

Report
of the
Examination of
Group Health Cooperative of Eau Claire
Eau Claire, Wisconsin
As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

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August 27, 2018

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Honorable Theodore K. Nickel
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 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 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 financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement

instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

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

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

II. HISTORY AND PLAN OF OPERATION

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/or independent contracting physicians operating out of their separate offices. HMOs compete with traditional fee-for-service health care delivery.

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 1493 specialty clinics, with 22,947 total contracted physicians. Providers are generally reimbursed on a discounted fee-for-service basis. 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 required to designate a primary care physician/clinic, which oversees referrals for specialty care when needed.

The cooperative entered into an agreement with Compcare Health Services Insurance Corporation (Compcare), a Wisconsin-domiciled health maintenance organization insurer, under which the cooperative provided Medicaid contract services to recipients enrolled in Compcare's State Medicaid Plan in western Wisconsin. GHC-EC received the Medicaid HMO capitation rate based on per member per month, less a base fee, for all Compcare enrollees. The initial term of this contract was five and a half years, which had expired on December 31, 2003, and was renewed through December 31, 2017. The contract was amended effective July 1, 2010, to include the provision of certain administrative services on a per member per month basis for Compcare Medicaid enrollees in southeastern Wisconsin. Effective

July 1, 2014, Compcare terminated the administrative services portion of the contract with GHC-EC. The risk portion for HMO services terminated on December 31, 2017, when Compcare discontinued the Compcare-branded HMO product and continued with a Anthem Blue Cross/Blue Shield-branded HMO product.

The cooperative contracts with the hospitals listed in the Appendix to provide inpatient services. Hospitals are reimbursed on a discounted fee-for-service basis. The contracts include hold-harmless provisions for the protection of enrollees.

According to its business plan, the cooperative's service area is comprised of the following 45 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 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. Outpatient therapies, including mental health/AODA, PT, OT, or speech, are 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). Speech therapy, which generally requires authorization following the initial evaluation, is the only exception. 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.

Effective January 1, 2017, the cooperative began to provide behavioral health administrative and case management services to Medicaid HMO enrollees of Trilogy Health Insurance, Inc. (Trilogy). For providing assessments and care coordination, Trilogy pays a per-month/capitated service fee. Non-standard reports and/or audit assistance is billed separately at an hourly rate. On August 1, 2017, the

agreement was amended due to Trilogy no longer providing services to SSI members, and the monthly fee was reduced accordingly. This agreement is automatically renewable for an additional one year.

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. The administrator establishes specific group rates based on per member per month premium targets. 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 13 members. The bylaws state that the number of directors will be at least 12, but not more than 17. 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 her/himself after having served three consecutive three-year terms. The board members receive \$25 per meeting if they attend at least 75% of all board and committee meetings during the year. There is a \$25 per diem paid for each board and committee meeting attended. 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
Mary Beth Steinke Eau Claire, WI	General Manager, Huebsch Services	2019
Charity Lynn Zich Eau Claire, WI	Airport Director, Chippewa Airport	2019
Dessin Matthew Campbell Eau Claire, WI	Plant Manager, Mail Source Inc	2018
Michael Lee Phillips Altoona, WI	Director of Sales, Phillips Career Center	2020
Douglas James Hoffer Chippewas Falls, WI	Asst. City Attorney, City of Eau Claire	2018
Wesley Raymund Escondo Altoona, WI	CEO, Big Brother Big Sister	2018

Name and Residence	Principal Occupation	Term Expires
James Lawrence Ward Elk Mound, WI	President, Applied Data Consultants	2020
Robert John Moelter Elk Mound, WI	President, American Ice Co., Inc	2018
Luke John Salter Eau Claire, WI	Manager, Trubuilt Collision	2019
Daniel Robert Pekol Eau Claire, WI	Owner, Bee Hive Homes	2020
Kory Shea Weathers Colfax, WI	Partner, Anderson Bridges LLC	2020
Peter Scott Kelly Eleva, WI	Interim Superintendent, Eleva Strum School	2020
Brian Michael Lanners Eau Claire, WI	Service Manager, Huebsch Services	2021

Officers of the Company

The officers serving at the time of this examination are as follows. These officers comprise the executive committee of the board. Individuals do not receive additional compensation for serving as officers:

Name	Office
Mary Beth Steinke	President
Douglas James Hoffer	First Vice President
Michael Lee Phillips	Second Vice President
Lucas John Salter	Secretary
Dessin Matthew Campbell	Treasurer

Committees of the Cooperative

The cooperative had the following committees at the time of the examination:

Bylaws & Nominations Committee

Peter Farrow, Chair
Charity Lynn Zich
Kory Shea Weathers
Luke John Salter
Mary Beth Steinke
Michael Lee Phillips
Wesley Raymund Escondo

Fiscal Committee

Bob Tanner, Chair
Robert John Moelter
Charity Lynn Zich
Dessin Matthew Campbell
Douglas James Hoffer
Kory Shea Weathers
Luke John Salter
Michael Phillips

Member Relations Committee

Kelsi Baldovin, Chair
Robert John Moelter
Charity Lynn Zich
Douglas James Hoffer
Dr. Kellie Manning
James Lawrence Ward
Mary Beth Steinke
Michael Lee Phillips

Personnel & Policy Committee

Shelly Pryse, Chair
Douglas James Hoffer
Dr. Kellie Manning
Mary Beth Steinke
Michael Lee Phillips
Wesley Raymund Escondo

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

- Services:** KMTSJ agrees to provide finance and accounting, marketing and member and provider services, claims processing and provider relations, human resources and payroll, compliance and legal, wellness and health promotion, management of cooperative employees and case management, information technology, underwriting, and 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, 2022, 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 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 cooperative has met this requirement through its reinsurance contract, as discussed in the Reinsurance section of this report.

IV. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	HM Life Insurance Company (HM Life)
Type:	Excess of Loss Reinsurance
Effective date:	January 1, 2018–December 31, 2018
Retention:	Commercial: \$550,000 per Member/Agreement Year Medicaid: \$200,000 per Member/Agreement Year Medicaid/Medicare Duals: \$200,000 per Member/Agreement Year
Reinsurance limit:	The maximum the reinsurer will pay, subject to coinsurance, is: All Commercial: \$5,000,000 per Member per Agreement Year, \$5,000,000 Per Member Per Lifetime; Medicaid & Medicare: \$2,000,000 Per Member per agreement year, \$2,000,000 per member per 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) Company's negotiated amount (approved by the reinsurer) (e) Medicare DRG fee schedule (duals only). For Medicaid and Medicare enrollees, eligible inpatient hospital expenses are limited to an average daily maximum (ADM) of \$3,500 (per confinement). There is no ADM for commercial enrollees.
Termination:	The reinsurer may terminate this agreement upon the occurrence of any of the following: (a) Nonpayment of premium; (b) The company acquires the assets and liabilities of any another company, corporation or foundation, or is acquired, come under control of, or merged with any other company, corporation or foundation; (c) The company is ordered by the Department of Insurance or other legal authority to cease writing business that is reinsured under this agreement; (d) The company is placed into liquidation or receivership or there has been instituted against the company proceedings for the appointment of a receiver, liquidator, rehabilitator, trustee, conservator, statutory successor, or other legal agent to take possession of the company's assets or control of its operation; (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' advance written notice.

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

1. HM Life will continue plan benefits for members who are confined in a hospital or any other eligible inpatient facility on the date of insolvency until the earliest of:
 - The member(s) discharge from the hospital; or
 - 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
 - 365 days from the date in which the company's insolvency occurs.
2. HM Life will continue plan benefits for member(s) with respect to expenses incurred for medical services or treatment received after the date of company insolvency until the end of the period for which premium was received by the company for member(s) prior to the date of company 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 company. 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).

Coverage under the above endorsement is subject to a maximum total benefit of

\$5 million.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2017, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company for the period under examination.

