

Report of the Examination of
MercyCare HMO, Inc.
Janesville, Wisconsin
As of December 31, 2021

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL.....	8
IV. AFFILIATED COMPANIES	11
V. REINSURANCE.....	15
VI. FINANCIAL DATA.....	16
VII. SUMMARY OF EXAMINATION RESULTS	25
VIII. CONCLUSION.....	28
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	29
X. ACKNOWLEDGMENT.....	30



March 15, 2023

Honorable Nathan D. 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:

MERCYCARE HMO, INC.
Janesville, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MercyCare HMO, Inc (MCHMO or the company) was conducted in 2019 as of December 31, 2018. The current examination covered the intervening period ending December 31, 2021, 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 MercyCare Insurance Company (MCIC) also domiciled in Wisconsin.

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.

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 and other reserves. 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

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

The company was incorporated on August 4, 2004, and commenced business on September 30, 2004. The company is owned by MercyCare Insurance Company, a Wisconsin-domiciled stock insurer owned by Mercy Health System Corporation (MHSC), which, in turn, is owned by Mercy Health Corporation (MHC), which owns and controls a multi-faceted health care holding company system. In 2014, MHSC merged with Rockford Health System to create a five-hospital regional system that will provide services to 40 communities in northern Illinois and southern Wisconsin. On November 25, 2015, pursuant to s. 611.72, Wis. Stat., a filing was submitted to this office to restructure the two holding companies. The holding company system underwent significant restructuring from the merger of MHSC and Rockford Health System. Effective January 1, 2016, the ultimate controlling person of the holding company system became Mercy Health Corporation.

Effective January 1, 2007, MCIC entered into a program agreement with MCHMO for the provision of offering a combined product. Under the agreement, MCHMO and MCIC offer a Point of Service (POS) benefit in one contract under several liabilities in MCHMO's service area. MCHMO is responsible for coverage of emergency care, services, and supplies provided by or referred by MCHMO contracted providers, and all coverage under the POS contract issued by MCIC that is assumed by MCHMO under the Assumption Agreement of September 30, 2004, under which MCHMO assumed the HMO coverage portion of the POS contracts issued by MCIC. MCIC provides coverage for non-emergency services and supplies not provided by or referred by an MCHMO contracted provider. The POS contract's premiums and costs are allocated between MCIC and MCHMO.

Members are required to select a Primary Care Physician (PCP) at the time of enrollment. Generally, referrals are not necessary if the member sees a specialist in MCHMO's provider network. Referrals outside the network must be preapproved by the plan. The company has approximately 128 contracted primary care physicians and 734 specialists.

MCHMO provides most of the health care services to enrollees covered by its benefit contracts through a provider agreement with Mercy Health System Corporation. MHSC agrees to provide inpatient, outpatient, physician, and other services customarily provided by the hospital to enrollees. The contract has hold-harmless provisions that prohibit MHSC from billing enrollees for covered services and MHSC is subject to the statutory hold-harmless provisions of ch. 609, Wis. Stat. Should the company become insolvent, MHSC agrees to provide covered services to enrollees hospitalized on the date of insolvency until the member is discharged. The company was added to the original contract between MCIC and MHSC which had an initial term ending December 31, 1994. The contract automatically renews for additional terms of one year unless one party notifies the other of its intent not to renew at least 90 days prior to the end of the term.

Hospital inpatient and hospital outpatient services are capitated with MHSC. The provider contract includes a provision that the insurer will not cover certain serious adverse events such as errors made by health care providers. Additionally, the insurer will not pay for services provided by non-health plan approved providers, excluded services defined in the member's group policy, services not provided under the direction of the member's physician in accordance with policies and procedures, and services that are not emergencies or are not medically necessary in the health plan's judgment. Members are responsible for their own errors and for receipt of benefits that are not covered services. As mentioned earlier, Mercy Hospital is capitated for the services they perform. MercyHealth includes the following hospitals owned and operated by MHS:

- Mercy Hospital and Trauma Center, Janesville, WI
- Mercy Hospital and Medical Center, Harvard, IL
- Mercy Hospital and Medical Center, Walworth, WI
- Mercy Javon Bea Hospital, Rockford, IL
- Mercy Javon Bea Hospital, Rockton, IL

The other hospitals listed are reimbursed on a discounted fee-for-service basis. These contracts also include hold-harmless provisions for the protection of policyholders prohibiting the hospitals from billing patients for amounts due from MCHMO.

