Report of the Examination of

The Medical Associates Clinic Health Plan of Wisconsin

Dubuque, Iowa

As of December 31, 2019

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November 9, 2020

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:

THE MEDICAL ASSOCIATES CLINIC HEALTH PLAN OF WISCONSIN
Dubuque, Iowa

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of The Medical Associates Clinic Health Plan of Wisconsin (MACHP or the company) was conducted in 2017 as of December 31, 2016. The current examination covered the intervening period ending December 31, 2019, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Medical Associates Health Plan, Inc. The Iowa Insurance Division acted in the capacity as the lead state for the coordinated examinations. Work performed by the Iowa Insurance Division was reviewed and relied on where deemed appropriate.

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 concerning the alternative or additional examination steps performed during the examination.

II. HISTORY AND PLAN OF OPERATION

The Medical Associates Clinic Health Plan of Wisconsin is described as a nonprofit group 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 group model, the company contracts with a sponsoring clinic to provide primary and specialist services.

The company was incorporated on October 25, 1983, and commenced business on January 1, 1985. The company is controlled by Medical Associates Clinic, P.C. (the Clinic), an Iowa Professional Corporation which is the company's sponsoring clinic and founder.

MACHP contracts with the Medical Associates Clinic, P.C., to provide primary and specialty health care services to its members. These services are provided to the company's members through physicians affiliated with the Clinic. The Clinic, in turn, contracts with participating providers (hospitals, clinics, and other participating providers) for services not available through the Clinic and to ensure provider access in other parts of MACHP's service area. As compensation for these services, the company pays the Clinic a percentage of the premium it receives, which effectively transfers most of the risk to the Clinic. Further details of this agreement are discussed in the "Affiliated Companies" section of this report. In addition, the Clinic currently contracts with 55 participating clinics and hospitals to provide medical and hospital services to enrollees of MACHP.

The provider contracts include hold-harmless and insolvency provisions for the protection of the policyholders. After the initial term, the contracts are automatically renewable for successive terms of one year unless terminated. The contracts may be terminated without cause upon 90 days' prior notice or with cause upon 30 to 60 days' prior written notice.

The Clinic's provider network consists of 651 participating physicians who provide primary care and specialty care on a 24-hour basis. Members may go to any physician on the provider list, including specialists. If the member must see a physician outside of the company's network, an

authorized referral is needed. In many instances, the referring physician will obtain the referral for the subscriber. However, it is the subscriber's responsibility to ensure that a referral is obtained.

The Clinic has a total of 17 participating hospitals and healthcare facilities that provide inpatient services to MACHP enrollees. Hospitals are typically reimbursed on a discounted fee-for-service basis. See **Exhibit A** for the list of participating hospitals and health care facilities.

According to its business plan, the company's service area is comprised of the following counties: Crawford, Grant, Iowa, and Lafayette.

The company offers comprehensive health care coverage which may be changed by riders to include deductibles and copayments. The following basic health care coverages are provided:

Physician services
Inpatient services
Outpatient services
Mental 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--various copayments
Cardiac rehabilitation, physical, speech, and/or occupational therapy
Physical fitness or health education
Kidney disease treatment
Certain transplants
Chiropractic services

The company requires policyholders to obtain prior approval to receive residential, intensive outpatient, partial hospitalization and detoxification mental health and substance abuse services, and durable medical equipment, prosthetic appliances, and artificial limb purchases or rentals that exceed $500. Medication management services do not require prior approval with an in-network provider. On some of the company's health plans, emergency services have a copayment, which is waived upon admission into an inpatient facility. For the company's large group health plans, skilled nursing care is limited to 100 days per confinement. Coverage is contingent on nonemergency services being provided by in-network physicians and hospitals or on the referral of in-network physicians. Inpatient services

could either be subject to copayments, coinsurance or deductibles, depending on the specific benefit plan. Each benefit plan is subject to various out-of-pocket maximums.

