

Report of the Examination of

My Choice Wisconsin, Inc.

Madison, Wisconsin

As of December 31, 2020

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March 9, 2022

Honorable Nathan 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:

MY CHOICE WISCONSIN, INC.  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The current examination of My Choice Wisconsin, Inc. (the company or MCW) covered the period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Territory and Plan of Operations
- Affiliated Companies
- Growth
- Financial Statements
- Accounts and Records
- Information Technology

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 57.26, 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

My Choice Wisconsin, Inc. received a permit to operate as a care management organization (CMO), pursuant to s. 648.05, Wis. Stat. A CMO provides long-term care services funded by the family care benefit, as defined in s. 46.2805 (4), Wis. Stat., that are provided by a CMO that contracts with the Wisconsin Department of Health Services (DHS) under s. 46.284, Wis. Stat., and enrolls only individuals who are eligible under s. 46.286, Wis. Stat.

The company was incorporated on March 1, 2016, under the name My Choice Family Care, Inc. as a non-stock, not-for-profit corporation organized under ch. 181 of the Wisconsin Statutes and qualifies as a 501(c) in Wisconsin pursuant to Internal Revenue Service regulations. Effective January 1, 2020, the company merged with Care Wisconsin First, Inc. with the company being the surviving entity. Subsequently, the company legally changed its name to My Choice Wisconsin, Inc. The company is the sole member of My Choice Wisconsin Health Plan, Inc.

The company derives substantially all of its revenue from the Wisconsin Family Care Program. The Family Care Program helps seniors and adults with disabilities to live as independently as possible in their own homes or other community care settings. Members are classified into one of three target groups: frail elders<sup>1</sup>, physically disabled<sup>2</sup>, and developmentally disabled<sup>3</sup>. The company contracts directly with DHS to provide long-term care benefits to eligible members through its permit.

The company provides long-term care services to its members through contractual arrangements with its providers. Providers are reimbursed based on mandated Medicaid rates and other agreed-upon rates that are not determined by the Medicaid fee schedule.

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<sup>1</sup> Frail elder is defined as an individual 65 and older who has a physical disability, or an irreversible dementia, that restricts the individual's ability to perform normal daily tasks or that threatens the capacity of the individual to live independently. (s. DHS 10.13 (25m), Wis. Adm. Code)

<sup>2</sup> Physical disability is defined as a physical condition, including an anatomical loss or musculoskeletal, neurological, respiratory or cardiovascular impairment, that results from injury, disease or congenital disorder and that significantly interferes with or significantly limits at least one major life activity of a person. (s. DHS 10.13 (40), Wis. Adm. Code)

<sup>3</sup> Developmental disability is defined as a disability attributable to brain injury, cerebral palsy, epilepsy, autism, Prader-Willi syndrome, intellectual disability, or another neurological condition closely related to intellectual disability or requiring treatment similar to that required for intellectual disability, that has continued or can be expected to continue indefinitely and constitutes a substantial handicap to the afflicted individual. (s. DHS 10.13 (16), Wis. Adm. Code)

The contracts include hold-harmless provisions for the protection of members. The contract(s) have a one-year term and may be terminated due to a material breach in contract or with written notice from either party of the intent to terminate the contract.

Long-term care services provided through the Family Care Program include:

- Home health or personal care
- Supportive home care
- Nursing home
- Assisted living/residential care services
- Adult day or respite care
- Home delivered meals
- Home modifications
- Transportation
- Physical, speech or occupational therapy
- Wheelchairs and other equipment
- Adult diapers, gloves, and other medical supplies
- Mental health or drug and alcohol treatment
- Daily living skills training
- Communication aids/interpreter
- Employment services

Marketing to individuals is restricted under Medicaid regulations and operating procedures. Rates are determined by the contract between the company and DHS for coverage provided under the Wisconsin Medical Assistance Program (Medicaid). Capitation rates are developed annually by the DHS contracted actuarial firm on a regional basis and are adjusted to reflect the company's estimated population by target group. The capitation rate paid by DHS to the company is actuarially based on the functional level of care a member requires: nursing home (NH) or non-nursing home (non-NH). The NH level of care rate is initially developed for each target group by region and adjusted for trend and administrative allowances prior to determining a final blended NH level of care rate for the CMO since different groups utilize services at different rates. The non-NH level of care rate is developed by using a functional status-based model that stratifies claims experience based on an individual's level of care.

The NH and non-NH level of care capitation rates are based on the utilization and expenditures of the actual program cost experience.