MCHMO also contracts with the following hospitals:

Watertown Regional Medical Center
Fort Atkinson HealthCare
Meriter Hospital—Madison (only upon referral)
Milwaukee Children's Hospital-Milwaukee (only upon referral)
University HealthCare (only upon referral)
Rosecrance Behavioral Health (only upon referral)
Rogers Memorial Hospital (behavioral health services only upon referral)

The company currently contracts with individual physicians for primary care and specialty services, as well as contracts for ancillary and mental health services. The contracts include hold-harmless provisions for the protection of policyholders prohibiting physicians from billing patients for amounts due from MCHMO. The contracts have a one-year term and may be terminated upon 60 to 180 days' prior written notice by either party. These contracts limit the providers' risk to services rendered. Physicians are paid based on Optum's publication "Relative Values for Physicians" which are based on physician survey data from Relative Value Studies, Inc.

In addition to MHSC, the company contracts with the following medical groups:

Fort Atkinson Healthcare – Physicians
Watertown Physician Practices LLC
University HealthCare Inc.
Beloit Area Community Health Center
Medical College of Wisconsin

The company's service area is comprised of Rock, Jefferson, Green, and Walworth counties in Wisconsin and Winnebago, McHenry, and Boone counties in Illinois. The company offers comprehensive health care coverage which may be changed by riders to include deductibles and copayments. The following basic health care coverage is 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
Preventive health services

- Family planning
- Hearing exams and hearing aids
- Diabetes treatment
- Routine eye examinations
- Convalescent nursing home service
- Prescription drugs
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Physical fitness or health education (\$100 to \$200 per year maximum dependent on plan design)
- Kidney disease treatment
- Certain transplants
- Chiropractic services

Outpatient and inpatient behavioral health and alcohol and other drug abuse (AODA)

coverage are provided in accordance with federal and state mental health parity laws. Copayments for emergency services range from \$0 to \$500, which may be waived upon admission into an inpatient facility. Dependent on the market, skilled nursing care coverage ranges from 30 to 120 days per confinement, hearing aids are limited to one per ear every 36 months, infertility lifetime maximums range from \$2,000 to unlimited to not covered, home health care coverage ranges from 40 to 60 visits per year, and physical therapy/occupational therapy/speech therapy is limited to a range of 20 to 60 visits per contract year. Plan coverage is contingent on non-emergency services being provided by participating physicians and hospitals or on the company's preapproval of a referral from a participating physician. The company has plans in which office visits have copayments ranging from \$0 to \$100. Some plans also have a 0% to 30% coinsurance requirement, subject to out-of-pocket maximums ranging from \$250 to \$10,000/single and \$500 to \$24,500/family.

The company currently markets to groups, individuals (both Affordable Care Act [ACA] and non-ACA), and Medicare individuals. The company also has a Medicaid contract with the Wisconsin Department of Health Services. The company uses an internal marketing staff as well as outside agents. Most agent commissions are paid in a range from \$3.50 to \$34.00 per contract per month. A small number of agents are paid commissions of up to 6% of premiums on new and renewal business. There are approximately 146 independent agents and four internal sales staff writing for the company.

The company uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the coverage characteristics, age, occupation, gender, experience (if available), and individual medical history for new groups. Experience is reviewed, as well, for

renewal groups. Based on the review, a recommendation is made regarding any rate adjustments. The base rate is adjusted quarterly for inflation and other trending factors.

III. MANAGEMENT AND CONTROL

The board of directors consists of eight members. All directors are elected annually to serve a one-year term. The president and chief executive officer of the company is an ex-officio member. 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 no compensation specific to their service on the company's board.

