

Report
of the
Examination of
Humana Wisconsin Health Organization Insurance Corporation
Louisville, Kentucky
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 22, 2017

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

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

HUMANA WISCONSIN HEALTH ORGANIZATION INSURANCE CORPORATION
Louisville, Kentucky

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Humana Wisconsin Health Organization Insurance Corporation (Humana WHO or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 and 2017 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of affiliated companies domiciled in Arkansas, Florida, Illinois, Michigan, Ohio, Pennsylvania, Texas, Utah, and Washington, with Wisconsin acting in the capacity as the lead state for the coordinated examination. Representatives of Arkansas, Florida, Illinois, Michigan, Ohio, Pennsylvania, Texas, Utah, and Washington participated in the examination, and their work was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an

insurer to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect 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.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the unpaid claims liability, unpaid claims adjustment expense, aggregate health policy reserves, aggregate health claims reserves, premium deficiency reserves, uncollected premiums and agents' balances in the course of collection, accrued retrospective premiums, and health care receivables. The actuary's results

were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The Humana Wisconsin Health Organization Insurance Corporation is a for-profit mixed 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, Wis. Stat., or issued a certificate of authority under ch. 618, Wis. Stat., 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 mixed model, the company provides care through contracts with clinics and otherwise independent physicians operating out of their separate offices. HMOs compete with traditional fee-for-service and preferred provider plan health insurance delivery systems.

The company was incorporated on June 4, 1985, under the provisions of ch. 611, Wis. Stat. It commenced business under its former name, Wisconsin Health Organization Insurance Corporation, in September of 1985. Humana WHO is a wholly owned subsidiary of CareNetwork, Inc., a Wisconsin corporation which is a wholly owned subsidiary of Humana Inc. Humana WHO became an affiliate in the insurance holding company system on December 20, 1994, when CareNetwork, Inc., was purchased and merged into HWS, Inc., a wholly owned subsidiary of Humana Inc. CareNetwork, Inc., was the survivor of the merger. The name change to Humana Wisconsin Health Organization Insurance Corporation was effective June 1, 1995.

The company contracts with Physician Hospital Organizations (PHOs), Independent Provider Associations (IPAs), and groups, for the provision of physician services, including specialty services to groups. Nationally the company contracts with approximately 930 PHOs, 20,500 IPAs, and 40,500 groups. Under these contracts, the PHOs, IPAs and groups are reimbursed on a fee schedule or discounted fee-for-service basis.

The initial terms of the PHO, IPA, and group provider contracts vary in length from one to five years. The agreements may be terminated by either party for breach of material provision with 30 days' prior written notice, following a 30-day period to cure breach. Also, the agreement may be terminated by either party upon 90 to 120 days' written notice prior to the

effective date of such termination. The contracts include hold-harmless provisions for the protection of enrollees.

The company currently contracts with 37 PHOs, IPAs and groups in Wisconsin. A listing of the Wisconsin PHOs, IPAs, and groups the company currently has contracts with is included in Addendum I to this report.

The company contracts with 68 hospitals in the state of Wisconsin to provide inpatient services. Hospitals are reimbursed on a negotiated DRG (diagnosis-related group), per diem, case rate, discounted fee-for-service or fee schedule basis. The contracts include hold-harmless provisions for the protection of enrollees. All hospitals have contracts with the company. A listing of the hospitals in Wisconsin in which the participating physicians have admitting privileges is included in Addendum II of this report.

In addition to the above, the company contracts with approximately 3,000 individual physicians in the state of Wisconsin to provide covered health care services to eligible enrollees. All such direct contracted physicians are reimbursed on a fee schedule or discounted fee-for-services basis. The contracts have one-year initial terms and automatically renew for additional one-year terms. The agreements may be terminated upon a 90-day written notice. The contracts also contain hold-harmless provisions for the protection of enrollees.

In 2015, the company reported direct premium in the following states:

Wisconsin	\$360,556,708	60.7%
Virginia	227,087,265	38.3
Montana	<u>5,549,968</u>	<u>1.0</u>
Total	<u>\$593,193,941</u>	<u>100.0%</u>

In addition to the above states the company is licensed in Delaware, Kentucky, New Jersey, and Rhode Island. The company's service area is comprised of the following counties within the following states:

- Delaware: Kent, New Castle, Sussex
- Kentucky: Bullitt, Jefferson, Oldham
- Montana: Big Horn, Broadwater, Carbon, Cascade, Chouteau, Custer, Deer Lodge, Fergus, Flathead, Granite, Golden Valley, Jefferson, Lake, Lewis and Clark, Mineral, Missoula, Musselshell, Pondera, Powell, Ravalli, Rosebud, Sanders, Silver Bow, Stillwater, Sweet Grass, Teton, Treasure, Wheatland, Yellowstone

