

Report of the Examination of  
Group Health Cooperative of South Central Wisconsin  
Madison, Wisconsin  
As of December 31, 2022

## TABLE OF CONTENTS

	<b>Page</b>
I. INTRODUCTION .....	1
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL.....	7
IV. REINSURANCE .....	11
V. FINANCIAL DATA .....	12
VI. SUMMARY OF EXAMINATION RESULTS.....	22
VII. CONCLUSION .....	25
VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS .....	26
IX. ACKNOWLEDGMENT .....	27
X. SUBSEQUENT EVENTS .....	28



January 10, 2024

Honorable Nathan D. Houdek  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

GROUP HEALTH COOPERATIVE OF SOUTH CENTRAL WISCONSIN  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Group Health Cooperative of South Central Wisconsin (the cooperative or GHC-SCW) was conducted in 2020 as of December 31, 2019. The current examination covered the intervening period ending December 31, 2022, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurer to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company 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, annual statement instructions, and Wisconsin laws and regulations. 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 at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the cooperative's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the cooperative to satisfy the recommendations and comments made in the previous examination report.

The cooperative is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

#### **Independent Actuary's Review**

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the unpaid claims liability, premium deficiency reserve, and other reserving areas and actuarial assumptions. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

## II. HISTORY AND PLAN OF OPERATION

Group Health Cooperative of South Central Wisconsin is described as a nonprofit mixed model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, comprehensive health care services performed by providers selected by the organization." Under the mixed model, the cooperative has a delivery system consisting of a combination of staff physicians, clinics, and independent contracting physicians operating out of their separate offices.

GHC-SCW was incorporated on March 13, 1972, and commenced business on March 1, 1976. The cooperative was established as a consumer cooperative under ch. 185, Wis. Stat., with federal grants and loans assistance and is federally qualified. The cooperative is a tax-exempt organization as described in s. 501(c)(3) of the Internal Revenue Code.

Inclusive of all products offered, GHC-SCW has over 3,200 affiliated providers, including ancillary providers, of which there were more than 460 primary care providers (PCP) and over 2,700 specialists in a 13-county service area. In addition, the cooperative has contracted with over 15 hospitals. GHC-SCW operates nine clinic locations in Dane County. While the main focus for the GHC-SCW clinics is primary care, the clinics also provide the following specialty and ancillary care: behavioral health, chiropractic, clinical health education, complementary medicine, dermatology, eye care, podiatry, laboratory services, medical imaging, physical therapy, occupational therapy, retail pharmacy, and sports medicine.

Each GHC-SCW HMO member is required to select a primary care provider. The primary care provider acts as a gatekeeper for certain health care services when it is determined that the services of a specialist are necessary. Members may see certain specialists without a referral from their primary care provider. Self-referral specialty care includes but is not limited to, OB/GYN, behavioral health, chiropractic, optometric care, and alcohol and drug abuse treatment. The cooperative requires prior authorization for services from a nonparticipating provider.

For HMO members, there are two main networks, Dane and Regional. The determination is based on the location of the chosen PCP. Eighty-nine percent of the HMO members have chosen a PCP in the Dane network. The network then determines the in-network specialty providers and the payment mechanisms. In the Dane network, 81% of the members chose the GHC-SCW Clinics as their primary location. Other options for primary care in the Dane network include UW Health and Access Community Health Centers. UW Health and UnityPoint Health-Meriter are the primary delivery systems for specialty, outpatient, and inpatient services for the Dane network. For the Regional network, GHC-SCW has contracted directly with hospitals, primary care, specialty care, and ancillary providers.

Physicians employed by GHC-SCW are governed by employment contracts. These contracts provide for compensation in accordance with the GHC-SCW Board-approved compensation plan. The physician agrees to perform such duties relating to the practice of medicine as assigned through the GHC-SCW Chief Medical Officer including, but not limited to, clinic sessions, hospital rounds, urgent care clinic coverage, house calls, and night/weekend emergency call duty. During those hours in which GHC-SCW employs a physician, any remuneration for services of the practitioner is deemed income of GHC-SCW and must be submitted to GHC-SCW upon receipt. Physicians are required to give GHC-SCW at least 90 days written notice to terminate their employment contracts.

