

Report of the Examination of  
Medica Community Health Plan  
Minnetonka, Minnesota  
As of December 31, 2020

## TABLE OF CONTENTS

	<b>Page</b>
I. INTRODUCTION .....	1
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL .....	5
IV. AFFILIATED COMPANIES .....	8
V. FINANCIAL DATA.....	10
VI. SUMMARY OF EXAMINATION RESULTS .....	18
VII. CONCLUSION .....	19
VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	20
IX. ACKNOWLEDGMENT .....	21



April 26, 2022

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

Commissioner:

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

**MEDICA COMMUNITY HEALTH PLAN**  
Minnetonka, Minnesota

and this report is respectfully submitted.

## **I. INTRODUCTION**

The previous examination of Medica Community Health Plan (MCHP or the company) was conducted in 2018 as of December 31, 2017. The current examination covered the intervening period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Medica Insurance Group. The Minnesota Department of Commerce acted in the capacity as the lead state for the coordinated examinations. Work performed by the Minnesota Department of Commerce 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 the 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 concerning the alternative or additional examination steps performed during the examination.

#### **Lead State's Contracted Actuary's Review**

The Minnesota Department of Commerce engaged an independent actuarial firm to perform a review of the Medica Insurance Group's reserves. The actuary reviewed the carried reserves for adequacy and the 2020 Statement of Actuarial Opinion and Actuarial Memorandum for compliance with the NAIC *Annual Statement Instructions – Health*. The actuary's results were reported to the Minnesota Department of Commerce Examiner-in-Charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

## II. HISTORY AND PLAN OF OPERATION

Medica Community Health Plan (MCHP) (formerly Medica Health Plans of Wisconsin), was incorporated as a health maintenance organization (HMO) in Wisconsin on April 8, 1996, under ch. 613, Wis. Stat. The Medica Community Health Plan is described as a nonprofit organized and operated for the promotion of social welfare and is exempt from federal income taxation under section 501(c)(4) of the Internal Revenue Code. 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." As of January 1, 2018, the Minnesota membership in individual products was moved to Medica Insurance Company (MIC), a Minnesota affiliate. In 2019, Medica Health Plans of Wisconsin (MHPW) changed its name to Medica Community Health Plan (MCHP) and converted back to an HMO. MCHP is currently licensed in Minnesota, Iowa, Nebraska, Kansas, Oklahoma, and Missouri as a foreign HMO and as a Health Care Services Organization (HCSO) in Arizona. In Wisconsin, MCHP's footprint has grown from three counties in 2014 to 20 counties in 2018 and 24 counties in 2022.

The company offers comprehensive health care coverage; all products are Qualified Health Plans (QHP) as defined by the Affordable Care Act (ACA) and fall within the metal levels Gold, Silver, and Bronze, as well as Catastrophic coverage for those under age 30 or those with a hardship as deemed by the exchange. Additionally, the products follow the respective essential health benefits, above and beyond those required of QHPs by the ACA, as determined by the benchmark/default plan of the ACA for Minnesota and Wisconsin. As QHPs, all products must meet Centers for Medicare & Medicaid Services and state requirements for provider network access and availability and for essential community providers.

The company offers products featuring certain provider systems, although all products are considered open access. The selection of a primary care provider or clinic is not required, and no referrals are necessary as long as care is received in-network. MCHP marketed the following products during the examination period:

- Applause/Individual Choice offers access to the largest network, with nearly 33,000 providers of all types at more than 6,000 offices, clinics, and hospitals in Minnesota, North Dakota, South Dakota, and western Wisconsin.
- Inspiration Health features HealthEast and is only available in the Twin Cities east metro area.
- North Memorial Acclaim features North Memorial and is available in counties surrounding Minneapolis.
- AltruPrime features Altru and is available in northeastern Minnesota.
- Engage features Mayo Health System and is available in western Wisconsin and southeastern Minnesota.

The company contracts with providers in Wisconsin, Minnesota, South Dakota, and North Dakota to make health care services available to its enrollees. The provider contracts include hold-harmless provisions for the protection of policyholders. The contracts have a one- or two-year term and may be terminated immediately for breach of contract if the provider loses his or her license to provide contracted services. Hospitals are reimbursed using a variety of methods, including fee-for-service (FFS), discounted FFS, per case and/or per stay basis, and per diem.

