

Report of the Examination of
Group Health Cooperative of Eau Claire
Eau Claire, Wisconsin
As of December 31, 2020

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January 11, 2022

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

Commissioner:

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

GROUP HEALTH COOPERATIVE OF EAU CLAIRE
Eau Claire, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Group Health Cooperative of Eau Claire (the cooperative or GHC-EC) was conducted in 2018 as of December 31, 2017. The current examination covered the intervening period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the examination.

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

All accounts and activities of the cooperative were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair

presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

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

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

II. HISTORY AND PLAN OF OPERATION

Group Health Cooperative of Eau Claire is described as a nonprofit network 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 network model, the cooperative has a delivery system consisting of clinics and independent contracting physicians operating out of their separate offices.

The cooperative was incorporated on May 23, 1972, and commenced business on November 1, 1976. The cooperative is licensed under the provisions of ch. 185, Wis. Stat., as a cooperative health care association.

GHC-EC was operating as a staff model HMO until January 1, 1998, when the cooperative sold its medical operations to Marshfield Clinic. In 2008 and 2011, the cooperative sold its pharmacies and dental clinic, respectively. At the time of the examination, GHC-EC contracts with 85 hospitals, 325 primary care clinics, and 1,493 specialty clinics, with 22,947 total contracted physicians. Providers are generally reimbursed on a discounted fee-for-service basis for commercial members, and on a percentage of a fee schedule for Medicaid members. The contracts include hold-harmless provisions for the protection of enrollees. The contracts typically have a one-year term (with automatic renewal) and may be terminated upon advance notice. Members are encouraged to designate a primary care physician/clinic, which oversees referrals for specialty care when needed.

According to its business plan, the cooperative's service area is comprised of the following

counties:

Adams	Crawford	Iron	Oneida	Sawyer
Ashland	Douglas	Jackson	Pepin	Shawano
Barron	Dunn	Juneau	Pierce	St. Croix
Bayfield	Eau Claire	La Crosse	Polk	Taylor
Buffalo	Forest	Lafayette	Portage	Trempealeau
Burnett	Grant	Langlade	Price	Vernon
Chippewa	Green	Lincoln	Richland	Vilas
Clark	Green Lake	Marathon	Rusk	Washburn
Columbia	Iowa	Monroe	Sauk	Wood

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

Outpatient Services

- Office visits for diagnosis and treatment of injury and illness
- Physical, occupational therapy, and speech therapy
- Diagnostic x-rays, laboratory tests, and procedures
- Preventive health care, including office visits
- Treatment of allergies, including allergens
- Obstetrical care, including prenatal and postnatal maternity care
- Pediatric and well-baby care
- Periodic vision examinations
- Surgical procedures, including anesthesia
- Emergency and urgent care

Referral Services

- Specialist care and consultation
- Short-term physical, occupational, and/or speech therapy, upon referral of primary care physician
- Mental health/substance abuse services

Inpatient services

- Unlimited number of days of care
- Room (semi-private)
- Intensive care unit
- X-ray and laboratory service
- Drugs and injections
- Surgical procedures, including anesthesia
- In-hospital physician care
- Organ transplants
- Rehabilitation services

Additional Services

- Chiropractic care
- Durable medical equipment and prosthetic appliances, limited medical supplies
- Prescription drugs
- Specified oral surgery procedures
- Home health services
- Hospice services
- Skilled nursing facility services
- Emergency transportation (ambulance, air ambulance)

Inpatient and transitional mental health and AODA services are covered based on medical necessity. Previously, outpatient therapies including mental health/AODA, PT, OT, or speech, were subject to health plan authorization after the sixth visit in a calendar year, with coverage under actively marketed, small group plans limited to 20 visits each for PT/OT/Speech (separate limits for habilitative and rehabilitative services). Beginning in 2022, outpatient behavioral health and AODA counseling services will no longer require prior authorization. Physical therapy will require prior authorization after the sixth visit in a calendar year. Speech therapy and occupational therapy will require authorization after the initial evaluation. Depending on the plan, outpatient services may be subject to either a copayment (up to \$100 for emergency room and up to \$180 for non-preferred prescription drugs) or coinsurance (up to 50%). Inpatient services are generally subject to coinsurance only. Durable medical equipment is subject to authorization at a certain dollar threshold (currently \$300 per item). There are generally no lifetime or annual dollar limits on covered services. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral of participating physicians. An out-of-network authorization process is available for services/specialties unavailable within the provider network.

