

Report
of the
Examination of
Humana Insurance Company
Louisville, Kentucky
As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

January 20, 2012

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

HUMANA INSURANCE COMPANY
Louisville, Kentucky

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Humana Insurance Company (the company or HIC) was conducted in 2006 as of December 31, 2005. The current examination covered the intervening period ending December 31, 2010, and included a review of such 2011 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the reasonableness of the company's claim liability and the company's asset adequacy analysis. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

Investment Review

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a review of the company's invested assets portfolio as of December 31, 2010. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review performed.

II. HISTORY AND PLAN OF OPERATION

Humana Insurance Company is a Wisconsin-domiciled life and health insurer authorized to conduct insurance business pursuant to ch. 611, Wis. Stat. The company was initially organized December 18, 1968, under the name Classified Life Insurance Company (CLIC). CLIC was acquired by Wisconsin Employers Group, Inc. (WEG) in 1977 and the name of the company was changed to Wisconsin Employers Insurance Company. Ownership and control of WEG was acquired by the American Express group in 1983, and the name of the company was changed to Fireman's Fund Employers Insurance Company effective May 25, 1983.

Lincoln National Corporation (LNC) purchased WEG in 1986, and on December 19, 1986, the name of the company was changed to Employers Health Insurance Company (EHIC). WEG held 11.3% of EHIC capital stock, and Lincoln National Life Insurance Company directly held 88.7% of EHIC capital stock and 100% of the capital stock of WEG. Effective March 15, 1994, LNC transferred ownership and control of WEG and EHIC to EMHPESYS Financial Group, Inc. (EFG) which was established by LNC as an insurance holding company subsidiary. Approximately 60% of EFG capital stock was subsequently sold to investors through registered public stock offerings. In March 1995, LNC's ownership interest in EFG had decreased to 29% and was transferred to the LNC subsidiary, American States Insurance Company.

Humana Inc. (Humana) acquired ownership and control of Employers Health Insurance Company effective October 13, 1995, upon Humana's acquisition and merger of EFG with HEW, Inc., a wholly owned subsidiary of Humana Inc. EFG was the surviving legal entity from the merger of EFG and HEW, Inc. The company was owned 88.7% by EFG and 11.3% by WEG through June 30, 2002.

Effective December 31, 2001, Humana Insurance Company, a then-existing Missouri-domiciled life and health insurance subsidiary of Humana Inc., merged into EHIC. EHIC subsequently changed its name to Humana Insurance Company, the name presently used by the company. Effective June 30, 2002, WEG was merged into EFG, and EFG was merged into

CareNetwork, Inc., a Humana subsidiary holding company, resulting in HIC becoming a wholly owned subsidiary of CareNetwork, Inc.

In 2010, the company collected direct premium in the following states:

Ohio	\$ 1,947,200,242	12.5%
Texas	1,514,471,439	9.7
Kentucky	1,019,427,427	6.5
Illinois	852,391,005	5.5
Wisconsin	772,365,236	4.9
North Carolina	685,289,677	4.4
Virginia	600,553,435	3.8
Michigan	587,153,276	3.8
Georgia	581,087,092	3.7
Florida	564,202,691	3.6
Indiana	563,695,028	3.6
West Virginia	525,155,500	3.4
Missouri	410,010,709	2.6
All others	<u>5,014,426,775</u>	<u>32.0</u>
Total	<u>\$15,637,429,532</u>	<u>100.0%</u>

The company is licensed in the District of Columbia and in all state jurisdictions except New York.

Humana Insurance Company offers insurance products in two general business segments, the commercial segment and the government segment. The government segment includes Medicare Advantage and Medicare Part D (prescription drug). The commercial segment consists of employer group members and individuals enrolled in fully insured medical, administrative service only (ASO) and specialty products.

HIC's government segment has been the biggest source of growth for the company over the last five years. The Medicare Modernization Act of 2003 created a voluntary drug benefit, called "Part D" benefit, for Medicare beneficiaries beginning in 2006, as well as expanding Medicare Advantage health plan options. In late 2005, the company coordinated its Medicare Part D (PDP) marketing strategy with marketing of its Medicare Advantage products. Additionally, the company expanded its offering of Medicare Advantage products to include private fee-for-service (PFFS) and regional preferred provider organization (PPO) products. With the addition of the Medicare Part D product and significant membership growth in Medicare Advantage products, the government segment now accounts for more than three-fourths of the company's total premiums and ASO fees.

The commercial segment membership is concentrated in seven key markets in the southeast and mid-west regions of the country with about half of the enrollment in fully insured risk products and the other half in self-funded accounts. Humana offers health maintenance organization (HMO), preferred provider organization and a variety of consumer-driven health plans which include a high-deductible product, a catastrophic coverage plan, plans with health savings account options and consumer-choice plans called Smart products. The Smart products offer more choices for the individual consumer, transparency of provider cost and benefit designs that engage consumers in the cost and effectiveness of health care choices. Within Humana's PPO portfolio is the HumanaOne product which is a major medical product marketed directly to individuals. The company offers HumanaOne to select geographies but has greatly expanded the number of locations this product is available in recent years. Also included in the company's commercial segment are their specialty product offerings. The company's specialty products include accident and health, group and individual life, and short-term and long-term disability.

The company uses various methods to market their Medicare and commercial products including television, radio, the Internet, telemarketing and mailings. The company uses licensed independent brokers and agents and licensed employees to sell its products. Humana also markets their Medicare products via a strategic alliance with Wal-Mart which enables Humana to station representatives in certain Wal-Mart stores, Sam's Club locations and neighborhood markets across the country providing them an opportunity to make contact with eligible individuals in person. In addition, Humana markets their Medicare products through licensed independent brokers and agents including strategic alliances with State Farm and United Services Automobile Association (USAA). Humana utilizes licensed independent brokers and agents and approximately 1,200 licensed employees to sell their commercial products.

