

# UnitedHealthcare of Louisiana, Inc.

Statutory Basis Financial Statements as of  
and for the Years Ended December 31, 2011 and  
2010, Supplemental Schedules as of  
and for the Year Ended December 31, 2011,  
Independent Auditors' Report, Qualification Letter,  
and Internal Control Letter

# UNITEDHEALTHCARE OF LOUISIANA, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Audit Committee of  
UnitedHealthcare of Louisiana, Inc.  
Metairie, LA 70002

We have audited the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus of UnitedHealthcare of Louisiana, Inc. (the "Company") as of December 31, 2011 and 2010, and the related statutory basis statements of operations, changes in capital and surplus, and cash flows for the years then ended. These statutory basis financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statutory basis financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory basis financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory basis financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory basis financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the statutory basis financial statements, the Company prepared these statutory basis financial statements using accounting practices prescribed or permitted by the Louisiana Department of Insurance which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such statutory basis financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

Our 2011 audit was conducted for the purpose of forming an opinion on the basic 2011 statutory basis financial statements taken as a whole. The supplemental schedule of investment risks interrogatories and the supplemental summary investment schedule as of and for the year ended December 31, 2011, are presented for purposes of additional analysis and are not a required part of the basic 2011 statutory basis financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory basis financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2011 statutory basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects when considered in relation to the basic 2011 statutory basis financial statements taken as a whole.

This report is intended solely for the information and use of the Audit Committee and the management of the Company and for filing with state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

April 11, 2012

# UNITEDHEALTHCARE OF LOUISIANA, INC.

## STATUTORY BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
<b>ADMITTED ASSETS</b>		
CASH AND INVESTED ASSETS:		
Cash \$1,048,891 and \$1,001,425 and short-term investments \$6,890,014 and \$8,534,833 in 2011 and 2010, respectively	<u>\$ 7,938,905</u>	<u>\$ 9,536,258</u>
OTHER ASSETS:		
Investment income due and accrued	3,317	5,203
Uncollected premiums	12,611	590,831
Current federal income tax recoverable		135,451
Net deferred tax asset	25,486	
Premium taxes recoverable	<u>351,302</u>	
Subtotal other assets	<u>392,716</u>	<u>731,485</u>
<b>TOTAL ADMITTED ASSETS</b>	<u><u>\$ 8,331,621</u></u>	<u><u>\$ 10,267,743</u></u>
<b>LIABILITIES AND CAPITAL AND SURPLUS</b>		
LIABILITIES:		
Claims unpaid	\$ 416,307	\$ 3,419,328
Unpaid claims adjustment expenses	5,898	49,978
Aggregate health policy reserves		73,000
Premiums received in advance	45,504	82,132
General expenses due or accrued	5,088	144,157
Current federal income taxes payable	17,455	
Ceded reinsurance premiums payable	485	2,295
Amounts due to parent, subsidiaries, and affiliates	9,792	359,387
Other liabilities		<u>31</u>
Total liabilities	<u>500,529</u>	<u>4,130,308</u>
CAPITAL AND SURPLUS:		
Common capital stock, \$2 par value — 1,000,000 shares authorized; 900,000 shares issued and outstanding	1,800,000	1,800,000
Gross paid-in and contributed surplus	16,138,440	16,138,440
Unassigned deficit	<u>(10,107,348)</u>	<u>(11,801,005)</u>
Total capital and surplus	<u>7,831,092</u>	<u>6,137,435</u>
<b>TOTAL LIABILITIES, CAPITAL AND SURPLUS</b>	<u><u>\$ 8,331,621</u></u>	<u><u>\$ 10,267,743</u></u>

See notes to statutory basis financial statements.

# UNITEDHEALTHCARE OF LOUISIANA, INC.

## STATUTORY BASIS STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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	2011	2010
REVENUES:		
Net premium income	\$5,391,283	\$27,992,372
Change in unearned premium reserves		<u>518</u>
Total revenues	<u>5,391,283</u>	<u>27,992,890</u>
UNDERWRITING DEDUCTIONS:		
Hospital and medical:		
Hospital/medical benefits	1,759,120	25,921,328
Other professional services	740	23,813
Prescription drugs	<u>314,718</u>	<u>3,701,450</u>
Total hospital and medical	2,074,578	29,646,591
Claims adjustment expenses	55,954	585,075
General administrative expenses	878,162	4,172,054
Decrease in reserves for life and accident and health contracts	<u>(73,000)</u>	<u>(3,199,000)</u>
Total underwriting deductions	<u>2,935,694</u>	<u>31,204,720</u>
NET UNDERWRITING GAIN (LOSS)	2,455,589	(3,211,830)
NET INVESTMENT GAINS — Net investment income earned	<u>10,211</u>	<u>17,041</u>
NET GAIN (LOSS) BEFORE FEDERAL INCOME TAX PROVISION (BENEFIT)	2,465,800	(3,194,789)
FEDERAL INCOME TAXES INCURRED (BENEFIT)	<u>799,416</u>	<u>(2,256,446)</u>
NET INCOME (LOSS)	<u>\$1,666,384</u>	<u>\$ (938,343)</u>

See notes to statutory basis financial statements.

## UNITEDHEALTHCARE OF LOUISIANA, INC.

### STATUTORY BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Common Capital Stock		Gross Paid-In and Contributed Surplus	Unassigned Deficit	Total Capital and Surplus
	Shares	Amount			
BALANCE — January 1, 2010	900,000	\$ 1,800,000	\$ 16,138,440	\$ (10,399,980)	\$ 7,538,460
Net loss				(938,343)	(938,343)
Change in net deferred income taxes				(451,916)	(451,916)
Change in nonadmitted assets				(10,766)	(10,766)
BALANCE — December 31, 2010	900,000	1,800,000	16,138,440	(11,801,005)	6,137,435
Net income				1,666,384	1,666,384
Change in net deferred income taxes				88,267	88,267
Change in nonadmitted assets				(60,994)	(60,994)
BALANCE — December 31, 2011	<u>900,000</u>	<u>\$ 1,800,000</u>	<u>\$ 16,138,440</u>	<u>\$ (10,107,348)</u>	<u>\$ 7,831,092</u>

See notes to statutory basis financial statements.

# UNITEDHEALTHCARE OF LOUISIANA, INC.

## STATUTORY BASIS STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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	2011	2010
CASH FLOWS FROM OPERATIONS:		
Premiums collected, net of reinsurance fees	\$ 5,931,065	\$ 27,948,022
Net investment income	12,097	19,194
Benefit and loss related payments	(5,075,972)	(29,558,593)
Operating expenses paid	(1,468,567)	(5,156,783)
Federal income taxes (paid) recovered — net	<u>(646,510)</u>	<u>2,537,941</u>
Net cash used in operations	<u>(1,247,887)</u>	<u>(4,210,219)</u>
CASH FLOWS FROM FINANCING AND MISCELLANEOUS ACTIVITIES:		
Cash (used) provided through net transfers (to) from affiliates	(349,595)	5,963,015
Other cash provided (applied)	<u>129</u>	<u>(3,889)</u>
Net cash (used in) provided by financing and miscellaneous activities	<u>(349,466)</u>	<u>5,959,126</u>
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	(1,597,353)	1,748,907
CASH AND SHORT-TERM INVESTMENTS — Beginning of year	<u>9,536,258</u>	<u>7,787,351</u>
CASH AND SHORT-TERM INVESTMENTS — End of year	<u>\$ 7,938,905</u>	<u>\$ 9,536,258</u>

See notes to statutory basis financial statements.

# UNITEDHEALTHCARE OF LOUISIANA, INC.

## NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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### 1. SIGNIFICANT ACCOUNTING POLICIES

**Organization and Operation** — UnitedHealthcare of Louisiana, Inc. (the “Company”), licensed as a health maintenance organization (HMO) offers its enrollees a variety of managed care programs and products through contractual arrangements with health care providers. The Company is a wholly owned subsidiary of UnitedHealthcare, Inc. (UHC). UHC is a wholly owned subsidiary of UnitedHealthCare Services, Inc. (UHS), an HMO management corporation that provides services to the Company under the terms of a management agreement. UHS is a wholly owned subsidiary of UnitedHealth Group Incorporated (“UnitedHealth Group”). UnitedHealth Group is a publicly held company trading on the New York Stock Exchange.

The Company was incorporated on April 9, 1986 as an HMO and operations commenced in November 1986. The Company is certified as an HMO by the Louisiana Department of Insurance (LADOI). The Company has entered into contracts with physicians, hospitals, and other health care provider organizations to deliver health care services for all enrollees.

During 2011, the Company was awarded a statewide Medicaid coordinated care network shared savings contract. This is an administrative services only contract. The Company will be a primary care case manager that provides enhanced primary care case management in addition to being the entity contracting with primary care providers (PCP) for PCP care management. The implementation will be in three phases by Geographic Service Area during 2012.

