



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

EDUCATORS HEALTH PLANS, HEALTH, INC.

of

Murray, Utah

as of

December 31, 2008

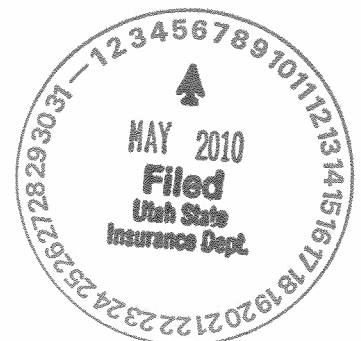


TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION	1
Period Covered by Examination	1
Examination Procedure Employed	1
SUMMARY OF SIGNIFICANT FINDINGS	2
SUBSEQUENT EVENTS	2
ORGANIZATION HISTORY	2
General.....	2
Dividends and Capital Contributions.....	3
Mergers and Acquisitions	3
CORPORATE RECORDS	3
MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE	3
Holding Company System	6
Transactions with Affiliates.....	6
FIDELITY BONDS AND OTHER INSURANCE	7
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS	7
TERRITORY AND PLAN OF OPERATION	7
GROWTH OF ORGANIZATION	7
LOSS EXPERIENCE	8
REINSURANCE	8
ACCOUNTS AND RECORDS	8
STATUTORY DEPOSITS	9
FINANCIAL STATEMENTS	9
BALANCE SHEET (ASSETS).....	10
BALANCE SHEET (LIABILITIES, CAPITAL AND SURPLUS).....	11
STATEMENT OF REVENUE AND EXPENSES.....	12
RECONCILIATION OF CAPITAL AND SURPLUS.....	13
COMMENTS ON FINANCIAL STATEMENTS	13
SUMMARY OF RECOMMENDATIONS	14
ACKNOWLEDGEMENT	15

March 18, 2010

Honorable Neal T. Gooch, Acting Insurance Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
Virginia State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2008, has been made of the financial condition and business affairs of:

EDUCATORS HEALTH PLANS, HEALTH, INC.
Murray, Utah

hereinafter referred to in this report as the Organization or EHPH, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

We have performed our full scope multi-state financial examination of Educators Health Plans, Health, Inc. The Utah Insurance Department (Department) represented the Western Zone. This examination covers the period of January 1, 2006 through December 31, 2008.

Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used

and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Organization were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

The last financial examination was a limited scope examination as of July 30, 2006, shortly after the Organization's start of business. All issues found during the prior examination have been resolved, except for custodial agreement compliance as identified in the exam report under ACCOUNTS and RECORDS, which is also a significant issue during the current examination.

The Examination identified a reinsurance recoverable, which was incorrectly reported on EMIA's financial statements instead of on EPHH's financial statements. The examination adjusted EPHH reinsurance recoverable by \$86,481, resulting in an increase to capital and surplus of the same amount.

SUBSEQUENT EVENTS

In late 2009, the controller was terminated, and replaced with two controllers concurrent with a restructuring of the accounting staff to have delineation of responsibilities between the "commercial" or for-profit, and the "education" or non-profit insurance entities. The oversight of the premium billing process will be split between the two controllers based on the respective company, and the responsibilities for accounts receivable and investments will also be divided between the two controllers.

During late 2009, Educators Mutual Insurance Association (EMIA), the parent and service provider began implementing and testing a new claims system under contract from an outside software vendor.

On December 17, 2009, Andy Galano, president, announced his plans to retire effective March 31, 2010. EMIA's Board of Directors anticipates a candidate will be selected prior to Mr. Galano's departure.

ORGANIZATION HISTORY

General

The Organization was incorporated on November 9, 2005 in the State of Utah, and is a wholly-owned subsidiary of Educators Mutual Insurance Company (EMIA), organized for the purpose of offering insurance products to other than school and governmental employer groups.

There were no amendments to the Organization's articles of incorporation or bylaws since the prior examination.

Dividends and Capital Contributions

The Organization did not declare or pay dividends during the examination period. In 2008, an additional contributed surplus infusion of \$1,250,000 was received from EMIA.

Mergers and Acquisitions

The Organization was not involved in any acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the examination period.

CORPORATE RECORDS

Minutes of the meetings of the shareholder, directors, and committees were reviewed. The minutes indicated the Organization operates within the scope of its authority and the directors were properly informed of and participated in Organization affairs. Generally, at each annual Board of Directors meeting a detailed report of investment transactions since the previous meeting is presented and approved. In general, the minutes of meetings of shareholder, directors, and committees adequately approved and supported the Organization's transactions and events. On January 18, 2007, the Utah Insurance Department examination report as of July 31, 2006, dated September 26, 2006, was distributed to the board, as required by U.C.A. § 31A-2-204(8).

