

Report on Examination
of
Health First Commercial Plans, Inc.

Rockledge, Florida

as of

December 31, 2018



**FLORIDA OFFICE OF
INSURANCE REGULATION**



**FINANCIAL SERVICES
COMMISSION**

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DAVID ALTMAIER
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 Commercial 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 Commercial Plans, Inc. (Company), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2018 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. This is the first financial condition examination of the Company by the Florida Office of Insurance Regulation (Office).

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

Effective January 1, 2018, the Company was formed through the merger of the prior Health First Commercial Plans, Inc., a for-profit entity licensed December 29, 2015, and NewCo Health First Commercial Plans, Inc. (NewCo), a not-for-profit entity. During the merger, all assets and liabilities of the prior Health First Commercial Plans, Inc. were transferred to NewCo, which was renamed Health First Commercial Plans, Inc. and retained its not-for-profit status.

The Company was incorporated in Florida June 9, 2017 and licensed by the Office as a Health Maintenance Organization (HMO) in accordance with Part 1 of Chapter 641, F.S. on January 1, 2018.

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 CONTRIBUTIONS

The Company did not distribute dividends during the exam period. In 2018, a surplus contribution of \$40.4 million was made to Health First Commercial Plan, Inc. as part of a corporate reorganization in which this Company was formed through the merger of the Health First Commercial Plans, Inc. (HFCP), a for-profit entity, and NewCo Health First Commercial Plans, Inc. (NewCo), a not-for-profit entity.

MANAGEMENT AND CONTROL

The Company was affiliated with entities through common ownership including Florida-domiciled Health First Insurance, Inc. (HFII); Health First Health Plans, Inc. (HFHP), an HMO; Health First Administrative Plans, Inc. (HFAP), a Florida Third Party Administrator; and other various other 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:

<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

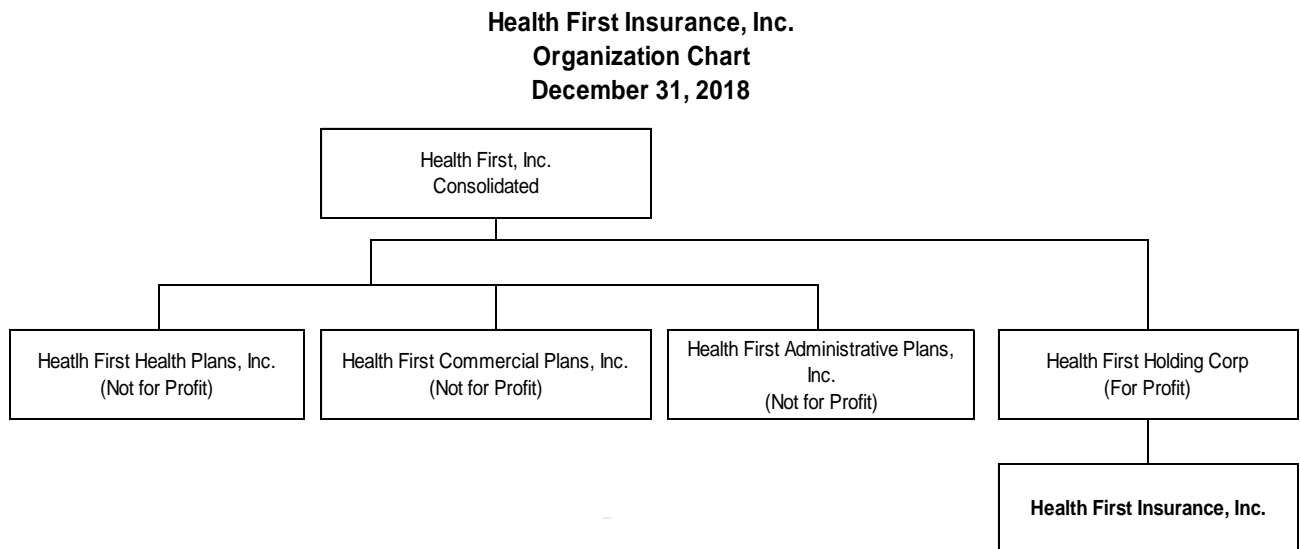
<u>Name</u>	<u>Location</u>
Dale Allen Dettmer	Merritt Island, FL
Joseph George Felkner	Viera, FL
Steven Paul Johnson	Indianapolis, FL
Frank Scott Letherby	Melbourne Beach, FL
Alan Lovelle Prestwood	Melbourne, FL
Drew Alan Rector	Indian Harbour Beach, FL

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 April 2, 2019 with the State of Florida.

