

Report  
of the  
Examination of  
Health Tradition Health Plan  
Onalaska, Wisconsin  
As of December 31, 2015

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

February 20, 2017

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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:

HEALTH TRADITION HEALTH PLAN  
Onalaska, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Health Tradition Health Plan (HTHP or the company) was conducted in 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 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 the audit of 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

Health Tradition Health Plan is described as a for-profit group model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, comprehensive health care services performed by providers selected by the organization." Under the group model, the company contracts with a sponsoring clinic to provide primary and specialist services. HMOs compete with traditional fee-for-service health care delivery.

The company was incorporated on January 16, 1986, and commenced business on April 28, 1986, as Greater La Crosse Health Plan, Inc. The company changed its name to Health Tradition Health Plan on September 24, 2001. The company is a wholly owned subsidiary of Mayo Holding Company, which is in turn owned by Mayo Clinic (the ultimate parent of the Group).

The company provides care to its members through a network of more than 350 primary care providers and over 250 specialty care providers. Since Health Tradition Health Plan is primarily a group model HMO, the physicians are retained through contracts with clinics. At the time of the examination the company contracted with more than 100 clinics with a total of more than 1,000 physicians or practitioners (see Exhibit A – List of Primary Care Providers). The physicians provide the necessary medical care, including emergency care, to the enrollees or members who seek such services. The physicians shall submit all bills to the principal provider for covered services rendered to the enrollees, and thereafter, reimbursement from HTHP to the provider shall be limited to the amount stipulated in the provider contract, less applicable copayments, deductibles and coinsurance amounts.

The company currently contracts with participating hospitals to provide inpatient services. Mayo Clinic Health System-Eau Claire and Franciscan Healthcare (MCHS-EC and FSH) and its participating affiliates are reimbursed on a capitation basis for commercial, Medicaid, and Medicare Select products. Non-MCHS affiliated hospitals are reimbursed on (a) a negotiated per diem and discounted fee-for-service basis for commercial group products and

(b) according to Medicare Assignment, including the Part B deductible and copayments allowed by Medicare for covered services for the Medicare Select product. Discounts on fee-for-service payments to non-capitated providers for hospital services range from 85% to 100% of the usual and customary charges.

The following is a listing of hospitals in which participating physicians have admitting privileges:

1	Black River Memorial Hospital	Black River Falls, WI 54615
2	Boscobel Area Health Care	Boscobel, WI 53805
3	Chippewa Valley Hospital	Durand, WI 54736
4	Mayo Clinic Health System	Barron, WI 54812
	Location 2	Bloomer, WI 54724
	Location 3	Eau Claire, WI 54702
	Location 4	La Crosse, WI 54601
	Location 5	Menomonie, WI 54751
	Location 6	Osseo, WI 54758
	Location 7	Sparta, WI 54656
	Location 8	Red Wing, MN 55066
5	Mile Bluff Medical Center Inc.	Mauston, WI 53948
6	Crossing Rivers Health	Prairie du Chien, WI 53821
7	Reedsburg Area Medical Center	Reedsburg, WI 53959
8	Saint Elizabeth's Medical Center	Wabasha, MN 55981
9	Mayo Clinic Hospital – Rochester	Rochester, MN 55902
10	St. Joseph's Memorial Hospital	Hillsboro, WI 54634
11	The Richland Hospital	Richland Center, WI 53581
12	Tomah Memorial Hospital	Tomah, WI 54660
13	Vernon Memorial Hospital	Viroqua, WI 54665
14	Veteran's Memorial Hospital	Waukon, IA 52172
15	Winneshiek Medical Center	Decorah, IA 52101
16	Winona Health Services	Winona, MN 55987

The provider contracts are effective for a term of one year and shall automatically renew annually unless either party gives 90 days' written notice to the other party prior to the end of any contract year.

The provider contracts include hold-harmless provisions for the protection of the enrollee or member. The contracts prohibit the provider from: (a) billing, charging, or collecting a deposit from the member; (b) seeking remuneration or compensation from the member; (c) filing or threatening to file with a credit reporting agency; and (d) having any recourse against a member or any person acting on the member's behalf for health care costs of which the member

is not liable. This includes nonpayment in the event of insolvency or breach of contract with HTHP.

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

Barron	Grant	Richland
Buffalo	Jackson	Rusk
Chippewa	Juneau	Sauk
Crawford	La Crosse	Trempealeau
Dunn	Monroe	Vernon
Eau Claire	Pepin	

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

- Office visits for illness or injury
- Inpatient services
- Outpatient services
- Skilled nursing facility care
- Outpatient diagnostic test
- Mental health, drug, and alcohol abuse services
- Ambulance services
- Emergency services
- Home health care/hospice
- Breast reconstruction
- Reconstructive/cosmetic surgery
- Certain dental procedures (injury, periodontal, and oral surgery)
- Prosthetic devices and durable medical equipment
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Mental health and alcohol and other drug abuse (AODA)
- Preventive health services
- Family planning
- Hearing exams
- Diabetes treatment
- Routine eye examinations
- Maternity services
- Newborn services
- Prescription drugs
- Health education
- Kidney disease treatment
- Second opinion
- TMJ/TMD
- Urgent care
- Weight control/nutrition
- Certain transplants
- Chiropractic services

Emergency services have a copayment, which is waived upon admission into an inpatient facility, and skilled nursing care is limited to 60 days. Plan coverage is contingent on non-emergency services being provided by participating physicians and hospitals or on the referral of participating physicians. Members are encouraged, but not required, to choose a primary care physician from the listing of participating physicians available.