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

Name and Residence	Principal Occupation	Term Expires
Javon R. Bea Janesville, Wisconsin	President and Chief Executive Officer Mercy Health Corporation	Ex-officio
Mark L. Goelzer, M.D. Janesville, Wisconsin	Medical Consultant	2024
Thomas D. Budd Rockford, IL	President Illinois Bank & Trust	2023
Rowland J. McClellan Janesville, Wisconsin	Retired Bank President	2024
Thomas R. Pool Rochester, Minnesota	Retired Division Chair of Information Services Mayo Foundation	2023
Wesley M. Jost Galena, IL	Retired Commission Salesman U.S. Energy	2023
Katherine Schack Harvard, Illinois	Retired Owner and Manager Harvard Retirement Home	2025
Dave L. Syverson Rockford, IL	Illinois State Senator	2025

Officers of the Company

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

Name	Office
Javon Bea	President and Chief Executive Officer
E. Patrick Cranley	Vice President
Thomas Budd	Secretary/Treasurer

The officer's salaries are paid by MHSC through a support service agreement with the company.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. MercyCare HMO, Inc., has not formed any committees; therefore, the company's entire board of directors constitutes the audit committee.

The company has no employees. Necessary staff is provided through a management agreement with MHSC. Under the agreement, effective January 1, 2007, MHSC agrees to provide a full range of administrative services in the following areas:

- Financial and medical management
- Provider relations
- Claims and data processing
- General administration
- Marketing and underwriting
- Regulatory relations

The monthly compensation paid to MHSC for providing these services is billed at the actual cost to perform them. MHSC bills MCIC and MCHMO for an estimate of such cost each month, along with any reconciliation of actual amounts due for any prior month, in advance of the month. MCIC shall pay each such bill within 10 days after receipt. MCIC and MCHMO promptly allocate such compensation between them based on their proportionate share of total premiums written by each during the month at issue. The term of the agreement is three years with automatic renewal. The company may terminate the agreement upon 30 days' written notice if the default of standards of performance continues 60 days after notice of such default.

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:

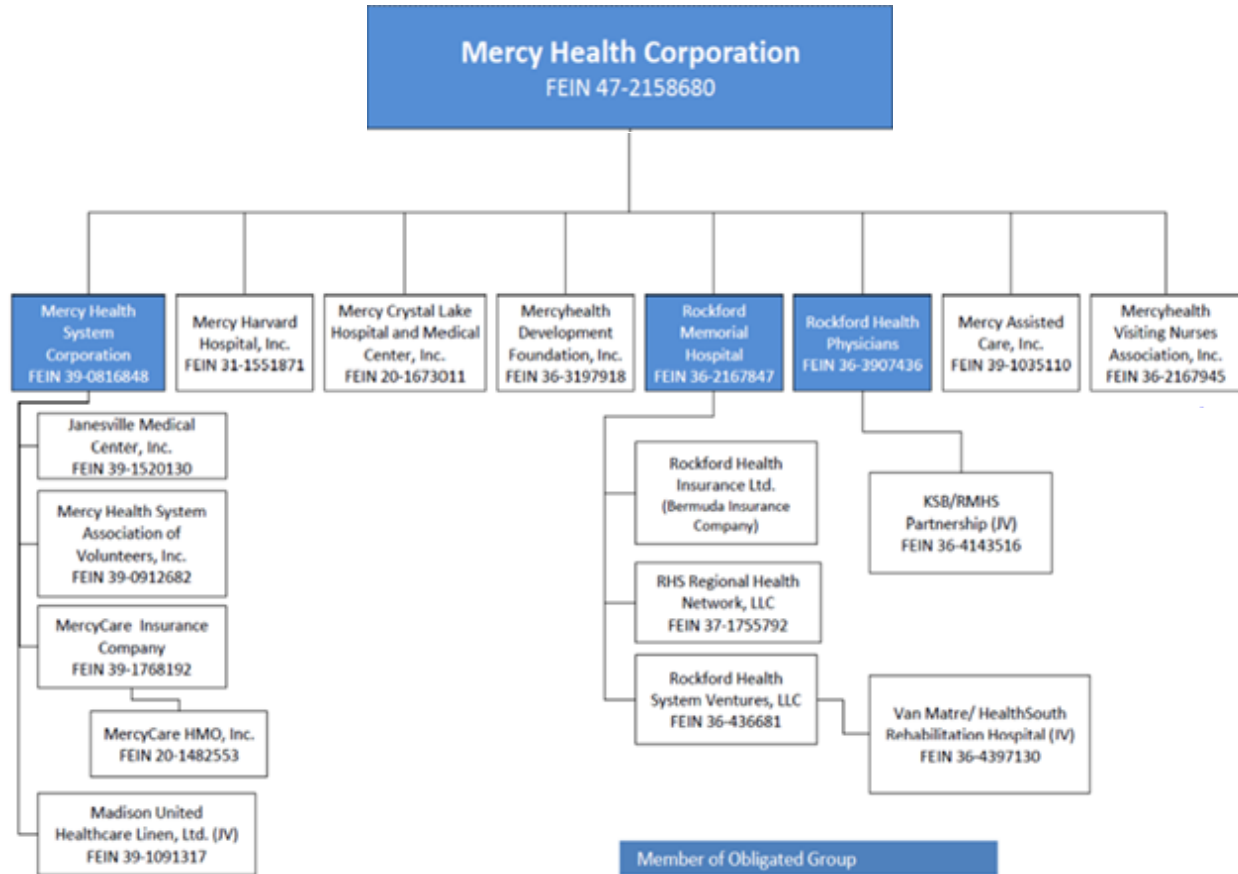
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

