



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

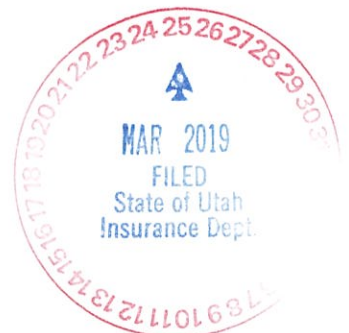
**BRIDGESPAN HEALTH COMPANY**

of

Salt Lake City, Utah

as of

December 31, 2017



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February 22, 2019

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, 2017, has been made of the financial condition and business affairs of:

BridgeSpan Health Company  
Salt Lake City, Utah

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

### **SCOPE OF EXAMINATION**

The last financial examination of the Organization was completed as of December 31, 2014. The current examination is a full scope examination covering the period from January 1, 2015 through December 31, 2017, 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 Organization and its holding company system. The examination was conducted by representatives of the Utah Insurance Department (Department). The examination was part of a coordinated examination led by representatives from Division of Financial Regulation of Oregon Department of Consumer & Business Services. Also participating in the examination were insurance department representatives from Idaho, and Washington.

We conducted our examination in accordance with the risk-focused examination approach as prescribed by 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 that could cause the Organization's surplus to be materially misstated, and evaluate controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating management's compliance with Statutory Accounting Principles and annual statement instructions. 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 was identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

1. Utah Code § 31A-5-407(2) requires that the majority of directors shall be Utah residents 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.

The Organization was out of compliance from June 20, 2017 through July 17, 2017.

## **HISTORY OF ORGANIZATION**

### General

The Organization, under the name HealthWise, was incorporated on August 10, 1982 under the laws of Utah as a capital stock, for-profit Health Maintenance Organization. The Organization commenced business on September 1, 1982, and received its Federal Certificate of Qualification on August 8, 1984. On September 21, 2012, the Organization changed its name from HealthWise to BridgeSpan Health Company.

In 1986, Regence BlueCross BlueShield of Utah (RBCBSU) owned 100% of the outstanding stock of the Organization. As of the examination date, the Organization was 44.7% owned by Regence BlueShield (RBS), 19.2% owned by Regence BlueCross BlueShield of Oregon (RBCBSO), 17% owned by RBCBSU, and 19.1% owned by Regence BlueShield of Idaho, Inc. (RBSI). RBS, RBCBSO, RBCBSU, and RBSI are collectively owned by Cambia Health Solutions, Inc. (Cambia). As such, Cambia is the ultimate parent company of BridgeSpan.

In 2011, all products were discontinued except for Medicare Supplement in preparation for repurposing the Organization to sell individual products on the health insurance exchanges. Beginning in 2014, individual products were offered on the exchange marketplaces in the states of Idaho, Oregon, Utah and Washington. However, the Organization has withdrawn from the Idaho market in 2018.

### Dividends and Capital Contributions

The Organization did not declare or pay any dividends during this examination period.

During 2015, the Organization received \$35M capital contributions from RBS, RBCBSO, RBCBSU, and RBSI.

During 2016, the Organization did not receive any capital contributions.

During 2017, specifically on May 5, 2017, the Organization received capital contributions of \$2,499,980 from RBSI in exchange for 80,931 shares and \$2,500,020 from RBCBSO in exchange for 80,933 shares.

### Mergers and Acquisitions

There were no mergers or acquisitions for the period of the examination.

## **MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

### Board of Directors

The Organization's bylaws state that the number of directors shall be no less than three.

The following persons served as directors of the Organization as of December 31, 2017:

<b>Name and Location</b>	<b>Primary Occupation</b>
Chris G. Blanton* Salt Lake City, Utah	President BridgeSpan Health Company
Stacy J. Simpson Portland, Oregon	VP Strategic Finance Cambia Health Solutions, Inc.
Thomas J. Hartford, III Murray, Utah	Senior Associate General Counsel Cambia Health Solutions, Inc.