Contracted providers have various payment arrangements based on product lines, PCP selection, provider of service, and type of service. Payment arrangements include capitation, diagnosis-related groups (DRGs), discounted fee-for-service, per diems, and fee schedules.

The contracts include hold harmless provisions for the protection of policyholders. The contracts have varying terms, typically in the range of one to five years, and may be terminated upon advance written notice. According to its business plan, the cooperative's service area is comprised of the following counties:

Adams	Iowa	Richland
Columbia	Jefferson	Rock
Dane	Juneau	Sauk
Dodge	Lafayette	Vernon
Green		

The following basic health care coverages are provided:

- Physician services
- Inpatient services
- Outpatient services
- Behavioral health, drug and alcohol abuse services
- Ambulance services
- Special dental procedures (oral surgery)
- Prosthetic devices and durable medical equipment
- Newborn services
- Home health care
- Preventive health services
- Family planning
- Hearing exams and hearing aids
- Diabetes treatment
- Routine eye examinations
- Convalescent nursing home service
- Prescription drugs
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Physical fitness or health education
- Kidney disease treatment
- Certain transplants
- Chiropractic services

The cooperative offers comprehensive HMO health care coverage through various plans to groups and individuals. The plans may include deductibles, coinsurance, and/or copayments on covered services. These out-of-pocket expenses vary by plan and are selected by each employer or individual policyholder.

In addition to HMO products, the cooperative offers point-of-service (POS) and preferred provider organization (PPO) plans to group markets. The POS and PPO plans cover services provided by participating and non-participating providers. Services provided by nonparticipating providers are subject to out-of-network benefits, which may have separate or higher deductibles, coinsurance, and out-of-pocket maximums than in-network claims. PPO plans are generally available to employers with their main location in the cooperative's service area with employees who reside outside of the service area.

The cooperative currently offers a variety of health insurance options for employers and individuals. GHC-SCW offers large employer groups standard and custom plan designs. For small groups, the cooperative supports transitional plans and offers Affordable Care Act (ACA) plans. The group plans can choose from HMO, POS, and PPO plans. Individuals and their families are offered Medicare Select, individual and family plans including federally-facilitated exchange and non-exchange plans. The cooperative participates in the Federal Employees Health Benefits Program (FEHBP) for

federal government employees. The cooperative also has dental plans available to group employers who purchase a health insurance plan. GHC-SCW is contracted with the State of Wisconsin to provide services under the BadgerCare Plus managed Medicaid program. In January 2014, OCI approved the cooperative to provide Medicaid Supplemental Security Income (SSI) coverage in Dane County; however, GHC-SCW is not currently participating in the Medicaid SSI program.

The cooperative markets to groups and individuals. The cooperative uses its own sales staff, as well as outside agencies, and pays commissions on both new and renewal business.

As a federally qualified HMO, GHC-SCW is required to adhere to a community rating system as defined in the Health Maintenance Organization Act of 1973, as amended. An actuarial model is used to develop a base rate as the beginning point in premium determination. The base rate is adjusted on a group-by-group basis using various community rating guidelines such as tiers, demographics, and rating by class.



### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of 11 members. The board of directors has a complex structure. First, directors are separated into two classes: an Individual Class and a Practitioner Employee Class, which are then divided into categories within each class. The Individual Class consists of nine total directors and has three categories of directors with each category consisting of three members. All nine members serve for a term of three years, but the terms are staggered so that one category of directors' terms end each year. The Practitioner Employee Class directors are separated into two categories, each director serves for three years and the terms are staggered so that each category term expires in a different year. The Individual Class board members receive compensation based on the number of meetings attended. The Practitioner Class board members do not receive compensation for serving on the board.