The following chart is a summary of premium income as reported by the company in 2010. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Individual life	\$ 2,021,104	\$	\$ 321,237	\$ 1,699,867
Group life	30,514,976	10,536	13,548	30,511,964
Medical	1,853,606,247	677,840,216	424,310	2,531,022,153
Dental	7,690,226			7,690,226
Short-term disability	1,538,640			1,538,640
Long-term disability	1,619,572		1,619,572	
AD&D	3,583,575	1,398	17,533	3,567,440
Stop loss	61,356,904		5,465	61,351,439
Conversion	1,393,636		104	1,393,532
Medical supplement	61,597,331		68,797	61,528,534
Individual major medical	448,655,499	14,308,454	228,576	462,735,377
Medicare	12,956,907,901	12,913,062		12,969,820,963
Vision	12,008,585			12,008,585
Specified/named disease	<u>6,998,086</u>	<u></u>	<u></u>	<u>6,998,086</u>
Total All Lines	<u>\$15,449,492,282</u>	<u>\$705,073,666</u>	<u>\$2,699,142</u>	<u>\$16,151,866,806</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of four members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Each member of the company's board of directors is a senior executive of the parent, Humana Inc., and is also a member of other boards of directors in the holding company group. The board members currently do not receive compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Michael B. McCallister Louisville, KY	President & Chief Executive Officer, Humana Inc.	2012
James E. Murray Louisville, KY	Senior Vice President, Chief Operating Officer, Humana Inc.	2012
James H. Bloem Louisville, KY	Senior Vice President, Chief Financial Officer, Humana Inc.	2012
Bruce J. Goodman Louisville, KY	Senior Vice President, Humana Inc.	2012

Officers of the Company

Each senior executive officer of Humana Insurance Company is also a senior executive officer of Humana Inc. and also serves as an officer in other legal entities within the holding company group. HIC executive officers are compensated by Humana Inc. and do not receive direct compensation remitted by Humana Insurance Company. A portion of the executive officer compensation remitted by Humana Inc. to the HIC executive officers is allocated to HIC pursuant to intercompany expense allocation agreements. The HIC senior executive officers serving at the time of this examination are as follows:

Name	Office	2010 Compensation
Michael B. McCallister	President & Chief Executive Officer	\$2,891,673
James H. Bloem	Senior VP, Chief Financial Officer and Treasurer	1,244,378
Joan O. Lenahan	Vice President & Corporate Secretary	553,309
Frank Amrine*	Appointed Actuary	310,931

*Frank Amrine retired on June 30, 2011. Jonathan Canine is the current appointed actuary.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no board member only committees at the time of the examination. The committees of the parent company, Humana Inc., perform comprehensive corporate governance oversight on behalf of each Humana Inc. operating subsidiary including Humana Insurance Company. The Humana Inc. board of directors has the following committees: Audit, Executive, Investment, Nominating & Corporate Governance, and Organization & Compensation. Only directors meeting the Securities and Exchange Commission's (SEC) and the New York Stock Exchange's (NYSE) director independence standards may serve on the Audit Committee, the Nominating & Corporate Governance Committee and the Organization & Compensation Committee. Each member of the Audit Committee is an "audit committee financial expert" as defined by the SEC, and each is "financially literate" as defined by the NYSE.

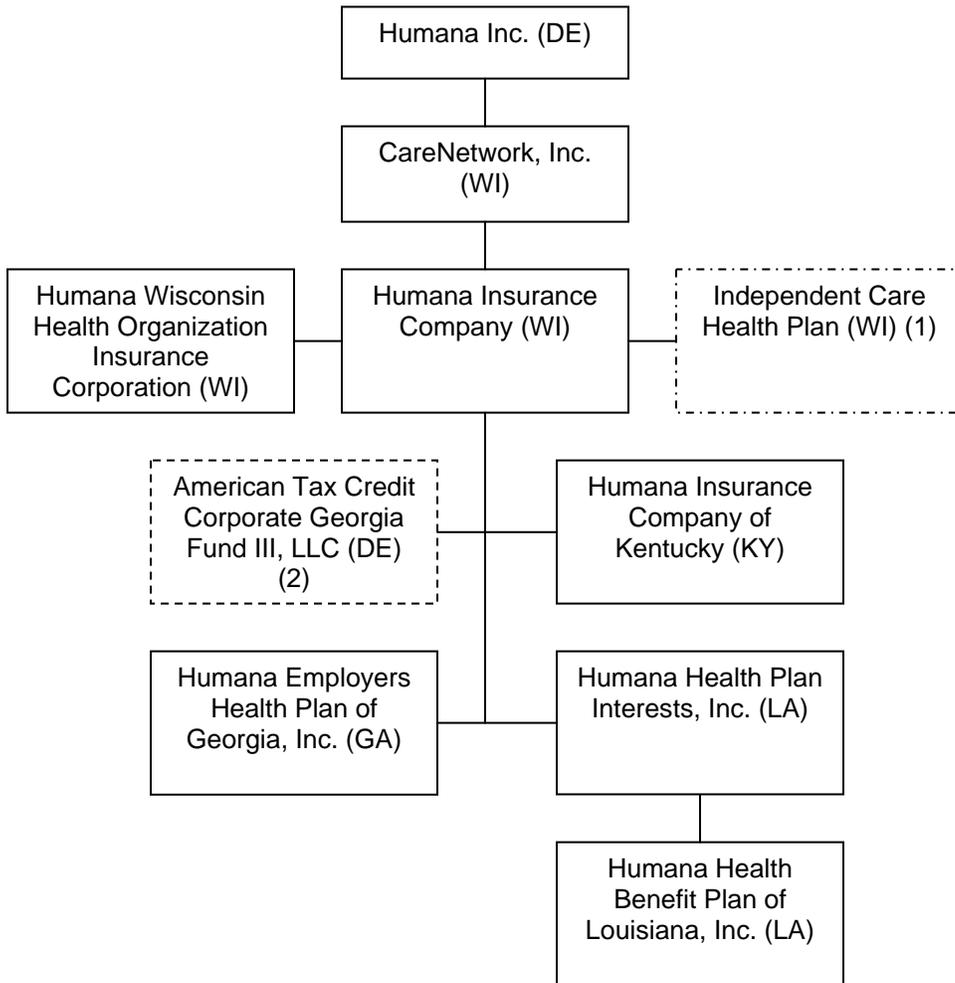
The company does have a Quality Improvement Committee (QIC) consisting of members of management. The committee reports directly to the board of directors. The voting members of the QIC at the time of the examination are listed below:

- Phil Painter, Corporate Medical Director
- Thomas James, Medical Director, National Accounts
- Karen Feldkamp, Director, Corporate Quality & Accreditation
- Darlene Holzbach, Manager Corporate Quality
- Emilie Sims, Manager Accreditation
- Marla Sanders, Director Delegation Compliance
- Mike Funk, Director Provider Operations
- Shari Dillon, Director CIT
- Karen Wooldridge, Consultant Corporate Quality
- Lynne Schifreen, Manager Pharmacy Quality
- Sondra Harp, Manager, Grievances & Appeals
- Stilla McMahon, Director Provider Communications
- Mary Jane Branch, Regional Quality Director South
- Mary Weiss, Regional Quality Director West
- Susan Hoffman, Regional Quality Director South Florida
- Nancy Walsh, Regional Quality Director East
- Patrice Thor, Regional Quality Director Central
- Sue Suchan, Director Corporate Compliance

IV. AFFILIATED COMPANIES

HIC is a member of a holding company system. As previously stated, its ultimate parent is Humana Inc. The abbreviated organizational chart below depicts the relationships among the affiliates in the direct succession of control of the company. A brief description of affiliates deemed significant follows the organizational chart.

**Organizational Chart
As of December 31, 2010**



- (1) Ownership is 50% by CareNetwork, Inc., and 50% by New Health Services, Inc., an affiliate of Milwaukee Center for Independence, Inc., an unaffiliated entity.
- (2) Ownership is 58.1736% by Humana Insurance Company, 1.6029% by The Savannah Bank N.A., an unaffiliated entity, and 40.2133% by GMAC investment fund, organized for the purpose of investing in apartment complexes generating Georgia state low income housing tax credits.

Humana Inc.

Humana Inc. is an insurance holding company which provides indemnity insurance, managed health care insurance, and specialty service products through the operations of its subsidiary companies. Humana Inc. was incorporated on July 27, 1964, and is a Delaware corporation. Humana products are offered primarily through subsidiary life and health indemnity insurers, health maintenance organizations, and preferred provider organizations, and are marketed for employer groups, government benefit programs, and individuals.

As of December 31, 2010, the GAAP basis audited financial statements of Humana Inc. reported total assets of \$16.1 billion, total liabilities of \$9.2 billion, and total stockholders' equity of \$6.9 billion. Operations for 2010 produced net income of \$1.1 billion.

CareNetwork, Inc.

CareNetwork, Inc., is a non-operating intermediate holding company domiciled in Wisconsin which holds the assets of certain Humana operating subsidiaries. CareNetwork, Inc., holdings include the Wisconsin-domiciled insurers Humana Insurance Company and Humana Wisconsin Health Organization Insurance Corporation.

As of December 31, 2010, the GAAP basis unaudited financial statements of CareNetwork, Inc., reported total assets of \$1,599,408,170, total liabilities of \$4,386,911, and total stockholders' equity of \$1,595,021,259. Operations for 2010 produced net income of \$1,139,210.

Humana Employers Health Plan of Georgia, Inc.

Humana Employers Health Plan of Georgia, Inc. (HEHPG) was organized and licensed in Georgia in 1996 as a health maintenance organization and commenced operations in 1997. HEHPG provides coordinated health insurance coverages and services primarily to employer groups through product options that include HMOs and preferred provider organizations.

As of December 31, 2010, the statutory basis audited financial statements of HEHPG reported total admitted assets of \$81,855,673, total liabilities of \$37,902,257, and policyholders' surplus of \$43,953,416. Operations for 2010 produced net income of \$86,382.

Humana Insurance Company of Kentucky

Humana Insurance Company of Kentucky (HICK) is a Kentucky-domiciled life and health insurance company that offers health plan insurance coverages in Kentucky. HICK provides individual indemnity, group life, and Medicare supplement products to insureds in Kentucky and provides stop-loss products to self-insured employers or other groups.

As of December 31, 2010, the statutory basis audited financial statements of HICK reported total admitted assets of \$37,963,502, total liabilities of \$17,511,724, and policyholders' surplus of \$20,451,778. Operations for 2010 produced net income of \$386,078.

Humana Health Plan Interests, Inc.

Humana Health Plan Interests, Inc. (HHPI) is a non-operating intermediate holding company that holds the assets of Humana Health Benefit Plan of Louisiana, Inc., and Health One, Inc. HHPI was formerly known as Ochsner Health Plan Interests, Inc., and was the holding company parent of Ochsner Health Plan, Inc., which is now known as Humana Health Benefits Plan of Louisiana, Inc. Ochsner Health Plan Interests, Inc., was acquired by Humana Insurance Company on April 1, 2004, and its name was subsequently changed to Humana Health Plan Interests, Inc.

As of December 31, 2010, the consolidated GAAP basis audited financial statements of HHPI reported total assets of \$480.2 million total liabilities of \$149.5 million, and total stockholders' equity of \$330.7 million. HHPI's aggregate statutory equity and admissible goodwill as of December 31, 2010, was \$230.0 million. The HHPI consolidated financial statements produced 2010 net income of \$70.5 million.