- New Jersey: Bergen, Burlington, Camden, Essex, Hudson, Hunterdon, Mercer, Monmouth, Morris, Ocean, Passaic, Sussex, Union, Warren
- Rhode Island: Bristol, Kent, Newport, Providence, Washington
- Virginia: Alexandria City, Amelia, Arlington, Charles City, Chesapeake City, Chesterfield, Colonial Heights City, Dinwiddie, Fairfax, Fairfax City, Falls Church City, Hampton City, Hanover, Henrico, Hopewell City, Manassas City, Manassas Park City, Newport News City, Norfolk City, Petersburg City, Poquoson City, Portsmouth City, Prince George, Prince William, Richmond City, Surry, Sussex, Virginia Beach City
- Wisconsin: Brown, Calumet, Dodge, Door, Douglas, Dunn, Eau Claire, Fond du Lac, Green, Green Lake, Jefferson, Kenosha, Kewaunee, Manitowoc, Marathon, Marinette, Menominee, Milwaukee, Oconto, Outagamie, Pierce, Polk, Rock, Shawano, St. Croix, Waupaca, Waushara, Winnebago

The company offers comprehensive health care coverage, subject to riders for deductibles and copayments. The following basic health care coverages are provided:

- Physician services
- Inpatient services
- Outpatient services
- Mental health, drug, and alcohol abuse services
- Ambulance services
- Special dental procedures (oral surgery)
- Prosthetic devices and durable medical equipment
- Newborn services
- Home health care
- Preventative health services
- Family planning
- Hearing exams and hearing aids
- Diabetes treatment
- Routine eye examinations
- Convalescent nursing home services
- Prescription drugs - \$5.00 copayment
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Physical fitness or health education (\$30.00 per year maximum)
- Kidney disease treatment
- Certain transplants
- Chiropractic services

There are no day limits for inpatient mental health, AODA coverage is limited to 10 days per calendar year, outpatient mental health AODA coverage is limited to 30 visits per calendar year, transitional treatment arrangement coverage is limited to 14 visits per calendar year, home health care is limited to 60 visits per calendar year, and skilled nursing care is limited to 100 days per confinement. Emergency room co-pay is waived upon admission into an inpatient facility. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral of participating physicians.

The company also has a co-payment plan in which inpatient services have co-payments ranging from \$100 to \$500 per day for the first three days per admission. Office visits have co-payments ranging from \$5 to \$40 and emergency room visits have co-payments ranging from \$75 to \$150. Prescription drug coverage with specified amount of co-payments for generic and name brands can be added by rider. In addition, vision and hearing aid coverage can also be attached by rider. Members are required to choose a primary care physician from the listing of participating physicians available.

The company primarily offers health coverage to large group employers and a Medicare HMO product that was introduced in 2011. The company also has a national point-of-services (NPOS) product that is offered jointly with an affiliate, Humana Insurance Company (HIC).

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 monthly for inflation and other trending factors.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of three members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Each member of the company's board of directors is a senior executive of the parent, Humana Inc., and is also a member of other boards of directors in the holding company group. The board members currently do not receive compensation for serving on the board.

As of December 31, 2015, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Bruce D. Broussard Louisville, KY	President and Chief Executive Officer, Humana Inc.	2016
James E. Murray Louisville, KY	Senior Vice President, Chief Operating Officer, Humana Inc.	2016
Brian A. Kane Louisville, KY	Senior Vice President, Chief Financial Officer, Humana Inc.	2016

Officers of the Company

Each senior executive officer of the company is also a senior executive officer of Humana Inc. and also serves as an officer in other legal entities within the holding company group. The company's executive officers are compensated by Humana Inc. and do not receive direct compensation remitted by the company. A portion of the executive officer compensation remitted by Humana Inc. to the company's executive officers is allocated to Humana Wisconsin Health Organization Insurance Corporation pursuant to intercompany expense allocation agreements. The company's senior executive officers as of December 31, 2015, are as follows:

Name	Office	2015 Compensation
Bruce D. Broussard	President and Chief Executive Officer	\$6,263,682
Brian A. Kane	Senior Vice President, Chief Financial Officer and Treasurer	1,059,409
Joan O. Lenahan	Vice President and Corporate Secretary	840,466
Jonathan A. Canine	Vice President and Appointed Actuary	486,987
Alan J. Bailey	Vice President and Treasurer	420,294

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no board-member-only committees at the time of the examination. The committees of the parent company, Humana Inc., perform comprehensive corporate governance oversight on behalf of each Humana Inc. operating subsidiary including Humana Wisconsin Health Organization Insurance Corporation. The Humana Inc. board of directors has the following committees: Audit, Executive, Investment, Nominating & Corporate Governance, and Organization & Compensation.

Audit Committee

Frank D'Amelio, Chair
William Mitchell
David Nash
James O'Brien

Executive Committee

Bruce Broussard, Chair
Kurt Hilzinger
David Jones, Jr.

