



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF LIMITED-SCOPE FINANCIAL EXAMINATION

of

HEALTH CHOICE UTAH, INC.

of

South Jordan, Utah

For the period covering

March 1, 2012 through June 30, 2014



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SALUTATION

June 11, 2015
Salt Lake City, Utah

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114-6901

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, a limited-scope examination, as of June 30, 2014, has been made of the financial condition and business affairs of:

HEALTH CHOICE UTAH, INC.
406 W South Jordan Parkway, Suite 500
South Jordan, Utah 84095

hereinafter referred to as the "Plan." The following Report of Limited-Scope Financial Examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by the Examination

This is the first financial examination of the Plan by the Utah Insurance Department (Department) since commencing business on March 1, 2012. This is a limited-scope examination pursuant to Utah Code Annotated (U.C.A.) § 31A-16-108, covering the period from March 1, 2012, through June 30, 2014, including any material transactions or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedures Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This examination is not intended to communicate all matters of importance for an understanding of the Company's financial condition. Examination procedures are described more fully below.

Planning materiality and tolerable error thresholds were based on professional judgment after considering the nature of the business written by the Company, operating results and related ratios for each year included in the examination period and the Company's financial position as

of December 31, 2013, and June 30, 2014. Due to the limited scope of this examination, certain reclassifications between accounts that did not result in a net effect on surplus are not included as findings in this report. Similarly, the net tax effect of each adjustment is not disclosed when the effect on surplus was deemed immaterial.

BACKGROUND AND EXAMINATION OBJECTIVES

Health Choice Utah, Inc. is wholly owned by IASIS Healthcare LLC (IASIS or Parent), a Delaware corporation headquartered in Franklin, TN. The Plan is the first entity owned by IASIS that is required to provide statutory reporting. Specifically, the Plan had to amend the 2013 Annual Statement twice and had to submit the Statement of Actuarial Opinion three times before being accepted by the Department. It was necessary for the Plan to amend the annual statement filing due to improperly admitting receivables from the Parent that were greater than 90 days outstanding, as well as inaccurate completion of the Notes to Financial Statements. These occurrences gave rise to regulatory concerns regarding the effectiveness of corporate governance and the accuracy of statutory financial reporting.

Examination objectives as determined by the Utah Insurance Department included, but were not limited to, the following:

- Assess the adequacy of the Plan's Corporate Governance
- Review the Plan's financial statement close process, including statutory reporting
- Gain an understanding of interrelationships among the parent company, all affiliated insurers, and all other affiliates and related parties
- Review material balance sheet accounts for reasonableness
- Review significant agreements for compliance
- Identify compliance matters requiring follow-up in subsequent reporting periods by department analysts.

SUMMARY OF SIGNIFICANT FINDINGS

Items of significance commented on in this report are summarized below:

Since inception, the Plan's shareholders have not held an annual meeting in accordance with Plan bylaws Article II, Section 1. Additionally, members of the Board of Directors have not met since inception as required by Article III, Section 5b.

The Plan did not list all Directors on the jurat page of the 2013 Annual Statement, nor on the subsequently filed quarterly statements in 2014 as required by NAIC Annual/Quarterly Statement Instructions.

As of June 30, 2014, less than a majority of the Directors were residents of Utah, with only four of the eight board members resided in the State of Utah.

The Plan's custodial agreement with its affiliate, IASIS Investments, LLC, has not been authorized by the Board of Directors. As such, the custodial agreement was not in compliance with Utah Administrative Code (U.A.C.) R590-178-5(B).

The annual Form B and Form C holding company registration statement filed with the Department on April 28, 2014, with the Department was incomplete as not all transactions and agreements with affiliates were disclosed.

The Plan has not properly filed all affiliated agreements with the Department in accordance with U.C.A. § 31A-16-106, including the Tax Consolidation Agreement, Administrative Services Agreement and Asset Management and Custodial Agreement.

The Plan's Organization Chart illustrated on Schedule Y Part 2 in its annual and quarterly statements was not properly completed as the Ultimate Controlling Party, and the downstream affiliated TPA were not included.