The company currently markets to groups for non-Medicare coverage and to individuals for coverage under its Medicare Cost contract. The company uses internal sales staff and outside agencies and pays a commission on new and renewal business. Outside agent commission payments for new and renewal business are as follows:

Commercial Groups

Small Groups (1-50): $33 per contract per month for new and renewal business.
Large Groups (over 51): Negotiated for each group on a per contract per month basis at group's initial or renewal date.

Medicare

Commissions are paid monthly based on the enrollment as of the date of program execution. The enrollment payments include the current month enrollment and any retro terminations or additions. Any commissions paid on previous month's commission statements for a group that retro terms for any reason, will be returned to MACHP if subsequent commissions do not cover the deficit. Failure to return these funds will result in termination of broker relationships. All commission payments are made via electronic funds transfer.

The company uses an actuarially determined base rate as a beginning point in premium determination. This rate is adjusted to reflect the coverage characteristics for new groups. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate. The base rate is adjusted quarterly for inflation and other trending factors.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. Directors are elected annually to serve for three years, and each director is limited to a maximum of four terms or 12 years. The 12-year limitation became effective in 2016 at the annual board of directors meeting. The board members currently receive $300 per meeting for serving on the board, except the chairperson who is paid $5,000 annually or $416.67 on monthly payroll.

The officers are appointed by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the holding company system.

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

Name and Residence	Principal Occupation	Term Expires
Mark James, M.D. Dubuque, Iowa	Vice Chairman – Physician Medical Associates Clinic, P.C.	2021
John O'Connor Dubuque, Iowa	Attorney, CPA O'Connor Thomas Law Firm	2021
Andrea Ries, M.D. Dubuque, Iowa	Chairman – Physician Medical Associates Clinic, P.C.	2021
Laurie Garms, M.D. Dubuque, Iowa	Physician Medical Associates Clinic, P.C	2023
Sarah Loetscher, M.D. Dubuque, Iowa	Physician Medical Associates Clinic, P.C.	2023
Jeffrey White, M.D. Dubuque, Iowa	Physician Medical Associates Clinic, P.C.	2023
Brad McClimon, M.D. Dubuque, Iowa	Physician Medical Associates Clinic, P.C.	2021

The by-laws require that the majority of the members of the board of directors are physicians employed by Medical Associates Clinic Professional Corp. (the Clinic/Parent), or its designees. The composition of the board of directors and officers is the same throughout the entire holding company system (the Clinic and its subsidiaries). All executive compensation is paid by the Clinic and allocated through an administrative agreement.

Officers of the Company

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

Name	Office
Andrea Ries, M.D.	Chairman
Mark Janes, M.D.	Vice Chairman
Brad McClimon	Treasurer
John Tallent	Chief Executive Officer
Zach Keeling	Chief Operating Officer and Secretary
Jeff Gonner	Chief Financial Officer and Treasurer
Dale Dreiling	Chief Medical Officer

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
Andrea Ries, M.D., Chair
Mark Janes, M.D., Vice Chairman
Brad McClimon, M.D.

Audit Committee
Laurie Garms, M.D., Chair
Sarah Loetscher, M.D.
Rick Colpitts – resigned in 2019, replaced by Lawrence Kukla in 2020

Investment Committee
Mark Janes, M.D., Chair
Brad McClimon, M.D.
Andrea Ries, M.D.

Governance Committee
Brad McClimon, M.D., Chair
Andrea Ries, M.D.
Jan Hess – resigned in 2019, replaced by Mark Janes, M.D. in 2020

The company has no employees. Necessary staff is provided to the company and its Iowa-domiciled affiliate Medical Associates Health Plan, Inc. through an administrative agreement with the Clinic effective January 1, 2012. Under this agreement, the Chief Operating Officer of the company, with concurrence of the board of directors, shall establish the yearly budget setting forth the personnel required to staff the company. The personnel under this agreement will provide maintenance of accounting and financial records, recruiting, marketing, utilization review, claims processing, member services, and information technology services. The Clinic receives 135% of the combined compensation or percentage of base salary attributable to all persons assigned to MACHP, which approximately covers employee benefits and payroll taxes in addition to salary. The detail of this agreement is discussed in the “Affiliated Companies” section of this report. The agreement is continuous and may be terminated by any party upon 60 days' prior written notice.

