

**Report on Examination**  
**of**  
**Health First Health Plans, Inc.**  
**Rockledge, Florida**  
**as of**  
**December 31, 2010**

**By The**  
**Florida Office of Insurance Regulation**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
200 E. Gaines Street  
Tallahassee, Florida 32399-0305

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 Health Plans, Inc. as of December 31, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation  
March 26, 2012

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of Health First Health Plans, Inc. (the "Company"), a single-state Florida health maintenance organization (HMO). The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2005.

This examination covered the period of January 1, 2006 through December 31, 2010. 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.

The examination was conducted primarily in the Company's Rockledge, Florida office.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The examination resulted in findings that the Company did not adequately provide for its liability insurance coverage in accordance with the requirements of Rule 69O-191.069(5), Florida Administrative Code (F.A.C.), and overstated its assets by \$11,147,449 in its 2010 annual statement, as reported on pages 7 and 14.

## **COMPANY HISTORY**

The Company was incorporated in Florida on May 22, 1995, licensed by the Office as an HMO on December 29, 1995, and commenced business on January 1, 1996. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.), and as a third party administrator pursuant to Part VII of Chapter 626, F.S.

### **Dividends and Capital Contributions**

The Company distributed shareholder dividends in the amounts of \$4.5 million, \$16.0 million and \$7.2 million in 2008, 2009 and 2010, respectively. No dividends were distributed by the Company during 2006 or 2007, and no capital contributions were received by the Company during the period examined.

## **CORPORATE RECORDS**

The minutes of the meetings of the Company's board of directors were reviewed for the period examined. The minutes adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 641.35(7), F.S.

## MANAGEMENT AND CONTROL

The Company was a for-profit corporation wholly owned by Health First Holding Corp., also a for-profit corporation. Health First Holding Corp. was wholly owned by Health First, Inc., a not-for-profit corporation. The Company's senior officers and directors were as shown below.

### Senior Officers

<u>Name</u>	<u>Title</u>
Margaret H. Haney	President, Chief Executive Officer and Secretary
Chris Sorensen	Senior Vice President and Chief Operating Officer
Roberta B. Stoner	Vice President of Finance
Robin Pittman	Vice President of Operations
Jennifer Brady, M.D.	Vice President and Medical Director
Robert C. Galloway	Treasurer

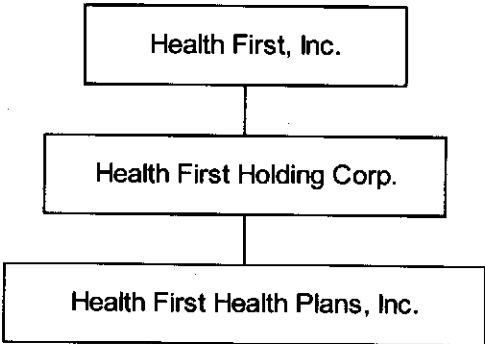
### Board of Directors

<u>Name</u>	<u>Location</u>
Andrew M. Atkinson, M.D.	Melbourne, Florida
Richard N. Baney, Jr., M.D.	Melbourne, Florida
Robert C. Galloway	Rockledge, Florida
Larry F. Garrison	Rockledge, Florida
Margaret H. Haney	Rockledge, Florida
Rosemary D. Laird, M.D.	Melbourne, Florida
Richard M. Levine, M.D.	Titusville, Florida
Nicholas E. Pellegrino	Cocoa Beach, Florida
Kevin S. Pruett	Cocoa Beach, Florida
James C. Shaw	Melbourne, Florida
Basil C. Theodotou, M.D.	Melbourne, Florida

The Company was a member of an insurance holding company system as defined by Rule 69O-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 69O-143.046, F.A.C., on March 29, 2011.

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

**Health First Health Plans, Inc.  
Abbreviated Organizational Chart  
December 31, 2010**





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

Administrative and Financial Services Agreement

Health First, Inc. provided administrative and financial services to the Company pursuant to a 1996 agreement in return for monthly fees based on incurred costs.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of Health First Holding Corp. pursuant to a tax sharing agreement dated December 29, 2000, as amended on June 19, 2002. The income tax liability of the consolidated group was allocated to its members on a pro rata basis according to each member's separate return tax liability. Settlement of tax liabilities was required within 30 days after the filing of the consolidated tax return.

Third Party Administrator Agreement

The Company provided claims processing and administrative services to Health First, Inc. pursuant to an agreement effective January 1, 2004, as amended on October 1, 2008.