**Group Health Cooperative of Eau Claire
Assets
As of December 31, 2017**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$41,559,452	\$	\$41,559,452
Properties held for sale			
Cash, cash equivalents, and short-term investments	2,108,181	25,150	2,083,031
Investment income due and accrued	208,967		208,967
Uncollected premiums and agents' balances in the course of collection	5,871,785	6,265	5,865,520
Health care and other amounts receivable	1,574,106	82,891	1,491,215
Write-ins for other than invested assets:			
Prepaid Expenses	<u>382,156</u>	<u>382,156</u>	<u> </u>
Total Assets	<u>\$51,704,647</u>	<u>\$496,462</u>	<u>\$51,208,185</u>

**Group Health Cooperative- Eau Claire
Liabilities and Net Worth
As of December 31, 2017**

Claims unpaid		\$23,206,067
Unpaid claims adjustment expenses		648,352
Aggregate health policy reserves		1,156,922
Premiums received in advance		3,418,063
General expenses due or accrued		346,663
Amounts withheld or retained for the account of others		<u>2,311</u>
Total Liabilities		28,778,378
Aggregate write-ins for special surplus funds	\$ 341,019	
Gross paid in and contributed surplus	1,001,422	
Aggregate write-ins for other than special surplus funds	1,430	
Unassigned funds (surplus)	<u>21,085,936</u>	
Total Capital and Surplus		<u>22,429,807</u>
Total Liabilities, Capital and Surplus		<u>\$51,208,185</u>

**Group Health Cooperative- Eau Claire
Statement of Revenue and Expenses
For the Year 2017**

Net premium income		\$135,036,293
Risk revenue		41,813,440
Aggregate write-ins for other non-health revenues		<u>92,000</u>
Total revenues		176,941,733
Medical and Hospital:		
Hospital/medical benefits	\$140,582,103	
Emergency room and out-of-area	17,328,200	
Prescription drugs	4,643,228	
Incentive pool and withhold adjustments	<u>230</u>	
Subtotal	162,553,761	
Less		
Claims adjustment expenses	4,541,572	
General administrative expenses	<u>15,868,338</u>	
Total underwriting deductions		<u>182,963,671</u>
Net underwriting gain or (loss)		(6,021,938)
Net investment income earned	845,850	
Net realized capital gains or (losses)	<u>(450,293)</u>	
Net investment gains or (losses)		<u>395,557</u>
Net income (Loss)		<u>\$ (5,626,381)</u>

**Group Health Cooperative- Eau Claire
Capital and Surplus Account
For the Four-Year Period Ending December 31, 2017**

	2017	2016	2015	2014
Capital and surplus, beginning of year	\$27,964,791	\$31,015,443	\$24,313,344	\$18,215,406
Net income (loss)	(5,626,381)	(2,916,915)	6,544,722	12,537,515
Change in net unrealized capital gains/losses		6,782	(6,780)	
Change in nonadmitted assets	91,397	(140,519)	164,157	(439,577)
Change in surplus notes				(6,000,000)
Surplus, End of Year	<u>\$22,429,807</u>	<u>\$27,964,791</u>	<u>\$31,015,443</u>	<u>\$24,313,344</u>

**Group Health Cooperative- Eau Claire
Statement of Cash Flow
For the Year 2017**

Premiums collected net of reinsurance		\$133,951,946
Net investment income		972,661
Miscellaneous income		<u>41,905,440</u>
Total		176,830,047
Less:		
Benefit- and loss-related payments	\$163,116,400	
Commissions, expenses paid, and aggregate write-ins for deductions	21,302,437	
Federal and foreign income taxes paid (recovered)		
\$0 net tax on capital gains (losses)	<u>469</u>	
Total		<u>184,419,306</u>
Net cash from operations		(7,589,259)
Proceeds from Investments Sold, Matured, or Repaid:		
Bonds	15,686,159	
Cost of Investments Acquired—Long-term Only:		
Bonds	\$12,524,158	
Miscellaneous applications	<u>250,000</u>	
Total investments acquired	<u>12,774,158</u>	
Net cash from investments		2,912,001
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>217,362</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(4,459,896)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>6,568,076</u>
End of Year		<u>\$ 2,108,180</u>

Growth of Group Health Cooperative- Eau Claire

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2017	\$51,208,185	\$28,778,378	\$22,429,807	\$135,036,293	\$162,553,761	\$(5,626,381)
2016	56,525,917	28,561,126	27,964,791	130,575,484	157,240,163	(2,916,915)
2015	58,177,495	27,162,052	31,015,443	117,006,065	138,166,650	6,544,722
2014	48,989,554	24,676,210	24,313,344	102,189,965	107,638,899	12,537,515
2013	42,158,499	23,943,093	18,215,406	133,958,323	147,108,336	4,404,568

