

Report on Examination
of
HEALTH FIRST COMMERCIAL PLANS, INC.

Rockledge, Florida

as of

December 31, 2016



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

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COMMISSIONER

David Altmaier, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

In accordance with Section 641.27, 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 Commercial Plans, Inc. as of December 31, 2016. Our report on the examination follows.

Florida Office of Insurance Regulation
April 5, 2018

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2016 of Health First Commercial Plans, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of December 29, 2015 through December 31, 2016 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, 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.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statute (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

The Company was operating under a tax arrangement with Health First Holding Corp., that was not filed with the Department pursuant to Florida Administrative Code (FAC) 69O-143.047(4)(d). Recommendation relating to this finding is summarized on page 15.

The examination resulted in a finding that the Company's service agreements with Connecture, Inc., Millennium Consulting Services, and Express Scripts, Inc. did not contain a provision that the agreements would be cancelled upon issuance of an order by the Office pursuant to Section 641.234(3), F.S. Recommendation relating to this finding is summarized on page 15.

COMPANY HISTORY

The Company was incorporated in Florida on January 20, 2015 and licensed by the Office as an HMO on December 29, 2015. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S.

Dividends and Capital Contributions

Pursuant to Consent Order 184261-15-CO, Health First Health Plans, Inc. (NAIC # 95019) merged with and into Health First Government Plans, Inc. (NAIC # 15880) on January 1, 2016 and Health First Government Plans, Inc. was the surviving entity. Subsequently, Health First Government Plans, Inc. was renamed Health First Health Plans, Inc. Subsequent to this merger, Health First Health Plans, Inc. transferred all of its non-Marketplace commercial business to the Company through an Assignment and Assumption Agreement and by causing an extraordinary dividend to Health First Holding Corp., effective January 1, 2016. Upon receipt of the distribution, Health First Holding Corp. immediately sent the distribution to the Company.

CORPORATE RECORDS

The meetings of the Board of Directors, Shareholder, Audit Committee and Finance Committee during the examination period examined were adequately documented in the minutes, including the authorization of investments as required by Section 641.35(7), F.S.

MANAGEMENT AND CONTROL

The Company is a for-profit corporation wholly owned by Health First Administrative Plans, Inc., which is wholly owned by Health First Holding Corp. The ultimate owner was 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., a Florida health maintenance organization. The Company's senior officers and directors as of December 31, 2016 were:

Senior Officers

<u>Name</u>	<u>Title</u>
Drew A. Rector	President, Chief Executive Officer
Alan P. Fehlner	Vice President, Chief Financial Officer
Joseph G. Felkner	Treasurer
David E. Mathias, Esq.	Assistant Secretary

Board of Directors

<u>Name</u>	<u>Location</u>
Cathy K. Eddy	Colleyville, Texas
Joseph G. Felkner	Melbourne, Florida
Catherine A. Ford	Melbourne, Florida
Steven P. Johnson	Indianapolis, Florida
Drew A. Rector	Indian Harbour Beach, Florida
Jeffery C. Stainaker, MD	Merritt Island, Florida

Audit Committee

James C. Shaw, Chairperson
John F. Breitfeller
Eugene S. Cavallucci, Esq.
Dale A. Dettmer
Catherine A. Ford
Pamela A. Gatto
Robert K. Henry
William C. Potter, Esq.
Alan L. Prestwood