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

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Mercy Health Corporation. 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, 2021**



Mercy Health Corporation

Mercy Health Corporation is a not-for-profit corporation that serves as the ultimate parent. MHC is a holding company for the entire group which includes the Mercy Health System, the Rockford Health System, the MercyCare insurers, and other affiliates. The company operates on a fiscal year ending June 30. As of June 30, 2022, the company's independently audited financial statement reported assets of \$2.20 billion, liabilities of \$1.08 billion, and net assets of \$1.12 billion. Operations for 2022 produced a net loss of \$80.8 million on revenues of \$1.17 billion.

Mercy Health System Corporation

Mercy Health System Corporation, headquartered in Janesville, Wisconsin, is an integrated multi-specialty health care delivery system serving southern Wisconsin and northern Illinois. MHSC's holdings include three hospitals and two insurance companies. MHSC provides the majority of hospital and medical services for the insurer's members in Wisconsin and for some Illinois members. The hospital services are provided in a provider agreement between MCIC, MCHMO, and MHSC. As of June 30, 2022, MHSC's audited financial statement reported assets of \$806.3 million, liabilities of \$366.5 million, and unrestricted net assets of \$439.8 million. Operations for the fiscal year ending June 30, 2022, produced an increase in net assets of \$39.9 million on revenues of \$627.1 million.

MercyCare Insurance Company

MercyCare Insurance Company is a Wisconsin-domiciled stock insurance company. MCIC is a health insurer. It wholly owns MercyCare HMO, Inc., and is MCHMO'S direct parent company. MCIC's direct parent is MHSC. MCIC provides out of network benefits for MCHMO members. The company's 2021 statutory financial statements reported assets of \$35.0 million, liabilities of \$1.3 million, capital and surplus of \$33.7 million and net loss of \$1.5 million.

Javon Bea Hospital (formerly known as Rockford Memorial Hospital)

Javon Bea Hospital operates a 94-bed hospital and another 19-bed hospital providing inpatient, outpatient, and emergency care services to residents in Rockford, Illinois. As of June 30, 2022, the audited financial statements of Javon Bea Hospital reported assets of \$725.0 million, liabilities of \$625.8 million, and total net assets of \$99.3 million. Operations for the fiscal year ending June 30, 2022, produced a decrease in net assets without donor restrictions of \$51.4 million on total revenue of \$388.3 million.