Under the federal regulations governing the federal- and state-funded Medicaid programs, the rates established by DHS must be "actuarially sound" and be certified by an independent actuary. The actuarial certification applies to the program as a whole, not each individual CMO.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of nine voting members and one Emeritus non-voting member. All directors are elected annually to serve a three-year term. 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 group.

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

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Thomas Bergerud West Bend, Wisconsin	Retired Non-Profit Executive	2023
Katie Brietzman Madison, Wisconsin	Non-Profit Specialist	2023
Kenneth Byom Wauwatosa, Wisconsin	Physician	2023
Arlyn Doehler Greendale, Wisconsin	Retired Teacher, Emeritus Non-Voting Member	2023
John Hintze Oregon, Wisconsin	Commercial Banker Executive	2023
Lynda Krellwitz Waukesha, Wisconsin	Human Resource Executive	2023
Michael Mayo, Sr. Milwaukee, Wisconsin	Retired County Supervisor	2023
Thomas Orendorff, Chair Kenosha, Wisconsin	Retired CPA	2023
Maria Rodriguez Milwaukee, Wisconsin	Retired HUD Executive	2023
Lee Seese Pewaukee, Wisconsin	Attorney	2023

## Officers of the Company

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

<b>Name</b>	<b>Office</b>
Maria Ledger	Chief Executive Officer
Jim Hodson	Chief Financial Officer
Betsy Van Heesch	Chief Operations Officer
Kevin Collins	Chief Compliance 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:

### **Audit and Finance Committee**

John Hintze, Chair  
Michael Mayo, Sr.  
Thomas Orendorff  
Lee Seese

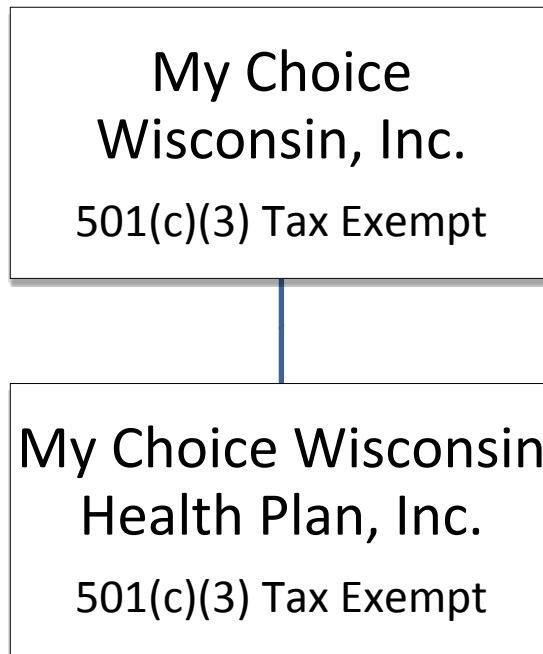
The company has its own employees. The company has 215 administrative staff, including executive staff, and 765 care management staff for a total of 980 employees. The administrative staff classification is broken down into 10 functional areas: 1) administrative and executive, 2) compliance and legal, 3) human resource, 4) marketing, 5) provider management, 6) claims management, 7) finance, 8) information technology, 9) quality management, and 10) medical management/clinical. The company leases its employees to its subsidiary, My Choice Wisconsin Health Plan, under an administrative agreement and is reimbursed for the cost of services performed and an allocated portion of indirect costs incurred.



#### IV. AFFILIATED COMPANIES

The company is the ultimate parent of a holding company system. 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, 2020**



#### **My Choice Wisconsin Health Plan, Inc. (MCWHP)**

My Choice Wisconsin Health Plan, Inc. is a nonstock, not-for-profit HMO formed under the provisions of ch. 613 of the Wisconsin Statutes. MCWHP provides health and long-term management and care services to the elderly and adults with disabilities in certain counties within Wisconsin. MCWHP operates as a managed care organization under the Wisconsin Family Care Partnership Program and participates in Wisconsin's Supplemental Security Income (SSI) Managed Care Program, BadgerCare Plus, and Medicare Dual Advantage programs. As of December 31, 2020, the MCWHP's audited financial statement reported assets of \$86.6 million, liabilities of \$28.8 million, and equity of \$57.8 million. Operations for 2020 produced net income of \$17.1 million on revenues of \$208.9 million.

The following are significant related party agreements in place between the entities:

The company has an Administrative Services Agreement in place with MCWHP, effective June 1, 2005, where the company agrees to perform administrative services necessary for MCWHP's operations, including, but not limited to marketing, information systems, financial, general and administrative, Medicare Advantage and WI DHS Program services, and management of clinical records. MCWHP agrees to reimburse the company for the cost of direct services and its allocated portion of indirect expenses.