**Financial Condition, Regulatory Matters, and Management’s Plan to Overcome Financial Challenges** — Effective January 1, 2011, the Company’s largest customer, which represented approximately \$23,472,000 of net premium in 2010, was not renewed. The Company’s experience with this customer for the year ended December 31, 2010, was a net underwriting loss before claims adjustment expenses and general administrative expenses of approximately \$2,827,000.

UnitedHealth Group has committed to fund the operations of the Company through capital infusions, as required, to ensure its functionality and capacity to meet its obligations, including minimum capital requirements, in the event operating losses would have continued. The Company received a \$6,000,000 capital infusion from UHC on January 20, 2010.

**Basis of Presentation** — The Company prepares its financial statements on the basis of accounting practices prescribed or permitted by the LADOI. These practices differ from accounting principles generally accepted in the United States of America (GAAP).

The more significant differences are as follows:

- Cash and short-term investments in the statutory basis financial statements represent cash balances and investments with original maturities of one year or less from the time of acquisition, whereas under GAAP, the corresponding caption of cash and short-term investments includes cash balances and investments that will mature in one year or less, from the balance sheet date

- Outstanding checks in excess of cash balances are required to be presented as cash overdrafts or to be netted against cash balances in the statutory basis statements of admitted assets, liabilities, and capital and surplus as opposed to being reflected as other liabilities under GAAP
- Certain assets, including certain aged premium and health care receivables are considered nonadmitted assets for statutory purposes and are excluded from the statutory basis statements of admitted assets, liabilities, and capital and surplus
- Under statutory accounting, changes to deferred tax assets and liabilities are recorded directly to unassigned surplus, and deferred tax assets are subject to limitations regarding the realization and admissibility of the assets in the statutory basis financial statements, whereas under GAAP, the change in deferred tax assets and liabilities is recorded as a component of the income tax provision within the income statement and is based on the ultimate recoverability of the deferred tax assets. Based on the admissibility criteria under statutory accounting, any deferred tax assets determined to be nonadmitted are charged directly to surplus and excluded from the statutory basis financial statements, whereas under GAAP, such assets are included in the balance sheets
- Assets not specifically identified as an admitted asset by the National Association of Insurance Commissioners (NAIC) are designated as nonadmitted under statutory accounting. Nonadmitted assets are excluded from the accompanying statutory basis financial statements and are charged directly to unassigned deficit. Under GAAP, such assets are included in the balance sheets
- The unexpired portion of accident and health insurance premiums is recorded as unearned premium; the corresponding change in unearned premium from year to year is reflected as a change in unearned premium reserves in the statutory basis statements of operations. Under GAAP, the change in unearned premium from year to year is reported through premium income
- Comprehensive income and its components are not presented in the statutory basis financial statements
- Cash and short-term investments in the statutory basis statements of cash flows represent cash balances and investments with original maturities of one year or less from the time of acquisition. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and short-term investments with maturities of three months or less. The statutory basis statements of cash flows are prepared in accordance with the NAIC annual statement instructions

The LADOI recognizes only statutory accounting practices prescribed or permitted by the State of Louisiana for determining and reporting the financial condition and results of operations of an HMO and for determining its solvency under Louisiana insurance law. The NAIC Accounting Practices and Procedures manual (NAIC SAP) has been adopted with modifications as a component of prescribed or permitted practices by the State of Louisiana. No significant differences exist between prescribed or permitted practices by the State of Louisiana and NAIC SAP which materially affect the statutory basis net income (loss), capital and surplus, and total admitted assets, as illustrated in the table below (in thousands):

	<b>2011</b>	<b>2010</b>
Net income (loss) — Louisiana basis	<u>\$ 1,666</u>	<u>\$ (938)</u>
Net income (loss) — NAIC SAP	<u>\$ 1,666</u>	<u>\$ (938)</u>
Capital and surplus — Louisiana basis	<u>\$ 7,831</u>	<u>\$ 6,137</u>
Capital and surplus — NAIC SAP	<u>\$ 7,831</u>	<u>\$ 6,137</u>
Total admitted assets — Louisiana basis	<u>\$ 8,332</u>	<u>\$ 10,268</u>
Total admitted assets — NAIC SAP	<u>\$ 8,332</u>	<u>\$ 10,268</u>

**Use of Estimates** — The preparation of these statutory basis financial statements in conformity with the NAIC annual statement instructions and the NAIC SAP include certain amounts that are based on the Company's estimates and judgments. These estimates require the Company to apply complex assumptions and judgments, often because the Company must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to hospital and medical expenses, claims unpaid, and aggregate health policy reserves. The Company adjusts these estimates each period as more current information becomes available. The impact of any changes in estimates is included in the determination of net income (loss) in the period in which the estimate is adjusted.

**Cash and Invested Assets** — Cash represents cash held by the Company in disbursement accounts. Claims and other payments are made from the disbursement accounts daily. Cash overdrafts are a result of timing differences in funding disbursement accounts for claims payments.

Short-term investments represent money market instruments with a maturity of greater than three months, but less than one year at the time of purchase.

Short-term investments are stated at amortized cost if they meet NAIC designation of one or two and stated at the lower of amortized cost or fair value if they meet an NAIC designation of three or higher. Short-term investments are valued and reported using market prices published by the Securities Valuation Office (SVO) in accordance with the NAIC valuations of securities manual prepared by the SVO or an external pricing service.

The Company continually monitors the difference between amortized cost and estimated fair value of its investments. If any of the Company's investments experience a decline in value that the Company has determined is other -than -temporary, or if the Company has determined it will sell a security that is in an impaired status, the Company will record a realized loss in net realized capital gains (losses) less capital gains tax (benefit) in the statutory basis statements of operations. The new cost basis is not changed for subsequent recoveries in fair value. The Company did not recognize other-than-temporary losses for the years ended December 31, 2011 and 2010.

**Investment Income Due and Accrued** — Investment income earned and due as of the reporting date in addition to investment income earned but not paid or collected until subsequent periods are reported as investment income due and accrued in the statutory basis statements of admitted assets, liabilities, and capital and surplus. The Company evaluates the collectibility of the amounts due and amounts determined to be uncollectible are written off in the period in which the determination is made.

**Net Investment Income Earned** — Net investment income earned includes investment income collected during the period, as well as the change in investment income due and accrued on the Company's holdings. Certain external investment management costs are also included in net investment income earned (see Note 7).

**Amounts Due to Parent, Subsidiaries, and Affiliates** — In the normal course of business, the Company has various transactions with related parties (see Note 10). The Company reports any unsettled amounts owed as amounts due to parent, subsidiaries, and affiliates, respectively, in the statutory basis statements of admitted assets, liabilities, and capital and surplus. The Company has excluded receivables that do not meet the admissibility criteria from the statutory basis statements of admitted assets, liabilities, and capital and surplus.

**Hospital and Medical Expenses, Claims Unpaid, and Aggregate Health Policy Reserves** — Hospital and medical expenses and corresponding liabilities include claims paid, claims processed but not yet paid, estimates for claims received but not yet processed, estimates for the costs of health care services enrollees have received but for which claims have not yet been submitted, and for liabilities for physician, hospital, and other medical costs disputes.

The estimates for incurred but not yet reported claims are developed using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as historical submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates, and other relevant factors. The Company estimates liabilities for physician, hospital, and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. The estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. The Company did not change actuarial methods during 2011 and 2010. Management believes the amount of claims unpaid and aggregate health policy reserves is adequate to cover the Company's liability for unpaid claims and aggregate health policy reserves as of December 31, 2011; however, actual payments may differ from those established estimates. Adjustments to claims unpaid estimates and aggregate health policy reserves are reflected in operating results in the period in which the change in estimate is identified.

The Company contracts with hospitals, physicians, and other providers of health care under capitated or discounted fee for service arrangements, including a hospital per diem to provide medical care services to enrollees. Some of these contracts are with related parties (see Note 10). Capitated providers are at risk for the cost of medical care services provided to the Company's enrollees; however, the Company is ultimately responsible for the provision of services to its enrollees should the capitated provider be unable to provide the contracted services.

**Net Deferred Tax Asset and Federal Income Taxes Incurred (Benefit)** — Statutory accounting requires an amount to be recorded for deferred taxes on temporary differences between the financial reporting and tax basis of assets and liabilities, subject to a valuation allowance and admissibility limitations on deferred tax assets (see Note 9). The provision for federal income taxes incurred (benefit) is calculated based on applying the statutory federal income tax rate of 35% to net income (loss) before federal income taxes subject to certain adjustments (see Note 9).

**Claims Adjustment Expenses** — Claims adjustment expenses (CAE) are those costs expected to be incurred in connection with the adjustment and recording of accident and health claims. Pursuant to the terms of the management agreement (see Note 10), the Company pays a management fee to UHS in exchange for administrative and management services. A detailed review of UHS' and the Company's administrative expenses is performed to determine the allocation between claims adjustment expenses and general administrative expenses. It is the responsibility of UHS to pay CAE in the event the Company ceases operations. The Company has recorded an estimate of unpaid claims adjustment expenses associated with incurred but unpaid claims, which is included in general expenses due or accrued in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Management believes the amount of the liability for unpaid claims adjustment expenses as of December 31, 2011 is adequate to cover the Company's cost for the adjustment and recording of unpaid claims; however, actual expenses may differ from those established estimates. Adjustments to the estimates for unpaid claims adjustment expenses are reflected in operating results in the period in which the change in estimate is identified.