\* Chris G. Blanton replaced Jennifer B. Danielson on June 25, 2015.

### Officers

The following persons served as officers of the Organization as of December 31, 2017:

<b>Name</b>	<b>Title</b>
Christopher G. Blanton	President
Andreas B. Ellis	Treasurer
Thomas J. Hartford, III	Secretary

### Committees

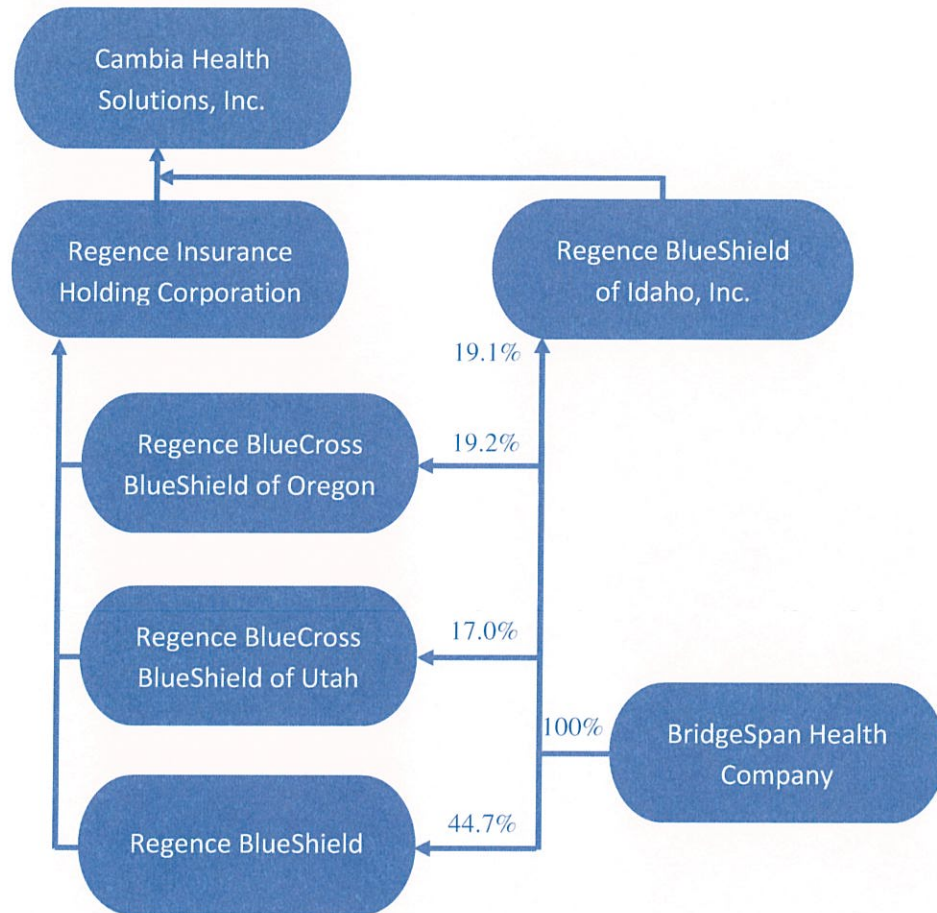
Bylaws indicate there shall be no standing committees; however, Directors may appoint Special Committees as needed, but only for a limited duration. The Organization falls outside of the purview of Utah Code § 31A-5-412(2) requiring an audit committee due to the makeup of the ownership of the organization; therefore, no audit committee has been created. Instead, the Organization relies on the governance of the Audit Committee of the ultimate controlling entity, Cambia.

### Holding Company

The Organization is part of a holding company system as defined in Utah Code § 31A-16. The ultimate controlling entity of the holding company is Cambia. There are numerous companies within the holding company system, which were not included in the organizational chart below.