The company currently markets to groups and individuals. HTHP offers six different products consisting of commercial group and individual plans. Following is a brief description of the different lines of business:

1. Health Tradition for Employers. A traditional HMO plan using primary care providers to coordinate a member's care. Referrals are required for out-of-network care.

2. Health Tradition POS for Employers. A point-of-service plan offering out-of-network access beyond the traditional HMO network of Premier. In-network benefits are paid at a higher level than out-of-network benefits.
3. Consumer Choice. High-deductible health plan coordinating with a Health Reimbursement Account (HRA) administered by MMSI Inc. Consumer Choice is available for large employer groups (over 50 enrolled employees), with either the Premier or Premier Plus plan option.
4. 65Plus Medicare Select. Health Tradition Health Plan 65Plus offers protection against the gaps in Medicare coverage. 65Plus supplements Medicare benefits to give additional coverage for Medicare-eligible expenses.
5. Health Tradition for Individuals. For individuals and families who may not have access to a plan through a group or employer. Premier One offers individual standard HMO plans that include copayments and preventive care coverage. The HMO-qualified high-deductible plans are designed to work independently or with a Health Savings Account.
6. BadgerCare Plus. Wisconsin BadgerCare Plus is a state and federal assistance program that provides health care coverage to low-income families.

The company uses outside agents and brokers and pays commission on new and renewal business in accordance with the Schedule of Commissions. Commissions for commercial lines are paid on a per employee per month basis based on the enrollment at the beginning of the contract period. For Premier One individual plans, commissions are paid at a specified rate per contract per policies per month. For 65Plus Supplement (Medicare Select) product, the commissions are paid on a three-tiered scale based on a percentage of premiums. The company may revise the commissions schedule not more than annually and shall provide to the agent 60 days' advance notice prior to the effective date of the contract. The agency contract may be terminated by either party upon written notice to the other party to be effective 180 days from the date of the notice.

The company contracts directly with the Wisconsin Department of Health Services (DHS) to provide specified health care benefits to eligible Medicaid/BadgerCare recipients. In exchange for these services, the company is paid a monthly capitation rate, which is designed to be less than the cost of providing the same services covered under the contract to a comparable Medicaid population on a fee-for-service basis. Premium rates are specified by DHS.



Effective January 1, 1999, the company entered into a contract with UCare Minnesota for the provision of administrative services with respect to the company's Medicaid/BadgerCare program. As compensation for services provided, UCare was paid a fixed per member per month administrative fee. Under the terms of its contract with DHS, the HMO remains accountable for any functions and responsibilities delegated to its subcontractor. The company terminated its contract with UCare effective July 1, 2013. MMSI, Inc. D/B/A Mayo Clinic Health Solutions is now the third-party administrator for all HTHP products.

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

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of ten members. The directors serve at the pleasure of the sole shareholder, Mayo Holding Company. The holding company appoints the voting members of the board of directors. In addition, the Medical Director and the Executive Director of HTHP shall serve on the board of directors as ex-officio, non-voting members. Each director shall hold office until the next annual meeting of shareholders and until a successor shall have been appointed, or until the director's prior death, resignation or removal.

The board members currently receive no additional pay outside of their normal salary for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Occupation</b>	<b>Term Expires</b>
Christina Friederichs Rushford, MN	Director, Mayo Clinic Health System Contracting and Payer Relations	N/A
Sharon Gabrielson Rochester, MN	Chair, Global Business Solutions, Mayo Clinic; Vice Chair, Mayo Clinic Health System Administration	N/A
Peter Hughes Genoa, WI	Regional VP – Business Development & Marketing, Mayo Clinic Health System	N/A
Timothy Johnson, MD Onalaska, WI	Physician, President Mayo Clinic Health System – Franciscan Healthcare	N/A
Steve L. Knudson Rochester, MN	Chair, Contracting and Payer Relations, Mayo Clinic	N/A
Joseph Kruse La Crosse, WI	Chief Administrative Officer, Mayo Clinic Health System	N/A
Mark Matthias Rochester, MN	Vice Chair Finance, Mayo Clinic FAS- Diversified Finance	N/A
Thomas Tiggelaar Onalaska, WI	Vice President – Financial Services, Mayo Clinic Health System	N/A
Brian Whited, MD Owatonna, MN	Vice Chair – Mayo Clinic Health System, Physician Mayo Clinic	N/A
Karen Ytterberg, MD, Chair Rochester, MN	Community Pediatric and Adolescent Medicine, Mayo Clinic	N/A

## Officers of the Company

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

Name	Title	2015 Salary
Karen Ytterberg, MD*	Chair and President	\$0
Timothy Johnson, MD*	Vice President	0
Steve Knudson*	Secretary	0
Mark Matthias*	Treasurer	0

\* The officers are salaried employees of affiliated companies and receive no direct compensation for serving as officers of the company.

## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors only for investigatory and advisory purposes. The committees are not authorized to exercise the power of the board of directors but, instead, shall investigate and advise on those matters as directed by the board. The board of directors serves as the audit committee of the company therefore a separate committee was not considered necessary for the function. The committees at the time of the examination are listed below:

### Marketing Committee

Peter Hughes, Chair  
Martha Binn, MD  
Michael Eckstein  
Timothy Johnson, MD  
Steve Knudson  
Paul Molling, MD  
Brian Rotty

### Finance Committee

Thomas Tiggelaar, Chair  
Paul Bammel  
Martha Binn, MD  
Christina Friederichs  
Kim Hawthorne  
Mark Matthias  
Brian Rotty

HTHP also has the following committees of management:

### Utilization Committee

Martha Binn, MD, Chair  
Cheristi Cognetta-Rieke  
John Merfeld, MD  
Michelle Rein, MD  
Kathryn Tomten  
David Weichert

### Compliance Committee

Joseph Kruse, Chair  
Martha Binn, MD  
Kathleen McNaughton  
Thomas Tiggelaar  
Kathryn Tomten  
David Weichert

**Quality Committee**

Martha Binn, MD, Chair  
Pauline Byom  
Jeffrey Cross  
Kristen Dall-Winther, MD  
Michael Eckstein  
Susan Mohler, RN  
Brian Rotty  
Kathryn Tomten  
Dave Weichert, RN  
Robert Wilcox

The company has no employees. Necessary staff is provided through a Management Service Agreement with Mayo Clinic Health Systems – Franciscan Medical Center Inc. (MCHS-FMC) and an Administrative Services Agreement with MMSI, Inc. (MMSI). Under the Management Service Agreement, effective January 1, 2013, MCHS-FMC agrees to provide management services, human resources functions, information services, and inactive document storage as deemed necessary for the company. MCHS-FMC receives no fee for management services; however, MCHS-FMC receives a fee equal to the sum of the actual gross payroll and benefits for such payroll for all employees dedicated to performing services on behalf of the company. The term of the agreement is one year. Upon expiration of the initial term, the agreement shall automatically renew each calendar year thereafter for successive one-year terms unless terminated. The company may terminate the agreement upon 30 days' written notice if default of standards of performance continues 30 days after notice of such default.

Under the Administrative Services Agreement, effective July 1, 2013, MMSI agrees to provide administrative and data processing services relating to the normal operations of the Plan. In exchange for the services provided, MMSI receives a fixed PMPM fee for administrative services. Mayo Foundation for Medical Education and Research (MFMER) receives an additional fixed monthly fee for each member enrolled in the Mayo Clinic Tobacco Quitline program. The term of the agreement is for two years, beginning on the effective date. Upon expiration of the initial term, the agreement shall automatically be renewed for subsequent one-year terms unless terminated earlier. The company may terminate the agreement upon 180 days' written notice prior to the anniversary date.

**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:

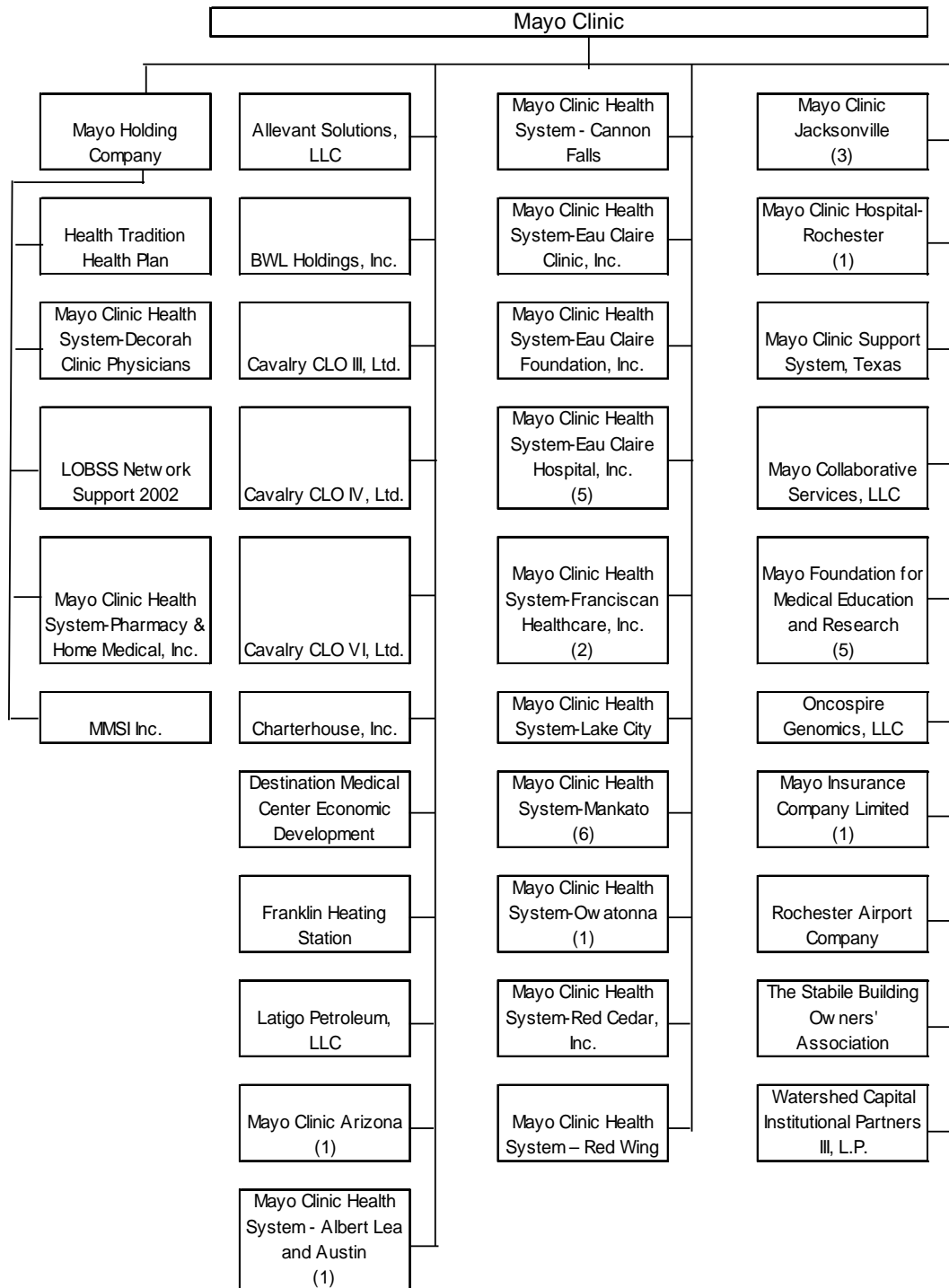
Enrollees hospitalized on the date of insolvency will be covered until discharged.