**General Administrative Expenses** — Pursuant to the terms of the management agreement (see Note 10), the Company pays a management fee to UHS in exchange for administrative and management services. Costs for items not included within the scope of the management agreement are directly expensed as incurred. State income taxes are also a component of general administrative expenses. A detailed review of UHS' and the Company's administrative expenses is performed to determine the allocation between claims adjustment expenses and general administrative expenses to be reported in the statutory basis statements of operations.

**Revenues** — Revenues consist of commercial net premium income that is recognized in the period in which enrollees are entitled to receive health care services. Net premium income is shown net of reinsurance premiums. Effective in 2011, commercial health plans with medical loss ratios on fully insured products, as calculated under the definitions in the Patient Protection and Affordable Care Act and its related reconciliation act (Health Reform Legislation) (see Note 14) and implementing regulations, that fall below certain targets are required to rebate ratable portions of premiums annually. The Company classifies its estimated rebates as change in unearned premium reserves and reserves for rate credits in the accompanying statutory basis statements of operations. Premiums received in full during the current period which are not due until future periods are recorded as premiums received in advance in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus. Unearned premiums are established for the portion of premiums received during the current period that are partially unearned at the end of the period and are included in aggregate health policy reserves in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

The Company reports uncollected premium balances from its insured members as uncollected premiums in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Uncollected premium balances that are over 90 days past due are considered nonadmitted assets. In addition to those balances, current balances are also considered nonadmitted if the corresponding balance greater than 90 days past due is deemed more than inconsequential.

**Reinsurance Ceded** — The Company has an insolvency-only reinsurance agreement. Reinsurance premiums paid are deducted from net premium income in the accompanying statutory basis financial statements.

**Ceded Reinsurance Premiums Payable** — The Company has an insolvency-only reinsurance agreement whereby 0.1% of net premium income is ceded to United Healthcare Insurance Company (UHIC). The ceded reinsurance premiums payable balance represents amounts due to the reinsurer for coverage which will be paid based on the contract terms.

**Health Care Receivables** — Health care receivables consist of pharmacy rebate receivables estimated based on the most currently available data from the Company's claims processing systems and from data provided by the Company's unaffiliated pharmaceutical benefit manager and affiliated pharmaceutical benefit manager, OptumRx, Inc. ("OptumRx" – formerly known as Rx Solutions). Health care receivables are considered nonadmitted assets for statutory purposes if they do not meet admissibility requirements. Accordingly, the Company has excluded receivables that do not meet the admissibility criteria from the statutory basis statements of admitted assets, liabilities, and capital and surplus (see Note 28). Admitted health care receivables were \$0 and \$0 at December 31, 2011 and 2010 as all were nonadmitted.

**Premium Deficiency Reserves** — Premium deficiency reserves and the related expenses are recognized when it is probable that expected future health care expenses, claims adjustment expenses, direct administration costs, and an allocation of indirect administration costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries considered over the remaining lives of the contracts and are recorded as aggregate health policy reserves in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Indirect administration costs arise from activities that are not specifically identifiable to a specific group of existing contracts, and therefore, those costs are fully allocated among the various contract groupings. The allocation of indirect administration costs to each contract grouping is made proportionately to the expected margins remaining in the premiums after future health care expenses, claim adjustment expenses, and direct administration costs are considered. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated, and any adjustments are reflected in decrease in reserves for accident and health contracts in the accompanying statutory basis statements of operations in the period in which the change in estimate is identified. The Company anticipates investment income as a factor in the premium deficiency calculation (see Note 30).

**Vulnerability Due to Certain Concentrations** — The Company is subject to substantial federal and state government regulation, including licensing and other requirements relating to the offering of the Company's existing products in new markets and offerings of new products, both of which may restrict the Company's ability to expand its business.

The Company had one customer that accounted for approximately 84% of direct premium income for the year ended December 31, 2010. The Company has one customer that accounted for approximately 91% and 97% of uncollected premiums as of December 31, 2011 and December 31, 2010, respectively. The contract with this customer was terminated effective January 1, 2011.

**Restricted Cash Reserves** — The Company is required by the State of Louisiana to maintain a minimum regulatory deposit (currently \$1,000,000). The Company is in compliance with this requirement as of December 31, 2011 and December 31, 2010. This restricted cash reserve consists principally of certificates of deposit and is stated at amortized cost, which approximates fair value. This reserve is included in cash and short-term investments in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus. Interest earned on this reserve accrues to the Company.

**Minimum Capital and Surplus** — Under the laws of the State of Louisiana, the LADOI requires the Company to maintain a minimum capital and surplus equal to \$3,000,000. The Company has approximately \$7,831,000 and \$6,137,000 in total statutory basis capital and surplus as of December 31, 2011 and 2010 respectively, which is in compliance with the required amount.

Risk-based capital (RBC) is a regulatory tool for measuring the minimum amount of capital appropriate for a managed care organization to support its overall business operations in consideration of its size and risk profile. The LADOI requires the Company to maintain minimum capital and surplus equal to the greater of the state statute as outlined above or the Company action level as calculated by the RBC model. The Company is in compliance with the required amount.

**Recently Issued Accounting Standards** — In October 2010, the NAIC issued Statement of Statutory Accounting Principles (SSAP) No. 5R, *Liabilities, Contingencies and Impairments of Assets — Revised* (SSAP No. 5R), effective for all guarantees issued or outstanding as of December 31, 2011. The revised standard requires entities to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, even if the likelihood of having to make payments under the guarantee is remote. The impact of adoption was immaterial to the overall financial condition, results of operations and cash flows of the Company.

In October 2010, the NAIC issued SSAP No. 35R, *Guaranty Fund and Other Assessments — Revised* (SSAP No. 35R), which contains substantive revisions to certain paragraphs of SSAP No. 35 and is initially effective for the reporting period beginning January 1, 2011. The result of applying this revised statement shall be considered a change in accounting principle in accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors*. The revised standard modifies the conditions required before recognizing liabilities for insurance-related assessments. Under SSAP No. 35R, the liability is not recognized until an assessment has been imposed or is probable and the event obligating an entity to pay an imposed or probable assessment has occurred and can be reasonably estimated. Additionally, under this revised standard an asset relating to future premium tax offsets or policy surcharges shall be recognized at the time the liability is recorded, considering expected future premiums on in-force policies for long-term contracts. The impact of adoption was immaterial to the overall financial condition, results of operations and cash flows of the Company.

In November 2011, the NAIC adopted SSAP No. 101, *Income Taxes — A Replacement of SSAP No. 10R and SSAP No. 10*, effective for 2012 interim and annual financial statements and beyond. The new standard includes revised guidance for tax contingencies, nonelective deferred tax asset admissibility test along with significant modifications to the deferred tax asset admissibility test, and disclosure modifications. A change resulting from the adoption of this revised statement shall be accounted for prospectively. The Company has assessed the impact of adopting SSAP No. 101 and believes that there will be a material impact to total capital and surplus.

## **2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS**

No changes in accounting principles or corrections of errors have been recorded during the years ended December 31, 2011 and 2010.

## **3. BUSINESS COMBINATIONS AND GOODWILL**

The Company was not party to a business combination during the years ended December 31, 2011 and 2010, and does not carry goodwill in its statutory basis statements of admitted assets, liabilities, and capital and surplus.

#### **4. DISCONTINUED OPERATIONS**

The Company did not discontinue any operations during 2011 and 2010.

#### **5. INVESTMENTS AND OTHER INVESTED ASSETS**

The Company has no mortgage loans, real estate loans, restructured debt, reverse mortgages, repurchase agreements, or investments in low-income housing tax credits and does not participate in securities lending activities. The Company also has no real estate property occupied by the Company, real estate property held for the production of income, or real estate property held for sale. Total proceeds on the sale of investments for short-term investments were approximately \$12,890,000 and \$46,692,000 in 2011 and 2010, respectively.

As of December 31, 2011 and 2010, the amortized cost of the Company's investments in money market funds equaled their fair value.

#### **6. JOINT VENTURES, PARTNERSHIPS, AND LIMITED LIABILITY COMPANIES**

The Company has no investments in joint ventures, partnerships, or limited liability companies.

#### **7. INVESTMENT INCOME**

The Company has admitted all investment income due and accrued in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

The components of net investment income earned at December 31, 2011 and 2010, are as follows (in thousands):

	<b>2011</b>	<b>2010</b>
Investment income from cash and short-term investments	\$ 11	\$ 19
Expenses — investment management fees	<u>(1)</u>	<u>(2)</u>
Net investment income earned	<u>\$ 10</u>	<u>\$ 17</u>

#### **8. DERIVATIVE INSTRUMENTS**

The Company has no derivative instruments.