Rockford Health Physicians

Rockford Health Physicians provides physician and ambulatory care services. As of June 30, 2022, the audited financial statements of Rockford Health Physicians reported assets of \$119.4 million, liabilities of \$62.7 million, and unrestricted net assets of \$56.6 million. Operations for the fiscal year ending June 30, 2022, produced a decrease in net assets of \$5.7 million on total revenue of \$127.5 million.

Agreements with Affiliates

MercyCare HMO, Inc., has entered into several affiliated agreements. These agreements are described below.

Provider Service Agreements

MCIC and MCHMO entered into a provider service agreement with Mercy Health System where MHS provides various hospital and medical services to MCIC and MCHMO members. This agreement is effective February 7, 2011, and was amended on January 1, 2022. This agreement provides capitation payments which effectively transfer some insurance risk to the provider.

Effective February 7, 2011, the company entered into a provider service agreement with MCIC and Mercy Assisted Care. Under this agreement, Mercy Assisted Care agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO. The agreement also includes an amendment including a professional provider agreement. Under this amendment, the parties agree to include Medicare Advantage Participants under the agreement.

Effective February 7, 2011, the company entered into a provider service agreement with MCIC and Mercy Harvard Hospital. Under this agreement, Mercy Harvard Hospital agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO. The agreement also includes an amendment including a professional provider agreement. Under this amendment, the parties agree to include Medicare Advantage Participants under the agreement.

Effective November 20, 2015, the company entered into a provider service agreement with MCIC and Rockford Health Physicians. Under this agreement, Rockford Health Physicians agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO.

Effective November 20, 2015, the company entered into a provider service agreement with MCIC and Javon Bea Hospital (formerly known as Rockford Memorial Hospital). Under this agreement, Javon Bea Hospital agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO.

Effective November 24, 2015, the company entered into a provider service agreement with MCIC and Visiting Nurse Association of the Rockford Area. Under this agreement, the Visiting Nurse

Association of the Rockford Area agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO.

Support Services Agreement

MCIC and MCHMO entered into a support services agreement with Mercy Health System. The original agreement dates to January 1, 2007, with an amendment on July 1, 2014. Mercy Health System will provide various financial management functions such as management, clerical staff, accounting and finance systems, maintaining the books and preparing financial reports, preparing insurance filings and other functions. MHS will also provide medical management functions and related services. MHS will perform provider relations functions, claims processing, data processing, general administration, marketing and underwriting, regulatory relations, and provide office space. MHS's compensation under the agreement is its actual cost for those services.

Program Agreement

MCHMO entered into a program agreement with MCIC effective January 1, 2007. MCIC will provide a point of service benefit together whereas the premium is divided between them. Under this agreement, MCIC and the company offer a point-of-service benefit together in one contract in MCHMO's service area. Premium and expenses are allocated based on the following: MCHMO is responsible for HMO coverage and MCIC is responsible for indemnity coverage. This agreement is described in further detail in the section of this report captioned "History and Plan of Operation." MCIC will provide an out-of-network benefit to MCHMO members. It should be noted that the out-of-network indemnity portion is considerably smaller than the HMO portion of the premiums.

Tax Sharing Agreement

MCHMO and MCIC have entered into an agreement to file a consolidated tax return with the holding company system and taxes will be allocated to the insurers. This agreement is effective January 1, 2007.

V. REINSURANCE

The company currently has reinsurance coverage under the contract outlined below:

Reinsurer: American National Insurance Company

Type: Excess of Loss Reinsurance

Effective date: January 1, 2021

Retention:

Commercial: HMO, PPO, EPO, POS-Wisconsin, Small Group (off exchange), Large Group (off exchange) and Individual (off exchange)	\$600,000
Commercial Individual on Exchange	\$600,000
Commercial POS-Illinois	\$100,000
Medicaid: Wisconsin	\$600,000
Medicare Supplement	\$600,000
Specific Member	\$900,000

Coverage: Maximum per member is \$5,000,000 less retention. Coinsurance is 90%

Termination: Agreement will continue until terminated at the earliest as stated for the end of period for which premiums have been paid, the date that court of competent jurisdiction declares a party to be insolvent, a date of material change, or because of misstated data.

