

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
UNITEDHEALTHCARE OF WASHINGTON, INC.
MERCER ISLAND, WASHINGTON
NAIC CODE 48038
December 31, 2011

Participating States:
California, Connecticut,
Oklahoma, Oregon,
Texas, Washington

Order No. 13-194
UnitedHealthcare of Washington, Inc.
Exhibit A

SALUTATION

Seattle, Washington
April 25, 2013

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

UnitedHealthcare of Washington, Inc.
of
Mercer Island, Washington

hereinafter referred to as "UHCWA" or the "Company" at its home office located at 7525 SE 24th Street, Suite 200, Mercer Island, Washington, 98040. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2011.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of UnitedHealthcare of Washington, Inc., of Mercer Island, Washington. This report shows the financial condition and related corporate matters as of December 31, 2011.



Patrick H. McNaughton
Chief Examiner

6-24-13

Date

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SCOPE OF THE EXAMINATION

The examination of the Company was part of the UnitedHealth Group Incorporated (UHG) Coordinated Holding Group Examination Plan (Plan) implemented with the 2011 examination cycle that included 28 regulated entities domiciled in 19 states. The Connecticut Insurance Department (CID) assumed the responsibility of the coordinating state for the 2011 financial examination cycle. The OIC was the facilitator of a subgroup which included the insurance departments from California, Oklahoma, Oregon, and Texas. Communication among states led to a more efficient use of resources while reducing duplication of work. Group examinations not only provide information on each insurer individually but also provide a structure for regulators to understand and evaluate risks of the holding company group as a whole.

This examination of UHCWA covered the period January 1, 2007 through December 31, 2011 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioner (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field work on April 25, 2013.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following section of this report. In addition, the Company's Certified Public Accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2011 NAIC FCEH which requires the examiners to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2011 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. NAIC Annual Statement Error – Incorrect Notes to Statutory Basis Financial Statements

In the Notes to Statutory Basis Financial Statements, the Company reported in Note No. 1 to the NAIC Annual Statement that it participates in an intercompany liquidity pool, when in fact it does not. In addition, the Company erroneously reported in Note No. 10 that affiliates collect premiums on behalf of

the Company and settle them at regular intervals through the intercompany settlement process. The Notes to Statutory Basis Financial Statements must correctly reflect what is actually taking place. RCW 48.43.097 and WAC 284-07-050(2) require adherence to the NAIC Annual Statement Instructions.

The Company is instructed to comply with RCW 48.43.097 and WAC 284-07-050(2) by correctly reflecting what is taking place in the Notes to Statutory Basis Financial Statements.

2. 2008 Dividend Accrual

The Company's Board of Directors (BOD) and the OIC approved a dividend of \$100,000,000 in December 2008, but the Company did not accrue the dividend on the 2008 NAIC Annual Statement. As a result, surplus was overstated by \$100,000,000 at December 31, 2008. SSAP No. 72(12) requires dividends declared to be charged directly to unassigned funds (surplus) on the declaration date and carried as a liability until paid. No examination adjustment was necessary as surplus was decreased in 2009 when the dividend was paid.

The Company is instructed to comply with RCW 48.43.097 and WAC 284-07-050(2) which require adherence to the AP&P, SSAP No. 72.

3. Number of Authorized Directors

From August 2008 through the end of 2011, the Company had three members on the BOD. The number of members did not meet the requirement of the Company's Amended and Restated Bylaws which state that the number of authorized directors shall remain at four. RCW 23B.08.030 requires that the BOD must consist of one or more individuals, with the number specified in or fixed in accordance with the articles of incorporation or bylaws.

The Company is instructed to comply with RCW 23B.08.030 and the Company's Bylaws, Article 2, Section 2.2, by having four members on the BOD.

4. Expense Allocations

One officer's salary was not allocated appropriately to several affiliates from 2007 through 2011. UHCWA was not allocated salary expenses of \$209,543 for the period under examination. RCW 48.31C.050 and SSAP No. 70(8) require intercompany allocations to be fair and reasonable and require shared expenses to be apportioned to the entities to which they belong. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. No examination adjustment is necessary as the amount is immaterial.

The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097, and SSAP No. 70 by allocating expenses to the entity to which they belong.