The company markets policies through independent agencies, directly online, and by telephone and pays a flat dollar commission on new and renewal business.

In 2022, MCHP expanded to Maricopa County, Arizona with an ACA product called Pinnacle, following the same product and network approach described above for Wisconsin, except catastrophic plans are not offered. In 2020, MCHP expanded to eight counties in Nebraska and three counties in Iowa with two Medicare Advantage plans: Medica Advantage Solution with CHI Health (HMO) and Medica Advantage Solution H3632-001 (PPO). These are Medicare Advantage Part D (MAPD) plans that provide enhanced supplemental benefits such as dental, vision, hearing, and over-the-counter drugs. One plan is an HMO plan anchored around CHI Health Partners and one plan is a PPO that includes CHI Health Partners, Nebraska Medicine, Bryant Health, and Methodist Health System.

In 2020, the company collected direct premium in the following states:

Minnesota	Individual	\$ 41,249,794	34.6%
Wisconsin	Individual	76,353,850	64.0
Nebraska	Medicare Advantage	<u>1,670,358</u>	<u>1.4</u>
Total		<u>\$119,274,002</u>	<u>100.0%</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of 12 members. Three or four directors are elected annually to serve a three-year term. The treasurer and secretary are elected annually to serve a one-year term. Officers are appointed by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive compensation for serving on the board, which includes an annual retainer of \$40,000, \$1500 per board or committee meeting attended. Directors who are also employees do not receive additional compensation for serving as directors.

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

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
John W. Naylor Wayzata, Minnesota	President and Chief Executive Officer	2022
Mark L. Baird Eden Prairie, Minnesota	Treasurer	2022
David H. Ellenbogen Medina, Minnesota	Secretary	2022
Rajesh K. Aggarwal Reading, Massachusetts	Professor of Finance	2023
John D. Buck Naples, Florida	Business Executive	2024
Samuel H. Leon M.D. Hopkins, Minnesota	Physician	2024
John M. Stanoch Wayzata, Minnesota	Business Executive and retired District Court Judge	2024
Mary J. Twinem Wayzata, Minnesota	Retired Executive Vice President and Chief Financial Officer & Treasurer, Buffalo Wild Wings, Inc.	2023
Gaye Adams Massey St. Paul, Minnesota	Business Executive	2024
Earl D. Stratton Lakewood Ranch, Florida	Retired Business Executive	2023

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Brigid A. Bonner Excelsior, Minnesota	President, Bonner Consulting	2022
Peter H. Kelly M.D. MHA St. Paul, Minnesota	General Surgeon	2022

### **Officers of the Company**

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

<b>Name</b>	<b>Office</b>
John W. Naylor	President and Chief Executive Officer
David H. Ellenbogen	Secretary
Mark L. Baird	SVP, Treasurer/Chief Financial officer



## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

### **Governance Committee**

John Stanoch, Chair  
John Buck  
Earl Stratton  
Rajesh Aggarwal  
Samuel Leon, M.D.

### **Audit Committee**

Rajesh Aggarwal, Chair  
Gaye Adams Massey  
Mary Twinem  
John Buck  
Peter Kelly, M.D.

### **Consumer Experience Committee**

Brigid Bonner, Chair  
John Buck  
Samuel Leon, M.D.  
Mary Twinem

### **Finance Committee**

Mary Twinem Chair  
John Buck  
Brigid Bonner  
Earl Stratton  
Rajesh Aggarwal

### **Medical Committee**

Peter Kelly, M.D., Chair  
Samuel Leon, M.D.  
Brigid Bonner  
John Stanoch

### **Personnel & Compensation Committee**

Earl Stratton, Chair  
Gaye Adams Massey  
Peter Kelly, M.D.  
John Stanoch  
John Buck

The company has no employees. Necessary staff is provided through an affiliated administrative service agreement with Medica Services Company (MSC), which is described in detail in the Affiliated Companies section below.