Lease Agreement

The Company leased a portion of its headquarters to Health First, Inc. pursuant to a 20-year noncancellable lease agreement.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company was insured by a crime protection policy in accordance with Section 641.22(7), F.S., in the amount of \$1 million with no deductible. As an individual practice association model HMO, the Company maintained adequate professional liability insurance. It required in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Rule 69O-191.069, F.A.C. Rather than obtaining general liability insurance coverage, the Company elected to self-insure against general liability risks. However, it failed to establish an escrow fund for liability claims and support its plan for self-insurance by filing with the Office an acceptable actuarial study, as required by Rule 69O-191.069(5), F.A.C.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company offered various benefits to eligible employees including health and dental insurance, educational assistance, paid leave, and participation in 401(k) retirement and profit-sharing 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 November 25, 2013. It provided health care services to comprehensive and Medicare members. Its total membership at December 31, 2010 was 47,798, of which 52% were comprehensive members and 48% were Medicare members. The Company operated in the Florida counties of Brevard and Indian River.

## COMPANY GROWTH

The Company reported the following for years 2006 through 2010:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Year-end enrollment	54,430	52,926	51,676	47,288	47,798
In millions:					
Premiums	\$ 313.7	\$ 343.5	\$ 370.4	\$ 374.7	\$ 361.0
Revenues	\$ 313.7	\$ 343.5	\$ 370.4	\$ 374.7	\$ 361.0
Net income	\$ 5.8	\$ 4.5	\$ 16.0	\$ 7.2	\$ 7.9
Capital and surplus	\$ 18.9	\$ 26.5	\$ 41.5	\$ 39.0	\$ 44.2

## REINSURANCE

The Company maintained reinsurance with Zurich American Insurance Company covering 90% of eligible expenses in excess of \$175,000 up to \$2,000,000 per member per year. The policy also covered 50% of the cost of approved organ and tissue transplants. In addition, the Company maintained reinsurance with ING Reinsurance, a division of ReliaStar Life Insurance Company, covering Medicare losses on a 90% coinsurance basis, with a deductible of \$150,000 per member per year up to \$2,000,000 per member lifetime.

## STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$3,057,513 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.

**Health First Health Plans, Inc.**  
**Assets**  
**December 31, 2010**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 31,902,921	\$ (10,306,180)	\$ 21,596,741
Properties occupied by the company	5,038,518	-	5,038,518
Cash, cash equivalents and short-term investments	36,420,944	(841,269)	35,579,675
	73,362,383	(11,147,449)	62,214,934
Investment income due and accrued	144,818	-	144,818
Uncollected premiums and agents' balances	1,589,912	-	1,589,912
Amounts recoverable from reinsurers	1,122,815	-	1,122,815
Amounts receivable relating to uninsured plans	3,110,282	-	3,110,282
Net deferred tax asset	1,066,492	-	1,066,492
Health care and other amounts receivable	4,416,140	-	4,416,140
<b>Total assets</b>	<b>\$ 84,812,842</b>	<b>\$ (11,147,449)</b>	<b>\$ 73,665,393</b>

**Health First Health Plans, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2010**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$ 24,378,721	\$ -	\$ 24,378,721
Unpaid claims adjustment expenses	431,737	-	431,737
Aggregate health policy reserves	1,113,080	-	1,113,080
Premiums received in advance	2,489,650	-	2,489,650
General expenses due or accrued	3,521,292	-	3,521,292
Current federal and foreign income tax payable	4,249,920	-	4,249,920
Amounts withheld or retained for the account of others	192,979	-	192,979
Amounts due to parent, subsidiaries and affiliates	3,787,727	-	3,787,727
Derivatives	384,613	-	384,613
Aggregate write-ins for other liabilities	36,294	-	36,294
<b>Total liabilities</b>	<b>40,586,013</b>	<b>-</b>	<b>40,586,013</b>
<b>Capital and Surplus</b>			
Common capital stock	10,000	-	10,000
Gross paid in and contributed surplus	19,178,993	-	19,178,993
Unassigned funds	25,037,836	(11,147,449)	13,890,387
<b>Total capital and surplus</b>	<b>44,226,829</b>	<b>(11,147,449)</b>	<b>33,079,380</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 84,812,842</b>	<b>\$ (11,147,449)</b>	<b>\$ 73,665,393</b>

**Health First Health Plans, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**For The Year Ended December 31, 2010**

Net premium income	\$ 360,980,428
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Hospital and medical benefits	223,971,769
Other professional services	22,439,609
Emergency room and out-of-area	17,528,442
Prescription drugs	42,024,338
	<hr/> 305,964,158
Net reinsurance recoveries	3,018,436
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Total hospital and medical	302,945,722
Claims adjustment expenses	8,431,127
General administrative expenses	39,000,593
Total underwriting deductions	<hr/> 350,377,442
Net underwriting gain	10,602,986
Net investment income earned	1,255,925
Net realized capital gains	6,741
Aggregate write-ins for other income or expenses	290,738
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Income before income tax	12,156,390
Federal and foreign income taxes incurred	4,249,920
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Net income	<hr/> \$ 7,906,470