5. Royalty Fees

The Company entered into the Master License Agreement (MLA) with an affiliate, PacificCare Life and Health Insurance Company (PLHIC), on October 1, 1998 to compensate PLHIC for intellectual property. The Company agreed to pay PLHIC 1.75 percent of its premiums to use the PacificCare name. The royalty rate was lowered to 0.75 percent of premium through the First Amendment to Master License Agreement effective January 1, 2007. During the last examination, the OIC ordered the Company to stop paying these royalty fees. During the current period under examination, the Company believed that it was complying with the order as PacificCare Health Plan Administrators (PHPA), its parent, was paying the fees on UHCWA's behalf.

Prior to 2011, the Company entered into the Management and Administrative Services Agreement (MASA) with PHPA for administrative and other services for management and operational support. PHPA contracted with United HealthCare Services, Inc. (UHS) to perform some of the services for the Company. The MASA was replaced with the Management Services Agreement (MSA) on January 1, 2011.

During the period under examination, we did not find that royalty fees were charged directly to UHCWA as a result of the Master License Agreement. However, royalty fees were recorded in the Company's records as part of the management fees that were allocated to UHCWA under the MASA and other agreements. Three separate errors were noted:

- In 2007, a general ledger entry was made between PHPA and UnitedHealthcare of California, a subsidiary of PHPA, for \$12,381,746 related to royalty fees. The amount of expense that was eventually allocated to UHCWA was \$841,546.
- In 2007, a general ledger entry was made between UHS and PHPA for \$16,994,998 related to royalty fees. The amount that was eventually allocated to UHCWA from this entry was a credit of \$1,155,442. In 2009, the \$16,994,998 royalty fee entry booked in 2007 between UHS and PHPA was reversed. However, the reversed amount that was eventually allocated to UHCWA in 2009 was an expense of \$2,803,164. The two entries resulted in UHCWA being allocated a net amount of \$1,647,722 of royalty fees in error.
- In 2010, the management fee allocation from PHPA to UHCWA included \$3,049,640 for royalty fee expenses in error.

Royalty fees are not permitted pursuant to RCW 48.31C.050 and SSAP No. 70(8) which require intercompany allocations to be fair and reasonable and require shared expense to be apportioned to the entities to which they belong. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. The total amount of royalty fees to be refunded to UHCWA will increase surplus by \$5,538,908 prior to any tax effect. An examination adjustment was made (net of federal income tax) that increased surplus by \$3,600,290. (See Examination Adjustment No. 1.)

The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097, and SSAP No. 70, by discontinuing payment of royalty fees either directly or indirectly, by discontinuing the practice of recording royalty fee expenses in its general ledger, and to seek reimbursement for all royalty fees expensed to UHCWA.

COMMENTS AND RECOMMENDATIONS

1. Risk Adjustment Factor

The Medicare Risk Adjustment Factor (RAF) receivable is a retrospective obligation from the Centers for Medicare and Medicaid Services (CMS) based on the risk profile of Medicare beneficiaries. As such, it would be prudent to include it within the scope of the Statement of Actuarial Opinion (SAO).

Actuarial Standard of Practice (ASOP) No. 28 gives guidance on the type of assets that would come under the SAO in Section 2.5 stating:

Health Insurance Asset (Asset) – An amount recorded in financial statements or accounting systems to reflect health benefit plan receivables valued using actuarial approaches to estimation. Common

examples include pharmacy rebate receivables, provider settlement receivables and Medicare Part D settlement receivables.

The RAF receivable is similar in nature to the examples of an asset described in ASOP No. 28.

It is recommended that the Company include within the scope of its SAO, Item I, retrospective payments to or from CMS arising from risk adjustment outcomes.

COMPANY PROFILE

Company History

PacifiCare of Washington, Inc., obtained its Certificate of Registration in Washington State on March 6, 1986 as a Health Maintenance Organization (HMO). On February 28, 1994, PacifiCare of Washington, Inc., purchased Preferred Health Resources (PHR). PHR consisted of Network Health Plan, Inc. (NHP), a Health Care Service Contractor (HCSC), and Network Management, Inc., a third party administrator. On June 30, 1994, PacifiCare of Washington, Inc., was dissolved and all assets were transferred to NHP. On October 1, 1994, NHP changed its name to PacifiCare of Washington, Inc. (PCWA). On December 20, 2005, PCWA's parent, PacifiCare Health System, LLC, was acquired by UnitedHealth Group, Inc. (UHG). On May 2, 2011, PCWA changed its name to UnitedHealthcare of Washington, Inc.

Capitalization

Minimum capital requirements pursuant to RCW 48.44.037 were met with approximately \$89 million in net worth (capital and surplus) as of December 31, 2011.

