

Report
of the
Examination of
Medica Health Plans of Wisconsin
Minnetonka, Minnesota
As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

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March 1, 2019

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Honorable Mark V. Afable
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 HEALTH PLANS OF WISCONSIN
Minnetonka, Minnesota

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Medica Health Plans of Wisconsin (MHPW or the company) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 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 insurance company 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 a 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.

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 2017 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 Health Plans of Wisconsin was incorporated as an insurance service company in Wisconsin on April 8, 1996, under ch. 613, Wis. Stat. The company is 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. MHPW is also licensed in Minnesota as a nonprofit health insurance corporation.

From 2009 through 2013, MHPW was dormant. Effective January 1, 2014, the company began writing new business in the individual market in Minnesota and Wisconsin, both on and off exchange. As of January 1, 2018, the Minnesota membership in individual products was moved to Medica Insurance Company (MIC), a Minnesota affiliate. In Wisconsin, MHPW's footprint has grown from three counties in 2014 to 20 counties in 2018.

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 and 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. MHPW 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 currently markets directly to individuals using independent agencies, paying a flat dollar commission on new and renewal business. The company also markets policies directly online and over the phone.

In 2017, the company collected direct premium in the following states:

Minnesota	\$224,336,728	81.6%
Wisconsin	<u>50,430,550</u>	<u>18.4</u>
Total	<u>\$274,767,278</u>	<u>100.0%</u>

The entirety of the company's direct premium is classified as Comprehensive (hospital and medical).

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of twelve members. Four directors are elected annually to serve a three-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 system. The MHPW board members currently receive compensation for serving on the board, which includes an annual retainer of \$9,000, \$200 per board or committee meeting attended, and reasonable expense reimbursement for travel costs. Directors who are also employees do not receive additional compensation for serving as directors.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
John D. Buck, Chairperson Naples, Florida	Business Executive	2021
Rajesh K. Aggarwal Manchester, Massachusetts	Professor of Finance	2020
Mark L. Baird Eden Prairie, Minnesota	Senior Vice President, Chief Financial Officer and Treasurer	2021
James P. Jacobson Minneapolis, Minnesota	Senior Vice President, General Counsel	2019
Peter H. Kelly, M.D. St. Paul, Minnesota	General Surgeon	2019
Samuel H. Leon, M.D. Edina, Minnesota	Physician	2021
Brigid A. Bonner Excelsior, Minnesota	Chief Experience Officer, CaringBridge	2019
John W. Naylor Wayzata, Minnesota	President and Chief Executive Officer	2019
John M. Stanoch Wayzata, Minnesota	Business Executive and Retired District Court Judge	2021
Earl D. Stratton St. Augustine, Florida	Business Executive	2020
Esther M. Tomljanovich Lake Elmo, Minnesota	Retired Associate State Supreme Court Justice	2020

Name and Residence	Principal Occupation	Term Expires
Mary J. Twinem Wayzata, Minnesota	Retired Executive Vice President and Chief Financial Officer, Buffalo Wild Wings, Inc.	2020

Officers of the Company

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

Name	Office	2017 Compensation
John W. Naylor	President and Chief Executive Officer	\$1,388,206
Mark L. Baird	Senior Vice President, Chief Financial Officer and Treasurer	748,047
Timothy Thull	Senior Vice President, Chief Information Officer	523,669
James P. Jacobson	Senior Vice President, Secretary and General Counsel	517,928
Steven Custis	Vice President, Chief Actuary	371,726

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
Esther Tomljanovich

Audit Committee

Mary Twinem, Chair
John Buck
Peter Kelly, M.D.
Sam Leon, M.D.