## Holding Company Organizational Chart

The organizational chart below reflects only the direct ownership of the Organization:



## Transactions and Agreements with Affiliates

The following were the most significant affiliated agreements and transactions in place as of December 31, 2017:

1. The Organization entered into a consolidated tax allocation agreement in September of 2000 with its affiliates and parent organization, setting forth the arrangement to allocate consolidated tax liability among the parties. The agreement apportions the tax liability of the parties during consolidation return years as prescribed in Treasury Regulation sections 1.1502-2 and 1.1502-79.
2. In May of 2017, BridgeSpan received \$5M from two shareholders in exchange for 161,864 shares of common stock.

## **TERRITORY AND PLAN OF OPERATION**

The Organization's strategy was to offer individual products on the health insurance exchanges in the states of Idaho, Oregon, Utah, and Washington. Due to the continued uncertainty of the Affordable Care Act's future, the Organization pulled out of the state exchange in Idaho during 2018. BridgeSpan plans to exit the individual market in 15 additional Oregon counties during 2018, affecting about 18,500 customers, approximately two-thirds of the individual customers insured by both carriers in Oregon. BridgeSpan currently is writing business in 18 counties in Oregon, 17 counties in Utah, and 5 counties in Washington.

## **REINSURANCE**

### Assumed

The Organization did not have any assumed reinsurance.

### Ceded

Effective January 5, 2015, the Organization and a number of its affiliates entered into an Excess of Loss reinsurance contract with HM Life Insurance Company. The arrangement reinsures the Organization against high claims incurred for its fully insured including commercial, retrospective, federal exchange and stop loss members for claims in excess of the Organization's retention of \$2 million ultimate net loss.

As of the date of this report, HM Life Insurance Company has an AM Best financial strength rating of A (Excellent).

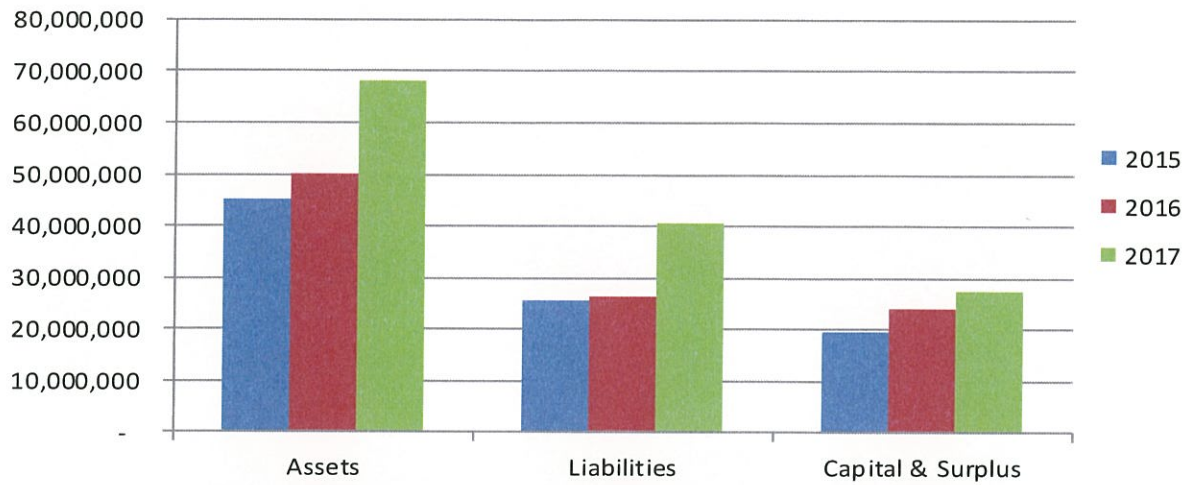
## **GROWTH OF COMPANY**

The Organization's financial changes in 2017 from 2016 were heavily impacted by the significant growth in membership, from 175,268 to 417,388 member months, an increase of 238%.