The cooperative contracts directly with the Wisconsin Department of Health Services (DHS) to provide health care benefits to eligible Medical Assistance (Medicaid) recipients. Providers are generally reimbursed on a percentage of a fee schedule for Medicaid members.

The cooperative currently markets to groups. GHC-EC uses marketing staff provided under the management agreement with its administrator, KMTSJ, Inc. (KMTSJ or the administrator). This management agreement is outlined in the section of this report captioned "Management and Control."

The cooperative's board of directors oversees the general guidelines for premium rate setting. The board delegates the responsibility to its fiscal committee to annually review the budget and establish premium targets, under the guidance of the cooperative's administrator. The administrator uses an actuarially determined modified community rating approach to establish small group premiums. Large groups remain medically underwritten. Group rates are adjusted to reflect the age, sex, and coverage characteristics for new and renewal groups.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 10 members. The bylaws state that the number of directors will be at least 12, but not more than 17. Edward Kassing, Nany Renkes, and Chrystal Mills recently resigned which brings the current board of directors to 10 members. Three directors will be elected in 2022 to serve a three-year term. All directors shall be cooperative members and are elected by members in the manner prescribed in the bylaws. The number of health care providers, or their employees, on the board may not exceed two, and enrollees who are 18 years of age or older are eligible for board membership, with the exception of individuals working for GHC-EC. Officers are appointed by the board of directors. No director may be elected to succeed themselves after having served three consecutive three-year terms. The bylaws require the board to meet at least four times each year.

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

Name and Residence	Principal Occupation	Term Expires
Georgia Ann Crownhart Eau Claire, Wisconsin	Executive Director, Eau Claire County Housing Authority	2024
Douglas James Hoffer Eau Claire, Wisconsin	Deputy City Attorney, City of Eau Claire	2024
Brian Michael Lanners Eau Claire, Wisconsin	Sales & Service Manager, Huebsch Services	2024
Corissa Rae Wolniak Eau Claire, Wisconsin	Purchasing & Stockroom Supervisor, Huebsch Services	2024
Kenneth David Anibas Arkansas, Wisconsin	Owner, Anibas Silo & Equipment Inc.	2023
Jeffrey Patrick Bowe Eau Claire, Wisconsin	President, Bohl and Proulx	2023
Tyler Edward Fadness Eau Claire, Wisconsin	Utilities Chemist, City of Eau Claire	2023
Susan Carol Marcott Eau Claire, Wisconsin	Chief People & Project Officer, Applied Data Consultants, Inc.	2023
Debra Kay Stanton Mondovi, Wisconsin	Human Resources Manager, Career Development Center	2023

Name and Residence	Principal Occupation	Term Expires
Geraldine Ruth Segal Chippewa Falls, Wisconsin	Executive Director	2022

Officers of the Cooperative

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

Name	Office
Douglas Hoffer	President
Susan Marcott	Treasurer
Corissa Wolniak	Secretary
Sarah North	Chief Executive Officer & General Manager
Robert Tanner	Chief Financial Officer
Michele Bauer	Chief Medical Officer
Douglas Pichler	Chief Information Officer

Committees of the Board

The cooperative'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

Douglas Hoffer, Chair
Tyler Fadness
Susan Marcott
Corissa Wolniak

Fiscal Committee

Susan Marcott, Chair
Douglas Hoffer
Brian Lanners
Tyler Fadness

Nominating Committee

Douglas Hoffer, Chair
Brian Lanners
Georgia Crownhart

The cooperative has its own employees in the areas of quality improvement and utilization management. Other significant management and administrative staff are provided through a management and administrative services agreement with KMTSJ, Inc. (KMTSJ). The provisions of this agreement are outlined below:

- Services: KMTSJ agrees to provide
- finance and accounting
 - marketing
 - member and provider services
 - claims processing and provider relations
 - human resources and payroll
 - compliance and legal
 - wellness and health promotion
 - case management
 - management of cooperative employees
 - information technology
 - underwriting
 - any other miscellaneous administrative services
- to GHC-EC. KMTSJ also has the responsibility of appointing the chief medical officer and the general manager.
- Purchase option: The cooperative is required to give KMTSJ at least 90 days' prior written notice of its intention to dispose or transfer the assets of the cooperative. For 60 days after notice is given, KMTSJ has the right to acquire the assets and must provide written notice to the cooperative within the 60-day time period.
- Compensation: Set percentages of monthly premium and fee-for-service income.
- GHC-EC is also responsible for reimbursement of services for categories specified by the agreement, including information systems activity predominantly benefiting the cooperative and a percentage of advertising expenses.
- Term: The agreement commenced on January 1, 2017, and shall be effective until December 31, 2027, unless otherwise terminated or extended by the parties.
- Termination: Either party may terminate the agreement with at least 120 days' written notice to the other party.

