

Report on Examination
of
Health First Insurance, Inc.

Rockledge, Florida

as of

December 31, 2018



**FLORIDA OFFICE OF
INSURANCE REGULATION**



**FINANCIAL SERVICES
COMMISSION**

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AGRICULTURE

DAVID ALTMAIER
COMMISSIONER

David Altmaier, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399

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, 2018. Our report on the examination follows.

Florida Office of Insurance Regulation
May 22, 2020

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2018 of Health First Insurance, Inc. (Company), a single-state insurer domiciled in Florida. The examination covered the period of January 1, 2015 through December 31, 2018 and took place primarily in the Company's Rockledge office and Tallahassee, Florida. This financial examination was conducted as a coordinated group exam with Health First Group. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (Office) was as of December 31, 2014. A limited scope examination of the Company by the Office was as of December 31, 2017.

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, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. Our examination also included identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statement.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes (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 were separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings to include in this report.

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, F.S.

In 2015, the Company was a wholly owned subsidiary of the Health First Holding Corporation (Holding Corporation), which is wholly owned by Health First, Inc. (HFI), a tax-exempt parent holding company located in Brevard County, Florida, whose primary purpose is to direct the affairs of a multi-entity health care system.

On December 31, 2015, the Office approved a reorganization, placing the Company under 100% ownership by Health First Administrative Plans, Inc., a Third-Party Administrator, which was wholly owned by HFI. On December 8, 2017, the Office approved a reorganization, again placing the Company under 100% ownership by the Holding Corporation, with HFI remaining the ultimate controlling entity.

Mergers and Acquisitions

There were no mergers or acquisitions to report during the examination period.

CORPORATE RECORDS

The minutes of meetings held by the Company's Shareholder, Board of Directors and its Audit and Finance Committee were reviewed for the period under examination. The Board's approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S., were recorded in the minutes of its meetings.

DIVIDENDS AND CAPITAL CONTRIBUTIONS

The Company did not distribute dividends during the exam period. In 2015, a surplus contribution of \$2.3 million was made to the Company as part of a reorganization from a wholly owned subsidiary of the Holding Corporation to 100% ownership by Health First Administration Plans, Inc. (HFI remaining the ultimate controlling party).

MANAGEMENT AND CONTROL

The Company was affiliated with entities through common ownership including Florida health maintenance organizations: Health First Health Plans, Inc. (HFHP); Health First Commercial Plans, Inc. (HFCP); Health First Administrative Plans, Inc. (HFAP), a Florida Third Party Administrator; and other various health service companies.

The Company's Comprehensive Healthcare and Medicare business was administered by HFAP. The Company's management and personnel were also provided by HFAP.

Its senior officers, directors, and members of principal board committees were:

Senior Officers

<u>Name</u>	<u>Title</u>
Drew Alan Rector *	President/Chief Executive Officer/Vice Chairman
Alan Philip Fehlner **	Vice President/Chief Financial Officer
Michael Dudley Keeler ***	Chief Operating Officer
Joseph George Felkner	Secretary/Treasurer
Nicholas William Romanello	Assistant Secretary
Steven Paul Johnson	Chairman

* Drew Alan Rector was replaced by Matthew Gerrell, effective May 1, 2019.

** Alan Philip Fehlner resigned effective March 6, 2020.

*** Michael Dudley Keeler resigned effective August 21, 2019, and was replaced by Jamie Forrest effective September 12, 2019.

