

Report
of the
Examination of
Molina Healthcare of Wisconsin, Inc.
Milwaukee, Wisconsin
As of December 31, 2015

TABLE OF CONTENTS

	Page
I. INTRODUCTION.....	1
II. HISTORY AND PLAN OF OPERATION	3
III. MANAGEMENT AND CONTROL	7
IV. AFFILIATED COMPANIES	10
V. REINSURANCE	14
VI. FINANCIAL DATA	16
VII. SUMMARY OF EXAMINATION RESULTS	25
VIII. CONCLUSION.....	29
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	30
X. ACKNOWLEDGMENT	31
XI. SUBSEQUENT EVENTS	32



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

March 23, 2017

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

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

MOLINA HEALTHCARE OF WISCONSIN, INC.
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Molina Healthcare of Wisconsin, Inc. (the company or MWI) was conducted in 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the Molina Healthcare Group. The Ohio Department of Insurance acted in the capacity as the lead state for the coordinated examinations. Work performed by the Ohio Department of Insurance was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurer to evaluate the financial condition, assess corporate governance, identify current and

prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Lead State's Contracted Actuary's Review

The Ohio Department of Insurance engaged an independent actuarial firm to perform a review of the Molina Healthcare Group's reserves. The actuary performed a review of claims unpaid and certain other actuarially determined liabilities during the coordinated examination. The actuary's results were reported to the Ohio Department of Insurance examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Molina Healthcare of Wisconsin, Inc., is described as a for-profit mixed model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 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 mixed model, the company has a delivery system consisting of integrated delivery systems, clinics and/or independent contracting providers operating out of their separate offices. HMOs compete with traditional fee-for-service health care delivery.

The company was incorporated February 26, 2004, and commenced business on May 13, 2004, as Abri Health Plan, Inc. The company was owned by Avatar Partners, LLC (Avatar). On September 1, 2010, Molina Healthcare, Inc. (MHI or the Parent) acquired 100% of the voting equity interests in Avatar, which was the sole shareholder of the company. The total cost of the acquisition was approximately \$15,484,000. During 2011, the Parent contributed a purchase price adjustment of \$1,300,000 in connection with the final member reconciliation, as agreed in the purchase transaction.

The majority of MWI's revenues are derived from per member per month capitation payments from the State of Wisconsin's Medicaid authority, the Wisconsin Department of Health Services (DHS). These revenues are provided by the federal government and the state of Wisconsin. The company is financially "at risk" for the medical care of its members. MWI contracts with health care providers in the relevant communities within the state of Wisconsin, including primary care physicians, specialist physicians, physician groups, hospitals, and other medical care providers. These health care providers then provide medical care to the company's enrolled members. Various core administrative functions—primarily claims processing, information systems, and finance—are centralized at Molina Healthcare, Inc.

MWI also serves members through the exchange marketplace. The exchanges became available for consumers to access coverage beginning January 1, 2014. In some

instances, the exchanges allow individuals to purchase health insurance that is federally subsidized. MWI is participating in the state of Wisconsin's marketplace primarily to serve members who have lost Medicaid (BadgerCare) eligibility. Of MWI's gross revenues, 43% were derived from marketplace insurance contracts.

MWI contracts with individual providers, clinics, and large health systems. MWI had contracts with nearly 1,150 different providers during 2015. The company contracts with 69 hospitals to provide inpatient services. Hospitals are reimbursed on a negotiated per diem or per case basis (depending on the length of stay). These contracts also include hold-harmless provisions for the protection of policyholders.

The provider groups, hospitals, and health systems listed below represent the majority of MWI's transactions:

- Affinity Health System
- Aspirus Health Network
- Aurora Health Care
- BayCare Clinics
- Bellin Health and ThedaCare Physician Partners
- Children's Medical Group
- Columbia St. Mary's
- Community Health Network Medical Group
- Fort HealthCare
- Meriter Clinics
- Ministry Health Care
- North Shore Health Network
- ProHealth Solutions
- United Health System Physicians (Kenosha)
- United Hospital Physicians Clinic
- University Health Care
- Watertown Memorial PHO
- Waushara Family Physicians
- Wheaton Franciscan Services, Inc.