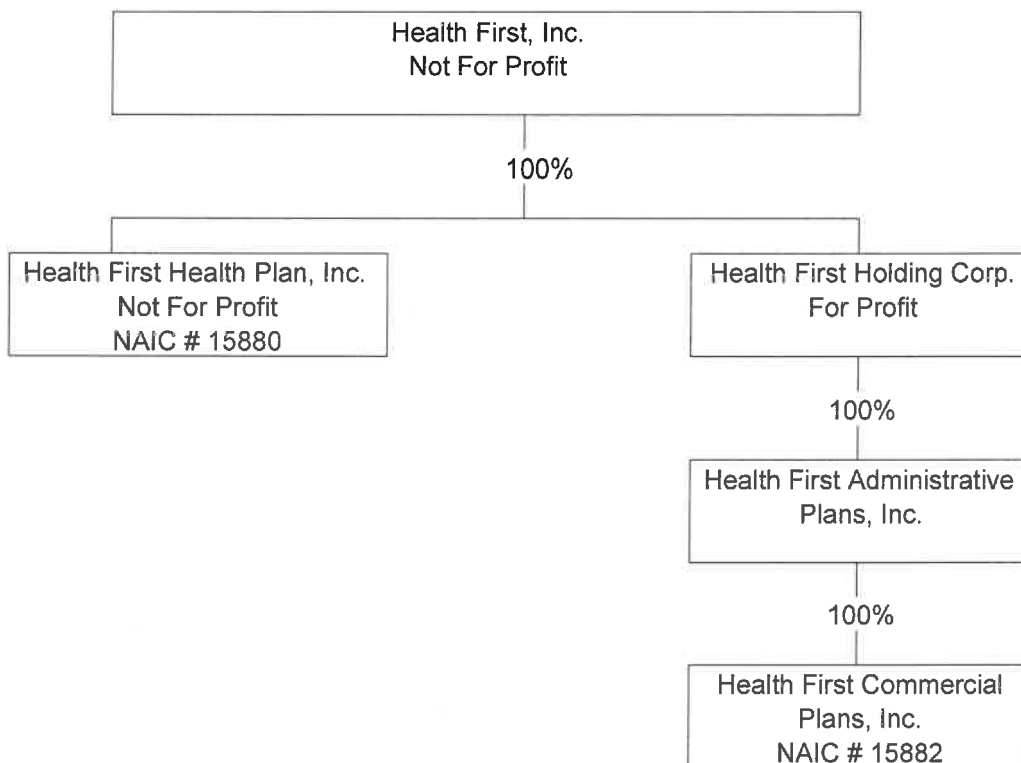
Finance Committee

Bryan R. Roub, Chairperson
John F. Breitfeller
Patricia Driscoll
Dale A. Dettmer
Catherine A. Ford
Pamela A. Gatto
William C. Potter, Esq.
Alan L. Prestwood

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 31, 2017.

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

**Health First Commercial Plans, Inc.
Abbreviated Organizational Chart
December 31, 2016**



AFFILIATED AGREEMENTS

The following agreement(s) were in effect between the Company and its affiliates.

Assignment and Assumption Agreement

Effective January 1, 2016, Health First Commercial Plans, Inc. (HFCP) entered into an assignment and assumption agreement with Health First Health Plans, Inc. (HFHP), Health First Holding Corp. (HFHC) and Health First Administrative Plans, Inc. (HFAP). Under the agreement, HFHP agreed

to transfer its non-Exchange commercial business and certain investment assets and certain liabilities to HFHC, which transferred such business, assets and liabilities to HFAP, which transferred such business assets to HFCP.

Administrative and Financial Management Agreement

Effective January 1, 2016, the Company entered into an Administrative and Financial Management agreement with Health First Administrative Plans, Inc. (HFAP). Under the terms of the agreement, HFAP acted as the general, administrative, and financial manager of the Company by providing the following services: strategic planning, consultation and assistance with legal affairs, coordination of employee health, welfare and fringe benefit programs, financial consultations and oversight, accounting and bookkeeping services, information systems support access to the networks, and other services that may be reasonably required such as risk management and compliance.

Tax Allocation Agreement

The Company has been operating under a tax allocation agreement with Health First Holding Corp., that was not filed with the Department pursuant to Florida Administrative Code 69O-143.047(4)(d). The income tax liability of the consolidated group was allocated to members on a pro-rata basis according to each members' separate return tax liability in an amount not to exceed the Company's separate return tax liability.

FIDELITY BONDS AND OTHER INSURANCE

The Company was insured by a crime prevention policy in accordance with Section 641.22(7), F.S., in the amount of \$1,000,000 with no deductible. As an individual practice association model HMO, the Company maintained levels of general and professional liability insurance and required its providers to certify and maintain levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company was allocated the costs of various benefits to eligible employees including health and dental insurance, education assistance, paid leave, and participation in 401(k) retirement plan, sponsored by Health First, Inc.

TERRITORY AND PLAN OF OPERATION

The Company held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, F.S., valid until December 31, 2017. It provided health care services to comprehensive and Medicare members. Its total membership on December 31, 2016 was 14,264 of which 100% were HMO members. The Company operated in Florida counties of Brevard, Flagler, Indian River, and Volusia.