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

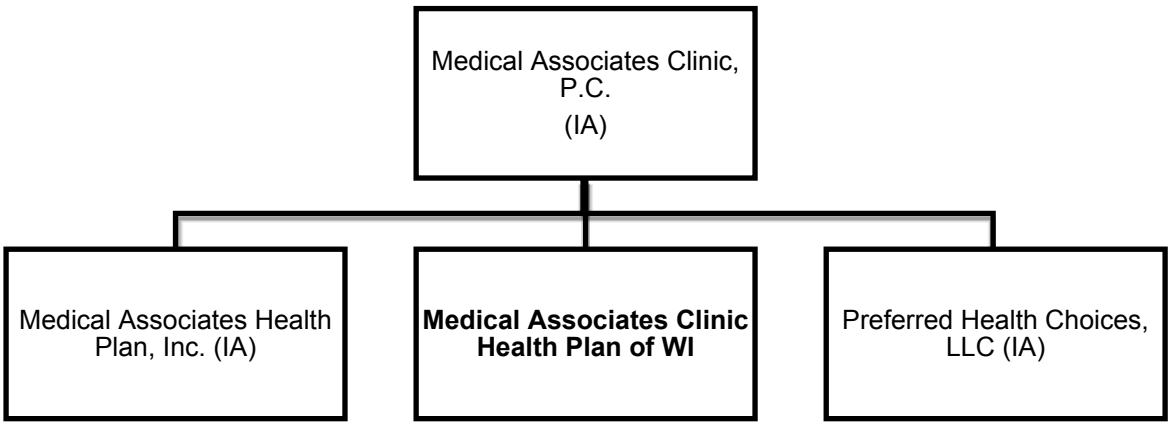
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

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 under Medical Associates Clinic, P.C. as the ultimate parent. 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, 2019



Medical Associates Clinic, P.C.

Medical Associates Clinic, P.C. (the Clinic or Parent), is an Iowa professional service corporation operating as a private multi-specialty and family practice medical group. As of December 31, 2019, the Clinic's audited consolidated financial statement reported assets of $126,521,794, liabilities of $87,050,214, and equity of $39,471,580. Operations for 2019 produced net income of $280,613 on revenues of $252,260,450.

Medical Associates Health Plan, Inc.

Medical Associates Health Plan, Inc. (MAHP) is an Iowa corporation organized as a for-profit company for the purpose of providing comprehensive health care services to subscribers on a prepaid basis. As of December 31, 2019, MAHP's audited financial statement reported assets of $40,479,058, liabilities of $18,725,363, and capital and surplus of $21,753,695. Operations for 2019 produced net income of $453,034 on revenues of $89,921,031.

Preferred Health Choices, LLP

Preferred Health Choices, LLP (Health Choices) is a third-party administrator (TPA) established to administer medical, dental and short-term disability claims, COBRA, and flexible spending for self-funded clients. As of December 31, 2019, the Health Choices audited financial statement reported assets of $1,886,001, liabilities of $1,218,166, and members' equity of $667,835. Operations for 2019 produced net income of $41,236 on revenues of $1,158,968.

MAHP arranges for the staff necessary to carry out the functions of the TPA. Expenses that are directly related to Health Choices or its programs are charged directly to Health Choices. All other costs are allocated based on the ratio of persons covered by the plans administered by Health Choices to the total number of persons enrolled by MAHP and Health Choices. Settlement of these expenses is to be on a monthly basis. MAHP participates with the company and Health Choices in sharing indirect administrative costs. Costs not directly attributable to an entity are charged to each based on agreed-upon cost allocation ratios.