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The Organization's bylaws set the number of directors to be at least three and no more than twenty-one. Directors are elected at the annual meeting of the shareholders.

The following persons served as directors of the Organization as of December 31, 2008:

<u>Name and Location</u>	<u>Principal Occupation</u>
Arlene Arnold Orem, Utah	Uniserv Director Eastern Utah Uniserv
Michael Evans Fillmore, Utah	Teacher Millard School District
James C. Fontaine Salt Lake City, Utah	Retired CFO Deseret Mutual Benefit Administrators

Michael R. Francis Orem, Utah	Controller Utah Valley University
Paul R. Gottfredson Ephraim, Utah	Business Administrator South Sanpete School District
Wallace G. Harmer Salt Lake City, Utah	Retired Business Administrator Salt Lake School District
Michael W. Hepner West Jordan, Utah	Executive Director Utah School Employees Association
Timothy Leaman Paradise, Utah	Teacher Cache County School District
Mark Mickelsen West Jordan, Utah	Executive Director, Utah Education Association
Roger A. Pate Orem, Utah	Physical Facilities Supervisor Alpine School District
Randy R. Smart Sandy, Utah	Attorney Smart, Schofield, Shorter & Lunceford
James M. Thompson Price, Utah	Teacher Carbon School District
Scott C. Thornton Centerville, Utah	Chief Actuary Deseret Mutual Benefit Administrators
Richard R. Tranter Salt Lake City, Utah	Superintendent Murray School District
Delora I. Wight Laketown, Utah	Teacher Rich School District

There were several committees of the Board of Directors as of December 31, 2008, the most significant of which are the following:

Executive Committee
 Wallace G. Harmer, Chair
 Rolando I. Galano
 James C. Fontaine
 Michael W. Hepner
 Michael R. Francis

Board Review Committee A
 Michael W. Hepner, Chair
 Paul R. Gottfredson
 Randy R. Smart
 Richard R. Tranter
 Delora I. Wight

Audit Committee

Michael R. Francis, Chair
Arlene Arnold
Wallace G. Harmer
Roger A. Pate
James M. Thompson

Board Review Committee B

Michael R. Francis, Chair
Arlene Arnold
Wallace G. Harmer
Roger A. Pate
James M. Thompson

Finance & Risk Management Committee

James C. Fontaine, Chair
Michael Evans
Timothy Leaman
Scott C. Thornton

Board Review Committee C

James C. Fontaine, Chair
Michael Evans
Timothy Leaman
Scott C. Thornton

Legislative Committee

Michael W. Hepner, Chair
Paul R. Gottfredson
Randy R. Smart
Richard R. Tranter
Delora I. Wight

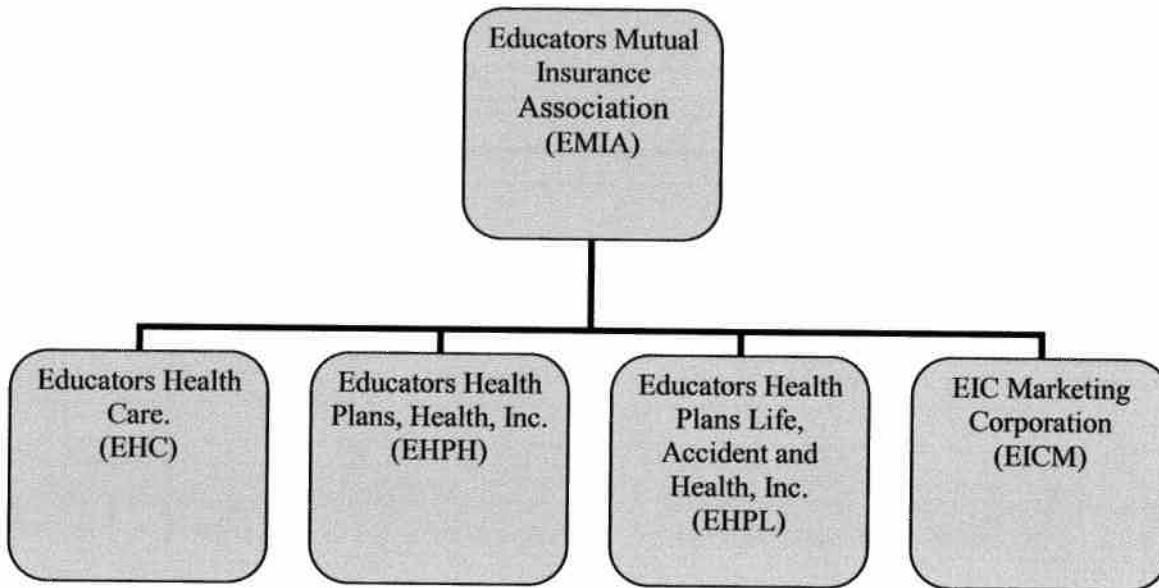
Officers of the Organization as of December 31, 2008, were the following:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Rolando I. Galano	President/Chief Executive Officer
Jennifer Q. Niesen	Secretary/Chief Operating Officer
David S. Glauser	Treasurer/Chief Financial Officer
Steven C. Morrison	Vice President
Joseph H. Campbell	Vice President
Tiffany Bermingham	Vice President
Christie H. Hawkes	Vice President
Lavern K. Zaloba	Vice President