The Plan did not subsequently amend its 2013 Annual and 2014 Quarterly Statements to incorporate all adjustments prepared by the external auditor regarding adjustments to its financial statements as a result of the annual audit.

A reserve analysis performed by the examining actuary of the Plan's reserves for Claims Unpaid and Unpaid Claims Adjustment Expense reported in the June 30, 2014, quarterly statement indicated a deficiency of \$735,748. Additionally, a similar reserve analysis was performed as of December 31, 2013, which indicated a deficiency of \$445,406.

The Plan also utilized the services of Star Line Group (Star Line) for underwriting assistance for developing its reinsurance program. Star Line also executed the reinsurance agreement on behalf of the Reinsurer (American National Insurance Company) effectively designating Star Line as a Reinsurance Intermediary-Manager, for which they are unlicensed. This situation could potentially expose the Plan to unnecessary and unanticipated future liabilities.

COMPANY HISTORY

General

Health Choice Utah, Inc. (the Plan) was incorporated under the laws of the state of Utah on December 5, 2011, and commenced operations on April 1, 2012. The Plan is a wholly owned subsidiary of IASIS Healthcare LLC, a hospital management company that operates 16 acute-care hospital facilities and one behavioral health hospital facility in seven states. IASIS also owns and operates Health Choice Arizona, Inc., a provider-owned managed care organization and insurer, headquartered in Phoenix, Arizona, that serves over 207,000 members in Arizona and Utah.

The Plan is a health maintenance organization (HMO) licensed Title XIX Medicaid insurer that provides comprehensive health care services to Medicaid enrollees under contracts with the state of Utah. The Plan contracts with independent physician associations, hospitals and other providers to provide medical services to its members. As an HMO, the Plan is at risk for all outpatient and inpatient claims incurred by its beneficiaries. As of December 31, 2013, the Plan served over 3,000 members, which has grown to over 5,000 as of June 30, 2014.

Dividends and Capital Contributions

The Plan is subject to certain statutory net worth requirements as specified by the state of Utah. At December 31, 2013, the Plan reported capital and surplus of \$1,539,043, which exceeded the statutory minimum net worth requirement by \$811,797.

As of June 30, 2014, the Plan reported capital and surplus of \$2,778,714 and had not received any surplus contributions year to date. The Parent did contribute surplus of \$1,450,000 during 2012, which was the Plan's initial year of operations. Subsequently in 2013, the Parent contributed additional surplus of \$560,000.

The payment of dividends by the Plan is limited and can only be made from earned profit unless prior approval is received from the Department. The amount of dividends that may be paid by the Plan without prior approval of the Department is also subject to restrictions relating to statutory surplus and net income. During 2012, 2013, and year to date through June 30, 2014, no dividends were paid to IASIS.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The Plan's bylaws were in compliance with U.C.A. § 31A-5-203 as of June 30, 2104. However, Article II, Section 1 of the Plan's bylaws state that the shareholders are to hold an annual meeting each April for the election of Directors and the transaction of other business affairs pertinent to the Plan. Since inception, the shareholders have not held an annual meeting in accordance with the Plan's bylaws. Additionally, members of the Board of Directors have not met since inception as required by Article III, Section 5b.

The Plan's Board of Directors consisted of eight (8) members as of June 30, 2014, which was consistent with the Bylaws that required the number of Directors to be at least three (3) and no more than nine (9). In addition, the bylaws noted that each Director serves a term of office for three (3) years. The Plan did not list all Directors on the jurat page of the 2013 Annual Statement nor on the subsequently filed quarterly statements in 2014 as required by NAIC Annual/Quarterly Statement Instructions.

Pursuant to U.C.A. § 31A-5-407(2), "A majority of the directors shall be residents of this state unless the commissioner is satisfied that the corporation's financial condition, management, and other circumstances give assurance that the interests of insureds and the public will not be endangered by the majority being nonresidents." As of June 30, 2014, less than a majority of the Directors were residents of Utah, as only four of the eight board members resided in the State of Utah.