Board of Directors

<u>Name</u>	<u>Location</u>
Dale Allen Dettmer	Merritt Island, FL
Joseph George Felkner	Viera, FL
Steven Paul Johnson	Indianapolis, FL
Frank Scott Letherby	Melbourne Beach, FL
Alan Lovelle Prestwood	Melbourne, FL
Drew Alan Rector	Indian Harbour Beach, FL

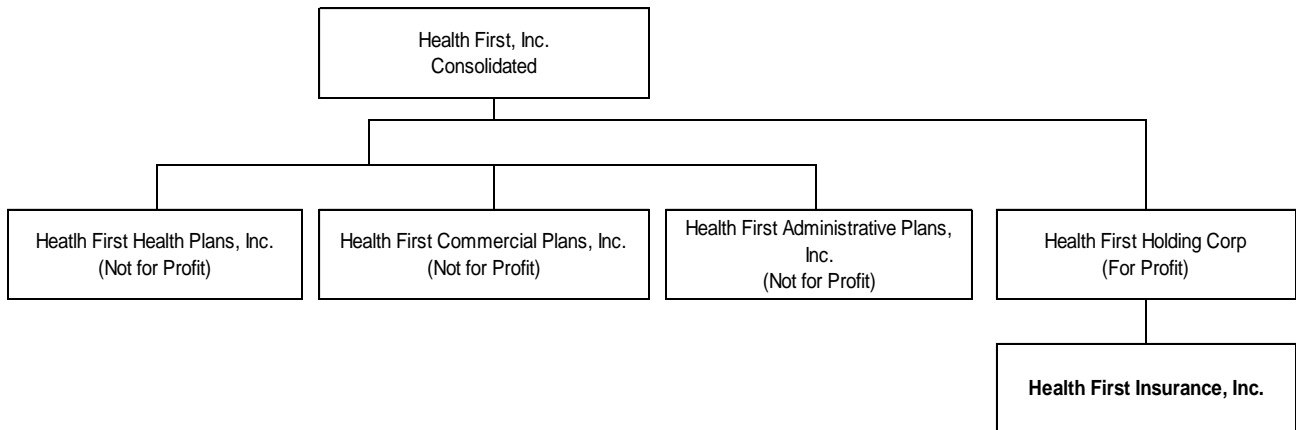
**Audit-Compliance
Committee**

Robert K. Henry, Chair
John Breitfeller
Gene Cavallucci
Dale Dettmer
Pamela A. Gatto
Dana S. Kilborne
William C. Potter

The Holding Company Registration Statement for 2018 was filed timely with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.).

An abbreviated organizational chart as of December 31, 2018, reflecting the holding company system, is shown below. All subsidiaries are 100% owned by its parent.

**Health First Insurance, Inc.
Organization Chart
December 31, 2018**



AFFILIATED AND OTHER AGREEMENTS

The following agreements were in effect between the Company and its affiliates.

Shared Savings Agreement

The Company participated in a shared savings agreement with HFI. The shared savings agreement was designed to share medical risk between the Company and HFI based on specified medical loss ratios as defined in the federal regulations. The agreement was originally entered January 1, 2014. The fourth amendment to the agreement was effective October 27, 2016.

Administrative and Financial Management Agreement

The Company has an affiliated administrative and financial management agreement with HFAP to receive certain management, administrative, and claims processing services which include utilization review, payroll services, and the majority of the administrative functions of the Company. The management agreement allowed HFAP to charge a fee driven by fully loaded costs (direct and indirect) plus a markup, which were included in claims adjustment expenses and general administrative expenses in the accompanying statutory statements of operations. The agreement was originally entered January 1, 2016, and subsequently amended.

Guaranty Agreement

On July 1, 2015, the Company entered into a guarantee agreement with HFI for continuing obligations of funding and financial support to the Company. This agreement remained in effect as long as HFI has direct, or indirect, majority ownership interest in the Company.

Tax Sharing Agreement

The Health Plan also has a tax-sharing agreement with Health First Holding Corporation. This agreement was effective September 7, 2011.

TERRITORY AND PLAN OF OPERATIONS

The Company operated solely in Florida and offered Medicare Supplement coverage. Effective January 1, 2013, the Company expanded its product portfolio to include individual, small, and large group Preferred Provider Organization (PPO) products. The company offered individual and small group Patient Protection and Affordable Care Act (PPACA) policies on the Exchange (ACA). The Medicare Supplement and PPO products were underwritten by the Company and administered by its affiliate HFHP. The Company no longer offered products on the exchange effective January 1, 2016.

