

Report on Examination
of
Health First Health Plans, Inc.
Rockledge, Florida
as of
December 31, 2018



**FLORIDA OFFICE OF
INSURANCE REGULATION**



**FINANCIAL SERVICES
COMMISSION**

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COMMISSIONER

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

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, 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 of Health First Health Plans, Inc. (Company),—a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2017 through December 31, 2018 and took place primarily in the Company's Rockledge office and Tallahassee, Florida. The 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, 2016. 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 statements.

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 December 31, 2014 and licensed by the Office as a Health Maintenance Organization (HMO) on December 29, 2015. It was authorized by the State of Florida to operate as an HMO in accordance with Part 1 of Chapter 641, F.S.

On January 1, 2017, this Company went through a corporate reorganization, in which the Federal Exchange Marketplace (marketplace) commercial plans managed by the Company was transferred to the for-profit company Health First Commercial Plans, Inc. (HFCP)

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 641.35(7), 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 2017, a \$13.5 million surplus distribution was made from the Company to HFCP as part of a corporate reorganization in which the marketplace commercial plans managed by the Company was transferred to the for-profit company HFCP.

MANAGEMENT AND CONTROL

The Company was affiliated with entities through common ownership including Florida-domiciled : Health First Insurance, Inc. (HFII); Health First Commercial Plans, Inc. (HFCP) an HMO; 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. The Company, a non-for-profit, is 100% wholly owned by Health First, Inc. (HFI), a not-for-profit corporation. The primary purpose of the Company is to direct the affairs of a multi-entity health care system.

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

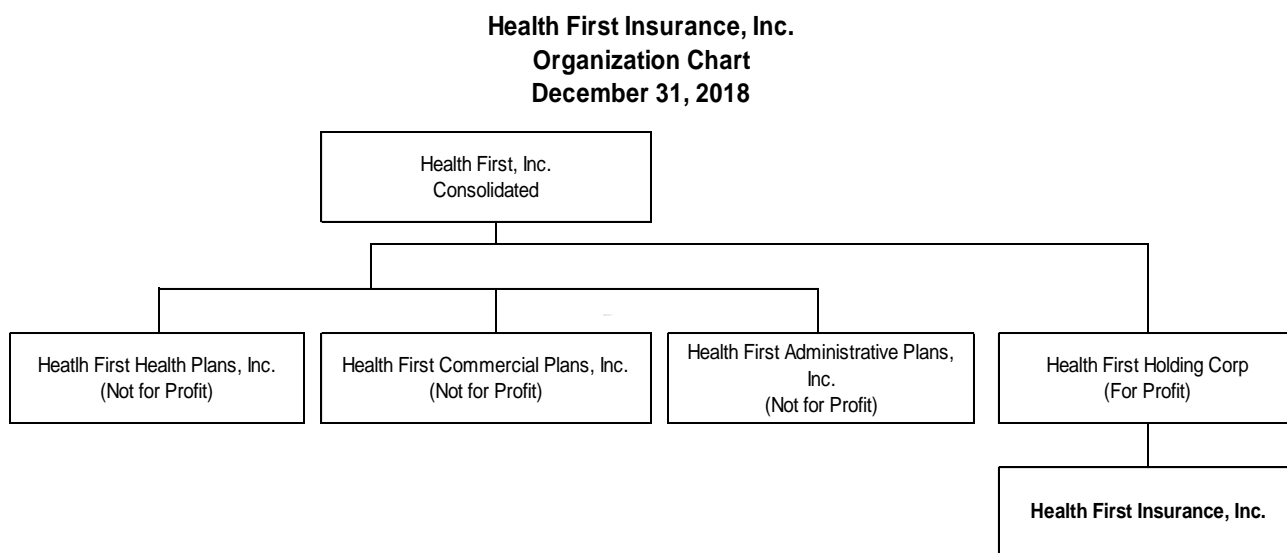
<u>Name</u>	<u>Location</u>
Dale Allen Dettmer	Merritt Island, FL
Joseph George Felkner	Viera, FL
Steven Paul Johnson	Indianapolis, FL
Frank Scott Letherby	Melbourne Beach, FL
Alan Lovelle Prestwood	Melbourne, FL
Drew Alan Rector	Indian Harbour Beach, FL

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.



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 had an affiliated administrative and financial management agreement with HFAP to receive certain management, administrative, and claims processing services which included 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 had direct, or indirect, majority ownership interest in the Company.

