

Report of Financial Examination of  
HSA HEALTH INSURANCE COMPANY

South Jordan, Utah  
as of December 31, 2017

NAIC Company Code #15743

Presented to:



State of Utah  
Insurance Department  
Salt Lake City, Utah



## TABLE OF CONTENTS

<b>SCOPE OF THE EXAMINATION</b> .....	<b>2</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>2</b>
Prior Examination .....	2
Current Examination.....	2
<b>COMPANY HISTORY</b> .....	<b>4</b>
Dividends and Capital Contributions.....	4
Mergers and Acquisitions.....	4
<b>MANAGEMENT AND CONTROL</b> .....	<b>4</b>
Directors.....	4
Officers .....	4
Committees .....	5
Holding Company.....	6
Affiliated Agreements.....	6
<b>TERRITORY AND PLAN OF OPERATION</b> .....	<b>6</b>
<b>REINSURANCE</b> .....	<b>6</b>
Ceded .....	6
Assumed.....	7
<b>FINANCIAL STATEMENTS</b> .....	<b>7</b>
<b>ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS</b> .....	<b>12</b>
<b>COMMENTS ON FINANCIAL STATEMENT ITEMS</b> .....	<b>12</b>
<b>SUBSEQUENT EVENTS</b> .....	<b>12</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>12</b>

December 14, 2018

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 Utah Code Annotated (U.C.A.) §31A-2-204(7)(a), and the rules, regulations promulgated by the National Association of Insurance Commissioners (NAIC), an examination of the financial condition and business affairs has been conducted of:

HSA Health Insurance Company  
South Jordan, Utah

Hereinafter referred to as the "Company."

The financial examination was done concurrently with the market conduct examination and issues found may be included in both reports.

The following report of examination is respectfully submitted.

## SCOPE OF THE EXAMINATION

This is the first full-scope financial examination of the Company, by representatives of the Utah Insurance Department (Department). This examination covers the period of inception, May 4, 2015, through December 31, 2017, including any material transactions and/or events occurring subsequent to and noted during the examination. The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination, however, does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in U.C.A §31A-2-204(7)(a) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within this examination report but separately communicated to other state insurance regulators and/or the Company.

## SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

### PRIOR EXAMINATION

There was no prior examination for the Company.

### CURRENT EXAMINATION

There were five significant findings and recommendations for inclusion in this report.

1. There was a computational error in estimating credits for ceded reinsurance which resulted in a deficiency to Claims Unpaid of \$156,000. Combined with other smaller deficiencies to Unpaid Claims Adjustment Expenses (UCAE) and Aggregate Health Policy Reserves, we found total actuarial reserves to be deficient by \$206,566. This deficiency exceeds the examination materiality of \$58,862. Thus, we recommend the following examination adjustments

(see ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS):

- An increase of \$156,000 to Claims Unpaid for a total of \$2,149,000
- An increase of \$4,680 to UCAE for a total of \$70,680
- An increase of \$45,886 to Aggregate Health Policy Reserves for a total of \$1,538,026

*Recommendation*

Even though a formal amendment to its 2017 Annual Statement filing is not required, the Company should ensure, during the 2018 Annual Statement filing, that actuarial reserve liabilities adequately reflect the deficiencies noted during the examination.

2. The Company's custodial agreement with Zions Bank is not in compliance with Utah Administrative Code (U.A.C.) R590-178-5. In addition, the Company did not provide evidence of their custodial relationship with Morgan Stanley as required by U.A.C R590-178.

*Company Response*

The Company has complied with this finding by moving the statutory deposit to the Utah State Treasurer and providing a signed custodial agreement that meets the requirements outlined in U.A.C R590-178.

3. The Company does not have the DBA registered with the Department's Company Licensing. The DBA is registered with the Division of Corporations as HSA Healthplan. U.C.A. § 31A-23A-110 (2) requires, "A licensee under this chapter doing business under another name than the licensee's legal name shall notify the commissioner before using the assumed name in this state."

*Recommendation*

The Company should register the DBA currently being used to be in compliance with U.C.A. § 31A-23A-110.

4. The Company could not provide evidence of the required fidelity bond. A fidelity bond would cover any employees who have financial access (such as personnel who are responsible for accounting and investment functions) during any fraud instances.

