wholly owned by Aveta Inc. (Aveta), a Delaware corporation. On December 12, 2012, Holdings became a wholly owned subsidiary of a newly created subsidiary of Aveta, InnovaCare, Inc. (InnovaCare), a Puerto Rico corporation, and InnovaCare Inc. was distributed to Aveta's stockholders.

The Company was organized to develop and provide Medicare Advantage Plan (MA Plan) coverage to residents of Puerto Rico who are eligible for Medicare benefits. The MA Plan offered by MMM provides plan members with full Medicare Part A and Part B benefits plus coverage of Medicare deductibles and copayment amounts and additional benefits that Medicare does not provide. Since January 2006, the MA Plan has also offered Medicare Part D drug coverage (MA-PD plan). The MA Plan operates as a health services organization (HSO) whereby members are covered for care provided by physicians, hospitals, and other healthcare providers.

The Company offers its Medicare Advantage Plan pursuant to a contract with the United States Centers for Medicare and Medicaid Services (CMS), a federal agency within the U.S. Department of Health and Human Services. Under the terms of this contract, CMS pays the Company a fixed amount that is subject to future adjustments for each member of the Company's coordinated care plan, and the Company provides the coverage to that member for the health services provided. The contract is for a period of one year commencing January 1 and ending on December 31, and can be renewed for periods of one year, as defined in the contract. The contract was renewed effective January 1, 2013, for a period of one year. The Company also provides

supplemental health coverage to Medicare and Medicaid dual-eligible members enrolled in a specified MA-PD plan.

### **Capital Stock**

As of December 31, 2012, the Company had 100,000 common stock shares authorized and 200 issued and outstanding with a par value of \$10 per share, for paid in capital of \$2,000. MMM is a direct subsidiary of MMM Holdings, Inc., which owns 100% of the shares outstanding.

### **Dividends to Stockholders**

MMM paid cash dividends to stockholders of \$92,000,000 and \$63,975,000 during the years 2012 and 2011, respectively.

### **Management and Control**

The bylaws state that the Board of Directors shall consist of one or more members, the number thereof to be determined from time to time by resolution of the Board of Directors. Directors need not be stockholders.

Article 19.060 of the Insurance Code of Puerto Rico states that Board of Directors shall establish a procedure that will afford the subscribers the opportunity to participate in the direction and operation of the health services organization by establishing advisory committees, the use of advice by consultation, or the use of any other procedure in the fundamental decisions. The Company was in compliance with Article 19.060 of the Insurance Code of Puerto Rico.

The Directors of the Company serve until a successor is elected and qualified. As of the examination date the Board of Directors were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Richard Allan Shinto, MD	President/Chief Executive Officer InnovaCare, Inc.
Orlando Gonzalez	President MMM Healthcare, Inc.
Doug Malton	Sr. Vice President /Chief Financial Officer InnovaCare, Inc.
Claude Chevance	Chief Accounting Officer InnovaCare, Inc.

The officers of the Company as appointed at the shareholders meeting were the following:

Orlando Gonzalez	President
Solange Delohongris	Secretary
Carlos Vivaldi	Treasurer
Vivian Arthur Torres	Vice President
Vilmarie Garcia	Vice President
Wilson Quiroga	Vice President
Luis Garcia Padilla	Vice President
Manuel Sanchez	Chief Operating Officer

### **Investment Plan**

Article 6.040 of the Insurance Code of Puerto Rico provides, among other things, that all investments acquired and held under this Chapter shall be acquired and owned under the supervision and direction of the Board of Directors of the insurer. The Board of Directors shall certify in writing, through a formal resolution to be adopted at least

once a year, that all investments have been made pursuant to the standards, limitations and investment goals established by the Board, or by a committee authorized by the Board with the responsibility to administer the investments of the insurer. Review of the Board of Directors minutes noted that the Company did not certify in writing through a formal resolution that all investments were made pursuant to standards, limitations and investment goals established by the Board.

### **Corporate Governance**

The Board of Directors is responsible for providing general oversight over corporate governance matters, including the development and implementation of the appropriate governance policies and procedures.

The Company is not a publicly traded corporation and, therefore, is not subject to the Sarbanes-Oxley Act of 2002.

### **Conflict of Interest**

The Company requires all employees to file a conflict of interest statement concerning items that could have an impact on the way they conduct the Company's business in accordance with Article 29.230 of the Insurance Code of Puerto Rico. The review of the conflict of interest statements revealed that the Company is in compliance.

### **Corporate Records**

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the Board of Directors, committees, and shareholders were reviewed for the period under examination. The Company was not in compliance with its bylaws as an annual meeting of the stockholders was not held during the 2012

calendar year. The Articles of Incorporation for MMM Healthcare, Inc. did not correctly list the location of the Company and the Corporation's registered agent.

There were no changes made to the Articles of Incorporation or bylaws during the period under examination.

#### **Board of Directors and Committee Minutes**

The recorded minutes of the meetings of the Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Chapter 29 of the Insurance Code of Puerto Rico.

