



STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF LIMITED SCOPE EXAMINATION

of

EDUCATORS HEALTH PLANS HEALTH, INC.

of

Salt Lake City, Utah

as of

July 31, 2006

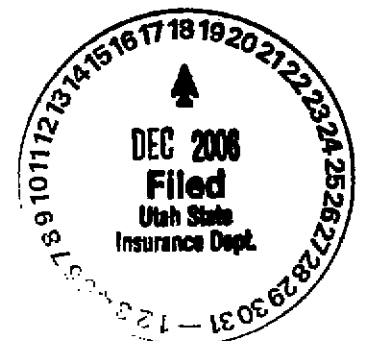


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September 26, 2006

Honorable D. Kent Michie
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, a limited scope examination, as of July 31, 2006, has been made of:

EDUCATORS HEALTH PLANS HEALTH, INC.
Salt Lake City, Utah

hereinafter referred to in this report as the "Organization," and the following report of examination is respectfully submitted. The examination was scheduled in conjunction with the regularly scheduled examination of the Organization's affiliates to alleviate concerns about the newly formed insurance Organization.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from the Organization's inception date of January 24, 2006, through July 31, 2006. As this Organization has recently begun operations, the Utah Insurance Department (the Department) requested a limited scope examination be done on certain major areas of operations during the first few months of business.

Examination Procedure Employed

A limited scope examination is not intended to communicate all matters of importance for the understanding of the Organization's financial condition. The procedures employed in this examination have been tailored to address only a review of certain specific areas of the Organization's operations from January 24, 2006 through July 31, 2006, as outlined herein.

The examiner has performed certain procedures to verify that the cash and investments, as reported on the most recent quarterly statement of June 30, 2006, are owned and controlled by the Organization. We obtained custodial confirmations of cash and invested assets, reviewed the Organization's reconciliations with bank statements, reviewed the State's confirmation of statutory deposits, and verified that the cash and

investments infused into the Organization as paid in capital, were properly transferred into the Organization's accounts as directed by the Department.

During the review of the Organization's bank accounts, the examiner sampled disbursements and deposits, only to obtain an overall understanding that premiums were transferred to the Organization in a timely manner from its parent, Educators Mutual Insurance Company (EMIA or the Association).

The examiner obtained copies of the reinsurance agreement and management services agreement to verify that the Organization was adequately covered by reinsurance, with a transfer of risk, and that transactions for management services were pursuant to a respective agreement. The examiners have not performed any further work on the agreements.

SUMMARY OF EXAMINATION FINDINGS

Premium Receipts

While testing cash and investments, the examiner traced a sample of deposits and disbursements. It was noted that the parent, EMIA, collects premiums for its insurance subsidiaries, and deposits the premiums into the EMIA corporate account. The Organization provided a sample of premiums received by EMIA during June 2006, the deposit into the EMIA Corporate account, and the related settlement of inter-company balances, and transfer of amounts due to the Organization at August month-end.

There is an associated management agreement between the two companies, for which EMIA provides administrative services to the Organization, including collecting premiums. The management agreement specifies that billing for settlements between the two companies be made within 10 days after the end of the previous quarter, and paid within 5 days of billing, which would be no later than July 15 for June premiums. The June premiums tested were transferred into the Organization's bank account on August 31, 2006.

Reinsurance Agreement

The Organization is named, along with its parent and affiliated insurers, in the September 1, 2005 through August 31, 2006 reinsurance agreement with Allianz Life Insurance Company of North America, providing medical excess of loss or stop loss coverage. The Allianz agreement provides for three layers of coverage over the first \$300,000 retention per member per contract year, up to the level of \$2,500,000 ultimate net loss. There is a special provision in this treaty for members that utilize the LifeTrac Network Transplant, the excess coverage picks up after the first \$200,000 retention to \$2,500,000. The Organization appears to be adequately protected by reinsurance, with a proper transfer of risk.

Statutory Deposit

The Organization's statutory deposit requirement was \$550,000, pursuant to U.C.A. § 31A-8-211(1). The Organization maintains a \$550,000 statutory deposit comprised of US Treasury Notes with a local financial institution, as confirmed by both the financial institution and the Department.

