STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

SELECTHEALTH, INC.

of

Murray, Utah

as of

December 31, 2017

TABLE OF CONTENTS

SALUTATION 1
SCOPE OF EXAMINATION 1
Period Covered by Examination 1
Examination Procedures Employed 1
SUMMARY OF SIGNIFICANT FINDINGS 2
ORGANIZATION HISTORY 2
General 2
Dividends and Capital Contributions 2
Mergers and Acquisitions 2
MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE 3
TERRITORY AND PLAN OF OPERATION 6
REINSURANCE 6
Assumed 6
Ceded 6
FINANCIAL STATEMENTS 6
BALANCE SHEET 7
STATEMENT OF REVENUE AND EXPENSES 8
RECONCILIATION OF CAPITAL AND SURPLUS 9
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS 10
COMMENTS ON FINANCIAL STATEMENT ITEMS 10
SUBSEQUENT EVENTS 10
ACKNOWLEDGEMENT 10

March 1, 2019

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

Pursuant to your instructions and in compliance with statutory requirements, a multi-state examination, as of December 31, 2017, has been made of the financial condition and business affairs of:

SELECTHEALTH, INC.
Murray, Utah

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

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was conducted as of December 31, 2013. This full scope examination covers the period of January 1, 2014 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

Examination Procedures Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners *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 Organization and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Organization's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Organization were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination 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 Organization's financial statements.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204(7)(a) and general information about the Organization and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Organization.

SUMMARY OF SIGNIFICANT FINDINGS

There are no significant findings for inclusion in this report.

ORGANIZATION HISTORY

General

In 1975, the Church of Jesus Christ of Latter-day Saints transferred all assets and liabilities of its hospital system to a Board of Trustees, which in turn created Intermountain Health Care, Inc. (Intermountain), a nonprofit tax exempt 501(c)(3) charitable organization, to own and operate the hospital system. On December 27, 1983, Intermountain incorporated the Organization under the provisions of the Utah Nonprofit Corporation and Cooperative Association Act, for the purposes of developing and administering financial mechanisms for its network of health care services. SelectHealth is a 501(c)(4) tax-exempt social welfare organization, licensed as a health maintenance organization ("HMO") serving over 850,000 commercial and government program members in Utah and Idaho. The sole controlling member of SelectHealth is Intermountain. In 1992, the Organization formed a wholly owned for-profit life insurance company, SelectHealth Benefit Assurance Company, Inc. ("SHBAC").

Dividends and Capital Contributions

The Organization did not declare or pay any dividends to the sole member during the examination period.

The Organization received capital contributions totaling $400 million from Intermountain in 2015 and 2016 during the examination period.

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The Organization's bylaws indicate that the Board of Trustees may have from four (4) to thirty (30) trustees. The following persons served as trustees of the Organization as of December 31, 2017:

Name and Location	Title and Principal Occupation
Karla Kay Bergeson Washington, UT	Retired Corporate Attorney
Mark Richard Briesacher, MD Salt Lake City, UT	Senior Vice President, Chief Physician Executive, and President, Intermountain Medical Group
Spencer Peterson Eccles Salt Lake City, UT	Managing Director Cynosure Partners LLC
Maria Jean Garciaz Salt Lake City, UT	Executive Director NHS (NeighborWorks Salt Lake)
Daniel Gerald Gomez Sandy, UT	President Gomez Corp, Financial Advisors & Insurance
Alexander Marc Harrison, MD Salt Lake City, UT	President and Chief Executive Officer Intermountain Healthcare
Keven Jay Jensen Sandy, UT	Chief Executive Officer Go Solar Group
LeeAnne Burke Linderman Salt Lake City, UT	Executive Vice President, Enterprise Retail Banking Zions Bancorporation
Patricia Rae Richards Salt Lake City, UT	President and Chief Executive Officer SelectHealth, Inc. SelectHealth Benefit Assurance Company, Inc.
David Brett Sanford Highland, UT	Vice President and Corporate Controller CHG Healthcare Services, Inc.
Scott David Sperry Sandy, UT	Senior Vice President, Finance O.C. Tanner Company
Maria Rocio Summers Salt Lake City, UT	Founder and Consulting Principal RS International Business Consulting, LLC
Andrea Poole Wolcott Salt Lake City, UT	Retired Banking Executive
Albert Rene' Zimmerli Sandy, UT	Executive Vice President and Chief Financial Officer Intermountain Healthcare