Territory and Plan of Operation

The Company is registered as a HCSC in the state of Washington. The Company entered into contracts with physicians, hospitals, and other health care provider organizations to deliver health care services for all enrollees. The Company serves as a plan sponsor offering Medicare Advantage and Medicare Part D prescription drug insurance coverage under a contract with CMS.

In the period under examination, the Company engaged in the following lines of business: comprehensive hospital and medical, Federal Employees Health Benefit Plans (FEHBP), and Title XVIII Medicare. The Company discontinued writing new FEHBP business in 2008. In 2011, approximately 97 percent of the business was from Medicare.

Growth of Company

The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

| Year | Admitted Assets | Liabilities | Capital & Surplus |
|-------|-----------------|--------------|-------------------|
| *2011 | \$151,846,818 | \$59,263,907 | \$92,582,911 |
| 2010 | 118,035,928 | 46,792,753 | 71,243,175 |
| 2009 | 128,729,631 | 47,615,545 | 81,114,086 |
| 2008 | 291,693,242 | 42,138,540 | 249,554,702 |
| 2007 | 296,697,473 | 68,095,191 | 228,602,282 |

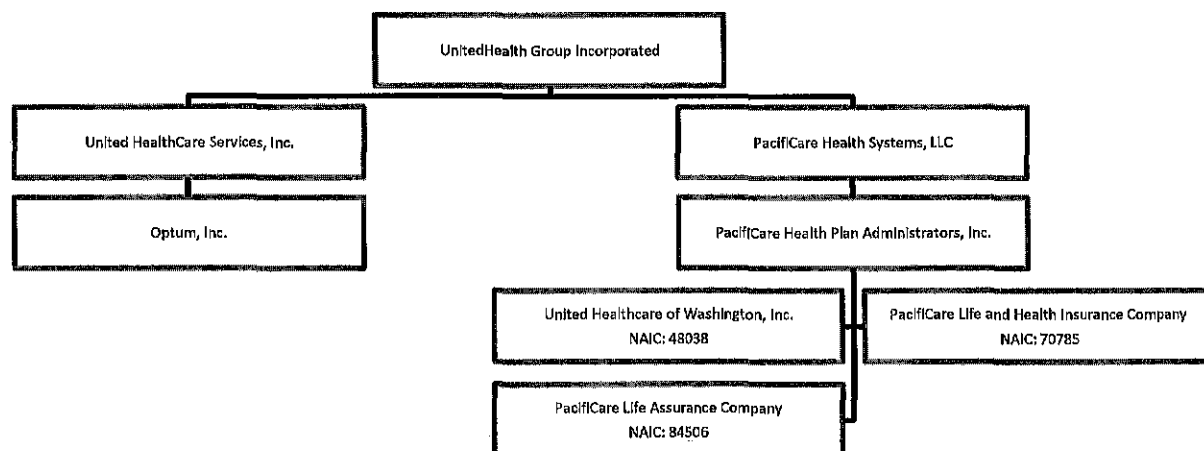
| Year | Total Revenue | Net Underwriting Gain (Loss) | Net Investment Gain (Loss) | Net Income |
|------|---------------|------------------------------|----------------------------|--------------|
| 2011 | \$510,567,355 | \$36,625,493 | \$2,545,794 | \$25,548,816 |
| 2010 | 440,434,808 | 39,122,659 | 2,203,930 | 27,167,633 |
| 2009 | 417,576,699 | 39,878,768 | 6,781,725 | 32,020,129 |
| 2008 | 429,210,364 | 57,376,413 | 10,984,090 | 45,816,134 |
| 2007 | 470,823,716 | 70,498,317 | 10,593,555 | 54,015,908 |

*Adjusted balances include an examination adjustment

Affiliated Companies

UHCWA is a wholly-owned subsidiary of PHPA. PHPA is a wholly-owned subsidiary of PacifiCare Health System, LLC (PHS), which is a wholly-owned subsidiary of UHG. UHG is the ultimate controlling person. UHG is a publicly held company trading on the New York Stock Exchange. (In 2012, PHPA and PHS were dissolved and UHCWA became a wholly-owned subsidiary of UHS. UHS is a wholly-owned subsidiary of UHG.)

The following abbreviated organizational chart as of December 31, 2011 shows the Company's ultimate parent and only those companies with which UHCWA has intercompany agreements:



UnitedHealth Group Incorporated (UHG)

UHG is a diversified health and well-being company. The company business model is divided between two core platforms: health benefits operating under UnitedHealthcare, Inc., and health services operating under Optum, Inc., (Optum). UHG is the ultimate holding company.