Nominating & Corporate Governance Committee

David Jones, Jr., Chair
William Mitchell
Marissa Peterson

Organization & Compensation Committee

William McDonald, Chair
David Jones, Jr.
W. Roy Dunbar
Marissa Peterson

Investment Committee

W. Roy Dunbar, Chair
Frank D'Amelio
William McDonald
James O'Brien

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:

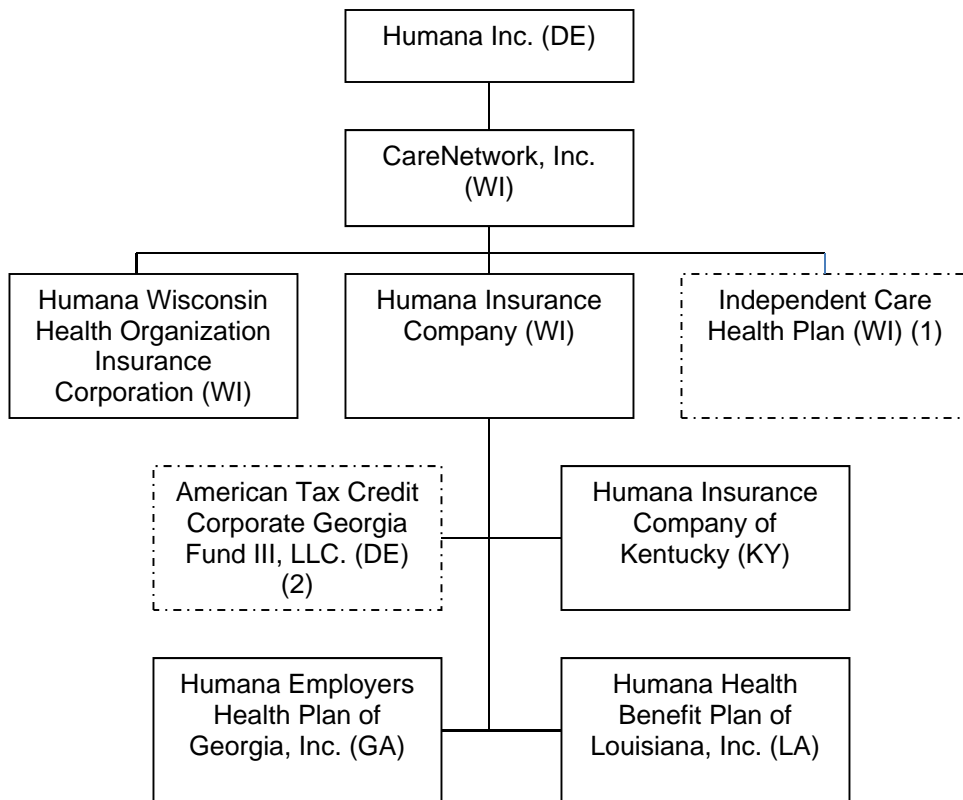
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The second condition is met by the requirements of policies issued under the Affordable Care Act. The first condition has been satisfied through the reinsurance contract with Zurich American Insurance Company.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. As previously stated, its ultimate parent is Humana Inc. There are 34 downstream insurance affiliates operating in 17 states and Puerto Rico. The abbreviated organizational chart below depicts the relationships among the affiliates in the direct succession of control of the company. A brief description of affiliates deemed significant follows the organizational chart.

**Holding Company Chart
As of December 31, 2015**



- (1) Ownership is 50% by CareNetwork, Inc., and 50% by New Health Services, Inc., an affiliate of Milwaukee Center for Independence, Inc., an unaffiliated entity.
- (2) Ownership is 58.1736% by Humana Insurance Company, 1.6029% by The Savannah Bank N.A., an unaffiliated entity, and 40.2133% by GMAC Insurance Georgia, LLC, organized for the purpose of investing in apartment complexes generating Georgia state low-income housing tax credits.

Humana Inc.

Humana Inc. is an insurance holding company which provides indemnity insurance, managed health care insurance, and specialty service products through the operations of its subsidiary companies. Humana Inc. was incorporated on July 27, 1964, and is a Delaware corporation. Humana products are offered primarily through subsidiary life and health indemnity insurers, health maintenance organizations, and preferred provider organizations, and are marketed for employer groups, government benefit programs, and individuals.

As of December 31, 2015, the GAAP basis audited financial statements of Humana Inc. reported total assets of \$24.7 billion, total liabilities of \$14.4 billion, and total stockholders' equity of \$10.3 billion. Operations for 2015 produced net income of \$1.3 billion.

CareNetwork, Inc.

CareNetwork, Inc., is a non-operating intermediate holding company domiciled in Wisconsin which holds the assets of certain Humana operating subsidiaries. CareNetwork, Inc., holdings include the Wisconsin-domiciled insurers Humana Insurance Company and Humana Wisconsin Health Organization Insurance Corporation.

As of December 31, 2015, the GAAP basis unaudited financial statements of CareNetwork, Inc., reported total assets of \$1,951.3 million, total liabilities of \$10.0 million, and total stockholders' equity of \$1,941.3 million. Operations for 2015 produced a net loss of \$2,000.

Humana Insurance Company

Humana Insurance Company, the largest insurance subsidiary of the group, is a Wisconsin-domiciled life and health insurer authorized to conduct insurance business pursuant to ch. 611, Wis. Stat. The subsidiary was initially organized on December 18, 1968, under the name Classified Life Insurance Company. After various changes in ownership and names, the subsidiary is now named Humana Insurance Company and directly owned by CareNetwork, Inc.

As of December 31, 2015, the statutory basis audited financial statements of Humana Insurance Company reported total admitted assets of \$6.6 billion, total liabilities of \$3.0 billion, and policyholders' surplus of \$3.6 billion. Operations for 2015 produced net income of \$421.8 million.

Humana Employers Health Plan of Georgia, Inc.

