Report

of the

Examination of

Gundersen Health Plan, Inc.

La Crosse, Wisconsin

As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, *Governor*
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March 1, 2019

Honorable Mark V. Afable
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:

GUNDERSEN HEALTH PLAN, INC.
La Crosse, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Gundersen Health Plan, Inc., (GHP or the company) was conducted in 2013 as of December 31, 2012. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of an affiliated company domiciled in Minnesota, with Wisconsin acting in the capacity as the lead state for the coordinated examination. Representatives of Minnesota participated in 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 company'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 company to satisfy the recommendations and comments made in the previous examination report.

The company 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 with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

GHP is a not-for-profit network model health maintenance organization (HMO) insurer in Wisconsin and Iowa. Under the network model, GHP provides care through agreements with two or more clinics.

The company was incorporated in Wisconsin on March 13, 1995, as a non-stock service insurance corporation under ch. 613, Wis. Stat., and commenced business September 1, 1995. The company is exempt from federal income taxes under § 501(c)(4) of the Internal Revenue Code; however, the company is subject to Wisconsin franchise tax. Shown below is a summary of several corporate changes that occurred at the company.

June 10, 1996	Gundersen Clinic, Ltd., (the Clinic) and Gundersen Lutheran Medical Center, Inc. (the Hospital), both of whom were parent companies of GHP, formed an affiliation through the creation of Gundersen Lutheran, Inc.
January 1, 2000	Gundersen Lutheran, Inc., became the new parent of GHP, replacing the Clinic and the Hospital.
August 1, 2006	GHP expanded its territory by obtaining a certificate of authority in the State of Iowa to transact business as an HMO in five northern counties.
March 26, 2013	Gundersen Lutheran, Inc., changed its legal name to Gundersen Health System (GHS) and the company's legal name was changed to Gundersen Health Plan, Inc.
May 1, 2016	GHS entered into a Members Agreement with University Health Care, Inc., (UHC) in which the two entities became members of GHP. Through this transaction, the company became an affiliate of Unity Health Plans Insurance Corporation (Unity).
July 1, 2017	GHS entered into a Members Agreement with Iowa Health System d/b/a Unity Point Health (UPH) and UHC in which all three entities will be members of the company. Through this affiliation, the company became part of the Quartz Group (or Quartz) operating under the same umbrella as Physician Plus Insurance Corporation (PPIC) and Unity Health Plans Insurance Corporation (Unity).

GHP rents its provider network from Quartz Health Solutions, Inc., (QHS) that includes health care systems that offer more than 2,100 primary care physicians (PCP) and in excess of 6,800 specialty physicians in a 51-county network service area. The company also contracted with 70 hospitals to provide inpatient services. Hospitals are reimbursed on a variety of payment terms. The contracts include hold-harmless provisions for the protection of policyholders. The agreements have a one-year term, with automatic renewal, and may be terminated by either party upon 180-days' prior written notice prior to the end of a term.

Within Dane County, the UW Health and UnityPoint Health – Meriter delivery systems provide the majority of the services with some additional services provided by non-UW entities for members selecting a PCP within Dane County. In the Regional portion of the company's service area, QHS contracts directly with hospitals, primary care, and specialty care providers and clinics, as well as ancillary health care providers. Within the Regional portion of the service area, specifically in La Crosse County, GHS provides the majority of services.

GHP offers a variety of commercial group plans known as HMO, point-of-service (POS), preferred provider organization (PPO), and health savings account (HSA) that include deductible, copayment, and coinsurance products. In addition, the company offers individual HMO, Medicare Advantage and supplement, and Medicaid products. At enrollment, HMO members are required to select a PCP. The physical location of the PCP determines the payment arrangement that follows. The PCP coordinates the member's medical care and is responsible for providing routine health care to that member. Members may self-refer to participating providers in both the Regional and Dane County operational areas. For those members who select the HMO product, the company requires a member to obtain prior written authorization from the company for treatment from a non-participating provider (not under contract) with QHS.

Payment to providers falls under various payment arrangements depending on PCP selection, location of the member, the provider of service, and type of service. Payment arrangements include capitation, per diems, diagnosis-related groups (DRGs), discounted fee-for-service, and fee schedules. Virtually all payments, however, are part of an overall capitation arrangement under which GHS and UW Health are at risk for medical services provided.