Biographical affidavits for officers and directors were filed with the Department in accordance with U.C.A. § 31A-5-410(1)(a)(ii).

Holding Company System

The Organization is wholly owned and controlled by its parent Educators Mutual Insurance Association. An organization chart illustrating the holding company system follows:



The ultimate parent, EMIA is a Utah domestic non-profit mutual life insurance company organized in 1935, owned one hundred percent by its member policyholders. Educators Health Care (EHC) is a Utah non-profit health maintenance organization formed in 1979 to provide medical and dental insurance products to school districts and other governmental employee groups. Educators Health Plans, Health, Inc. (EHPH) and Educators Health Plans Life, Accident and Health, Inc. (EHPL) were both formed in 2006 as Utah for-profit insurers to provide insurance products to non-governmental employee groups. EIC Marketing Corporation (EICM) is a for-profit brokerage firm organized to market insurance and employee benefit products.

Transactions with Affiliates

The Organization entered into a management agreement with its parent, EMIA. Effective February 1, 2006 the management agreement was approved by the Department on May 15, 2006. EMIA provides marketing and administrative services to EHPH, including financial and accounting, enrollment, billing, and claims processing. The management agreement specifies the fee structure and settlement requirements. In consideration for services provided the Organization pays EMIA a fee based on fifteen percent (15%) of premium income. During 2008, the reported fees paid by EHPH under the management agreement were \$793,265.

FIDELITY BONDS AND OTHER INSURANCE

As of the examination date, the Organization participated in a fidelity bond with EMIA. The minimum fidelity coverage suggested by the NAIC for EMIA and its insurance subsidiaries is not less than \$600,000. As of the examination date, EMIA and its insurance subsidiaries were covered by a fidelity bond of \$800,000, which met the NAIC suggested minimum. The Organization was also included on general liability policies, including the Errors & Omissions policy and Directors' & Officers' liability policy.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization had no employees and thus had no employee benefit programs or life and health insurance plans for employees. All personnel working on behalf of the Organization are employees of the parent, and provide services pursuant to an administrative services agreement.

TERRITORY AND PLAN OF OPERATION

As of the examination date the Organization was authorized to conduct HMO business in the states of Arizona and Utah. It also writes PPO Dental coverage and furnished health care services through arrangements with providers to enrollees. The Organization was obligated to arrange for available accessible health care, and utilized both leased access to health care networks and direct contracts with hospitals and physicians outside the network.

The Organization marketed its products through brokers in the state of Utah and Arizona. In addition, the Association provided seminars, training sessions, and faculty meetings with employer groups. The Organization also had an advisory panel consisting of some brokers throughout the state that met to discuss products, strategies and issues.

The Organization was subsequently licensed to transact Health Maintenance Organization (HMO) insurance business with the State of Nevada on August 19, 2009.

GROWTH OF ORGANIZATION

EHPH suffered significant losses in 2008 which were mitigated by additional paid in capital of \$1,250,000. The Organization instituted steps to strengthen underwriting to prevent such losses in the future.

The following exhibit depicts the Organization's financial results throughout the examination period:

	2008	2007	2006
Net admitted assets	2,820,322	2,514,435	2,417,866
Total liabilities	818,005	798,283	312,945
Total capital and surplus	2,002,317	1,716,152	2,104,920
Net income (loss)	(960,122)	(387,986)	32,015
Direct Premium	5,191,390	4,444,226	470,810
Net premium	5,067,673	4,338,648	465,188
Net Premium/ Surplus Ratio	253.09%	252.81%	22.10%

LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Organization for the period under examination. The amounts were compiled from the Organization's filed annual statements and from examination results.