## **Insolvency Protection for Policyholders**

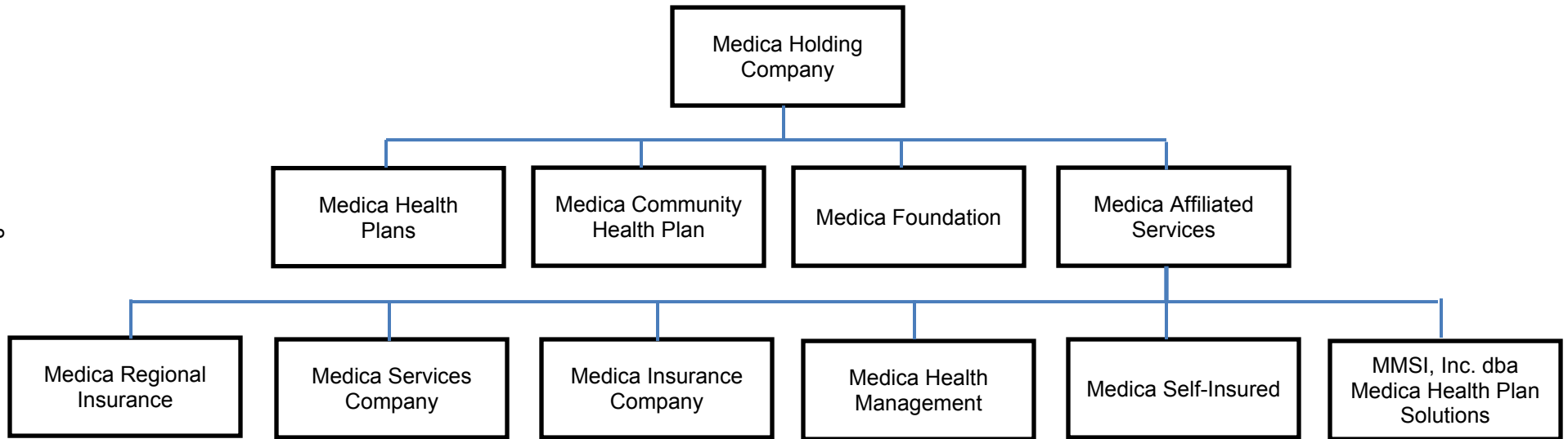
Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

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.

#### IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Medica Holding Company. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

**Holding Company Chart  
As of December 31, 2020**



### **Medica Holding Company**

Medica Holding Company is a Minnesota nonprofit corporation, organized and operated exclusively for the promotion of social welfare. As of December 31, 2020, the combined audited financial statements of Medica Holding Company reported assets of \$2.9 billion, liabilities of \$1.2 billion, and net assets of \$1.8 billion. Operations for 2020 produced net income of \$448.8 million.

### **Medica Health Plans**

MHP is a tax-exempt health maintenance organization that operates in the states of Minnesota and North Dakota. As of December 31, 2020, this company's audited financial statement reported assets of \$702.9 million, liabilities of \$278.1 million, and surplus of \$424.8 million. Operations for 2020 produced net income of \$77.6 million.

### **Medica Insurance Company**

MIC is a Minnesota stock property and casualty insurance company that operates in the states of Minnesota, Missouri, North Dakota, Oklahoma, South Dakota, Iowa, Nebraska, Kansas, and Wisconsin. As of December 31, 2020, this company's audited financial statement reported assets of \$1.8 billion, liabilities of \$840.5 million, and surplus of \$990.5 million. Operations for 2020 produced net income of \$257.3 million.

### **Affiliated agreements**

The company has entered into an administrative services agreement with Medica Services Company (MSC) in which administrative services are provided to the company, including provider network management, medical management, consumer experience, accounting and financial reporting, sales and marketing, enrollment and billing, member service, claims processing, underwriting, and treasury and cash management. The agreement applies to Medica's QHP products, and MSC will provide services, as defined in the Agreement.

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2020, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.

**Medica Community Health Plan  
Assets  
As of December 31, 2020**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 78,912,126	\$	\$ 78,912,126
Stocks:			
Common stocks	3		3
Cash, cash equivalents and short-term investments	73,758,280		73,758,280
Investment income due and accrued	575,311		575,311
Uncollected premiums and agents' balances in the course of collection	63,342		63,342
Accrued retrospective premiums and contracts subject to redetermination	78,000		78,000
Amounts recoverable from reinsurers	13,463,969		13,463,969
Amounts receivable relating to uninsured plans	16,381		16,381
Receivables from parent, subsidiaries, and affiliates	3,311,395	3,311,395	0
Health care and other amounts receivable	<u>1,026,994</u>		<u>1,026,994</u>
<b>Total Assets</b>	<b><u>\$171,205,801</u></b>	<b><u>\$3,311,395</u></b>	<b><u>\$167,894,406</u></b>