Pursuant to Utah Administrative Code (U.A.C.) R590-178-5(B), "Agreements shall be in writing and shall be authorized by a resolution of the Board of Directors of the insurance company or of an authorized committee of the board pursuant to 31A-5-412." As of June 30, 2014, the Board had not authorized by resolution the Plan's custodial agreement. As such, the custodial agreement was not in compliance with Utah Administrative Code (U.A.C.) R590-178-5(B).

The following persons served as directors of the Plan as of June 30, 2014:

<u>Name and Location</u>	<u>Principal Occupation</u>
Michael J. Uchrin Jr. Phoenix, Arizona	Chief Executive Officer Health Choice Arizona, Inc.
John M. Doyle Franklin, Tennessee	Chief Financial Officer IASIS Healthcare LLC
Karen H. Abbott Nashville, Tennessee	Associate General Counsel IASIS Healthcare LLC
John L. Oaks Orem, Utah	Vice President IASIS Healthcare LLC
William C. Whitmer Gallatin, Tennessee	President & Chief Executive Officer IASIS Healthcare LLC
Michael E. Jensen Kaysville, Utah	Chief Executive Officer Davis Hospital and Medical Center
Jeffrey J. Frandsen* Alpine, Utah	Chief Executive Officer Salt Lake Regional Medical Center
Bryanie W. Swilley, Jr.* Park City, Utah	President, Eastern Division IASIS Healthcare LLC

*Subsequent to June 30, 2014, Mr. Frandsen and Mr. Swilley were replaced by Dale Johns and Steven Anderson. The Plan is in the process of obtaining biographical affidavits for the new board members. Additionally, Jason Worthen was in the process of being appointed CEO of Health Choice Utah, Inc. by the Board at the time of the examination.

Officers as of June 30, 2014, were as follows:

<u>Name</u>	<u>Title</u>
Michael J. Uchrin Jr.	President & Chief Executive Officer
John M. Doyle	Treasurer
Karen H. Abbott	Secretary

The Plan has no committees. All committees are at the parent company level. The following members of the IASIS Board of Directors served on the Audit Committee as of December 31, 2013:

Audit Committee

Kirk E. Gorman*
Greg Kranias
Jeffrey C. Lightcap

*The Board of Directors of IASIS had determined that Mr. Gorman is an “audit committee financial expert” as defined by SEC regulations.

Holding Company

The Plan is a member of a Holding Company System as defined by U.C.A. § 31A-16-101 et al. As previously mentioned, the Plan is a wholly owned subsidiary of IASIS Healthcare LLC, which in turn is wholly owned by IASIS Investment LLC. IASIS Investment LLC is 74.4% owned and controlled by TPG, the ultimate controlling party. The Plan filed the annual Form B and Form C holding company registration statement on April 28, 2014, with the Department in accordance with U.C.A § 31A-16-105. However, the filing was incomplete as not all transactions and agreements with affiliates were disclosed.

The following affiliates were key related parties at June 30, 2014:

IASIS Healthcare LLC (IASIS)

- IASIS is the parent to which the Plan is a member of a Tax Consolidation Agreement in effect between IASIS, the Plan and all other entities within the umbrella of IASIS. This agreement has not been properly filed with the Department in accordance with U.C.A. § 31A-16-106.
- Effective April 1, 2014, the Plan and IASIS entered into an Inter-Affiliate Transfers and Dividend Agreement whereby intercompany transactions are reconciled and settled monthly. In accordance with U.C.A. § 31A-16-106, the Plan filed the agreement with the Department, which was subsequently approved May 7, 2014.

Health Choice Management Company (HCMC)

- HCMC is a Delaware corporation headquartered in Arizona. HCMC provides for the management of general and administrative functions related to the Plan, including payroll, advertising, and related expenses, as the Plan has no employees. This Administrative Services Agreement has not been properly filed with the Department in accordance with U.C.A. § 31A-16-106.

IASIS Investments LLC (IASIS Investments)

- IASIS Investments is a Delaware corporation headquartered in Franklin, TN. IASIS Investments provides asset management and custodial services related to the Plan, ensuring that all investments made are within the guidelines of the Plan's investment policy and statutory limitations. As of June 30, 2014, this Asset Management Agreement has not been properly filed with the Department in accordance with U.C.A. § 31A-16-106.