Currently, the board of directors consists of the following persons:

<b>Name</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Ann Hoyt Madison, Wisconsin	Retired Professor	2024
Colleen Gullickson Madison, Wisconsin	College Professor and Associate Dean	2026
Nanette Hensen Columbus, Wisconsin	Corporate Financial Advisor	2025
William Oemichen New Glarus, Wisconsin	College Professor	2024
Chassitti Clark Madison, Wisconsin	Program and Policy Analyst	2025
Nathan Hayes Madison, Wisconsin	Physician	2024
Courtney Hayward Fitchburg, Wisconsin	Government Relations Specialist	2026
Richard Lavigne, Jr. Sun Prairie, Wisconsin	Attorney	2024
Allison Philipps Sun Prairie, Wisconsin	Nurse Practitioner	2025

<b>Name</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Andrew Turner Verona, Wisconsin	College Professor	2026
Judy Ziewacz Monona, Wisconsin	Retired	2025

### **Officers of the Company**

The officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>
Mark Huth	President & Chief Executive Officer
Bruce Quade	Chief Financial Officer
William Oemichen	Treasurer
Nanette Hensen	Secretary
Ann Hoyt	Board Chair
Colleen Gullickson	Board Vice Chair

### **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

#### **Executive Committee**

Ann Hoyt, Chair  
Colleen Gullickson  
William Oemichen  
Nanette Hensen

#### **Finance Committee**

William Oemichen, Chair  
Richard Lavigne, Jr.  
Nanette Hensen  
Nathan Hayes

#### **Governance Committee**

Ann Hoyt, Chair  
William Oemichen  
Andrew Turner  
Richard Lavigne, Jr.

#### **Quality, Safety, and Patient Experience Committee**

Colleen Gullickson, Chair  
Courtney Hayward  
Nathan Hayes  
Chassitti Clark

#### **Audit Committee**

William Oemichen, Chair  
Ann Hoyt  
Judy Ziewacz  
Richard Lavigne, Jr.

#### **Board Development Committee**

Chassitti Clark, Chair  
Colleen Gullickson  
Nanette Hensen  
Allison Phillips

#### **Business Strategy Committee**

Courtney Hayward, Chair  
Andrew Turner  
Judy Ziewacz  
Allison Phillips

#### **Ad Hoc Legislative Committee**

Courtney Hayward, Chair  
William Oemichen  
Ann Hoyt

The company has its own employees and departments: 1) Finance Department; 2) Information Technology Systems; 3) Case, Utilization and Quality Management; 4) Clinic and Ancillary Services; 5) Human Resources; 6) Insurance Operations; 7) Compliance; and 8) Sales and Marketing. The Cooperative also employs staff at its clinic locations, including physicians, physician assistants, nurse practitioners, pharmacists, physical and occupational therapists, behavioral health practitioners, optometrists, chiropractors, laboratory and radiology staff, nursing staff, and support staff.

### **Insolvency Protection for Policyholders**

Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage that does not contain any medical underwriting or preexisting limitation requirements.

The Cooperative has met this requirement through its reinsurance contract, as discussed in the Reinsurance section of this report.

#### IV. REINSURANCE

The company currently has reinsurance coverage under the contract outlined below:

Reinsurer:	PartnerRe America Insurance Company
Type:	Specific Excess of Loss Reinsurance
Effective date:	January 1, 2024
Retention:	\$450,000 per eligible member for Commercial and Individual Exchange \$375,000 per eligible member for Medicaid
Coverage:	Commercial HMO/PPO/POS Exchange Medicaid
Termination:	January 1, 2025

The reinsurance policy has an endorsement containing the following insolvency provisions:

1. PartnerRe will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.
2. PartnerRe will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to the plan by that member or on his behalf.
3. PartnerRe will make available to all members within the calendar year, without evidence of insurability, a replacement coverage of the same benefit schedule and rates as then being offered by PartnerRe to other prospective insureds within the state.

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the commissioner of insurance in the December 31, 2022, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.

**Group Health Cooperative of South Central Wisconsin**  
**Assets**  
**As of December 31, 2022**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$21,621,384	\$	\$21,621,384
Common stocks	10,322,078		10,322,078
Real Estate:			
Properties occupied by the company	9,561,425		9,561,425
Cash, cash equivalents and short-term investments	12,953,891		12,953,891
Receivable for securities	51,563		51,563
Investment income due and accrued	184,981		184,981
Uncollected premiums and agents' balances in the course of collection	5,378,204	66,438	5,311,766
Amounts recoverable from reinsurers	4,913,240		4,913,240
Electronic data processing equipment and software	1,375,473	1,351,257	24,216
Furniture and equipment, including health care delivery assets	3,650,236	646,979	3,003,257
Health care and other amounts receivable	14,852,732	1,443,124	13,409,607
Write-ins for other than invested assets:			
Prepaid Expenses	2,364,089	2,278,611	85,478
457(b) Trust	1,018,680		1,018,680
<b>Total Assets</b>	<u><b>\$88,247,976</b></u>	<u><b>\$5,786,410</b></u>	<u><b>\$82,461,566</b></u>