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2017	-3.2%	91.9%	11.5%	0.3%
2016	-1.7	90.3	11.7	5.1
2015	4.0	84.2	12.1	17.5
2014	9.0	78.7	13.3	-4.2

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2017	48,408	278.89	4.9
2016	48,254	282.49	4.7
2015	45,924	285.33	4.1
2014	39,091	343.85	4.0

Per Member Per Month Information

	2017	2016	Percentage Change
Premiums:			
Commercial	\$513.11	\$532.38	-3.6%
Medicare Supplement	603.22	513.94	17.6
Medicaid	<u>179.35</u>	<u>174.16</u>	2.9
Blended	<u>230.98</u>	<u>226.88</u>	1.8
Expenses:			
Hospital/medical benefits	242.01	232.29	4.2
Emergency room and out-of-area	29.83	32.09	-7.1
Prescription Drugs	8.00	7.22	10.8
Incentive pool and withhold adjustments	<u>0.00</u>	<u>(0.05)</u>	0
Total medical and hospital	279.84	271.55	3.1
Claims adjustment expenses	7.82	6.92	13.0
General administrative expenses	<u>27.32</u>	<u>28.34</u>	-3.6
Total underwriting deductions	<u>\$314.97</u>	<u>\$306.81</u>	2.7

Assets increased 21.5%, liabilities increased 16.6%, and capital and surplus increased 23.1% during the period under examination. The increase in surplus was caused by net losses in 2016 and 2017 totaling \$8.5 million, a surplus note payoff of \$6 million, and a decrease of \$0.3 million due to changes in nonadmitted assets \$0.3 million. These decreases were offset by net income in 2014 and 2015 totaling \$19.1 million resulting in an overall increase of \$4.2 million. The cooperative's cash and invested assets peaked in 2015 at \$53.4 million and have declined to \$43.6 million primarily due to high medical losses in 2016 and 2017. The medical loss ratio increased each year under examination from 78.7% in 2014 to 91.9% in 2017, while the administrative expense ratio decreased each year from 13.3% in 2014 to 11.5% in 2017. The cooperative experienced an enrollment increase of 24.8% (excluding dental) over the period. Group and Medicaid enrollment increased by 2,027 and 7,589 members, respectively.

Financial results for 2017 were unfavorable as the cooperative experienced a net loss of \$5.6 million. Per member per month premium and medical expenses increased 1.8% and 3.1%, respectively. The Medicaid line was profitable; however, the income from this line could not offset losses in the group comprehensive line. The Medicare Supplement line contributed a small net income (\$14,753) as well. The combined ratio was 117.0% and 98.7% for group and Medicaid, respectively.

Losses have continued into 2018; however, the financial results show significant improvement with a net loss of \$0.59 million through the second quarter. The combined ratio has improved from 103.4% at year end 2017 to 100.6% through the second quarter of 2018.

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; |

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 company as of December 31, 2017, 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 was one recommendation in the previous examination report. The recommendation and the action taken by the company were as follows:

1. Investment Custodial Agreement—It is recommended that the cooperative either maintain securities in its own name or under a custodial agreement with a bank or banking and trust company in accordance with s. 610.23 (1), Wis. Stat.

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.

Engagement Letter

The review of the CPA engagement letter for the 2017 audit revealed that the engagement letter from the auditor to Group Health Cooperative of Eau Claire contained the following indemnification clause:

Because of the importance of management's representations to an effective audit, the Company agrees to release and indemnify [the auditor], its partners, employees, agents, and assigns from any liability, cost, or expense relating to our services under this Letter attributable to any knowing misrepresentation by management. The preceding sentence shall not apply and shall be of no effect in the event its application, in the judgment of any government body or regulatory agency, would impair our independence as your auditor.

Section Ins 50.08 (1) (am), Wis. Adm. Code, provides that the commissioner may rule that an accounting firm is not qualified for purposes of expressing an opinion if, among other conditions, it has entered either directly or indirectly into an agreement of indemnification with respect to the audit of the insurer. Based on the language cited above, it appears that Group Health Cooperative has entered into an agreement of indemnification with respect to the audit of the cooperative. 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.