The Plan's Schedule Y filed in its statutory statements with the Department was incomplete. The Plan did not include the Ultimate Controlling Party, nor various affiliated entities, insurance and non-insurance, in its annual and quarterly statements. The organizational chart filed with the Amended 2014 Annual Statement identifies the entities within the holding company group, as well as key affiliated entities as of June 30, 2014.

FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity insurance recommended by the NAIC for the Plan size is between \$150,000 and \$175,000. As of June 30, 2014, the Plan was a named insured under the Parent's fidelity insurance policy with an aggregate limit of liability of \$1,000,000 related to employee dishonesty coverage and a blanket crime policy providing coverage up to \$10,000,000.

TERRITORY AND PLAN OF OPERATION

The Plan is a health maintenance organization (HMO) licensed Title XIX Medicaid insurer that provides comprehensive health care services to Medicaid enrollees under a sole contract with the State of Utah. The Plan contracts with independent physician associations, hospitals and other providers to provide medical services to its members. As an HMO, the Plan is at risk for all outpatient and inpatient claims incurred by its beneficiaries. As of December 31, 2013, the Plan served over 3,000 members, which has grown to over 5,000 as of June 30, 2014.

As the Plan has no employees, the administrative functions are performed by an affiliated entity, Health Choice Management Company (HCMC), a Delaware corporation headquartered in Arizona.

PREMIUMS

The Plan provides health care coverage to Medicaid enrollees for the State of Utah. As of December 31, 2013, the Plan reported net premiums of \$6,221,257 on member months of 6,720. As of June 30, 2014, the Plan reported net premiums of \$5,567,429.

A reconciliation of gross premiums to cash received from Medicaid and deposited into the Plan's bank account was performed. The Plan reconciles these deposits to 820 membership reports received from the Utah Department of Health. The Plan then records adjusting amounts for premiums received in advance, provider enhancement revenues (pass-through revenues), and other adjusting entries primarily due to membership status changes. Examiners agreed the amounts in the reconciliation worksheets prepared by the Plan to source documents (bank statements) as well as the Plan's 2013 Annual and Second Quarter 2014 Statements without material exception.

RESERVES

Reserve Analysis - December 31, 2013, and June 30, 2014

The Utah Insurance Department retained Mike Presley, FSA, MAAA, of AGI Services to review the Plan's reserves as of December 31, 2013, and June 30, 2014. The following is a brief summary of work performed by the Examining Actuary.

The Examining Actuary (EA) performed a reserve analysis using data through 10/31/2014 to recast the Plan's Claims Unpaid (CU) as of 6/30/2014. Recasting the 6/30/2014 reserves at 10/31/2014 produced a CU Liability of \$1,408,094 and an Unpaid Claims Adjustment Expense (UCAE) liability of \$55,066. In the 6/30/2014 quarterly statement, the Plan booked CU reserves of \$727,412. The Plan did not book a separate line item for UCAE.

Similarly, the EA performed a reserve analysis using data through 10/31/2014 to recast CU as of 12/31/2013. Recasting the 12/31/2014 reserves at 10/31/2014 produced a CU Liability of \$1,025,531 and a UCAE liability of \$41,005. In the 2013 Annual Statement, the Plan booked CU reserves of \$621,130. The Plan did not book a separate line item for UCAE.

The above analyses resulted in proposed examination adjustments to Claims Unpaid (CU) of \$680,682 and to Unpaid Claims Adjustment Expenses (UCAE) of \$55,066 at 6/30/2014 as well as adjustments to CU of \$404,401 and UCAE of \$41,005 at 12/31/13.