United HealthCare Services, Inc. (UHS)

UHS is a HMO management corporation that provides services to its affiliates under the terms of management agreements.

Optum, Inc. (Optum)

Optum is a subsidiary holding company of UHS that specializes in the delivery of healthcare services. It was incorporated on November 2, 1988. Optum is made up of three holding companies, OptumHealth Holdings, LLC, OptumInsight Holdings, LLC, and OptumRx Holdings, LLC. The three business segments together form an information and technology-enabled health services business.

PacifiCare Health Systems, LLC (PHS)

PHS is a holding company that offers managed care and other health insurance products to employer groups, individuals, and Medicare beneficiaries.

PacifiCare Health Plan Administrators, Inc. (PHPA)

PHPA is a management corporation that provides services to its subsidiaries under the terms of a management agreement. The agreement was terminated on January 1, 2011. In 2012, PHPA merged with and into UHS. (See Subsequent Events.)

UnitedHealthcare of Washington, Inc. (UHCWA)

UHCWA is a licensed healthcare service contractor that offers its enrollees a variety of managed care programs and products through contractual arrangements with healthcare providers. The Company's name was changed from PCWA to UHCWA on May 2, 2011.

PacifiCare Life Assurance Company (PLAC)

PLAC is a licensed life, accident, and health insurer and is engaged in the accident and health insurance lines of business and provides various forms of coverage under individual and group accident and health insurance. It was incorporated on March 30, 1973.

PacifiCare Life and Health Insurance Company (PLIC)

PLIC is a life, accident, and health insurer. PLIC is licensed to sell life and accident and health insurance in all states with the exception of New York, the District of Columbia and the territory of U.S. Virgin Islands and primarily issues group accident and health insurance contracts to employers and associations. It was incorporated on March 1, 1967.

Intercompany Agreements

The Company is a party to various intercompany agreements with affiliates. As of December 31, 2011, the Company had the following significant intercompany agreements in force:

Management Services Agreement

The agreement between the Company and UHS became effective January 1, 2011. UHS provides, or arranges for the provision of, management, administrative, and other services that the parties deem necessary or appropriate for management and operational support to the Company.

Master License Agreement

The agreement between the Company and PLIC became effective on October 1, 1998. It is for the use of intellectual property. The Company agreed to pay PLIC 1.75 percent of its premiums to use the PacifiCare name. The royalty rate was lowered to 0.75 percent of premium through the First Amendment to Master License Agreement effective January 1, 2007. The agreements were terminated on March 1, 2012.

Dental Benefit Providers Master Services Agreement for Medicare Business

The agreement between the Company and Dental Benefit Providers, Inc. (DBP) became effective January 1, 2009. DBP is responsible for developing, contracting, and managing a network of dental providers to provide dental services and/or products for the Company's insureds and other customers. The fee is based on a per member per month capitation. The agreement was terminated in January 31, 2012. It was replaced by the Dental Services Agreement between UHCWA and DBP that became effective February 1, 2012. DBP is a subsidiary of UHS.

Ancillary Provider Participation Agreement

The Company participates in this agreement through an addendum effective August 1, 2009. The agreement is between UnitedHealthcare Insurance Company and Evercare Hospice, Inc. The agreement provides the Company's customers with hospice care. Evercare Hospice, Inc., is a subsidiary of Collaborative Care Holdings, LLC, which is a subsidiary of OptumHealth Holdings, LLC, which is a subsidiary of Optum, Inc.

Ingenix Services Agreement

The agreement between the Company and Ingenix, Inc., became effective August 1, 2011. It provides services relating to claims analytics and recovery, retrospective fraud, waste and abuse and subrogation. On November 30, 2011, Ingenix, Inc., changed its name to OptumInsight, Inc., which is a subsidiary of OptumInsight Holdings, LLC, which is a subsidiary of Optum, Inc.

Administrative Services Agreement

The agreement is between the Company and ACN Group, Inc. (ACN). It provides administrative functions in order to provide therapy services. The original agreement became effective January 1, 2007, and was amended on February 1, 2010 to include additional services and a rate change. It was amended a second time on June 1, 2010 to add additional services and a rate change. On August 20, 2010, ACN changed its name to OptumHealth Care Solutions, Inc., which is a subsidiary of OptumHealth Holdings, LLC, which is a subsidiary of Optum, Inc.

Network Services Agreement

The agreement is between the Company and ACN effective February 1, 2010. The agreement provides a network of therapy providers in order to provide therapy services. On August 20, 2010, ACN changed its name to OptumHealth Care Solutions, Inc., which is a subsidiary of OptumHealth Holdings, LLC, which is a subsidiary of Optum, Inc.