Humana Employers Health Plan of Georgia, Inc. (HEHPG) was organized and licensed in Georgia in 1996 as an HMO and commenced operations in 1997. HEHPG provides coordinated health insurance coverages and services primarily to employer groups through product options that include HMOs and preferred provider organizations.

As of December 31, 2015, the statutory basis audited financial statements of HEHPG reported total admitted assets of \$985,938,263, total liabilities of \$685,144,826, and policyholders' surplus of \$300,793,437. Operations for 2015 produced a net loss of \$205,740,066.

Humana Insurance Company of Kentucky

Humana Insurance Company of Kentucky (HICK) is a Kentucky-domiciled life and health insurance company that offers health plan insurance coverages in Kentucky. HICK provides individual indemnity, group life, and Medicare supplement products to insureds in Kentucky and provides stop-loss products to self-insured employers or other groups.

As of December 31, 2015, the statutory basis audited financial statements of HICK reported total admitted assets of \$432,873,714, total liabilities of \$310,661,993, and policyholders' surplus of \$122,211,721. Operations for 2015 produced a net loss of \$2,819,626.

Humana Health Benefit Plan of Louisiana, Inc.

Humana Health Benefit Plan of Louisiana, Inc. (HHBPL) is a Louisiana-domiciled health maintenance organization formerly known as Ochsner Health Plan, Inc. Ochsner Health Plan, Inc., was acquired by Humana Insurance Company on April 1, 2004, and its name was subsequently changed to Humana Health Benefit Plan of Louisiana, Inc. HHBPL is licensed in Louisiana as an HMO and provides coordinated health insurance coverages and services primarily to employer groups through product options that include HMOs and preferred provider organizations.

As of December 31, 2015, the statutory basis audited financial statements of HHBPL reported total admitted assets of \$396,389,627, total liabilities of \$216,647,399, and

policyholders' surplus of \$179,742,228. Operations for 2015 produced net income of \$36,553,089.

American Tax Credit Corporate Georgia Fund III, LLC

American Tax Credit Corporate Georgia Fund III, LLC (State Fund) is a limited liability company established under the laws of Delaware in 2004. State Fund invests in operating limited partnerships that acquire, rehabilitate, own and operate low- and moderate-income residential rental properties. Humana Insurance Company is an Investor Member and held a 58.17% distribution interest in State Fund as of year-end 2010.

As of December 31, 2015, the audited GAAP basis financial statements of American Tax Credit Corporate Georgia Fund III, LLC, reported total assets of \$5,884, total liabilities of \$586,117, and members' deficit of \$580,233. Operations for 2015 produced a net loss of \$105,728.

Independent Care Health Plan

Independent Care Health Plan (I-Care) commenced business as a separate entity on June 18, 2003. CareNetwork, Inc., owns 50% and New Health Services, a subsidiary of Milwaukee Center for Independence, a 501(c)(3) nonprofit, owns 50%. I-Care members are all covered under Title XVIII (Medicare) or Title XIX (Medicaid) with a special emphasis on dual-eligible members

As of December 31, 2015, the statutory basis audited financial statements of I-Care reported total admitted assets of \$68,248,215, total liabilities of \$40,721,544, and policyholders' surplus of \$27,526,671. Operations for 2015 produced net income of \$5,291,577.

Agreements with Affiliates

Indemnity Agreement between Humana WHO and Humana Inc.

Humana Wisconsin Health Organization Insurance Corporation and Humana Inc. entered into an indemnity agreement on June 30, 1995. Under the indemnity agreement, Humana Inc., the indemnitor, agrees to indemnify Humana WHO from any and all liability, loss, or damage that Humana WHO may suffer as a result of its failure to perform its obligations arising under certificates of coverage issued to its subscribers, should the HMO become insolvent or

financially incapable of furnishing such health care services. The indemnitor further guarantees continuation of coverage to subscribers for the duration of the contract period for which payment has been made, and continuation of benefits to the HMO's members who are confined in an inpatient facility, on the date of insolvency, until their discharge.

Tax Allocation Agreement between Humana WHO and Humana Inc.

Humana Wisconsin Health Organization Insurance Corporation is party to a Tax Allocation Agreement with Humana Inc. It became effective December 31, 1995. The agreement provides that Humana Inc. will file consolidated tax returns for all of the legal entities in the Humana Inc. holding company group, including Humana WHO. The consolidated tax liability for each year shall be apportioned to Humana Inc. and its subsidiaries based on applicable provisions of the Internal Revenue Code, based on the ratio which the portion of consolidated tax liability attributable to each respective member of the group bears to the consolidated tax liability. Humana Inc. shall credit to each respective affiliate 100% of the excess of the affiliate's separate return tax liability over its allocated consolidated tax return liability. Humana Inc. is responsible for the preparation and filing of all consolidated tax returns and any other returns or documents required to be filed with the Internal Revenue Service.

Corporate Service Agreement between Humana WHO and Humana Inc.