## 9. INCOME TAXES

The components of the net deferred tax asset for the years ended December 31, 2011 and 2010, are as follows (in thousands):

	2011			2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax asset	\$ 88	\$ -	\$ 88	\$153	\$ -	\$153	\$ (65)	\$ -	\$ (65)
Statutory valuation allowance	—	—	—	153	—	153	(153)	—	(153)
Adjusted gross deferred tax asset	88	-	88	-	-	-	88	-	88
Gross deferred tax liabilities	—	—	—	—	—	—	-	-	-
Net deferred tax asset	88	-	88	-	-	-	88	-	88
Deferred tax asset nonadmitted	63	—	63	—	—	—	63	-	63
Net admitted deferred tax asset	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 25</u>

The components of the adjusted gross deferred tax assets admissibility calculation under SSAP No. 10R, *Income Taxes – Revised, A Temporary Replacement of SSAP No. 10*, are as follows (in thousands):

SSAP 10R Paragraph	2011			2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
¶ 10.a Federal income taxes recoverable through loss carryback	\$ 25	\$ -	\$ 25	\$ -	\$ -	\$ -	\$ 25	\$ -	\$ 25
¶ 10.b.i. Adjusted gross deferred tax assets expected to be realized within one year of the balance sheet date not recovered via loss carrybacks			-			-	-	-	-
¶ 10.b.ii. Ten percent adjusted statutory capital and surplus shown on most recently filed financial statement			712			564	-	-	148
Admitted pursuant to ¶ 10b (lesser of i. or ii.)			-			-	-	-	-
¶ 10.c Adjusted gross deferred tax assets after application of above items that can be offset against existing gross deferred tax liabilities	—	—	-	—	—	-	-	-	-
Admitted deferred tax asset	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 25</u>

The Company has not elected to admit additional deferred tax assets under the expanded admissibility test.

No additional adjusted gross deferred tax assets are included in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus as a result of tax-planning strategies.

The results from the deferred tax asset admissibility calculation in relation to total admitted assets and total capital and surplus is presented below (in thousands):

	2011			2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Admitted deferred tax asset	\$ 25	\$ -	\$ 25	\$ -	\$ -	\$ -	\$ 25	\$ -	\$ 25
Total admitted assets at December 31			8,332			10,268	-	-	(1,936)
Adjusted capital and surplus at September 30			7,125			5,640	-	-	1,485
Total capital and surplus from net deferred tax assets at December 31			7,831			6,137	-	-	1,694

There are no unrecognized deferred tax liabilities.

The current federal income taxes incurred (benefit) for the years ended December 31, 2011 and 2010, are as follows (in thousands):

	2011	2010	Change
Total current federal income taxes incurred (benefit)	<u>\$ 799</u>	<u>\$ (2,256)</u>	<u>\$ 3,055</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2011 and 2010, are as follows (in thousands):

	2011	2010	Change
Ordinary deferred tax assets:			
Unpaid losses and CAE	\$ 2	\$ 23	\$ (21)
Premiums received in advance	2	5	(3)
Other insurance reserves		26	(26)
Bad debt			-
Intangibles	78	93	(15)
Nonadmitted assets	<u>6</u>	<u>6</u>	<u>-</u>
Subtotal ordinary gross deferred tax asset	88	153	(65)
Statutory valuation allowance — ordinary	<u>      </u>	<u>(153)</u>	<u>153</u>
Adjusted ordinary gross deferred tax asset	88	-	88
Nonadmitted ordinary deferred tax asset	<u>63</u>	<u>      </u>	<u>63</u>
Admitted ordinary deferred tax asset	25	-	25
Ordinary deferred tax liabilities:			
Total deferred tax liabilities	<u>      </u>	<u>      </u>	<u>-</u>
Net deferred tax asset	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 25</u>

The Company assessed the potential realization of the gross deferred tax asset and established a valuation allowance of approximately \$0 and \$153,000 to reduce the gross deferred tax asset to approximately \$88,000 and \$0 as of December 31, 2011 and 2010, respectively which represents the amount of the asset estimated to be recoverable via carryback of losses and reduction of future taxes. The application of the statutory valuation allowance is required under SSAP No. 10R effective for 2009 through 2011. The change in the valuation allowance is attributable to the change in timing of deductibility of expenses and/or expectations for future taxable income.

The provision for federal income taxes incurred (benefit) is different from that which would be obtained by applying the statutory federal income tax rate of 35% to net income (loss) before federal income taxes (benefit). The significant items causing this difference are as follows (in thousands):

	<b>2011</b>	<b>2010</b>
Tax provision at the federal statutory rate	\$ 863	\$ (1,118)
Change in statutory valuation allowance	(153)	(682)
Tax effect of nonadmitted assets	<u>1</u>	<u>(4)</u>
<b>Total</b>	<b><u>\$ 711</u></b>	<b><u>\$ (1,804)</u></b>
Federal income taxes incurred	\$ 799	\$ (2,256)
Change in net deferred tax asset	<u>(88)</u>	<u>452</u>
<b>Total statutory income taxes</b>	<b><u>\$ 711</u></b>	<b><u>\$ (1,804)</u></b>

At December 31, 2011, the Company had no net operating loss carryforwards.

Current federal income taxes payable (recoverable) of approximately \$17,000 and (\$135,000) as of December 31, 2011 and 2010, respectively, are included in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus. Federal income taxes paid, net of refunds was approximately (\$647,000) and federal income taxes received was approximately \$2,538,000 in 2011 and 2010, respectively.

Federal income taxes incurred of approximately \$799,000 and \$0 for 2011 and 2010, respectively, is available for recoupment in the event of future net losses.

The Company has not admitted any aggregate amounts of deposits that are included within Section 6603 (“Deposits made to suspend running of interest on potential underpayments, etc.”) of the Internal Revenue Service Code.

The Company does not have a provision for tax contingencies recorded as of December 31, 2011 or 2010.

The Company is included in a consolidated federal income tax return with its ultimate parent, UnitedHealth Group. The entities included within the consolidated return are included in NAIC Statutory Statement Schedule Y — Information Concerning Activities of Insurer Members Of A Holding Company Group. Federal income taxes are paid to or refunded by UnitedHealth Group pursuant to the terms of a tax-sharing agreement, approved by the Board of Directors, under which taxes approximate the amount that would have been computed on a separate company basis, with the exception of net operating losses and capital losses. For these losses, the Company receives a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent losses can

be utilized in the consolidated federal income tax return of UnitedHealth Group. UnitedHealth Group currently files income tax returns in the United States federal jurisdiction, various states, and foreign jurisdictions. The United States Internal Revenue Service (IRS) has completed exams on UnitedHealth Group's consolidated income tax returns for fiscal years 2010 and prior. UnitedHealth Group's 2011 tax return is under advance review by the IRS under its Compliance Assurance Program. With the exception of a few states, UnitedHealth Group is no longer subject to income tax examinations prior to 2004 in major state and foreign jurisdictions. The Company does not believe any adjustments that may result from these examinations will be material to the Company.

## **10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES**

Effective January 1, 2011, the Company entered into a revised Management Agreement ("Agreement") with UHS. This Agreement has been approved by the LADOI. UHS will continue to provide management services to the Company under a revised fee structure which is changing from a fee based on a percentage of net premium income and change in unearned premiums reserves to a direct charge based on UHS' charges for services or use of assets provided to the Company. Management fees under this arrangement totaled approximately \$254,000 and \$3,363,000 in 2011 and 2010, respectively, and are included in general administrative expenses and claims adjustment expenses in the accompanying statutory basis statements of operations. In addition, UHS pays certain direct expenses, such as broker commissions, Department of Insurance exam fees, and premium taxes of the Company. UHS is reimbursed by the Company for these expenses.

Management believes that its transactions with affiliates are fair and reasonable; however, operations of the Company may not be indicative of those that would have occurred if it had operated as an independent company.

The Company expensed as hospital/medical benefits, general administrative expenses, and claims adjustment expenses approximately \$86,000 and \$672,000 in capitation fees to related parties during 2011 and 2010, respectively. Under the Agreement effective for January 2011, UHS provides or arranges for services on behalf of the Company using a pass-through of charges incurred by UHS on a Per Member Per Month (PMPM) basis (where the charge incurred by UHS is on a PMPM basis) or using another allocation methodology consistent with the Agreement. These services include, but are not limited to, integrated personal health management solutions, such as disease management, treatment decision support and wellness services, including a 24-hour call-in service, access to a network of transplant providers and discount program services. OptumHealth Care Solutions, Inc. (formerly ACN Group, Inc.) provides chiropractic and physical therapy services. Spectera, Inc. provides administrative services related to vision benefit management and claims processing, and United Behavioral Health, Inc. provides mental health and substance abuse services.