Humana Health Benefits Plan of Louisiana, Inc.

Humana Health Benefits Plan of Louisiana, Inc. (HHBPL) is a Louisiana-domiciled health maintenance organization formerly known as Ochsner Health Plan, Inc. Ochsner Health Plan, Inc., was acquired by Humana Insurance Company on April 1, 2004, and its name was subsequently changed to Humana Health Benefits Plan of Louisiana, Inc. HHBPL is licensed in Louisiana as an HMO and provides coordinated health insurance coverages and services

primarily to employer groups through product options that include HMOs and preferred provider organizations.

As of December 31, 2010, the statutory basis audited financial statements of HHBPL reported total admitted assets of \$347,080,469, total liabilities of \$158,189,740, and policyholders' surplus of \$188,890,729. Operations for 2010 produced net income of \$51,141,435.

American Tax Credit Corporate Georgia Fund III, LLC

American Tax Credit Corporate Georgia Fund III, LLC (State Fund) is a limited liability company established under the laws of Delaware in 2004. State Fund invests in operating limited partnerships that acquire, rehabilitate, own and operate low and moderate income residential rental properties. Humana Insurance Company is an Investor Member in State Fund and held a 58.17% distribution interest in the company as of year-end 2010.

As of December 31, 2010, the audited GAAP basis financial statements of American Tax Credit Corporate Georgia Fund III, LLC, reported total assets of \$2,969,140, total liabilities of \$336,765, and members' equity of \$2,632,375. Operations for 2010 produced net loss of \$520,650.

Humana Wisconsin Health Organization Insurance Corporation

Humana Wisconsin Health Organization Insurance Corporation (Humana WHO) was incorporated in Wisconsin in 1985 as a health maintenance organization under the name Wisconsin Health Organization Insurance Corporation (WHO). Humana Inc. acquired Humana WHO on December 20, 1994, and the name Wisconsin Health Organization Insurance Corporation was changed to Humana Wisconsin Health Organization Insurance Corporation. Humana WHO provides coordinated health insurance coverages and services primarily to employer groups through product options that include HMO and preferred provider organization products.

As of December 31, 2010, the statutory basis audited financial statements of Humana WHO reported total admitted assets of \$59,815,212, total liabilities of \$26,107,099, and policyholders' surplus of \$33,708,113. Operations for 2010 produced net income of \$6,090,693.

Independent Care Health Plan

Independent Care Health Plan (I-Care) commenced business as a separate entity on June 18, 2003. CareNetwork, Inc., owns 50% and New Health Services, a subsidiary of Milwaukee Center for Independence, a 501(c)(3) nonprofit, owns 50%. I-Care members are all covered under Title XVIII (Medicare) or Title XIX (Medicaid) with a special emphasis on dual-eligible members.

As of December 31, 2010, the statutory basis audited financial statements of I-Care reported total admitted assets of \$68,780,512, total liabilities of \$50,532,073, and policyholders' surplus of \$18,248,439. Operations for 2010 produced net income of \$2,356,995.

Agreements with Affiliates

Indemnity Agreement between HIC and Humana Inc.

Humana Insurance Company and Humana Inc. entered into an indemnity agreement October 12, 1995, whereby Humana Inc. agrees to indemnify HIC from any and all liability or loss that HIC may suffer as a result of HIC's failure to perform its insurance risk obligations in the event that HIC should become insolvent or otherwise financially incapable of meeting its obligations. Under the agreement, Humana Inc. guarantees continuation of coverage under certificates of coverage issued by HIC for the duration of the contract for which payment has been made, continuation of benefits to HIC members who are confined in an inpatient facility on the date of insolvency until the member's discharge, and payment to providers for services rendered before insolvency and required by HIC's certificates of coverage. Humana also agrees to indemnify HIC and hold harmless HIC from any and all liability and loss that HIC may suffer arising from HIC's provision of administrative services to Humana Inc.

Tax Allocation Agreement between HIC and Humana Inc.

Humana Insurance Company is party to a Tax Allocation Agreement with Humana Inc. entered into on December 31, 1996. The agreement provides that Humana Inc. will file consolidated tax returns for all of the legal entities in the Humana Inc. holding company group, including HIC. The consolidated tax liability for each year shall be apportioned to Humana Inc. and its subsidiaries based on applicable provisions of the Internal Revenue Code, based on the

ratio which the portion of consolidated tax liability attributable to each respective member of the group bears to the consolidated tax liability. Humana Inc. shall credit to each respective affiliate 100% of the excess of the affiliate's separate return tax liability over its allocated consolidated tax return liability. Humana Inc. is responsible for the preparation and filing of all consolidated tax return and any other returns or documents required to be filed with the Internal Revenue Service.

Corporate Service Agreement between HIC and Humana Inc.

Humana Insurance Company is party to a Corporate Service Agreement effective January 3, 2007, with Humana Inc. It has been amended May 14, 2009, June 1, 2009, and January 1, 2011, for regulatory compliance purposes. Humana Inc. provides services supporting the business operations of HIC. Humana provides HIC with services such as payroll, trade accounts payments, broker commissions, medical and product management, executive management, information systems, financial and legal services, human resource and sales distribution management, and related services. Humana Inc. receives a direct reimbursement for services with direct costs and a pro rata share of costs of shared services and overhead based upon weighted membership. The agreement provides that Humana Inc. collects funds due HIC in the operation of its business and performs any necessary banking and accounting administrative duties to accomplish collections and disbursements of funds on behalf of HIC.

Medicare Risk Marketing Service Agreement between HIC and MPoint

A Medicare Risk Marketing Service Agreement effective June 7, 2006, is in force between Humana MarketPoint, Inc. (MPoint), HIC, and Humana as Repository. It has been amended May 14, 2009, June 1, 2009, and January 1, 2011, for regulatory compliance purposes. Under the terms of the agreement, MPoint provides marketing services including the provision of staff, systems, and related support to HIC in order to market Humana Medicare Risk Products. Expenses incurred in the provision of services to HIC by MPoint are charged back directly to HIC.