Humana Wisconsin Health Organization Insurance Corporation is party to a Corporate Service Agreement effective January 3, 2007. It has been amended January 1, 2011, and January 1, 2013, for regulatory compliance purposes. Humana Inc. provides services supporting the business operations of Humana WHO. Humana Inc. provides Humana WHO with services such as payroll, trade accounts payments, broker commissions, medical and product management, executive management, information systems, financial and legal services, human resource and sales distribution management, and related services. Humana Inc. receives a direct reimbursement for services with direct costs, a pro rata share of costs of shared services, and overhead based upon weighted membership. The agreement provides that Humana Inc. collects funds due Humana WHO in the operation of its business and performs any necessary

banking and accounting administrative duties to properly accomplish collections and disbursements of funds on behalf of Humana WHO.

Service Center Service Agreements between Humana WHO, HIC, and Humana Inc.

Humana Wisconsin Health Organization Insurance Corporation has established a service center service agreement with Humana Insurance Company and Humana Inc. as a Repository effective January 3, 2007. It has been amended January 1, 2011, and January 1, 2013, for regulatory compliance purposes. The agreements provide that HIC will provide Humana WHO with claims processing, customer service, front-end operations, billing and enrollment, utilization review, and other support activities. HIC expenses allocated to Humana WHO include general business expenses incurred by HIC in performance of the services. Humana Inc. serves as the Repository under the service center agreement, pursuant to which Humana Inc. disburses and collects management fees that are required by the agreements, and performs any necessary banking and administrative duties required to accomplish its Repository duties. The 2011 amendment also integrated some previously separate affiliate agreements into this agreement.

Medicare Risk Marketing Service Agreement between Humana WHO and MPoint

A Medicare Risk Marketing Service Agreement effective January 1, 2011, is in force between Humana MarketPoint, Inc. (MPoint), Humana WHO and Humana, Inc. as Repository. It has been amended January 1, 2011, and January 1, 2013, for regulatory compliance purposes. Under the terms of the agreement, MPoint provides marketing services including the provision of staff, systems, and related support to Humana WHO in order to market Humana Medicare Risk Products.

V. REINSURANCE

The company has reinsurance coverage under the contracts outlined below:

1. Reinsurer: Zurich American Insurance Company
Type: Individual/Hospital Only/Other - Excess of Loss
Effective date: January 1, 2016 (contracts are one year in length and are renewed annually)
Retention: Specific: The first \$700,000 per member during the agreement period
Carryover: Last 31 days of agreement period for which specific retention is not satisfied will be treated as incurred in next agreement period
Coverage: Covered services include: inpatient hospital services, long-term acute care facility services, subacute facility services, skilled nursing facility services, hospice services, inpatient rehabilitation facility services, home health care agency services, and prescription drugs, as administered:
 - while receiving home health care agency services,
 - while receiving subacute facility services,
 - while receiving skilled nursing facility services,
 - while receiving hospice services, and
 - while receiving inpatient rehabilitation facility servicesLimitations: \$2,000 average daily maximum for inpatient hospital services
\$750 per day for subacute facility services and inpatient rehabilitation facility services
\$500 per day for skilled nursing facility services, hospice services and home health care agency services for a maximum of 30 days per agreement period
For Medicare members, the company will not be liable for charges that exceed the Medicare allowable amount
Each member each agreement period \$1,000,000; lifetime \$1,000,000
Premium: \$0.08 per member and per month subject to a minimum of \$100,000 per agreement period
Termination: December 31, 2016, or at any time with 30 days' advance notice
2. Reinsurer: AXIS Insurance Company
Type: Commercial Excess of Loss – 2 contracts:
 - A. Fully-Insured Medical Excess of Loss
 - B. Stop-Loss Medical Excess of LossEffective date: October 1, 2015 (not renewed in 2016)
Retention: \$3,000,000
Coverage: The reinsurer shall be liable for 100% of the ultimate net loss in excess of the company's retention of \$3,000,000 as respects any one member, any one policy period, which is inclusive of the member's self-insured retention. The reinsurer's liability for ultimate net loss in respect of any

one member shall not exceed 100% of \$9,000,000 during any one policy period.

Premiums: The company pays the reinsurer a monthly premium of \$0.35 PMPM for stop-loss and \$0.50 PMPM for fully-insured

Term: Effective until September 30, 2016
Participation in the contract may be terminated at any time by giving 60 days' prior notice to the reinsurer

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.

**Humana Wisconsin Health Organization Insurance Corporation
Liabilities and Net Worth
As of December 31, 2015**

Claims unpaid		\$ 57,282,625
Unpaid claims adjustment expenses		380,731
Aggregate health policy reserves		5,962,369
Aggregate health claim reserves		8,000
Premiums received in advance		2,709,460
General expenses due or accrued		3,584,418
Ceded reinsurance premiums payable		56,992
Amounts withheld or retained for the account of others		58
Remittance and items not allocated		29,922
Amounts due to parent, subsidiaries and affiliates		21,208,182
Liability for amounts held under uninsured accident and health plans		<u>781,928</u>
Total liabilities		92,004,685
Special surplus – projected HCRL assessment for the upcoming year	\$ 10,588,792	
Common capital stock	13,635,500	
Gross paid in and contributed surplus	118,410,000	
Unassigned funds (surplus)	<u>(55,210,751)</u>	
Total capital and surplus		<u>87,423,541</u>
Total Liabilities, Capital and Surplus		<u>\$179,428,226</u>

