

Report on Examination
of
Health First Insurance, Inc.
Rockledge, Florida
as of
December 31, 2014



**FLORIDA OFFICE OF
INSURANCE REGULATION**

David Altmaier, 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, 2014. Our report on the examination follows.

Florida Office of Insurance Regulation
March 22, 2016

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2014 of Health First Insurance, Inc. (the Company), a single state insurer domiciled in Florida. Our examination covered the period of January 1, 2014 through December 31, 2014 and took place primarily in the Company's Rockledge, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the Office) was as of December 31, 2013.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook required that we plan and perform our examination to evaluate the financial condition and identify current and 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.

This examination report includes significant findings of fact, as mentioned in 624.319, F.S. and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

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 62.401, Florida Statutes (F.S.).

CORPORATE RECORDS

We reviewed the minutes of the Board of Directors, Shareholder, Audit Committee and other committees meetings held during the period examined. The minutes adequately documented its meetings and approval of Company transactions, including the authorization of investments as required by Section 625.304, F.S.

Dividends and Capital Contributions

The company received \$500,000 of contributed capital and surplus in 2014. No dividends were distributed during the period examined.

MANAGEMENT AND CONTROL

The Company was wholly owned by Health First Holding Corp. (HFHC), a for-profit corporation. HFHC was a wholly owned subsidiary of Health First, Inc., a not-for-profit corporation, whose primary purpose was to direct the affairs of a multi-entity health care system. The Company was affiliated with various other entities through common ownership including Health First Health Plans, Inc. (HFHP), a Florida health maintenance organization and third party administrator.

The Company's senior officers and directors were:

Senior Officers

Name	Title
Edward R. Griese	President, Chief Executive Officer and Secretary
Joseph G. Felkner	Treasurer
David E. Mathias, Esq.	Assistant Secretary

Board of Directors

Name	Location
Cathy K. Eddy	Colleyville, Texas
Joseph G. Felkner	Melbourne, Florida
Cathy A. Ford	Melbourne, Florida
Edward R. Griese	Melbourne, Florida
Steven P. Johnson	Indian Harbour Beach, Florida
Drew A. Rector	Indian Harbour Beach, Florida

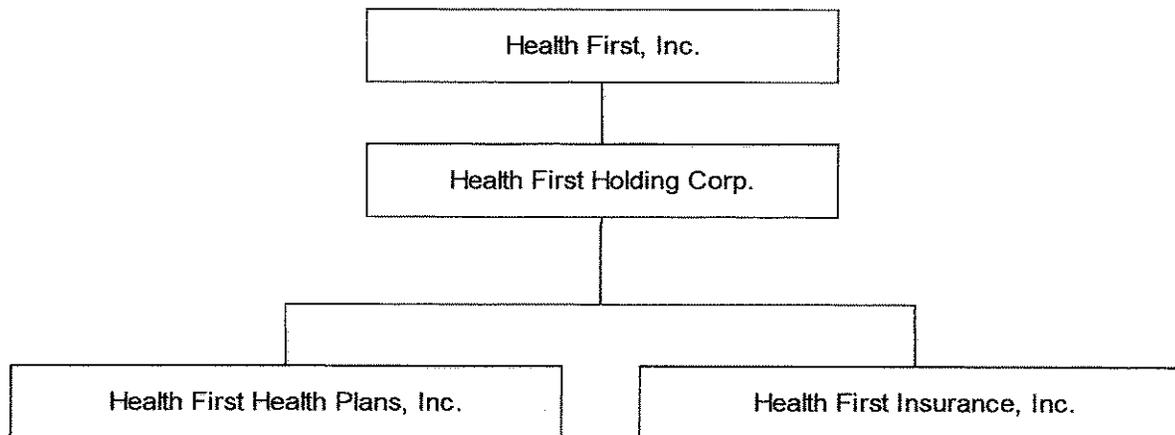
Audit Committee

Bryan R. Roub, CPA Chairman
Eugene S. Cavallucci
Steven P. Johnson
William C. Potter
Jim L. Ridenour
James C. Shaw

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), F.A.C. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 690-143.046, F.A.C., on March 3, 2015.

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

**Health First Insurance, Inc.
Abbreviated Organizational Chart
December 31, 2014**



Administrative and Financial Management Agreement

The Company entered into an Administrative and Financial Management Agreement with Health First, Inc. (HF) effective September 7, 2011. Under the agreement, HF provided certain administrative, management and financial services to the Company.

Administrative and Financial Management Agreement

The Company entered into an Administrative and Financial Management Agreement with HFHP effective May 28, 2013. Under the agreement, HFHP provided administrative, customer service, medical and pharmaceutical management, underwriting, actuarial, claims, and other services to the Company.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of HFHC pursuant to a Tax Allocation Agreement dated September 7, 2011. The income tax liability of the consolidated group was allocated to members on a pro rata basis according to each member's separate return tax liability in an amount not to exceed the Company's separate return tax liability.

Shared Savings Agreement

The Company entered into a Shared Savings Agreement with Health First, Inc. (HF) effective January 1, 2014. Under the agreement, HF agreed to assume the financial responsibility of and be responsible for the payment of any deficiency, ("... the dollar amount by which the Actual Medical Spend is greater than the amount the Medical Loss Spend would have been had it equaled 87% with respect to a CMS Awarded Contract or any large group Commercial Plan or 82% with respect to the individual and small group Commercial Plans offered..."), with respect to all health care services provided to enrollees covered under all fully insured commercial products and Medicare Advantage plans offered in Brevard and Indian River counties of Florida.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of \$1,250,000 with a deductible of \$50,000, which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and did not provide employee benefits or sponsor retirement plans. Employees of HFHP performed functions on behalf of the Company. HFHP provided various benefits to eligible employees including health and dental insurance, educational assistance, paid leave, and participation in a 401(k) retirement and profit sharing plans sponsored by Health First, Inc.