The company has a Health Care Services Agreement in place with MCWHP, effective January 1, 2005, where the company agrees to provide the specified health care services on behalf of MCWHP's members. MCWHP agrees to reimburse the company for the cost of direct services and its allocated portion of indirect expenses.

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2020, financial statements on a GAAP basis. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Equity per Examination." Also included in this section are schedules that reflect the company's operating results by target group and the growth of the company for the period under examination.

**My Choice Wisconsin, Inc.**  
**Balance Sheet**  
**As of December 31, 2020**

**Current Assets**

Cash and cash equivalents, operating	\$ 9,880,129
Short-term investments (unrestricted)	111,558,964
Capitation receivable net of allowance	213,018
Other DHS receivables net of allowance	8,413,242
Cost-share receivable net of allowance	871,460
Room and board receivable net of allowance	1,627,941
Other short-term receivables net of allowance	83,275
Parent, subsidiary, affiliate receivable	2,056,113
Prepaid Insurance	203,988
Prepaid providers (member service expenses)	1,472,433
Prepaid expenses - other	516,384
Other current assets	<u>212,064</u>
<i>Total Current Assets</i>	137,109,011

**Long-Term Assets**

Risk reserve funds – FC Permitted MCO	\$ 7,191,406
Solvency reserve/guaranty funds on deposit permitted MCO	3,891,891
Other long-term investments, unrestricted	9,526,701
Leasehold improvements (cost)	2,138,633
Accumulated depreciation – leasehold improvements	(873,235)
Furniture, equipment, and software (cost)	5,964,673
Accumulated depreciation – furniture, equipment, and software	(2,962,225)
Other long-term assets	<u>1,320,426</u>
<i>Total Long-Term Assets</i>	<u>26,198,271</u>

**Total Assets**

\$163,307,282

**Current Liabilities**

Capitation payable	1,005,585
Others DHS payable	2,891,079
Accrued salaries	3,619,189
Accrued taxes and benefits (current)	42,107
IBNR member services – current year	52,758,584
Accounts payable – claims processed, TPA	379,707
Accounts payable – care management	1,401,328
Accounts payable – general	9,749,577
Other current liabilities	<u>407,684</u>
<i>Total Current Liabilities</i>	72,254,840

**Long-Term Liabilities**

Other long-term liabilities	<u>33,258</u>
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**Total Liabilities**

72,288,098

**Equity**

Beginning equity	65,776,633
Other changes to equity	1
Current year net income	<u>25,242,551</u>

*Total Equity*

91,019,184

**Total Liabilities and Equity**

\$ 163,307,282

**My Choice Wisconsin, Inc.**  
**Profit and Loss Statement**  
**For the Period Ending December 31, 2020**

**Revenues**

MA capitation (net of cost share)	\$605,787,779
Cost-share revenue	24,300,659
Room and board revenue	52,090,356
Other third-party payer revenues	134,714
Interest/investment income – operating account	67,510
Inter-company revenue	18,616,717
Other current year retro adjustments, DHS	6,080,004
Other income/funding	<u>180,512</u>
<b>Total Revenue</b>	<b>707,258,250</b>

**Long Term Care Services (All Programs)**

Adaptive equipment	8,146,400	
Adult day activities	4,949,764	
Habilitation/health	17,359,303	
Home care	107,019,559	
Home health care	6,286,016	
Institutional (NH/ICF-MR)	82,135,812	
Residential care	268,390,261	
Respite care	1,603,729	
Transportation	13,111,039	
Vocational	7,004,309	
Room and board - expenses	56,472,690	
Financial Management	4,652,326	
Other FC LTC services	<u>1,804,659</u>	
<i>Total LTC Services</i>		578,935,868
Other member expenses (Outside the benefit package)		<u>31,469</u>
<i>Total Member Service Expenses</i>		<u>578,967,337</u>

**Care Management Expenses**

Care management (CMUs/External)	18,008,036	
Care management (Internal)	55,122,318	
Care management admin – allocated	<u>4,877,110</u>	
<i>Total Care Management Expenses</i>		78,007,464

**Administrative Expenses**

Stop loss premiums		
Wages and benefits	19,136,740	
Contracted TPA expense	3,603,794	
Occupancy	1,693,905	
Office expenses	2,257,872	
Legal/accounting/audit	490,504	
Contracted IT development	1,419,117	
Other professional services	1,003,974	
Depreciation expense	1,259,541	
Insurance expense	226,421	
Travel/training/conference expense	141,386	
Other administrative expenses	1,201,391	
Administrative allocation to care management	<u>(4,877,110)</u>	
<i>Total Administrative Expenses</i>		<u>27,557,535</u>