According to its business plan, GHP's current service area is comprised of the following counties:

<u>Wisconsin</u>

Adams	Fond du Lac	Jefferson	Richland	Waukesha
Buffalo	Grant	Juneau	Rock	Waushara
Columbia	Green	La Crosse	Sauk	
Crawford	Green Lake	Lafayette	Trempealeau	
Dane	Iowa	Marquette	Vernon	
Dodge	Jackson	Monroe	Walworth	

<u>Iowa</u>

Allamakee	Clayton	Fayette	Howard	Winneshiek

The following basic health care coverages are provided by the insurance contracts:

Ambulance Services	Physician Services
Chiropractic Services	Skilled Nursing Care
Diagnostic Services	Therapy – Physical, Speech, Occupational, Cardiac Rehab
Diabetic Treatment and Education	Temporomandibular Joint Treatment (TMJ)
Durable Medical Equipment and Medical Supplies	Transplants
Emergency Room Services	Urgent Care
Hearing Exams and Hearing Aids	Vision Care
Home Health Care Services	Maternity and Newborn Benefits
Hospice	Oral Surgery (Specific Procedures Only)
Inpatient Hospital Services	Pharmaceutical Drugs
Kidney Disease Treatment (including Dialysis and Transplant)	Mental Health Service (Psychological and Chemical Dependency - AODA)
Outpatient Hospital Services	

HMO plans may include deductible, coinsurance, and/or copayments on covered services. These out-of-pocket expense amounts vary by plan and are selected by each employer or individual policyholder. Services relating to behavioral health or alcohol and other drug abuse (AODA) coverage are covered in accordance with federal and state mental health parity laws.

In addition to HMO products, the company offers a point-of-service (POS) plan. The POS plan covers services by participating providers as well as services by non-participating providers with two or three levels of benefits depending on the benefit plan design. Services may be subject to a copayment, deductible, or coinsurance based on the participating status of the provider. The company had one member enrolled in this plan on December 31, 2017.

In 1999, GHP entered into an agreement with the then federal Health Care Financing Administration to market a Medicare+Choice product. In 2005, GHP re-contracted with the Centers for Medicare and Medicaid Services to market a Medicare Advantage Prescription Drug (MA-PD) product, Gundersen Senior Preferred (Medicare Advantage). Medicare Advantage is a comprehensive medical plan that combines coverage with those services provided by traditional Medicare with the wellness, preventative care, and prescription drug benefits offered by GHP. The MA-PD product is only offered to members that have Medicare Advantage medical coverage; it is not marketed as a stand-alone product. Medicare Advantage is currently offered in southern Wisconsin, northern Illinois, and northeast Iowa. It is available only through marketing representatives who are employed directly by the plan.

With the exception of the Medicare Advantage and BadgerCare products, GHP markets to groups only. This marketing is done through outside agencies, as well as through GHP's marketing department. Outside agent commissions are paid in a range from $12.20 to $40.00 per contract per month. A small number of agents are paid commissions of up to 6% of premiums on new and renewal business or have a fixed annual fee.

GHP uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the age, sex, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate or canceling the group.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 11 members. The directors are elected during the annual shareholder meeting to serve a three-year term. Officers are elected by the board of directors during the annual shareholder meeting. Members of the company's board of directors may also be members of other boards of directors in the holding group. The internal board members currently receive no compensation for serving on the board. External board members are compensated through QHS. External board members are compensated as follows:

- Board meetings - $2,000 per quarterly meeting
- Phone conference and committee meetings - $300 per conference/meeting
- Special meetings or ad hoc committees - $300 per meeting
- Travel expenses are paid separately per IRS regulations

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

Name and Residence	Principal Occupation	Term Expires
Robert Flannery, Chair Waunakee, WI	SVP & Chief Financial Officer of UW-Health	2019
Gerald Arndt Onalaska, WI	Retired, Former Executive of GHS	2020
William Farrell La Crescent, MN	Sr. Vice President, Business Services of GHS	2021
Michael Dallman Waunakee, WI	SVP & Chief Strategy Officer of UW- Health President of University Health Care, Inc.	2021
Michael Dolan, MD La Crosse, WI	SVP & Medical COO of GHS	2019
Alan Kaplan, MD Waunakee, WI	Chief Executive Officer of UW-Health	2020
Heidi Eglash La Crosse, WI	Attorney of Eglash Law Office, LLC	2019
Kevin Hauser Richland Center, WI	President & Chief Executive Officer of Westby Co-op Credit Union	2020
James Falck Decorah, WI	Self-Employed	2021

Name and Residence	Principal Occupation	Term Expires
Virginia Graves Fitchburg, WI	Black Spruce, Inc.	2020
Gerald Kember Black Earth, WI	Consultant, School Perceptions	2019

Officers of the Company

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

Name	Office	2017 Compensation
Terry Bolz	President and Chief Executive Officer	$643,671
James Hiveley	VP, Chief Financial Officer, and Treasurer	406,195
Christine Senty	General Counsel, VP, and Secretary	396,253
Gary Lenth, MD	Chief Medical Officer and Executive VP	400,000

Note: The officers above also serve in a similar capacity for other affiliated entities within the holding group. The portion of executive compensation above reflects the total for the group.