*Company Response*

The company has complied with this finding by purchasing the \$125,000 bond on October 1, 2018.

5. The audit committee has a member who is also a full-time employee and officer (Russell Trujillo) of the Company. According to U.C.A. § 31A-5-412 (2)(b), "a member of the audit committee may not be an inside director as defined under" U.C.A. § 31A-5-407 (3).

*Recommendation*

The Company should make appropriate changes to the audit committee to comply with U.C.A. § 31A-5-412 (2)(b).

**COMPANY HISTORY**

The Company was incorporated on May 4, 2015 and commenced writing business on January 1, 2016. The Company offers High Deductible Health Plans (HDHP) based plans exclusively to the fully insured group and self-funded group market. Currently the Company is licensed to operate in Utah only. The Company is wholly owned by one shareholder, David Hall.

In 2017, the Company shifted its strategic focus by notifying the Department that they would be withdrawing from the small group marketplace (Avenue H) . This is a policy where the employer group shares some of the responsibility for a certain level of claims.

**Dividends and Capital Contributions**

The Company received capital contributions in the amount of \$2,000,000 in 2016.

The Company neither declared nor paid any dividends during the period of the examination.

**Mergers and Acquisitions**

There were no mergers or acquisitions during the examination period.

**MANAGEMENT AND CONTROL**

**Directors**

The Company's bylaws indicated that the number of Directors may not be less than three (3) or more than fifteen (15).

The following individuals served as Directors of the Company as of December 31, 2017:

<b>Name and Location</b>	<b>Title and Principal Occupation</b>
David Hall Alpine, Utah	President & CEO HSA Health Insurance Company
Russell Trujillo West Jordan, Utah	Vice President of Operations HSA Health Insurance Company
Korb Matosich South Jordan, Utah	President Asserta Health
Lisa Behnke Fort Meyers, Florida	Chief Medical Officer Asserta Health
JoAnn Cipiti Peoria, Arizona	Benefits Consultant (Retired)

## Officers

The Company's bylaws provide for officers to consist of a Chairman, President, Secretary, and Treasurer each of whom shall be elected. An Executive Vice President and other such officers as deemed necessary. The same person shall not occupy the offices of President and Secretary. The officers of the Company as of December 31, 2017, were as follows:

<b>Name</b>	<b>Title</b>
David Hall Alpine, Utah	President & CEO HSA Health Insurance Company
Russell Trujillo West Jordan, Utah	Vice President of Operations HSA Health Insurance Company
Ken Acker Taylorsville, Utah	Vice President of Finance HSA Health Insurance Company

## Committees

Committees and the respective committee members of the Company as of December 31, 2017, were as follows:

<b>Audit and Finance Committee</b>	
Korb Matosich	Chairman
David Hall	
Russell Trujillo	
JoAnn Cipiti	

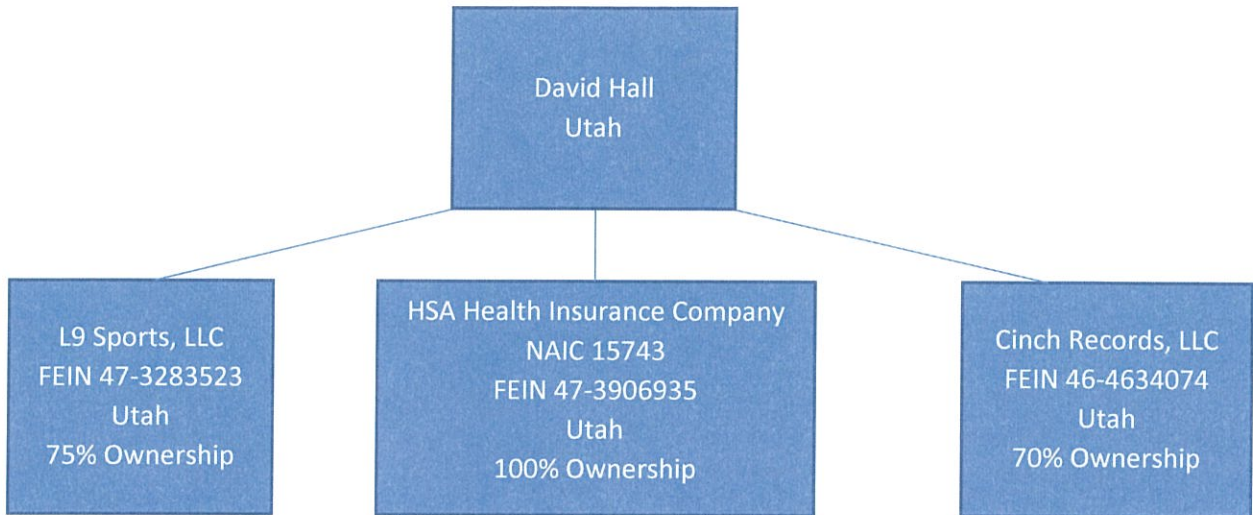
<b>Governance Committee</b>	
Russell Trujillo	Chairman
David Hall	
Lisa Behnke	