**Group Health Cooperative of South Central Wisconsin  
Liabilities, Capital, and Surplus  
As of December 31, 2022**

Claims unpaid	\$29,212,270
Accrued medical incentive pool and bonus payments	89,843
Unpaid claims adjustment expenses	1,032,224
Aggregate health policy reserves	4,918,473
Premiums received in advance	19,997,759
General expenses due or accrued	4,400,518
Amounts withheld or retained for the account of others	1,021,065
Borrowed money and interest thereon	842,513
Uncashed checks	<u>79,270</u>
Total Liabilities	61,593,936
Gross paid in and contributed surplus	(6,400,000)
Unassigned funds (surplus)	27,267,630
Total Capital and Surplus	<u>20,867,630</u>
 Total Liabilities, Capital and Surplus	 <u>\$82,461,566</u>



**Group Health Cooperative of South Central Wisconsin  
Statement of Revenue and Expenses  
For the Year 2022**

Net premium income		\$457,140,942
Medical and Hospital:		
Hospital/medical benefits	\$251,823,129	
Other professional services	71,464,354	
Outside referrals	2,465,466	
Emergency room and out-of-area	37,077,986	
Prescription drugs	50,382,080	
Aggregate write-ins for other medical and hospital	21,357,694	
Incentive pool and withhold adjustments	<u>24,000</u>	
Subtotal	434,594,708	
Less		
Net reinsurance recoveries	4,913,531	
Total medical and hospital	429,681,178	
Claims adjustment expenses	9,985,188	
General administrative expenses	29,897,343	
Increase in reserves for life and accident and health contracts	<u>(4,600,000)</u>	
Total underwriting deductions		<u>464,963,709</u>
Net underwriting gain or (loss)		(7,822,766)
Net investment income earned	(609,745)	
Net realized capital gains or (losses)	<u>4,987,387</u>	
Net investment gains or (losses)		4,377,642
Net gain or (loss) from agents' or premium balances charged off		(77,720)
Write-ins for other income or expenses:		
Other income or expenses		<u>812,408</u>
Net Income (Loss)		<u>\$ (2,710,436)</u>

**Group Health Cooperative of South Central Wisconsin  
Capital and Surplus Account  
For the Three-Year Period Ending December 31, 2022**

	2022	2021	2020
Capital and surplus, beginning of year	\$24,938,830	\$40,521,882	\$40,118,682
Net income (loss)	(2,710,436)	(16,749,361)	447,400
Change in net unrealized capital gains/losses	(2,407,138)	1,202,274	349,128
Change in nonadmitted assets	<u>1,046,373</u>	<u>(35,966)</u>	<u>(393,329)</u>
Capital and Surplus, End of Year	<u>\$20,867,629</u>	<u>\$24,938,830</u>	<u>\$40,521,881</u>

**Group Health Cooperative of South Central Wisconsin  
Statement of Cash Flow  
For the Year 2022**

Premiums collected net of reinsurance		\$457,753,591
Net investment income		<u>651,995</u>
Total		458,405,586
Less:		
Benefit- and loss-related payments	\$422,318,527	
Commissions, expenses paid and aggregate write-ins for deductions	<u>39,002,487</u>	
Total		<u>461,321,014</u>
Net cash from operations		(2,915,428)
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	\$2,942,416	
Real estate	10,100,000	
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>(12)</u>	
Total investment proceeds		13,042,404
Cost of Investments Acquired—Long-term Only:		
Bonds	3,706,751	
Real estate	988,064	
Miscellaneous applications	<u>44,092</u>	
Total investments acquired		<u>4,738,906</u>
Net cash from investments		8,303,497
Cash Provided for/Applied from Financing and Miscellaneous Sources:		
Borrowed funds received	(86,050)	
Other cash provided (applied)	<u>732,741</u>	
Net cash from financing and miscellaneous sources		<u>646,691</u>
Net Change in Cash, Cash Equivalents, and Short- Term Investments		6,034,760
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>6,919,132</u>
End of Year		<u>\$ 12,953,893</u>