Medicare Advantage Durable Medical Equipment and Supplies Mail Order Network Agreement

The agreement between UHS and RxSolutions, Inc., became effective January 1, 2009. It provides durable medical equipment and supplies to the Company's Medicare Advantage members. On September 7, 2011, RxSolutions, Inc., changed its name to OptumRx, Inc., which is a subsidiary of OptumRx Holdings, LLC, which is a subsidiary of Optum, Inc.

Medicare Prescription Drug Benefit Administration Agreement (MAPD Plans)

The agreement between UHS and RxSolutions, Inc., became effective January 1, 2010. UHS participates on behalf of itself and the affiliates identified on Exhibit B of the agreement which includes the Company. RxSolutions, Inc., is the pharmacy benefit manager for the Company's Medicare Advantage plans with Part D benefits. On September 7, 2011, RxSolutions, Inc., changed its name to OptumRx, Inc., which is a subsidiary of OptumRx Holdings, LLC, which is a subsidiary of Optum, Inc.

Prescription Drug Benefit Administrative Agreement

The agreement between PHPA and RxSolutions, Inc., became effective June 1, 2009. The Company participates through the Participating Addendum to the agreement. RxSolutions, Inc., provides pharmacy benefit management services as well as access to mail order and specialty pharmacies to the Company's commercial members. On September 7, 2011, RxSolutions, Inc., changed its name to OptumRx, Inc., which is a subsidiary of OptumRx Holdings, LLC, which is a subsidiary of Optum, Inc.

Master Services Agreement

The original agreement between Spectera, Inc. (Spectera), and UHS became effective January 1, 2004. Effective August 1, 2009, the Company participates in the agreement through the Participating Organization Addendum. Spectera provides network management and administrative services for vision healthcare relating to the Company's Medicare and commercial members. The agreement was terminated on December 31, 2011. Spectera is a subsidiary of Specialty Benefits, LLC, which is a subsidiary of UHS.

Behavioral Health Services Agreement

The agreement between the Company and PacifiCare Behavioral Health became effective January 1, 1995. It provides network and expertise in the delivery of chemical dependency and mental health services to the Company's members. On May 20, 2010, PacifiCare Behavioral Health merged with United Behavioral Health (UBH), which is a subsidiary of OptumHealth Holdings, LLC, which is a subsidiary of Optum, Inc. The agreement was terminated on February 28, 2012. It was replaced with the Behavioral Health Services Agreement between UHCWA and UBH that became effective March 1, 2012.

First Restated Tax Sharing Agreement

The agreement between UHG and its subsidiaries became effective January 1, 1997. The Company's effective date is January 1, 2006. The agreement establishes a formal method for the allocation and payment of the federal, state, and local income tax liabilities.

MANAGEMENT AND CONTROLS

Board of Directors (BOD)

The following individuals were Directors of the Company as of December 31, 2011:

David M. Hansen, Chair
Roger A. Muller, M.D.
Jeffrey D. Underwood

Officers

The following individuals were Officers as of December 31, 2011:

| | |
|----------------------|-------------------------|
| David M. Hansen | President |
| Jill M. Harland | Chief Financial Officer |
| Robert W. Oberrender | Treasurer |
| Payman Pezhman | Secretary |

Conflict of Interest

The Company requires the annual completion of a conflict of interest statement by directors, officers, and key employees. The purpose of the statement is to detect any activities or participation on the part of the directors and officers that could possibly be interpreted as a conflict of interest. No exceptions were noted during review for the period of examination.

Fidelity Bond and other Insurance

The Company was a named insured on a financial institution fidelity bond purchased by UHG. The aggregate amount of coverage appears adequate to cover the exposure risk of the Company and its affiliates.

Officer, Employee, and Agent Welfare and Pension Plans

The Company has no retirement plan, deferred compensation, or other benefit plans, since all personnel are employees of United HealthCare Services, Inc., which provides services to the Company under the terms of a management agreement.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws, Certificate of Registration, and minutes of the Board of Directors and committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present or through written consent.