<b>Investment Committee</b>	
David Hall	Chairman
Russell Trujillo	
Ken Acker	

<b>Quality Improvement Committee</b>	
David Hall	Chairman
Lisa Behnke	
Russell Trujillo	

### **Holding Company**

The Company is part of a holding company system. David Hall owns 100% of shares of the Company. The holding company organization chart is illustrated below:



### **Affiliated Agreements**

The Company did not have any affiliated agreements or transactions as of the date of this examination.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2017, the Company was licensed to write business only in the state of Utah.

For 2016 and 2017, the Company offered fully insured Gold, Silver, and Bronze level of its HDHP-HSA product. The main differences of the three levels are deductibles, co-insurance, and incentive amounts offered. The Company also offered self funded HDHP-HSA product, which has since become a majority of the Company's business.

In 2017, the Company notified the Department that they were withdrawing from the small group marketplace (Avenue H). It is currently offering only to large groups and self funded with over ten (10) enrollees.

### **REINSURANCE**

#### **Ceded**

As of the examination date, the Company entered into an Excess of Loss Reinsurance Agreement with Partner Re effective January 1, 2016. The agreement has been renewed for each subsequent year.



The Company responsibility is: \$0 to \$100,000 after the employer's retained amount  
The following table summarizes the retention amount and coverage by reinsurer:

Layer	Retention	Reinsurers Limit of Liability
1 <sup>st</sup>	\$100,000	\$1,000,000
2 <sup>nd</sup>	\$1,000,000	No Limit

Subsequent to the examination period, the Company made a change to the reinsurance agreement by increasing the attachment point of the 1<sup>st</sup> Layer to \$150,000.

**Assumed**

The Company did not have any assumed reinsurance agreement during the examination period.

**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, 2017. The filing was amended by the Company to reflect a difference in the reserve calculation between the external CPA and the opening actuary. This was not an examination adjustment.

The accompanying ANALYSIS ON CHANGES IN FINANCIAL STATEMENTS reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Please note that failure of any of the following items to add to the totals shown is due to rounding.

**HSA Health Insurance Company**  
**Balance Sheet (Assets)**  
**December 31, 2017**

	<b>Net Admitted Assets</b>
Bonds	\$3,156,316
Cash	1,481,782
Cash Equivalents	401,807
Short-Term Investments	306,732
Subtotals, cash and invested assets	<b>\$5,346,637</b>
Investment income due and accrued	31,233
Uncollected premiums and agents' balances in the course of collection	84,291
Reinsurance: amounts recoverable from insurers	501,647
Amounts receivable relating to uninsured plans	351,435
Net deferred tax asset	148,967
Electronic data processing equipment and software	51,012
Health care and other amounts receivable	321,144
<b>Total assets</b>	<b>\$6,836,366</b>