Custodial Agreement

The safekeeping agreement with Stifel Nicolaus was reviewed as part of the examination. The agreement reviewed did not contain the following provision as required by the NAIC Financial Condition Examiners' Handbook:

Custodian shall not be liable for any failure to take any action required to be taken hereunder in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil

commotion, act of God, accident, fire, explosions, stoppage of labor, strikes or other differences with employees, laws, regulations, orders of other acts of government authority, or any other cause whatever beyond its reasonable control.

It is recommended that the cooperative obtain a safekeeping agreement with proper language as required by the NAIC Financial Condition Examiners' Handbook.

VII. CONCLUSION

Group Health Cooperative of Eau Claire is a nonprofit network model health maintenance organization (HMO) 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. As of December 31, 2017, the HMO generated approximately 34% of its premium revenues from its commercial group business. The remaining 66% was from the Medicaid business. The company's service area is comprised of 45 counties in Wisconsin.

The cooperative's operations have been profitable in two years over the four-year period under examination. In 2017, the cooperative reported a loss of \$5.6 million. The loss was caused by increase in commercial loss ratios and lower Medicaid reimbursement. The cooperative has an excess of loss reinsurance policies to protect against large claims.

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

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - 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.
2. Page 23 - Custodial Agreement—It is recommended that the cooperative obtain a safekeeping agreement with proper language as required by 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 is acknowledged.

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

Name	Title
Marisa Rodgers	Insurance Financial Examiner
Dana Tice	Insurance Financial Examiner
Karl Albert	Quality Review Specialist
Jerry DeArmond	Policy and Claim Reserve Specialist
David Jensen	IT Specialist