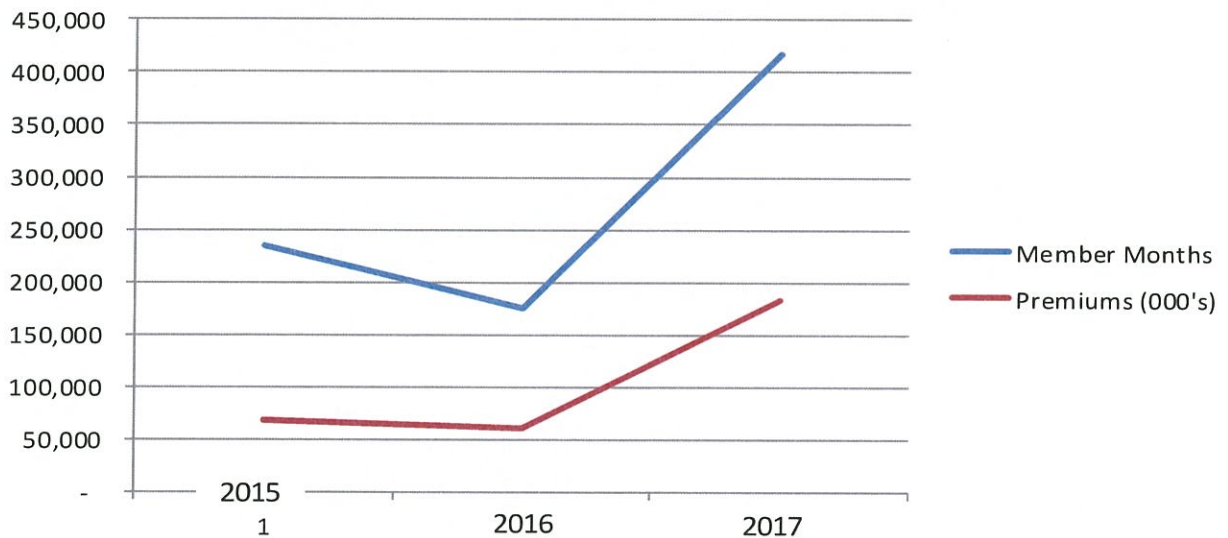
The Organization experienced a net loss of \$0.4M in 2017, compared to a \$3.5M net income in 2016. Total premiums increased \$122M from 2016 to 2017. Compared to 2016, total admitted assets, liabilities, and capital and surplus all steadily increased.

The following graphs reflect the Organization’s financial condition for the examination period:

### Assets, Liabilities, and Capital and Surplus (000's)



### Member Months & Premiums (000's)



Sources: 2015-2017 Financial Statements

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory annual statement filed by the Organization with the Department and present the financial condition of the Organization for the period ending December 31, 2017. The accompanying comments (if any) 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.



BRIDGESPAN HEALTH COMPANY  
BALANCE SHEET  
as of December 31, 2017

<b>ASSETS</b>	
Bonds	\$ 41,517,793
Cash, equivalents, and short-term investments	13,420,623
Investment income due and accrued	208,464
Uncollected premiums and agents' balances in the course of collection	1,115,697
Contracts subject to redetermination	8,019,188
Net deferred tax asset	1,611,251
Receivables from parent, subsidiaries, and affiliates	717,143
Health care and other amounts receivable	1,350,718
Premium tax credit recoverable	82,978
Miscellaneous other assets	190
Total Assets	<u>\$ 68,044,045</u>
 <b>LIABILITIES</b>	
Claims unpaid	\$ 23,482,969
Accrued medical incentive pool and bonus amounts	98,132
Unpaid claims adjustment expenses	1,161,178
Aggregate health policy reserves, include MLR rebate	7,488,000
Premiums received in advance	240,445
General expenses due or accrued	2,290,121
Current federal and foreign income tax payable and interest thereon	865,710
Ceded reinsurance premiums payable	22,358
Remittances and items not allocated	89,734
Borrowed money and interest thereon	1,500,000
Amounts due to parent, subsidiaries, and affiliates	1,424,380
Liability for amounts held under uninsured plans	2,063,679
Aggregate write-ins for other liabilities	871
Total Liabilities	<u>40,727,577</u>
 <b>CAPITAL AND SURPLUS</b>	
Aggregate write-ins for special surplus funds	3,783,505
Common capital stock	53,062,640
Unassigned surplus funds	(29,529,677)
Total Capital and Surplus	<u>27,316,468</u>
 Total Liabilities, Capital and Surplus	 <u>\$ 68,044,045</u>