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:

Audit Committee
Gerald Arndt, Chair
Robert Flannery
Virginia Graves
Kevin Hauser

Finance Committee
Virginia Graves, Chair
Heidi Eglash
William Farrell
Robert Flannery
Alan Kaplan, MD
Jodilynn Vitello

Quality Committee
Michael Dolan, Chair
Dan Ecklund
Jonathan Jaffery
Alan Kaplan
Gerald Kember
Gary Lenth
Mary Pak
Tim Size

Human Resource Committee
John Sickels, Chair
Gerald Arndt
Michael Dallman
Gerald Kember

Marketing Committee
John Sickels, Chair
Michael Dallman
Michael Dolan
Virginia Graves
Pamela Maas
Chris Roth

The company has no employees. Necessary staff is provided through a management agreement with QHS. Under the agreement QHS agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; and provides or contracts for claims processing and MIS. The company shall pay to QHS an advance payment up to 1/12th of the amount of the annual operating budget for services provided no later than the fifth business day of each month. No later than 30 days after the end of the calendar year, QHS shall submit to the company a statement of reimbursable expenses based on the actual cost of the services provided to the company. Within 30 days of receipt of the statement, the company shall either pay to QHS any outstanding balance or receive a refund of any excess payment. The company may terminate the agreement upon 30-days' written notice if the default of standards of performance continues 30 days after notice of such default.

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

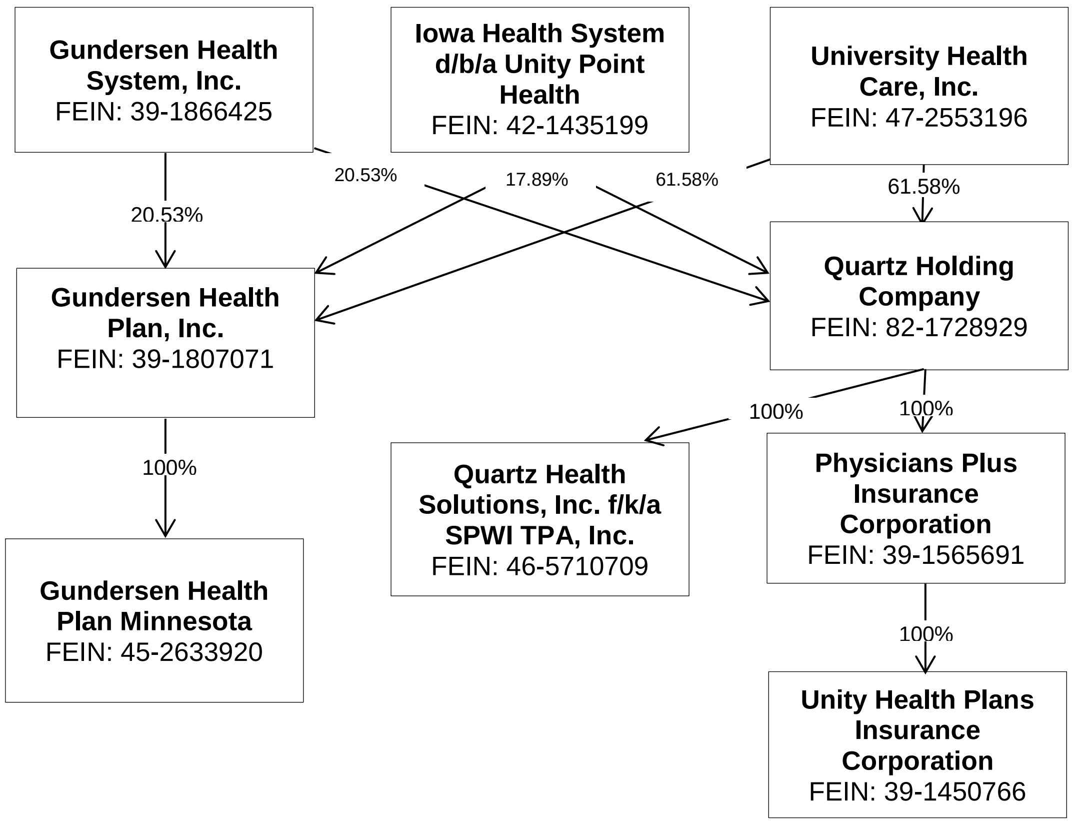
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

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

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parents are GHS (20.5%), UPH (17.9%), and UHC (61.6%). The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

Holding Company Chart
As of December 31, 2017



Gundersen Health System, Inc.

GHS is a non-profit integrated healthcare system that provides comprehensive medical care to patients primary in Wisconsin, as well as in Iowa and Minnesota, by operating hospitals, clinics, health plans, long-term care facilities, ambulance services, a foundation, and an energy-producing company, in addition to providing medical and health/wellness education and community outreach, and conducting medical education and clinically based research.

As of December 31, 2017, the GHS's audited GAAP consolidated financial statement reported assets of $1.8 billion, liabilities of $600.5 million, and net assets of $1.2 billion. Operations for 2017 produced excess revenue over expenses of $124.6 million on revenues of $1.2 billion.