Services Agreements between HIC, HHP-C, and Humana Inc.

A Services Agreement dated December 31, 2010, and amended January 1, 2011, is in effect between HIC and Humana Health Plan of California (HHP-C) with Humana Inc. as the repository. Under the terms of the Agreement, HHP-C provides HIC certain tax services,

including reporting required federal and state tax withholdings for third-party disability payments to individuals and year-end reporting and filing as needed on the state and federal levels.

Service Center Service Agreements between HIC, Affiliated Companies, and Humana Inc.

Humana Insurance Company has established separate service center service agreements with 27 affiliated companies and Humana Inc. as repository. The agreements provide that HIC will provide the affiliates with one or more health care management services, including claims adjudication and claims processing, customer service, front-end operations, billing and enrollment, utilization review, and other support activities to include education and development, financial management, and systems administration. HIC expenses allocated to the recipients of services include general business expenses incurred by HIC in performance of the services. Humana Inc. serves as the repository under each service center agreement, pursuant to which Humana Inc. shall disburse and collect management fees that are required by the agreements, and shall perform any necessary banking and administrative duties required to accomplish its repository duties. The company amended this contract in 2011 to reflect changes in the cost allocation model required under the National Association of Insurance Commissioners Model Insurance Holding Company System Regulatory Act and federal health insurance reforms. This amendment also integrated some previously separate affiliate agreements into this agreement. Humana Insurance Company currently has service center services agreements with the following affiliates:

- American Dental Plan of North Carolina
- American Dental Providers of Arkansas
- Cariten Health Plan Inc.
- CHA HMO, Inc.
- CompBenefits Company
- CompBenefits Dental
- CompBenefits Insurance Co.
- DentiCare, Inc.
- EmpheSys Ins. Co.
- Humana AdvantageCare Plan
- Humana Benefit Plan of Illinois
- Humana Employers Health Plan of Georgia
- Humana Health Benefit Plan of Louisiana
- Humana Health Insurance Co. of Florida
- Humana Health Plan, Inc.
- Humana Health Plan of California
- Humana Health Plan of Ohio
- Humana Health Plan of Texas

Humana Insurance Company of Kentucky
Humana Insurance Company of New York
Humana Medical Plan
Humana Medical Plan of Utah
Humana Military Healthcare Services
Humana Wisconsin Health Org. Ins. Co.
HumanaDental Insurance Company
The Dental Concern, Inc.
The Dental Concern, Ltd.

V. REINSURANCE

A brief summary of the company's reinsurance portfolio is described below. The company does not engage in material reinsurance risks. A list of the significant reinsurance contracts in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Current Assumption Reinsurance Agreement

Humana Insurance Company maintains a reinsurance agreement with Bravo Health Insurance Company, Inc., whereby the company assumes 100% of the risk associated with group medical and group major medical insurance policies that provide mental health care coverage. The covered services under the agreement are behavioral health care psychiatric services. Corphealth, Inc., doing business as LifeSynch, is the administrator of the assumed policies. The administrator collects policy premiums and remits the premiums to Humana Insurance Company. HIC retains a policy fee on the assumed policies and pays an administrative fee to the administrator.

Current Ceding Reinsurance Agreements

Humana Insurance Company entered into a Medicare Alliance Agreement with CIGNA (through Connecticut General Life Insurance Company, a subsidiary of CIGNA), which stipulates that HIC authorizes CIGNA to market HIC's group Medicare Advantage products and services. HIC cedes a 50% quota share of the premium and risk associated with the individual Medicare Advantage.

Humana Insurance Company cedes to Hannover Life Reassurance Company of America (Hannover) 50% of individual term life business with face amounts equal to or less than \$150,000 through a coinsurance agreement. Each company's maximum retention is \$500,000 per life. This agreement was terminated as of February 28, 2006, for new business. Policies with effective dates through February 28, 2006, remained with Hannover. Policies effective March 1, 2006, and later are retained by HIC.

Humana Insurance Company cedes to RGA Reinsurance Company (RGA) all individual term life business with a face value greater than \$150,000 (other than individual term

life policies sold to Humana employees) not to exceed \$4,000,000 per policy and \$5,000,000 per individual life through a first dollar quota share agreement. Face amounts in excess of these limits are subject to facultative review. For each insured, HIC retains 50% up to a maximum of \$500,000. For face amounts greater than \$1,000,000, RGA coinsures 100% of amounts in excess of \$1,000,000.

Humana Insurance Company cedes all group term life insurance in excess of \$350,000 Basic and \$350,000 Voluntary to Swiss Re Life and Health America (Swiss Re). The \$350,000 attachment point applies separately to Basic and Voluntary for each member covered. The company also cedes all group AD&D coverage in excess of \$350,000 Basic and \$350,000 Voluntary to Swiss Re.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2010, annual statement. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Humana Insurance Company
Assets
As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$4,010,091,909	\$	\$4,010,091,909
Stocks:			
Common stocks	294,373,961		294,373,961
Mortgage loans on real estate:			
First liens	8,550,000		8,550,000
Real estate:			
Occupied by the company	10,515,394		10,515,394
Cash, cash equivalents, and short-term investments	(77,224,544)		(77,224,544)
Other invested assets	1,655,599		1,655,599
Securities lending reinvested collateral assets	30,270,644		30,270,644
Investment income due and accrued	46,145,350		46,145,350
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	122,887,368	11,390,766	111,496,602
Accrued retrospective premiums	52,243,120		52,243,120
Reinsurance:			
Amounts recoverable from reinsurers	150,000		150,000
Amounts receivable relating to uninsured plans	38,885,381	834,372	38,051,009
Current federal and foreign income tax recoverable and interest thereon	5,168,632		5,168,632
Net deferred tax asset	88,636,833	29,879,793	58,757,040
Electronic data processing equipment and software	17,563,644	2,892,132	14,671,512
Furniture and equipment, including health care delivery assets	11,990,663	11,990,663	
Receivable from parent, subsidiaries and affiliates	165,629,173		165,629,173
Health care and other amounts receivable	91,596,101	709,812	90,886,289
Write-ins for other than invested assets:			
Receivable from separate accounts	323,570		323,570
Prepaid commissions	49,638,157	49,638,157	
Prepaid expenses	5,832,585	5,832,585	
Deposits	<u>8,919</u>	<u>8,919</u>	
Total assets excluding separate accounts, segregated accounts and protected cell assets	4,974,932,459	113,177,199	4,861,755,260
From separate accounts, segregated accounts and protected cell assets	<u>2,914,624</u>		<u>2,914,624</u>
Total Assets	<u>\$4,977,847,083</u>	<u>\$113,177,199</u>	<u>\$4,864,669,884</u>