The capitation expenses, administrative services and access fees paid to related parties, that are included as hospital and medical expenses, general administrative expenses and claims adjustment expenses in the accompanying statutory basis statements of operations for the years ended December 31, 2011 and 2010, are shown below (in thousands):

	2011	2010
United Behavioral Health	\$ 61	\$ 488
United HealthCare Services, Inc.	19	129
OptumHealth Care Solutions, Inc. (formerly ACN Group, Inc.)	4	31
Spectera, Inc.	<u>2</u>	<u>24</u>
Total	<u>\$ 86</u>	<u>\$ 672</u>

The Company has premium payments that are received and claim payments that are processed by an affiliated UnitedHealth Group entity. Both premiums and claims applicable to the Company are settled at regular intervals throughout the month via the intercompany settlement process and any amounts outstanding are reflected in receivables from parent, subsidiaries, and affiliates, or amounts due to parent, subsidiaries, and affiliates in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

The Company contracts with affiliates (UHS and OptumRx) to provide administrative services related to pharmacy management and pharmacy claims processing for its enrollees. Fees related to these agreements, which are calculated on a per-claim basis, of approximately \$12,000 and \$107,000 in 2011 and 2010, respectively, are included in general administrative expenses and claims adjustment expenses in the accompanying statutory basis statements of operations. Additionally, the affiliates collect rebates on certain pharmaceutical products based on member utilization. Rebates related to these agreements of approximately \$120,000 and \$727,000 in 2011 and 2010, respectively, are included as a reduction of prescription drugs in the accompanying statutory basis statements of operations.

The Company has agreements with OptumInsight, (formerly Ingenix, Inc.), a wholly owned subsidiary of UnitedHealth Group, for services that lead up to and include the prevention and recovery of medical expense (benefit) overpayments. Percentages of every recovery are retained by OptumInsight, as service fees based on the services performed. Recoveries, net of fees, are returned to the Company on a monthly basis. Service fees of approximately \$9,000 and \$8,000 are included in claims adjustment expenses and general administrative expenses in the accompanying statutory basis statements of operations for the years ended December 31, 2011 and 2010, respectively.

The Company has an insolvency-only reinsurance agreement with UHIC, a wholly owned subsidiary of UHIC Holdings, Inc. which is a wholly owned subsidiary of UHS, to provide insolvency protection for its enrollees. Reinsurance premiums, which are calculated on a percentage of member premium income, of approximately \$5,000 in 2011 and \$28,000 in 2010 are netted against net premium income in the accompanying statutory basis statements of operations.

The Company holds a \$9,000,000 subordinated revolving credit agreement with UnitedHealth Group at an interest rate of London Interbank Offered Rate plus a margin of 0.50%. The aggregate principal amount that may be outstanding at any time is the lesser of 3% of the Company's admitted assets or 25% of the Company's policyholder surplus as of the preceding December 31. The credit agreement is for a one-year term and automatically renews annually, unless terminated by either party. The agreement was renewed effective December 31, 2011. No amounts were outstanding under the line of credit as of December 31, 2011 and 2010.

At December 31, 2011 and 2010, the Company reported no receivables from parent, subsidiaries, and affiliates and \$10,000 and \$359,000, respectively, as amounts due to parent, subsidiaries, and affiliates, which are included in the statutory basis statements of admitted assets, liabilities, and capital and surplus. These balances are generally settled within 90 days from the incurred date. Any balances due to the Company that are not settled within 90 days are considered nonadmitted assets.

The Company has entered into a tax sharing agreement with UnitedHealth Group (see Note 9).

The Company does not have any investments in a subsidiary, controlled, or affiliated entity that exceeds 10% of admitted assets.

The Company has not extended any guarantees or undertakings for the benefit of an affiliate or related party, it does not have any investments in a foreign insurance subsidiary, and it does not hold any investments in a downstream noninsurance holding company.

#### **11. DEBT**

The Company had no outstanding debt with third parties during 2011 and 2010.

#### **12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES, AND OTHER POSTRETIREMENT BENEFIT PLANS**

The Company has no retirement plan, deferred compensation, or other benefit plans, since all personnel are employees of UHS, which provides services to the Company under the terms of a management agreement (see Note 10).

#### **13. CAPITAL AND SURPLUS, SHAREHOLDERS' DIVIDEND RESTRICTIONS, AND QUASI-REORGANIZATIONS**

The Company has 1,000,000 shares authorized and 900,000 shares issued and outstanding of \$2 par value common stock. The Company has no preferred stock outstanding. All issued and outstanding shares of common stock are held by the Company's parent, UHC.

Payment of dividends may be restricted by the LADOI, which generally require that dividends be paid out of accumulated surplus.

The Company received a cash infusion of \$6,000,000 on January 20, 2010 from UHC. A request was filed with the LADOI to admit a \$6,000,000 receivable from parent, subsidiaries, and affiliates as of December 31, 2009 pursuant to SSAP No. 72, *Surplus and Quasi-reorganizations*. Approval was received in February 2010.

There are no restrictions placed on the Company's unassigned surplus. The Company does not hold any stock, including stock of affiliated companies for special purposes, such as conversion of preferred stock, employee stock options, or stock purchase warrants.

The Company does not have any special surplus funds.

The portion of unassigned funds represented (reduced) by each item below is as follows (in thousands):

	2011	2010
Net deferred income taxes	\$ 25	\$ -
Nonadmitted assets	(79)	(19)

The Company has never been a party to a quasi-reorganization and does not have any outstanding surplus notes.

#### 14. CONTINGENCIES

Because of the nature of the business, the Company is routinely made party to a variety of legal actions related to the design and management of its service offerings. The Company records liabilities for estimates of probable costs resulting from these matters where appropriate. These matters include, but are not limited to, claims relating to health care benefits coverage, medical malpractice actions, contract disputes, and claims related to certain other business practices. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions will not have a material adverse effect on the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus or statutory basis statements of operations of the Company.

The Company's business is regulated at the federal, state, and local levels. The laws and rules governing the Company's business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. Further, the Company must obtain and maintain regulatory approvals to market and sell many of its products.

During the first quarter of 2010, the Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively known as "Health Reform Legislation"), were signed into law. The Health Reform Legislation expands access to coverage and modifies aspects of the commercial insurance market, as well as the Medicaid and Medicare programs, Children's Health Insurance Program, and other aspects of the health care system. Certain provisions of the Health Reform Legislation have already taken effect, and other provisions become effective at various dates over the next several years. The Department of Health and Human Services, the Department of Labor, and the Treasury Department have issued regulations or proposed regulations on a number of aspects of Health Reform Legislation, but final rules and interim guidance on the other key aspects of the legislation remains pending.

Certain aspects of the Health Reform Legislation are also being challenged in federal court, with the proponents of such challenges seeking to limit the scope of or have all or portions of the Health Reform Legislation declared unconstitutional. The United States Supreme Court heard oral arguments on certain aspects of these cases in March 2012, including the constitutionality of the individual mandate. Congress may also withhold the funding necessary to implement the Health Reform Legislation, or may attempt to replace the legislation with amended provisions or repeal it altogether.

The Health Reform Legislation and the related federal and state regulations will impact how the Company does business and could restrict revenue and enrollment growth in certain products and market segments, restrict premium growth rates for certain products and market segments, increase the Company's medical and administrative costs, expose the Company to an increased risk of liability (including increasing our liability in federal and state courts for coverage determinations and contract interpretation) or put the Company at risk for loss of business. In addition, the Company's results of

operations, financial condition, including the ability to maintain the value of goodwill, and cash flows could be materially adversely affected by such changes. The Health Reform Legislation may create new or expand existing opportunities for business growth, but due to its complexity, the impact of the Health Reform Legislation remains difficult to predict and is not yet fully known.

The Company is not aware of any assessments, potential or accrued, that could have a material financial effect on the operations of the entity or any gain contingencies that should be recorded or disclosed in the financial statements.

There are no assets that the Company considers to be impaired at December 31, 2011 and 2010.

## **15. LEASES**

According to the management agreement between the Company and UHS (see Note 10), operating leases for the rental of office facilities and equipment are the responsibility of UHS. Fees associated with the agreement are included in the Company's management fee.

## **16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK**

The Company does not hold any financial instruments with off-balance-sheet risk or concentrations of credit risk.

## **17. SALE, TRANSFER, AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES**

The Company did not participate in any transfer of receivables, financial assets, or wash sales.

## **18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS**

The Company did not have any uninsured or partially insured accident and health plans.

## **19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD-PARTY ADMINISTRATORS**

The Company did not have any direct premiums written or produced by managing general agents or third-party administrators.

## **20. FAIR VALUE MEASUREMENT**

The NAIC SAP defines fair value, establishes a framework for measuring fair value, and outlines the disclosure requirements related to fair value measurements. The fair value hierarchy is as follows:

*Level 1* — Quoted (unadjusted) prices for identical assets in active markets.

*Level 2* — Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.)

- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

*Level 3* — Unobservable inputs that cannot be corroborated by observable market data.