Affiliated Agreements

Below is a summary of affiliated agreements in effect at the time of the examination.

Administrative Agreement – HMOs and the Clinic

Medical Associates Health Plan, Inc. (MAHP) and Medical Associates Clinic Health Plan of Wisconsin (MACHP), both doing business as HMOs, have a joint agreement with the Clinic. Under the agreement, the Clinic provides all personnel required for the effective operations of the HMOs. The Executive Director of both HMOs, with the concurrence of both HMOs' Board of Directors, shall establish a yearly budget setting forth the personnel required to staff the HMOs. If the Executive Director identifies additional personnel needs, the Clinic will take prompt action to fill necessary positions.

As compensation for these services, MACHP shall pay to the Clinic, within 60 days following the last day of each month, a sum equal to 135% of the combined base compensation or percentage of base salary assigned to the HMOs, as well as a specified percentage of the salaries of key positions that have significant portions of their time attributable to HMO business (i.e., Chief Executive Officer, Chief Financial Officer, Chief Human Resources Officer, Medical Director, IT Director, etc.). This agreement became effective on January 1, 2012, and terminated the prior agreement effective December 31, 2011.

The agreement is continuous after the effective date and may be terminated by either party upon 60 days' prior written notice to the other.

Cost Allocation Agreement – MACHP and MAHP

MACHP and MAHP are both staffed by the same personnel employed by the Clinic and share common administrative costs pursuant to the administrative services agreement between the Clinic and HMOs, as previously noted. The purpose of this agreement is to equitably allocate these common administrative costs, as well as shared facilities and overhead costs between the two HMOs. The agreement allocates these shared costs between the two HMOs based on the percentage of gross premium revenue of each plan to the total combined gross premium revenue for each month. The agreement became effective on August 1, 1996, and is continuous unless terminated by either party upon 60 days' prior written notice to the other.

The agreement has no settlement date.

Service Agreement (Capitation) – MACHP and the Clinic

MACHP has a service agreement with the Clinic whereby the Clinic provides or arranges for all authorized medical services to the company's enrollees through Clinic physicians and other contracted participating providers. As compensation for these services, the company pays the Clinic a percentage of the monthly premium it receives from employer groups, individuals, and the Centers for Medicare & Medicaid Services (CMS). The percentage of premium is calculated annually, based on the prior year's actual claims experience with anticipated medical trend and projected premiums. The percentage of premiums may be adjusted quarterly if the claims experience varies by more than 5% of estimated claims experience on a PMPM basis. The agreement became effective on January 1, 2016. This agreement remains in continuous effect without interruption from the effective date, unless terminated on any anniversary date of the contract year by either party, provided that a written notice is given to the other party at least 90 days in advance of such anniversary date.

The agreement has no settlement date.

CMS Over/Underpayment Agreement – MACHP and the Clinic

MACHP has entered into an agreement with the Clinic effective July 15, 1988, whereby the Clinic provides hospital and medical services to enrollees of MACHP and that MACHP administers the

program of the Health Care Financing Authority (HCFA), now known as Centers for Medicare & Medicaid Services (CMS). CMS pays for the medical care and treatment of patients under the Medicare program based upon actual costs relating to such medical care and treatment. It is not always possible or certain when the payments made by CMS are in excess or are less than the actual cost of such medical care and treatment. In order to effectively administer the program, both MACHP and the Clinic agreed the following:

1. In the event that CMS has made excess payments to the company for medical and hospital services provided by the Clinic to the company's Medicare enrollees, the Clinic agrees to reimburse CMS for any excess payments and to indemnify and hold the company harmless for any excess payments.

2. In the event that CMS has underpaid the company for medical and hospital services provided by the Clinic to the company's Medicare enrollees, that any such underpayments will, if paid by CMS to the company, the company will promptly reimburse the Clinic of underpayments.