**Growth of Group Health Cooperative of South Central Wisconsin**

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2022	\$82,461,566	\$61,593,936	\$20,867,630	\$457,140,942	\$429,681,178	\$(2,710,436)
2021	80,015,600	55,076,771	24,938,830	402,242,920	381,403,618	(16,749,361)
2020	87,462,818	46,940,938	40,521,882	406,514,410	369,661,378	447,400
2019	94,760,025	54,641,344	40,118,682	408,094,581	378,750,811	(7,747,566)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2022	-0.6%	94.0%	8.7%	12.1%
2021	-4.2%	94.8%	9.0%	-0.9%
2020	0.1%	90.9%	9.9%	-3.1%
2019	-1.9%	92.8%	9.2%	3.7%

**Enrollment and Utilization**

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2022	85,511	205.93	4.3
2021	76,270	218.14	4.4
2020	76,994	207.42	4.0
2019	79,489	251.87	4.1

**Per Member Per Month Information**

	2022	2021	Percentage Change
<b>Premiums:</b>			
Commercial	\$487.19	\$472.64	3.1%
Medicare	243.88	228.01	7.0
Medicaid	<u>188.11</u>	<u>177.55</u>	6.0
<b>Expenses:</b>			
Hospital/medical benefits	251.50	237.57	5.9
Other professional services	71.37	70.86	0.7
Outside referrals	2.46	1.65	49.0
Emergency room and out-of-area	37.03	34.31	7.9
Prescription Drugs	50.32	54.56	-7.8
Other medical and hospital	21.33	22.26	-4.2
Incentive pool and withhold adjustments	0.02	0.26	-90.7
Less: Net reinsurance recoveries	<u>4.91</u>	<u>3.13</u>	57.0
Total medical and hospital	429.14	418.35	2.6
Claims adjustment expenses	9.97	10.58	-5.8
General administrative expenses	29.86	29.24	2.1
Increase in reserves for accident and health contracts	<u>-4.59</u>	<u>2.63</u>	-274.5
Total underwriting deductions	<u>\$464.38</u>	<u>\$460.80</u>	0.8

The cooperative was unprofitable for two of the three years under examination. 2020 was profitable due to reduced utilization from the COVID-19 pandemic. The cooperative had a large net loss in 2021 due to difficulty in setting appropriate rates and significantly increased utilization. In 2022, the cooperative was unprofitable largely due to continued losses in the Individual ACA line of business. Also in 2022, the cooperative entered into a sale-leaseback transaction of their administrative building which resulted in a gain of over \$5 million and provided some offset to operational losses. The sale-leaseback also helped stabilize cash flow and to take advantage of the increased value of the building. The cooperative is taking steps to improve its financial condition in 2023 and beyond. Further detail is included in the Subsequent Events section of this report.

### Financial Requirements

The financial requirements for an HMO under s. Ins 9.04, Wis. Adm. Code, are as follows:

#### Amount Required

- |   |  |
|---|--|
| 1. Minimum capital or permanent surplus | Either:<br>\$750,000, if organized on or after July 1, 1989<br>or<br>\$200,000, if organized prior to July 1, 1989   |
| 2. Compulsory surplus                   | The greater of \$750,000 or:<br><br>If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months;<br><br>If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months |
| 3. Security surplus                     | The greater of:<br>140% of compulsory surplus reduced by 1% of compulsory surplus for each \$33 million of additional premiums earned in excess of \$10 million<br>or<br>110% of compulsory surplus  |

Covered liabilities are those due to providers who are subject to statutory hold-harmless provisions.

The company's calculation as of December 31, 2022, as reported by the Cooperative is as follows:

Assets			\$82,461,566
Less:			
Special deposit			4,009,310
Liabilities			61,593,936
Investments in excess of maximum allowable by Ch. 620, Wis. Stat. Examination adjustments			
Net amount available to satisfy surplus requirements			16,858,320
Net premium earned			
HMO business	\$431,935,297		
Factor		3%	
Total			\$12,958,059
Incidental Indemnity	25,205,645		
Factor		10%	
Total			2,520,565
Total			<u>\$15,478,624</u>
Compulsory surplus			<u>\$15,478,624</u>
Compulsory Surplus Excess (Deficit)			<u>\$ 1,379,696</u>
Net amount available to satisfy surplus requirements			\$16,858,320
Compulsory surplus		\$15,478,624	
Security factor		<u>127%</u>	
Security surplus			<u>\$19,657,852</u>
Security Surplus Excess (Deficit)			<u>\$ (2,799,532)</u>

In addition, there is a special deposit requirement equal to the lesser of the following:

1. An amount necessary to maintain a deposit equaling 1% of premium written in this state in the preceding calendar year;
2. One-third of 1% of premium written in this state in the preceding calendar year.