It appears the Plan uses a lag analysis to estimate CU internally. This is a sound practice, and we recommend the analysis be performed on a monthly basis as a regular part of the financial close procedures. However, in reviewing the Plan's process, the EA discovered that the completion factor calculation was inaccurate due to not considering ultimate losses. Further, due to the Plan's business being immature with limited claims experience, it is recommended that the Plan increase its explicit risk margin from 6-8% to a more conservative estimate of 12-15%. Immature and smaller books of business are subject to more variability than the current explicit margin anticipates. In addition, we recommend an additional margin of 3-5% for UCAE be included. Smaller blocks of business usually experience higher loss adjustment expenses. If a Third Party Administrator (TPA) is used for claims adjustment, these fees may be readily determined.

REINSURANCE

Effective May 1, 2014, the Plan had a reinsurance agreement in place with American National Insurance Company (Reinsurer), an unaffiliated and authorized reinsurer. The Reinsurer carries an A.M. Best rating of "A" (Excellent) with a stable outlook, which was recently affirmed on June 13, 2014. The Plan also utilized the services of Star Line Group (Star Line) for underwriting assistance. It was noted that Star Line also executed the agreement on behalf of the Reinsurer, which effectively designated Star Line as a Reinsurance Intermediary-Manager as defined by U.C.A. § 31A-23a-102(10). Additionally, Star Line is not licensed in the State of Utah as a producer or reinsurance intermediary, as required by U.C.A. § 31A-23a-801. The Plan should determine if any unnecessary liability exists by having Star Line executing the reinsurance agreement as a Reinsurance Intermediary-Manager.

The reinsurance agreement in effect at June 30, 2014, was obtained and reviewed for transfer of risk and other key provisions. The agreement is a quota share agreement in which the Plan has a deductible of \$87,500 per member, retains 10% of the risk and then cedes 90% of the risk in excess of the deductible to the Reinsurer. The agreement contains a reinsurance maximum for eligible charges of \$2,000,000 per member per agreement period. An experience refund is contemplated in the agreement and is contingent upon certain parameters, including a minimum premium amount and renewal of coverage.

At December 31, 2013, the Plan admitted certain reinsurance recoverables that were beyond 90 past due the contracted settlement date. During the annual audit of the financial statements by the Plan's appointed independent auditor non-admitted \$143,308 of the reinsurance recoverable for balances past due greater than 90 days at year end. As of June 30, 2014, the Plan properly admitted reinsurance recoverables of \$331,407 and non-admitted balances of \$24,210, which exceeded 90 days outstanding.

ACCOUNTS AND RECORDS

Tests of the Company's accounts and records were determined based upon the examination procedures promulgated by the NAIC and applicable policies and directives issued by the Department. The accounting system, which is fully automated, produces a general ledger, subsidiary detail and other reports as required for the preparation of the financial statements and other management or regulatory reporting.

During the period under examination, the Company filed several amendments to its Annual Statement and Holding Company Registration to correct various accounting, reporting and disclosure errors. These errors are primarily the result of the Plan being the first entity within the IASIS holding company system to be required to file statutory statements in accordance with insurance laws and rules, SSAP accounting requirements and NAIC statement instructions.

Ernst & Young LLP (E&Y) has served as the Company's external auditor since commencing operations in 2012 and was retained by the Company to audit its statutory basis financial statements as of December 31, 2013. The audit report was properly and timely filed with the Department prior to June 1, 2014. The audit report was issued with an unmodified opinion, but included a reconciliation in the Notes to Financial Statements to reflect differences of the audited financial statements to the Amended 2013 Annual Statement filed on April 29, 2014. The Plan did not subsequently amend its 2013 Annual and 2014 Quarterly Statements to incorporate all adjustments prepared by the external auditor regarding adjustments to its financial statements as a result of the annual audit.

As mentioned in the Holding Company section, the Plan's custodial agreement did not include all of the safeguards required by the revised U.A.C. R590-178 as it was not authorized by resolution of the Board of Directors as of June 30, 2014.

STATUTORY DEPOSITS

The Company's statutory deposit requirement was \$550,000 pursuant to U.C.A. § 31A-8-211(1). The examination confirmed the Organization maintained a statutory deposit consisting of U.S. Treasury Bill with a par value of \$550,500 and a market value of \$550,780 as of June 30, 2014, which was adequate to cover the required deposit of \$550,000.

