



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

EDUCATORS HEALTH PLANS, HEALTH, INC.

of

Murray, Utah

as of

December 31, 2011



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.....	2
Mergers and Acquisitions.....	2
CORPORATE RECORDS	3
MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE	3
Holding Company System.....	6
Transactions with Affiliates.....	7
FIDELITY BONDS AND OTHER INSURANCE	7
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS	7
TERRITORY AND PLAN OF OPERATION	7
GROWTH OF ORGANIZATION	8
LOSS EXPERIENCE	8
REINSURANCE	9
ACCOUNTS AND RECORDS	9
STATUTORY DEPOSITS	10
FINANCIAL STATEMENTS	10
BALANCE SHEET (ASSETS).....	11
BALANCE SHEET (LIABILITIES, CAPITAL AND SURPLUS).....	12
STATEMENT OF REVENUE AND EXPENSES.....	13
RECONCILIATION OF CAPITAL AND SURPLUS.....	14
COMMENTS ON FINANCIAL STATEMENTS	14
SUMMARY OF RECOMMENDATIONS	14
ACKNOWLEDGEMENT	15

June 24, 2013

Honorable Todd E. Kiser, Insurance Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2011, 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 Company 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, 2009 through December 31, 2011.

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 completed as of December 31, 2008. All issues found during the prior examination have been resolved.

SUBSEQUENT EVENTS

During the November 10, 2012 Board of Directors meeting the Board of Directors voted unanimously to dissolve Educators Health Plans Health, Inc. and Educators Health Care, Inc., effective December 31, 2012. Articles' of Dissolution as well as Plans of Orderly Withdrawal have been filed with and approved by the Utah Insurance Department.

During the Examination Period the Company underwent a three-year systems project, involving their primary policy and claims system that was substantially completed during the July/August period of 2012 while fieldwork was being conducted.

As of May 22, 2013, Tedd Stepan, Director of Finance, resigned from his position. Board of Directors members have been informally notified of this resignation. It will be formally presented during the next meeting.

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 as a health maintenance organization for the purpose of offering insurance products to other than school and educational employer groups.

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

Dividends and Capital Contributions

The Organization did not declare or pay dividends during the examination period. On March 7, 2011 the Company received a capital contribution of \$700,000 from EMIA.

Mergers and Acquisitions

The Organization was not involved in any acquisitions, mergers, disposals, 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. A detailed report of investment transactions since the previous meeting is presented and approved at each Board of Director's meeting. The minutes of meetings of shareholder, directors, and committees adequately approved and supported the Organization's transactions and events. On June 24, 2010, the Utah Insurance Department examination report as of December 31, 2008, dated March 18, 2010, 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, 2011:

<u>Name and Location</u>	<u>Principal Occupation</u>
Michael Evans Fillmore, Utah	Teacher Millard School District
James Fontaine Salt Lake City, Utah	Retired CFO Deseret Mutual Benefit Administrators
Michael R. Francis Orem, Utah	Associate Vice President For Finance Utah Valley University
Paul R. Gottfredson Ephraim, Utah	Business Administrator South Sanpete School District
Wallace Gary Harmer Salt Lake City, Utah	Retired Business Administrator Salt Lake School District
Michael W. Hepner Draper, Utah	Executive Director Utah School Employees Association

Dr. Steven K. Hirase Murray, Utah	Superintendent Murray City School District
Arlene Arnold Orem, Utah	Director Eastern Utah UniServ
Mark Mickelsen West Jordan, Utah	Executive Director, Utah Education Association
Star Orullian Salt Lake City, Utah	Executive Director Granite Education Association
Roger Pate Orem, Utah	Physical Facilities Supervisor Alpine School District
Randy Smart Sandy, Utah	Attorney Smart, Schofield, Shorter & Lunceford
Scott C. Thornton Centerville, Utah	Chief Actuary Deseret Mutual Benefit Administrators
Timothy Leaman Paradise, Utah	Teacher Cache County School District
Delora I. Wight Laketown, Utah	Teacher Rich School District

There were several committees of the directors as of December 31, 2011, the most significant of which are the following:

Executive Committee
 Wallace G. Harmer, Chair
 Michael Evans, Vice Chair
 Steven Morrison, President/CEO
 James Fontaine
 Paul Gottfredson
 Mike Francis

Board Review Committee A
January-March, December
 Paul R. Gottfredson, Chair
 Mark Mickelsen
 Randy R. Smart
 Dr. Steven K. Hirase
 Delora I. Wight

Audit Committee

Michael R. Francis, Chair
Arlene Arnold
Wallace G. Harmer
Roger A. Pate
Star Orullian

Board Review Committee B

April-July

Michael R. Francis, Chair
Arlene Arnold
Wallace G. Harmer
Star Orullian
Roger A. Pate

Finance & Risk Management Committee

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

Board Review Committee C

August-November

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

Marketing & Legislative Committee

Paul R. Gottfredson, Chair
Dr. Steven K. Hirase
Mark Mickelsen
Randy Smart
Delora I. Wight