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

#### **IV. AFFILIATED COMPANIES**

The company is a member of a holding company system. Its ultimate parent is Mayo Clinic. The abbreviated 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, 2015**



Note: The number below the company's name denotes number of subsidiaries downstream.

## **Mayo Clinic**

Mayo Clinic is a Minnesota nonprofit corporation, organized for charitable, educational and scientific purposes. The Clinic's financial statements are audited on a consolidated basis. As of December 31, 2015, Mayo Clinic's audited financial statement reported assets of \$14.3 billion, liabilities of \$6.6 billion, and net assets of \$7.7 billion. Operations for 2015 produced \$526 million of net income on revenues of \$10.3 billion.

As of July 16, 1999, Mayo Foundation was the sole owner of Mayo Group Practices (n/k/a Mayo Holding Company), which owns 100% of the outstanding stock of HTHP. On December 31, 2005, Mayo Foundation changed its name to Mayo Clinic. On January 1, 2010, Mayo Clinic Rochester merged with Mayo Clinic and Mayo Clinic Rochester was the surviving entity, but it changed its name to what is now known as Mayo Clinic, the ultimate parent of the holding company system.

## **Mayo Holding Company**

Mayo Holding Company is a nonprofit taxable Minnesota corporation. It serves as the parent holding company for the majority of the Mayo Clinic taxable subsidiaries. It was organized in July 1986 to coordinate the activities of Mayo Clinic's taxable subsidiaries.

## **MMSI, Inc.**

MMSI, Inc. D/B/A Mayo Clinic Health Solutions is a wholly owned subsidiary of Mayo Holding Company and provides administrative and data processing services relating to the normal operations of HTHP.

## **Mayo Clinic Health System-Franciscan Healthcare, Inc.**

Mayo Clinic Health System-Franciscan Healthcare, Inc. (FSH), formerly known as Franciscan Skemp Medical Center, is a wholly owned subsidiary of Mayo Clinic. FSH provides or arranges for delivery of all medical services to HTHP's enrollees attributed to the southern region. FSH also provides management and telephonic nurseline services to HTHP.

FSH has two subsidiaries: Mayo Clinic Health System-Franciscan Healthcare Foundation, Inc., and Mayo Clinic Health System-Franciscan Medical Center, Inc.



### **Mayo Clinic Health System-Eau Claire**

Mayo Clinic Health Systems-Eau Claire Clinic and Hospital (MCHS-EC) is a wholly owned subsidiary of Mayo Clinic. MCHS-EC provides or arranges for delivery of all medical services to HTHP's enrollees attributed to the northern region.

Mayo Clinic Health System-Eau Claire Hospital has five subsidiaries: Luther Lakeside Apartments, Mayo Clinic Health System-Chippewa Valley, Inc., Bloomer Lakeview, Inc., Mayo Clinic Health System-Northland, Inc., and Mayo Clinic Health System-Oakridge, Inc.

### **Mayo Foundation for Medical Education and Research**

Mayo Foundation for Medical Education and Research (MFMER) is an affiliate of Mayo Clinic; it provides web portal access, provides administrative and general support services, and serves as a procurement company for HTHP. MFMER has five subsidiaries: Gold Cross Ambulance Service, Mayo Clinic Stiftung, Miles and Shirley Fiterman Endowment Fund for Digestive Diseases, Ambient Clinical Analytics, Inc., and Resoundant, Inc.

### **Affiliated Agreements**

As mentioned in the "Management and Control" section of this report, the company has no employees. The company contracts with MMSI, FSH, and MFMER to provide necessary services. The following is a description of the contracts:

- Administrative Services Agreement with MMSI—MMSI agrees to provide the company with the following services: underwriting, actuarial, board advisory, accounting/financial, marketing, claims processing, and data processing. HTHP agrees to pay the administrative fee to MMSI by the end of each month. Details concerning this agreement can be found in the "Management and Control" section of this report.
- Management Services Agreement with FSH—FSH agrees to provide to the company the following personnel services: medical director, administrative nurses, referral coordinators, and administrative assistant. HTHP agrees to pay FSH for management services, human resources functions, and information services. The fees consist of actual gross payroll and benefits for all employees dedicated to performing these services on behalf of HTHP. Details concerning this agreement can be found in the "Management and Control" section of this report.

