

Report on Examination
of
Health First Insurance, Inc.

Rockledge, Florida

as of

December 31, 2012



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Health First Insurance, Inc. as of December 31, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation
July 16, 2013

Contents

Scope of Examination	1
Company History.....	2
Corporate Records.....	2
Management and Control	3
Fidelity Bonds and Other Insurance.....	5
Pension, Stock Ownership and Insurance Plans	5
Territory and Plan of Operation.....	6
Company Growth	6
Statutory Deposits.....	6
Financial Statements.....	7
Subsequent Events	11
Conclusion	12

SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of Health First Insurance, Inc. (the "Company"), a single-state insurer domiciled in Florida. The examination covered the period of October 27, 2011 through December 31, 2012 and took place primarily in the Company's Rockledge, Florida office. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

COMPANY HISTORY

The Company was incorporated in Florida on September 7, 2011 and licensed by the Office as an insurer on October 27, 2011. It was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company received contributions to its capital and surplus in the amounts of \$2,500,000 and \$500,000 in 2011 and 2012, respectively. No dividends were distributed in 2011 or 2012.

CORPORATE RECORDS

We reviewed the minutes of the Company's stockholder and board of directors meetings held during the period examined. The Board's approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S., was recorded in the minutes of its meetings.

MANAGEMENT AND CONTROL

The Company was wholly owned by Health First Holding Corp., a subsidiary of Health First, Inc. It was affiliated with various other entities through common ownership including Health First Health Plans, Inc., a Florida health maintenance organization and third party administrator. The Company's senior officers and directors were:

Senior Officers

Name	Title
Margaret H. Haney	CEO, President & Secretary
James E. Beermann, Jr.	Vice President
Joseph G. Felkner	Treasurer

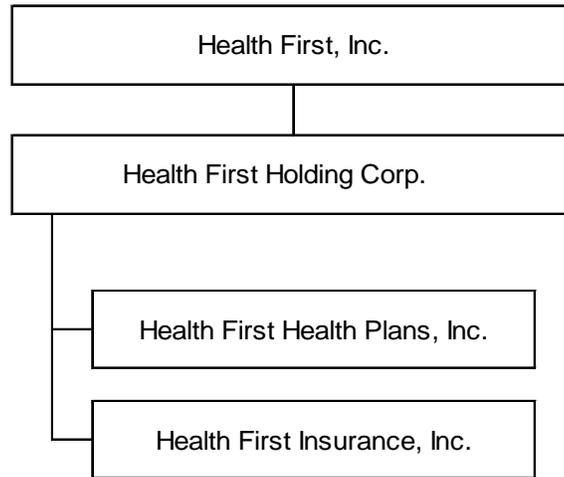
Board of Directors

Name	Location
James E. Beermann, Jr.	Tampa, Florida
Joseph G. Felkner	Viera, Florida
Margaret H. Haney	Indialantic, Florida
Steven P. Johnson, Psy.D.	Satellite Beach, Florida
Nicholas E. Pellegrino	Cocoa Beach, Florida
Kevin S. Pruett	Cocoa Beach, Florida
James C. Shaw	Melbourne, Florida

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code, on February 28, 2013.

An abbreviated organizational chart reflecting a holding company system is shown below.

**Health First Insurance, Inc.
Abbreviated Organizational Chart
December 31, 2012**



Tax Allocation Agreement

The Company and Health First Holding Corp. entered into a consolidated federal income tax allocation agreement on September 7, 2011. The agreement provided for Health First Holding Corp. to annually allocate to the Company its share of the group's consolidated federal income tax in an amount which does not exceed the Company's separate return tax liability.

Administrative and Financial Management Agreements

Health First, Inc. and the Company entered into an administrative and financial management agreement effective September 7, 2011 calling for Health First, Inc. to provide to the Company certain administrative, management and financial services to include management, legal, human resources, information systems, and financial services. Under the agreement, expenses of

providing the services were allocable to the Company and intercompany payables were due on the first day of each month.

During the period examined, Health First Health Plans, Inc. provided administrative services to the Company pursuant to an agreement which was not in writing as required by Statement of Statutory Accounting Principles No. 25 and Consent Order 119754-11-CO issued by the Office on August 25, 2011. However, on May 28, 2013, the parties entered into a written administrative and financial management agreement calling for Health First Health Plans, Inc. to provide administrative, customer service, medical and pharmaceutical management, underwriting, actuarial, claims, information systems and other services to the Company. Under the agreement, expenses of providing the services were allocable to the Company and intercompany payables were due on the first day of each month.