Accident and Health

	2008	2007	2006
Premiums earned	5,067,673	4,444,226	470,810
Incurred claims amount	4,915,386	3,850,164	310,559
Change in contract reserves	93,705	(9,705)	9,705
Loss ratio	99%	86%	68%
Number of policies	112	94	51
Number of covered lives	5,516	4,480	3,199
Member months	58,137	45,062	25,697

REINSURANCE

Ceded

At December 31, 2008, the Organization was covered by a group medical excess of loss agreement with Munich Re, for the Organization's fully insured, small group health policies, or medical stop loss policies. The contract provides 100% stop loss of ultimate net loss per each covered person per each agreement year, after retention of the first \$200,000, up to the level of \$2,500,000, not to exceed \$2,300,000 assumed by reinsurer.

ACCOUNTS AND RECORDS

The Organization utilizes a centralized computer record processing system, supplemented by ancillary records maintained either manually or on personal computers.

A trial balance, as of December 31, 2008, was prepared from the Organization's general ledger.

An independent certified public accounting firm audited the Organization's records during the period covered by this examination. Audit reports generated by the auditors for the years 2006 through 2008 were made available for the examiners' use.

As of December 31, 2008, the assets in the statutory custodial account deposit held for the benefit of all policyholders, were not secured by a compliant custodial agreement as required by Utah Code Annotated (U.C.A.) § 31A-4-108. During early 2009, prior to the start of the financial examination, the Organization and the Department were working together to resolve this issue. A compliant custodial agreement was executed on April 27, 2009, meeting all requirements of Utah Administrative Code (U.A.C.) Rule R590-178. The Board of Directors approved the agreement on May 28, 2009.

STATUTORY DEPOSITS

The Organization's Utah statutory deposit requirement was \$550,000, pursuant to U.C.A. § 31A-8-211(1). The examination confirmed that the Organization adequately maintained a Utah statutory deposit of \$625,000, in accordance with U.C.A. § 31A-4-105, for the benefit of all policyholders, claimants and creditors.

The following lists all deposits:

<u>State</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>
UT	FHLB Bond, 4.25%, mat 6/11/10	\$625,000	\$650,962	\$648,650
AZ	First Am Treas Oblig CL Y (Invested Income)	9,063	9,063	9,063
AZ	US Treasury NT, 3.625%, mat 12/31/2012	500,000	500,000	541,851
AZ	Harris Cnty Tx Ref, 5.0% Mat 10/01/2009	<u>10,000</u>	<u>10,257</u>	<u>10,257</u>
Total	Deposits for the Benefit of All Policyholders	\$1,144,063	\$1,170,282	\$1,209,820

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

EDUCATORS HEALTH PLANS, HEALTH, INC.
 BALANCE SHEET (ASSETS)
 as of December 31, 2008

	Net Admitted Assets	<u>Notes</u>
Bonds	\$ 1,789,306	
Preferred stocks	50,000	
Common stocks	17,424	
Real estate - properties occupied by company	-	
Cash and short-term investments	871,241	
Contract loans	-	
Investment income due and accrued	15,742	
Uncollected premiums and agents' balances	19,069	
Deferred premiums, agents' balances, and installments	-	
Amounts recoverable from reinsurers	86,481	(1)
Amounts receivable relating to uninsured plans	-	
Current federal and foreign income tax recoverable	-	
Net deferred tax asset	-	
Electronic data processing equipment and software	-	
Receivable from parent, subsidiaries and affiliates	49,166	
Healthcare and other amounts receivable	8,374	
Total assets	<u>\$ 2,906,803</u>	

EDUCATORS HEALTH PLANS, HEALTH, INC.
BALANCE SHEET (LIABILITIES, CAPITAL AND SURPLUS)
as of December 31, 2008

LIABILITIES

		<u>Notes</u>
Claims unpaid	\$575,433	
Unpaid claims adjustment expenses	17,263	
Aggregate health policy reserves	93,705	
Premiums received in advance	66,203	
General expenses due or accrued	4,275	
Ceded reinsurance premiums payable	9,871	
Amounts due to parent, subsidiaries and affiliates	45,744	
Aggregate write-ins for other liabilities	5,511	
Total liabilities	<u>\$818,005</u>	