- Health Care Services Agreement with FSH—This agreement arranges for the provision of health care services on a capitated basis. HTHP agrees to pay FSH a monthly capitation of 87% of net premiums earned less an agreed upon withhold across all products. Details concerning this contract can be found in the “History and Plan of Operations” section of this report.
- Health Care Services Agreement with MCHS-Eau Claire—This agreement arranges for the provision of health care services on a capitated basis. HTHP agrees to pay FSH a monthly capitation of 87% of net premiums earned less an agreed upon withhold across all products. Details concerning this contract can be found in the “History and Plan of Operations” section of this report.
- Health Management Services with FSH—FSH agrees to provide telephonic product line services for HTHP. HTHP, in return, agrees to make full payment to FSH monthly for services provided.
- Tax-Sharing Agreement with Mayo Holding Company—HTHP joins in filing a consolidated federal income tax return with its parent, Mayo Holding Company and several other subsidiaries. Mayo Holding Company agrees to fairly allocate federal tax liabilities, credits, refunds, benefits, and similar items among the group. Settlement of amounts due from or refundable to affiliates is not later than 90 days after filing of returns or within 90 days of the receipt of the tax refund.
- Surplus Note with FSH—HTHP issued a surplus note which accumulates interest at a variable rate based on the published prime rate as of June 30, 2010, and is adjusted annually on the first business day of April thereafter.

## V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	Ironshore Indemnity, Inc.
Type:	Medical Excess of Loss Reinsurance
Effective date:	January 1, 2016
Business covered:	Commercial Group and Individual Health Insurance Policies
Retention:	\$500,000 per covered member (\$1,000,000 for one particular member)
Coverage:	80% of ultimate net loss over retention per covered member 50% of ultimate net loss over retention for non-approved transplant services
Premium:	\$6.82 per covered member per month A minimum premium of \$500,000 shall be received by the reinsurer during the 12-month period
Termination:	The term of the contract expires on January 1, 2017

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

1. Ironshore Indemnity, Inc., will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until the earlier of their discharge date or the effective date of any replacement coverage.
  1. Ironshore Indemnity, Inc., will continue plan benefits for any member insured plan until the earliest of: (a) the end of the then-current contract year; (b) thirty (30) days following the date of insolvency; (c) the end of the period for which Premiums were paid to the Company on behalf of such Covered Person; (d) the effective date of any replacement coverage; or (e) the date a Covered Person's coverage would otherwise terminate under the terms of the Member Service Agreement.

### **Affordable Care Act (ACA) Transitional Reinsurance Program (through 2016)**

The transitional reinsurance program based on Section 1341 of the ACA is effective for plan years 2014 through 2016. Reinsurance assessments will be collected and distributions will be issued during the three-year term. Reinsurance is provided under this program once an insured member reaches his or her maximum out-of-pocket (MOOP) cost. Expenses above the MOOP up to \$70,000 are the full responsibility of the company. Medical expenses above

\$70,000 up to \$250,000 are covered under the reinsurance at a 50% coinsurance level.

Expenses above \$250,000 are the responsibility of the company.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2015, 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.

**Health Tradition Health Plan  
Assets  
As of December 31, 2015**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 3,002,523	\$	\$ 3,002,523
Cash, cash equivalents and short-term investments	20,254,043		20,254,043
Investment income due and accrued	9,394		9,394
Uncollected premiums and agents' balances in the course of collection	1,621,384	45,771	1,575,613
Accrued retrospective premiums and contracts subject to redetermination	152,895	152,895	
Amounts recoverable from reinsurers	4,917,508		4,917,508
Net deferred tax asset	337,514		337,514
Receivables from parent, subsidiaries and affiliates	306,453	306,453	
Health care and other amounts receivable	<u>459,206</u>	<u>459,206</u>	<u>                    </u>
<b>Total Assets</b>	<b><u>\$31,060,920</u></b>	<b><u>\$964,325</u></b>	<b><u>\$30,096,595</u></b>

**Health Tradition Health Plan  
Liabilities and Net Worth  
As of December 31, 2015**

Claims unpaid		\$ 4,975,009
Unpaid claims adjustment expenses		252,003
Aggregate health policy reserves		1,021,735
Premiums received in advance		698,912
General expenses due or accrued		1,558,291
Current federal and foreign income tax payable and interest thereon		140,581
Ceded reinsurance premiums payable		184,768
Remittance and items not allocated		978,787
Amounts due to parent, subsidiaries and affiliates		6,720,392
Aggregate write-ins for other liabilities [including \$(1) current]		<u>1,447,638</u>
Total liabilities		17,978,116
Aggregate write-ins for special surplus funds	\$2,381,096	
Common capital stock	364,500	
Gross paid in and contributed surplus	6,877,697	
Surplus notes	1,250,000	
Unassigned funds (surplus)	<u>1,245,187</u>	
Total capital and surplus		<u>12,118,480</u>
<b>Total Liabilities, Capital and Surplus</b>		<b><u>\$30,096,596</u></b>