<b>Total Operating Expenses</b>		<u>684,532,336</u>
<b>Income (Loss) from Operations, current year</b>		22,725,914
<b>Other (Income) Expenses, ordinary</b>		
Investment income – reserve funds	(108,768)	
Investment Income – Other LT	(959,713)	
Gain(loss) in investments (unrealized)	372,029	
Gain(loss) in sale of investments (realized)	88,888	
Prior year adjustment – IBNR	(3,881,302)	
Prior year adjustment – other DHS	(6,093,613)	
Prior year adjustment – other Expenses	<u>66,170</u>	
<i>Total Other Expenses ordinary</i>		(10,516,309)
<b>Other (Income) Expenses, extraordinary</b>		
Provider Support Payment	<u>7,999,672</u>	
Total Other Expenses extraordinary		<u>7,999,672</u>
<b>Net Income (Loss)</b>		<u>\$25,242,551</u>

**My Choice Wisconsin, Inc.**  
**Statement of Cash Flows**  
**For the Period Ending December 31, 2020**

**Operating Activities**

Net income per GL		\$ 25,242,551
Add: Depreciation		1,259,541
(Increase) Decrease Accounts receivable, capitation and DHS other		11,784,118
(Increase) Decrease Accounts receivable general		(1,705,230)
(Increase) Decrease Prepaid insurance		(57,471)
(Increase) Decrease Prepaid other		(1,076,106)
(Increase) Decrease Other current assets		(65,355)
Increase (Decrease) IBNR		(6,582,582)
Increase (Decrease) Accounts payable		7,508,613
Increase (Decrease) Wages/taxes/ben. payable		(536,561)
Increase (Decrease) Unearned revenues		1,345,269
Increase (Decrease) Other current liabilities		1,161
Increase (Decrease) Other operating activities		<u>68,243</u>
Net Cash Provided by Operating Activities		37,186,191

**Investing Activities**

Change in property, plant, and equipment:	\$(1,527,352)	
Change in long-term investments	3,479,313	
Proceeds from sale	1,319,407	
Other long-term assets	<u>(1,237,584)</u>	
Net Cash Used in Investing Activities		2,033,784

**Financing Activities**

Other financing activities, other	<u>(52,735)</u>	
Net Cash Used in Financing Activities		<u>(52,735)</u>

Net increase in cash and cash equivalents	39,167,240
Cash and Cash Equivalents Beginning of Period	<u>82,271,852</u>
Cash and Cash Equivalents End of Period	<u>\$121,439,092</u>



**My Choice Wisconsin, Inc.  
Consolidated Balance Sheet  
As of December 31, 2020**

	<b>My Choice Wisconsin, Inc.</b>	<b>My Choice Wisconsin Health Plan, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Current Assets</b>				
Cash and cash equivalents, operating	\$ 9,880,129	\$ 51,297,219	\$	\$ 61,177,348
Short-term investments (unrestricted)	111,558,964	29,468,238		141,027,202
Capitation receivable net of allowance	213,018	2,268,790		2,481,808
Other DHS receivables net of allowance	8,413,242	4,332,598		12,745,840
Cost-share receivable net of allowance	871,460	110,529		981,989
Room and board receivable net of allowance	1,627,941	264,255		1,892,196
Other short-term receivables net of allowance	83,275	463,110		546,385
Parent, subsidiary, affiliate receivable	2,056,113		(2,056,113)	
Reinsurance receivable		329,215		329,215
Prepaid Insurance	203,988			203,988
Prepaid providers (member service expense)	1,472,433	233,700		1,706,132
Prepaid expenses - other	516,384	867,661		1,384,045
Other current assets	<u>212,064</u>	<u>73,000</u>		<u>285,064</u>
<i>Total Current Assets</i>	137,109,011	89,708,315	(2,056,113)	224,761,212
<b>Long-Term Assets</b>				
Risk reserve funds – FC Permitted MCO	7,191,406			7,191,406
Solvency reserve/guaranty funds on deposit permitted MCO	3,891,891			3,891,891
Other long-term investments, unrestricted	9,526,701		(9,526,701)	
Leasehold improvements (cost)	2,138,633			2,138,633
Accumulated depreciation – leasehold improvements	(873,235)			(873,235)
Furniture, equipment, and software (cost)	5,964,673			5,964,673
Accumulated depreciation – furniture, equipment, and software	(2,962,225)			(2,962,225)
Other long-term assets	<u>1,320,426</u>	<u>3,233,665</u>		<u>4,554,091</u>
<i>Total Long-Term Assets</i>	26,198,271	3,233,665	(9,526,701)	19,905,235
<b>Total Assets</b>	<u>\$163,307,282</u>	<u>\$92,941,980</u>	<u>\$(11,582,815)</u>	<u>\$244,666,447</u>
<b>Current Liabilities</b>				
Capitation payable	\$ 1,005,585	\$ 28,491	\$	\$ 1,034,076
Unearned revenue-other		63,626		63,626
Other DHS payable	2,891,079	210,021		3,101,100
Accrued salaries	3,619,189			3,619,189
Accrued taxes and benefits (current)	42,107			42,107
IBNR member services – current year	52,758,584	20,713,541		73,472,125
IBNR member services – prior year		329,661		329,661
Accounts payable – TPA	379,707			379,707
Accounts payable – care management	1,401,328			1,401,328
Accounts payable – general	9,749,577	4,510,906		14,260,483
Parent, subsidiary, affiliate payable		2,056,113	(2,056,113)	
Income tax payable		1,141,627		1,141,627
Other current liabilities	<u>407,684</u>			<u>407,684</u>