The agreement has no termination clause and no settlement date. Also, the company did not update the new name for HCFA which is CMS.

V. 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, 2019 through January 1, 2020
Retention:	$400,000 per covered person per agreement
Coverage:	Covered expenses incurred from January 1, 2019 to January 1, 2020; Covered expenses incurred from January 1, 2019 to July 1, 2020; 90% reimbursement if complete claim is received by October 1, 2020; 50% reimbursement if complete claim is not received by October 1, 2020.
Termination:	This agreement terminates at the end of January 1, 2020, unless terminated sooner as otherwise provided in Article IX of this agreement. The reinsurer has the right to terminate this agreement by giving written notice by registered mail to the reinsured and the Wisconsin State Commissioner of Insurance, when required by state law, that sets forth the date of such termination but not sooner than 60 days after receipt of such notice.

The reinsurance policy has an endorsement containing the following insolvency provisions, subject to a maximum aggregate continuation limit of $5,000,000:

1. Reinsurer will continue plan benefits for members who are confined in a hospital on the date of insolvency until the earlier of the covered person's discharge from the hospital or the date the covered person becomes eligible for health insurance coverage or benefits under another group or blanket policy or plan or any federal, state or local government plan or program.

2. Reinsurer will continue plan benefits for any member insured until the end of the contract period for which premiums have been paid to the plan by that member or on his behalf, but in no event shall extend beyond the end of the calendar month in which the insolvency date occurs as long as such expenses are payable to such covered person.

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, 2019, 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.

Medical Associates Clinic Health Plan of Wisconsin
Assets
As of December 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$2,156,491	$ 0	$2,156,491
Stocks:			
Common stocks	351,221		351,221
Cash, cash equivalents and short-term investments	1,176,115		1,176,115
Investment income due and accrued	28,871		28,871
Uncollected premiums and agents' balances in the course of collection	42,185		42,185
Accrued retrospective premiums and contracts subject to redetermination	26,889		26,889
Amounts receivable relating to uninsured plans	638,000		638,000
Write-ins for other than invested assets:			
Other nonadmitted assets	1,546	1,546	
Total Assets	$4,421,318	$1,546	$4,419,772

Medical Associates Clinic Health Plan of Wisconsin
Liabilities and Net Worth
As of December 31, 2019

Premiums received in advance	$ 237,067
General expenses due or accrued	5,284
Amounts due to parent, subsidiaries, and affiliates	654,934
Liability for amounts held under uninsured accident and health plans	156,238
Aggregate write-ins for other liabilities (including $0 current)	9,200
Total Liabilities	1,062,723
Unassigned funds (surplus)	3,357,049
Total Liabilities, Capital and Surplus	$4,419,772

Medical Associates Clinic Health Plan of Wisconsin
Statement of Revenue and Expenses
For the Year 2019

Net premium income		$23,944,097
Fee-for-service (net of $13,679,707 medical expenses)		405,227
Total revenues		24,349,324
Medical and Hospital:		
Hospital/medical benefits	$20,800,179	
Prescription drugs	771,770	
Total medical and hospital	21,571,949	
Claims adjustment expenses	781,331	
General administrative expenses	1,971,089	
Total underwriting deductions		24,324,369
Net underwriting gain or (loss)		24,955
Net investment income earned	86,817	
Net realized capital gains or (losses)	4,480	
Net investment gains or (losses)		91,297
Net gain or (loss) from agents' or premium balances charged off		(6,027)
Aggregate write-ins for other income or expenses		9,766
Net Income (Loss)		$ 119,991

Medical Associates Clinic Health Plan of Wisconsin
Capital and Surplus Account
For the Three-Year Period Ending December 31, 2019

	2019	2018	2017
Capital and surplus, beginning of year	$3,173,129	$2,871,833	$2,697,335
Net income (loss)	119,991	265,664	137,097
Change in net unrealized capital gains/losses	64,439	(19,435)	41,424
Change in nonadmitted assets	(510)	55,067	(4,023)
Capital and Surplus, End of Year	$3,357,049	$3,173,129	$2,871,833