COMPANY GROWTH

The Company reported the following for years 2014 through 2018:

(In millions except member months and year-end enrollment)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Member months	58,563	30,647	12,662	8,373	3,741
Year-end enrollment	5,809	1,943	983	551	52
Premiums	\$ 22.9	\$ 9.9	\$ 5.0	\$ 3.5	\$ 1.4
Total Revenue	\$ 22.1	\$ 10.4	\$ 5.3	\$ 3.5	\$ 1.4
Net income (loss)	\$ (1.9)	\$ (1.8)	\$ 0.3	\$ 0.2	\$ 0.2
Paid in surplus received	\$ 0.5	\$ 2.3	\$ -	\$ -	\$ -
Admitted assets	\$ 10.2	\$ 6.4	\$ 6.0	\$ 4.4	\$ 5.3
Liabilities	\$ 7.5	\$ 2.8	\$ 1.4	\$ 0.9	\$ 0.4
Capital and surplus	\$ 2.8	\$ 3.6	\$ 4.7	\$ 3.5	\$ 4.9

REINSURANCE

The Company entered into a reinsurance agreement with American National Insurance Company, a non-affiliate reinsurer, for its commercial, individual, group PPO, and Exchange line of businesses. The reinsurance agreement covered hospital inpatient services and various ancillary services. Reinsurance was purchased to limit the Company's exposure to catastrophic claims. The Company remained obligated for all claims in the event that the reinsurer does not meet its obligations. Under the terms of the agreement, the Company retained the first \$500,000 of any loss incurred for hospital services. For the commercial line of business, the excess coverage was unlimited.

ACCOUNTS AND RECORDS

There were no significant examination findings related to the Company's accounts and records.

SURPLUS NOTES

There were no surplus notes issued by the Company during the examination period.

STATUTORY DEPOSITS

The Company had \$ 111,662 deposited with the State of Florida as required by Section 624.411, F.S.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included. If, during the examination an adjustment was 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 on the following pages:

Health First Insurance, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Cash, cash equivalents and short-term investments	\$ 5,222,509	\$ -	\$ 5,222,509
	5,222,509	-	5,222,509
Uncollected premiums and agents' balances	1,486	-	1,486
Accrued retrospective premiums	14,118	-	14,118
Healthcare and other amounts receivable	44,048	-	44,048
Total admitted assets	\$ 5,282,161	\$ -	\$ 5,282,161
Liabilities			
Claims unpaid	\$ 77,235	\$ -	\$ 77,235
Unpaid claims adjustment expenses	2,291	-	2,291
Aggregate health policy reserves	151,064	-	151,064
Premiums received in advance	8,665	-	8,665
General expenses due or accrued	99,050	-	99,050
Amounts due to parent, subsidiaries and affiliates	29,729	-	29,729
Total liabilities	\$ 368,034	\$ -	\$ 368,034
Capital and Surplus			
Common capital stock	\$ 10,000	\$ -	\$ 10,000
Gross paid in and contributed surplus	8,790,000	-	8,790,000
Unassigned funds (deficit)	(3,885,873)	-	(3,885,873)
Total capital and surplus	4,914,127	-	4,914,127
Total liabilities, capital and surplus	\$ 5,282,161	\$ -	\$ 5,282,161

Health First Insurance, Inc.
Statement of Revenue and Expenses
Year Ended December 31, 2018

Net premium income	\$	1,415,734
Hospital and medical benefits		(408,155)
Other professional services		53,010
Emergency room and out-of-area		851,974
Prescription drugs		335,647
	\$	832,476
Net reinsurance recoveries		26,994
Total hospital and medical		805,482
Claims adjustment expenses		79,405
General administrative expenses		330,995
Increase in reserves for life and accident and health contrac		8,322
Total underwriting deductions		1,224,204
Net underwriting gain		191,530
Net investment gains		1,941
Income before federal income tax		193,471
Federal income tax		-
Net income	\$	193,471

Health First Insurance, Inc.
Statement of Changes in Capital and Surplus
Four Years Ended December 31, 2018