**Health Tradition Health Plan  
Statement of Revenue and Expenses  
For the Year 2015**

Net premium income		\$142,218,536
Aggregate write-ins for other health care related revenues		<u>66,514</u>
Total revenues		142,285,050
Medical and hospital:		
Hospital/medical benefits	\$ 82,461,783	
Other professional services	5,735,438	
Outside referrals	25,888,918	
Emergency room and out-of-area	4,777,645	
Prescription drugs	<u>12,442,190</u>	
Subtotal	131,305,974	
Less		
Net reinsurance recoveries	<u>8,621,575</u>	
Total medical and hospital	122,684,399	
Claims adjustment expenses	5,317,268	
General administrative expenses	<u>13,422,891</u>	
Total underwriting deductions		<u>141,424,558</u>
Net underwriting gain or (loss)		860,492
Net investment income earned		<u>(17,759)</u>
Net income or (loss) before federal income taxes		842,733
Federal and foreign income taxes incurred		<u>1,172,316</u>
Net Income (Loss)		<u>\$ (329,583)</u>

**Health Tradition Health Plan  
Capital and Surplus Account  
For the Four-Year Period Ending December 31, 2015**

	2015	2014	2013	2012
Capital and surplus, beginning of year	\$12,846,447	\$12,509,218	\$12,232,077	\$11,875,672
Net income (loss)	(329,583)	384,972	250,573	450,462
Change in net deferred income tax	214,517	25,708	(14,307)	(71,197)
Change in nonadmitted assets	<u>(612,905)</u>	<u>(73,451)</u>	<u>40,875</u>	<u>(22,860)</u>
Surplus, End of Year	<u>\$12,118,476</u>	<u>\$12,846,447</u>	<u>\$12,509,218</u>	<u>\$12,232,077</u>

**Health Tradition Health Plan  
Statement of Cash Flows  
As of December 31, 2015**

Premiums collected net of reinsurance	\$148,366,431
Net investment income	30,446
Miscellaneous income	<u>66,514</u>
Total	148,463,391
Less:	
Benefit- and loss-related payments	\$137,357,960
Commissions, expenses paid and aggregate write-ins for deductions	19,372,310
Federal and foreign income taxes paid (recovered) net tax on capital gains (losses)	<u>804,486</u>
Total	<u>157,534,756</u>
Net cash from operations	(9,071,365)
Proceeds from investments sold, matured or repaid:	
Bonds	<u>3,000,000</u>
Net change in cash, cash equivalents, and short-term investments	(6,071,365)
Cash, cash equivalents, and short-term investments:	
Beginning of year	<u>26,325,407</u>
End of Year	<u>\$ 20,254,042</u>



**Growth of Health Tradition Health Plan**

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2015	\$30,096,595	\$17,978,116	\$12,118,480	\$142,218,536	\$131,305,974	\$(329,583)
2014	35,776,165	22,929,715	12,846,451	168,233,496	152,667,821	384,972
2013	30,204,642	17,695,419	12,509,222	151,204,758	137,561,573	250,573
2012	27,670,526	15,438,442	12,232,082	144,366,722	133,301,252	450,462

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2015	(0.2)%	86.2%	13.2%	(10.9)%
2014	0.2	89.4	9.7	6.2
2013	0.2	90.3	9.4	(1.3)
2012	0.3	91.3	8.3	1.7

**Enrollment and Utilization**

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2015	34,421	259	3.6
2014	38,668	263	3.9
2013	36,385	222	3.6
2012	36,871	258	3.8

**Per Member Per Month Information**

	2015	2014	Percentage Change
<b>Premiums:</b>			
Commercial	\$428.51	\$448.28	(4.4)%
Medicare	197.54	192.15	2.8
Medicaid	<u>133.17</u>	<u>143.53</u>	(7.2)
Blended	<u>340.74</u>	<u>367.75</u>	
<b>Expenses:</b>			
Hospital/medical benefits	197.57	221.29	(10.7)
Other professional services	13.74	4.59	199.4
Outside referrals	62.03	60.04	3.3
Emergency room and out-of-area	11.45	13.59	(15.8)
Other medical and hospital	29.81	34.22	(12.9)
Incentive pool and withhold adjustments	0	0	
Less: Net reinsurance recoveries	<u>20.66</u>	<u>4.66</u>	343.0
Total medical and hospital	293.94	329.06	(10.7)
Claims adjustment expenses	12.74	13.11	(2.8)
General administrative expenses	32.16	22.51	42.9
Increase in reserves for accident and health contracts	<u>0</u>	<u>0</u>	
Total Underwriting Deductions	<u>\$338.84</u>	<u>\$364.68</u>	(7.1)

The company's operations have been profitable over the period under examination except in 2015 where, although the company reported an underwriting gain, the company experienced a modest net loss of \$329,583. The loss was caused by a significant increase in federal income taxes due to the ACA fee which is not deductible for tax purposes. Although premiums increased in 2013 and 2014, there was a decrease of 15.5% in 2015. The decrease was attributable to the commercial group health products offset by an increase in individual products. The growth in the individual product was expected due to the Plan expanding into both the federal exchange market as well as the Eau Claire market. The Medicare supplement product remained relatively flat; a slight decrease is attributable to the BadgerCare product.

Capital and surplus decreased slightly from \$12.2 million in 2012 to \$12.1 million due to the \$0.3 million net loss and an increase in nonadmitted assets of \$0.6 million in 2015. The company's total assets increased by 8.8% during the examination period however there was a 15.9% decrease in 2015. The decrease in 2015 was due to decreased revenue coupled with increased administrative expenses. Enrollment decreased 6.7% from 36,871 members to 34,421 members during the examination period.