**Health First Health Plans, Inc.**  
**Statement of Changes in Capital and Surplus**  
**For The Five Years Ended December 31, 2010**

Capital and surplus - December 31, 2005	\$ 14,374,455
Net income	5,762,714
Change in net deferred income tax	(921,648)
Change in nonadmitted assets	(280,799)
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Capital and surplus - December 31, 2006	18,934,722
Net income	4,513,122
Change in net deferred income tax	220,912
Change in nonadmitted assets	1,101,085
Aggregate write-ins for gains in surplus	1,753,890
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Capital and surplus - December 31, 2007	26,523,731
Net income	16,032,888
Change in net deferred income tax	(194,408)
Change in nonadmitted assets	741,807
Dividends to stockholder	(4,513,122)
Aggregate write-ins for gains in surplus	2,940,602
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Capital and surplus - December 31, 2008	41,531,498
Net income	7,223,916
Change in net deferred income tax	33,653
Change in nonadmitted assets	385,574
Dividends to stockholder	(16,032,887)
Aggregate write-ins for gains in surplus	5,865,862
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Capital and surplus - December 31, 2009	39,007,616
Net income	7,906,470
Change in net unrealized capital gains	26,472
Change in net deferred income tax	348,336
Change in nonadmitted assets	481,600
Dividends to stockholder	(7,223,917)
Aggregate write-ins for gains in surplus	3,680,252
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	44,226,829
Examination adjustments	(11,147,449)
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Capital and surplus - December 31, 2010	\$ 33,079,380
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**Health First Health Plans, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2010**

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

<b>Capital and surplus, December 31, 2010 - per annual statement</b>			<b>\$ 44,226,829</b>
	<b>Per Company</b>	<b>Per Examination</b>	<b>Increase (Decrease) In Capital &amp; Surplus</b>
Bonds	\$ 31,902,921	\$ 21,596,741	\$ (10,306,180)
Cash, cash equivalents and short-term investments	\$ 36,420,944	\$ 35,579,675	\$ (841,269)
Net change in capital and surplus			<u>(11,147,449)</u>
<b>Capital and surplus, December 31, 2010 - per examination</b>			<b><u>\$ 33,079,380</u></b>



## COMMENTS ON FINANCIAL STATEMENTS

<b>Bonds</b>	<b>\$21,596,741</b>
<b>Cash, Cash Equivalents and Short-Term Investments</b>	<b>\$35,579,675</b>

The amount reported by the Company in its 2010 annual statement as 'bonds' has been reduced by \$10,306,180 to \$21,596,741, and the amount reported as 'cash, cash equivalents and short-term investments' has been reduced by \$841,269 to \$35,579,675. The investments, as reported by the Company, included securities in the total amount of \$11,147,449 held by a custodian on behalf of entities other than the Company. Because the securities were not owned by the Company as of December 31, 2010, they were nonadmitted upon examination. Subsequent to December 31, 2010, the securities were transferred to a different custodian which held them in the name of the Company.

## SUMMARY OF FINDINGS

### Self Insurance

As reported on page 7, the Company failed to establish an escrow fund for liability claims and support its plan for self-insurance by filing with the Office an acceptable actuarial study. **We recommend that the Company provide for its liability risk in accordance with the requirements of Rule 69O-191.069(5), F.A.C.**

### Investments

As reported on page 14, the Company reported investments in its 2010 annual statement that were held by a custodian on behalf of other entities. Subsequently, the securities were transferred to a different custodian which held them in the name of the Company. **We recommend that, in future statements filed with the Office, the Company report as admitted assets only those assets owned by it, in accordance with Section 641.35(1), F.S.**

## **SUBSEQUENT EVENTS**

In its annual statement, the Company reported total capital and surplus of \$55.0 million as of December 31, 2011. In addition, it reported net premium income and total revenues of \$393.0 million, net income of \$11.5 million, and payment of \$7.9 million in stockholder dividends for the year 2011.

## CONCLUSION

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

The Company's capital and surplus at December 31, 2010 was determined to be \$33,079,380, which was in compliance with 641.225, F.S. Its required minimum capital and surplus was \$7,219,609.

In addition to the undersigned, the following individuals participated in this examination: Faisal Harianawalla, Financial Examiner/Analyst; Cathy S. Jones, CPA, AFE, Financial Examiner/Analyst Supervisor; Scott R. Slaughter, CPA, Financial Examiner/Analyst; and Richard Tan, Actuary.

Respectfully submitted,

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Darlene L. Lenhart-Schaeffer, CFE  
Financial Examiner/Analyst  
Florida Office of Insurance Regulation