ACTUARIAL REVIEW

The actuarial examination of UHCWA was reviewed as part of the Connecticut Insurance Department's (CID's) coordinated financial examination of the UHG as of December 31, 2011. The Oklahoma Insurance Department (OID) and its contractor reviewed claims handling and reserves for UHCWA, UnitedHealthcare of Oklahoma, Inc. and UnitedHealthcare of Oregon, Inc. We relied on the work performed by the OID, and we performed a high level review of the Company's actuarial liabilities and assets opined in the SAO. The review included examining the Company's reserving philosophy and methodologies to determine the reasonableness of the claim liabilities; verifying that claim liabilities include provisions for all components noted in SSAP No. 55, paragraphs 7 and 8, and SSAP No. 54, paragraphs 12, 13, 18 and 19; reviewing historical paid claims and loss ratios; checking the consistency of the incurred-paid data from the Company's system with the figures reported in the 2011 NAIC Annual Statement; and estimating claims unpaid for the valuation date of December 31, 2011.

Reserves were determined to be in compliance with statutory requirements. The methods, assumptions, and methodologies used by the Company were appropriate.

REINSURANCE

The Company does not currently utilize reinsurance.

INDEMNITY DEPOSITS

UHCWA maintained the following statutory deposits as of December 31, 2011:

| <u>State</u> | <u>Type</u> | <u>Book Value</u> | <u>Fair Value</u> |
|--------------|-------------------|-------------------|-------------------|
| Washington | US Treasury Bonds | \$1,619,827 | \$1,700,400 |

ACCOUNTING RECORDS AND INFORMATION SYSTEM

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of Deloitte and Touche LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination.

The Information Technology (IT) examination of UHCWA was reviewed as part of the CID's coordinated financial examination of the United Healthcare Group as of December 31, 2011. The IT systems and controls were evaluated to gain an understanding of the IT general control risks and assess the effectiveness of these controls, including the business continuity and disaster recovery plans. Applications and systems specifically related to UHCWA were included in the review. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels.

SUBSEQUENT EVENTS

UHCWA was part of a reorganization in 2012. The reorganization involved two transactions within the UnitedHealth Group Incorporated holding company system. First, PHPA merged with and into UHS. After the completion of that merger transaction, PacifiCare Health Systems, LLC, merged with and into UHS. As of July 1, 2012, UHS owns 100 percent of the common stock of UHCWA.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and comments have been addressed by the Company with the exception of the recording of royalty fees expenses. (See Instruction No. 5.)

FINANCIAL STATEMENTS

The following financial statements show the financial condition of UHCWA as of December 31, 2011:

Assets, Liabilities, Capital and Surplus

Statement of Revenue and Expenses

Five Year Reconciliation of Surplus

Analysis of Changes in Financial Statements Resulting from the Examination

UnitedHealthcare of Washington, Inc.
Assets, Liabilities, Capital and Surplus
December 31, 2011

| | <u>BALANCE PER COMPANY</u> | <u>EXAMINATION ADJUSTMENTS</u> | <u>BALANCE PER EXAMINATION</u> | <u>NOTES</u> |
|---|--------------------------------|------------------------------------|------------------------------------|--------------|
| ASSETS | | | | |
| Bonds | \$110,184,818 | \$0 | \$110,184,818 | |
| Cash | 19,068,350 | | 19,068,350 | |
| Investment income due and accrued | 1,236,437 | | 1,236,437 | |
| Premiums and considerations | | | | |
| Uncollected premium and agents' balances in the course of collect | 1,492,071 | | 1,492,071 | |
| Amounts receivable relating to uninsured plans | 2,019,030 | | 2,019,030 | |
| Current federal and foreign income tax recoverable and interest | 5,791,805 | | 5,791,805 | |
| Net deferred tax asset | 1,336,322 | | 1,336,322 | |
| Health care and other amounts receivable | 5,125,370 | | 5,125,370 | |
| Receivables from parent, subsidiaries and affiliates | 0 | 5,538,908 | 5,538,908 | 1 |
| Aggregate write-ins for other than invested assets | 53,706 | | 53,706 | |
| Total assets | <u>\$146,307,910</u> | <u>\$5,538,908</u> | <u>\$151,846,818</u> | |
| LIABILITIES, CAPITAL AND SURPLUS | | | | |
| Claims unpaid | \$47,065,483 | \$0 | \$47,065,483 | |
| Unpaid claim adjustment expenses | 1,291,744 | | 1,291,744 | |
| Aggregate health policy reserves | 1,034,592 | | 1,034,592 | |
| Aggregate health claims reserves | 52,247 | | 52,247 | |
| Premium received in advance | 597,584 | | 597,584 | |
| General expenses due or accrued | 700,663 | | 700,663 | |
| Current federal and foreign income tax payable and interest | 0 | 1,938,618 | 1,938,618 | 1 |
| Remittances and items not allocated | 15,308 | | 15,308 | |
| Amounts due to parent, subsidiaries and affiliates | 1,560,898 | | 1,560,898 | |
| Liability for amounts held under uninsured plans | 4,819,933 | | 4,819,933 | |
| Aggregate write-ins for other liabilities | 186,838 | | 186,838 | |
| Total liabilities | <u>57,325,289</u> | <u>1,938,618</u> | <u>59,263,907</u> | |
| Gross paid in and contributed surplus | 44,456,000 | | 44,456,000 | |
| Unassigned fund (surplus) | 44,526,622 | 3,600,290 | 48,126,912 | 1 |
| Total capital and surplus | <u>88,982,621</u> | <u>3,600,290</u> | <u>92,582,911</u> | |
| Total liabilities, capital and surplus | <u>\$146,307,910</u> | <u>\$5,538,908</u> | <u>151,846,818</u> | |

