

Report on Examination
of
Health First Health Plans, 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 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, 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 Health Plans, Inc. (the Company), a single-state Florida health maintenance organization (HMO). Our examination covered the period of January 1, 2011 through December 31, 2014 and took place at 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, 2010.

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, FS 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 examination resulted in a finding that several service agreements did not contain the correct cancellation clause as required by Section 641.234 Florida Statutes (F.S.). Recommendation relating to this finding is summarized on page 13.

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. The Company was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S. and as a third party administrator pursuant to Part VII of Chapter 626, 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 641.35(7), F.S.

Dividends and Capital Contributions

The Company distributed shareholder dividends in the amounts of \$7.9 million, \$11.5 million, and \$3.6 million during 2011, 2012 and 2013, respectively. No dividends were distributed by the Company during 2014.

MANAGEMENT AND CONTROL

The Company was a for-profit corporation wholly owned by Health First Holding Corp. (HFHC), a for-profit corporation. HFHC was wholly owned by Health First, Inc. (HF), 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 Insurance, Inc. (HFI), a Florida health insurance company. 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
Jeffery C. Stalnaker, M.D.	Merritt Island, Florida

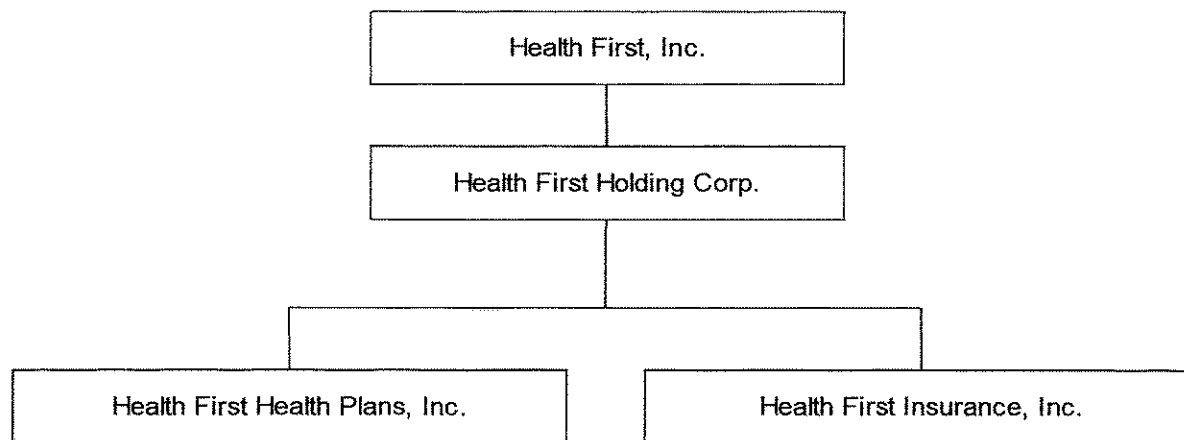
Audit Committee

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 May 29, 2015.

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

**Health First Health Plans, 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 January 1, 1996, as amended June 19, 2002. Under the agreement, HF provided administrative, management and financial services to the Company.

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

Third Party Administrator Agreement

The Company entered into an Administrative Services Agreement with HF effective January 1, 2004, as amended October 1, 2013. Under the agreement, the Company provided claim processing and administrative services to HF's self-funded employee health benefit plan.

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 Agreements

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 payment of any deficiency, ("... the dollar amount where by 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.

Lease Agreement

The Company entered into an Inter-facility Lease Agreement with Health First, Inc. (HF) on September 17, 2002, as amended March 27, 2007. Under the agreement, the Company leased a portion of its home office to HF pursuant to a 20-year non-cancellable 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 \$1,000,000 with no deductible. As an individual practice association (IPA) model HMO, the Company maintains acceptable levels of general and professional liability insurance and required its providers to certify and maintain appropriate 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 offered various benefits to eligible employees including health and dental insurance, education assistance, paid leave, and participation in 401(k) retirement and profit sharing plans 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 26, 2015. It provided health care services to comprehensive and Medicare members. Its total membership on December 31, 2014 was 43,874 of which 100% were HMO members. The Company operated in the Florida counties of Brevard, Flagler, Indian River, and Volusia.