FIDELITY BONDS AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage during the period examined as recommended by the NAIC. However, the Company was subsequently added as a named insured on a crime policy of Health First, Inc.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and did not directly provide employee benefits or sponsor retirement plans.

TERRITORY AND PLAN OF OPERATION

The Company provided Medicare supplement (Medigap) insurance and operated solely in the State of Florida. Its marketing efforts were primarily directed towards individuals in Brevard and Indian River Counties.

COMPANY GROWTH

The Company reported the following for years 2011 and 2012:

(Dollars are in thousands.)

	<u>2011</u>	<u>2012</u>
Member months	-	114
Year-end enrollment	-	27
Premiums	\$ -	\$ 23.2
Total revenue	\$ -	\$ 23.2
Underwriting deductions	\$ -	\$ 503.7
Net income (loss)	\$ 0.2	\$ (480.5)
Paid in capital and surplus received	\$ 2,500.0	\$ 500.0
Admitted assets	\$ 2,500.2	\$ 2,627.1
Liabilities	\$ -	\$ 107.4
Capital and surplus	\$ 2,500.2	\$ 2,519.8

STATUTORY DEPOSITS

The Company maintained a cash deposit of \$100,000 with the Office as required by Section 624.411, F.S.

Health First Insurance, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2012

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Cash, cash equivalents and short-term investments	\$ 2,626,836	\$ -	\$ 2,626,836
Uncollected premiums and agents' balances	285	-	285
Total admitted assets	\$ 2,627,121	\$ -	\$ 2,627,121
Liabilities			
Claims unpaid	\$ 10,341	\$ -	\$ 10,341
Unpaid claims adjustment expenses	207	-	207
Premiums received in advance	2,566	-	2,566
General expenses due or accrued	76,354	-	76,354
Amounts due to parent, subsidiaries and affiliates	17,886	-	17,886
Total liabilities	107,354	-	107,354
Capital and Surplus			
Common capital stock	10,000	-	10,000
Gross paid in and contributed surplus	2,990,000	-	2,990,000
Unassigned funds (deficit)	(480,233)	-	(480,233)
Total capital and surplus	2,519,767	-	2,519,767
Total liabilities, capital and surplus	\$ 2,627,121	\$ -	\$ 2,627,121

Health First Insurance, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2012

Net premium income	\$ 23,240
Hospital and medical benefits	22,716
Other professional services	540
Prescription drugs	21
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Total hospital and medical	23,277
Claims adjustment expenses	207
General administrative expenses	480,248
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Total underwriting deductions	503,732
Net underwriting gain (loss)	(480,492)
Net investment income earned	(12)
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Net income (loss)	\$ (480,504)

Health First Insurance, Inc.
Statement of Changes in Capital and Surplus
Two Years Ended December 31, 2012

Capital and surplus - December 31, 2010	\$ -
Net income (loss)	236
Paid in capital	10,000
Paid in surplus	2,490,000
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Capital and surplus - December 31, 2011	2,500,236
Net income (loss)	(480,504)
Paid in surplus	500,000
Aggregate write-ins for gains or losses in surplus	35
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Capital and surplus - December 31, 2012	<u>\$ 2,519,767</u>

Health First Insurance, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2012

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

Capital and surplus, December 31, 2012 - per annual statement				\$ 2,519,767
	<u>Per</u>	<u>Per</u>	Increase	
	Company	Examination	(Decrease)	
			In Capital	
			& Surplus	
Total assets	\$ 2,627,121	\$ 2,627,121	\$ -	
Total liabilities	\$ 107,354	\$ 107,354	\$ -	
Net change in capital and surplus			<u>-</u>	
Capital and surplus, December 31, 2012 - per examination				<u><u>\$ 2,519,767</u></u>

SUBSEQUENT EVENTS

In 2013, Margaret H. Haney and James E. Beermann, Jr. resigned from their positions as officers and directors of the Company.

The Company reported a net loss of \$784,072 for the six months ended June 30, 2013.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Health First Insurance, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2012, the Company's capital and surplus was \$2,519,767 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, Walter F. Banas, CIE, Financial Specialist; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; and Kerry Krantz, Actuary participated in the examination.

Respectfully submitted,

Scott R. Slaughter, CPA
Financial Examiner/Analyst
Florida Office of Insurance Regulation