#### **Intercompany Agreements**

The Company has the following written agreements with affiliates:

##### Administrative Service Agreement

The Company has an administrative service agreement with MMM Holdings, Inc. (Holdings) that provides for certain consulting, management and operational services in the operation of the Medicare Advantage plans. For these services Holdings is paid a management fee based on 120% of Holdings' operating expenses.

##### Delegation Agreement

The Company has a delegation agreement with MSO of Puerto Rico, Inc. (MSO), an affiliate, to provide management and administrative services with respect to the network of physicians and other healthcare providers contracted by the Company in exchange for a management fee.

### Growth of the Company

The following data was obtained from the Annual Statements filed with the OCS:

Year	Admitted Assets	Liabilities	Company Capital Stock	Gross Paid Contributed Surplus	Unassigned Surplus
2012	\$306,499,510	\$216,688,104	\$2,000	\$1,999,000	\$87,810,406
2011	\$333,317,076	\$263,836,561	\$2,000	\$1,999,000	\$67,479,515
2010	\$292,134,037	\$232,624,050	\$2,000	\$1,999,000	\$57,508,987
2009	\$301,187,623	\$247,764,898	\$2,000	\$1,999,000	\$51,421,725
2008	\$217,557,335	\$177,653,998	\$2,000	\$1,999,000	\$37,902,337
2007	\$270,437,950	\$244,584,766	\$2,000	\$1,999,000	\$23,852,184

### Insurance Products and Related Practices

The Company is authorized to transact business as a Health Maintenance Organization, in conformity with Chapter 19 of the Insurance Code of Puerto Rico. The Company has been licensed by the Center for Medicaid and Medicare Services (CMS) to write Medicare Advantage business in Puerto Rico.

### Reinsurance

#### Reinsurance Ceded

For 2012 the Company ceded reinsurance through an excess of loss agreement with OneBeacon Insurance Company (OneBeacon). OneBeacon reimburses the Company for per member losses up to \$1,000,000, after a \$400,000 retention.

### Accounts and Records

The Company maintained its principal operational offices in San Juan, Puerto Rico where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the year 2012 in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by Judah Rabinowitz, FSA, MAAA, of InnovaCare Health, Inc.

#### **Subsequent Events**

There were no significant subsequent events noted during the financial examination that would require disclosure in this Report on Examination.

#### **Financial Statements**

Below are the financial statements of the Company:

- Assets, Liabilities, Surplus, and Other Funds
- Statement of Revenue and Expenses
- Capital and Surplus Account

**MMM Healthcare, Inc.**  
**Assets, Liabilities, Surplus and Other Funds**  
As of December 31, 2012

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$146,542,907		\$146,542,907
Preferred stocks	250,000		250,000
Cash and short-term investments	59,325,506		59,325,506
Receivable on securities	374,955		374,955
Aggregate write-ins for invested assets	600,000		600,000
Investment income due and accrued	748,749		748,749
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	63,551,369		63,551,369
Amounts receivable relating to uninsured plans	1,527,675		1,527,675
Current federal and foreign income tax recoverable and interest thereon	1,152,004		1,152,004
Net deferred tax asset	5,859,981		5,859,981
Receivable from parent, subsidiaries and affiliates	480,125		480,125
Healthcare and other amounts receivable	8,519,490		8,519,490
Aggregate write-ins for other than invested assets	17,566,749		17,566,749
Total Assets	<u>\$306,499,510</u>		<u>\$306,499,510</u>
Claims unpaid	\$151,832,906		\$151,832,906
Accrued medical incentive pool and bonus amounts	48,291,421		48,291,421
Unpaid claims adjustment expenses	1,284,696		1,284,696
Aggregate health policy reserves	3,700,000		3,700,000
General expenses due or accrued	275,334		275,334
Amounts withheld or retained for the account of others	1,846,182		1,846,182
Amounts due to parent, subsidiaries and affiliates	7,872,439		7,872,439
Payable for securities	345,757		345,757
Aggregate write-ins for liabilities	1,239,369		1,239,369
Total Liabilities	<u>\$216,688,104</u>		<u>\$216,688,104</u>
Common capital stock	\$2,000		\$ 2,000
Gross paid in and contributed surplus	1,999,000		1,999,000
Unassigned funds (surplus)	87,810,406		87,810,406
Total Capital and Surplus	<u>\$ 89,811,406</u>		<u>\$ 89,811,406</u>
Total Liabilities, Capital and Surplus	<u>\$306,499,510</u>		<u>\$306,499,510</u>

MMM Healthcare, Inc  
**Statement of Revenue and Expenses**  
 As of December 31, 2012

Net premiums income	\$1,698,279,764
Total revenues	\$1,698,279,764
Hospital and Medical	
Hospital/medical benefits	\$1,022,828,137
Other professional services	8,069,253
Emergency room and out-of-area	30,010,203
Prescription drugs	244,747,261
Incentive pool, withhold adjustments and bonus amounts	112,830,622
Total hospital and medical	\$1,418,485,476
General administrative expenses	189,446,877
Total underwriting deductions	\$1,607,932,353
Net underwriting gain	\$ 90,347,411
Net investment income earned	\$ 3,467,119
Net realized capital gains	795,148
Net investment gain	\$ 4,262,267
Aggregate write-ins for other income or expenses	\$ 1,722,000
Net income after capital gains tax and before all other federal income taxes	\$ 96,331,678
Federal and foreign income taxes incurred	18,963,787
Net Income	\$ 77,367,891