The cooperative has satisfied this requirement for 2023 with a deposit of \$4,502,742 with the state treasurer.

The cooperative has a security surplus deficit due to three factors: They anticipated a positive ACA risk adjustment which turned out to be payable; FEMA money was received in February 2023 when

it was anticipated to be received in December 2022; and the cooperative's operating losses decreased surplus. The cooperative has security surplus excess as of the end of the second quarter of 2023.

## Reconciliation of Capital and Surplus per Examination

Several adjustments were made to surplus as a result of the examination. The amount of surplus reported by the cooperative as of December 31, 2022 was adjusted as a result of the examination as shown below:

	<b>Increase</b>	<b>Decrease</b>	
Surplus December 31, 2022, per annual statement			\$20,867,629
Aggregate Health Policy Reserves (Premium Deficiency Reserve for Large Group and FEHBP business)	\$0	\$(3,310,112)	
Aggregate Health Policy Reserves (Premium Deficiency Reserve for Individual and Small Group ACA business)		(3,507,712)	
Aggregate Health Policy Reserves (Premium Deficiency Reserve for Medicare Supplement business)		(250,096)	
Aggregate Health Policy Reserves (ACA Risk Adjustment Payable)	—	<u>(840,000)</u>	
Net increase or (decrease)	<u>\$0</u>	<u>\$(7,907,920)</u>	<u>(7,907,920)</u>
Surplus December 31, 2022, per Examination			<u>\$12,959,709</u>

Detailed descriptions of the above adjustments are in the next section of this report.

### Examination Reclassifications

There were no reclassifications as a result of the examination.

## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were four specific recommendations in the previous examination report. The actions taken by the cooperative as a result of the recommendations are as follows:

1. Annual Financial Reporting—It is recommended that the cooperative list all authorized service areas on the Annual Statement Filing General Interrogatories Part 2 - Health Interrogatories in accordance with the NAIC Annual Statement Instructions - Health

Action—Compliance.

2. Custodial or Safekeeping Agreements—It is recommended that the cooperative obtain a custodial agreement with its investment custodian that includes proper language indemnifying Group Health Cooperative of South Central Wisconsin as set forth in the NAIC *Financial Condition Examiners Handbook*

Action—Compliance.

3. Reinsurance Intermediary—It is recommended that the cooperative obtain a reinsurance intermediary contract that includes the required provisions in accordance with ch. Ins. 47, Wis. Adm. Code

Action—Compliance.

4. Actuarial Memorandum—It is recommended that, in the future, the cooperative obtain an actuarial memorandum each year that conforms to the following requirements prescribed in the NAIC Annual Statement Instructions – Health:

- a) The Actuarial Memorandum should outline all amounts upon which the actuary is opining.
- b) The Actuarial Memorandum should include enough detail in the Technical Component to describe the process from the initial data to the final calculated and reported balances.
- c) The Actuarial Memorandum should include documentation of the reconciliation from the data used for the U&I Exhibit, Pt 2b, columns 1 and 2. This should identify amounts from all claim triangles as well as all other amounts included, and the total should tie to Row 13 of the Exhibit.

Action—Compliance.



## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

### **Premium Deficiency Reserve**

A review of the cooperative's premium deficiency reserve calculation disclosed that the cooperative is improperly including dissimilar lines of business together when determining a premium deficiency reserve. This is a violation of Statements of Standard Accounting Practice (SSAP) No. 54—Individual and Group Accident and Health Contracts which states that "For purposes of determining if a premium deficiency exists, contracts shall be grouped in a manner consistent with how policies are marketed, serviced and measured." The cooperative is grouping Medicare Supplement with Individual and Small Group business. Medicare Supplement is a dissimilar line of business compared to Individual and Small Group business in terms of how it is marketed. It is recommended that Medicare Supplement should be a separate segment in calculating the premium deficiency reserve in accordance with SSAP No. 54—Individual and Group Accident and Health Contracts.