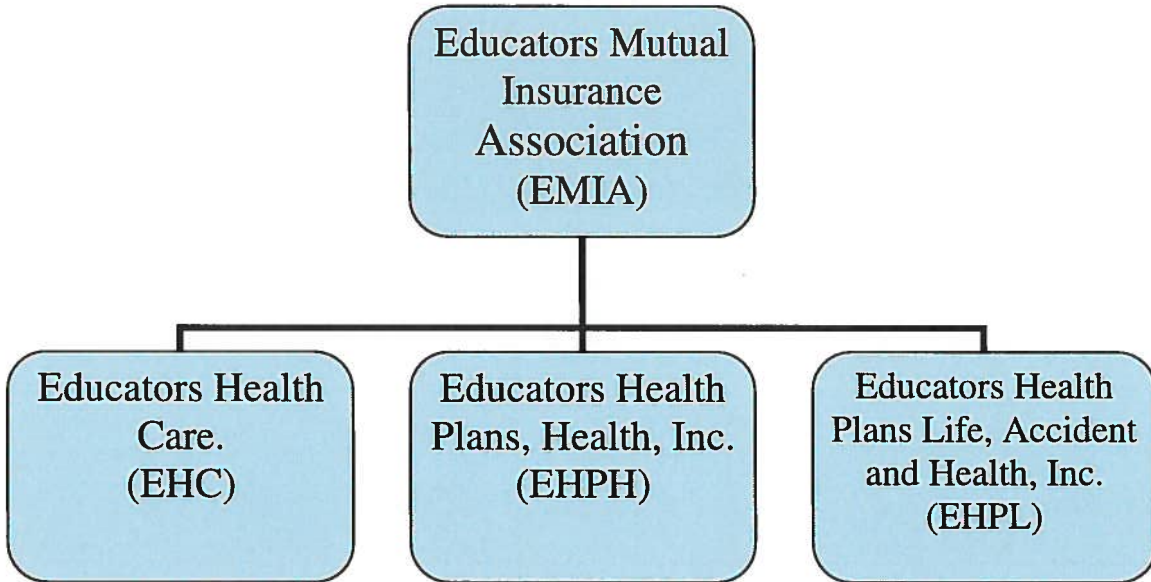
Officers of the Organization as of December 31, 2011, were the following:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Steven Charles Morrison	President/Chief Executive Officer
Jennifer Quintana Niesen	Secretary/Chief Operating Officer
Michael Wayne Greenhalgh	Treasurer/Chief Financial Officer
Joseph H. Campbell	Vice President
Christie H. Hawkes	Vice President
Cynthia Hepner	Vice President
Brandon Lee Smart	Vice President
Tiffany Bermingham	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 educational 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-educational employee groups. During the 2010 period, effective January 28, 2010 EIC Marketing Corporation (EICM) was dissolved as a corporation. EICM's assets and liabilities were passed to EHPL as the successor corporation. EICM was 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 a pro-rata share of premium and enrollment.

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, Nevada 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, Nevada and Arizona. In addition, the Association provided seminars, training sessions, and faculty meetings with employer groups.

GROWTH OF ORGANIZATION

EHPH had a net operating loss in 2011, due largely to a 13% increase in medical professional services. Premiums increased by 31% due to the transfer of business from EHC which took place on January 1, 2011. Although premiums increased from the prior year, the increase was not substantial enough to cover the corresponding increase in claims and associated reserves for those claims.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net admitted assets	4,175,858	3,533,654	3,447,185
Total liabilities	1,652,776	1,268,747	1,191,616
Total capital and surplus	2,523,082	2,264,907	2,255,570
Net income (loss)	(445,012)	(19,299)	307,455
Direct Premium	9,528,100	9,220,675	8,889,401
Net premium	9,218,234	8,940,937	8,690,855
Net Premium/ Surplus Ratio	365.36%	394.76%	385.31%

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Premiums earned	9,218,234	8,940,937	8,690,855
Incurred claims amount	7,880,355	7,633,393	7,151,014
Change in contract reserves	218,638	0	(93,705)
Loss ratio	88%	85%	81%

REINSURANCE

Ceded

At December 31, 2011, the Organization was covered by a group medical excess of loss agreement with RGA Reinsurance Company, 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, 2011, 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 2009 through 2011 were made available to examiners.

As of December 31, 2011, the assets in the statutory custodial account deposit held for the benefit of all policyholders, were secured by a compliant custodial agreement as required by Utah Code Annotated (U.C.A.) 31 § A-4-108.