BRIDGESPAN HEALTH COMPANY  
STATEMENT OF REVENUE AND EXPENSES  
for the Year Ended December 31, 2017

REVENUE:

Net premium income	\$ 183,565,360
Change in unearned premium reserves and reserve for rate credits	251,096
Total Revenue	<u>183,816,456</u>

HOSPITAL AND MEDICAL EXPENSES:

Hospital and medical benefits	99,990,610
Other professional services	11,533,946
Outside referrals	2,256,448
Emergency room and out-of-area	23,725,902
Prescription drugs	24,912,638
Incentive pool, withhold adjustments and bonus amounts	(22,746)
Total Hospital and Medical	<u>162,396,798</u>

GENERAL AND ADMINISTRATIVE EXPENSES:

Net reinsurance recoveries	(743,452)
Claims adjustment expenses	6,530,303
General administrative expenses	16,182,099
Increase in reserves for life and accident and health contracts	(863,000)
Total underwriting deductions	<u>183,502,748</u>
Net underwriting gain	<u>313,708</u>
Net investment income earned	766,374
Net realized capital gains	22,614
Net investment gains	<u>788,988</u>
Net loss from agent's or premium balances charged off	(501,108)
Aggregate write-ins for other expenses	2,434
Net income after capital gains, before federal income taxes	<u>604,022</u>
Federal and foreign income taxes incurred	<u>963,768</u>
Net Income (loss)	<u>\$ (359,746)</u>

BRIDGESPAN HEALTH COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS  
2015 through 2017

	2015	2016	2017
Capital and Surplus, December 31, prior year	\$ 2,956,627	\$ 19,619,509	\$ 23,918,869
Net income / (loss)	(18,719,600)	3,456,693	(359,746)
Change in net unrealized capital gains, net of tax	120	(132)	(16)
Change in net deferred income tax	4,802,672	(3,652,945)	64,478
Change in nonadmitted assets	(4,420,310)	4,495,744	(1,307,117)
Surplus adjustments: Paid in	35,000,000	-	5,000,000
Aggregate write-ins for losses in surplus	-	-	-
Net change in Capital and Surplus for the year	16,662,882	4,299,360	3,397,599
Capital and Surplus, December 31, current year	<u>\$ 19,619,509</u>	<u>\$ 23,918,869</u>	<u>\$ 27,316,468</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**

The Organization's capital and surplus in the amount of \$27,316,468 was determined to be the same as that reported in the Organization's annual statement as of December 31, 2017. The capital and surplus significantly exceeded the authorized control level risk-based capital.

## **SUBSEQUENT EVENTS**

During 2018, the Organization exited the individual exchange marketplace from Idaho and has reduced its footprint in the exchange marketplaces in Oregon and Washington.

## **ACKNOWLEDGEMENT**

John Humphries, ASA, MAAA, CFE, CISA, AES, MCM; Mike Presley, FSA, MAAA; Shumei Kuo, FSA, MAAA, and Kristina Gaddis, AES, CFE, CISA, of Risk & Regulatory Consulting, reviewed the actuarial portion of the examination. Mike Phillips, CPA, CFE, AES, of Oregon Division of Financial Regulation reviewed the Organization's Information Systems. Jacob W. Garn, CFE, CPA, Chief Examiner, Utah Insurance Department, supervised the examination. In addition, Mike Porter, AFE, Financial Examiner, 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,



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