SUBSEQUENT EVENTS

The Companies fiscal year 2014 statutory annual statement filed with the department triggered the risk based capital (RBC) trend test, resulting in a Company Action Level Event. In response, and in compliance with UCA 31A-17-603(2)(a), the Company submitted an RBC action plan to the department. On June 11, 2015 the parent made a \$1,500,000 capital contribution the Company.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company'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.

HEALTH CHOICE UTAH, INC.
BALANCE SHEET (ASSETS)
as of June 30, 2014

	Net Admitted Assets	Notes
Bonds	\$ -	1
Cash and short-term investments	4,062,543	1
Subtotal cash and invested assets	\$ 4,062,543	
Investment income due & accrued	500	2
Uncollected premiums	4,265	
Amounts recoverable from reinsurers	331,407	
Net deferred tax asset	0	
Total assets	\$ 4,398,715	

Note 1: See "Comments to Financial Statements"

Note 2: Although immaterial, the Plan should properly accrue for investment income and expenses as well as properly complete the Net Investment Exhibit, in accordance with NAIC Annual Statement Instructions.

HEALTH CHOICE UTAH, INC.
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)
as of June 30, 2014

	<u>Current Year</u>	<u>Notes</u>
<u>LIABILITIES</u>		
Claims unpaid	\$ 1,408,094	3
Unpaid claims adjustment expenses	55,066	3
General expenses due or accrued	157,431	
Amounts due to parents, subsidiaries & affiliates	735,159	
Total liabilities	<u>2,355,750</u>	
<u>SURPLUS AND OTHER FUNDS</u>		
Gross paid in & contributed surplus	2,010,000	
Unassigned funds	32,965	4
Total surplus as regards policyholders	<u>2,042,965</u>	4
Total liabilities and surplus	<u>\$ 4,398,715</u>	

Note 3: See "Comments to Financial Statements"

Note 4: As a result of the proposed examination adjustments to increase reserves, Surplus (unassigned funds) has been reduced by \$735,748.

HEALTH CHOICE UTAH, INC.
STATEMENT OF REVENUE AND EXPENSES
as of June 30, 2014

	Current Year	Notes
Member months	20,442	
Net premium income	\$ 5,567,429	
Total revenues	\$ 5,567,429	
Hospital / medical benefits	3,969,300	
Emergency room and out-of-area	206,390	
Prescription drugs	652,609	
Subtotal	4,828,299	
Less: Net reinsurance recoveries	196,256	
Total hospital and medical	4,632,043	
General administrative expenses	548,184	
Total underwriting deductions	5,180,227	
Net underwriting gain (loss)	387,202	
Net investment gains (losses)	655	
Net income (loss) before federal taxes	387,857	
Federal income taxes incurred	190,339	
Net income (loss)	\$ 197,518	

HEALTH CHOICE UTAH, INC.
STATEMENT OF CHANGES IN SURPLUS AND OTHER FUNDS
as of June 30, 2014

	6/30/2014
Surplus as regards policyholders, beginning of year	\$ 1,539,043
Net income (loss)	197,518
Change in unrealized capital gains	0
Change in net deferred income tax	0
Change in non-admitted assets	1,042,153
Adjustment to Increase in Reserves for CU /UCAE	(735,748)
Net change in surplus	503,923
Surplus as regards policyholders, end of year ¹	\$ 2,042,965

¹Includes an examination adjustment which aggregately increases Claims Unpaid and UCAE \$735,748 and decreases Surplus by same amount.