CAPITAL AND SURPLUS

Common capital stock	\$1,000	
Gross paid in and contributed surplus	3,324,631	
Unassigned funds (surplus)	<u>(1,236,833)</u>	(1)
Total capital and surplus	<u>\$2,088,798</u>	(2)
 Total liabilities, capital and surplus	 <u><u>\$2,906,803</u></u>	

EDUCATORS HEALTH PLANS, HEALTH, INC.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2008

	Current Year	Notes
Net premium income	\$ 5,067,673	
Aggregate write-ins for other health care related revenues	8,246	
Total revenues	\$ 5,075,919	
Hospital/medical benefits	\$ 944,728	
Other professional services	2,967,378	
Outside referrals	217,603	
Emergency room and out-of-area	184,229	
Prescription drugs	507,741	
Subtotal	\$ 4,821,679	
Less net reinsurance recoveries	\$ 86,481	(1)
Total hospital and medical	4,735,198	
Claims adjustment expenses	17,263	
General administrative expenses	1,185,973	
Increase in reserves for life and accident and health contracts	93,705	
Total underwriting deductions	\$ 6,032,139	
Net underwriting gain or (loss)	\$ (956,220)	
Net investment income earned	92,671	
Net realized capital gains (losses)	(10,768)	
Net investment gains (losses)	\$ 81,903	
Net income after capital gains tax and before all other federal income taxes	\$ (874,317)	
Federal and foreign income taxes incurred	(676)	
Net income (loss)	\$ (873,641)	

EDUCATORS HEALTH PLANS, HEALTH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2006 through 2008

	2006	2007	Per Exam 2008	Notes
Capital and surplus prior reporting year	\$0	\$2,104,922	\$1,716,152	
Net income or (loss)	32,015	(387,986)	(873,641)	(1)
Change in net unrealized foreign exchange gain or (loss)	(2,560)	0	0	
Change in nonadmitted assets	(164)	(782)	(3,712)	
Change in asset valuation reserve				
Capital changes: Paid in	2,075,631			
Surplus adjustments: Paid in			1,250,000	
Rounding				
Net change in capital and surplus	<u>2,104,922</u>	<u>(388,768)</u>	<u>372,647</u>	
Capital and surplus end of reporting year	<u>\$2,104,922</u>	<u>\$1,716,152</u>	<u>\$2,088,799</u>	(2)

COMMENTS ON FINANCIAL STATEMENTS

(1) Reinsurance recoverable \$86,481

The Organization reported no reinsurance recoverable. The examination increase of \$86,481 relates to EHPH reinsurance recoverable which was incorrectly reported on EMIA's financial statements. A corresponding adjustment is being made in the EMIA examination report, reducing its reinsurance recoverable by the same amount.

(2) Capital and surplus \$2,088,799

The Organization's capital and surplus was determined to be \$2,088,799, which is \$86,481 more than reported in the Organization's annual statement as of December 31, 2008. The following schedule identifies any examination changes:

Description	Annual Statement Dr (Cr)	Per Examination	Change in Surplus Inc. (Dec.)	Notes
Reinsurance Recoverable	\$ -	\$ 86,481	<u>\$ 86,481</u>	(1)
Total examination changes			<u>86,481</u>	
Total capital and surplus per Organization			<u>\$2,002,318</u>	
Total capital and surplus per Examination			<u><u>\$ 2,088,799</u></u>	(2)

The Organization's minimum capital requirement was \$100,000 as defined in U.C.A. § 31A-8-209. As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted capital of \$2,088,799, after examination adjustments, which exceeded the Organization action level risk-based capital (RBC) requirement of \$1,540,308 by \$548,491.

SUMMARY OF RECOMMENDATIONS

The examination recommends that the Organization, at the group level, implement a program of training and process review to improve compliance to NAIC Statement Instructions and the Statutory Accounting Principles, as adopted by Utah Code.

ACKNOWLEDGEMENT

Michael Mayberry, FSA, MAAA, of L&E Actuaries and Consultants, performed the actuarial phase of the examination. Colette M. Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, Donald Catmull, CFE, co-reviewer, representing the Department, supervised the examination. Aaron Phillips, CFE, and Teresa Trusty, APIR, representing the Department, participated in the examination. Brandon Thomas, HISP, of Huff, Thomas and Company performed the information systems review. They join the undersigned in acknowledging the assistance and cooperation extended during the course of this examination by officers, employees, and representatives of the Association.

Respectfully Submitted,

A handwritten signature in black ink that reads "Carolyn Maynard". The signature is written in a cursive, flowing style.

Carolyn Maynard, CFE, Examiner-in-Charge
Huff, Thomas & Company
Representing the Utah Insurance Department