UnitedHealthcare of Washington, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2011

| | <u>BALANCE PER COMPANY</u> | <u>EXAMINATION ADJUSTMENTS</u> | <u>BALANCE PER EXAMINATION</u> | <u>NOTES</u> |
|---|--------------------------------|------------------------------------|------------------------------------|--------------|
| Member months | 656,605 | | 656,605 | |
| Net premium income | \$510,764,705 | \$0 | \$510,764,705 | |
| Change in unearned premium reserves and reserve for | (197,351) | | (197,351) | |
| Total revenues | <u>510,567,355</u> | <u>0</u> | <u>510,567,355</u> | |
| Hospital and Medical: | | | | |
| Hospital/medical benefits | 362,969,598 | | 362,969,598 | |
| Other professional services | 12,756,358 | | 12,756,358 | |
| Outside referrals | 0 | | 0 | |
| Emergency room and out-of-area | 10,075,927 | | 10,075,927 | |
| Prescription drugs | 35,723,586 | | 35,723,586 | |
| Incentive pool, withhold adjustments and bonus | 21,846 | | 21,846 | |
| Subtotal | <u>421,547,316</u> | <u>0</u> | <u>421,547,316</u> | |
| Less: | | | | |
| Net reinsurance recoveries | 0 | | 0 | |
| Total hospital and medical | 421,547,316 | 0 | 421,547,316 | |
| Claims adjustment expenses | 14,833,925 | | 14,833,925 | |
| General administrative expenses | 37,560,621 | | 37,560,621 | |
| Total underwriting deductions | <u>473,941,862</u> | <u>0</u> | <u>473,941,862</u> | |
| Net underwriting gain or (loss) | <u>36,625,493</u> | <u>0</u> | <u>36,625,493</u> | |
| Net investment income earned | 2,518,535 | | 2,518,535 | |
| Net realized capital gains (losses) less capital gains tax | 27,259 | | 27,259 | |
| Net investment gains (losses) | <u>2,545,794</u> | <u>0</u> | <u>2,545,794</u> | |
| Net gain or (loss) from agents' or premium balances | 0 | | 0 | |
| Aggregate write-ins for other income or expenses | 11,667 | | 11,667 | |
| Net income or (loss) after capital gains tax and before all | 39,182,954 | 0 | 39,182,954 | |
| Federal and foreign income taxes incurred | <u>13,634,138</u> | | <u>13,634,138</u> | |
| Net income or (loss) | <u>\$25,548,816</u> | <u>\$0</u> | <u>\$25,548,816</u> | |
| | | | | |
| | <u>BALANCE PER COMPANY</u> | <u>EXAMINATION ADJUSTMENTS</u> | <u>BALANCE PER EXAMINATION</u> | <u>NOTES</u> |
| <u>CAPITAL AND SURPLUS ACCOUNT</u> | | | | |
| Capital and surplus prior reporting year | <u>\$71,243,175</u> | <u>\$0</u> | <u>\$71,243,175</u> | |
| Net income or (loss) | 25,548,816 | | 25,548,816 | |
| Change in net deferred income tax | 6,967 | | 6,967 | |
| Change in nonadmitted assets | 357,702 | | 357,702 | |
| Dividends to stockholders | (6,900,000) | | (6,900,000) | |
| Aggregate write-ins for gains or (losses) in surplus | (1,274,039) | 3,600,290 | 2,326,251 | 1 |
| Net change in capital and surplus | <u>17,739,446</u> | <u>3,600,290</u> | <u>21,339,736</u> | |
| Capital and surplus end of reporting period | <u>\$88,982,621</u> | <u>\$3,600,290</u> | <u>\$92,582,911</u> | |