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

IV. REINSURANCE

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

Reinsurer:	HM Life Insurance Company (HM Life)
Type:	Excess of Loss Reinsurance
Effective date:	January 1, 2021-December 31, 2021
Retention:	Commercial & State Employees: \$700,000 per Member/Agreement Year All Medicaid, and Medicare Dual: \$350,000 per Member/Agreement Year Medicare I-SNP: \$250,000 per Member/Agreement Year
Reinsurance Limit:	The maximum the reinsurer will pay, subject to coinsurance is: Commercial & State Employees: Unlimited per Member/Agreement Year Unlimited per Member/Lifetime All Medicaid & All Medicare: \$2,000,000 per Member/Agreement Year \$2,000,000 per Member/Lifetime
Coinsurance:	The amount the reinsurer will pay for eligible expenses after application of reinsurance limits and retention: 90% Services Other than Transplant Services 90% Approved Transplants 50% Non-Approved Transplants
Coverage:	Eligible expenses are reimbursed at the lesser of: (a) Amount paid (b) Amount billed (c) Reinsurer-negotiated amount (d) cooperative's negotiated arrangement approved and on file with the reinsurer (e) Medicare Allowable / DRG fee schedule for Medicare Members only
Termination:	Reinsurer may terminate the agreement upon occurrence of: (a) Non-payment of premium; or (b) The cooperative acquires the assets and liabilities of any other company, corporation, or foundation, or is acquired, come under the control of, or merged with any other company, corporation, or foundation; or (c) The cooperative is ordered by the Department of Insurance or other legal authority to cease writing business that is reinsured under this agreement; or (d) The cooperative is placed into liquidation or receivership (whether voluntary or involuntary), or there has been instituted against the cooperative, proceedings for the appointment of a receiver, liquidator, rehabilitator, trustee, conservator, statutory successor, or other legal agent, to take possession of the cooperative's assets or control of its operation; or (e) The number of Members has declined by 50% or more from the number that was in effect at the inception of this agreement; or (f) The date of insolvency.

In the event of termination of coverage for any reason, reinsurer and company agree to provide each other 30 days' advanced written notice to take effect on the 30 days at 12:01 AM standard time.

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

1. HM Life will continue cooperative benefits covered with respect to expenses incurred by Member(s) confined in a hospital or any other eligible inpatient facility on the date of the cooperative insolvency until the earliest of:
 - I. The member(s) discharge from the hospital; or
 - II. The date member(s) become covered for health coverage or benefits under another group or blanket policy or plan or any federal, state, or local governmental plan or program; or
 - III. 365 days from the date in which the cooperative's insolvency occurs.

2. HM Life will continue cooperative benefits for Member(s) with respect to expenses incurred for medical services or treatment received after the date of cooperative insolvency until the end of the period for which premium was received by the cooperative for Member(s) prior to the date of cooperative insolvency, but not to extend beyond the end of the calendar month in which the date of insolvency occurs as long as such expenses are payable by the cooperative. In no event will the coverage extend beyond the end of the period of time for which premium prepayments were received for affected Member(s) whether prepayments were made on a monthly, quarterly, or other period of time, as long as such expenses are payable by Member(s). An expense is incurred on the date a provider renders medical care, treatment, or service to Member(s).

In the event the cooperative shall become insolvent while the agreement is in force, the aggregate maximum liability of reinsurer pursuant to the Insolvency Provision is \$5 million.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the cooperative as reported to the Commissioner of Insurance in the December 31, 2020, 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 cooperative and the compulsory and security surplus calculation.

