



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

EDUCATORS HEALTH PLANS LIFE, ACCIDENT & HEALTH, INC.

of

Murray, Utah

as of

December 31, 2014



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February 26, 2016

SALUTATION

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

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2014, has been made of the financial condition and business affairs of:

EDUCATORS HEALTH PLANS LIFE, ACCIDENT & HEALTH, INC.
Murray, Utah

hereinafter referred to in this report as the “Company” or “EHPL” and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The last financial examination of the Company was completed as of December 31, 2011. The current examination is a full scope examination covering the period from January 1, 2012 through December 31, 2014, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to assess the financial condition of the Company and its holding company system. The examination was conducted by representatives of the Utah Insurance Department (“Department”) at the Company’s administrative office in Murray, Utah, which is the primary location of the Company’s books and records.

We conducted our examination in accordance with the risk-focused examination approach as prescribed by the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company’s corporate governance, identifying and assessing inherent risks within the Company, and evaluating internal controls, policies, 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.

Workpapers of the Company's independent auditor, Larson & Company, were reviewed and relied upon whenever possible and applicable to assist in the completion of examination procedures.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

There were no significant findings for inclusion in the examination report.

COMPANY HISTORY

General

EHPL was incorporated as a stock company on November 9, 2005, in the State of Utah, and is a wholly-owned subsidiary of Educators Mutual Insurance Association ("EMIA"), for the purpose of offering insurance products to other than educational employer groups.

The Company's legal name, as filed with the Utah Division of Corporation, was Educators Health Plans Life, Accident & Health, Inc., "doing business as" EMI Health.

The Company is currently licensed to transact accident and health, life, annuity, and variable contract lines of insurance.

Dividends and Capital Contributions

In December 2014, the Company received a capital contribution from parent company, EMIA, in the amount of \$7,500,000. No stockholder dividends were declared or paid during the period of this examination.

Mergers and Acquisitions

During the November 10, 2012 Board of Directors meeting, the Board voted unanimously to dissolve Educators Health Plans Health, Inc., and Educators Health Care. Service and insurance coverage provided by Educators Health Care were transferred to EMIA. Services and insurance coverage provided by Educators Health Plans Health, Inc. were transferred to EHPL. Plans of Orderly Withdrawal were approved by the Department on July 18, 2013.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

The Company's Bylaws permit for the use of the parent's Board for governance. The parent's Bylaws indicated the number of Directors may not be less than five (5) or more than fifteen (15). Eleven (11) directors were elected by members of the parent company. The elected directors appointed independent four (4) board members.

The following persons served as directors of the Company as of December 31, 2014:

Name and Location	Primary Occupation
Wallace Gerald Harmer Salt Lake City, UT	Appointed Member (Chair) Retired-Business Administration & CPA
Michael R. Evans Fillmore; UT	Elected Member (Vice Chair) IT Teacher, Millard School District
James Clarke Fontaine Salt Lake City, UT	Appointed Member Retired CFO- Deseret Mutual Benefit Administrators
Michael Rell Francis Orem, UT	Elected Member Finance- Utah Valley University
Richard Paul Gottfredson Ephraim, UT	Elected Member Business Administrator- South Sanpete School District
Dr. Steven Kay Hirase Riverton, UT	Elected Member Superintendent- Murray City School District
Sara Ann Jones South Jordan, UT	Elected Member Director of Education Excellence and Government Relations- Utah Education Association
Lisa Nenti-Bloom; Murray, UT	Elected Member Executive Director- Utah Education Association
Starleen Orullian Salt Lake City, UT	Elected Member Executive Director- Granite Education Association
Jerad Arthur Reay Bear River City, UT	Elected Member; President- Utah School Employees Association
Randy Reid Smart Sandy, UT	Appointed Member Attorney- Smart- Schofield, Shorter & Lunceford
Bryan Lee Sprague West Valley City, UT	Elected Member Executive Director- Utah School Employees Association
Scott Charles Thornton Centerville, UT	Appointed Member Actuary- Deseret Mutual Benefit Administrators
Elaine Tzourtzouklis Salt Lake City, UT	Elected Member UniServ Director- Wasatch UniServ
Delora L. Wight Laketown, UT	Elected Member Teacher- Rich School District

Officers

Officers as of December 31, 2014 were as follows:

Name	Title
Steven Charles Morrison	President and Chief Executive Officer
David Ryan Lowther	Secretary and Chief Operating Officer
Michael Wayne Greenhalgh	Treasurer and Chief Financial Officer
Joseph Howard Campbell	Vice President
Tiffany Bermingham	Vice President
Brandon Lee Smart	Vice President
Cynthia Tovey	Vice President
Christie Lynn Hawkes	Vice President
David Scott Wood	Vice President

Committees

The following committee was in place as of December 31, 2014:

Audit Committee	Finance & Risk Management Committee
Michael Rell Francis (Chair)	James Clarke Fontaine (Chair)
Wallace Gerald Harmer	Michael R. Evans
Starleen Orullian	Sara Ann Jones
Jerad Arthur Reay	Bryan Lee Sprague
Elaine Tzourtzouklis	Scott Charles Thornton

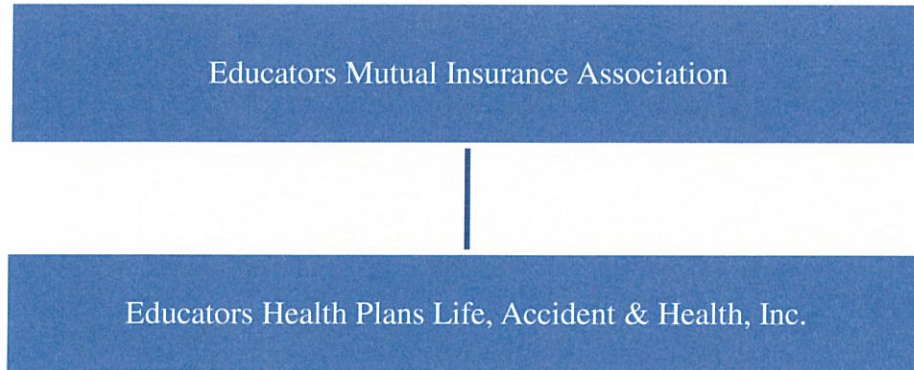
Executive Committee	Marketing & Legislative Committee
Wallace Gerald Harmer (Chair)	Richard Paul Gottfredson (Chair)
Michael R. Evans	Dr. Steven Kay Hirase
Michael Rell Francis	Mark Drew Mickelsen
James Clarke Fontaine	Randy Reid Smart
Richard Paul Gottfredson	Delora L. Wight
Steven Charles Morrison	

Holding Company

The Company is part of a holding company system as defined in U.C.A. § 31A-16. The Company is a wholly-owned subsidiary of EMIA.

Holding Company Organizational Chart

The organizational chart below reflects the current holding company structure.



Transactions and Agreements with Affiliates

The Company entered into a Management Agreement with EMIA effective February 1, 2006. The original agreement was approved by the Department on May 15, 2006. The agreement listed services provided by EMIA, which included, but are not limited to, marketing, administrative services, accounting, financial reporting, enrollment, and claims. The agreement indicated the fees, in exchange for the services provided, was 15% of the premium and service income generated by EHPL.

The agreement was amended in February 1, 2009. The amended agreement was approved by the Department on February 19, 2009. The amendment was added to also include fees for indirect expenses incurred by EMIA.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, the Company was licensed in Arizona, Nevada, and Utah. The Company currently writes medical coverage for groups with 51 or more employees, along with a stop loss alternative.

In addition, the Company offers various Dental and Vision plan options for small and large groups, as well as, individual policies.

REINSURANCE

Assumed

The Company did not have any assumed reinsurance as of the examination date.

Ceded

As of the examination date, the Company had a reinsurance contract with Munich Reinsurance America, Inc. ("Munich"). Effective September 1, 2014 through September 1, 2015, the following arrangement with Munich was in place:

Layer	Retention	Reinsurer's Limit of Liability
	Ultimate Net Loss in Respect of each Claim Incurred, each Covered Person	In Respect of each Claim Incurred, each Covered Person
First Excess	\$400,000	\$1,600,000
Second Excess	\$2,000,000	\$8,000,000

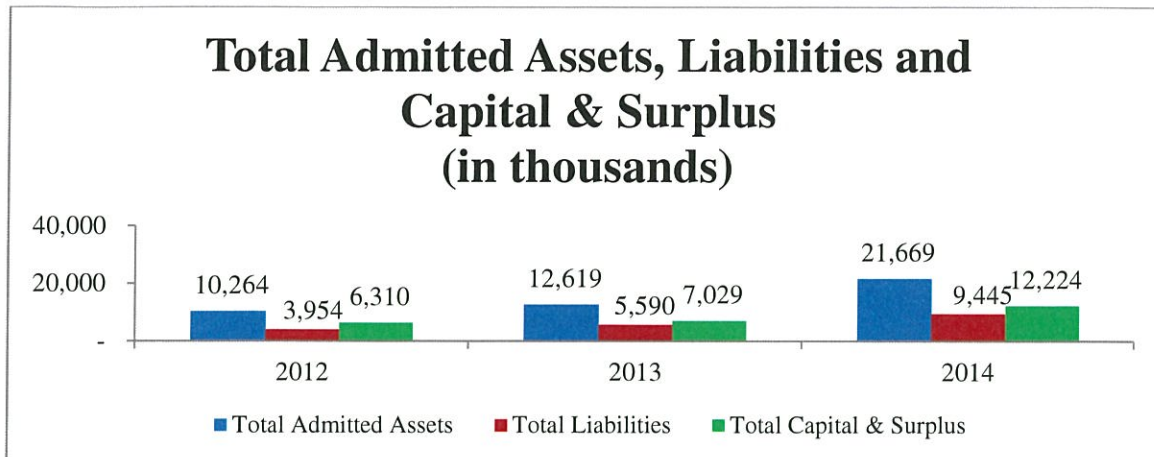
The Company renewed the contract with Munich effective September 1, 2015 through September 1, 2016 with the same terms.