Invested Assets

Bonds \$1,747,767

Sixty-Eight percent or \$1,197,106 of the reported balance of \$1,747,767 in bonds did not qualify as admitted assets as of June 30, 2006. These bonds were not held in the name, ownership and control of the Organization, but were in an account owned by an affiliated company, Educators Administrative Services, Inc. (EASI). Also, the Organization was not included on the parent's custodial agreement with the respective custodian. Therefore, the Organization was not in compliance with U.C.A. § 31A-4-108, because investments were not held in its own name, nor were they held under an approved custodial agreement or trust arrangement as required by Utah Administrative Code (U.A.C.) Rule R590-178.

Preferred Stocks \$52,560

The reported balance of \$52,560 in preferred stocks did not qualify as admitted assets in accordance with U.C.A. § 31A-4-108 and U.A.C. Rule R590-178.

Pursuant to the National Association of Insurance Commissioners (NAIC) Statements of Statutory Accounting Principles, statement number four (SSAP No. 4), adopted by U.C.A. § 31A-17-201, assets not owned and controlled by the reporting company shall be reported as a non-admitted asset and charged against surplus. This applies to both the above-mentioned bonds and preferred stocks.

2006 Notes to Financial Statements

Note 1.c.5. in the June 30, 2006 quarterly financial statements, reads "Effective January 31, 2006, Rx Direct, Inc. and Educators Administrative Services Inc. (EASI) were dissolved. All of the assets and liabilities of these two entities were transferred to the Association since it was the sole shareholder. All of the groups previously serviced by Rx Direct and Educators Administrative Services were transferred to the Association for servicing. In turn, the Association contributed all of the former assets of EASI to two new insurance companies; Educators Health Plans Health, Inc. and Educators Health Plans Life, Accident and Health, Inc."

The Board of Directors unanimously passed a resolution for the dissolution of Rx Direct and EASI in its meeting held on January 26, 2006. The examination verified with the Department of Commerce that Rx Direct was voluntarily dissolved in May of 2006, and EASI was still an active entity through September 2006.

Confirmations were sent to the custodians to verify the assets were held in the name of the Organization in accordance with U.C.A. § 31A-4-108. The custodians confirmed the assets were still held under the federal identification number of EASI through August 2006.

2006 General Interrogatories

The Organization reported a "Yes" response to disclosure number 16 of the 2006 General Interrogatories that all stocks, bonds and other securities, owned through the current year were held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 – General, Section IV.H-Custodial or Safekeeping Agreement of the NAIC Financial Condition Examiners Handbook. The examination comment under the Invested Assets section of this report disclosed assets were not held under a proper custodial arrangement.

Subsequent Events

The Department confirmed that subsequent to the examination date, the Association transferred the EASI assets into the custodial accounts of the Organization and its affiliate, Educators Health Plans Life, Accident & Health, Inc. on September 18, 2006. Subsequent confirmations were received by the Department to verify the ownership of the assets held with U.S. Bank. A custodial agreement was executed with U.S. Bank on September 6, 2006, which complies with U.A.C. Rule R590-178.

Capital and Surplus

\$2,101,576

The Organization's capital and surplus was determined to be \$2,101,576, as of June 30, 2006, after the Association took corrective action to transfer the invested assets into the Organization's name to comply with the licensing requirements of the Department. The invested assets were placed under a proper custodial arrangement in accordance with U.A.C. Rule R590-178.

As defined in U.C.A. § 31A-8-209, the Organization's minimum capital or minimum surplus requirement is \$100,000. The Organization is also required to maintain a certain minimum amount assets as defined in U.C.A. § 31A-8-209(1)(b). The Utah Insurance Department required that the Organization have a total minimum capital and surplus of \$1,398,000 for licensing requirements by the Utah Insurance Department.

CONCLUSION

Participating on this examination, were Neeraj Gupta, CFE, Examination Manager, and Colette M. Reddoor, CFE, Assistant Chief Examiner, who join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,



Carolyn Maynard, CFE

Examiner-In-Charge, representing the
Utah Insurance Department