COMPANY GROWTH

The Company reported the following for years 2011 through 2014:

(Dollars are in millions.)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Member months	568,172	535,471	525,413	527,734
Year-end enrollment	46,318	43,879	44,608	43,874
Premiums	\$ 393.0	\$ 362.0	\$ 352.3	\$ 350.4
Total revenues	\$ 393.0	\$ 362.8	\$ 353.1	\$ 350.1
Total underwriting deductions	\$ 376.0	\$ 361.9	\$ 340.3	\$ 343.5
Net income (loss)	\$ 11.5	\$ 0.6	\$ 8.0	\$ 3.2
Stockholder dividends	\$ 7.9	\$ 11.5	\$ 3.6	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 100.4	\$ 91.2	\$ 97.8	\$ 110.3
Liabilities	\$ 45.4	\$ 40.6	\$ 41.6	\$ 46.0
Capital and surplus (deficit)	\$ 55.0	\$ 50.6	\$ 56.3	\$ 64.4

REINSURANCE

The Company maintained excess of loss reinsurance coverage with PartnerRe America Insurance Company for its commercial individual and group and its insurance exchange business. The reinsurance covered 90% of the Company's eligible expenses in excess of \$250,000 per commercial individual and in excess of \$510,000 per exchange covered individual, up to \$5,000,000 per individual per year.

The Company maintained excess of loss reinsurance coverage with RGA Reinsurance Company for its Medicare business. The reinsurance covered 90% of the Company's eligible expenses in excess of \$250,000 per individual up to \$2,000,000 per individual.

ACCOUNTS AND RECORDS

The Company's service agreements with Millennium Consulting Services; Connecture, Inc.; Wakely Consulting Group, and Magellan Behavior Health, 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, F.S.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$3,272,178 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 Health Plans, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2014

Admitted Assets	As Reported	Examination Adjustments	Per Examination
Bonds	\$ 45,762,849	\$ -	\$ 45,762,849
Common stocks	9,490,616	-	9,490,616
Property occupied by the company	5,492,474	-	5,492,474
Cash, cash equivalents and short-term investments	30,489,612	-	30,489,612
	91,235,551	-	91,235,551
Investment income due and accrued	213,186	-	213,186
Uncollected premiums and agents' balances	882,692	-	882,692
Amounts recoverable from reinsurers	1,566,246	-	1,566,246
Amounts receivable related to uninsured plans	5,685,598	-	5,685,598
Net deferred tax asset	3,625,968	-	3,625,968
Health care and other amounts receivable	4,042,053	-	4,042,053
Aggregate write-ins for other than invested assets	3,093,651	-	3,093,651
Total admitted assets	\$ 110,344,945	\$ -	\$ 110,344,945
Liabilities			
Claims unpaid	\$ 25,832,423	\$ -	\$ 25,832,423
Unpaid claims adjustment expenses	703,883	-	703,883
Aggregate health policy reserves	306,518	-	306,518
Premiums received in advance	2,061,456	-	2,061,456
General expenses due and accrued	5,133,043	-	5,133,043
Current federal income taxes payable	4,418,098	-	4,418,098
Amounts withheld or retained for the account of others	158,113	-	158,113
Amounts due to parent, subsidiaries and affiliates	7,253,818	-	7,253,818
Derivatives	9,876	-	9,876
Aggregate write-ins for other liabilities	79,244	-	79,244
Total liabilities	45,956,472	-	45,956,472
Capital and Surplus			
Aggregate write-ins for special surplus funds	6,572,454	-	6,572,454
Common capital stock	10,000	-	10,000
Gross paid in and contributed surplus	19,178,993	-	19,178,993
Unassigned funds (deficit)	38,627,026	-	38,627,026
Total capital and surplus	64,388,473	-	64,388,473
Total liabilities, capital and surplus	\$ 110,344,945	\$ -	\$ 110,344,945

Health First Health Plans, Inc.
Statement of Changes in Capital and Surplus
Four Years Ended December 31, 2014