Medical Associates Clinic Health Plan of Wisconsin
Statement of Cash Flow
For the Year 2019

Premiums collected net of reinsurance			$23,987,941
Net investment income			96,067
Miscellaneous income			405,227
Total			24,489,235
Less:			
Benefit- and loss-related payments		$21,571,949	
Commissions, expenses paid and aggregate write-ins for deductions		1,482,976	
Total			23,054,925
Net cash from operations			1,434,310
Proceeds from Investments Sold, Matured or prepaid:			
Bonds	$366,020		
Stocks	56,994		
Miscellaneous proceeds	1		
Total investment proceeds		423,015	
Cost of Investments Acquired—Long-term Only:			
Bonds	447,911		
Stocks	59,302		
Total investments acquired		507,213	
Net cash from investments			(84,198)
Cash Provided/Applied:			
Other cash provided (applied)			(1,246,515)
Net Change in Cash, Cash Equivalents, and Short-Term Investments			103,597
Cash, cash equivalents, and short-term investments:			
Beginning of year			1,072,519
End of Year			$ 1,176,116

Growth of Growth of Medical Associates Clinic Health Plan of Wisconsin

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2019	$4,419,772	$1,062,723	$3,357,049	$23,944,097	$21,571,949	$119,991
2018	5,382,457	2,209,328	3,173,129	25,548,660	23,099,007	265,664
2017	4,183,122	1,311,289	2,871,833	25,084,416	22,327,454	137,097
2016	3,183,835	486,500	2,697,335	25,093,480	22,534,918	103,802

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2019	0.5%	90.1%	8.2%	-4.4%
2018	1.0	90.4	7.9	2.8
2017	0.5	89.0	8.6	1.1
2016	0.4	89.8	8.7	-2.6

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2019	7,474	883	6.3
2018	7,814	891	6.1
2017	7,456	1,073	6.9
2016	7,258	1,107	7.1

Per Member Per Month Information

	2019	2018	Percentage Change
Premiums:			
Commercial	$411.54	$401.65	2.5%
Medicare	126.84	124.13	2.2
Composite	271.53	277.08	2.4
Expenses:			
Hospital/medical benefits	233.83	233.32	0.2
Prescription drugs	8.68	14.98	-42.1
Total medical and hospital	242.51	248.29	-2.3
Claims adjustment expenses	8.78	8.53	2.9
General administrative expenses	22.16	21.66	2.3
Total underwriting deductions	$273.45	$278.49	-1.8

Surplus has been increasing, primarily due to favorable results of operation. The largest increase was 10% in 2018 due to net income of $265,664, which had increased by 94% compared with 2017. It was the largest single-year increase over the last five years. The increase in net income was primarily due to increase in premiums partly offset by an increase in medical expenses. Premiums

increased by $464,244 in 2018 compared with 2017 mainly due to slight increase in membership and premium rates. The increase in membership was split evenly between Medicare and Commercial lines.

In 2019, enrollment decreased 4.4% primarily due to loss of one large commercial group. The decrease in enrollment resulted to decrease in premiums by 6%, which in turn resulted in a 55% decrease in net income. Premiums per member per month increased 2.4% in both Commercial and Medicare membership. This partly offset the loss of the one large commercial group.

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, 2019, as modified for examination adjustments is as follows:

Assets			$4,419,772
Less:			
Special deposit			280,000
Liabilities			1,062,723
Investments in excess of maximum allowable by Ch. 620, Wis. Stat.			0
Examination adjustments			0
Assets available to satisfy surplus requirements			3,077,049
Net premium earned			
HMO business	23,944,097		
Factor	3%		
Total		718,322	
Compulsory surplus			750,000
Compulsory Surplus Excess (Deficit)			$2,327,049
Assets available to satisfy surplus requirements			$3,077,049

Compulsory surplus	$750,000
Security factor	140%
Security surplus	1,050,000
Security Surplus Excess (Deficit)	$2,027,049

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 2019 with a deposit of $280,000 with the state treasurer.