COMPANY GROWTH

The Company reported the following for 2016:

(Dollars are in millions)

	<u>2016</u>
Member months	168,039
Year-end enrollment	14,264
Premiums	\$ 72.6
Total revenues	\$ 72.6
Total underwriting deductions	\$ 70.4
Net income	\$ 1.3
Stockholder dividends	\$ -
Paid in surplus received	\$ 15.7
Admitted assets	\$ 31.8
Liabilities	\$ 12.7
Capital and surplus	\$ 19.1

REINSURANCE

The Company maintained excess of loss reinsurance coverage with Munich Reinsurance America, Inc. for its Commercial and Exchange line of business. The reinsurance covered 90% of the Company's eligible expenses in excess of \$425,000 for the Commercial and Exchange line of business, on any loss incurred for hospital services. For the Commercial and Exchange line of business, the excess coverage is unlimited per member, per agreement period.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Rockledge, Florida, where its accounts and records are located.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$300,000 in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, 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 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 in the following pages:

Health First Commercial Plans, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$ 16,654,787	\$ -	\$ 16,654,787
Cash, cash equivalents and short-term investments	13,927,925	-	13,927,925
Receivable for securities	18,072	-	18,072
	30,600,784	-	30,600,784
Investment income due and accrued	85,872	-	85,872
Uncollected premiums and agents' balances	159,504	-	159,504
Amounts recoverable from reinsurers	4,518	-	4,518
Net deferred tax asset	388,152	-	388,152
Health care and other amounts recoverable	623,773	-	623,773
Aggregate write-ins for other than invested assets	10,000	-	10,000
Total admitted assets	\$ 31,872,603	\$ -	\$ 31,872,603
Liabilities			
Claims unpaid	\$ 6,741,022	\$ -	\$ 6,741,022
Unpaid claims adjustment expenses	189,979	-	189,979
Premiums received in advance	854,260	-	854,260
General expenses due and accrued	645,740	-	645,740
Current federal income tax payable	1,017,850	-	1,017,850
Amounts due to parent, and affiliates	3,286,792	-	3,286,792
Total liabilities	12,735,643	-	12,735,643
Capital and Surplus			
Common capital stock	10,000	-	10,000
Gross paid in and contributed surplus	17,553,526	-	17,553,526
Unassigned funds (deficit)	1,573,434	-	1,573,434
Total capital and surplus	19,136,960	-	19,136,960
Total liabilities, capital and surplus	\$ 31,872,603	\$ -	\$ 31,872,603

Health First Commercial Plans, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2016

Net premium income	\$ 72,601,970
Hospital and medical benefits	42,874,507
Other professional services	2,263,601
Emergency room and out-of-area	3,304,858
Prescription drugs	10,171,046
	<hr/> 58,614,012
Net reinsurance recoveries	107,117
	<hr/> 58,506,895
Total hospital and medical	58,506,895
Claims adjustment expenses	4,872,717
General administrative expenses	7,079,632
	<hr/> 70,459,244
Total underwriting deductions	70,459,244
Net underwriting gain	2,142,726
Net investment gains	169,094
	<hr/> 2,311,820
Income before federal income tax	2,311,820
Federal income tax	1,017,850
	<hr/> \$ 1,293,970
Net income	<hr/> <hr/> \$ 1,293,970

Health First Commercial Plans, Inc.
Statement of Changes in Capital and Surplus
One Year Ended December 31, 2016

Capital and surplus - December 31, 2015	\$ 1,812,160
Net income	1,293,970
Change in net unrealized capital gains	20,258
Change in net deferred income tax	388,152
Change in nonadmitted assets	(112,938)
Surplus adjustment: paid-in	15,737,518
Aggregate write-ins for gains or (losses)	(2,160)
Capital and surplus - December 31, 2016	19,136,960
Examination adjustments	-
Capital and surplus - December 31, 2016	\$ 19,136,960

Health First Commercial Plans, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2016