**Medica Community Health Plan  
Liabilities and Net Worth  
As of December 31, 2020**

Claims unpaid			\$ 12,464,148
Accrued medical incentive pool and bonus payments			200,000
Unpaid claims adjustment expenses			60,600
Aggregate health policy reserves			10,515,358
Premiums received in advance			1,157,337
General expenses due or accrued			953,471
Amounts due to parent, subsidiaries, and affiliates			3,038,702
Liability for amounts held under uninsured plans			45,109
Aggregate write-ins for other liabilities (including \$18,112 current)			<u>18,112</u>
<b>Total Liabilities</b>			<b>28,452,837</b>
Gross paid in and contributed surplus	\$65,000,000		
Surplus notes	33,250,000		
Unassigned funds (surplus)	<u>41,191,569</u>		
<b>Total Capital and Surplus</b>			<b><u>139,441,569</u></b>
<b>Total Liabilities, Capital and Surplus</b>			<b><u>\$167,894,406</u></b>

**Medica Community Health Plan  
Statement of Revenue and Expenses  
For the Year 2020**

Net premium income		\$119,274,002
Medical and Hospital:		
Hospital/medical benefits	\$70,674,960	
Emergency room and out-of-area	10,854,292	
Prescription drugs	8,446,944	
Incentive pool, withhold adjustments and bonus amounts	<u>177,674</u>	
Subtotal	90,153,870	
Less		
Net reinsurance recoveries	<u>13,212,530</u>	
Total medical and hospital	76,941,340	
Claims adjustment expenses	317,268	
General administrative expenses	<u>16,851,128</u>	
Total underwriting deductions		<u>94,109,736</u>
Net underwriting gain or (loss)		25,164,266
Net investment income earned	1,956,868	
Net realized capital gains or (losses)	<u>520,412</u>	
Net investment gains or (losses)		<u>2,477,280</u>
Net Income (Loss)		<u>\$ 27,641,546</u>

**Medica Community Health Plan  
Capital and Surplus Account  
For the Three-Year Period Ending December 31, 2020**

	2020	2019	2018
Capital and surplus, beginning of year	\$115,094,775	\$91,291,652	\$72,142,700
Net income (loss)	27,641,546	23,819,259	17,990,015
Change in net unrealized capital gains/losses	(486)	993	(996)
Change in nonadmitted assets	<u>(3,294,266)</u>	<u>(17,129)</u>	<u>1,159,933</u>
Capital and Surplus, End of Year	<u>\$139,441,569</u>	<u>\$115,094,775</u>	<u>\$91,291,652</u>

**Medica Community Health Plan  
Statement of Cash Flow  
For the Year 2020**

Premiums collected net of reinsurance		\$137,034,834
Net investment income		2,124,642
Miscellaneous income		
Total		139,159,476
Less:		
Benefit- and loss-related payments	\$76,639,594	
Commissions, expenses paid and aggregate write-ins for deductions	<u>16,571,677</u>	
Total		<u>93,211,271</u>
Net cash from operations		45,948,205
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	\$23,003,890	
Stocks	<u>809</u>	
Total investment proceeds		23,004,699
Cost of Investments Acquired—Long-term Only:		
Bonds	25,125,766	
Stocks	<u>22</u>	
Total investments acquired		<u>25,125,788</u>
Net cash from investments		(2,121,089)
Other cash provided (applied)		<u>(12,013,362)</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		31,813,754
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>41,944,526</u>
End of Year		<u>\$ 73,758,280</u>

### Growth of Medica Community Health Plan

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2020	\$167,894,406	\$28,452,837	\$139,441,569	\$119,274,002	\$90,153,870	\$27,641,546
2019	136,926,904	21,832,129	115,094,775	81,223,634	63,554,396	23,819,259
2018	144,111,572	52,819,920	91,291,652	82,979,356	57,240,617	17,990,015
2017	110,293,049	38,150,349	72,142,700	274,734,858	232,576,730	15,271,323