Humana Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2010

Aggregate reserve for life contracts	\$ 9,658,529
Aggregate reserve for accident and health contracts	36,015,734
Liability for deposit-type contracts	2,694,053
Contract claims:	
Life	3,873,310
Accident and health	1,218,988,877
Premiums and annuity considerations received in advance	74,430,383
Contract liabilities not included elsewhere:	
Provision for experience rating refunds	362,946,153
Other amounts payable on reinsurance	301,798
Interest maintenance reserve	40,120,521
Commissions to agents due or accrued	14,352,901
General expenses due or accrued	194,528,278
Taxes, licenses, and fees due or accrued, excluding federal income taxes	8,320,772
Amounts withheld or retained by company as agent or trustee	1,517,595
Remittances and items not allocated	63,157,770
Miscellaneous liabilities:	
Asset valuation reserve	54,095,630
Liability for amounts held under uninsured accident and health plans	132,569,121
Payable for securities lending	33,182,234
Write-ins for liabilities:	
Medicare risk adjustment premiums payable	3,159,544
Return premium payable	1,256,000
Separate accounts payable	70,000
Total liabilities excluding separate accounts business	<u>2,255,239,203</u>
From separate accounts statement	<u>2,864,624</u>
Total liabilities	2,258,103,827
Common capital stock	\$ 8,833,336
Gross paid in and contributed surplus	1,227,363,355
Unassigned funds (surplus)	<u>1,370,369,366</u>
Total capital and surplus	<u>2,606,566,057</u>
Total Liabilities, Capital and Surplus	<u>\$4,864,669,884</u>

**Humana Insurance Company
Summary of Operations
For the Year 2010**

Premiums and annuity considerations for life and accident and health contracts		\$16,151,866,807
Net investment income		214,157,693
Amortization of interest maintenance reserve		9,412,278
Miscellaneous income:		
Income from fees associated with investment management, administration, and contract guarantees from separate accounts		14,921
Write-ins for miscellaneous income:		
Miscellaneous income		1,197,324
TPA fee income		<u>214,507</u>
Total income items		<u>16,376,863,530</u>
Death benefits	\$ 14,632,551	
Annuity benefits	144,399	
Disability benefits and benefits under accident and health contracts	12,955,352,310	
Increase in aggregate reserves for life and accident and health contracts	<u>(1,479,411)</u>	
Subtotal	12,968,649,849	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	344,975,819	
Commissions and expense allowances on reinsurance assumed	11,393	
General insurance expenses	1,862,201,765	
Insurance taxes, licenses, and fees excluding federal income taxes	139,726,055	
Net transfers to or (from) separate accounts net of reinsurance	<u>198,288</u>	
Total deductions		<u>15,315,763,169</u>
Net gain (loss) from operations before dividends to policyholders and federal income taxes		<u>1,061,100,361</u>
Net gain (loss) from operations after dividends to policyholders and before federal income taxes		1,061,100,361
Federal and foreign income taxes incurred (excluding tax on capital gains)		<u>379,186,551</u>
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		681,913,810
Net realized capital gains or (losses)		<u>(1,395,953)</u>
Net Income		<u>\$ 680,517,857</u>

Humana Insurance Company
Cash Flow
For the Year 2010

Premiums collected net of reinsurance		\$16,339,804,053
Net investment income		232,448,402
Miscellaneous income		<u>1,426,753</u>
Total		16,573,679,208
Benefit- and loss-related payments	\$12,884,427,600	
Net transfers to separate accounts, segregated accounts and protected cell accounts	198,288	
Commissions, expenses paid, and aggregate write-ins for deductions	2,617,067,732	
Federal and foreign income taxes paid (recovered)	<u>385,306,758</u>	
Total deductions		<u>15,887,000,378</u>
Net cash from operations		686,678,830
Proceeds from investments sold, matured, or repaid:		
Bonds	\$1,686,478,348	
Other invested assets	295,933	
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>21,405</u>	
Total investment proceeds	1,686,795,686	
Cost of investments acquired (long-term only):		
Bonds	2,131,644,132	
Stocks	10,000,000	
Real estate	<u>18,264</u>	
Total investments acquired	<u>2,141,662,396</u>	
Net cash from investments		(454,866,710)
Cash from financing and miscellaneous sources:		
Capital and paid in surplus less treasury stock	(50,464,590)	
Net deposits on deposit-type contracts and other insurance liabilities	(295,897)	
Dividends to stockholders	250,000,000	
Other cash provided (applied)	<u>19,015,942</u>	
Net cash from financing and miscellaneous sources		<u>(281,744,545)</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		(49,932,425)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>(27,292,119)</u>
End of year		<u>\$ (77,224,544)</u>