### **Actuarial Memorandum**

A review of the cooperative's actuarial memorandum by the examination contracted actuary disclosed that the Actuarial Memorandum did not include comprehensive information regarding the estimated risk adjustment transfer. This information should be presented in a manner that allows another actuary with expertise in the same practice area to make an objective assessment of the reasonableness of the estimate. While an analysis by the cooperative's consultant was provided in an appendix, it does not explain how this information was used or adjusted to determine the actual risk adjustment transfer projected. It is recommended that the actuarial memorandum include adequate information regarding the risk adjustment estimate to support the calculation.

### **Actuarial Memorandum Premium Deficiency Reserve**

The examination contracted actuary reported that the cooperative's Actuarial Memorandum contained inadequate documentation on why a premium deficiency reserve was considered unnecessary on established blocks of business that had incurred losses over the past three years. It is recommended

that the Actuarial Memorandum include detailed documentation regarding the premium deficiency reserve calculation including why one was not booked for business that has incurred losses over several years.

### **Information Technology**

During the course of the examination, a review was made of the cooperative's general controls over its information systems. The review resulted in certain findings, which were presented to the cooperative in a management comment letter. It is recommended that the cooperative comply with the recommendations made in the management comment letter.

### **Aggregate Health Policy Reserves**

**\$12,826,393**

The above balance differs from the amount reported by the cooperative due to adjustments made by the examination team. The risk adjustment liability was increased by \$840,000 to match the actual amount subsequently paid. The premium deficiency reserves were a result of the consulting actuary performing their own calculations. The total premium deficiency reserve should have been \$7,067,920. This amount consists of \$3,310,112 for Large Group and FEHBP lines of business, \$3,507,712 for Individual and Small Group, and \$250,096 for Medicare Supplement. The cooperative would be releasing the premium deficiency reserve in 2023 which would balance out by the end of the year. Total adjustments to this account were \$7,907,920. As a result, surplus was decreased by this amount as seen in Section V. of this report.

## **VII. CONCLUSION**

The cooperative's financial condition has deteriorated during the examination period with losses in 2019, 2021, and 2022. However, the cooperative's financial condition has improved in 2023 due to capital infusions; the receipt of FEMA money; and loss mitigation strategies. The cooperative's compulsory and security surplus has been adjusted due to premium deficiency reserve adjustments and the actual ACA risk adjustment becoming known. The cooperative is continuing steps to improve financial performance going forward and discussed in the following section.

## VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Premium Deficiency Reserve—It is recommended that Medicare Supplement should be a separate segment in calculating the premium deficiency reserve in accordance with *SSAP No. 54—Individual and Group Accident and Health Contracts*.
2. Page 23 - Actuarial Memorandum— It is recommended that the actuarial memorandum include adequate information regarding the risk adjustment estimate to support the calculation.
3. Page 23 - Actuarial Memorandum Premium Deficiency Reserve— It is recommended that an explanation in the actuarial memorandum include detailed documentation regarding the premium deficiency reserve calculation including why one was not booked for business that has incurred losses over several years.
4. Page 24 - Information Technology—It is recommended that the cooperative comply with the recommendations in the management comment letter.

## IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Nicholas Siskoff	Insurance Financial Examiner
Benjamin Marquardt	Insurance Financial Examiner
Jacob Luebke	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Jacob Burkett  
Examiner-in-Charge

## **X. SUBSEQUENT EVENTS**

The cooperative received a total of \$5.2 million from Federal Emergency Management Agency (FEMA) in the first half of 2023. This money was received due to the flooding of the Sauk Trails clinic in August 2018. The cooperative is eligible for this money because of its status as a nonprofit organization. FEMA makes payments after expenses are incurred and paid by the cooperative. Essentially all of the money expected from FEMA has been collected. If there is another payment it would be a minimal amount.

The cooperative received two anonymous donations in 2023. The first donation of \$15 million was received in June 2023 and the second donation of \$10 million was received in August 2023. The charitable donations were both in the form of publicly traded stocks. The charitable donations and the FEMA money directly increased surplus.