	<b>My Choice Wisconsin, Inc</b>	<b>My Choice Wisconsin Health Plan, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<i>Total Current Liabilities</i>	72,254,840	29,053,987	(2,056,113)	99,252,713
<b>Long-Term Liabilities</b>				
Other long-term liabilities	<u>33,258</u>	<u>116,000</u>	<u>          </u>	<u>149,258</u>
<b>Total Liabilities</b>	72,288,098	29,169,987	(2,056,113)	99,401,971
<b>Equity</b>				
Beginning equity	65,776,633	37,310,982		103,087,614
Other changes to equity	1	9,526,701	(9,526,701)	1
Current year net income	<u>25,242,551</u>	<u>16,934,310</u>	<u>          </u>	<u>42,176,861</u>
<i>Total Equity</i>	91,019,184	63,771,993	(9,526,701)	145,264,476
<b>Total Liabilities and Equity</b>	<u>\$163,307,282</u>	<u>\$92,941,980</u>	<u>\$(11,582,815)</u>	<u>\$244,666,447</u>

**My Choice Wisconsin, Inc.**  
**Consolidated Profit and Loss Statement**  
**For the Period Ending December 31, 2020**

	<b>My Choice Wisconsin, Inc.</b>	<b>My Choice Wisconsin Health Plan, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Revenues</b>				
MA capitation (net of cost share)	\$605,787,779	\$129,953,648	\$	\$735,741,427
MC capitation		59,972,310		59,972,310
Cost-share revenue	24,300,659	2,916,864		27,217,523
Room and board revenue	52,090,356	6,665,419		58,755,775
Other third-party payer revenues	134,714			134,714
Interest/investment income – operating account	67,510	191,313		258,823
Inter-company revenue	18,616,717		(18,616,717)	
Other current year retro adjustments, DHS	6,080,004	5,294,158		11,374,162
Other income/funding	<u>180,512</u>	<u>5,000</u>		<u>185,512</u>
<b>Total Revenue</b>	<u>707,258,250</u>	<u>204,998,712</u>	<u>(18,616,717)</u>	<u>893,640,246</u>
<b>Operating Expenses</b>				
<b>Direct Member Service Expenses</b>				
<b>Acute and Primary Services (FCP/PACE Programs)</b>				
Dental		1,010,390		1,010,390
Pharmacy		21,983,331		21,983,331
Less: Pharmacy Rebates		(2,994,806)		(2,994,806)
Less: LICs\ Reinsurance		(12,092,962)		(12,092,962)
In-patient hospital		40,357,623		40,357,623
Less: Stop Loss Income Recovery		(676,458)		(676,458)
Out-patient hospital		8,574,477		8,574,477
Other acute and primary services		<u>27,187,325</u>		<u>27,187,325</u>
<i>Total Acute and Primary</i>		<u>83,348,921</u>		<u>83,348,921</u>
<b>Long Term Care Services (All Programs)</b>				
Adaptive equipment	8,146,400	4,265,909		12,412,309
Adult day activities	4,949,764	387,658		5,337,422
Habilitation/health	17,359,303	3,710,688		21,069,991
Home care	107,019,559	17,811,490		124,831,049
Home health care	6,286,016	3,913,843		10,199,859
Institutional (NH/ICF-MR)	82,135,812	14,501,696		96,637,508
Residential care	268,390,261	24,737,270		293,127,532
Respite care	1,603,729	116,079		1,719,808
Transportation	13,111,039	2,054,023		15,165,062
Vocational	7,004,309	269,048		7,273,357
Room and board - expenses	56,472,690	7,821,204		64,293,894
Financial Management	4,652,326	491,156		5,143,482
Other FC LTC services	<u>1,804,659</u>	<u>155,997</u>		<u>1,960,656</u>
<i>Total LTC Services</i>	<u>578,935,868</u>	<u>80,236,060</u>		<u>659,171,928</u>
Other member expenses (Outside the benefit package)	<u>31,469</u>	<u>11,933</u>		<u>43,402</u>
<i>Total Member Service Expenses</i>	<u>578,967,337</u>	<u>163,596,914</u>		<u>742,564,251</u>
<b>Care Management Expenses</b>				
Care management (CMUs/External)	18,008,036			18,008,036
Care management (Internal)	55,122,318	12,811,658	(12,811,644)	55,122,332
Care management admin – allocated	<u>4,877,110</u>	<u>440,449</u>	<u>(440,449)</u>	<u>4,877,110</u>
<i>Total Care Management Expenses</i>	<u>78,007,464</u>	<u>13,252,108</u>	<u>(13,252,093)</u>	<u>78,007,478</u>