**HSA Health Insurance Company**  
**Balance Sheet (Liabilities, Surplus, and Other Funds)**  
**December 31, 2017**

	<b>2017 Per Exam</b>	<b>2017</b>
<b>Liabilities</b>		
Claims unpaid	\$2,149,000	\$1,993,000
Unpaid claims adjustment expenses	70,680	66,000
Aggregate health policy reserves	1,538,026	1,492,140
Premiums received in advance	228,538	228,538
General expenses due and accrued	895,267	895,267
Current federal and foreign income tax payable	19,184	19,184
Liability for amounts held under uninsured plans	497,575	497,575
Total liabilities	<b>\$5,398,270</b>	<b>\$5,191,704</b>
<b>Surplus</b>		
Common capital stock	\$5,000,000	\$5,000,000
Unassigned funds (surplus)	(3,561,905)	(3,355,339)
Total capital and surplus	<b>\$1,438,095</b>	<b>\$1,644,661</b>
<b>Total Liabilities, Surplus, and Other Funds</b>	<b>\$6,836,365</b>	<b>\$6,836,365</b>

**HSA Health Insurance Company**  
**Statement of Income**  
**December 31, 2017**

	<b>2017</b>
Member Months	<b>102,539</b>
<b>Revenues</b>	
Net premium income	\$12,027,467
Total Revenues	<b>\$12,027,467</b>
<b>Expenses</b>	
Hospital/medical benefits	8,595,505
Prescription drugs	935,900
Subtotal	<b>\$9,531,405</b>
Net reinsurance recoveries	(1,676,063)
Total hospital and medical	<b>\$7,855,342</b>
Claim adjustment expenses	1,181,874
General administrative expenses	2,833,500
Increase in reserves for life and accident and health contracts	(537,000)
Total underwriting deductions	<b>\$11,333,716</b>
Net underwriting gain or (loss)	<b>\$693,751</b>
Net investment income earned	32,707
Net investment gains(losses)	<b>\$32,707</b>
Aggregate write-ins for other income or expenses	(11,569)
Net gain from operations after capital gains tax and before all other federal income taxes	<b>\$714,889</b>
Federal and foreign income taxes incurred	19,184
<b>Net income (loss)</b>	<b>\$695,705</b>

**HSA Health Insurance Company**  
**Capital and Surplus**  
**December 31, 2017**

<b>Capital and Surplus Account</b>	<b>2017 Per Exam</b>	<b>2016</b>	<b>2015</b>
Capital and surplus prior reporting year	\$ 980,895	\$ 2,219,546	\$ 0
Net Income or (loss)	695,705	(3,193,026)	(858,120)
Change in net deferred income tax	(695,165)	1,079,984	291,561
Change in non-admitted assets	663,227	(1,125,609)	(213,896)
Capital Changes: Paid in	0	5,000,000	0
Surplus Adjustments: Paid in	0	(3,000,000)	3,000,000
Surplus Adjustments: Examination	(206,566)	0	0
Net change for capital and surplus for the year	457,201	(1,238,651)	2,219,545
<b>Capital and Surplus end of reporting year</b>	<b>\$1,438,096</b>	<b>\$ 980,895</b>	<b>\$2,219,545</b>

## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

There was a financial adjustment made to surplus as a result of the examination. Upon review of a revised risk adjustment report from the Center of Medicare & Medicaid Services (CMS), there was a change in the risk adjustment charge. Based on the original report the Company had a redundancy, but with the revised report reserves were deficient. Amendments to be made to the 2017 annual financial statement are noted in the “Liabilities, Surplus and Other Funds” above.

## COMMENTS ON FINANCIAL STATEMENT ITEMS

The Company’s capital and surplus in the amount of \$1,438,096 significantly exceeded the authorized control level risk-based capital of \$525,416 as of December 31, 2017.

## SUBSEQUENT EVENTS

The Company made an adjustment to the reinsurance agreement with Partner Re by increasing the attachment point from \$100,000 to \$150,000 for 2018. (See REINSURANCE section of this report).

The Company changed external auditors for the 2018 annual filing. The new external auditor is Eide Bailly, LLP.

## ACKNOWLEDGEMENT

Robert Ficken, CPA, CIA, CISA, CFE, AES, CDFE, CRISC, INS Companies, reviewed the Company’s Information Systems. Scott Garduno, FSA, MAAA, Taylor-Walker Consulting, LLC, reviewed the actuarial reserving portion of the examination. Malis Rasmussen, MSA, CFE, SPIR, Deputy Chief Examiner, supervised the examination. All join in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully submitted,



---

D. Shane Sadler, MPA, CFE, SPIR  
Examiner-In-Charge  
Utah Insurance Department