Reconciliation of Capital and Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2019, is accepted

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four 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. Affiliated Agreements-Settlement Terms—It is recommended that the company amend its affiliated agreements to include a specific due date for timely settlement of amounts owed in accordance with SSAP No. 25.

   Action— Noncompliance, see comments in the "Summary of Current Examination Results."

2. Custodial Agreements—It is recommended that the company either amend its current custodial agreements or enter into new agreements to include specific language prescribed in the NAIC Financial Condition Examiners Handbook.

   Action— Noncompliance, see comments in the "Summary of Current Examination Results."

3. Netting of Affiliated Balances—It is recommended that the company comply with SSAP No. 64 by not netting affiliated receivables with affiliated payables on their financial statements.

   Action—Compliance.

4. Reinsurance Intermediary Agreement—It is recommended that the company secure a contract with or provide a written authorization to its reinsurance intermediary that includes the provisions required by s. Ins 47.03, Wis. Adm. Code.

   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 Transactions

The prior examination reviewed agreements between MACHP, MAHP, and the Clinic, for compliance to NAIC Statement of Statutory Accounting Principles (SSAP) No. 25 - Affiliates and Other Related Parties. The agreements covered administrative services, cost-sharing agreements for administration expenses and cost allocation of expenses between MACHP and MAHP. Some of the agreements with affiliates do not include terms to provide for timely settlement of amounts owed, with specified due dates. SSAP No. 25 (7) requires that "transactions between related parties must be in the form of a written agreement that provides for timely settlement of amounts owed, with a specified due date."

Current review of the affiliated agreements disclosed that there were neither amendments of the agreements nor new agreements subsequent to the prior examination. Following are the agreements and corresponding deficiencies:

1. Cost Allocation Agreement between MACHP and MAHP effective August 1, 1996. The agreement has no settlement date.

2. Service Agreement (Capitation) between MACHP and the Clinic effective January 1, 2016. The agreement has no settlement date.

3. CMS Over/Under Payment Agreement between MACHP and the Clinic effective July 15, 1988. The agreement has no termination clause and no settlement date. Also, the company did not update the new name for Health Care Financing Authority which is now known as the Centers for Medicare & Medicaid Services.

It is again recommended that the company amend its affiliated agreements to include a specific due date for timely settlement of amounts owed in accordance with NAIC SSAP No. 25.

It is recommended that the company amend its agreement with the Clinic in regard to CMS over/under payment to include settlement date, termination clause, and to change Health Care Financing Authority to its current name as Centers for Medicare & Medicaid Services in the contract.

Custodial Agreements

The prior examination reviewed the custodial agreements of two investment custodians for the company's common stocks and bonds in order to verify that applicable statutory requirements and guidelines for custodial agreements contained in the NAIC Financial Condition Examiners Handbook were met.

During the current examination, the company provided a copy of Custodial Agreement with Bell Bank dated January 2, 2018, for assets transferred to a "Custody Account." This was an amended agreement in compliance with the prior examination recommendation. Based on the review, the amended agreement contains the specific language prescribed in the NAIC Financial Condition Examiners Handbook.

The company also provided a copy of Management Advisory Agreement with Dubuque Bank & Trust Co. (DBTC) dated January 19, 2007 for assets delivered to DBTC and held for investment. Under this agreement, DBTC (as agent) makes purchases, sales and deliveries, and otherwise deals with such property as MACHP instructs or directs in writing. DBTC is authorized to collect the dividends, interest, and other income on the securities and other property held in the account. This was the same agreement reviewed in the prior examination and was found not in compliance with NAIC guidelines. The company did not provide an amended copy of the agreement or provide a new agreement with DBTC to include specific language prescribed in the NAIC Financial Condition Examiners Handbook. It is again recommended that the company either amend its current custodial agreement or enter into a new agreement to include specific language prescribed in the NAIC Financial Condition Examiners Handbook.