Unity Point Health

UPH is an Iowa non-profit corporation formed in December 1994. UPH and its subsidiaries provide inpatient and outpatient care and physician services from various hospital facilities and ambulatory service and clinic locations in Iowa, Illinois, and Wisconsin. Primary, secondary, and tertiary care services are provided to residents of Iowa, Illinois, and Wisconsin, as well as adjacent states.

As of December 31, 2017, UPH's GAAP audited consolidated financial statement reported assets of $5.6 billion, liabilities of $2.2 billion, and net assets of $3.4 billion. Operations for 2017 produced excess revenue over expenses of $229.5 million on revenues of $4.2 billion.

University Health Care, Inc.

UHC is a non-profit, tax-exempt corporation that serves as a network development vehicle by developing regional programs and clinical centers and developing business relationships with other health care providers. UHC's purpose is to support the missions of the University of Wisconsin Medical School, the University of Wisconsin Hospitals and Clinics Authority, and the University of Wisconsin Medical Foundation.

UHC is no longer an audited entity; therefore, the examination reviewed the consolidated GAAP financial information of UW Hospitals and Clinics Authority d/b/a UW Health, the parent of UHC, which includes the financial information of UHC. As of June 30, 2017, UW-Health's GAAP audited financial statement reported assets of $2.9 billion, liabilities of $1.2 billion, and a net position of $1.7 billion. Operations for 2017 produced an increase in net position of $89.8 million on revenues of $2.5 billion.

Quartz Holding Company

QHC operates as a shell company that exists for the sole purposes of holding ownership in PPIC and QHS. As of December 31, 2017, the QHC's unaudited GAAP financial statement reported assets of $87.3 million, no liabilities, and equity of $87.3 million. QHC had no financial activity for 2017; however, it posted a net loss of $7.6 million which reflects the net impact from its two subsidiaries.

Quartz Health Solutions, Inc.

QHS is a service organization that performs administrative and claims processing for the holding group and for employers of self-funded group health plans. As of December 31, 2017, QHS's unaudited GAAP financial statement reported assets of $15.3 million, liabilities of $12.6 million, and equity of $2.7 million. Operations for 2017 produced a net loss of $1.9 million on revenues of $85.4 million.

Gundersen Health Plan Minnesota

Gundersen Health Plan Minnesota (GHP MN) is a non-profit HMO established to provide comprehensive health care insurance for Minnesota insureds. GHP MN is licensed to write business for small and large group commercial and Medicare. As of December 31, 2017, GHP MN's audited statutory financial statement reported assets of $2.4 million, liabilities of $0.5 million, and capital and surplus of $1.9 million. Operations for 2017 produced a net loss of $0.1 million on revenues of $8.1 million.

Physicians Plus Insurance Corporation

PPIC is a for-profit life, accident, and health insurer in the states of Wisconsin and Illinois. In Wisconsin, PPIC is licensed to write business for individuals, small and large group commercial, and Medicare SELECT. As of December 31, 2017, PPIC's audited statutory financial statement reported assets of $122.7 million, liabilities of $44.4 million, and capital and surplus of $78.3 million. Operations for 2017 produced a net loss of $9.9 million on revenues of $240.5 million.

Unity Health Plans Insurance Corporation

Unity is a for-profit HMO established for the purpose of delivering health care services to its subscribers. Unity is licensed to write business for individuals (including ACA), commercial small and large groups, and Medicare SELECT. As of December 31, 2017, the company's audited statutory financial statement reported assets of $171.1 million, liabilities of $110.5 million, and capital and surplus of $60.6 million. Operations for 2017 produced a net loss of $0.8 million on revenues of $958.3 million.

Agreements with Affiliates:

GHS, UHC, and UPH have an Exchange Agreement, effective April 6, 2017, which outlines various transactions that are to take place subsequent to the closing of the agreement. GHS, UHC, and UPH each own a certain number of shares of the common stocks of QHC and become members of GHP.

QHC has a Stockholders Agreement with GHS, UPH, and UHC, effective July 1, 2017, in connection to the Exchange Agreement which governs the affairs of QHC and outlines the rights and obligations of the "Owners." The agreement covers topics such as capital contributions and distributions including mandatory capital contributions to QHC in the event of a capital deficiency, restrictions on the transfers of equity interests, corporate governance, disputes, and other miscellaneous items.

GHP has a Members Agreement with GHS, UPH, and UHC, which was amended and restated effective July 1, 2017, in connection with the Exchange Agreement, in which GHS, UPH, and UHC are the only members of GHP. The agreement also covers topics such as capital contributions and distributions including mandatory capital contributions to GHP to meet the statutory minimum capital requirements, risk pools and service area expansion, corporate governance, disputes, and other miscellaneous items.

GHS, UHC, and UPH have Stock Transfer Power Agreements, effective April 6, 2017, in connection to the Exchange Agreement in which all three entities became the owners of the capital stock of QHC after the close of the transaction discussed in the Exchange Agreement.