**Humana Wisconsin Health Organization Insurance Corporation
Statement of Revenue and Expenses
For the Year 2015**

Net premium income		\$592,880,573
Medical and hospital:		
Hospital/medical benefits	\$454,466,962	
Other professional services	10,147,012	
Emergency room and out-of-area	19,975,519	
Prescription drugs	<u>51,454,864</u>	
Total medical and hospital	536,044,357	
Claims adjustment expenses	22,935,659	
General administrative expenses	58,149,318	
Increase in reserves for life and accident and health contracts	<u>(1,426,000)</u>	
Total underwriting deductions		<u>615,703,334</u>
Net underwriting gain or (loss)		(22,822,761)
Net investment income earned	1,920,681	
Net realized capital gains or (losses)	<u>749,187</u>	
Net investment gains or (losses)		<u>2,669,868</u>
Net income or (loss) before federal income taxes		(20,152,893)
Federal and foreign income taxes incurred		<u>(2,503,020)</u>
Net Income (Loss)		<u>\$ (17,649,873)</u>

Humana Wisconsin Health Organization Insurance Corporation
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2015

	2015	2014	2013	2012	2011
Capital and surplus, beginning of year	\$ 35,673,275	\$39,234,726	\$37,448,937	\$34,286,909	\$33,708,113
Net income (loss)	(17,649,873)	(929,022)	2,336,260	560,198	1,381,360
Change in net unrealized capital gains/losses	(3,016)	3,425	(2,204)	10,777	(6,180)
Change in net deferred income tax	784,467	394,888	(1,235,367)	2,423,272	860,595
Change in nonadmitted assets	3,618,688	(3,030,742)	687,100	(932,692)	(1,654,624)
Cumulative effect of changes in accounting principles				678,337	
Surplus adjustments:					
Paid in	65,000,000				
Write-ins for gains and (losses in surplus:					
Prior period adjustment				320,402	
Correction of prior period – deferred tax provision				101,734	
Unrealized valuation allowance on securities lending					(2,355)
Surplus, End of Year	<u>\$ 87,423,541</u>	<u>\$35,673,275</u>	<u>\$39,234,726</u>	<u>\$37,448,937</u>	<u>\$34,286,909</u>

Humana Wisconsin Health Organization Insurance Corporation
Statement of Cash Flows
As of December 31, 2015

Premiums collected net of reinsurance		\$587,623,574
Net investment income		<u>2,319,820</u>
Total		589,943,394
Less:		
Benefit- and loss-related payments	\$505,152,826	
Commissions, expenses paid and aggregate write-ins for deductions	81,543,683	
Federal and foreign income taxes paid (recovered) \$185,381 net tax on capital gains (losses)	<u>6,155,090</u>	
Total		<u>592,851,599</u>
Net cash from operations		(2,908,205)
Proceeds from investments sold, matured or repaid:		
Bonds	\$50,936,378	
Net gains (losses) on cash, cash equivalents, and short- term investments	<u>(20)</u>	
Total investment proceeds		50,936,358
Cost of investments acquired—long-term only:		
Bonds	<u>66,924,274</u>	
Net cash from investments		(15,987,916)
Cash provided/applied:		
Capital and paid in surplus, less treasury stock	65,000,000	
Other cash provided (applied)	<u>22,873,567</u>	
Net cash from financing and miscellaneous sources		<u>22,873,567</u>
Net change in cash, cash equivalents, and short-term investments		68,977,446
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>778,360</u>
End of Year		<u>\$ 69,755,806</u>

**Growth of Humana Wisconsin Health Organization Insurance Corporation
Reporting as a Health Company**

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2015	\$179,428,226	\$92,004,685	\$87,423,541	\$592,880,573	\$536,044,357	\$(17,649,873)
2014	69,872,960	34,199,685	35,673,275	287,581,609	246,347,207	(929,022)
2013	76,245,539	37,010,813	39,234,726	241,846,714	214,214,435	2,336,260
2012	73,294,938	35,846,001	37,448,937	286,254,535	235,656,286	560,198
2011	59,928,699	25,641,790	34,286,909	226,545,989	196,489,957	1,381,360
2010	59,815,212	26,107,099	33,708,113	176,843,655	154,135,551	6,090,693

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2015	-3.0%	90.2%	13.7%	62.5%
2014	-0.3	86.4	14.2	4.5
2013	1.0	86.8	13.2	-14.6
2012	0.2	84.9	14.3	38.1
2011	0.6	87.0	12.8	6.3
2010	3.4	87.2	11.7	-17.8

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2015	83,519	1,033.27	7.7
2014	51,476	581.28	7.1
2013	49,260	614.84	7.4
2012	57,681	258.51	4.1
2011	41,764	264.95	3.8
2010	44,595	198.42	3.5

Per Member Per Month Information

	2015	2014	Percentage Change
Premiums:			
Commercial	\$407.11	\$415.93	-2.1%
Medicare	<u>794.14</u>	<u>746.31</u>	-6.4
Expenses:			
Hospital/medical benefits	453.76	351.46	29.1
Other professional services	10.13	2.95	243.5
Emergency room and out-of-area	19.94	14.92	33.7
Prescription drugs	<u>51.38</u>	<u>39.24</u>	30.9
Total medical and hospital	535.21	408.79	31.0
Claims adjustment expenses	22.90	17.19	33.3
General administrative expenses	58.06	50.54	14.9
Increase in reserves for accident and health contracts	<u>(1.42)</u>	<u>3.49</u>	-140.8
Total underwriting deductions	<u>\$614.75</u>	<u>\$480.02</u>	-28.1

As indicated above, the company has reported favorable operating results for three out of the five years under examination. During the period under examination, the company's admitted assets increased 200%, premiums earned increased 235%, and surplus increased by 159%.