Respectfully submitted,

Vickie Ostien
Examiner-in-Charge

X. APPENDIX

Contracting Hospitals

Abbot Northwestern Hospital-Minneapolis, MN
Amery Regional Medical Center-Amery, WI
Ascension St. Mary's Hospital-Rhineland, WI
Ascension St. Michael's Hospital-Stevens Point, WI
Ascension Eagle River Memorial Hospital-Eagle River, WI
Ascension Good Samaritan Health Center of Merrill WI Inc.-Merrill, WI
Ascension Our Lady of Victory Hospital-Stanley, WI
Ascension Sacred Heart Hospital-Tomahawk, WI
Ascension St. Clare's Hospital-Weston, WI
Aspirus Grand View Hospital-Ironwood, MI
Aspirus Medford Hospital-Medford, WI
Aspirus Wausau Hospital-Wausau, WI
Aspirus Keweenaw Hospital- Laurium, MI
Aspirus Ontonagon Hospital- Ontonagon, MI
Aspirus Riverview Hospital Association-Wisconsin Rapids, WI
Black River Memorial Hospital-Black River Falls, WI
Burnett Medical Center-Grantsburg, WI
Children's Hospitals Minneapolis-Minneapolis, MN
Children's Hospitals of Wisconsin-Milwaukee, WI
Chippewa Valley Hospital and Oakview Care Center, Inc.-Durand, WI
Columbus Community Hospital
Community Memorial Hospital-Cloquet, MN
Crossing Rivers Health Medical Center-Prairie Du Chien, WI
Cumberland Memorial Hospital-Cumberland, WI
Divine Savior Portage, WI
Door County Memorial Hospital-Sturgeon Bay, WI
Essentia Health Duluth-Duluth, MN
Essentia Health Grand Rapids Clinic-Deer River, MN
Essentia Health Northern Pines-Aurora, MN
Essentia Health Sandstone-Sandstone, MN
Essentia Health St. Mary's Hospital-Superior, MN
Essentia Health St. Mary's Medical Center-Duluth, MN
Essentia Health Virginia, LLC-Virginia, MN
Flambeau Hospital-Park Falls, WI
Grant Regional Health Center-Lancaster, WI
Gundersen Boscobel Area Hospital and Clinics-Boscobel, WI
Gundersen Lutheran Medical Center-La Crosse, WI
Gundersen St Joseph's Hospital and Clinics-Hillsboro, WI
Gundersen Tri County Hospital and Clinic-Whitehall, WI
Gundersen Moundview Memorial Hospital-Friendship, WI
Guttenberg Municipal Hospital-Guttenberg, IA
Hayward Area Memorial Hospital-Hayward, WI
Hennepin County Medical Center-Minneapolis, MN
Howard Young Medical Center-Woodruff, WI
HSHS St. Nicholas Hospital- Sheboygan, WI
HSHS St. Vincent Hospital- Green Bay, WI
HSHS St. Clare Hospital- Oconto Falls, WI
HSHS St. Mary's Hospital-Green Bay, WI
Hudson Hospital, Inc.-Hudson, WI
Indianhead Medical Center-Shell Lake, WI
Mayo Clinic Health System Lake City Hospital-Lake City, MN
Mayo Clinic Health System Northland Hospital-Barron, WI
Mayo Clinic Health System Oakridge Hospital-Osseo, WI
Mayo Clinic Health System Red Cedar Hospital-Menomonie, WI
Mayo Clinic Health System Red Wing Hospital-Red Wing, MN
Mayo Clinic Health System Albert Lea, MN
Mayo Clinic Health System Austin, MN
Mayo Clinic Health System Cannon Falls, MN
Mayo Clinic Health System Fairmont, MN
Mayo Clinic Health System Mankato, MN
Mayo Clinic Health System New Prague, MN
Mayo Clinic Health System Springfield, MN
Mayo Clinic Health System Waseca, MN
Memorial Hospital of Lafayette County-Darlington, WI
Memorial Medical Center-Ashland, WI
Memorial Medical Center-Neillsville, WI
Meriter Hospital-Madison, WI
Mile Bluff Medical Center-Mauston, WI
North Central Health Care- Wausau, WI
North Memorial Medical Center-Robbinsdale, MN
Northstar Health System- Iron River, MI
Oakleaf Surgical Hospital-Eau Claire, WI
Osceola Medical Center-Osceola, WI
Palmer Lutheran- West Union, IA
Phillips Eye Institute-Minneapolis, MN
Reedsburg Area Medical Center-Reedsburg, WI
Regina Medical Complex-Hastings, MN
Regions Hospital-St. Paul, MN
Richland Hospitals, Inc.-Richland Center, WI
River Falls Area Hospital-River Falls, WI
Rusk County Memorial Hospital-Ladysmith, WI
Sacred Heart Hospital-Eau Claire, WI
Southwest Health Center-Platteville, WI
Spooner Health System Hospital-Spooner, WI
St. Clare's Hospital and Health Services-Baraboo, WI
St. Clare's Hospital Dialysis Center-Baraboo, WI
St. Croix Regional Medical Center-St. Croix Falls, WI
St. Elizabeth Hospital-Wabasha, MN
St. Joseph's Hospital-Chippewa Falls, WI
St. Luke's Hospital-Duluth, MN
St. Mary's HMC Madison-Madison, WI
St. Vincent Libertas Green Bay
St. Vincent Libertas Marinette
St. Vincent Libertas Sheboygan
The Monroe Hospital and Clinics-Monroe, WI
Tomah Memorial Hospital-Tomah, WI
United Hospital, Inc.-St. Paul, MN
University of Wisconsin Hospital and Clinics Authority-Madison, WI
UW Health Rehabilitation Hospital- Madison WI
Upland Hills Health Center-Dodgeville, WI
Vernon Memorial Hospital-Viroqua, WI
Westfield Hospital, Inc.-New Richmond, WI

Lake View Hospital- Two Rivers
Lakeview Medical Center, Inc., of Rice Lake-Rice Lake,
WI
Lakeview Memorial Hospital-Stillwater, MN
Langlade Memorial Hospital-Antigo, WI
LE Phillips Libertas Center-Chippewa Falls, WI
Libertas Green Bay-Green Bay, WI
Maple Grove Hospital-Maple Grove, MN
Marshfield Hospital-Marshfield, WI
Mayo Clinic Health System Chippewa Valley Hospital-
Bloomer, WI
Mayo Clinic Health System Eau Claire Luther Campus-
Eau Claire, WI
Mayo Clinic Health System Franciscan HC La Crosse-
La Crosse, WI
Mayo Clinic Health System Franciscan HC Sparta-
Sparta, WI

Western Wisconsin Health-Baldwin, WI
Winona Community Hospital- Winona, MN