PPIC and Unity have Interested Parties Agreements with QHC, GHS, UPH, and UHC, effective July 1, 2017, in connection to the Exchange Agreement, which governs the affairs of QHC and outlines the rights and obligations of the "Owners." The agreement covers topics such as capital contributions and distributions, including mandatory capital contributions to PPIC to meet the statutory minimum capital requirements, risk pools and service area expansion, corporate governance, disputes, and other miscellaneous items.

The company has a Management Agreement with QHS, effective July 1, 2017, in connection with the Exchange Agreement, which supersedes all prior management and administrative agreements between the company and its affiliates. Under the terms of the agreement, QHS is to provide management and administrative services to the company, which includes; but is not limited to, actuarial services, underwriting, human resource, legal, accounting, sales/marketing, claims management/settlement, employees, provider contracting, and network management. In return for the services provided, the company will pay to QHS an advance payment equal to 1/12th of the annual operating budget no later than the fifth day of each month. Within 30 days following the calendar-year end, QHS shall submit to the company a statement reflecting the actual costs of services that have been provided to the company for the year. Any under or overpayment shall be settled within five business days after reconciliation has been performed based on the statement submitted by QHS.

PPIC has an Employee Lease Agreement with QHS, effective July 1, 2017, until December 31, 2017, in connection to the Exchange Agreement in which PPIC leased all of its employees to QHS. QHS remitted payment to PPIC on a monthly basis for all expenses incurred related to the employment of the leased employees. All employees leased under this agreement are leased to other affiliates in the holding group as part of the Management Agreement between QHS and its affiliates. On January 1, 2018, all PPIC employees became QHS employees.

Unity has a Lease Agreement with QHS, effective January 1, 2017, in which Unity leases its real property located at 840 Carolina Street, Sauk City, Wisconsin, to QHS. QHS pays a minimum annual rent payment of $628,800 to Unity in equal monthly installments ($52,400 per month). Other costs associated with the real property such as real estate taxes, costs of repair and maintenance, insurance, and personal property taxes are paid by QHS as additional rent to the minimum rent.

Unity has a Trademark License Agreement with GHS, effective January 1, 2017, in which GHS grants Unity a royalty-free, non-exclusive license to use the names and trademarks of GHS to market, advertise, and promote certain health insurance plans as identified in the agreement.

GHP has a Management Agreement with GHP MN, effective January 1, 2017. Under the terms of the agreement, GHP provides management and administrative services to GHP MN, which includes; but is not limited to, actuarial services, underwriting, human resource, legal, accounting, sales/marketing, claims management/settlement, employees, provider contracting, and network management. In return for the services provided, the GHP provides GHP MN an invoice for the expenses no later than five business days following the end of each month. GHP MN pays the invoice within 10 business days following receipt of the invoice.

In addition to the agreements noted above, QHS holds provider agreements with UHC and GHS. QHS has a network access agreement with PPIC, Unity, GHP, and GHP MN to rent out the provider network. QHS also facilitates risk-sharing agreements with affiliated providers and GHP, Unity, and PPIC in which fixed fees and capitated rates are established to reduce the company's exposure to large claims but QHS does not take on any risk.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in-force at the time of the examination follows. The contracts contained proper insolvency provisions.

Ceding Contracts

1.	Reinsurer:	Zurich American Insurance Company
	Type:	Excess of Loss
	Effective date:	January 1, 2019
	Retention:	IL Medicare (non-dual) - $150,000
	Coverage:	90% of net losses in excess of the company's retention
	Termination:	The contract will terminate at the end of the contract period on December 31, 2019. Either party may elect to terminate the contract, in part or in whole prior to the expiration date by providing 30-days' notice to the other party. Any losses incurred on or after the termination date are not covered under the contract.
2.	Reinsurer:	Zurich American Insurance Company
	Type:	Excess of Loss
	Effective date:	January 1, 2019
	Retention:	Gundersen Risk Pool: Commercial - $1,250,000 Medicaid - $500,000 Medicare - $500,000 UW/Meriter Risk Pool: Commercial - $1,750,000 Medicaid - $575,000 Medicare - $500,000
	Coverage:	90% of net losses in excess of the company's retention
	Termination:	The contract will terminate at the end of the contract period on December 31, 2019. Either party may elect to terminate the contract, in part or in whole, prior to the expiration date by providing 30-days' notice to the other party. Any losses incurred on or after the termination date are not covered under the contract.
3.	Reinsurer:	Zurich American Insurance Company
	Type:	Excess of Loss
	Effective date:	January 1, 2019

	Retention:	IL Commercial - $1,500,000
	Coverage:	90% of net losses in excess of the company's retention
	Termination:	The contract will terminate at the end of the contract period on December 31, 2019. Either party may elect to terminate the contract, in part or in whole, prior to the expiration date by providing 30-days' notice to the other party. Any losses incurred on or after the termination date are not covered under the contract.
4.	Reinsurer:	Zurich American Insurance Company
	Type:	Excess of Loss
	Effective date:	January 1, 2019
	Retention:	IL Commercial POS - $100,000
	Coverage:	90% of net losses in excess of the company's retention
	Termination:	The contract will terminate at the end of the contract period on December 31, 2019. Either party may elect to terminate the contract, in part or in whole, prior to the expiration date by providing 30-days' notice to the other party. Any losses incurred on or after the termination date are not covered under the contract.