**Group Health Cooperative of Eau Claire
Assets
As of December 31, 2020**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$52,396,975	\$ 25,226	\$52,371,749
Stocks:			
Common stocks	3,218,818		3,218,818
Cash, cash equivalents and short-term investments	8,321,747		8,321,747
Investment income due and accrued	391,364		391,364
Uncollected premiums and agents' balances in the course of collection	4,221,143		4,221,143
Accrued retrospective premiums and contracts subject to redetermination	750,000		750,000
Amounts recoverable from reinsurers	3,511		3,511
Electronic data processing equipment and software	143,111	143,111	
Health care and other amounts receivable	2,215,536	66,388	2,149,148
Write-ins for other than invested assets:			
Prepaid Expenses	<u>785,688</u>	<u>785,688</u>	<u> </u>
Total Assets	<u>\$72,447,893</u>	<u>\$1,020,413</u>	<u>\$71,427,480</u>

**Group Health Cooperative of Eau Claire
Liabilities and Net Worth
As of December 31, 2020**

Claims unpaid		\$23,054,118
Accrued medical incentive pool and bonus payments		1,750,000
Unpaid claims adjustment expenses		879,029
Premiums received in advance		896,919
General expenses due or accrued		325,672
Current federal and foreign income tax payable and interest thereon		422,519
Amounts withheld or retained for the account of others		<u>1,050</u>
Total Liabilities		<u>27,329,307</u>
Common capital stock		
Preferred capital stock		
Gross paid in and contributed surplus	\$ 1,001,422	
Surplus notes		
Aggregate write-ins for other than special surplus funds	1,430	
Unassigned funds (surplus)	<u>43,095,321</u>	
Total Capital and Surplus		<u>44,098,173</u>
Total Liabilities, Capital and Surplus		<u>\$71,427,480</u>

**Group Health Cooperative of Eau Claire
Statement of Revenue and Expenses
For the Year 2020**

Net premium income		\$159,432,571
Aggregate write-ins for other non-health revenues		<u>78,000</u>
Total revenues		159,510,571
Medical and Hospital:		
Hospital/medical benefits	\$108,604,719	
Emergency room and out-of-area	13,593,559	
Prescription drugs	2,834,889	
Incentive pool and withhold adjustments	<u>1,501,329</u>	
Subtotal	126,534,496	
Less		
Net reinsurance recoveries	<u>285,531</u>	
Total medical and hospital	126,248,965	
Claims adjustment expenses	4,824,629	
General administrative expenses	<u>16,325,750</u>	
Total underwriting deductions		<u>147,399,344</u>
Net underwriting gain or (loss)		12,111,227
Net investment income earned	1,100,054	
Net realized capital gains or (losses)	<u>217,685</u>	
Net investment gains or (losses)		1,317,739
Net Income (Loss)		<u>\$ 13,428,966</u>

**Group Health Cooperative of Eau Claire
Capital and Surplus Account
For the Three-Year Period Ending December 31, 2020**

	2020	2019	2018
Capital and surplus, beginning of year	\$31,131,163	\$22,744,444	\$22,429,807
Net income (loss)	13,428,966	8,369,131	409,064
Change in net unrealized capital gains/losses	(14,844)		
Change in nonadmitted assets	<u>(447,112)</u>	<u>17,588</u>	<u>(94,427)</u>
Capital and Surplus, End of Year	<u>\$44,098,173</u>	<u>\$31,131,163</u>	<u>\$22,744,444</u>

**Group Health Cooperative of Eau Claire
Statement of Cash Flow
For the Year 2020**

Premiums collected net of reinsurance		\$157,958,850
Net investment income		1,201,413
Miscellaneous income		<u>78,000</u>
Total		159,238,263
Less:		
Benefit- and loss-related payments	\$121,696,608	
Commissions, expenses paid and aggregate write-ins for deductions	20,872,181	
Federal and foreign income taxes paid (recovered) net of tax on capital gains	<u>(217,399)</u>	
Total		<u>142,351,390</u>
Net cash from operations		16,886,873
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	25,522,953	
Cost of Investments Acquired—Long-term Only:		
Bonds	\$36,479,710	
Stocks	<u>3,218,826</u>	
Total investments acquired	<u>39,698,536</u>	
Net increase (or decrease) in policy loans and premium notes		(14,175,584)
Net cash from investments		(14,175,584)
Cash Provided/Applied:		
Other cash provided (applied)		<u>(414,727)</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		2,296,563
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>6,025,184</u>
End of Year		<u>\$ 8,321,747</u>