HEALTH CHOICE UTAH, INC.
ANALYSIS OF EXAMINATION ADJUSTMENTS
as of June 30, 2014

	<u>Per Quarterly Statement</u>	<u>Per Examination</u>	<u>Change in Surplus</u>
Surplus as regards policyholders, June 30, 2014, per Company			<u>\$ 2,778,714</u>
Assets:			
Bonds	550,500	-	(550,500)
Short-term investments	-	550,500	550,500
Liabilities:			
Claims unpaid	727,412	1,408,094	(680,682)
Unpaid claims adjustment expenses	0	55,066	(55,066)
Rounding			<u>(1)</u>
Total of examination adjustments			<u>(735,749)</u>
Surplus as regards policyholders, June 30, 2014, per Examination			<u><u>\$ 2,042,965</u></u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

<u>Bonds</u>	<u>\$0</u>
<u>Short-term Investments</u>	<u>\$550,500</u>

The \$550,500 amount reported as Bonds on June 30, 2014, represented a U.S. Treasury Bill (held for Utah security deposit), which should have been reported as a short-term investment. Investments maturing in one year or less at the time of purchase are to be included in short-term investments. Since the Treasury bill purchased by the Plan had a one-year maturity, it should have been included on line 5, Cash and short-term investments, of the Assets page rather than line 1, Bonds, in accordance with SSAP No. 2, paragraph 10. Further, the Plan should properly report the security deposit under the applicable column on Schedule E Part 3 of the annual statement in accordance with NAIC Annual Statement Instructions.

<u>Claims Unpaid</u>	<u>\$1,408,094</u>
<u>Unpaid Claims Adjustment Expenses</u>	<u>\$55,066</u>

The above-captioned amounts are \$735,748 greater than the amounts reported by the Plan as of June 30, 2014. The Plan uses a lag analysis to estimate CU internally, which is a sound practice and recommended by the EA to be performed on a monthly basis as a regular part of the financial close procedures. However, in reviewing the Plan's process, the EA discovered that the completion factor calculation was inaccurate due to not considering ultimate losses. Further, due to the Plan's business being immature with limited claims experience, it is recommended that the Plan increase its explicit risk margin from 6-8% to a more conservative estimate of 12-15%. Immature and smaller books of business are subject to more variability than the current explicit margin anticipates. In addition, we recommend an additional margin of 3-5% for UCAE be included. Smaller blocks of business usually experience higher loss adjustment expenses. If a Third Party Administrator (TPA) is used for claims adjustment, these fees may be readily determined.

SUMMARY OF FINDINGS

The following is a listing of examination findings that need to be formally addressed by the Plan:

Issue # 1 – Affiliated Agreements Not Filed with Department

The Plan has not properly filed all affiliated agreements with the Department in accordance with U.C.A. § 31A-16-106, including the (1) Tax Consolidation Agreement, (2) Administrative Services Agreement and (3) Asset Management and Custodial Agreement.

Issue # 2 – Annual Form B & C Filings Incomplete

The annual Form B and Form C holding company registration statement filed with the Department on April 28, 2014, with the Department was incomplete as not all transactions and agreements with affiliates were disclosed. The Plan failed to disclose that it is a party to the holding company's consolidated tax return, as required by U.C.A. § 31A-16-105.

Issue # 3 – Incomplete Presentation of Organization Chart

The Plan's Organization Chart was not illustrated on Schedule Y Part 2 in its annual and quarterly statements pursuant to NAIC Annual/Quarterly Statement Instructions as the ownership by IASIS Investments, LLC and the Ultimate Controlling Party of the holding company, TPG Capital were not included. The Plan should also add the affiliate, Health Choice Florida, Inc. to the organizational chart as it is a downstream TPA subsidiary of Health Choice Management Company, the Plan's current TPA.

Issue # 4 – Incomplete Revisions to Amended 2013 Annual Statement

The Plan did not subsequently amend its 2013 Annual and 2014 Quarterly Statements to incorporate all adjustments prepared by the external auditor regarding adjustments to its financial statements as a result of the annual audit. There were several adjustments to the Plan's 2013 financial statements as a result of the annual independent audit, which the Plan did not subsequently incorporate into the 2013 Annual Statement by amendment. Note #11 in the audit report provides a detailed reconciliation of the adjustments and the subsequent effect on the Plan's balance sheet and income statement. The Plan's revised total capital & surplus at 12/31/2013 should have been reported at \$1,772,523, a net increase from its amended statement filed on 4/29/2014 of \$233,480.

Issue # 5 –Corporate Governance Violations

(1) Since inception, the Plan's shareholders have not held an annual meeting in accordance with Plan bylaws Article II, Section 1. Additionally, members of the Board of Directors have not met since inception as required by Article III, Section 5b.