GROWTH OF COMPANY

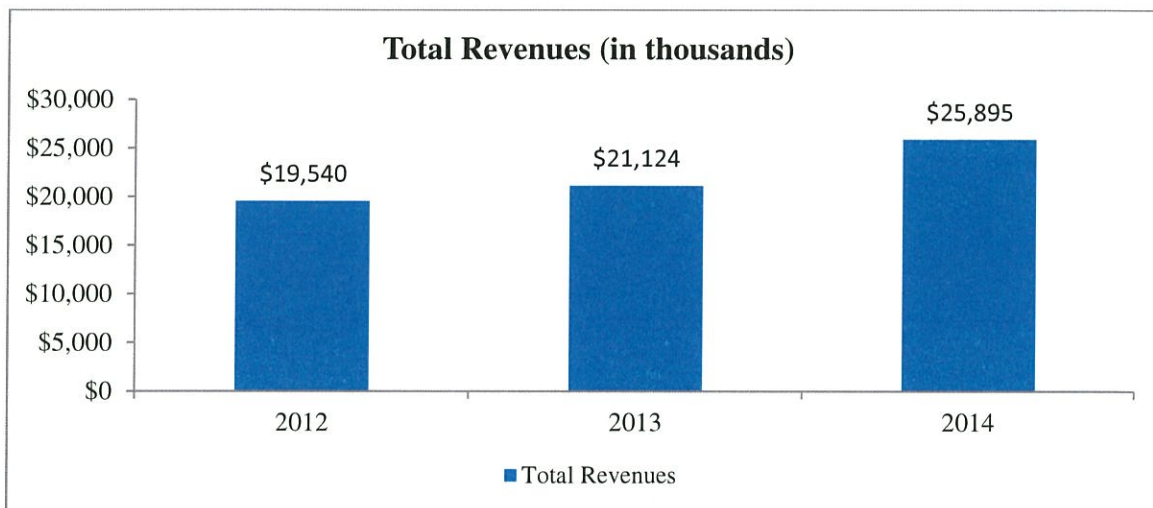
The Company continues to emphasize its strategy of growing profitable business as reflected in the steady growth of Total Revenues and Balance Sheet.

In 2014, EMIA contributed \$7,500,000 to EHPL as part of their ongoing commitment to fund the growth strategy.

See the following graphs.



Source: 2014 Annual Financial Statement



Source: 2014 Annual Financial Statement

MORTALITY AND LOSS EXPERIENCE

The examination actuary reviewed the Association’s mortality and loss experience, as well as pricing and underwriting practice. The examination actuary concluded that the Association’s reserve methodology and assumptions were reasonable. No significant deficiency was noted in the Association’s unpaid claims and other actuarial liability reserves.

ACCOUNTS AND RECORDS

The Company's accounting systems were maintained on a local area network. The basic accounting records and supporting documentation provide a verifiable audit trail.

Larson & Company, an independent certified public accounting firm, audited the Company's records during the period covered by this examination. Audit reports generated by the auditors for the years 2012 through 2014 contained unqualified opinions and were made available for the examiners' use.

An Information Technology (IT) Specialist performed a review of the Company's IT system controls for purposes of reliance by the examiners. The IT Specialist prepared a separate assessment report, which was incorporated into the examination workpapers.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

EDUCATORS HEALTH PLANS LIFE, ACCIDENT & HEALTH, INC.
ASSETS
as of December 31, 2014

		Net Admitted Assets
Bonds	\$	3,584,668
Preferred stocks		100,000
Cash		15,882,325
Subtotals, cash and invested assets	\$	19,566,993
Investment income due and accrued		25,767
Uncollected premiums and agents' balances		289,196
Amounts recoverable from reinsurers		604
Amounts receivable relating to uninsured plans		1,682,397
Guaranty funds receivable or on deposit		878
Health care and other amounts receivable		103,480
Total Assets	\$	21,669,315

EDUCATORS HEALTH PLANS LIFE, ACCIDENT & HEALTH, INC.