MWI has contractual agreements with numerous physician groups. These agreements are generally on a discounted fee-for-service basis, with some agreements based on capitation. The fees are based on percentage of a rate table that is set by the governing agency [i.e., Centers for Medicare and Medicaid Services (CMS) or DHS]. There are some risk-sharing provisions in the provider contracts (small percentages that the provider agrees to pay to MWI).

Provider agreements have agreed upon rates set for most services (and/or have "floors" and "caps" assigned) for the amount that MWI will reimburse the provider. The provider

contracts that MWI has with hospitals are on a fee-for-service basis and have similar attributes to the physician group contracts.

All contractors are expected to deliver medical services as needed (and deemed as medically necessary) under Medicare/Medicaid guidelines. Most (if not all) of these services are expected to be provided on a 24-hour as-needed basis. Emergency and urgent care services are included in several of these contracts.

The contracts include hold-harmless provisions for the protection of policyholders. The contracts have one-year terms and may be terminated by either party with a 90-day written notice with or without reason. If either party is found to have caused a material breach, the contract can be terminated with a 30-day written notice.

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

Brown	Kenosha	Oconto	Walworth
Calumet	Kewaunee	Oneida	Washington
Clark	Langlade	Outagamie	Waukesha
Dodge	Lincoln	Ozaukee	Waupaca
Door	Manitowoc	Portage	Waushara
Florence	Marathon	Racine	Winnebago
Fond du Lac	Marinette	Shawano	Wood
Forest	Marquette	Sheboygan	
Green Lake	Menominee	Taylor	
Jefferson	Milwaukee	Vilas	

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

- 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—\$5.00 copayment
Cardiac rehabilitation, physical, speech, and/or occupational therapy
Physical fitness or health education (\$30.00 per year maximum)
Kidney disease treatment
Certain transplants
Chiropractic services

Inpatient mental health and AODA coverage is limited to 30 days and \$6,300, outpatient mental health and AODA coverage is limited to \$900 per year, emergency services have a \$25 copayment which is waived upon admission into an inpatient facility, and skilled nursing care is limited to 60 days. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral of participating physicians. The company also has a copayment plan in which inpatient services have a \$0 copayment no maximum.

The company currently markets to individuals. The company does not use outside agencies to market its products. All marketing is either handled internally or through government agencies.

The company bases its individual marketplace rates on a calendar year claims experience basis and applies adjustments to the claims experience to calculate the expected claims for the rate effective period. MWI submits rating filings to the appropriate state and federal regulatory agencies for rate approval prior to implementing the new premiums for the rate effective period.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of three members. All directors are elected annually to serve a one-year term until their successor has been elected or until their death, resignation, or removal. Officers are elected 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 HMO group. The board members do not receive compensation for their service on the board of directors.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Scott Johnson Lake Mills, WI	President of MWI	2017
Roseline Abgoke Long Beach, CA	Associate VP of Financial Planning & Analysis of MHI	2017
Gregory Hamblin Hollywood, FL	VP of Finance of MHI	2017

Officers of the Company

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

Name	Office	2015 Compensation
Scott Johnson	President	\$ 436,530
Pamela Sanborn	Treasurer/VP Finance & Analytics	95,967
Jeffrey Barlow	Secretary	2,079,565**

**Officer is compensated by MHI. Amount listed above is the officer's total compensation.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. MWI does not have separate committees of the board. Rather there are board-level committees at MHI for all health plans within the group. The committees at the time of the examination are listed below:

Audit Committee

Steven Orlando, Chair
Charles Fedak
Steven James
Daniel Cooperman

Governance and Nominating Committee

Daniel Cooperman, Chair
Garrey Carruthers, PhD
Frank Murray, MD
Ronna Romney
Dale Wolf

Transaction Committee

Ronna Romney, Chair
Steven Orlando
Richard Schapiro
Dale Wolf

Compensation Committee

Dale Wolf, Chair
Charles Fedak
Steven Orlando
Ronna Romney
Richard Schapiro

Compliance and Quality Committee

Garrey Carruthers, PhD, Chair
Frank Murray, MD
Steven James
John Molina

The company has its own employees. The company also has a service agreement with its parent, MHI. A detailed description of this agreement is detailed in the Affiliated Agreements heading in Section IV.