The estimated fair values of short-term investments (investments) are based on quoted market prices, where available. The Company obtains one price for each security primarily from a third-party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates, and prepayment spreads. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to prices reported by its custodian, its investment consultant, and third-party investment advisors. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. Based on the Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services, the Company has not historically adjusted the prices obtained from the pricing service.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The Company does not have any financial assets that are measured and reported at fair value on the statutory basis statements of admitted assets, liabilities, and capital and surplus at December 31, 2011 and 2010.

The Company does not have any financial assets with a fair value hierarchy of level 3.

## **21. OTHER ITEMS**

The Company's business is regulated at federal, state, and local levels, and the Company must obtain and maintain regulatory approvals to market and sell many of its products. The laws and rules governing the Company's business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. State legislatures and Congress continue to focus on health care issues.

The Company did not encounter any extraordinary items during 2011 and 2010.

The Company has no troubled debt restructurings as of December 31, 2011 and 2010.

The Company, as the principal, entered into a performance bond on December 31, 2011 with Zurich Insurance Group, as the Surety, and the State of Louisiana, as the Obligee, in an amount not to exceed \$100,000. The term of the contract began on December 31, 2011, and expires on December 31, 2012.

The Company routinely evaluates the collectibility of all receivable amounts included within the statutory basis statements of admitted assets, liabilities, and capital and surplus. Reserves are established for those amounts where collectibility is uncertain. Based on the Company's past experience, exposure related to uncollectible balances and the potential of loss for those balances not currently reserved for is not material to the Company's financial condition.

The Company has not received any business interruption insurance recoveries during 2011 and 2010, and does not have any state transferable tax credits or hybrid securities as of December 31, 2011 and 2010.

The Company elected to use rounding in reporting amounts in the notes to statutory basis financial statements.

## **22. EVENTS SUBSEQUENT**

The Company has evaluated subsequent events through April 11, 2012, which is the date these statutory basis financial statements were available for issuance.

## **23. REINSURANCE**

In the normal course of business, the Company seeks to reduce potential losses that may arise from catastrophic events that cause unfavorable underwriting results by reinsuring certain levels of such risk with affiliated (see Note 10) and other nonaffiliated reinsurers. The Company remains primarily liable as the direct insurer on all risks reinsured.

### **Ceded Reinsurance Report —**

#### **Section 1 — General Interrogatories**

- a. Are any nonaffiliated reinsurers owned in excess of 10% or controlled, either directly or indirectly, by the Company or by any representative, officer, trustee, or director of the Company?

Yes ( ) No (X)

- b. Have any policies issued by the Company been reinsured with a company chartered in a country other than the United States (excluding United States branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor, or any other person not primarily engaged in the insurance business?

Yes ( ) No (X)

#### **Section 2 — Ceded Reinsurance — Part A**

1. Does the Company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit?

Yes ( ) No (X)

2. Does the reporting entity have any reinsurance agreements in effect that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes ( ) No (X)

Section 3 — Ceded Reinsurance — Part B

1. What is the estimated amount of the aggregate reduction in surplus (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits that are reflected in Section 2 above) of termination of all reinsurance agreements, by either party, as of the date of this statement? Where necessary, the Company may consider the current or anticipated experience of the business reinsured in making this estimate.

The Company estimates there should be no aggregate reduction in surplus for termination of all reinsurance agreements as of December 31, 2011.

2. Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the Company as of the effective date of the agreement?

Yes ( ) No (X)

**Unsecured Reinsurance Recoverable** — The Company does not have an unsecured aggregate reinsurance recovery receivable with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Company's policyholder surplus.

**Reinsurance Recoverable in Dispute** — The Company does not have a reinsurance recoverable balance that is being disputed by any individual reinsurer.

**Reinsurance Assumed and Ceded** — The Company does not have a provision in its reinsurance contract to return commissions to the reinsurer in the event that the Company cancels its reinsurance policy.

**Uncollectible Reinsurance** — During 2011 and 2010, there were no uncollectible reinsurance recoverables.

**Commutation of Reinsurance** — There was no commutation of reinsurance in 2011 or 2010.

**Retroactive Reinsurance** — The Company did not have a retroactive reinsurance agreement in 2011 or 2010.

**24. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION**

Pursuant to the Health Reform Legislation (see Note 14), the Company is required to maintain specific minimum loss ratios. These minimum loss ratios apply to comprehensive major medical coverage and vary depending on group size. The Company's actual loss ratios were in excess of the minimum requirements and as a result, no minimum medical loss ratio rebate was required to be established at December 31, 2011.

## 25. CHANGE IN INCURRED CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

Changes in estimates related to the prior year incurred claims are included in total hospital and medical expenses in the current year in the accompanying statutory basis statements of operations. The following tables disclose paid claims, incurred claims, and the balance in the claims unpaid and health care receivables for 2011 and 2010 (in thousands):

	<b>2011</b>		
	<b>Current Year Incurred Claims</b>	<b>Prior Years Incurred Claims</b>	<b>Total</b>
Beginning of year claim reserve	\$ -	\$ (3,419)	\$ (3,419)
Paid claims, net of health care receivable	3,244	1,833	5,077
End of year claim reserve	<u>377</u>	<u>39</u>	<u>416</u>
Incurred claims excluding the change in health care receivables	3,621	(1,547)	2,074
Beginning of year health care receivables		17	17
End of year health care receivables	<u>(15)</u>	<u>(1)</u>	<u>(16)</u>
Total incurred claims	<u>\$ 3,606</u>	<u>\$ (1,531)</u>	<u>\$ 2,075</u>
	<b>2010</b>		
	<b>Current Year Incurred Claims</b>	<b>Prior Years Incurred Claims</b>	<b>Total</b>
Beginning of year claim reserve	\$ -	\$ (3,322)	\$ (3,322)
Paid claims, net of health care receivable	26,682	2,877	29,559
End of year claim reserve	<u>3,259</u>	<u>160</u>	<u>3,419</u>
Incurred claims excluding the change in health care receivables	29,941	(285)	29,656
Beginning of year health care receivables		8	8
End of year health care receivables	<u>(17)</u>	<u>      </u>	<u>(17)</u>
Total incurred claims	<u>\$ 29,924</u>	<u>\$ (277)</u>	<u>\$ 29,647</u>

The liability for claims unpaid and health care receivables at December 31, 2010 were approximately \$3,402,000. As of December 31, 2011, approximately \$1,833,000 has been paid for incurred claims attributable to insured events of prior years. Reserves remaining for prior years are now approximately \$38,000 as a result of re-estimation of unpaid claims. Therefore, there has been approximately \$1,531,000 favorable prior year development since December 31, 2010 to December 31, 2011. The primary drivers consist of favorable development as a result of ongoing analysis of loss development trends related to the release and reestablishment of approximately \$379,000 in known environmental claims, approximately \$787,000 in retroactivity for inpatient, outpatient, physician and pharmacy claims, attributable to the loss of the Company's largest customer, and approximately \$218,000 in changes to provider settlement reserves. At December 31, 2010, the Company recorded approximately

\$277,000 of favorable development related to insured events of prior years primarily as a result of favorable retroactivity for inpatient, outpatient, physician and pharmacy claims, and changes to the provider settlement reserves.

The Company incurred claims adjustment expenses of approximately \$56,000 and \$585,000 in 2011 and 2010, respectively. These costs are included in the management service fees paid by the Company to UHS as a part of its management agreement (see Note 10) The following tables disclose paid CAE, incurred CAE, and the balance in the unpaid claim adjustment expenses reserve for 2011 and 2010 (in thousands):

	<b>2011</b>	<b>2010</b>
Total claims adjustment expenses incurred	\$ 56	\$ 585
Less current year unpaid claims adjustment expenses	(6)	(50)
Add prior year unpaid claims adjustment expenses	<u>50</u>	<u>49</u>
Total claims adjustment expenses paid	<u>\$ 100</u>	<u>\$ 584</u>

**26. INTERCOMPANY POOLING ARRANGEMENTS**

The Company did not have any intercompany pooling arrangements in 2011 or 2010.

**27. STRUCTURED SETTLEMENTS**

The Company did not have structured settlements in 2011 or 2010.

**28. HEALTH CARE RECEIVABLES**

Pharmaceutical rebates receivable are recorded when reasonably estimated or billed by the affiliated pharmaceutical benefit manager in accordance with pharmaceutical rebate contract provisions. Information used to support rebates billed to the manufacturer is based on utilization information gathered by the pharmaceutical benefit manager and adjusted for significant changes in pharmaceutical contract provisions. The Company has excluded receivables that do not meet the admissibility criteria from the statutory basis statements of admitted assets, liabilities, and capital and surplus. There were no admitted health care receivables as at December 31, 2011 and 2010 as all were nonadmitted.