The officers of the Organization as of December 31, 2017 were as follows:

Name	Title
Patricia R. Richards	President and Chief Executive Officer
Jerry R. Edgington	Vice President and General Manager, Idaho
Russel J. Kuzel, MD	Vice President and Chief Medical Officer
Thomas J. Risse	Vice President and Chief Financial Officer
Robert L. White	Vice President and Chief Operating Officer
Gregory M. Johnson	Treasurer
Kristin R. McCullagh	Secretary

The Organization's committees and committee members as of December 31, 2017 were as follows:

Appeals Committee
Andrea P. Wolcott, Chair
Stephen D. Taylor, MD
Karla K. Bergeson
Matt Pollard, MD, alternate
Daniel D. Gomez, ex officio
(Bryan D. Nielsen, Staff)

Audit & Compliance Committee
D. Brett Sanford, Chair
Rocio Summers
Andrea P. Wolcott
Daniel G. Gomez, ex officio
(Thomas J. Risse, Staff)

Executive Committee
Daniel G. Gomez, Chair
Andrea P. Wolcott, Vice Chair and Secretary
Patricia R. Richards
Albert R. Zimmerli
(Kristin R. McCullagh, Staff)

Finance Committee
Andrea P. Wolcott, Chair
Mark R. Briesacher, MD
Spencer P. Eccles
Gregory M. Johnson
D. Brett Sanford
Rocio Summers
Daniel G. Gomez
(Thomas J. Risse, Staff)

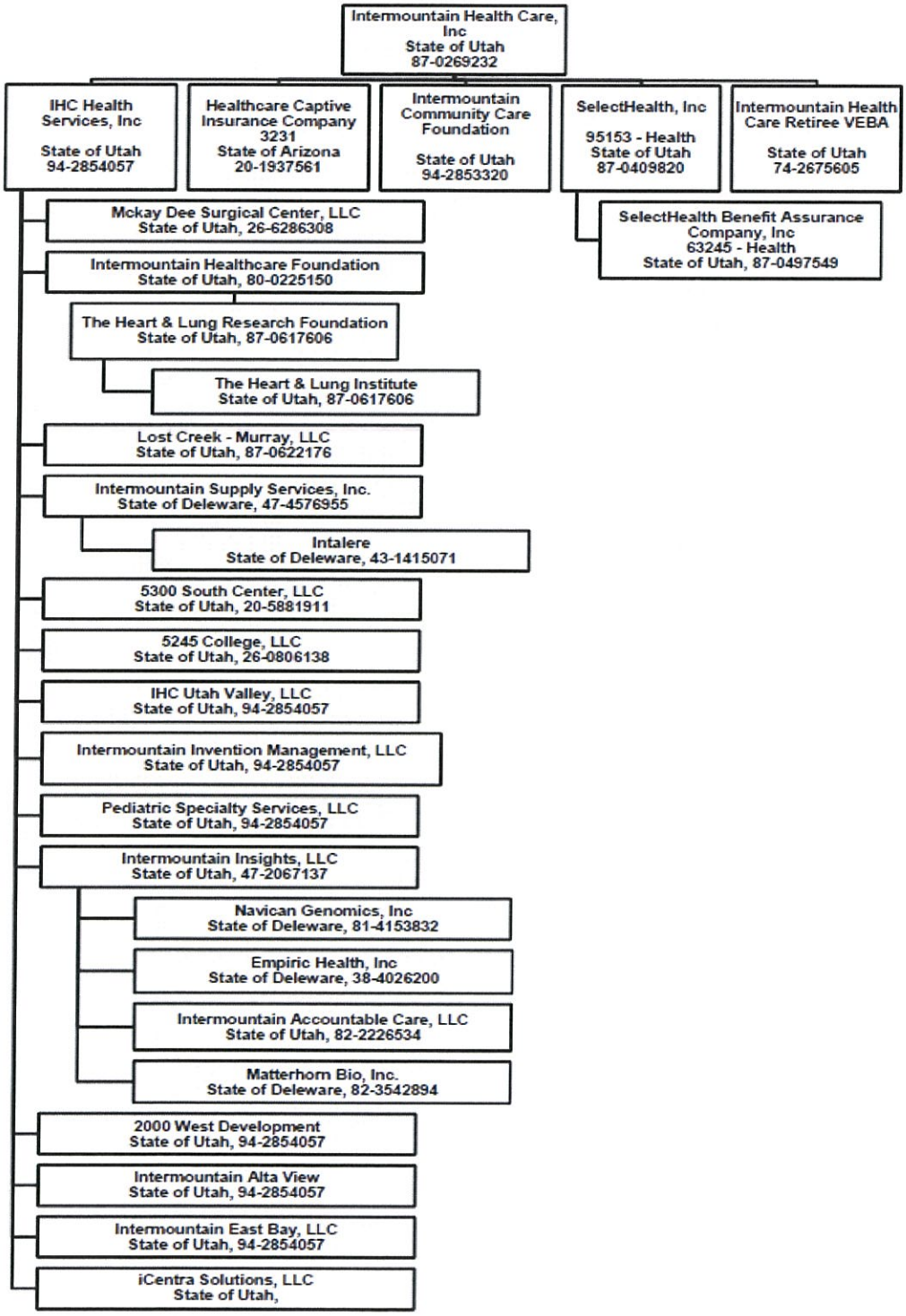
Investment Committee
Albert R. Zimmerli, Chair
Douglas C. Black
Jane Carlile
Spencer F. Eccles
A. Marc Harrison
Steve D. Huebner
Roy S. Jespersen
Kent Misener
Matthew Packard
Steven Thorley
Scott Anderson, ex officio
Daniel G. Gomez, ex officio
(Gregory M. Johnson, Staff)