Tax Sharing Agreement

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

TERRITORY AND PLAN OF OPERATIONS

As of January 1, 2017, all exchange commercial business transferred to the Company from Health First Government Plans, Inc. (HFGP) was transferred to HFCP via an assignment and

assumption agreement. The Company was a Medicare only HMO and operated solely in the State of Florida.

COMPANY GROWTH

The Company reported the following for years 2016 through 2018:

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Member months	636,211	447,322	456,749
Year-end enrollment	52,932	37,299	38,059
Premiums	\$ 445.6	\$ 371.5	\$ 407.8
Total Revenue	\$ 443.3	\$ 373.5	\$ 408.1
Net income (loss)	\$ 22.5	\$ 17.2	\$ 17.9
Paid in surplus received	\$ 48.9	\$ 13.5	\$ -
Admitted assets	\$ 130.8	\$ 120.6	\$ 143.9
Liabilities	\$ 60.2	\$ 54.8	\$ 50.9
Capital and surplus	\$ 70.6	\$ 65.8	\$ 93.0

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 \$ 3,798,373 deposited with the State of Florida as required by Section 624.227, 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 Health Plans, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$ 55,269,882	\$ -	\$ 55,269,882
Common Stock	11,870,049	-	11,870,049
Cash, cash equivalents and short-term investments	\$ 52,562,457	\$ -	\$ 52,562,457
	119,702,388	-	119,702,388
Invested income due and accrued	280,244	-	280,244
Uncollected premiums and agents' balances	774,258	-	774,258
Accrued retrospective premiums	12,461,275	-	12,461,275
Healthcare and other amounts receivable	10,669,754	-	10,669,754
Aggregate write ins for other than invested assets	10,000	-	10,000
Total admitted assets	\$143,897,919	\$ -	\$ 143,897,919
Liabilities			
Claims unpaid	\$ 36,423,188	\$ -	\$ 36,423,188
Unpaid claims adjustment expenses	1,214,682	-	1,214,682
Aggregate health policy reserves	487,604	-	487,604
Premiums received in advance	303,101	-	303,101
Amounts due to parent, subsidiaries and affiliates	5,927,347	-	5,927,347
Payable for securities	47,583	-	47,583
Liability for amounts held under uninsured plans	6,447,985	-	6,447,985
Total liabilities	\$ 50,851,490	\$ -	\$ 50,851,490
Capital and Surplus			
Gross paid in and contributed surplus	\$ 37,251,674	\$ -	\$ 37,251,674
Unassigned funds (deficit)	55,794,755	-	55,794,755
Total capital and surplus	93,046,429	-	93,046,429
Total liabilities, capital and surplus	\$ 143,897,919	\$ -	\$ 143,897,919

Health First Health Plans, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2018

Net premium income	\$ 407,823,259
Change in unearned premium reserves and reserves for rate credit	\$ 249,703
Hospital and medical benefits	256,244,971
Other professional services	27,963,594
Emergency room and out-of-area	17,260,241
Prescription drugs	36,244,760
	<u>\$ 337,713,566</u>
Net reinsurance recoveries	-
Total hospital and medical	337,713,566
Claims adjustment expenses	16,696,938
General administrative expenses	37,185,768
Total underwriting deductions	<u>391,596,272</u>
Net underwriting gain	16,476,690
Net investment income earned	1,564,897
Net realized capital gains(losses)	(97,456)
Net investment gains(losses)	1,467,441
Income before federal income tax	17,944,131
Federal income tax	-
Net income	<u>\$ 17,944,131</u>

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

Capital and surplus - December 31, 2016	\$	70,603,203
Net income		17,193,361
Change in net unrealized capital gains (losses)		2,002,314
Change in nonadmitted assets		(10,137,638)
Surplus Adjustments Paid In		(13,500,000)
Aggregate write-ins for gains or (losses)		(346,028)
Capital and surplus - December 31, 2017	\$	65,815,212
Net income		17,944,131
Change in net unrealized capital gains (losses)		(827,309)
Change in nonadmitted assets		10,114,395
Surplus Adjustments Paid In		-
Aggregate write-ins for gains or (losses)		-
Capital and surplus - December 31, 2018	\$	93,046,429

Health First Health Plans, 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>	Increase (Decrease) In Capital & Surplus	
Capital and surplus, December 31, 2018 - per annual statement				\$ 93,046,429
Total assets	\$ 143,897,919	\$ 143,897,919	\$ -	
Total liabilities	\$ 50,851,490	\$ 50,851,490	\$ -	-
Capital and surplus, December 31, 2018 - per examination				<u>\$ 93,046,429</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 \$93,046,429 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: 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