The collection history of pharmacy rebates is summarized as (in thousands):

Quarter	Estimated Pharmacy Rebates	Pharmacy Rebates as Invoiced/ Confirmed	Rebates Collected Within 90 Days of Invoicing/ Confirmation	Rebates Collected Within 91 to 180 Days of Invoicing/ Confirmation	Rebates Collected More than 181 Days of Invoicing/ Confirmation
December 31, 2011	\$ 1	\$ -	\$ -	\$ -	\$ -
September 30, 2011	3	2			
June 30, 2011	6	0			
March 31, 2011	6	1		1	
December 31, 2010	5	10		8	2
September 30, 2010	7	6		5	1
June 30, 2010	4	5		2	3
March 31, 2010	1	7		6	0
December 31, 2009	1	4		2	2
September 30, 2009		2		0	2
June 30, 2009		1		1	0
March 31, 2009		1			1

## 29. PARTICIPATING POLICIES

The Company did not have any participating contracts in 2011 or 2010.

## 30. PREMIUM DEFICIENCY RESERVES

The Company had a liability of \$0 and \$73,000 for premium deficiency reserves, as of December 31, 2011 and 2010, respectively. The analysis of the premium deficiency reserves was completed as of December 31, 2011 and 2010, respectively. Premium deficiency reserves are included in aggregate health policy reserves in the statutory basis statements of admitted assets, liabilities, and capital and surplus. The Company did consider anticipated investment income when calculating its premium deficiency reserves.

## 31. ANTICIPATED SALVAGE AND SUBROGATION

Due to the type of business being written, the Company has no salvage. As of December 31, 2011 and 2010, the Company had no specific accruals established for outstanding subrogation, as it is considered a component of the actuarial calculations used to develop the estimates of claims unpaid.

\* \* \* \* \*

**SUPPLEMENTAL SCHEDULES**

**EXHIBIT I: SUPPLEMENTAL SCHEDULE OF  
INVESTMENT RISK INTERROGATORIES — STATUTORY BASIS**



# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2011  
(To Be Filed by April 1)

Of The UnitedHealthcare of Louisiana, Inc. ....  
ADDRESS (City, State and Zip Code) Minnetonka , MN 55343 .....  
NAIC Group Code 0707 ..... NAIC Company Code 95833 ..... Federal Employer's Identification Number (FEIN) 72-1074008 .....

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement .....\$ .....8,331,621

2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Goldman Sachs	Bonds	\$ 404,778	4.9 %
2.02	BlackRock	Bonds	\$ 376,817	4.5 %
2.03	UBS Global Asset Mgmt	Bonds	\$ 330,815	4.0 %
2.04	Wells Fargo	Bonds	\$ 264,678	3.2 %
2.05	Wells Fargo	Bonds	\$ 230,588	2.8 %
2.06	Columbia Nations	Bonds	\$ 195,000	2.3 %
2.07	Fifth Third	Bonds	\$ 100,194	1.2 %
2.08	Metairie Savings Bank & Trust	Bonds	\$ 100,000	1.2 %
2.09	Gulf Coast Bank and Trust	Bonds	\$ 100,000	1.2 %
2.10	Progressive Bank	Bonds	\$ 100,000	1.2 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds		Preferred Stocks		
	1	2	3	4	
3.01	NAIC-1	\$ 6,890,014	82.7 %	3.07 P/RP-1	\$ ..... 0.0 %
3.02	NAIC-2	\$ .....0	0.0 %	3.08 P/RP-2	\$ ..... 0.0 %
3.03	NAIC-3	\$ .....0	0.0 %	3.09 P/RP-3	\$ ..... 0.0 %
3.04	NAIC-4	\$ .....0	0.0 %	3.10 P/RP-4	\$ ..... 0.0 %
3.05	NAIC-5	\$ .....0	0.0 %	3.11 P/RP-5	\$ ..... 0.0 %
3.06	NAIC-6	\$ .....0	0.0 %	3.12 P/RP-6	\$ ..... 0.0 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

4.02 Total admitted assets held in foreign investments..... \$ ..... 0.0 %

4.03 Foreign-currency-denominated investments ..... \$ ..... 0.0 %

4.04 Insurance liabilities denominated in that same foreign currency ..... \$ ..... 0.0 %

SUPPLEMENT FOR THE YEAR 2011 OF THE UnitedHealthcare of Louisiana, Inc.

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	<u>1</u>	<u>2</u>
5.01 Countries rated NAIC-1 .....	\$ .....	0.0 %
5.02 Countries rated NAIC-2 .....	\$ .....	0.0 %
5.03 Countries rated NAIC-3 or below .....	\$ .....	0.0 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

	<u>1</u>	<u>2</u>
Countries rated NAIC - 1:		
6.01 Country 1: .....	\$ .....	0.0 %
6.02 Country 2: .....	\$ .....	0.0 %
Countries rated NAIC - 2:		
6.03 Country 1: .....	\$ .....	0.0 %
6.04 Country 2: .....	\$ .....	0.0 %
Countries rated NAIC - 3 or below:		
6.05 Country 1: .....	\$ .....	0.0 %
6.06 Country 2: .....	\$ .....	0.0 %

	<u>1</u>	<u>2</u>
7. Aggregate unhedged foreign currency exposure .....	\$ .....	0.0 %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

	<u>1</u>	<u>2</u>
8.01 Countries rated NAIC-1 .....	\$ .....	0.0 %
8.02 Countries rated NAIC-2 .....	\$ .....	0.0 %
8.03 Countries rated NAIC-3 or below .....	\$ .....	0.0 %

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

	<u>1</u>	<u>2</u>
Countries rated NAIC - 1:		
9.01 Country 1: .....	\$ .....	0.0 %
9.02 Country 2: .....	\$ .....	0.0 %
Countries rated NAIC - 2:		
9.03 Country 1: .....	\$ .....	0.0 %
9.04 Country 2: .....	\$ .....	0.0 %
Countries rated NAIC - 3 or below:		
9.05 Country 1: .....	\$ .....	0.0 %
9.06 Country 2: .....	\$ .....	0.0 %

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	Issuer	NAIC Rating		
10.01 .....			\$ .....	0.0 %
10.02 .....			\$ .....	0.0 %
10.03 .....			\$ .....	0.0 %
10.04 .....			\$ .....	0.0 %
10.05 .....			\$ .....	0.0 %
10.06 .....			\$ .....	0.0 %
10.07 .....			\$ .....	0.0 %
10.08 .....			\$ .....	0.0 %
10.09 .....			\$ .....	0.0 %
10.10 .....			\$ .....	0.0 %

SUPPLEMENT FOR THE YEAR 2011 OF THE UnitedHealthcare of Louisiana, Inc.

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? .....	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11.					
		1		2	
11.02	Total admitted assets held in Canadian investments .....	\$			0.0 %
11.03	Canadian-currency-denominated investments .....	\$			0.0 %
11.04	Canadian-denominated insurance liabilities .....	\$			0.0 %
11.05	Unhedged Canadian currency exposure .....	\$			0.0 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? .....	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.					
		1		2	3
12.02	Aggregate statement value of investments with contractual sales restrictions .....	\$			0.0 %
Largest three investments with contractual sales restrictions:					
12.03	.....	\$			0.0 %
12.04	.....	\$			0.0 %
12.05	.....	\$			0.0 %

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01	Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? .....	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.					
		1		2	3
	Issuer				
13.02	.....	\$			0.0 %
13.03	.....	\$			0.0 %
13.04	.....	\$			0.0 %
13.05	.....	\$			0.0 %
13.06	.....	\$			0.0 %
13.07	.....	\$			0.0 %
13.08	.....	\$			0.0 %
13.09	.....	\$			0.0 %
13.10	.....	\$			0.0 %
13.11	.....	\$			0.0 %

SUPPLEMENT FOR THE YEAR 2011 OF THE UnitedHealthcare of Louisiana, Inc.

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities .....	\$ .....		0.0 %
Largest three investments held in nonaffiliated, privately placed equities:			
14.03 .....	\$ .....		0.0 %
14.04 .....	\$ .....		0.0 %
14.05 .....	\$ .....		0.0 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02 Aggregate statement value of investments held in general partnership interests .....	\$ .....		0.0 %
Largest three investments in general partnership interests:			
15.03 .....	\$ .....		0.0 %
15.04 .....	\$ .....		0.0 %
15.05 .....	\$ .....		0.0 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
	Type (Residential, Commercial, Agricultural)		
16.02 .....	\$ .....		0.0 %
16.03 .....	\$ .....		0.0 %
16.04 .....	\$ .....		0.0 %
16.05 .....	\$ .....		0.0 %
16.06 .....	\$ .....		0.0 %
16.07 .....	\$ .....		0.0 %
16.08 .....	\$ .....		0.0 %
16.09 .....	\$ .....		0.0 %
16.10 .....	\$ .....		0.0 %
16.11 .....	\$ .....		0.0 %

SUPPLEMENT FOR THE YEAR 2011 OF THE UnitedHealthcare of Louisiana, Inc.