Growth of Group Health Cooperative of Eau Claire

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2020	\$71,427,480	\$27,329,307	\$44,098,173	\$159,432,571	\$126,248,965	\$13,428,966
2019	53,338,487	22,207,324	31,131,163	148,372,406	122,729,741	8,369,131
2018	52,034,770	29,290,326	22,744,444	163,136,360	143,754,220	409,064
2017	51,208,185	28,778,378	22,429,807	135,036,293	162,553,761	(5,626,381)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2020	8.4%	79.2%	13.3%	16.7%
2019	5.6	82.6	12.5	-7.4
2018	0.2	87.8	12.1	15.5
2017	-3.2	91.9	11.5	0.3

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2020	60,572	256.89	4.8
2019	51,780	291.55	4.6
2018	55,916	290.49	4.5
2017	48,408	278.89	4.9

Per Member Per Month Information

	2020	2019	Percentage Change
Premiums:			
Commercial	\$612.02	\$624.56	-2.0%
Medicare Supplement	614.08	619.67	-0.9
Medicaid	<u>195.28</u>	<u>193.90</u>	0.7
Blended	<u>236.01</u>	<u>233.19</u>	1.2
Expenses:			
Hospital/medical benefits	159.84	164.09	-2.6
Emergency room and out-of-area	20.01	21.78	-8.1
Prescription Drugs	4.17	4.32	-3.5
Incentive pool and withhold adjustments	2.21	2.45	-9.8
Less: Net reinsurance recoveries	<u>0.42</u>	<u>0.60</u>	-30.0
Total medical and hospital	\$185.81	192.04	-3.2%
Claims adjustment expenses	\$7.10	\$7.56	-6.1%
General administrative expenses	<u>24.03</u>	<u>21.53</u>	11.6
Total underwriting deductions	<u>\$ 216.94</u>	<u>\$ 221.13</u>	-1.9%

Assets increased 39.5%, liabilities decreased 5%, and capital and surplus increased 96.6% during the period under examination. The increase in surplus was mostly caused by net gains in 2019 and 2020 totaling \$8.4 million and \$13.4 million respectively. The cooperative's cash and invested assets peaked in 2020 at \$63.9 million and has consistently increased during the period under examination primarily due to decreasing medical costs. The medical expense ratio decreased each year under examination from 91.9% in 2017 to 79.2% in 2020, while the administrative expense ratio increased each year from 11.5% in 2017 to 13.3% in 2020. The cooperative experienced an overall enrollment increase of 24.8% over the period. Group enrollment decreased by 2,190 and Medicaid enrollment increased by 14,356 members.

Financial results for 2020 were favorable as the cooperative experienced net income of \$13.4 million. The favorable financial results were due to decreases in the medical expense ratio as well as increases in enrollment since the prior examination as of December 31, 2017. Per member per month premium and medical expenses increased 1.2% and decreased 3.2%, respectively. Both the Group Comprehensive and the Medicaid line were profitable, along with the Medicare Supplement line contributing a small net income as well. The combined ratio was 98.0% and 90.6% for Group and Medicaid, respectively.

Financial Requirements

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

- | | |
|---|---|
| 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 cooperative's calculation as of December 31, 2020, as modified for examination adjustments is as follows:

Assets			\$71,427,480
Less:			
Special deposit			1,499,672
Liabilities			<u>27,329,307</u>
Assets available to satisfy surplus requirements			42,598,501
Net premium earned			
HMO business	\$159,432,571		
Factor		3%	
Total	<u> </u>		\$4,782,977
Incidental Indemnity	0		
Factor		10%	
Total	<u> </u>		<u> 0</u>
Compulsory surplus			<u>4,782,977</u>
Compulsory Surplus Excess (Deficit)			<u>\$37,815,524</u>
Assets available to satisfy surplus requirements			\$42,598,501
Compulsory surplus			\$4,782,977
Security factor			<u> 136%</u>
Security surplus			<u>6,504,848</u>
Security Surplus Excess (Deficit)			<u>\$36,093,653</u>

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

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

The cooperative has satisfied this requirement for 2020 with a deposit of \$1,500,000 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 capital and surplus reported by the cooperative as of December 31, 2020, is accepted.

Examination Reclassifications

There were no examination reclassifications as a result of this examination.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

1. Engagement Letter—It is recommended that the cooperative comply with s. Ins 50.08 (1) (am), Wis. Adm. Code, as regards qualifications of independent certified public accountants.

Action—Compliance.

2. Custodial Agreement—It is recommended that the cooperative obtain a safekeeping agreement with proper language as required by the NAIC *Financial Condition Examiners Handbook*.

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 cooperative's operations is contained in the examination work papers.