**Humana Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2010**

Assets			\$4,864,669,884
Less security surplus of insurance subsidiaries			253,295,924
Add security surplus excess of insurance subsidiaries			201,392,759
Less liabilities			<u>2,258,103,827</u>
Adjusted surplus			2,554,662,892
Annual premium:			
Individual life and health	\$8,399,177,151		
Factor	<u>15%</u>		
Total		\$1,259,876,572	
Group life and health	5,526,069,139		
Factor	<u>10%</u>		
Total		552,606,913	
All Other Insurance (P&C)	2,416,136,863		
Factor	<u>7%</u>		
Total		169,129,580	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds			<u>53,881</u>
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>1,981,666,946</u>
Compulsory Surplus Excess or (Deficit)			<u>\$ 572,995,946</u>
Adjusted surplus (from above)			\$2,554,662,892
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)			<u>2,179,833,640</u>
Security Surplus Excess or (Deficit)			<u>\$ 374,829,252</u>

**Humana Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2010**

The following schedule is a reconciliation of total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2010	2009	2008	2007	2006
Capital and surplus, beginning of year	\$2,182,713,403	\$2,189,470,683	\$1,879,192,200	\$1,174,580,741	\$410,695,387
Net income	680,517,857	308,063,185	320,882,968	492,157,178	73,187,086
Change in net unrealized capital gains/losses	(6,603,321)	26,390,560	(10,043,786)	(32,957,094)	75,461,265
Change in net deferred income tax	81,293,508	16,752,408	(43,443,681)	(7,037,591)	1,754,744
Change in non-admitted assets and related items	(19,506,898)	(26,489,989)	33,555,318	568,275	(45,147,888)
Change in asset valuation reserve	(11,383,902)	(25,732,645)	9,327,663	26,880,691	(26,369,853)
Surplus adjustments:					
Paid in	28,815,680	14,259,201		225,000,000	685,000,000
Dividends to stockholders	(250,000,000)	(320,000,000)			
Write-ins for gains and (losses) in surplus:					
Prior Period Correction	(79,752,195)				
Valuation Allowance					
Securities Lending	471,925				
Capital and Surplus, End of Year	<u>\$2,606,566,057</u>	<u>\$2,182,713,403</u>	<u>\$2,189,470,682</u>	<u>\$1,879,192,200</u>	<u>\$1,174,580,741</u>

**Humana Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2010**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2010	2009	2008	2007	2006
#1 Net change in capital and surplus	18%	-1%	17%	41%	19%
#2 Gross change in capital and surplus	19	0	17	60*	186*
#3 Net income to total income	4	2	2	4	1
#4 Adequacy of investment income	39992*	26218*	49052*	999*	999*
#5 Nonadmitted to admitted assets	2	2	2	3	3
#6 Total real estate and mortgage loans to cash and invested assets	0	1	1	1	1
#7 Total affiliated investments to capital and surplus	18	18	12	14	27
#8 Surplus relief	0	0	0	0	0
#9 Change in premium	13	4	16	24	200*
#10 Change in product mix	1.2	0.4	0.0	0.6	9.9*
#11 Change in asset mix	0.2	2.1	1.6	0.7	1.9
#12 Change in reserving	-69*	-125*	-117*	-22*	248*

Ratio No. 2 compares the change in capital and surplus from the current year to the prior year. Exceptional results were due to capital contributions of \$685 million in 2006 and \$225 million in 2007 from Care Network, Inc., to support the expansion of the company's Medicare business.

Ratio No. 4 compares the net investment income to the increase in reserves from tabular interest. The exceptional results for Ratio No. 4 were due to the company being primarily a group health insurer. Because the company's business is not written on a level-premium basis like individual life insurance, there are no tabular reserves. Due to the nature of the company's business, the exceptional results are not an indication of insufficient reserves.

Ratio No. 9 measures the change in premium from the current year to the prior year. Ratio No. 10 compares the changes in the company's product mix from the current year to the prior year. Exceptional results in 2006 for both were due to introduction of Medicare products.

Ratio No. 12 evaluates the aggregate year-to-year change in reserves for individual life insurance taken as a percentage of renewal and single premiums for individual life insurance.

The company had exceptional results in each of the years under examination. The predominant block of life business within the company is level term business. This business creates deficiency reserves when applying the Valuation of Life Insurance Policies Model Regulation. These deficiency reserves tend to be large in the first year and gradually grade off over the level period. Significant increases in the deficiency reserves were experienced through 2009 due to new sales and an increasing block of business. At the end of 2009 the decision was made by the company to pull back marketing efforts on this product. This resulted in less new business in 2010 and deficiency reserves decreased as the decreases in deficiencies on the in force more than offset deficiencies established on new issues. The exceptional results are not an indication of insufficient reserves.

Growth of Humana Insurance Company

Year	Admitted Assets	Liabilities	Capital and Surplus
2010	\$4,864,669,884	\$2,258,103,827	\$2,606,566,057
2009	4,373,947,909	2,191,234,506	2,182,713,403
2008	4,063,225,370	1,873,754,687	2,189,470,683
2007	3,836,601,610	1,957,409,410	1,879,192,200
2006	3,250,206,661	2,075,625,920	1,174,580,741
2005	1,146,906,239	736,210,852	410,695,387

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2010	\$32,111,313	\$0	\$0
2009	32,184,578	0	0
2008	39,646,773	0	0
2007	36,902,665	0	0
2006	34,016,075	0	0
2005	34,187,992	0	0

Life Insurance In Force (in thousands)

Year	Gross Risk In Force	Ceded	Net
2010	\$9,568,668	\$183,513	\$9,385,155
2009	8,628,620	189,594	8,439,026
2008	9,104,728	210,689	8,894,039
2007	8,836,121	190,557	8,645,564
2006	8,187,103	187,814	7,999,289
2005	7,838,741	178,941	7,659,800