Capital and surplus - December 31, 2010	\$ 44,226,827
Net income (loss)	11,542,540
Change in net unrealized capital gains (losses)	64,098
Change in net deferred income tax	(34,591)
Change in nonadmitted assets	(312,106)
Dividends to stockholders	(7,906,470)
Aggregate write-ins for gains and losses in surplus	7,456,165
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Capital and surplus - December 31, 2011	55,036,463
Net income (loss)	606,671
Change in net unrealized capital gains (losses)	10,773
Change in net deferred income tax	6,522
Change in nonadmitted assets	(854,798)
Dividends to stockholders	(11,542,540)
Aggregate write-ins for gains and losses in surplus	7,313,356
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Capital and surplus - December 31, 2012	50,576,447
Net income (loss)	8,019,903
Change in net unrealized capital gains (losses)	(76,864)
Change in net deferred income tax	1,164,647
Change in nonadmitted assets	(362,596)
Dividends to stockholders	(3,606,671)
Aggregate write-ins for gains and losses in surplus	557,631
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Capital and surplus - December 31, 2013	56,272,497
Net income (loss)	3,150,817
Change in net unrealized capital gains (losses)	1,078,155
Change in net deferred income tax	1,422,897
Change in nonadmitted assets	(3,830,264)
Dividends to stockholders	-
Aggregate write-ins for gains and losses in surplus	6,294,371
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Capital and surplus - December 31, 2014	64,388,473
Examination adjustments	-
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Capital and surplus - December 31, 2014	\$ 64,388,473

Health First Health Plans, 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.

	<u>As Reported</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Capital and surplus, December 31, 2014 - as reported				\$ 64,388,473
Total admitted assets	\$ 110,344,945	\$ 110,344,945	\$ -	
Total liabilities	\$ 45,956,472	\$ 45,956,472	\$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2014 - per examination				\$ 64,388,473

RECOMMENDATIONS

As reported on page 8, the Company's service agreements with Millennium Consulting Services; Connecture, Inc.; Wakely Consulting Group; and Magellan Behavior Health, Inc. were not in compliance with Section 641.234, F.S., as they did not contain a provision that the agreement shall be cancelled upon issuance of an order by the Office. **We recommend that the Company amend its service agreements with Millennium Consulting Services; Connecture, Inc.; Wakely Consulting Group; and Magellan Behavior Health, Inc. to reflect the Office cancellation clause required by Section 641.234, F.S.**

SUBSEQUENT EVENTS

On December 29, 2015, the Office issued a Consent Order approving the reorganization plan effective January 1, 2016, which included:

A Certificate of Authority was issued to Health First Administrative Plans, Inc. (HFAP) to operate as a Third Party Administrator 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.

A Certificate of Authority was issued to Health First Commercial Plans, Inc. (HFCP) to operate as a health maintenance organization pursuant to Part I of Chapter 641, F.S. HFCP is a for-profit stock corporation wholly owned by HFAP.

A Certificate of Authority was issued to Health First Government Plans, Inc. (HFGP) to operate as a health maintenance organization pursuant to Part I of Chapter 641, F.S. HFGP is a not-for-profit stock corporation wholly owned by Health First, Inc.

After HFAP received its Certificate of Authority, the Company assigned and transferred all of its administrative business and certain assets and liabilities through an Assignment and Assumption Agreement to HFAP. The Company paid an extraordinary dividend to HFHC, which then sent the distribution to HFAP as further capitalization.

After HFCP received its Certificate of Authority, the Company assigned and transferred all of its non-marketplace commercial business and certain assets and liabilities through an Assignment and Assumption Agreement to HFCP. The Company paid an extraordinary dividend to HFHC, which then sent the distribution to HFCP as further capitalization.

After HFGP received its Certificate of Authority and after the Company assigned and transferred all of its non-marketplace commercial business and administrative business, the Company merged with and into HFGP pursuant to a Plan and Agreement of Merger. HFGP survived the merger with the Company's Medicare and marketplace business transferred to it. HFGP subsequently changed its corporate name back to Health First Health Plans, Inc. and operates under the fictitious name of Health First Health Plans.

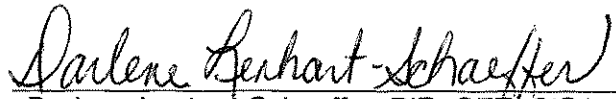
CONCLUSION

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.

At December 31, 2014, the Company's capital and surplus was \$64,388,473 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: Lisa Parker, Actuary; Luke Stavenau, Financial Specialist; Marshay Spencer, Financial Specialist; Margaret McCrary, CPA, Financial Examiner/Analyst Supervisor; 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