Management Agreement

Management services for GHC-EC are provided through a management and administrative services agreement with KMTSJ, effective January 1, 2017, as previously noted in Section III. Management and Control. The review of the management agreement revealed that the termination clauses of the agreement did not specify ownership of reports, information, data, or other intellectual property. This should be the property of the cooperative. The lack of this detail in the management agreement of GHC-EC could impair the interests of its insureds, creditors, or the public in this state in the event the agreement is terminated. It is recommended that the Management and Administrative Services Agreement, dated January 1, 2017, be amended to grant ownership of reports, information, data, or other intellectual property to the insurer, in accordance with s. 185.983, Wis. Stat.

Reinsurance Intermediary-Broker Agreement

The current reinsurance agreement with HM Life Insurance Company was reviewed as part of the examination. The reinsurance agreement was found to contain a reinsurance intermediary, EPIC Reinsurance (Edgewood Partners Insurance Center) under Article XVI of the agreement. The cooperative indicated they do not have an agreement with the reinsurance intermediary-broker. An executed agreement with the reinsurance intermediary-broker is required in accordance with s. Ins. 47.03 Wis. Adm. Code which includes the following provisions:

- (1) The insurer may terminate the reinsurance intermediary-broker authority at any time.
- (2) The reinsurance intermediary-broker will render accounts to the insurer accurately detailing all material transactions, including information necessary to support all commissions, charges, and other fees received by, or owing, to the reinsurance intermediary-broker, and remit all funds due to the insurer within 30 days of receipt.
- (3) The reinsurance intermediary-broker will hold all funds collected for the insurer's account in a fiduciary capacity in a qualified United States financial institution.

- (4) The reinsurance intermediary-broker will comply with s. Ins 47.04 Wis. Adm. Code.
- (5) The reinsurance intermediary-broker will comply with the written standards established by the insurer for the cession or retrocession of all risks.
- (6) The reinsurance intermediary-broker will disclose to the insurer any relationship with any reinsurer to which business will be ceded or retroceded.

It is recommended the cooperative execute an agreement with its reinsurance intermediary-broker in accordance with s. Ins. 47.03 Wis. Adm. Code that includes the provisions noted above.

It is further recommended the cooperative comply with s. Ins. 47.05 (3), Wis. Adm. Code which states: "an insurer shall annually obtain a copy of statements of the financial condition of each reinsurance intermediary-broker with which it transacts business."

VII. CONCLUSION

Group Health Cooperative of Eau Claire is a nonprofit network model health maintenance organization insurer that was incorporated on May 23, 1972, and commenced business on November 1, 1976. The cooperative is licensed under the provisions of ch. 185, Wis. Stat., as a cooperative health care association.

The cooperative markets to employer groups. The cooperative also participates in the Wisconsin BadgerCare Plus Managed Care program. The cooperative contracts with clinics and hospitals to provide primary and specialist services. The cooperative's service area is comprised of 45 counties in Wisconsin.

The cooperative's operations have been profitable in all three years over the three-year period under examination. In 2020, the cooperative reported net income of \$13.4 million. The favorable financial results were due to decreases in the medical expense ratio as well as increases in enrollment since the prior examination as of December 31, 2017. The cooperative has an excess of loss reinsurance policy to protect against large claims.

The examination produced three recommendations as shown on the following page. The cooperative complied with the two recommendations from the last examination.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Management Agreement—It is recommended that the Management and Administrative Services Agreement, dated January 1, 2017, be amended to grant ownership of reports, information, data, or other intellectual property to the insurer, in accordance with s. 185.983, Wis. Stat.
2. Page 24 - Reinsurance Intermediary-Broker Agreement—It is recommended the cooperative execute an agreement with its reinsurance intermediary-broker in accordance with s. Ins. 47.03 Wis. Adm. Code that includes the provisions noted above.
3. Page 24 - Reinsurance Intermediary-Broker Agreement—It is further recommended the cooperative comply with s. Ins. 47.05 (3) Wis. Adm. Code, which states: "an insurer shall annually obtain a copy of statements of the financial condition of each reinsurance intermediary-broker with which it transacts business."

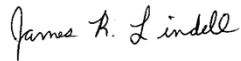
IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the cooperative 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
Aaron Kenseth	Insurance Financial Examiner
Nicholas Siskoff	Insurance Financial Examiner
James Krueger	Data Specialist
Junji Nartatez	IT Specialist
Nicholas Hartwig	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



James Lindell
Examiner-in-Charge