Medical expenses ratio decreased from 91.3% in 2012 to 86.2% in 2015. Administrative expenses of the company increased 15.3% in 2015; the increase was primarily due to ACA-related expenses.

## Financial Requirements

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

	<b>Amount Required</b>
1. Minimum capital or permanent surplus	Either: \$750,000, if organized on or after July 1, 1989 or \$200,000, if organized prior to July 1, 1989
2. Compulsory surplus	The greater of \$750,000 or:  If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months  If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months
3. Security surplus	The greater of: 140% of compulsory surplus reduced by 1% of compulsory surplus for each \$33 million of additional premiums earned in excess of \$10 million or 110% of compulsory surplus

Covered liabilities are those due to providers who are subject to statutory hold-harmless provisions.

The company's calculation as of December 31, 2015, as modified for examination

adjustments is as follows:

Assets	\$ 30,096,595	
Less:		
Special deposit	1,556,308	
Liabilities	<u>17,978,116</u>	
Assets available to satisfy surplus requirements		\$10,562,171
Net premium earned - HMO business	141,837,198	
Compulsory factor	<u>3%</u>	4,255,115
Net premium earned - incidental indemnity premium	381,339	
Compulsory factor	<u>10%</u>	<u>38,133</u>
Compulsory surplus		<u>4,293,248</u>
Compulsory Surplus Excess/(Deficit)		<u>\$ 6,268,923</u>
Assets available to satisfy surplus requirements		\$10,562,171
Compulsory surplus	\$ 4,293,248	
Security factor	<u>136%</u>	
Security surplus		<u>5,838,817</u>
Security Surplus Excess/(Deficit)		<u>\$ 4,723,354</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 company has satisfied this requirement for 2015 with a deposit of \$1,556,308 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 company as of December 31, 2015, is accepted.

#### **Examination Reclassifications**

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

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

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

1. Board of Directors—It is recommended that any vacancies on the board of directors shall be immediately replaced in accordance with the company's bylaws.

Action—Compliance.

2. Board Committees—It is recommended that the company shall consistently comply with its bylaws as to the number of voting directors in each committee in the future.

Action—Compliance.

3. Affiliated Transactions—It is recommended that the company shall disclose in the Notes to Financial Statements all affiliated non-insurance transactions greater than ½ of 1% in accordance with NAIC Annual Statements Instructions – Health.

Action—Compliance.

4. Special Deposits—It is recommended that the company properly report special deposits in the annual statement Schedule E, Part 3, to exclude deposits in financial institutions in accordance with NAIC Annual Statement Instructions – Health.

Action—Compliance.

5. Advance Premiums—It is recommended that the company shall report unapplied cash receipts, including unbilled premium income under remittances and items not allocated, in accordance with SSAP No. 67 and NAIC Annual Statement Instructions – Health.

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.

### **Custodial or Safekeeping Agreement**

The examination review of the custodial agreement disclosed there is no provision in the agreement stating that, if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification within three business days of termination or withdrawal to the insurer's domiciliary commissioner as recommended by the NAIC Financial Condition Examiners Handbook. It is recommended that the custodial agreement be amended to include a provision that notifies the domiciliary commissioner within three business days of termination or withdrawal of account assets as recommended by the NAIC Financial Condition Examiners Handbook.

### **Related Party Agreements**

Section Ins 40.04, Wis. Adm. Code, defines transactions of an insurer that must be reported to the Office of the Commissioner of Insurance in writing 30 days prior to entering into the transaction. The examination review of the related party agreements disclosed that filings required by s. Ins 40.04 (2) (d), Wis. Adm. Code, were not submitted as required. A review of the company's agreement filings indicates the agreements below have not been included or referenced in required filings with OCI.

- Nurseline Agreement between HTHP and MCHS-FMC
- Addendum to 24/7 Nurseline Agreement between HTHP and MCHS-FMC
- Amendment (and restatement) to the Provider Agreement between HTHP and Franciscan Medical Center, Inc. n/k/a MCHS (MCHS-FMC)
- Amendment to Provider Agreement between HTHP and MCHS-EC
- Tax-Sharing Agreement

The Commissioner can disapprove the transaction within the period. It is recommended that the company file transactions properly at least 30 days prior to the effective date as required by s. Ins 40.04 (2), Wis. Adm. Code.

## VIII. CONCLUSION

Health Tradition Health Plan is a for-profit group model health maintenance organization (HMO) insurer. The company was incorporated on January, 16, 1986, and commenced business on April 28, 1986, as Greater La Crosse Health Plan, Inc. The company changed its name to Health Tradition Health Plan on September 24, 2001.

The company is a wholly owned subsidiary of Mayo Holding Company, which is in turn owned by Mayo Clinic. The company writes Comprehensive Hospital and Medical, Medicare Supplement, and Title XIX Medicare. The company's service area is comprised of 17 counties in Wisconsin. HTHP provides individual and group comprehensive insurance as well as Medicare supplement insurance to those individuals at least 65 years old and eligible for Medicare. The company also participates in the Wisconsin BadgerCare Plus Managed Care program. The company contracts with a sponsoring clinic to provide most primary and specialist services.