	<b>My Choice Wisconsin, Inc.</b>	<b>My Choice Wisconsin Health Plan, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Administrative Expenses</b>				
Stop loss premiums		1,289,129		1,289,129
Wages and benefits	19,136,740	4,737,524	(4,512,590)	19,361,674
Contracted TPA expense	3,603,794	1,400,342		5,004,136
Occupancy	1,693,905	398,014	(381,330)	1,710,589
Office expenses	2,257,872	501,808	(475,939)	2,283,741
Legal/accounting/audit	490,504	107,090	(98,944)	498,650
Contracted IT development	1,419,117			1,419,117
Other professional services	1,003,974	4,935,017	(126,953)	5,812,038
Depreciation expense	1,259,541		(112,974)	1,146,567
Insurance expense	226,421	67,742	(53,952)	240,211
Travel/training/conference expense	141,386	36,508	(36,019)	141,875
Other administrative expenses	1,201,391	1,578,109	(6,371)	2,773,129
Administrative allocation to care management	<u>(4,877,110)</u>	<u>(440,449)</u>	<u>440,449</u>	<u>(4,877,110)</u>
<i>Total Administrative Expenses</i>	<u>27,557,535</u>	<u>14,610,833</u>	<u>(5,364,623)</u>	<u>36,803,745</u>
<b>Total Operating Expenses</b>	<u>684,532,336</u>	<u>191,459,855</u>	<u>(18,616,717)</u>	<u>857,375,475</u>
<b>Income (Loss) from Operations, current year</b>	22,725,914	13,538,857		36,264,771
<b>Other (Income) Expenses, Ordinary</b>				
Investment income – reserve funds	(108,768)	(850,454)		(959,222)
Investment Income - Other LT	(959,713)			(959,713)
Gain(loss) in investments (unrealized)	372,029	(563,326)		(191,297)
Gain(loss) in sale of investments (realized)	88,888	(35,684)		53,203
Prior year adjustment – IBNR	(3,881,302)	(971,816)		(4,853,118)
Prior year adjustment – other	66,170			66,170
Other non-operating and PDR		<u>4,977,263</u>		<u>4,977,263</u>
<i>Total Other Expenses</i>	<u>(10,516,309)</u>	<u>(3,395,453)</u>		<u>(13,911,762)</u>
<b>Other (Income) Expenses, Extraordinary</b>	<u>7,999,672</u>			<u>7,999,672</u>
<b>Net Income (Loss)</b>	<u>\$ 25,242,551</u>	<u>\$ 16,934,310</u>	<u>\$</u>	<u>\$ 42,176,861</u>

**Growth of My Choice Wisconsin, Inc (\$ in thousands 000)<sup>4</sup>**

<b>Year</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Capitation Revenue</b>	<b>Member Service Expenses</b>	<b>Net Income</b>	<b>Member Months</b>
2020	\$163,307	\$72,288	\$91,019	\$605,788	\$578,967	\$25,243	194,166
2019	136,502	70,726	65,777	650,889	655,231	19,181	208,071
2018	81,396	31,814	49,582	295,436	284,004	5,775	103,216