Capital and surplus - December 31, 2014	\$	2,756,248
Net income		(1,763,014)
Change in nonadmitted assets		(648,678)
Surplus Adjustments Paid In		2,300,000
Aggregate write-ins for gains or (losses)		932,273
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Capital and surplus - December 31, 2015	\$	3,576,829
Net income		298,617
Change in nonadmitted assets		742,950
Surplus Adjustments Paid In		-
Aggregate write-ins for gains or (losses)		33,511
<hr/>		
Capital and surplus - December 31, 2016	\$	4,651,907
Net income		194,627
Change in nonadmitted assets		(1,342,032)
Surplus Adjustments Paid In		-
Aggregate write-ins for gains or (losses)		-
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Capital and surplus - December 31, 2017	\$	3,504,502
Net income		193,471
Change in nonadmitted assets		1,216,154
Surplus Adjustments Paid In		-
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		4,914,127
Examination adjustments		-
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Capital and surplus - December 31, 2018	\$	4,914,127
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Health First Insurance, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2018

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

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Capital and surplus, December 31, 2018 - per annual statement				\$ 4,914,127
Total assets	\$ 5,282,161	\$ 5,282,161	\$ -	
Total liabilities	\$ 368,034	\$ 368,034	\$ -	-
Capital and surplus, December 31, 2018 - per examination				<u>\$ 4,914,127</u>

COMMENTS ON FINANCIAL STATEMENTS

The actuarial reserves and claims liabilities were reviewed and it was determined that the reserves as reported by the Company were acceptable. There were no material changes required to be made to the Company's financial statements.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

SUBSEQUENT EVENTS

In addition to reviewing board minutes and financial statements, the examination also considered notable subsequent events occurring after the December 31, 2018 examination date.

Advent Health Acquisition

On January 3, 2020, Health First, Inc. and subsidiaries completed a transaction with Health First Foundation, Inc. and Adventist Health System Sunbelt Healthcare Corporation, d/b/a Advent Health. Health First Foundation, Inc. and Advent Health acquired an ownership interest in Health First, Inc. and subsidiaries of 73% and 27%, respectively. Advent Health was a not-for-profit healthcare corporation that owned and/or operated hospitals, nursing homes, physician offices, urgent care centers and other healthcare facilities, and a philanthropic foundation.

Management Changes

On May 1, 2019, Matthew Gerrell was appointed President / Chief Executive Officer, replacing Drew Rector, who continued the position of Executive Vice President and Chief Strategy Officer at Health First, Inc.

On September 12, 2019, Jamie Forrest was appointed Chief Operating Officer, replacing Michael Keeler who resigned, effective August 21, 2019.

On March 6, 2020, Alan Fehlner resigned as Chief Financial Officer. Due to the logistical impact of the Coronavirus COVID-19 epidemic, this position has not yet been filled.

Coronavirus COVID-19

In March 2020, the World Health Organization recognized the coronavirus (COVID-19) outbreak as a pandemic. While the complete effects of COVID-19 on the economy and financial markets are still unknown, the Office recognizes that it could have a significant impact on all domestic insurers, including the Company. The Office will continue to closely monitor this situation and share information with the Company as appropriate regarding these developments.

CONCLUSION

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

At December 31, 2018, the Company's capital and surplus was \$4,914,127 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: Tracy D. Gates CISA, CFE Examiner-in-Charge and IT Specialist; Sheri L. Kenney, CFE, MCM, Exam Manager; Travis R. Harrison, Participating Examiner; Lori G. Jester, Participating Examiner, associated with the firm of Highland Clark, LLC; as well as Jay C. Miniati, FSA, MAAA, Actuary associated with the firm of Jay Miniati Actuarial Services.

The following individuals from the Florida Office of Insurance Regulation also participated in the examination: Marshay L. Spencer, APIR, Financial Analyst/ Examiner Supervisor and Glenn Coats, APIR, Financial Control Analyst.

Respectfully submitted,



Carolyn M. Morgan, APIR

Director, Life & Health Financial Oversight

Florida Office of Insurance Regulation