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2020	22.8%	64.5%	14.4%	65.3%
2019	28.6	66.0	7.3	-12.6
2018	21.4	69.1	10.2	-80.3
2017	5.5	83.8	10.9	-28.3

### Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2020	9,935	237.53	4.5
2019	6,010	236.70	4.2
2018	6,879	238.62	3.4
2017	35,001	201.90	3.5

### Per Member Per Month Information

	2020	2019	Percentage Change
<b>Premiums:</b>			
Comprehensive	\$990.33	\$1,078.14	-8.1%
<b>Expenses:</b>			
Hospital/medical benefits	586.81	635.60	-7.7
Emergency room and out-of-area	90.12	93.07	-3.2
Prescription Drugs	70.13	86.66	-19.1
Incentive pool and withhold adjustments	1.48	28.27	-94.8
Less: Net reinsurance recoveries	<u>109.70</u>	<u>132.32</u>	-17.1
Total medical and hospital	638.84	711.28	-10.2
Claims adjustment expenses	2.63	2.70	-2.5
General administrative expenses	<u>139.91</u>	<u>75.77</u>	84.7
Total underwriting deductions	<u>\$ 781.39</u>	<u>\$ 789.75</u>	-1.1%



In 2020, MCHP reported a net income of \$27.6 million on revenues of \$119.3 million. The results in 2020 were boosted by the receipt of \$41.3 million from the 2014 to 2016 ACA risk corridor settlement.

Financial results for MCHP reported a net income of \$18.0 million in 2018 on revenues of \$83.0 million. The decrease in revenues from 2017 was the result of the decision to sell products to only Wisconsin members. Overall, MCHP's capital and surplus increased steadily during the examination period, and revenues increased from \$81.2 million in 2019 to \$119.3 million in 2020 due to a combination of new business and the one-time risk corridor settlement.

Enrollment decreased from a high of 35,001 at year-end 2017 to 9,935 in 2020. This decrease was because of the decision to move the individual Minnesota business from MHPW to Medica Insurance Company beginning in 2018.



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 2020 with a deposit of \$1 million 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 surplus reported by the company as of December 31, 2020, is accepted.

## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

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

1. Custodial Agreement—It is recommended that the company obtain a custodial agreement with proper language as set forth in the NAIC *Financial Condition Examiners Handbook*.

Action—Compliance.

2. Actuarial Memorandum—It is recommended that, within future Actuarial Memoranda, the Appointed Actuary should include all of the information required by the 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.

### Form D Filing

A review of the provided related party agreement revealed the required Form D filing for a new agreement was not received by the Office of the Commissioner of Insurance at least 30 days prior to the transaction effective date in accordance with s. 617.21 (2), Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

It is recommended that the company file with this office the appropriate filings and documents as required by s. 617.21 (2), Wis. Stat. and s. Ins 40.04 (2), Wis. Adm. Code.

### Corporate Governance

A review of the company's conflict of interest statements found conflict of interest disclosures by required personnel are not being completed annually as required.

It is recommended that the company have its directors, officers, and key employees complete a conflict of interest questionnaire annually as required by a directive of the Office of the Commissioner of Insurance.

## **VII. CONCLUSION**

Medica Community Health Plan's capital and surplus increased steadily during the examination period. MCHP reported net income of \$27.6 million for 2020. The company reported capital and surplus of \$139.4 million as of December 31, 2020. MCHP's surplus has increased from \$91.3 million in 2018 to \$115.1 million in 2019 then increased in 2020 to \$139.4 million.

The drop in enrollment during the examination period was caused by the movement of the individual Minnesota business from MHPW to MIC beginning in 2018.

The examination determined that the company was in compliance with all of the recommendations made by the previous examination. The current examination resulted in two recommendations. No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2020, is accepted.

## VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Form D filing—It is recommended that the company file with this office the appropriate filings and documents as required by s. 617.21 (2), Wis. Stat. and s. Ins 40.04 (2), Wis. Adm. Code.
2. Page 18 - Corporate Governance—It is recommended that the company have its directors, officers, and key employees complete a conflict of interest questionnaire annually as required by a directive of the Office of the Commissioner of Insurance.

## IX. ACKNOWLEDGMENT

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

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

<b>Name</b>	<b>Title</b>
Junji Nartatez,	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Vickie Ostien  
Examiner-in-Charge