Community & Public Affairs Committee

Samuel Leon, M.D., Chair
John Buck
John Naylor
Esther Tomljanovich

Finance Committee

Rajesh Aggarwal, Chair
John Buck
John Stanoch
Earl Stratton
Mary Twinem

Personnel & Compensation Committee

Earl Stratton, Chair
Rajesh Aggarwal
Peter Kelly, M.D.
John Stanoch

Technology Committee

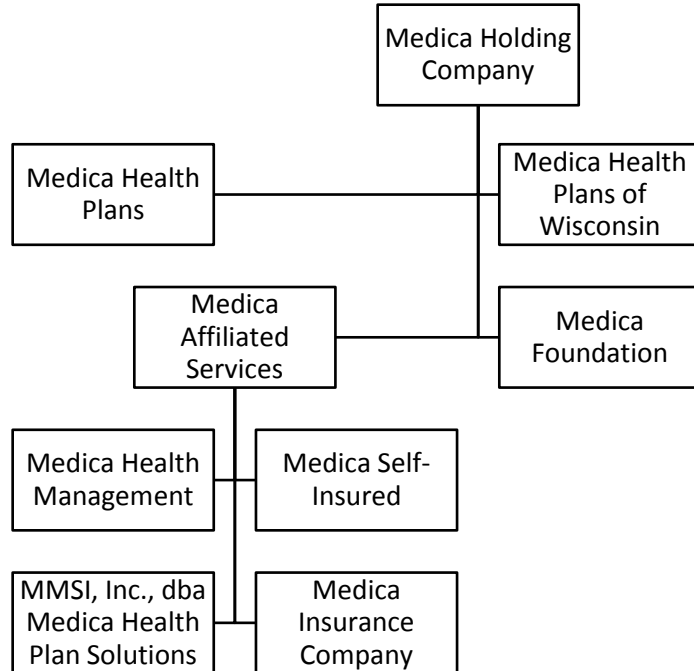
Earl Stratton, Chair
Rajesh Aggarwal
John Buck
Brigid Bonner

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

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant follows the organizational chart.

**Organizational Chart
As of December 31, 2017**



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, 2017, the combined audited financial statements of Medica Holding Company reported assets of \$1.5 billion, liabilities of \$613.8 million, and net assets of \$896.8 million. Operations for 2017 produced net income of \$159.0 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, 2017, this company's audited financial statement reported assets of \$482.0 million, liabilities of \$194.1 million, and surplus of \$287.9 million. Operations for 2017 produced net income of \$78.5 million.

Medica Insurance Company

MIC is a Minnesota stock property and casualty insurance company that operates in the states of Minnesota, Nebraska, Iowa, Wisconsin, North Dakota, Kansas, and South Dakota. As of December 31, 2017, this company's audited financial statement reported assets of \$811.5 million, liabilities of \$390.5 million, and surplus of \$421.0 million. Operations for 2017 produced net income of \$53.1 million.

Affiliated Agreements

The company has entered into an administrative services agreement with MHP in which administrative services are provided to the company, including provider relations, provider network development, management and contracting, medical management, communications, finance, sales and marketing member service, human resources, facilities planning, purchasing services, print and telecommunication services, mail distribution, payroll, accounts payable, controllership functions, underwriting, cash management, and bank account management.

The agreement allocates administrative costs and services each month that are paid for by MHP. The allocations are based on metrics that have been developed for each cost center to most appropriately align the costs with the products. In the accounting process at month-end, the month's costs are allocated to the products and legal entities. Upon completion of the monthly reconciliations, a wire transfer request between MHPW and MHP is completed to settle the prior month balances.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2017, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of 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 Health Plans of Wisconsin
Assets
As of December 31, 2017**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 63,015,933	\$	\$ 63,015,933
Cash, cash equivalents, and short-term investments	18,529,081		18,529,081
Investment income due and accrued	260,401		260,401
Uncollected premiums and agents' balances in course of collection	5,871,232		5,871,232
Accrued retrospective premiums and contracts subject to redetermination	1,409,849		1,409,849
Amounts recoverable from reinsurers	2,314,886		2,314,886
Receivable from parent, subsidiaries, and affiliates	16,956,803		16,956,803
Health care and other amounts receivable	<u>3,094,797</u>	<u>1,159,933</u>	<u>1,934,864</u>
Total Assets	<u>\$111,452,982</u>	<u>\$1,159,933</u>	<u>\$110,293,049</u>

**Medica Health Plans of Wisconsin
Liabilities, Surplus, and Other Funds
As of December 31, 2017**

Claims unpaid		\$ 30,332,778
Unpaid claims adjustment expenses		303,000
Premiums received in advance		3,325,578
General expenses due or accrued		2,228,198
Amounts due to parent, subsidiaries, and affiliates		1,960,359
Aggregate write-ins for other liabilities (including \$436 current)		<u>436</u>
Total Liabilities		38,150,349
Gross paid in and contributed surplus	\$65,000,000	
Surplus notes	33,250,000	
Aggregate write-ins for other than special surplus funds	3,000,000	
Unassigned funds (surplus)	<u>(29,107,300)</u>	
Total Capital and Surplus		<u>72,142,700</u>
Total Liabilities, Capital and Surplus		<u>\$110,293,049</u>