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, 6.00%, Mat 6/27/13	\$625,000	\$625,000	\$625,342
AZ	US Treasury NT, 3.25%, Mat 06/30/16	10,000	10,530	11,101
AZ	US Treasury NT, 3.625%, Mat 12/31/12	500,000	502,372	521,135
AZ	US Treasury NT, 1.375%, Mat 3/15/2012	5,000	5,003	5,029
NV	FHLB, 2.00%, Mat 11/15/19	250,000	250,000	250,508
NV	FHLMC, 1.5%, Mat 3/15/16	<u>500,000</u>	<u>500,000</u>	<u>501,565</u>
Total	Deposits for the Benefit of All Policyholders	\$1,890,000	\$1,892,905	\$1,914,680

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, 2011

	<u>Net Admitted Assets</u>
Bonds	\$ 2,445,718
Preferred stocks	50,000
Cash and short-term investments	1,433,567
Investment income due and accrued	18,357
Uncollected premiums and agents' balances	73,744
Current federal and foreign income tax recoverable	39,500
Receivable from parent, subsidiaries and affiliates	85,089
Healthcare and other amounts receivable	29,883
Total assets	<u>\$ 4,175,858</u>

EDUCATORS HEALTH PLANS, HEALTH, INC.
BALANCE SHEET (LIABILITIES, CAPITAL AND SURPLUS)
as of December 31, 2011

LIABILITIES

Claims unpaid	\$1,150,873
Unpaid claims adjustment expenses	33,722
Aggregate health policy reserves	218,638
Premiums received in advance	57,524
General expenses due or accrued	14,927
Ceded reinsurance premiums payable	55,856
Amounts due to parent, subsidiaries and affiliates	121,236
Total liabilities	<u>\$1,652,776</u>

CAPITAL AND SURPLUS

Common capital stock	\$1,000
Gross paid in and contributed surplus	4,024,631
Unassigned funds (surplus)	(1,502,549)
Total capital and surplus	<u>\$2,523,082</u>
 Total liabilities, capital and surplus	 <u><u>\$4,175,858</u></u>

EDUCATORS HEALTH PLANS, HEALTH, INC.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2011

	Current Year
Net premium income	\$ 9,218,234
Aggregate write-ins for other health care related revenues	9,583
Total revenues	\$ 9,227,817
Hospital/medical benefits	\$ 1,453,416
Other professional services	4,814,046
Outside referrals	394,343
Emergency room and out-of-area	297,932
Prescription drugs	920,618
Subtotal	\$ 7,880,355
Less net reinsurance recoveries	\$ -
Total hospital and medical	7,880,355
Claims adjustment expenses	333,732
General administrative expenses	1,285,114
Increase in reserves for life and accident and health contracts	218,638
Total underwriting deductions	\$ 9,717,839
Net underwriting gain or (loss)	\$ (490,022)
Net investment income earned	45,010
Net realized capital gains (losses)	-
Net investment gains (losses)	\$ 45,010
Net income after capital gains tax and before all other federal income taxes	\$ (445,012)
Federal and foreign income taxes incurred	-
Net income (loss)	\$ (445,012)

**EDUCATORS HEALTH PLANS, HEALTH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2008 through 2011**

	2008	2009	2010	Per Exam 2011
Capital and surplus prior reporting year	\$1,716,152	\$2,002,318	\$2,255,570	\$2,264,907
Net income or (loss)	(960,122)	307,455	(19,299)	(445,012)
Change in net unrealized capital gains (losses)	(3,712)	(58,860)	31,307	6,030
Change in nonadmitted assets	0	4,659	(2,671)	(2,843)
Change in asset valuation reserve				
Capital changes: Paid in	0			
Surplus adjustments: Paid in	1,250,000		0	700,000
Rounding				
Net change in capital and surplus	<u>286,166</u>	<u>253,254</u>	<u>9,337</u>	<u>258,175</u>
Capital and surplus end of reporting year	<u><u>\$2,002,318</u></u>	<u><u>\$2,255,570</u></u>	<u><u>\$2,264,907</u></u>	<u><u>\$2,523,082</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Capital and surplus \$2,523,082

The Organization's capital and surplus was determined to be \$2,523,082, as of December 31, 2011.

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 \$2,523,082, after examination adjustments, which exceeded the Organization action level risk-based capital (RBC) requirement of \$994,876 by \$1,528,206.

SUMMARY OF RECOMMENDATIONS

As of December 31, 2012 Educators Health Plans, Health, Inc. was dissolved, as such examiners have no future recommendations. Any recommendations are included in the examination report of the parent, Educators Mutual Insurance Association, whose examination was conducted concurrently with the examination of Educators Health Plans, Health, Inc.

ACKNOWLEDGEMENT

Michael Mayberry, FSA, MAAA, of L&E Actuaries and Consultants, performed the actuarial phase of the examination. Donald Catmull, CFE, Assistant Chief Examiner, representing the Department, supervised the examination. Hermoliva Abejar, CFE, Financial Examiner, Cory Starley, Financial Examiner, and Aaron Phillips, CFE, representing the Department, participated in the examination. Tracy D. Gates, CISA of Highland Clark, LLC 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,



Sheri L. Kenney, CFE, Examiner-in-Charge
Highland Clark, LLC
Representing the Utah Insurance Department