<b>Year</b>	<b>Profit Margin</b>	<b>Member Service Cost Ratio</b>	<b>Care Management Service Cost Ratio</b>	<b>Combined Member Service Cost Ratio</b>	<b>Administrative Expense Ratio</b>	<b>Change in Member Months</b>
2020	4.1%	82.1%	10.6%	92.7%	3.6%	-6.7%
2019	2.9	87.0	11.2	98.2	3.7	101.6
2018	1.8	82.9	11.5	94.4	4.1	

**Per Member Per Month Information**

	<b>2020</b>	<b>2019</b>	<b>Percentage Change</b>
<b>Revenues</b>			
Capitation	\$3,119.95	\$3,128.21	-0.3%
Other Revenue	<u>522.60</u>	<u>533.77</u>	-2.1
Aggregate	3,642.54	3,661.98	-0.5
<b>Expenses:</b>			
Member service costs	2,981.82	3,149.08	-5.3
Care management	401.76	421.63	-4.7
Administrative	<u>141.93</u>	<u>148.75</u>	-4.6
Total operating expenses	3,525.50	3,719.46	-5.2
Other non-operating expenses	<u>(12.96)</u>	<u>(149.67)</u>	-91.3
Net income (loss)	<u>130.01</u>	<u>92.19</u>	41.0
Member months	194,166	208,071	-6.7

<sup>4</sup> The amounts reported for 2019 and 2020 are post-merger balances while 2018 is pre-merger.

During the examination, the company's total admitted assets increased by 100.6% from \$81.4 million at the end of 2018 to \$163.3 million at the end of 2020, and total liabilities increased by 127.2% from \$31.8 million to \$72.3 million for the same period. The dollar increase in total assets significantly exceeded the increase in liabilities, therefore the company's equity experienced a favorable increase of 83.6% from \$49.6 million in 2018 to \$91.0 million in 2020. Please note that a significant portion of the growth noted for 2019 through 2020 is attributable to the merger with Care Wisconsin First, Inc. which resulted in a significant increase in members for the company.

As shown for both 2019 and 2020, the company's operating performance on a per member per month (PMPM) basis was favorable as premiums PMPM well exceeded the expense PMPM. For the years under examination, the company performed profitably pre- and post-merger, indicating proper cost containment and management efforts.

The company's investment portfolio is comprised of cash, cash equivalents, and short-term investments (74.4% of total assets). The company's highly conservative investment approach allows the company to maintain a high degree of liquidity to meet any cash demands; however, the approach limits the company's ability to produce investment income. Given that the company's business is short tailed in nature, the approach is reasonable as it would allow the company to easily sell its investments to generate the cash needed to fund its obligations, if necessary. In addition, the company's operational performance has been strong during the examination period as previously noted, which has allowed the company to not rely on investment income to supplement its operation.

**Reconciliation of Equity per Examination**

No adjustments were made to equity as a result of the examination. The amount of equity reported by the company as of December 31, 2020, is accepted.

## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were three 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. Bylaws—It is recommended that the company stagger the expiration dates of the board members in accordance with their bylaws.

Action—Compliance.

2. Bylaws—It is recommended that the company inform this office of changes to its bylaws 30 days prior to the effective date pursuant to s. Ins 57.06, Wis. Adm. Code.

Action—Compliance.

3. Affiliated Agreements—It is recommended that the company file any amendments to its affiliated agreements with this office for non-disapproval in accordance with s. Ins 57.12 (2) (c), 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.

### **Holding Company Registration – Form B**

A review of the company's Holding Company Registration - Form B filing noted that the company failed to properly disclose its related party agreements and/or transactions with its subsidiary company, My Choice Wisconsin Health Plan, Inc. as required under s. Ins 40.03 Wis. Adm. Code. It is recommended that the company disclose all active related party agreements and/or transactions in accordance with the requirement set forth under s. Ins 40 Wis. Adm. Code.

### **Custodian Agreement**

The examination's review of the company's custodian agreement noted that it was missing nine required provisions. Those provisions include:

- 1) the custodian is obligated to indemnify the company for any loss of securities in the custodian's custody;
- 2) in the event that the custodian is required to indemnify the company, the securities shall be promptly replaced or the value loss shall be promptly replaced;
- 3) the custodian shall not be liable for failure to take any action required due to acts outside of the custodian's control such as war, act of God, laws, regulations, etc.;
- 4) if the custodian agreement is terminated or 100% of the assets have been withdrawn, the custodian is required to provide written notification to the insurance domiciliary commissioner;
- 5) during regular business hours, an officer or employee of the company shall be entitled to examine its records relating to the securities;
- 6) the custodian and its agent shall be required to send all reports which they received from a clearing corporation, including reports prepared by the custodian's outside auditors, to the company on their respective systems of internal controls;
- 7) if the company relies on the data prepared by the custodian, the custodian agrees to maintain sufficient records to determine and verify such information;

- 8) the custodian shall provide the appropriate affidavits, with respect to the company's securities held by the custodian, as requested by the company or from a regulator; and
- 9) the custodian shall secure and maintain insurance protection in an adequate amount.