**Medica Health Plans of Wisconsin
Statement of Revenue and Expenses
For the Year 2017**

Net premium income		\$274,734,858
Medical and Hospital:		
Hospital/medical benefits	\$178,507,065	
Emergency room and out-of-area	26,651,222	
Prescription drugs	<u>27,418,443</u>	
Subtotal	232,576,730	
Less		
Net reinsurance recoveries	<u>2,330,390</u>	
Total medical and hospital		230,246,340
Claims adjustment expenses	1,879,733	
General administrative expenses	<u>28,032,426</u>	
Total underwriting deductions		<u>260,158,499</u>
Net underwriting gain or (loss)		14,576,359
Net investment income earned	695,572	
Net realized capital gains or (losses)	<u>(608)</u>	
Net investment gains or (losses)		<u>694,964</u>
Net Income (Loss)		<u>\$ 15,271,323</u>

**Medica Health Plans of Wisconsin
Capital and Surplus Account
For the Three-Year Period Ending December 31, 2017**

	2017	2016	2015
Capital and surplus, beginning of year	\$27,576,080	\$40,101,985	\$47,575,676
Net income (loss)	15,271,323	(32,286,355)	(12,446,616)
Change in nonadmitted assets	(704,703)	(239,550)	4,972,925
Capital changes:			
Paid in	<u>30,000,000</u>	<u>20,000,000</u>	<u> </u>
Capital and Surplus, End of Year	<u>\$72,142,700</u>	<u>\$27,576,080</u>	<u>\$40,101,985</u>

**Medica Health Plans of Wisconsin
Statement of Cash Flow
For the Year 2017**

Premiums collected net of reinsurance		\$249,402,381
Net investment income		<u>728,936</u>
Total		250,131,317
Less:		
Benefit- and loss-related payments	\$222,173,619	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>32,400,885</u>	
Total		<u>254,574,504</u>
Net cash from operations		(4,443,187)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$16,544,875	
Miscellaneous proceeds	<u>3,750</u>	
Total investment proceeds		16,548,625
Cost of investments acquired—		
Long-term only:		
Bonds	<u>35,790,646</u>	
Total investments acquired		<u>35,790,646</u>
Net cash from investments		(19,242,021)
Cash provided/applied:		
Capital and paid in surplus, less treasury stock	30,000,000	
Other cash provided (applied)	<u>(25,103,705)</u>	
Net cash from financing and miscellaneous sources		<u>4,896,295</u>
Net change in cash, cash equivalents, and short-term investments		(18,788,913)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>37,317,994</u>
End of year		<u>\$ 18,529,081</u>

Growth of Medica Health Plans of Wisconsin

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2017	\$110,293,049	\$38,150,349	\$72,142,700	\$274,734,858	\$232,576,730	\$15,271,323
2016	98,181,845	70,605,765	27,576,080	221,551,450	237,484,770	(32,286,355)
2015	67,759,912	27,657,927	40,101,985	66,498,899	73,812,241	(12,446,616)
2014	57,761,700	10,186,024	47,575,676	30,557,763	24,978,890	4,813,464

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2017	5.5%	83.8%	10.9%	-28.3%
2016	-14.6	99.6	15.0	272.6
2015	-18.7	100.0	18.6	101.2
2014	15.9	68.1	15.1	N.A.

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2017	35,001	201.90	3.5
2016	48,824	162.94	3.0
2015	13,105	297.09	4.6
2014	6,514	308.78	5.1

Per Member Per Month Information

	2017	2016	Percentage Change
Premiums:			
Comprehensive	<u>\$629.15</u>	<u>\$370.25</u>	69.9%
Expenses:			
Hospital/medical benefits	408.79	290.27	40.8
Emergency room and out-of-area	61.03	47.35	28.9
Other medical and hospital	62.79	58.09	8.1
Less: Net reinsurance recoveries	<u>(5.34)</u>	<u>(21.24)</u>	74.9
Total medical and hospital	527.27	374.47	40.8
Claims adjustment expenses	4.30	4.28	0.5
General administrative expenses	64.20	51.08	25.7
Increase in reserves for accident and health contracts		<u>(6.67)</u>	100.0
Total underwriting deductions	<u>\$595.77</u>	<u>\$423.16</u>	40.8

Membership and premium volume for MHPW increased significantly over the examination period as the company resumed operations in 2014 following a period of dormancy. After consecutive unprofitable years in 2015 and 2016, financial results for the company stabilized in 2017. The profitable trend, evidenced by significant reductions in the company's medical and administrative expense ratios over the last two years, was the result of both improved pricing and scaling back of less profitable business. The improved pricing is evidenced by per member per month premium for Minnesota business increasing 82.5% from \$343.89 in 2016 to \$627.59 in 2017, while the medical loss ratio decreased from 112.8% to 81.9% over the same period.