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12	Construction loans .....	\$ .....	0.0 %
16.13	Mortgage loans over 90 days past due .....	\$ .....	0.0 %
16.14	Mortgage loans in the process of foreclosure .....	\$ .....	0.0 %
16.15	Mortgage loans foreclosed .....	\$ .....	0.0 %
16.16	Restructured mortgage loans .....	\$ .....	0.0 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan to Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%.....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
17.02 91 to 95%.....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
17.03 81 to 90%.....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
17.04 71 to 80%.....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
17.05 below 70%.....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description	1		2		3	
18.02 .....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
18.03 .....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
18.04 .....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
18.05 .....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
18.06 .....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? ..... Yes [ X ] No [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

Description	1		2		3	
19.02 Aggregate statement value of investments held in mezzanine real estate loans: .....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
Largest three investments held in mezzanine real estate loans:						
19.03 .....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
19.04 .....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %
19.05 .....	\$ .....	0.0 %	\$ .....	0.0 %	\$ .....	0.0 %

SUPPLEMENT FOR THE YEAR 2011 OF THE UnitedHealthcare of Louisiana, Inc.

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year End		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions) \$ .....		0.0 %	\$ .....	\$ .....	\$ .....
20.02 Repurchase agreements .....		0.0 %	\$ .....	\$ .....	\$ .....
20.03 Reverse repurchase agreements .....		0.0 %	\$ .....	\$ .....	\$ .....
20.04 Dollar repurchase agreements .....		0.0 %	\$ .....	\$ .....	\$ .....
20.05 Dollar reverse repurchase agreements .....		0.0 %	\$ .....	\$ .....	\$ .....

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		3	Written	
	1	2		4	5
21.01 Hedging .....		0.0 %	\$ .....	0.0 %	\$ .....
21.02 Income generation .....		0.0 %	\$ .....	0.0 %	\$ .....
21.03 Other .....		0.0 %	\$ .....	0.0 %	\$ .....

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year End		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
22.01 Hedging .....	\$ 0	0.0 %	\$ .....	\$ .....	\$ .....
22.02 Income generation .....	\$ 0	0.0 %	\$ .....	\$ .....	\$ .....
22.03 Replications .....	\$ 0	0.0 %	\$ .....	\$ .....	\$ .....
22.04 Other .....	\$ 0	0.0 %	\$ .....	\$ .....	\$ .....

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year End		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
23.01 Hedging .....	\$ 0	0.0 %	\$ .....	\$ .....	\$ .....
23.02 Income generation .....	\$ 0	0.0 %	\$ .....	\$ .....	\$ .....
23.03 Replications .....	\$ 0	0.0 %	\$ .....	\$ .....	\$ .....
23.04 Other .....	\$ 0	0.0 %	\$ .....	\$ .....	\$ .....

**SUPPLEMENTAL SCHEDULES**  
**EXHIBIT II: SUMMARY**  
**INVESTMENT SCHEDULE — STATUTORY BASIS**

**SUMMARY INVESTMENT SCHEDULE**

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3 + 4) Amount	Percentage
1. Bonds:						
1.1 U.S. treasury securities .....		0.000			0	0.000
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies .....		0.000			0	0.000
1.22 Issued by U.S. government sponsored agencies .....		0.000			0	0.000
1.3 Non-U.S. government (including Canada, excluding mortgaged-backed securities) .....		0.000			0	0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S. :						
1.41 States, territories and possessions general obligations .....		0.000			0	0.000
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations .....		0.000			0	0.000
1.43 Revenue and assessment obligations .....		0.000			0	0.000
1.44 Industrial development and similar obligations .....		0.000			0	0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA .....		0.000			0	0.000
1.512 Issued or guaranteed by FNMA and FHLMC .....		0.000			0	0.000
1.513 All other .....		0.000			0	0.000
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA .....		0.000			0	0.000
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521 .....		0.000			0	0.000
1.523 All other .....		0.000			0	0.000
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) .....	0	0.000	0	0	0	0.000
2.2 Unaffiliated non-U.S. securities (including Canada) .....		0.000			0	0.000
2.3 Affiliated securities .....		0.000			0	0.000
3. Equity interests:						
3.1 Investments in mutual funds .....		0.000			0	0.000
3.2 Preferred stocks:						
3.21 Affiliated .....		0.000			0	0.000
3.22 Unaffiliated .....		0.000			0	0.000
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated .....		0.000			0	0.000
3.32 Unaffiliated .....		0.000			0	0.000
3.4 Other equity securities:						
3.41 Affiliated .....		0.000			0	0.000
3.42 Unaffiliated .....		0.000			0	0.000
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated .....		0.000			0	0.000
3.52 Unaffiliated .....		0.000			0	0.000
4. Mortgage loans:						
4.1 Construction and land development .....		0.000			0	0.000
4.2 Agricultural .....		0.000			0	0.000
4.3 Single family residential properties .....		0.000			0	0.000
4.4 Multifamily residential properties .....		0.000			0	0.000
4.5 Commercial loans .....		0.000			0	0.000
4.6 Mezzanine real estate loans .....		0.000			0	0.000
5. Real estate investments:						
5.1 Property occupied by company .....	0	0.000	0		0	0.000
5.2 Property held for production of income (including \$ .....0 of property acquired in satisfaction of debt) .....	0	0.000	0		0	0.000
5.3 Property held for sale (including \$ .....0 property acquired in satisfaction of debt) .....	0	0.000	0		0	0.000
6. Contract loans .....	0	0.000	0		0	0.000
7. Derivatives .....	0	0.000	0		0	0.000
8. Receivables for securities .....	0	0.000	0		0	0.000
9. Securities Lending (Line 10, Asset Page reinvested collateral).....	0	0.000	0	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments .....	7,938,905	100.000	7,938,905		7,938,905	100.000
11. Other invested assets .....		0.000			0	0.000
12. Total invested assets .....	7,938,905	100.000	7,938,905	0	7,938,905	100.000

## **OTHER ATTACHMENTS**

April 11, 2012

To the Audit Committee and Management of  
UnitedHealthcare of Louisiana, Inc.  
3838 North Causeway Boulevard, Suite 2100  
Metairie, LA 70002

Dear Members of the Audit Committee and Management:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory basis financial statements of UnitedHealthcare of Louisiana, Inc. (the “Company”) for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 11, 2012. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to the Company and conform to the standards of the accounting profession as contained in the *Code of Professional Conduct* and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Minnesota Board of Public Accountancy.
- b. The engagement partner and engagement manager, who are certified public accountants, have 11 years and 10 years, respectively, of experience in public accounting and are experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and 55 percent of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Company intends to file its audited statutory basis financial statements and our report thereon with the Louisiana Department of Insurance (the “Department”) and other state insurance departments in states in which the Company is licensed and that the insurance commissioners of those states will be relying on that information in monitoring and regulating the statutory basis financial condition of the Company.

While we understand that an objective of issuing a report on the statutory basis financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Company and insurance commissioners should understand that the objective of an audit of statutory basis financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory basis financial statements present fairly, in all material respects, the statutory basis statements of admitted assets, liabilities, and capital and surplus, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Department. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory basis financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. Our audit included

consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit mean that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of the Company to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Department.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory basis financial position of insurers and should not rely solely on the independent auditors' report.

- d. We will retain the working papers prepared in the conduct of our audit until the Department has filed a Report of Examination covering 2011, but no longer than seven years. After notification to the Company, we will make the working papers available for review by the Department at the offices of the insurer, at our offices, at the Department or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Department, photocopies of pertinent audit working papers may be made (under the control of Deloitte & Touche LLP) and such copies may be retained by the Department.
- e. The engagement partner has served in this capacity with respect to the Company since 2011, is licensed by the Minnesota Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's Model Rule (Regulation) Requiring Annual Audited Financial Reports regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Board of Directors and Management of the Company and for filing with the Department and other state insurance departments to whose jurisdiction the Company is subject and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

*Deloitte & Touche LLP*

April 11, 2012

April 11, 2012

To the Audit Committee and Management  
United Healthcare of Louisiana  
3838 North Causeway Boulevard, Suite 2100  
Metairie, LA 70002

Dear Members of the Audit Committee and Management:

In planning and performing our audit of the statutory basis financial statements of UnitedHealthcare of Louisiana, Inc. (the "Company") as of and for the year ended December 31, 2011 (on which we have issued our report dated April 11, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as of December 31, 2011.

The definitions of a deficiency and a material weakness are set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting, and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Audit Committee, Management, others within the organization, and state insurance departments to whose jurisdiction the Company is subject and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

*Deloitte & Touche LLP*

**DEFINITIONS**

The definitions of a deficiency and a material weakness that are established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, are as follows:

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

**MANAGEMENT’S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management’s responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control are adapted from auditing standards generally accepted in the United States of America.

**Management’s Responsibility**

The Company’s management is responsible for the overall accuracy of the statutory basis financial statements and their conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance (the “Department”). In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

**Objectives of Internal Control Over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity’s objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with accounting practices prescribed or permitted by the Department.)

**Inherent Limitations of Internal Control Over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.