Pursuant to the NAIC *Financial Condition Examiners Handbook*, the company is required to include the provisions within the agreement to provide for proper control and safeguard over the company's assets. It is recommended that the company include all required provisions within its custodian agreement in accordance with the NAIC *Financial Condition Examiners Handbook*.

#### **Fidelity Bond**

The examination's review of the company's fidelity bond coverage noted that it did not meet the minimum amount required under the NAIC *Financial Condition Examiners Handbook*. It is recommended that the company acquire additional fidelity bond coverage to meet the minimum required in accordance with the NAIC *Financial Condition Examiners Handbook*.

## Financial Requirements

The financial requirements for a CMO under s. 648.75, Wis. Stat. and s. Ins 57.04, Wis. Adm.

Code for the period ending December 31, 2020, are as follows:

	<b>Amount Required</b>
1. Working Capital	Not less than 3.0% of the budgeted annual capitation payments from DHS.
2. Restricted reserves	The required minimum balance is calculated as follows:  8% of the first \$5 million annual budgeted capitation 4% of the next \$5 million annual budgeted capitation 3% of the next \$10 million annual budgeted capitation 2% of the next \$30 million annual budgeted capitation 1% of annual budgeted capitation in excess of \$50 million
3. Solvency fund	\$750,000

The company's financial requirement calculations as of December 31, 2020, are as follows:

### **Working Capital**

Current Assets	\$137,109,011
Current Liabilities	<u>72,254,840</u>
Working Capital	64,854,172
Working Capital Requirement	<u>17,919,295</u>
Excess/(shortage)	<u>\$ 46,934,877</u>

### **Restricted Reserves**

Current Restricted Reserves	\$ 7,191,406
Restricted Reserve Requirement	<u>6,973,098</u>
Excess/(shortage)	<u>\$ 218,308</u>

### **Solvency Fund**

Current Solvency Fund	\$ 3,891,891
Solvency Fund Requirement	<u>3,891,891</u>
Excess/(shortage)	<u>\$ 0</u>

The company is meeting its financial requirements as of December 31, 2020.

## **VII. CONCLUSION**

My Choice Wisconsin, Inc. is a not-for-profit managed care organization that serves over 50 counties in Wisconsin. The company participates in the Wisconsin Family Care Program which helps seniors and adults with disabilities to live as independently as possible in their own homes or other community care settings. The company contracts directly with DHS to provide long-term care benefits to eligible members through its permit. The company provides long-term care services to its members through contractual arrangements with its providers. The company's primary source of income is the capitation payment paid by DHS to the company. The capitation rate paid by DHS to the company is actuarially based on the functional level of care a member needs.

As previously noted, the company went through a merger, effective January 1, 2020, which resulted in a significant growth in members to the company. Despite the transitions necessary post-merger, the company continues to perform well operationally and continues to strengthen its financial position through the year-end 2020. The company's strong capital position has allowed it to continue meeting the working capital, restricted reserves, and solvency fund requirements.

The prior examination resulted in three recommendations pertaining to Care Wisconsin First, Inc. The current examination resulted in three recommendations.

## VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Holding Company Registration – Form B—It is recommended that the company disclose all active related party agreements and/or transactions in accordance with the requirement set forth under s. Ins 40 Wis. Adm. Code.
2. Page 24 - Custodian Agreement—It is recommended that the company include all required provisions within its custodian agreement in accordance with the NAIC *Financial Condition Examiners Handbook*.
3. Page 24 - Fidelity Bond—It is recommended that the company acquire additional fidelity bond coverage to meet the minimum required in accordance with the NAIC *Financial Condition Examiners Handbook*.

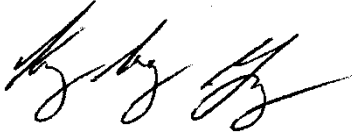
**IX. ACKNOWLEDGMENT**

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>
Jonathan Mundschau	Insurance Financial Examiner
Abdel Kondoh	Insurance Financial Examiner
Vickie Ostien	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Kongmeng Yang  
Examiner-in-Charge