Community Relations Committee
Maria J. Garciaz, Chair
LeeAnne B. Linderman
Jon Larkin
Mikelle D. Moore
Daniel G. Gomez, ex officio
(Greg C. Reid, Staff)

Quality Assurance Committee
LeeAnne B. Linderman, Chair
Maria J. Garciaz
Terri L. Kane
Karyn A. Springer, MD
Daniel G. Gomez, ex officio
(Russel J. Kuzel, MD, Staff)

Holding Company

The Organization is wholly owned and controlled by Intermountain. An organizational chart illustrating the holding company system as of December 31, 2017 follows:



TERRITORY AND PLAN OF OPERATION

The Organization is licensed and authorized to conduct health maintenance organization ("HMO") business in the states of Utah and Idaho. The Organization is also licensed as a third party administrator ("TPA").

The Organization serves over 850,000 commercial and government program members in Utah and Idaho. It markets traditional HMO plans with and without Point-of-Service features. The Organization is integrated with Intermountain as an integral part of its not-for-profit health system. In Idaho, the Organization has partnered with the not-for-profit St. Luke's Health System. The Organization covers commercial large and small employer groups, as well as individuals, primarily through a resident producer organization and through unaffiliated insurance agencies appointed by the Organization. The Organization also offers coverage under government-sponsored programs such as CHIP, Medicaid, Medicare, and individual plans under the Affordable Care Act.

REINSURANCE

Assumed

The Organization neither maintained, nor entered into any assumed reinsurance arrangements during the examination period.

Ceded

As of the examination date, an excess of loss reinsurance agreement with HM Life Insurance Company was in effect. The Organization's retention was the first $500,000 to $1,000,000 of inpatient loss incurred, depending on hospital used, per covered person, subject to a $2,000,000 annual maximum. As of July 1, 2018, the Organization's retention is the first $2,000,000 of any inpatient, subacute or pharmaceutical losses incurred for each covered person per contract year. Reimbursements are no longer subject to an annual maximum. As in the prior agreement, the reinsurer assumes 90% of eligible losses (50% of non-approved transplants) in excess of the Organization's retention.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Organization with the Utah Insurance Department and present the financial condition of the Organization for the period ending December 31, 2017. 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.