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2010	\$16,119,654,975	\$13,278,075,552	\$339,655,914	\$1,669,492,272	96.1%
2009	14,211,869,770	11,684,401,667	334,246,628	1,845,097,408	97.0
2008	14,028,230,193	11,882,326,207	415,025,570	1,535,396,442	98.1
2007	12,162,596,880	10,026,324,386	407,963,477	1,313,100,055	96.1
2006	9,129,847,257	7,712,473,853	390,775,477	1,098,899,238	100.5
2005	3,189,641,418	2,633,629,872	166,659,543	532,823,986	103.3

* Includes increase in contract reserves

** Includes taxes, licenses, and fees

Humana Insurance Company is the lead operating entity for Humana Inc., writing almost one half of the organization's premiums. As indicated above, the company has reported favorable operating results for all the years under examination. During the period under examination, the company's admitted assets increased 324%, premiums earned increased 405%, and surplus increased by 535%.

As previously mentioned, the company's government segment has been the biggest source of growth for the company over the last five years. Increase in premiums is primarily a result of growth in Medicare products. The increase in admitted assets and surplus was a result of growth in investment income and overall underwriting profitability of the company.

The company exhibited a strong improvement in its medical loss ratio as a result of decreased member utilization and lower government funding than expected. As a result, the company's combined ratio has improved since the previous examination.

The company writes predominantly short tailed health business; as such, the company's investment portfolio is conservatively managed with an emphasis on high-quality, liquid holdings which provide a reasonable return.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2010, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Separate Account Invested Assets—It is recommended that the company report correct descriptive information for each individual investment that is held as an asset in the Humana Insurance Company Separate Account, in conformity with NAIC Annual Statement Instructions Life and Health. It is further recommended that the company report separate account assets based on fair market value, in accordance with NAIC SSAP 56, paragraph 17.

Action—Compliance

2. Financial Reporting of Premium Assets and Liabilities—It is recommended that HIC properly identify the premium account balances in which it has sole right and interest, and that the company correctly report its dental business premium, uncollected premiums, and advance premiums under the appropriate balance sheet captions in its statutory financial statements.

Action—Compliance

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Security Lending

The company participates in Humana's security lending program. The review of the security lending program revealed that the company had losses of \$22,629,374 in 2008 and \$22,971,005 in 2009. These results were from realized losses on investments made with securities lending collateral. The company had a monthly average securities lending balance for the year of \$345,213,166, and a year-end balance of \$30,270,644. The review of the program at year-end determined that the balance appears to be properly reported and that each security is held in the company's name. The review also determined that the collateral descriptions in Schedule DL – Part 1 are incorrect and do not properly report the CUSIP numbers for each security. It is recommended that the company provide an accurate description and properly report CUSIP numbers for each security on Schedule DL – Part 1.

Due and Unpaid and Resisted Claims

The independent actuary reviewed the company's established total net reserves. It was determined that the company's liabilities for due and unpaid and resisted claims are included in their In Course Of Settlement and Incurred But Not Reported reserves and are not shown on lines 1 and 2.1 of Exhibit 8. It is recommended that the due and unpaid and resisted claims be reported in their respective sections of Exhibit 8, Part 1, according to the NAIC Annual Statement Instructions-Life and Accident and Health.

Valuation Mortality Table

The independent actuary reviewed the company's valuation assumptions and methodology for compliance with Wisconsin statutory requirements. The actuary discovered that the company is using the 1980 CSO mortality table for a small number of individual term life contracts issued in 2009 and later. Pursuant to s. Ins 2.81 (4) (b), Wis. Adm. Code, the 2001 CSO mortality table shall be used in determining minimum standards for applicable policies

issued on and after January 1, 2009. It is recommended that the company should change the valuation mortality table for individual term life contracts issued in 2009 and later to the 2001 CSO mortality table pursuant to s. Ins 2.81 (4) (b), Wis. Adm. Code.

VIII. CONCLUSION

Humana Insurance Company is the lead operating entity for Humana Inc., writing almost one half of the organization's premiums. Humana Insurance Company is a wholly owned subsidiary of CareNetworks, Inc., which is a wholly owned subsidiary of Humana Inc.

The company is licensed in the District of Columbia and in all state jurisdictions except New York. The company offers insurance products in two general business segments, the commercial segment and the government segment. The government segment includes Medicare Advantage and Medicare Part D (prescription drug). The commercial segment consists of employer group members and individuals enrolled in fully insured medical, administrative service only (ASO) and specialty products.

During the period under examination, the company's admitted assets increased 324%, premiums earned increased 405%, and surplus increased by 535%. The company's government segment has been the biggest source of growth for the company over the last five years. Increase in premiums is primarily a result of growth in Medicare products. The increase in admitted assets and surplus was a result of growth in investment income and overall underwriting profitability of the company as well as \$910 million in capital contributions received in 2006 and 2007.

The examination determined that the company was in compliance with all of the recommendations made by the previous examination. The current examination resulted in three recommendations. No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2010, is accepted.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 32 - Security Lending— It is recommended that the company provide an accurate description and properly report CUSIP numbers for each security on Schedule DL – Part 1.
2. Page 32 - Due and Unpaid and Resisted Claims—It is recommended that the due and unpaid and resisted claims be reported in their respective sections of Exhibit 8, Part 1, according to the NAIC Annual Statement Instructions-Life and Accident and Health.
3. Page 33 - Valuation Mortality Table— It is recommended that the company should change the valuation mortality table for individual term life contracts issued in 2009 and later to the 2001 CSO mortality table pursuant to s. Ins 2.81 (4) (b), Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Russell Lamb	Insurance Financial Examiner
David Jensen	Insurance Financial Examiner
Sheena Basra	Insurance Financial Examiner
Amanda Schroeder	Insurance Financial Examiner
Randy Milquet	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Rick Anderson
Examiner-in-Charge