Overall invested assets increased by 142%. Humana WHO's investments in bonds increased 28%, and cash, cash equivalents, and short-term investments increased by 8,862%. The increase to investments was driven by \$65.0 million in capital contributions in 2015.

Humana WHO experienced net losses in 2015 and 2014. These losses are largely because of a 63% increase in enrollment in 2015, with Medicare enrollment increasing 333%, or by 32,152 enrollees, compared to 9,656 Medicare enrollees at year-end 2014. The proportion of Medicare to Commercial enrollment has increased over the examination period, increasing the average age of the total population, putting upward pressure on utilization costs over time. Humana WHO did obtain an increase to Medicare premium rates for 2015, but medical cost outpaced the increase in premium.

Financial Requirements

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

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

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

The company's calculation as of December 31, 2015, is as follows:

Assets	\$179,428,226	
Less:		
Special deposits	9,159,901	
Liabilities	<u>92,004,685</u>	
Assets available to satisfy surplus requirements		\$78,263,640
Net premium earned	592,880,573	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>17,786,417</u>
Compulsory Surplus Excess/(Deficit)		<u>\$60,477,223</u>
Assets available to satisfy surplus requirements		\$78,263,640
Compulsory surplus	\$ 17,786,417	
Security factor	<u>123%</u>	
Security surplus		<u>21,877,292</u>
Security Surplus Excess/(Deficit)		<u>\$56,386,348</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 \$5,755,526 with the State Treasurer.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2015, is accepted.

Examination Reclassifications

No reclassifications were made as a result of the examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Security Lending—It is recommended that the company provide an accurate description and properly report CUSIP numbers for each security on Schedule DL – Part 1.

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.

Business Plan Changes

The examination's review of Humana WHO's service region identified that the company had not filed a change in business plan for its expansion into certain counties in Montana and Virginia. The company expanded its service region in Montana and Virginia during the first quarter of 2015 but did not file a change in business plan (pursuant to s. Ins 9.06, Wis. Adm. Code) until October 30, 2015. Section Ins 9.06, Wis. Adm. Code, states that substantial changes in business plans shall be filed with this office at least 30 days prior to their effective date. The filing of the business plan changes on October 30, 2015, was significantly after the expansion into the new service regions in Montana and Virginia. It is recommended that the company file substantial changes in its business plan in accordance with s. Ins.9.06, Wis. Adm. Code.

Escheat Property

The escheat process followed by Humana Inc. in preparing the unclaimed property filings for Humana Wisconsin Health Organization Insurance Corporation is not compliant with Wisconsin statutes. Section 177.17 (5), Wis. Stat., states, "Not more than 120 days before filing the report required by this section, the holder in possession of property presumed abandoned ...under this chapter shall send written notice to the apparent owner at his or her last-known address informing him or her that the holder is in possession of property subject to this chapter...." The examination determined no such required notification is performed within the required timeframe. It was further noted that the company's escheat policy does not include commission and claim checks in amounts less than \$100 when it attempts to contact the apparent owner at their last known address. This is not compliant with s. 177.17 (5) (c), Wis. Stat., which establishes \$50 as the minimum value of individual property items to be included in this process. It is recommended that the escheat process be amended to comply with the

notification process requirement described in s. 177.17 (5), Wis. Stat., and that the company modify and implement its escheat policy to include property valued at \$50 or more in its notification process in accordance with s. 177.17 (5) (c), Wis. Stat.

Report on Executive Compensation

The Report on Executive Compensation filed by Humana Wisconsin Health Organization Insurance Corporation is not in compliance with s. 611.63 (4), Wis. Stat., which stipulates "The amount of all direct and indirect remuneration for services, including retirement and other deferred compensation benefits and stock options, paid or accrued each year for the benefit of each director and each officer and member of executive management..." is required to be included in the report. A reconciliation of the amounts included in the Report on Executive Compensation filed with the 2015 annual statements for Humana Wisconsin Health Organization Insurance Corporation, to the payroll data for selected executives provided by the company, found that various categories of compensation were not reported. Categories noted are:

- Executive Financial Planning Compensation
- Incentive Stock Option Compensation

It is recommended that the company include all direct and indirect compensation in its annual Report on Executive Compensation in accordance with s. 611.63 (4), Wis. Stat.

VIII. CONCLUSION

Humana WHO is a wholly owned subsidiary of CareNetwork, Inc., a Wisconsin corporation which is a wholly owned subsidiary of Humana Inc. The company offers coordinated health and pharmacy insurance products, primarily to employer groups, through a variety of product options including HMO and preferred provider organizations.

During the period under examination, the company's admitted assets increased 200%, premiums earned increased 235%, and surplus increased by 159%. The increase to admitted assets resulted from \$65.0 million of capital contributions received during 2015. Humana WHO experienced net losses in 2015 and 2014. The loss to net income in 2015 was \$17.6 million due to the expansion into new markets as well as increasing its existing membership.