The company's operations have been profitable over the period under examination except in 2015 where, although the company reported an underwriting gain, the company experienced a modest net loss of \$329,583. The loss was caused by a significant increase in federal income taxes due to the ACA fee which is not deductible for tax purposes. The company's administrative expenses increased in 2015, primarily due to expenses related to health care reform. Overall, 2012 – 2014 appeared stable; 2015 had lower premiums earned which impacted the resulting financial performance.

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



## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - Custodial or Safekeeping Agreement—It is recommended that the custodial agreement be amended to include a provision that notifies the domiciliary commissioner within three business days of termination or withdrawal of account assets as recommended by the NAIC Financial Condition Examiners Handbook.
2. Page 29 - Related Party Agreements—It is recommended that the company file transactions properly at least 30 days prior to the effective date as required by s. Ins 40.04 (2), Wis. Adm. Code.

## X. ACKNOWLEDGMENT

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

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

<b>Name</b>	<b>Title</b>
Kongmeng Yang	Insurance Financial Examiner
John Coyle	Insurance Financial Examiner
Thomas Houston	IT Specialist
Jerry DeArmond	Policy and Claim Reserve Specialist

Respectfully submitted,

Vickie Ostien  
Examiner-in-Charge

## EXHIBIT A

### List of Primary Care Providers

Facility Name	City	State
Bland Clinic	Westby	WI
Delton Family Medical Center *	Wisconsin Dells	WI
Durand Clinic North	Durand	WI
Durand Clinic South	Durand	WI
Elroy Family Medical Center *	Elroy	WI
Gundersen Boscobel Area Hospital and Clinics-Bluff St.	Boscobel	WI
Gundersen Boscobel Hospital and Clinics Fennimore	Fennimore	WI
Gundersen Boscobel Hospital and Clinics Muscoda	Muscoda	WI
Hirsch Clinic	Viroqua	WI
Kickapoo Valley Medical Clinic	Soldiers Grove	WI
Krohn Clinic, Ltd.	Black River Falls	WI
La Farge Medical Clinic-VMH	La Farge	WI
MCHS - Arcadia	Arcadia	WI
MCHS - Caledonia	Caledonia	MN
MCHS - Family Health Clinic	La Crosse	WI
MCHS - Holmen *	Holmen	WI
MCHS - La Crescent	La Crescent	MN
MCHS - La Crosse *	La Crosse	WI
MCHS - Onalaska *	Onalaska	WI
MCHS - Prairie du Chien *	Prairie du Chien	WI
MCHS - Sparta *	Sparta	WI
MCHS - Tomah *	Tomah	WI
MCHS - Waukon	Waukon	IA
MCHS Chippewa Valley - Bloomer Clinic *	Bloomer	WI
MCHS Chippewa Valley - Chippewa Falls Clinic *	Chippewa Falls	WI
MCHS Eau Claire	Eau Claire	WI
MCHS Eau Claire - Clairemont Campus *	Eau Claire	WI
MCHS Eau Claire - Luther Campus *	Eau Claire	WI
MCHS Express Care	Eau Claire	WI
MCHS Lake City *	Lake City	MN
MCHS Lake City - Alma Clinic	Alma	WI
MCHS Lake City - Plainview Clinic *	Plainview	MN
MCHS Lake City - Wabasha Clinic *	Wabasha	MN
MCHS Northland - Barron Clinic *	Barron	WI
MCHS Northland - Cameron Clinic *	Cameron	WI
MCHS Northland - Chetek Clinic	Chetek	WI
MCHS Northland - Rice Lake Clinic *	Rice Lake	WI
MCHS Oakridge - Mondovi Clinic *	Mondovi	WI

<b>Facility Name</b>	<b>City</b>	<b>State</b>
MCHS Oakridge - Osseo Clinic *	Osseo	WI
MCHS Red Cedar - Elmwood Clinic	Elmwood	WI
MCHS Red Cedar - Glenwood City Clinic	Glenwood City	WI
MCHS Red Cedar - Menomonie Clinic	Menomonie	WI
MCHS Red Wing *	Red Wing	MN
MCHS Red Wing in Ellsworth	Ellsworth	WI
MCHS-Occupational Health Clinic	La Crosse	WI
Mile Bluff Clinic *	Mauston	WI
Muscoda Health Center	Muscoda	WI
Necedah Family Medical Center *	Necedah	WI
New Lisbon Family Medical Center *	New Lisbon	WI
Reedsburg Physicians Group *	Reedsburg	WI
Richland Medical Center, Ltd. *	Richland Center	WI
Scenic Bluffs Community Health Center, Inc.	Cashton	WI
Scenic Bluffs Community Health Center, Inc.	Norwalk	WI
St. Joseph's Family Clinic *	Hillsboro	WI
St. Joseph's Family Clinic - Center Street	Wonewoc	WI
St. Joseph's Family Clinic - Elroy	Elroy	WI
St. Joseph's Family Clinic - Wonewoc	Wonewoc	WI
Tomah Memorial Hospital - Specialty Clinic	Tomah	WI
Well Street Clinic **	Onalaska	WI
Winneshiek Medical Center *	Decorah	IA
Winneshiek Medical Center - Mabel	Mabel	MN
Winneshiek Medical Center - Ossian	Ossian	IA
Winona Health Services	Rushford	MN
Winona Health Services *	Winona	MN

\* Primary Care and OB/GYN

\*\* OB/GYN Only