Despite a combined net loss of \$29.5 million over the three-year examination period, the company's surplus increased \$24.6 million, or 51.6%. MHPW has relied on significant support from its parent to maintain adequate liquidity and surplus, including surplus contributions of \$20 million and \$30 million in 2016 and 2017, respectively, as well as surplus notes totaling \$33.25 million issued prior to the company resuming operations in 2014.

**Medica Health Plans of Wisconsin
Compulsory and Security Surplus Calculation
December 31, 2017**

Assets		\$110,293,049
Less liabilities		<u>38,150,349</u>
Adjusted surplus		72,142,700
Annual premium:		
Individual life and health	\$274,734,858	
Factor	<u>15%</u>	
Total	41,210,228	
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>41,210,228</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 30,932,472</u>
Adjusted surplus (from above)		\$ 72,142,700
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)		<u>54,397,500</u>
Security Surplus Excess (Deficit)		<u>\$ 17,745,200</u>

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, 2017, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three 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. Disaster Recovery Plan Testing—It is recommended that the company conduct a test of its Disaster Recovery Plan.

Action—Compliance.

2. Report on Executive Compensation—It is recommended that the company report compensation in accordance with the instructions on the Report of Executive Compensation per s. 613.63, Wis. Stat.

Action—Compliance.

3. Custodial Agreement—It is recommended that the company either amend its current custodial agreement or enter into a new agreement to include specific language prescribed in the NAIC Financial Condition Examiners Handbook.

Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Custodial Agreement

The Insurance Custody Agreement between the company and U.S. Bank National Association was reviewed for compliance with the provisions stated in Section 1 (III) (F) of the 2018 NAIC Financial Condition Examiners Handbook. The agreement did not contain the safeguards and controls as specified in Section 2 (b), which states:

“The custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian’s custody occasioned by the negligence or dishonesty of the custodian’s officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.”

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

Actuarial Memorandum

A review was conducted of the Actuarial Memorandum as of December 31, 2017, prepared by the company’s appointed actuary, for compliance with the 2017 NAIC Annual Statement Instructions-Health. Based upon this review, the memorandum was found to comply materially with the instructions with the following exception:

- The 2017 NAIC Annual Statement Instructions—Health state that the Actuarial Memorandum must include *“Documentation of the required reconciliation from the data used for analysis to the Underwriting and Investment Exhibit, Part 2B.”*

The 2017 Actuarial Memorandum does not include this required documentation. 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.

VII. CONCLUSION

Medica Health Plans of Wisconsin (MHPW) was incorporated as an insurance service company in Wisconsin on April 8, 1996, under ch. 613, Wis. Stat. The company is also licensed as a Minnesota nonprofit health insurance corporation. MHPW is a member of a holding company system, with Minnesota-domiciled parent Medica Holding Company and insurers Medica Health Plans and Medica Insurance Company being the significant affiliated entities.

After a period of dormancy from 2009 through 2013, MHPW began writing individual comprehensive health care coverage in Minnesota and Wisconsin, both on and off the exchange. All products are Qualified Health Plans as defined by the Affordable Care Act, and fall within the metal levels Gold, Silver, and Bronze, as well as Catastrophic for those under age 30 or those with a hardship as deemed by the exchange. 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.

Membership and premium volume for MHPW increased significantly over the examination period after the company resumed operations in 2014. After consecutive unprofitable years in 2015 and 2016, financial results for the company stabilized in 2017. Despite a combined net loss of \$29.5 million over the three-year examination period, the company's surplus increased \$24.6 million (51.6%) due primarily to surplus support from its parent. This surplus support included dividends of \$20 million and \$30 million in 2016 and 2017, respectively, as well as surplus notes totaling \$33.25 million issued prior to the company resuming operations in 2014.

The examination resulted in no adjustments to policyholders' surplus or reclassifications to the balance sheet. There were two recommendations made as a result of the current examination of the company, which require improvements to the custodial agreement and future Actuarial Memoranda.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - 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.
2. Page 17 - 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.

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:

Name	Title
Jacob Burkett	Insurance Financial Examiner
David Jensen, CFE	Insurance Financial Examiner-Advanced, Information Systems Audit Specialist
Jerry DeArmond, CFE	Insurance Financial Examiner-Advanced, Loss Reserve Specialist
Terry Lorenz	Insurance Financial Examiner-Advanced, Exam Planning and Quality Control Specialist

Respectfully submitted,

Robert McLaughlin, CFE
Examiner-in-Charge

X. APPENDIX-SUBSEQUENT EVENT

Effective September 25, 2018, the company received permission from the Commissioner of Insurance to amend its Certificate of Authority to reflect licensure in Wisconsin as a Health Maintenance Organization Insurer under ch. 609, Wis. Stat. This change in licensure was done to provide flexibility for future business strategies.