The examination determined that the company was in compliance with all of the recommendations made by the previous examination. The current examination resulted in three recommendations. No adjustments were made to surplus as a result of the examination and there were no reclassifications. The amount of surplus reported by the company as of December 31, 2015, is accepted.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - Business Plan Changes—It is recommended that the company file substantial changes in its business plan in accordance with s. Ins.9.06, Wis. Adm. Code.
2. Page 28 - Escheat Property—It is recommended that the escheat process be amended to comply with the notification process requirement described in s. 177.17 (5), Wis. Stat., and that the company modify and implement its escheat policy to include property valued at \$50 or more in its notification process in accordance with s. 177.17 (5) (c), Wis. Stat.
3. Page 29 - Report on Executive Compensation—It is recommended that the company include all direct and indirect compensation in its annual Report on Executive Compensation in accordance with s. 611.63 (4), Wis. Stat.

X. ACKNOWLEDGMENT

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

In addition to the undersigned, representatives from the states of Arkansas, Florida, Illinois, Michigan, Ohio, Pennsylvania, Texas, Utah and Washington participated in the examination. The following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, also participated in the examination:

Name	Title
Robert McLaughlin, CFE	Insurance Financial Examiner
Diana Havitz	Insurance Financial Examiner
Dana Tice	Insurance Financial Examiner
Thomas Houston, CFE	IT Specialist
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist/ACL Specialist

Respectfully submitted,

Gene M. Renard, CFE
Examiner-in-Charge

**ADDENDUM I – PHYSICIAN HOSPITAL ORGANIZATIONS, INDEPENDENT PROVIDER
ASSOCIATIONS, AND GROUPS IN WISCONSIN**

Affinity Medical Group
Agnesian Health System
Aurora Advanced
Aurora Health Care
Baycare Clinic LLP
Bellin Medical Group
Beloit PHO
Children’s Health System
Columbia St. Mary’s
Community Health Network
Fort Healthcare
Froedtert Health Medical Group
Holy Family Memorial Clinics
Lakeshore Medical Clinic
Marshfield Clinic
Mayo Health System
Medical College of WI
Mercy Health System
Ministry Medical Group
Monroe Clinic
NEWHVN
North Shore Health Network
Oakleaf Medical Network
Physician’s Health Network
Prevea Clinic
Progressive Physician Network
ProHealth Care Medical Associates
St. Croix Regional
St. Mary’s Duluth Clinic
ThedaCare Physicians
United Hospital System Clinics
Watertown PHO
Waukesha Elmbrook Health Care
West Bend Clinic
Western Wisconsin Medical Association
Wheaton Medical Group
Wisconsin Health Fund

ADDENDUM II – HOSPITALS IN WISCONSIN

Amery Regional Medical Center
Appleton Medical Center
Aurora BayCare Medical Center
Aurora Burlington
Aurora Kenosha
Aurora Lakeland
Aurora Medical Center – Manitowoc City
Aurora Medical Center – Washington County
Aurora Medical Center of Oshkosh
Aurora Sheboygan Memorial Medical Center
Aurora St. Luke's
Aurora Summit
Baldwin Area Medical Center
Bay Area Medical Center
Beaver Dam Community Hospital
Bellin Memorial Hospital
Beloit Memorial Hospital
Berlin Memorial Hospital
Calumet Medical Center
Children's Hospital of Wisconsin
Columbia Center
Columbia St. Mary's Hospital Milwaukee
Columbia St. Mary's Hospital Ozaukee
Community Memorial Hospital
Door County Memorial Hospital
Fort Atkinson Memorial Hospital
Froedtert Memorial Lutheran Hospital
Holy Family Memorial
Hudson Hospital and Clinics
Luther Hospital – Mayo Health System
Mercy Hospital Janesville
Mercy Medical Center of Oshkosh
Midwest Orthopedic Specialty Hospital
Monroe Clinic
New London Family Medical Center
Oak Leaf Surgical Hospital
Oconomowoc Memorial Hospital
Oconto Hospital and Medical Center
Orthopedic Hospital of Wisconsin
Osceola Medical Center
Red Cedar Medical Center – Mayo Health System
Ripon Medical Center
River Falls Area Hospital
Riverside Medical Center
Sacred Heart Hospital
Sacred Heart Rehabilitation Institute
Shawano Medical Center
St. Agnes Hospital
St. Croix Regional Medical Center
St. Elizabeth Hospital
St. Joseph's Hospital
St. Mary's Hospital of Superior

St. Nicholas Hospital
St. Vincent Hospital
Theda Clark Medical Center
UHS Kenosha Medical Center Campus
Watertown Regional Medical Center
Waukesha Memorial Hospital
Waukesha Rehabilitation Hospital
Waupun Memorial Hospital
West Allis Memorial Hospital
Westfields Hospital
Wheaton Franciscan Healthcare – All Saints
Wheaton Franciscan Healthcare – Elmbrook Memorial
Wheaton Franciscan Healthcare – Franklin
Wheaton Franciscan Healthcare – St. Francis
Wheaton Franciscan Healthcare – St. Joseph
Wild Rose Community Memorial Hospital