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. Due to the Company's merger with Newco, the following agreements continued to remain in effect between the Company and its affiliates:

Shared Savings Agreement

The Company participated in a shared savings agreement with Health First, Inc. (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.

Tax Sharing Agreement

The Company also had a tax-sharing agreement with Health First Holding Corporation. This agreement was effective October 1, 2014.

TERRITORY AND PLAN OF OPERATIONS

The Company operated solely in the State of Florida as a comprehensive and medical HMO.

COMPANY GROWTH

The Company reported the following for years 2017 through 2018:

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

	<u>2017</u>	<u>2018</u>
Member months	0	491,989
Year-end enrollment	0	39,832
Premiums	\$ -	\$ 259.8
Total Revenue	\$ -	\$ 259.8
Net income (loss)	\$ 0.0	\$ 12.6
Paid in surplus received	\$ 2.0	\$ 40.4
Admitted assets	\$ 2.0	\$ 87.1
Liabilities	\$ -	\$ 40.1
Capital and surplus	\$ 2.0	\$ 47.0

REINSURANCE

The Company entered into a reinsurance agreement with American National Insurance Company for its commercial lines of business. 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 did 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 \$ 600,000 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 Commercial Plans, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$ 42,375,648	\$ -	\$ 42,375,648
Common Stock	4,462,409	-	4,462,409
Cash, cash equivalents and short-term investments	30,848,479	-	30,848,479
Receivables for securities	63,548	-	63,548
	\$ 77,750,084	\$ -	\$ 77,750,084
Invested income due and accrued	305,746	-	305,746
Uncollected premiums and agents' balances	1,031,554	-	1,031,554
Accrued retrospective premiums	3,687,246	-	3,687,246
Healthcare and other amounts receivable	4,262,383	-	4,262,383
Aggregate write ins for other than invested assets	20,000	-	20,000
Total admitted assets	\$ 87,057,013	\$ -	\$ 87,057,013
Liabilities			
Claims unpaid	\$ 27,693,156	\$ -	\$ 27,693,156
Unpaid claims adjustment expenses	913,775	-	913,775
Aggregate health policy reserves	1,046,797	-	1,046,797
Premiums received in advance	3,201,996	-	3,201,996
General expenses due or accrued	256,644	-	256,644
Amounts due to parent, subsidiaries and affiliates	6,963,318	-	6,963,318
Total liabilities	\$ 40,075,686	\$ -	\$ 40,075,686
Capital and Surplus			
Gross paid in and contributed surplus	\$ 42,390,822	\$ -	\$ 42,390,822
Unassigned funds (deficit)	4,590,505	-	4,590,505
Total capital and surplus	46,981,327	-	46,981,327
Total liabilities, capital and surplus	\$ 87,057,013	\$ -	\$ 87,057,013

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

Net premium income	\$ 259,811,029
Change in unearned premium reserves and reserves for rate credit	\$ (123)
 Hospital and medical benefits	 137,663,304
Other professional services	8,735,047
Emergency room and out-of-area	17,484,208
Prescription drugs	37,270,801
	<u>\$ 201,153,360</u>
Net reinsurance recoveries	(11,022)
Total hospital and medical	201,164,382
Claims adjustment expenses	9,394,999
General administrative expenses	37,565,908
Total underwriting deductions	<u>248,125,289</u>
Net underwriting gain	11,685,617
Net investment income earned	1,069,053
Net realized capital gains(losses)	(135,470)
Net investment gains(losses)	933,582
Income before federal income tax	12,619,199
Federal income tax	-
Net income	<u>\$ 12,619,199</u>

Health First Commercial Plans, Inc.
Statement of Changes in Capital and Surplus
One Year Ended December 31, 2018

Capital and surplus - December 31, 2017	\$	1,994,401
Net income		12,619,199
Change in net unrealized capital gains (losses)		(558,566)
Change in nonadmitted assets		(7,659,848)
Surplus Adjustments Paid In		40,390,822
Aggregate write-ins for gains or (losses)		195,318
Capital and surplus - December 31, 2018	\$	46,981,327

Health First Commercial 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.

Capital and surplus, December 31, 2018 - per annual statement				\$ 46,981,327
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus	
Total assets	\$ 87,057,013	\$ 87,057,013	\$ -	
Total liabilities	\$ 40,075,686	\$ 40,075,686	\$ -	-
Capital and surplus, December 31, 2018 - per examination				<u>\$ 46,981,327</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 \$46,981,327 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