TERRITORY AND PLAN OF OPERATION

The Company operated solely in the State of Florida. It offered Medicare Supplement coverage and individual, small and large group preferred provider organization (PPO) plans within its service area of Brevard and Indian River Counties. The Medicare Supplement and PPO plans were underwritten by the Company and administered by its affiliate HFHP. The Company marketed its products primarily through licensed brokers and sales agents.

REINSURANCE

The Company maintained excess of loss reinsurance coverage with PartnersRe American Insurance Company for its commercial individual and group PPO line of business. The reinsurance covered 90% of the Company's eligible expenses in excess of \$250,000 per commercial individual per year up to \$5,000,000 per individual per year.

STATUTORY DEPOSITS

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

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment were identified, the impact of such adjustment would be documented separately following the Company's financial statements.

Financial statements, as reported and filed by the Company with the Office, are reflected in the following pages:

Health First Insurance, Inc.
Statement of Revenue and Expenses
(As Reported By The Company)
Year Ended December 31, 2014

Net premium income	\$22,861,962
Change in unearned premium reserves and reserve for rate credits	(768,759)
Total revenues	22,093,203
Hospital and medical benefits	13,445,199
Other professional services	691,888
Emergency room and out-of-area	1,638,471
Prescription drugs	3,391,919
Net reinsurance recoveries	(1,644,421)
	17,523,056
Claims adjustment expenses	803,720
General insurance expenses	4,998,891
Increase in reserves for accident and health contracts	557,240
Total underwriting deductions	23,882,907
Net underwriting loss	(1,789,704)
Net investment loss	(99,792)
Net loss	\$ (1,889,496)

Health First Insurance, Inc.
Statement of Changes in Capital and Surplus
For the Year Ended December 31, 2014

Capital and surplus - December 31, 2013	\$ 4,284,223
Net loss	(1,889,496)
Change in nonadmitted assets	(99,155)
Paid in surplus	500,000
Aggregate write-ins for gains and losses in surplus	(39,324)
Capital and surplus - December 31, 2014	2,756,248
Examination adjustments	-
Capital and surplus - December 31, 2014	<u>\$ 2,756,248</u>

Health First Insurance, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2014

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, 2014 - as reported				\$ 2,756,248
			Increase (Decrease) In Capital & Surplus	
	As Reported	Per Examination	In Capital & Surplus	
Total admitted assets	\$ 10,217,520	\$ 10,217,520	\$ -	
Total liabilities	\$ 7,461,272	\$ 7,461,272	\$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2014 - per examination				<u>\$ 2,756,248</u>

SUBSEQUENT EVENTS

On June 25, 2015, the Office issued a Consent Order based upon the following:

On May 13, 2015, the Company filed its March 30, 2015 quarterly statement that reported its surplus as \$1,288,869. The reported surplus amount was less than the minimum surplus requirement of \$1,500,000, pursuant to Section 624.408, F.S. The Company did not inform the Office that its surplus was impaired prior to the filing of the quarterly statement.

On May 15, 2015, the Company received a surplus contribution of \$1,800,000 from its ultimate parent, Health First, Inc. The Company requested that it be allowed to file an amended March 30, 2015 quarterly statement to reflect the surplus contribution. The request was denied by the Office based upon the conditions outlined in SSAP 9 paragraph 2.

The Company was also in violation of Section 624.4095, F. S. as its net written premiums to surplus ratio exceeded the 4 to 1 ratio for four quarters as follows: September 30, 2014, (4.27), December 31, 2014, (6.64), March 31, 2015, (8.68) and June 30, 2015, (4.04).

On July 7, 2015, the Company submitted a written compliance plan. As part of the plan, the Company will reduce the number of members and premiums by providing new individual plans through HFHP and exit the Individual Exchange effective January 1, 2016.

On December 29, 2015, the Office issued a Consent Order approving a reorganization plan effective January 1, 2016, which included, a Certificate of Authority issued to Health First Administrative Plans, Inc. (HFAP) to operate as a Health Maintenance Organization pursuant to Part VII of Chapter 626, F.S. HFAP is a for-profit stock corporation which is wholly owned by Health First Holding, Corp. (HFHC), which is wholly owned by Health First, Inc.

As a result of this reorganization the ownership of the Company was transferred from HFHC to HFAP.

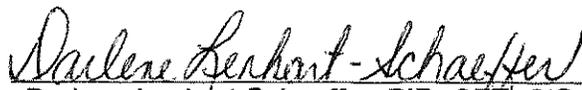
CONCLUSION

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, 2014, the Company's capital and surplus was \$ 2,756,248 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

The following individuals participated in the examination: Kerry Krantz, Actuary; Thomas Ciavarella, Research and Statistics Consultant; Luke Stavenau, Financial Specialist, Jorge Guzman-Perez, Reinsurance/Financial Specialist; Cathy Jones, CPA, CFE, Financial Examination Manager; and INS Regulatory Insurance Services, Inc.

Respectfully submitted,


Darlene Lenhart-Schaeffer, PIR, CFE, CISA
Chief Examiner
Florida Office of Insurance Regulation