SELECTHEALTH, INC.
BALANCE SHEET
as of December 31, 2017

ASSETS

	Net Admitted Assets
Bonds	$ 403,520,339
Preferred stocks	2,010,897
Common stocks	396,109,762
Cash and short-term investments	83,953,048
Receivables for securities	86,297,762
Investment income due and accrued	1,929,257
Uncollected premiums and agents' balances in the course of collection	17,698,808
Accrued retrospective premiums and contracts subject to redetermination	25,768,749
Amounts recoverable from reinsurers	8,671,842
Amounts receivable relating to uninsured plans	16,397,410
Net deferred tax asset	490,967
Electronic data processing equipment and software	793,658
Health care and other amounts receivable	46,476,111
Total Assets	$ 1,090,118,610

LIABILITIES, CAPITAL AND SURPLUS

	Current Year
Claims unpaid	$ 311,959,971
Accrued medical incentive pool and bonus amounts	8,679,203
Unpaid claims adjustment expenses	15,405,000
Aggregate health policy reserves	5,601,412
Premiums received in advance	48,086,893
General expenses due or accrued	34,793,622
Amounts withheld or retained for the account of others	6,308,966
Amounts due to parent, subsidiaries and affiliates	4,449,702
Payable for securities	160,366,492
Liability for amounts held under uninsured plans	12,186,791
Total Liabilities	$ 607,838,052
Aggregate write-ins for special surplus funds	26,400,000
Gross paid in and contributed surplus	430,125,275
Unassigned funds (surplus)	25,755,283
Total Capital and Surplus	482,280,558
Total Liabilities, Capital and Surplus	$ 1,090,118,610

SELECTHEALTH, INC.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2017

	Total
Net premium income	$ 2,637,224,927
Change in unearned premium reserves and reserve for rate credits	1,164,519
Aggregate write-ins for other non-health revenues	3,553,428
Total revenues	$ 2,641,942,874
Hospital and Medical:	
Hospital/medical benefits	1,682,820,856
Other professional services	127,551,054
Outside referrals	35,871,329
Emergency room and out-of-area	196,891,598
Prescription drugs	383,890,089
Incentive pool, withhold adjustments and bonus amounts	34,381,459
Total hospital and medical expenses	$ 2,461,406,385
Less:	
Net reinsurance recoveries	4,915,054
Total Hospital and Medical	$ 2,456,491,331
Claims adjustment expenses	101,838,559
General administrative expenses	156,295,898
Increase in reserves for life and accident and health contracts	(136,959,956)
Total underwriting deductions	$ 2,577,665,832
Net underwriting gain or (loss)	$ 64,277,042
Net investment income earned	20,558,822
Net realized capital gains (losses)	3,143,729
Net investment gains (losses)	$ 23,702,551
Net income or (loss) after capital gains, before federal income taxes	$ 87,979,593
Federal and foreign income taxes incurred	0
Net income (loss)	$ 87,979,593

SELECTHEALTH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2014 through 2017

	2014*	2015*	2016*	2017*
Capital and surplus, December 31, prior year	$ 464,810,995	$ 444,819,515	$ 298,770,450	$ 332,007,494
Net income (loss)	26,908,484	(373,979,000)	(136,598,635)	87,979,593
Change in net unrealized capital gains (losses)	(38,855,015)	(24,779,948)	18,602,369	62,187,435
Change in nonadmitted assets	(1,444,948)	2,709,883	1,241,230	106,036
Surplus adjustments: Paid in		250,000,000	150,000,000	
Aggregate write-ins for gains or (losses) in surplus	(6,600,000)		(7,920)	
Net change in capital and surplus for the year	(19,991,480)	(146,049,065)	33,237,044	150,273,064
Capital and surplus, December 31, current year	$ 444,819,515	$ 298,770,450	$ 332,007,494	$ 482,280,558

* Per the regulatory financial statements filed with the Utah Insurance Department.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as of December 31, 2017 as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

There are no comments on financial statement items as of December 31, 2017 as a result of the examination.

SUBSEQUENT EVENTS

There were no material subsequent events noted for inclusion in this report.

ACKNOWLEDGEMENT

T. Michael Presley, FSA, MAAA, Consulting Actuary, of Risk & Regulatory Consulting, LLC, performed the actuarial phases of the examination. Kristina Gaddis, CFE, CISA, AES, Senior Examiner, of Risk & Regulatory Consulting, LLC, performed the information systems review. Malis Rasmussen, MSA, CFE, SPIR, Deputy Chief Examiner, supervised the examination. In addition, Luze Pierre, MBA, CFE (Fraud), Financial Examiner, and Cambria Shore, Financial Examiner, of the 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 Organization.

Respectfully submitted,

David L. Flores, CPA, CFE, PIR
Examiner-in-Charge
Utah Insurance Department