Insolvency Protection for Policyholders

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

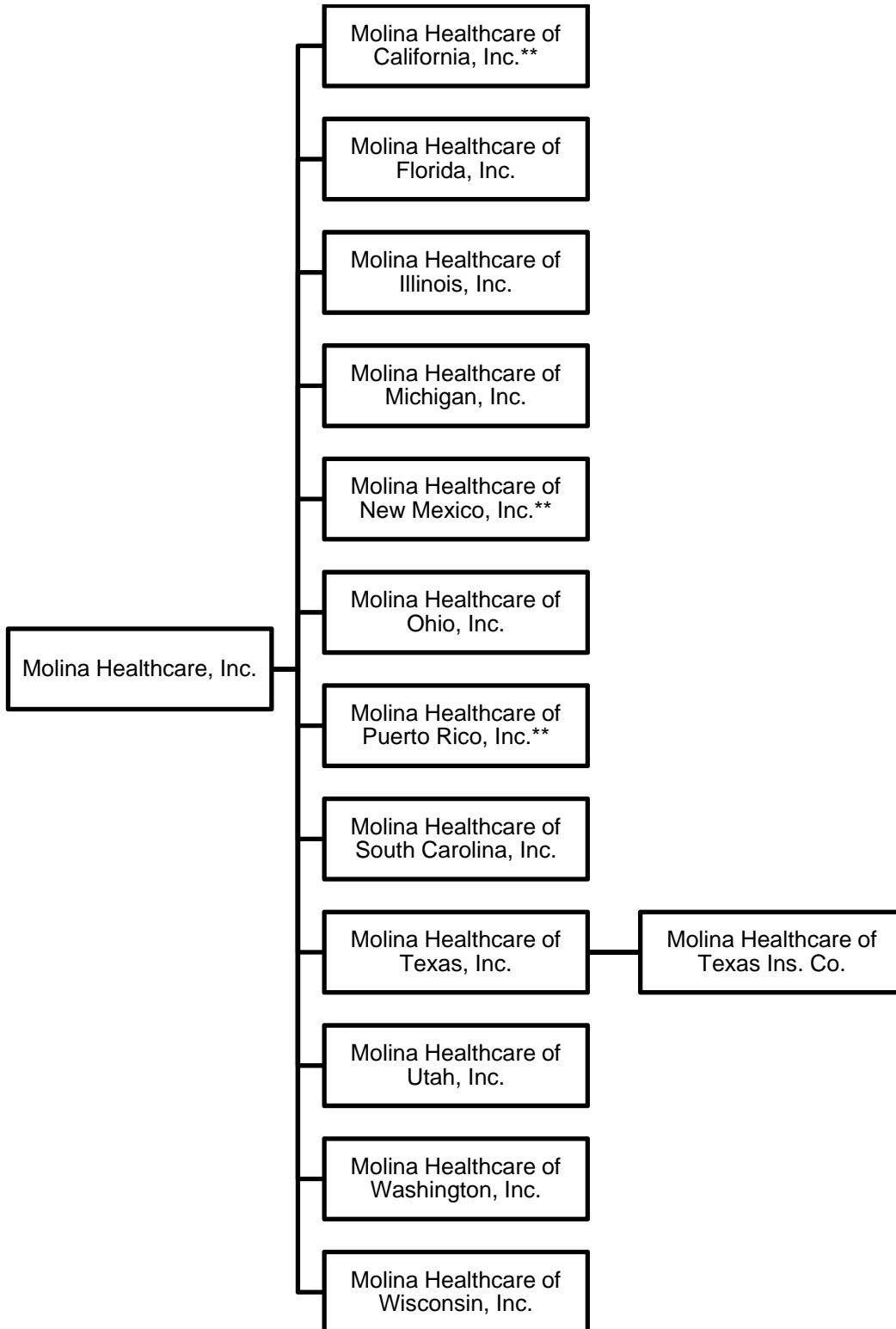
Enrollees hospitalized on the date of insolvency will be covered until discharged.