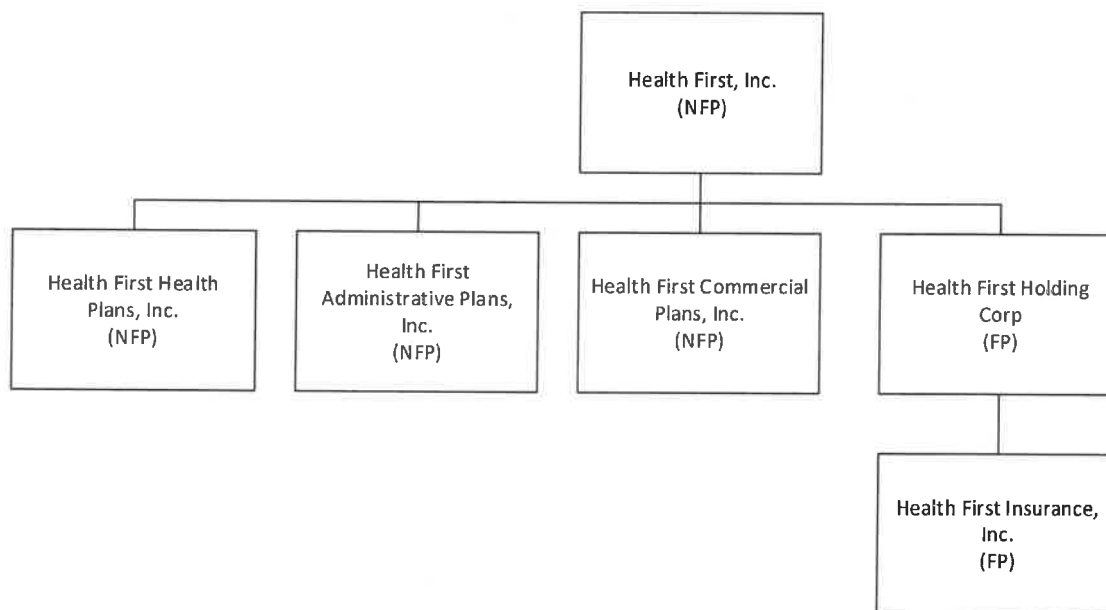
The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2016 - per annual statement			\$ 19,136,960
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 31,872,603	\$ 31,872,603	\$ -
Total liabilities	\$ 12,735,643	\$ 12,735,643	\$ -
Capital and surplus, December 31, 2016 - per examination			<u>\$ 19,136,960</u>

SUBSEQUENT EVENTS

In accordance with Consent Order Case No. 218365-17-CO, the Company merged with Newco Health First Commercial Plans, Inc. pursuant to Sections 628.451 and 641.255, Florida Statutes. Newco Health First Commercial Plans, Inc. was a newly formed not-for-profit corporation organized in Florida on June 9, 2017. Subsequent to the merger, the surviving entity was named Health First Commercial Plans, Inc. Simultaneously, Health First Administrative Plans, Inc. merged with Newco Health First Administrative Plans, Inc. Newco Health First Administrative Plans, Inc. was a newly formed not-for-profit corporation organized in Florida on June 9, 2017. Subsequent to the merger, the surviving entity was named Health First Administrative Plans, Inc. The ultimate owner, Health First, Inc., contributed 100% of the stock of Health First Commercial Plans, Inc. to Health First Administrative Plans, Inc. Upon consummation of the merger, the Company surrendered its Certificate of Authority. An abbreviated organizational chart reflecting the new holding company system is shown below.

Health First Commercial Plans, Inc. Abbreviated Organizational Chart



SUMMARY OF RECOMMENDATIONS

As reported on page 7, the newly formed entity, Health First Commercial Plans, Inc., was operating under a tax arrangement with Health First Holding Corp. that had not been filed with the Department. **We recommend the agreement be filed with the Department pursuant to Florida Administrative Code 69O-143.047(4)(d).**

As reported on page 2, the Company's service agreements with Connecture, Inc., Millennium Consulting Services, and Express Scripts, Inc. were not in compliance with Section 641.234(3), F.S., as they did not contain a provision that the agreements would be cancelled upon issuance of an order by the Office. **We recommend the Company amend its service agreements with Connecture, Inc., Millennium Consulting Services, and Express Scripts, Inc. to reflect the Office cancellation clause required by Section 641.234(3), F.S.**

CONCLUSION

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

At December 31, 2016, the Company's capital and surplus was \$19,136,960 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

The following individuals participated in the examination: Philip Engelhart, CPA, AIAF, CFE (Examiner-in-Charge); Thomas Mayberry, CPA, CFE; Paul Sliwinski, CPA, ARe; and Chris Davis, CPA of EWM Group, PC., Joanna Latham, CPA, CFE, AES, CISA, Information Specialist of Jennan Enterprises, and from the Florida Office of Insurance Regulation: Margaret McCrary, CPA, Chief Financial Examiner; Marshay Spencer, APIR, Examination Manager; Emmaculate Muambo, Financial Specialist; Lisa Parker, ASA, MAAA, PIR, Actuary; and Thomas Ciavarella, ASA, Actuary.

Respectfully submitted,



Carolyn M. Morgan, APIR
Director, Life & Health Oversight
Florida Office of Insurance Regulation