The reinsurance policy has appropriate insolvency provisions.

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, 2021, 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.

MercyCare HMO, Inc.
Assets
As of December 31, 2021

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 9,976,856	\$	\$ 9,976,856
Stocks:			
Common stocks	32,789,799		32,789,799
Cash, cash equivalents and short-term investments	6,911,495		6,911,495
Investment income due and accrued	57,250		57,250
Uncollected premiums and agents' balances in the course of collection	514,648		514,648
Amounts recoverable from reinsurers	4,616,013		4,616,013
Current federal and foreign income tax recoverable and interest thereon	31,414		31,414
Net deferred tax asset	364,000		364,000
Health care and other amounts receivable	<u>2,878,621</u>	<u>665,064</u>	<u>2,213,557</u>
Total Assets	<u>\$58,140,096</u>	<u>\$665,064</u>	<u>\$57,475,032</u>

MercyCare HMO, Inc.
Liabilities and Net Worth
As of December 31, 2021

Claims unpaid		\$15,388,142
Unpaid claims adjustment expenses		422,732
Aggregate health policy reserves		1,060,000
Premiums received in advance		343,193
General expenses due or accrued		1,326,706
Amounts due to parent, subsidiaries, and affiliates		90,225
Aggregate write-ins for other liabilities (including \$6,632,308 current)		<u>9,306,666</u>
Total Liabilities		27,937,664
Common capital stock	\$	1
Gross paid in and contributed surplus	11,499,999	
Unassigned funds (surplus)	<u>18,037,368</u>	
Total Capital and Surplus		<u>29,537,368</u>
Total Liabilities, Capital and Surplus		<u>\$57,475,032</u>

MercyCare HMO, Inc.
Statement of Revenue and Expenses
For the Year 2021

Net premium income		\$132,018,470
Total revenues		
Medical and Hospital:		
Hospital/medical benefits	\$111,579,780	
Prescription drugs	<u>12,627,379</u>	
Subtotal	124,207,159	
Less		
Net reinsurance recoveries	<u>5,020,826</u>	
Total medical and hospital	119,186,333	
Claims adjustment expenses	3,263,650	
General administrative expenses	7,830,419	
Increase in reserves for life and accident and health contracts	<u>770,000</u>	
Total underwriting deductions		<u>131,050,402</u>
Net underwriting gain or (loss)		968,068
Net investment income earned	668,891	
Net realized capital gains or (losses)	<u>705,370</u>	
Net investment gains or (losses)		<u>1,374,261</u>
Net Income (Loss)		<u>\$ 2,342,329</u>

MercyCare HMO, Inc.
Capital and Surplus Account
For the Three-Year Period Ending December 31, 2021

	2021	2020	2019
Capital and surplus, beginning of year	\$20,224,229	\$14,050,523	\$10,806,465
Net income (loss)	2,342,329	1,465,183	3,747,872
Change in net unrealized capital gains/losses	4,419,227	4,482,377	1,033,245
Change in net deferred income tax			(735,000)
Change in nonadmitted assets	<u>2,551,583</u>	<u>226,146</u>	<u>(802,059)</u>
Capital and Surplus, End of Year	<u>\$29,537,368</u>	<u>\$20,224,229</u>	<u>\$14,050,523</u>

MercyCare HMO, Inc.
Statement of Cash Flow
For the Year 2021

Premiums collected net of reinsurance		\$134,829,396
Net investment income		<u>690,297</u>
Total		135,519,693
Less:		
Benefit- and loss-related payments	\$133,558,457	
Commissions, expenses paid and aggregate write-ins for deductions	<u>6,708,136</u>	
Total		<u>140,266,593</u>
Net cash from operations		(4,746,900)
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	3,973,715	
Cost of Investments Acquired—Long-term Only:		
Bonds	\$3,908,277	
Stocks	<u>1,251,084</u>	
Total investments acquired	<u>5,159,361</u>	
Net cash from investments		(1,185,646)
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(5,932,546)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>12,844,041</u>
End of Year		<u>\$ 6,911,495</u>