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

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Molina Healthcare, Inc. The abridged organizational chart on the following page depicts the relationships among the affiliates in the group. Included on the chart were the companies who were included in the group examination. A brief description of the significant affiliates of the company follows the organizational chart.

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



** These affiliates were not included in the group examination as the domiciliary states declined to participate.

Molina Healthcare, Inc.

Molina Healthcare, Inc., provides managed health care services under the Medicaid and Medicare programs and through the state insurance marketplaces. As of December 31, 2015, the company's audited financial statement reported assets of \$6.58 billion, liabilities of \$5.02 billion, and stockholders' equity of \$1.56 billion. Operations for 2015 produced net income of \$0.14 billion on revenues of \$14.18 billion.

Affiliated Agreements

The company amended and restated its existing service agreement with the Parent on February 4, 2015. Under the service agreement, the Parent agrees to perform consulting and administrative services necessary for the company's operations, including, but not limited to, marketing, information systems, financial, and other specified general and administrative services. As compensation for these services, the company agrees to reimburse the Parent for the value of the consultation, assistance, services, materials, supplies, and capital access. Such payment may be adjusted annually by mutual consent of the parties. The service agreement shall automatically renew for successive periods of one year, unless either party gives 60 days' prior written notice.

The company also entered into a federal tax-sharing agreement with the Parent on September 1, 2010. The company is liable to pay to the Parent an amount equal to the federal income tax determined under the "Stand Alone Method." This method applies the separate tax liability adjustment per Treasury regulation to the company's federal income tax liability and is treated as though the company was never part of the Parent's consolidated tax return. The company and the Parent are to reconcile and settle the intercompany tax balances within 90 days of the filing of a consolidated income tax return, or where a refund is due to the Parent, within 90 days of the receipt of such refund. The federal tax-sharing agreement automatically renews for successive periods of one year, unless either party gives 60 days' prior written notice.

Effective April 15, 2014, MWI entered into a Health Insurance Providers Fee Payment Consent and Agreement with MHI to comply with Section 9010 of the Patient Protection and Affordable Care Act (PPACA), as amended by section 10905 of the PPACA, and as further

amended by section 1406 of the Health Care and Education Reconciliation Act of 2010, which imposes an annual Health Insurance Providers Fee on covered entities engaged in the business of providing health insurance for United States health risks. It is required by 26 C.F.R. § 57.2(b) for covered entities of a control group to designate one entity within the control group to act on behalf of the control group with regard to the Fee, which includes payment of the Fee on behalf of each covered entity. MHI is the designated entity to act on behalf of the control group.

V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	RGA Reinsurance Company
Type:	HMO Excess Risk
Effective date:	January 1, 2015
Lines covered:	BadgerCare Plus including Childless Adult Medicaid SSI – Aged, Blind and Disabled Medicare Marketplace
Deductible:	\$1,000,000 per BadgerCare Plus including Childless Adult member per agreement period \$1,000,000 per Medicaid SSI – Aged, Blind and Disabled member per agreement period \$600,000 per Medicare member per agreement period \$1,000,000 per marketplace member per agreement period
Coinsurance:	90% (the company retains 10%)
Premium:	\$0.02 per BadgerCare Plus Childless Adult member per month \$0.37 per Medicaid SSI – Aged, Blind and Disabled member per month \$0.24 per Medicaid member per month \$0.62 per marketplace member per month
Limits:	\$2,000,000 per member per agreement period, excluding marketplace members Unlimited per marketplace member per agreement period
Termination:	The agreement automatically terminates at the end of the agreement period listed in Article I of the contract. The company has the option to terminate this agreement at any time by giving 30 days' prior written notice to the reinsurer.

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

1. RGA Reinsurance Company will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until the earlier of their discharge or the effective date of any replacement coverage.
2. RGA Reinsurance Company will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to plan by that member or on his or her behalf.

Insolvency coverage is capped at \$5,000,000.