MMM Healthcare, Inc.  
**Capital and Surplus Account**  
As of December 31, 2012

Capital and Surplus, December 31, prior year	<u>\$69,480,515</u>
Net Income (Loss)	\$77,367,891
Change in Net deferred Income Tax	3,915,418
Change in non-admitted assets	3,022,584
Dividends to Stockholders	<u>(63,975,000)</u>
Net change in capital and surplus for the year	<u>\$20,330,893</u>
Capital and Surplus, December 31, current year	<u>\$89,811,408</u>

MMM Healthcare, Inc.  
**Reconciliation of Capital and Surplus Account**  
 As of December 31, 2012

The following is a reconciliation of Capital and Surplus between that reported by the Company and as determined by the examination.

Capital and Surplus Account December 31, 2012, per Annual Statement				\$89,811,408
	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Increase</u> <u>(Decrease)</u> <u>in Surplus</u>	
Assets:				
No Adjustments	\$0	\$0	\$0	
Liabilities:				
No Adjustments	\$0	\$0	\$0	<u>                    </u>
Net Change in Surplus				<u>\$89,811,408</u>

**Comments on the Financial Statements**

Claims unpaid	\$151,832,906
Accrued medical incentive pool and bonus amounts	48,291,421
Unpaid claims adjustment expenses	1,284,696
Aggregate health policy reserves	3,700,000

An independent review of aggregate reserves was performed by INS Consultants, Inc. (INS), Philadelphia, Pennsylvania.

Reserves were reviewed by INS for compliance with standard valuation laws, applicable National Association of Insurance Commissioners Actuarial Guidelines, and Model Regulations. Sample contracts were selected from the valuation systems for reserve testing based on the residual risk assessments as determined by INS. In choosing samples, INS focused on the products and contracts having specific risk provisions, thus emphasizing the added risk associated with the contracts tested.

The balance sheet items enumerated above appear to be calculated using valuation parameters, which appear to be free of any material error and valuation files that appear to be complete. Based on the above discussion and analysis, INS concluded that the December 31, 2012, balance sheet items covered in the examination scope appear fairly stated and have been accepted for the purpose of this report.

## Summary of Examination Recommendations

### *Audit Committee*

The Company failed to comply with Rule 14-A Section 14 (e) of the Regulations of the Insurance Code of Puerto Rico. The rule requires the controlling person of an insurer to notify the Office of the Insurance Commissioner (OCS) in writing regarding the exercising of the election to have the parent company's audit committee function as the committee for the insurer. The Company has not filed an election letter with the OCS designating the audit committee of InnovaCare, Inc. as the audit committee for MMM.

We recommend that the Company notify the Office of the Insurance Commissioner of its election to designate the audit committee of InnovaCare, Inc. as the audit committee for MMM.

### *Articles of Incorporation*

The Articles of Incorporation for MMM Healthcare, Inc. did not correctly list the location of the Company and the Corporation's registered agent.

We recommend that the Company amend its Articles of Incorporation listing its correct address and the Corporation's current registered agent.

### **Board of Directors Investment Resolution**

The Company did not comply with Article 6.040(2) of the Insurance Code of Puerto Rico. The article requires that the Board of Directors of the insurer shall certify in writing, through a formal resolution to be adopted at least once a year, that all investments have been made pursuant to the delegation, standards, limitations and

investment goals established by the Board with the responsibility to administer the investments of the insurer.

We recommend that the Board of Directors comply with the requirements of Article 6.040.

#### **Annual Meeting of Shareholders**

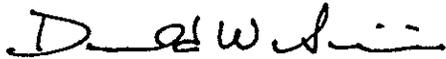
Article I, Section 1.1 of MMM Healthcare, Inc.'s bylaws stipulates that the annual stockholders meeting shall be held for the election of directors at such date, time and place as may be designated by resolution of the Board of Directors. An annual meeting of the stockholders was not held during the 2012 calendar year. The Company did not conform to the terms of Article I, Section 1.1 of the bylaws.

We recommend that the Company comply with this requirement of the bylaws by holding the annual meeting of stockholders.

### Conclusion

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **MMM Healthcare, Inc.** as of December 31, 2012, consistent with the insurance laws of Puerto Rico.

In addition to the undersigned, Charles P. McMorrow, CFE, CPA, Staff Examiner; INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, CRISC and Robert Ficken, CPA, CIA, CISA, CFE, AES, IT Specialists, INS Services, Inc.; Frank Edwards, ASA, MAAA, Actuary, INS Consultants, Inc. and Maribel Figueroa Diaz, Examiner of the Office of the Insurance Commissioner of Puerto Rico, participated in the examination.



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Donald W Sirois, CFE, CPA  
Examiner-in-Charge