Growth of MercyCare HMO, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2021	\$57,475,032	\$27,937,664	\$29,537,368	\$132,018,470	\$119,186,333	\$2,342,329
2020	59,017,717	38,793,488	20,224,229	123,780,527	114,498,988	1,465,183
2019	41,832,194	27,781,671	14,050,523	106,585,250	95,265,249	3,747,872
2018	35,678,910	24,872,499	10,806,465	106,795,550	100,695,072	(2,389,740)

Year	Profit Margin	Medical Loss Ratio	Administrative Expense Ratio	Change in Enrollment
2021	1.8%	90.9%	8.4%	9.9%
2020	1.2	91.0	7.6	7.1
2019	3.5	90.3	9.3	-0.2
2018	-2.2	93.2	10.0	5.9%

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2021	33,636	458.09	5.6
2020	30,594	358.34	4.1
2019	28,573	421.16	3.8
2018	28,637	331.30	3.6

Per Member Per Month Information

	2021	2020	Percentage Change
Premiums:			
Commercial	\$469.66	\$471.33	-3.97%
Medicare Supplement	203.64	197.29	3.22%
Medicaid	184.19	184.84	-0.35%
Expenses:			
Hospital/medical benefits	277.58	291.33	-4.72%
Prescription Drugs	31.41	35.50	-11.50%
Incentive pool and withhold adjustments			
Less: Net reinsurance recoveries	<u>12.49</u>	<u>15.29</u>	-18.30%
Total medical and hospital	296.50	311.54	-4.83%
Claims adjustment expenses	8.12	7.84	3.55%
General administrative expenses	19.48	17.83	9.27%
Increase in reserves for accident and health contracts	<u>1.92</u>	<u>-5.07</u>	-137.75%
Total underwriting deductions	<u>\$326.02</u>	<u>\$332.13</u>	-1.84%

The company was profitable during most of the examination period supported by years of underwriting and investment income. The company continued to improve its financial performance as evidenced by an increase of 110% of its capital and surplus from 2019 to 2021 and 37.4% increase of its admitted assets over the same period. Premium earned increased to \$132.0 million at year end 2021 compared to \$106.6 million as of 2019. Investment gains contributed \$1.4 million to the net results for 2021. The company's medical loss ratio improved slightly during the examination period as it remained near 90% and the administrative expense ratio moved below 10%.

The company had increased enrollment during the examination period. The company is writing some business in Northern Illinois, which contributed to the growth. The company has significant investments in mutual funds which had significant appreciation during the exam period due to increases in the stock market. The company is profitable despite strong competition. Hospital days and average length of stay increased in 2021 largely due to the COVID-19 pandemic.

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, 2021, is as follows:

Assets		\$58,140,096
Less:		
Special deposit		1,200,000
Liabilities		27,937,664
Investments in excess of maximum allowable by Ch. 620, Wis. Stat.		6,441,599
Net amount available to satisfy surplus requirements		22,560,833
Net premium earned		
HMO business	\$132,018,470	
Factor	<u>3%</u>	
Compulsory surplus		<u>3,960,554</u>
Compulsory Surplus Excess (Deficit)		<u>\$18,600,279</u>
Net amount available to satisfy surplus requirements		\$22,560,833
Compulsory surplus	\$3,960,554	
Security factor	<u>137%</u>	
Security surplus		<u>5,425,959</u>
Security Surplus Excess (Deficit)		<u>\$17,134,874</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 2021 with a deposit of \$1,200,000 with the state treasurer.

Reconciliation of Capital and Surplus per Examination

There were no adjustments to surplus as a result of the examination. The surplus reported as of December 31, 2021, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 10 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 or Safekeeping Agreements—It is again recommended that the company obtain a custodial agreement with its investment custodian that includes proper language indemnifying MercyCare HMO, Inc., against loss as noted above and the custodial agreements must include language indicating that the loss of these indemnified securities will be properly replaced or the value of the securities or any loss of rights or privileges will be promptly.