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

The transitional reinsurance program, based on Section 1341 of the ACA, is effective for plan years 2014 through 2016. Reinsurance assessments will be collected and distributions will be issued during the three-year term. Reinsurance is provided under this program once an insured member reaches his or her maximum out-of-pocket (MOOP) cost. Expenses above the MOOP up to \$70,000 are the full responsibility of the company. Medical expenses above \$70,000 up to \$250,000 are covered under the reinsurance at a 50% coinsurance level. Expenses above \$250,000 are the responsibility of the company.

VI. FINANCIAL DATA

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

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company for the period under examination.

Molina Healthcare of Wisconsin, Inc.
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 4,964,840	\$	\$ 4,964,840
Cash, cash equivalents and short-term investments	36,429,671		36,429,671
Investment income due and accrued	30,983		30,983
Uncollected premiums and agents' balances in the course of collection	5,843,593	25,367	5,818,226
Accrued retrospective premiums and contracts subject to redetermination	1,549,516		1,549,516
Amounts recoverable from reinsurers	10,213,716		10,213,716
Amounts receivable relating to uninsured plans	135,524		135,524
Current federal and foreign income tax recoverable and interest thereon	3,964,259		3,964,259
Net deferred tax asset	2,375,447	159,399	2,216,048
Furniture and equipment, including health care delivery assets	991,634	991,634	
Health care and other amounts receivable	6,171,774	4,327,975	1,843,799
Aggregate write-ins for other than invested assets	<u>4,193,253</u>	<u>1,674,165</u>	<u>2,519,088</u>
Total Assets	<u>\$76,864,210</u>	<u>\$7,178,540</u>	<u>\$69,685,670</u>

Molina Healthcare of Wisconsin, Inc.
Liabilities and Net Worth
As of December 31, 2015

Claims unpaid		\$27,933,530
Accrued medical incentive pool and bonus payments		405,101
Unpaid claims adjustment expenses		435,518
Aggregate health policy reserves		644,724
Premiums received in advance		4,615,124
General expenses due or accrued		925,057
Amounts due to parent, subsidiaries and affiliates		1,210,052
Aggregate write-ins for other liabilities (including \$(2,740,522) current)		<u>3,591,086</u>
Total liabilities		39,760,192
Aggregate write-ins for other-than-special surplus funds	\$ 4,900,000	
Common capital stock	1	
Gross paid in and contributed surplus	35,284,949	
Unassigned funds (surplus)	<u>(10,259,472)</u>	
Total capital and surplus		<u>29,925,478</u>
Total Liabilities, Capital and Surplus		<u>\$69,685,670</u>

Molina Healthcare of Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2015

Net premium income		\$266,528,889
Change in unearned premium reserves and reserve for rate credits		<u>(498,672)</u>
Total revenues		266,030,217
Medical and hospital:		
Hospital/medical benefits	\$166,683,645	
Other professional services	5,084,936	
Outside referrals	17,941,088	
Emergency room and out-of-area	18,782,326	
Prescription drugs	11,902,656	
Aggregate write-ins for other medical and hospital		
Incentive pool and withhold adjustments	<u>58,475</u>	
Subtotal	220,453,126	
Less		
Net reinsurance recoveries	<u>13,599,732</u>	
Total medical and hospital	206,853,394	
Non-health claims		
Claims adjustment expenses	10,222,365	
General administrative expenses	<u>40,778,258</u>	
Total underwriting deductions		<u>257,854,017</u>
Net underwriting gain or (loss)		8,176,200
Net investment income earned		88,773
Aggregate write-ins for other income or expenses		<u>(500)</u>
Net income or (loss) before federal income taxes		8,264,473
Federal and foreign income taxes incurred		<u>4,076,045</u>
Net Income (Loss)		<u>\$ 4,188,428</u>

Molina Healthcare of Wisconsin, Inc.
Capital and Surplus Account
For the Four-Year Period Ending December 31, 2015