LIABILITIES, CAPITAL AND SURPLUS

as of December 31, 2014

Liabilities

Claims unpaid	\$	3,706,021
Unpaid claims adjustment expenses		109,645
Aggregate health policy reserves		501,451
Premiums received in advance		301,761
General expenses due or accrued		1,088,657
Ceded reinsurance premiums payable		84,032
Remittances and items not allocated		29,419
Amounts due to parent, subsidiaries and affiliates		510,473
Liability for amounts held under uninsured plans		3,114,061
Total liabilities	\$	<u>9,445,520</u>

Capital and Surplus

Common capital stock	\$	1,000,000
Gross paid in and contributed surplus		15,014,712
Unassigned funds (surplus)		<u>(3,790,917)</u>
Total capital and surplus	\$	<u>12,223,795</u>
Total liabilities, capital and surplus	\$	<u>21,669,315</u>

EDUCATORS HEALTH PLANS LIFE, ACCIDENT & HEALTH, INC.

SUMMARY OF OPERATIONS

For the fiscal year ended December 31, 2014

Net premium income	\$ 25,610,647
Aggregate write-ins: Service & Miscellaneous Income	284,495
TOTAL Revenues	\$ 25,895,142
Hospital/medical benefits	3,109,104
Other professional services	19,069,212
Outside referrals	526,583
Emergency room and out-of-area	102,786
Prescription drugs	1,469,538
Subtotal	\$ 24,277,223
Net reinsurance recoveries	554,315
TOTAL Hospital and Medical	\$ 23,722,908
Claims adjustment expenses	771,832
General administrative expenses	2,995,772
Increase in reserves for life and accident and health contracts	419,660
TOTAL Underwriting Deductions	27,910,172
Net underwriting gain or (loss)	\$ (2,015,030)
Net investment income earned	44,998
Net realized capital gains (losses)	307
Net investment gains	\$ 45,305
Net income or (loss) after capital gains tax	\$ (1,969,725)
Federal and foreign income taxes incurred	2,485
Net income (loss)	\$ (1,972,210)

EDUCATORS HEALTH PLANS LIFE, ACCIDENT & HEALTH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2012 through 2014

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Note</u>
Capital and surplus prior reporting year	\$ 3,399,342	\$ 6,310,119	\$ 7,028,898	
Net income (loss)	125,801	510,114	(1,972,210)	
Change in net unrealized capital gains (losses) less capital gains tax	0	(13,956)	5,884	
Change in net deferred income tax	0	326,696	(234,445)	
Change in non-admitted assets	(6,325)	(107,926)	(104,332)	
Change in asset valuation reserve	(2,353)	0	0	
Surplus adjustments: Paid in	0	0	7,500,000	
Aggregate write-ins for gains & losses in surplus	<u>0</u>	<u>3,851</u>	<u>0</u>	
Change in capital and surplus	117,123	7,028,898	12,223,795	
Adjustment due to merger	<u>2,793,654</u>	<u>0</u>	<u>0</u>	(1)
Capital and surplus end of reporting year	<u><u>6,310,119</u></u>	<u><u>7,028,898</u></u>	<u><u>12,223,795</u></u>	

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No financial adjustments were made to surplus as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note (1): Upon the dissolution of Educators Health Plans Health, Inc., all assets were transferred to EHPL resulted in an increase to the Company's capital and surplus in the amount of \$2,793,654, bringing EHPL's 2012 total capital and surplus to \$6,310,119.

The Company's capital and surplus in the amount of \$12,223,795 was determined to be the same as that reported in the Company's annual statement as of December 31, 2014. The capital and surplus significantly exceeded the authorized control level risk-based capital.

SUBSEQUENT EVENTS

In 2015, Corey Callahan, Payroll Director of Utah Valley University, became a member of the Board of Directors and Finance & Risk Management Committee.

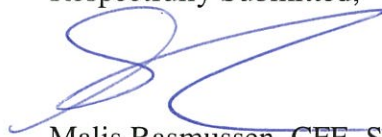
In July 2015, the Company changed its investment manager to JP Morgan, which was chosen via a thorough selection process.

On March 1, 2016, the Company filed an expansion application with Florida, Ohio, Pennsylvania, and Texas.

ACKNOWLEDGEMENT

T. Michael Presley, FSA, MAAA, of AGI Services, Inc., and John B. Humphries, ASA, MAAA, CFE, CISA, AES, MCM, of AGI Services, Inc., performed the actuarial review portion of the examination. Tracy D. Gates, CISA, CPA, CFE, of Highland Clark, performed the information technology review. Donald Catmull, CFE, Assistant Chief Examiner, supervised the examination. In addition, James Borrowman, AFE; and Shane Sadler, AFE; of Utah Insurance Department, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully Submitted,



Malis Rasmussen, CFE, SPIR
Examiner-in-Charge
Utah Insurance Department