The reinsurance policies noted above have an endorsement containing the following insolvency provisions:

1. Zurich American Insurance Company will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.

2. Zurich American Insurance Company will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to plan by that member or on his behalf.

   Zurich American Insurance Company's maximum aggregate liability is limited to $5,000,000 for all members together, all contracts, and all agreement periods combined.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2017, 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 for the period under examination.

Gundersen Health Plan, Inc.
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 8,535,749	$	$ 8,535,749
Stocks:			
Common stocks	1,950,984		1,950,984
Cash, cash equivalents and short-term investments	14,476,244		14,476,244
Investment income due and accrued	40,872		40,872
Uncollected premiums and agents' balances in the course of collection	2,195,318	11,695	2,183,623
Accrued retrospective premiums and contracts subject to redetermination	1,982,466		1,982,466
Amounts recoverable from reinsurers	430,944		430,944
Amounts receivable relating to uninsured plans	520,549		520,549
Receivables from parent, subsidiaries and affiliates	4,232,152	347,173	3,884,979
Health care and other amounts receivable	2,562,346	652,875	1,909,471
Write-ins for other than invested assets:			
Prepaid expenses	69,334	69,334	
State income tax receivable	234,975		234,975
Total Assets	$37,231,933	$1,081,077	$36,150,856

Gundersen Health Plan, Inc.
Liabilities and Net Worth
As of December 31, 2017

Claims unpaid		$ 1,299,862
Unpaid claims adjustment expenses		596,072
Aggregate health policy reserves		8,405,928
Premiums received in advance		532,981
General expenses due or accrued		478,732
Amounts due to parent, subsidiaries and affiliates		1,363,647
Liability for amounts held under uninsured accident and health plans		1,397,927
Aggregate write-ins for other liabilities (including $(1) current)		277,177
Total Liabilities		14,352,326
Gross paid in and contributed surplus	$14,409,750	
Unassigned funds (surplus)	7,388,780	
Total capital and surplus		21,798,530
Total liabilities, capital and surplus		$36,150,856

Gundersen Health Plan, Inc.
Statement of Revenue and Expenses
For the Year 2017

Net premium income		$269,686,495
Medical and Hospital:		
Hospital/medical benefits	$185,489,740	
Outside referrals	14,701,779	
Emergency room and out-of-area	11,725,652	
Prescription drugs	18,695,494	
Aggregate write-ins for other medical and hospital	14,766,037	
Subtotal	245,378,702	
Less		
Net reinsurance recoveries	326,454	
Total medical and hospital	245,052,248	
Claims adjustment expenses	8,512,466	
General administrative expenses	20,627,473	
Increase in reserves for life and accident and health contracts	(3,382,155)	
Total underwriting deductions		270,810,032
Net underwriting gain or (loss)		(1,123,537)
Net investment gains or (losses)		287,363
Net Income (Loss)		$ (836,174)

Gundersen Health Plan, Inc.
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2017

	2017	2016	2015	2014	2013
Capital and surplus, beginning of year	$20,793,968	$16,050,155	$22,069,743	$19,814,128	$18,453,735
Net income (loss)	(836,174)	(5,703,914)	(4,472,685)	2,311,718	1,539,037
Change in net unrealized capital gains/losses	(145,365)	187,128	(856,654)	64,290	(48,433)
Change in nonadmitted assets	491,351	(92,883)	(690,249)	(120,393)	(130,211)
Surplus adjustments:					
Paid in	1,494,750	11,790,000			
Write-ins for gains and (losses) in surplus:					
Corr.of error prev. filed		(1,436,518)			
Surplus, end of year	$21,798,530	$20,793,968	$16,050,155	$22,069,743	$19,814,128

Gundersen Health Plan, Inc.
Statement of Cash Flow
For the Year 2017

Premiums collected net of reinsurance		$265,594,985
Net investment income		298,032
Total		265,893,017
Less:		
Benefit and loss-related payments	$247,816,561	
Commissions, expenses paid, and aggregate write-ins for deductions	29,228,133	
Total		277,044,694
Net cash from operations		(11,151,677)
Total investment proceeds	5,400,000	
Cost of investments acquired—long-term only:		
Total investments acquired	2,510,469	
Net cash from investments		2,889,531
Cash provided/applied:		
Capital and paid-in surplus, less treasury stock	1,494,750	
Other cash provided (applied)	(2,384,583)	
Net cash from financing and miscellaneous sources		(889,833)
Net change in cash, cash equivalents, and short-term investments		(9,151,979)
Cash, cash equivalents, and short-term investments:		
Beginning of year		23,628,223
End of year		$ 14,476,244