UnitedHealthcare of Washington, Inc.
Five Year Reconciliation of Surplus
For the Years Ended December 31,

| | *2011 | 2010 | 2009 | 2008 | 2007 |
|---|---------------------|---------------------|----------------------|----------------------|----------------------|
| Capital and surplus, December 31, prior year | \$71,243,175 | \$81,114,086 | \$249,554,702 | \$228,602,282 | \$133,823,651 |
| Net Income or (loss) | 25,548,816 | 27,167,633 | 32,020,129 | 45,816,134 | 54,015,908 |
| Change in net unrealized capital gains (losses) | 0 | 0 | 3,413 | (3,413) | 0 |
| Change in net deferred income tax | 6,967 | (652,322) | (100,284) | (446,512) | (433,286) |
| Change in nonadmitted assets | 357,702 | 1,613,778 | (829,005) | 593,412 | (358,842) |
| Dividends to stockholders | (6,900,000) | (38,000,000) | (64,000,000) | (22,800,000) | 0 |
| Aggregate write-ins for gains or (losses) in surplus | 2,326,251 | 0 | (99,534,869) | (2,207,201) | 41,554,851 |
| Net change in capital and surplus | 21,339,736 | (9,870,911) | (168,440,616) | 20,952,420 | 94,778,631 |
| Capital and surplus, December 31, current year | \$92,582,911 | \$71,243,175 | \$81,114,086 | \$249,554,702 | \$228,602,282 |

*Includes Examination Adjustment No. 1

UnitedHealthcare of Washington, Inc.
Analysis of Changes in Financial Statements Resulting from the Examination
December 31, 2011

| | <u>Per Annual Statement</u> | <u>Per Examination</u> | <u>Notes</u> | <u>Increase (Decrease) in Surplus</u> | <u>Total</u> |
|---|---------------------------------|----------------------------|--------------|---|----------------------------|
| Capital and surplus 12/31/2011 per NAIC Annual Statement | | | | | \$88,982,621 |
| Assets | | | | | |
| Receivables from parent, subsidiaries, and affiliates | 0 | 5,538,908 | 1 | 5,538,908 | |
| Liabilities | | | | | |
| Current federal and foreign income tax payable and interest thereon | 0 | 1,938,618 | 1 | (1,938,618) | |
| Change in surplus | | | | | <u>3,600,290</u> |
| Capital and surplus 12/31/2011 per examination | | | | | <u><u>\$92,582,911</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

1. Royalty Fees

To correct royalty fee expenses recorded and paid by the Company in 2007, 2009, and 2010: increase page 2, line 23, "Receivables from parent, subsidiaries, and affiliates" by \$5,538,908, increase page 3, line 31, "Unassigned funds (surplus)" by \$3,600,290, and increase page 3, line 10.1 "Current federal and foreign income tax payable and interest thereon" by \$1,938,618. (See Instruction No. 5.)

Special Consent

The Company has no special consents or permitted practices in the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of UnitedHealthcare of Washington, Inc., and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Timothy F. Hays, CPA, JD, Investment Specialist; Shiraz Jetha, FSA, CERA, MAAA, Health Actuary; Adrienne DeBella, CPA, CFE, ALMI, Health Field Supervising Examiner; Friday Enoye, AFE, Financial Examiner; and Tony Quach, AFE, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report. Greg A. Lathrop, CFE, Examiner-in-Charge; Mike P. Phillips, CFE, CPA, AES, Insurance Examiner; Tim R. Hurley, CFE, Insurance Examiner; and Mark A. Giffin, CFE, Insurance Examiner; all from the Oregon Department of Consumer and Business Services, Insurance Division, participated in the examination. Jamine Webb, MBA, Examination Reviewer, from the Oklahoma Insurance Department, participated in the examination. John Humphries, Managing Partner; Mike Presley, FSA, MAAA, Senior Actuary; Joanne Smith, Examiner; Jean Adams, CPA, CFE, CISA, AES, Examiner; all from AGI Services, contractor of Oklahoma Insurance Department, participated in the examination. William Arfanis, CFE, Supervisor; and William Tatelman, CFE, Examiner-in-Charge; both from the Connecticut Insurance Department, participated in the exam.

Respectfully submitted,



Kathleen Hicks, CPA, AFE
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF KING }

Kathleen Hicks being duly sworn, deposes, and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

She attests that the examination of UnitedHealthcare of Washington, Inc., was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners.

Kathleen Hicks

Kathleen Hicks, CPA, AFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 24th day of June, 2013.

Colleen Jansen

Notary Public in and for the
State of Washington