	2015	2014	2013	2012
Capital and surplus, beginning of year	\$22,443,607	\$22,699,342	\$14,583,656	\$12,682,259
Net income (loss)	4,188,428	(933,434)	5,447,792	(5,879,271)
Change in net deferred income tax	1,373,355	475,944	335,747	199,833
Change in nonadmitted assets	(3,079,912)	201,755	3,886,991	80,835
Surplus adjustments:				
Paid in	5,000,000			7,500,000
Write-ins for gains and (losses) in surplus:				
Cumulative effect of correction to goodwill amortization	_____	_____	(1,554,844)	_____
Surplus, End of Year	<u>\$29,925,478</u>	<u>\$22,443,607</u>	<u>\$22,699,342</u>	<u>\$14,583,656</u>

Molina Healthcare of Wisconsin, Inc.
Statement of Cash Flows
As of December 31, 2015

Premiums collected net of reinsurance		\$268,654,880
Net investment income		<u>155,930</u>
Total		268,810,810
Less:		
Benefit- and loss-related payments	\$209,910,452	
Commissions, expenses paid and aggregate write-ins for deductions	58,225,999	
Federal and foreign income taxes paid (recovered) \$0 net tax on capital gains (losses)	<u>6,671,000</u>	
Total		<u>274,807,451</u>
Net cash from operations		(5,996,641)
Proceeds from investments sold, matured or repaid:		
Bonds	6,000,000	
Total investment proceeds		
Cost of investments acquired—long-term only:		
Bonds	<u>5,018,428</u>	
Total investments acquired		
Net cash from investments		981,572
Cash provided/applied:		
Capital and paid in surplus, less treasury stock	5,000,000	
Other cash provided (applied)	<u>1,647,140</u>	
Net cash from financing and miscellaneous sources		<u>6,647,140</u>
Net change in cash, cash equivalents, and short-term investments		1,632,070
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>34,797,600</u>
End of Year		<u>\$ 36,429,671</u>

Growth of Molina Healthcare of Wisconsin, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2015	\$69,685,670	\$39,760,192	\$29,925,478	\$266,030,217	\$206,853,394	\$ 4,188,428
2014	53,324,554	30,880,946	22,443,608	160,964,300	129,746,222	(933,434)
2013	47,390,400	24,691,058	22,699,342	195,122,663	161,535,081	5,447,792
2012	32,106,744	17,523,088	14,583,655	96,544,699	91,008,268	(5,879,271)
2011	25,735,334	13,053,075	12,682,259	96,288,577	89,331,386	3,333,548

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2015	1.6%	77.8%	19.2%	16.4%
2014	(0.6)	80.6	18.9	(8.7)
2013	2.8	82.8	12.5	101.4
2012	(6.1)	94.3	14.8	5.3
2011	3.5	88.3	10.8	12.6

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2015	98,385	346.9	4.1
2014	84,505	347.5	3.8
2013	92,506	310.3	3.6
2012	45,938	296.9	3.2
2011	43,632	257.4	2.9

Per Member Per Month Information

	2015	2014	Percentage Change
Premiums:			
Commercial	\$403.87	\$ 467.77	13.7%
Medicare	927.04	1,005.83	7.8
Medicaid	<u>156.34</u>	<u>142.54</u>	9.7
Blended	<u>217.97</u>	<u>155.58</u>	40.1
Expenses:			
Hospital/medical benefits	136.31	99.46	37.0
Other professional services	4.16	5.50	(24.4)
Outside referrals	14.67	8.17	79.5
Emergency room and out-of-area	15.36	11.50	33.5
Prescription drugs	9.73	3.17	207.0
Incentive pool and withhold adjustments	0.05	0.14	(64.9)
Less: Net reinsurance recoveries	<u>11.12</u>	<u>2.65</u>	319.3
Total medical and hospital	169.16	125.29	35.0
Claims adjustment expenses	8.36	6.64	25.9
General administrative expenses	<u>33.35</u>	<u>22.66</u>	47.2
 Total Underwriting Deductions	 <u>\$210.87</u>	 <u>\$ 154.60</u>	 36.4