(2) The Plan did not list all Directors on the jurat page of the 2013 Annual Statement nor on the subsequently filed quarterly statements in 2014 as required by NAIC Annual/Quarterly Statement Instructions.

(3) Pursuant to U.C.A. § 31A-5-407(2), "A majority of the directors shall be residents of this state unless the commissioner is satisfied that the corporation's financial condition, management, and other circumstances give assurance that the interests of insureds and the public will not be endangered by the majority being nonresidents." As of June 30, 2014, less than a majority of the Directors were residents of Utah as only four of the eight board members resided in the State of Utah.

(4) The Plan has in place an Asset Management and Custodial Agreement with its upstream affiliate, IASIS Investments, LLC, which was not authorized by the Board of Directors. Pursuant to Utah Administrative Code (U.A.C.) R590-178-5(B), the Plan's custodial agreements are to be authorized by a resolution of the Board of Directors. As such, the custodial agreement was not in compliance with Utah Administrative Code R590-178-5(B).

Issue # 6 – Loss and LAE Reserves are Estimated to be Deficient

A reserve analysis performed by the examining actuary of the Plan's reserves for Claims Unpaid and Unpaid Claims Adjustment Expense reported in the June 30, 2014 quarterly statement indicated a deficiency of \$735,748. Additionally, a similar reserve analysis was performed as of December 31, 2013, which indicated a deficiency of \$445,406. The EA performed a reserve analysis using data through 10/31/2014 to recast the Plan's CU as of 6/30/2014. Recasting the 6/30/2014 reserves at 10/31/2014 produced a CU Liability of \$1,408,094 and anUCAE liability of \$55,066. In the 6/30/2014 quarterly statement, the Plan booked CU reserves of \$727,412. The Plan did not book a separate line item forUCAE.

EA also performed a reserve analysis using data through 10/31/2014 to recast CU as of 12/31/2013. Recasting the 12/31/2014 reserves at 10/31/2014 produced a CU Liability of \$1,025,531 and aUCAE liability of \$41,005. In the 2013 annual statement, the Plan booked CU reserves of \$621,130. The Plan did not book a separate line item forUCAE.

Issue # 7 – Use of Unlicensed Reinsurance Intermediary-Manager

The Plan utilized the services of Star Line Group (Star Line) for underwriting assistance in developing its reinsurance program. Star Line also executed the reinsurance agreement on behalf of the Reinsurer, American National Insurance Company, effectively designating Star Line as a Reinsurance Intermediary-Manager, as defined by U.C.A. § 31A-23a-102(10). Additionally, Star Line is not licensed in the State of Utah as a producer or reinsurance intermediary, as required by U.C.A. § 31A-23a-801. This situation could potentially expose the Plan to unnecessary and unanticipated future liabilities. The Plan should determine if any unnecessary liability exists by having Star Line executing the reinsurance agreement as a Reinsurance Intermediary-Manager since the Plan also utilized the services of Star Line for underwriting assistance in developing its reinsurance program.

CONCLUSION

As a result of this examination, the financial condition of Health Choice Utah, Inc. as of June 30, 2014, is as follows:

Admitted Assets	<u>\$ 4,398,715</u>
Liabilities	\$2,355,750
Surplus as Regards Policyholders	<u>2,042,965</u>
Total Liabilities and Surplus	<u>\$ 4,398,715</u>

The examination results verify that the Plan has numerous shortcomings in the areas of proper statutory financial reporting and corporate governance. The Plan should endeavor to adequately address the documented issues in a timely manner and bring the Plan's statutory financial reporting and governance areas in line with U.C.A. § 31A, § 16A and U.A.C. § R590.

ACKNOWLEDGEMENT

In addition to the undersigned, Brian Menard, CFE, FLMI, and Mike Presley FSA, MAAA, as well as other representatives of AGI Services, were authorized by the Commissioner to represent the State of Utah and participated in this examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Plan.

Respectfully submitted,



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Examiner-In-Charge
Utah Insurance Department