Growth of Gundersen Health Plan, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2017	$36,150,856	$14,352,326	$21,798,530	$269,686,495	$245,052,248	$ (836,174)
2016	47,307,164	26,513,196	20,793,968	301,410,511	273,053,880	(5,703,914)
2015	38,934,494	22,884,339	16,050,155	297,422,033	278,384,735	(4,472,685)
2014	39,697,258	17,627,515	22,069,743	295,525,932	271,848,166	2,311,718
2013	35,172,854	15,358,726	19,814,128	283,939,949	265,558,515	1,539,037
2012	27,966,632	9,512,897	18,453,735	280,401,325	262,281,700	1,718,798

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2017	-0.3%	89.6%	10.8%	-19.6%
2016	-1.9	92.5	9.5	-2.0
2015	-1.7	93.8	8.0	-0.9
2014	0.8	92.0	7.2	5.6
2013	0.5	93.5	6.0	-0.6
2012	0.6	93.5	5.9	2.1

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2017	45,916	714.39	6.1
2016	57,129	558.10	5.7
2015	58,275	597.44	5.4
2014	58,798	608.91	5.9
2013	55,683	565.23	5.6
2012	56,042	629.74	5.7

Per Member Per Month Information

	2017	2016	Percentage Change
Premiums:			
Commercial	$488.43	$449.56	8.7%
Medicare	791.46	779.00	1.6
Medicare Supplement	149.23	147.72	1.0
Medicaid	156.13	149.40	4.5
Net premium income	455.12	439.11	3.7
Expenses:			
Hospital/medical benefits	313.03	308.96	1.3
Outside referrals	24.81	23.30	6.5
Emergency room and out-of-area	19.79	19.63	0.8
Prescription drugs	31.55	23.15	36.3
Other medical and hospital	24.92	28.06	-11.2
Less: net reinsurance recoveries	0.55	5.31	-89.6
Total medical and hospital	413.54	397.80	4.0
Claims adjustment expenses	14.37	15.95	-9.9
General administrative expenses	34.81	25.57	36.1
Increase in reserves for accident and health contracts	(5.71)	8.42	-167.8
Total underwriting deductions	$457.01	$447.74	2.1

During the examination period, the company's total admitted assets increased by 2.8% from $35.2 million in 2013 to $36.2 million in 2017, and total liabilities decreased by 6.6% from $15.4 million in 2013 to 14.4 million in 2017, and surplus increased by 10.0% from $19.8 million in 2013 to $21.8 million in 2017. The company incurred consecutive net losses in three of the most current years under examination (2015-2017) while the prior two years (2013-2014) had favorable results that produced net incomes for the company. As shown above, the company's enrollment trend was fairly consistent from 2012 through 2016; however, enrollment experienced a significant drop going into 2017. The decline was the result of the company transferring its commercial business to Unity subsequent to their affiliation in 2017 as part of their plan to consolidate business within the holding company group. More consolidation is expected, therefore further enrollment changes are expected in subsequent years.

During 2017, the company reported a net loss of $0.8 million. The loss was driven by an increase in medical and hospital expenses due to higher Medicare Part D expenses, a premium deficiency reserve for anticipated losses in 2018 and 2019 plan years, an increase in administrative expenses due to integration costs related to the GHP/Unity/PPIC transaction, and market costs. Losses incurred during 2016 were driven by similar factors as those in 2017. As for 2015 losses, the primary drivers appear to have been related to the ACA Risk Corridor (RC) and Risk Adjustment (RA) programs. Due to the shortfall in CMS funding, the company's RC payments received for the plan year 2014 were short by $1.9 million and its receivables for the plan year 2015 of $6.9 million were non-admitted. For RA, the company paid a total of $7.5 million to CMS of which $1.7 million was related to plan the year 2014 and $5.8 million was related to the plan year 2015. As a result, the company had a negative adjustment to its premiums, which significantly impacted the company and resulted in the loss. Over the course of the examination period, GHS has provided the necessary funding to the company to meet the required statutory surplus levels.

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: $750,000, if organized on or after July 1, 1989 or $200,000, if organized prior to July 1, 1989
2.	Compulsory surplus	The greater of $750,000 or: If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months; 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: 140% of compulsory surplus reduced by 1% of compulsory surplus for each $33 million of additional premiums earned in excess of $10 million or 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, 2017, is as follows:

Assets		$36,150,856
Less:		
Insurance subsidiary security surplus		1,050,000
Special deposit		1,500,000
Liabilities		14,352,326
Assets available to satisfy surplus requirements		19,248,530
Net premium earned		
HMO business	$269,683,881	
Factor	3%	
Total	8,090,516	
Incidental indemnity	2,614	
Factor	10%	
Total	261	
Compulsory surplus		8,090,777
Compulsory surplus excess (deficit)		$11,157,753
Assets available to satisfy surplus requirements		$19,248,530
Compulsory surplus		$8,090,777
Security factor		133%
Security surplus		10,760,733
Security surplus excess (deficit)		$ 8,487,797

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 company has satisfied this requirement for 2017 with a deposit of $1,500,000 with the State Treasurer.