Action—Compliance.

2. Custodial or Safekeeping Agreements—It is again recommended that if a subcustodian is used, the custodian's indemnification for negligence or dishonesty under the custodial agreement must be extended to apply to any sub-custodian.

Action—Compliance.

3. Investments—It is again recommended that the company deduct investments in excess of the limitations of ch. 620, Wis. Stat., in future calculations of the compulsory surplus requirement and security surplus standard.

Action—Compliance.

4. Annual Statement Reporting—It is again recommended that the company nonadmit pharmacy rebate receivable accruals over 90 days old in compliance with SSAP No. 84, paragraph 10.

Action—Compliance.

5. Annual Statement Reporting—It is recommended that the company report total hospital patient days incurred and the number of inpatient admissions in the annual statement Exhibit of Premiums, Enrollment, and Utilization, in accordance with NAIC Annual Statement Instructions – Health.

Action—Compliance.

6. Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation as required by s. 611.63 (4), Wis. Stat.

Action—Compliance.

7. Corporate Governance—It is recommended that the company's directors, officers and management employees properly complete and disclose potential conflicts of interest on an annual basis in accordance with the company's Conflict of Interest Policy and the directive of the Wisconsin Office of the Commissioner of Insurance regarding disclosure of conflicts of interest.

Action—Compliance.

8. Biographical—It is recommended that the company timely file biographical information for newly elected or appointed officers and directors in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

Action—Compliance.

9. Information Systems—It is recommended that the company develop or make appropriate modifications to the current information system to capture premium data information.

Action—Compliance.

10. Other Information System Recommendations—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management provided in conjunction with this report.

Action—Partial 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.

Investment Policy Update Frequency

During a review of the company's investment policy, it was noted that the most recent copy of the investment policy was from 2013 and that it was updated on an as-needed basis. There was no documentation of a review of the investment policy during the examination period. It is recommended that the company presents the company's investment policy to the board for review and approval at least on an annual basis as a best practice.

Form Filings

A review of the group's Form B and Form C revealed the company did not report the capitation/provider agreement with MHSC as an affiliated agreement. It is recommended that the company include all affiliated agreements in its Holding Company Registration Form B and Form C filings.

Information Systems

The examination completed an information technology general control (ITGC) review. The review resulted in one new recommendation and one repeat recommendation concerning information system controls. The details of these recommendations were presented in a letter to the management. It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management provided in conjunction with this report.

VIII. CONCLUSION

MercyCare HMO, Inc. is a for-profit stock corporation formed during 2004 and operates as a health maintenance organization under Wisconsin Statutes. The company commenced business on September 20, 2004, when it assumed all HMO business from its parent, MercyCare Insurance Company. MCHMO entered into a program agreement with MCIC for the provision of offering a combined product effective January 1, 2007

The company reported net income of \$2.3 million and total assets of \$57.5 million in 2021. The company continued to improve its financial performance as evidenced by an increase of 110% of its capital and surplus from 2019 to 2021 and 37.4% increase of its admitted assets over the same period. Investment gains also contributed \$1.4 million to net income for 2021. The company had increased enrollment during the exam period.

There were no adjustments to surplus as a result of the examination. The company complied with nine out of ten prior examination recommendations. The current examination resulted in three new recommendations and one repeat recommendation regarding information system general controls.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Investment Policy Update Frequency—It is recommended that the company presents the company's investment policy to the board for review and approval at least on an annual basis as a best practice.
2. Page 27 - Form Filings—It is recommended that the company include all affiliated agreements in its Holding Company Registration Form B and Form C filings
3. Page 27 - Information Systems—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management provided in conjunction with this report.

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, 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
Junji Nartatez	IT Specialist
Kongmeng Yang	Quality Control Specialist
Jerry DeArmond, CFE	Policy and Claim Reserve Specialist

Respectfully submitted,



Vickie Ostien
Examiner-in-Charge