VIII. CONCLUSION

The Medical Associates Clinic Health Plan of Wisconsin is a nonprofit group model HMO insurer that was incorporated on October 25, 1983 and commenced business on January 1, 1985. The company is controlled by Medical Associates Clinic, P.C., which is the company's sponsoring clinic and founder.

The company is authorized to write business in four counties: Crawford, Grant, Iowa, and Lafayette. The majority of the company's business is derived from policies with commercial groups, representing 77% of the total revenue. The remaining 23% of total revenue related to administered Medicare policies under the Centers for Medicare & Medicaid Services (CMS). In 2019, enrollment decreased 4.4% primarily due to loss of one large commercial group. The decrease in enrollment resulted to decrease in premiums by 6%, which in turn resulted in a 55% decrease in net income. Premiums per member per month in both Commercial and Medicare membership were slightly increased and partly offset the loss of the one large commercial group.

As of December 31, 2019, the company reported total assets of $4,419,772, total liabilities of $1,062,723, and surplus of $3,357,059. Surplus has increased 25.5% during the period under examination, from $2,697,335 at year-end 2016 to $3,357,059 at year-end 2019. It has been increasing for the last three years, primarily due to favorable results from operations.

The current examination resulted to two repeat recommendations from the previous examination and one new recommendation. Areas of improvement recommended by this examination related to affiliated agreements and a custodial agreement.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 – Affiliated Agreements—It is again recommended that the company amend its affiliated agreements to include a specific due date for timely settlement of amounts owed in accordance with NAIC SSAP No. 25.

2. Page 24 – Affiliated Agreements—- It is recommended that the company amend its agreement with the Clinic in regard to CMS over/under payment to include settlement date, termination clause, and to change Health Care Financing Authority to its current name as Centers for Medicare & Medicaid Services in the contract.

3. Page 25 – Custodial Agreements—It is again recommended that the company either amend its current custodial agreement or enter into a new agreement to include specific language prescribed in the NAIC Financial Condition Examiners Handbook.

X. 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:

Name	Title
David Jensen, CFE	IT Specialist
Nicholas Hartwig	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Angelita Romaker
Examiner-in-Charge

XI. SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the company being an HMO. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the State of Wisconsin Office of the Commissioner of Insurance will continue to monitor COVID-19 developments and how it might impact the company, and will take necessary action if a solvency concern arises.

XII. EXHIBIT A

List of Participating Hospitals and Healthcare Facilities that Provide Inpatient Services

	Hospitals and Healthcare Facilities	City	Zip	State
1	Crossing Rivers Health Medical Center	Prairie du Chien	53821	WI
2	Finley Hospital	Dubuque	52001	IA
3	Grant Regional Health Center	Lancaster	53813	WI
4	Gundersen Boscobel Area Hospital and Clinics	Boscobel	53805	WI
5	Guttenberg Municipal Hospital	Guttenberg	52052	IA
6	Jackson County Regional Health Center	Maquoketa	52060	IA
7	Jones Regional Medical Center	Anamosa	52205	IA
8	Memorial Hospital of LaFayette County	Darlington	53530	WI
9	MercyOne Dubuque Medical Center	Dubuque	52001	IA
10	MercyOne Dyersville Medical Center	Dyersville	52040	IA
11	MercyOne Elkader Medical Center	Elkader	52043	IA
12	Midwest Medical Center	Galena	61036	IL
13	Regional Medical Center	Manchester	52057	IA
14	Southwest Health Center	Platteville	53818	WI
15	University of Iowa Hospitals & Clinics	Iowa City	52242	IA
16	UW Hospital and Clinics	Madison	53792	WI
17	Upland Hills Health	Mineral Point	53565	WI