Reconciliation of Capital and Surplus per Examination

No exam adjustment or reclassification resulted from the examination. The capital and surplus reported at December 31, 2017, of $21,798,530 is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Business Continuity Plan Testing—It is recommended that the company test its business continuity plan on an annual basis.

   Action—Compliance.

2. Investments—It is recommended that certificates of deposit with maturity dates of less than one year be classified as cash per SSAP No. 2, par. 10.

   Action—Compliance.

3. Investments—It is recommended that the company report the acquisition dates of investments as of their trade date in accordance with SSAP No. 26, par. 4.

   Action—Compliance.

4. Investment—It is recommended that the company complete the Schedule D and DA investment schedules in accordance with the NAIC Annual Statement Instructions.

   Action—Compliance.

5. Investments—It is recommended that the company either limit investments in accordance with s. 620.23 (2) (b), Wis. Stat., or deduct unauthorized investments from its compulsory surplus calculations.

   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.

Affiliated Transaction Disclosures

Review of the company’s Annual Statement, Notes to the Financial Statements, and Footnote #10 noted that the company appears to have failed to properly disclose the capital contributions received from its parent entities during the examination period. In addition, the company failed to properly disclose the transactions in its Holding Company Registration Forms B & C, Item 5, (e) – Transactions and Agreements as required under s. Ins 40.03 (3) (c) (3), Wis. Adm. It is recommended that the company properly disclose its material affiliated transactions in accordance with the NAIC Health Blank Instructions and s. Ins 40.03 (3) (c) 3, Wis. Adm.

Business Continuity Plan

As the company increases its reliance on third-party service providers, it is critical that the company assess the potential impact of business disruption from its third-party service providers and develop a back-up plan to alleviate this exposure as part of the company’s business continuity plan. It is recommended that the company include critical third-party operations in its business impact analysis and risk assessment for its business continuity plan.

Other Information Technology Recommendations

The examination noted other areas where IT controls could be further strengthened, which were presented in a letter to management dated March 1, 2019. It is recommended that the company strengthen its IT control environment as specifically described in the management letter dated March 1, 2019.

VIII. CONCLUSION

GHP is a not-for-profit network model health maintenance organization (HMO) insurer operating in the states of Wisconsin and Iowa. The company is licensed to write business for small and large group commercial, Medicare, Medicaid, and individual. The company has risk-sharing agreements with the providers through QHS, which transfers a substantial portion of the risk to the providers with the company retaining little to no risks in its product offerings.

At the end of 2017, the company reported total net assets of $36.2 million, total liabilities of $14.4 million, and total capital and surplus of $21.8 million. Adjusted capital and surplus of $19.2 million satisfied the compulsory and security surplus requirement at year-end 2017. The company also satisfied the special deposit requirement with the State of Wisconsin with a $1.5 million deposit with the State Treasurer.

From 2015 through 2017, the company incurred net losses. The losses incurred during 2015 were due to write-offs associated with the ACA Risk Corridor and Risk Adjustment programs. Losses in 2016 and 2017 were related to higher Medicare Part D expenses, a PDR for anticipated losses in subsequent plan years, increases in administrative expenses due to integration costs related to the GHP/Unity/PPIC transaction, and market costs. The losses were offset by capital infusions from the parent entities to keep the company above the statutory minimum surplus requirement. In addition, under the terms of the Members Agreement, the parent entities shown in Section IV of the exam report are obligated to provide mandatory funding to the company should it fall below the statutory minimum surplus requirement.

The prior examination resulted in five recommendations, all of which have been complied with. The current examination resulted in three recommendations, which are outlined in Section IX below.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - <u>Affiliated Transaction Disclosures</u>—It is recommended that the company properly disclose its material affiliated transactions in accordance with the NAIC Health Blank Instructions and s. Ins 40.03 (3) (c) 3, Wis. Adm.

2. Page 29 - <u>Business Continuity Plan</u>—It is recommended that the company include critical third-party operations in its business impact analysis and risk assessment for its business continuity plan.

3. Page 29 - <u>Other Recommendations</u>—It is recommended that the company strengthen its IT control environment as specifically described in the management letter dated March 1, 2019.

X. ACKNOWLEDGMENT

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

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

Name	Title
James Krueger	Insurance Financial Examiner
Mark Prodoehl	Insurance Financial Examiner
Sheng Vang	Insurance Financial Examiner
Jerry DeArmond, CFE	Loss Reserve Specialist
Eleanor Lu	IT Specialist
Karl Albert, CFE	Workpaper Specialist
Robert McLaughlin, CFE	ACL Specialist

Respectfully submitted,

Kongmeng Yang
Examiner-in-Charge