MWI was profitable in two of the last four years. The largest loss of \$5.9 million occurred in 2012 when the company experienced a very high medical loss ratio. MWI's 2013 medical loss ratio decreased to 82.8% from 94.3 % in the prior year, resulting in a net income of \$5.5 million. Enrollment doubled in 2013 due to one of MWI's competitors exiting the Medicaid market in the southeast part of the state. This caused Medicaid members to choose another plan. In 2014 enrollment decreased slightly contributing to a 24.3% increase in administrative expenses generating a net loss of \$0.9 million. Another factor in the increase in administrative costs was expenses related to offering insurance in the ACA Marketplace. Enrollment increased to 98,385 members in 2015, the highest amount of members in the last five years. Capital and surplus increased approximately \$7.5 million in 2015 due to \$4.2 million net income and a capital contribution from MHI of \$5.0 million to support the growth of individual business.

Financial Requirements

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

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

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

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

adjustments is as follows:

Assets	\$ 69,685,670	
Less:		
Special deposit**	952,389	
Liabilities	<u>39,760,192</u>	
Assets available to satisfy surplus requirements		\$28,973,089
Net premium earned	266,528,889	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>7,995,867</u>
Compulsory Surplus Excess/(Deficit)		<u>\$20,977,222</u>
Assets available to satisfy surplus requirements		\$28,973,089
Compulsory surplus	\$ 7,995,867	
Security factor	<u>133%</u>	
Security surplus		<u>10,634,503</u>
Security Surplus Excess/(Deficit)		<u>\$18,338,586</u>

** The compulsory surplus calculation filed with the Office of the Commissioner of Insurance did not include the amount of special deposit that the company has on file with the State Treasurer. This is discussed in further detail in the "Summary of Current Examination Results" in section VII of the report.

In addition, there is a special deposit requirement equal to the lesser of the following:

1. An amount necessary to maintain a deposit equaling 1% of premium written in this state in the preceding calendar year
2. One-third of 1% of premium written in this state in the preceding calendar year

The company has satisfied this requirement for 2015 with a deposit of \$952,389 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, 2015, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 14 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. Executive Compensation—It is recommended that the company accurately complete the annual Report of Executive Compensation pursuant to s. 611.63 (4), Wis. Stat.

Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

2. Business Plan—It is recommended that the company comply with s. Ins 9.06, Wis. Adm. Code, and file substantial changes in business plan 30 days prior to the proposed effective date.

Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

3. Disaster Recovery Plan—It is recommended that the company either develop a disaster recovery plan or it be part of the service agreement with the Parent.

Action—Compliance.

4. Investment Policy—It is recommended that the company comply with its Investment Policy by having the board of directors approve individuals authorized to make investment transactions and direct its investment managers.

Action—Compliance.

5. Investment Policy—It is recommended that the company document the approval of investment transactions in its board minutes.

Action—Compliance.

6. Investment Policy—It is recommended that the company comply with its Investment Policy and hold investments within the specified threshold limits.

Action—Compliance.

7. Annual Statement Instructions - Health—It is recommended that the company accurately complete annual statement General Interrogatories, Part 1, Common Interrogatories – Investment, per the NAIC Annual Statement Instructions - Health.

Action—Compliance.

8. Annual Statement Instructions - Health—It is recommended that the company comply with the NAIC Annual Statement Instructions - Health by requiring the appointed actuary to prepare an actuarial memorandum supporting the actuarial opinion as well as provide an actuarial memorandum and actuarial opinion to the board of directors at least annually.

Action—Compliance.

9. Annual Statement Instructions - Health—It is recommended that the company comply with the NAIC Annual Statement Instructions - Health by documenting that the appointed actuary has presented the actuarial memorandum and the actuarial opinion in its minutes and make both available to the board or Audit Committee members.

Action—Compliance.

10. Annual Statement Instructions - Health—It is recommended that the company comply with the NAIC Annual Statement Instructions - Health and accurately disclose all parts of Schedule Y of the annual statement.

Action—Compliance.

11. Custodial Agreement—It is recommended that the company comply with the requirements of the NAIC Financial Condition Examiners Handbook regarding custodial agreements and adopt a custodial agreement containing the prescribed language within 60 days from the adoption of this examination report.

Action—Compliance.

12. Custodial Agreement—It is recommended that the company comply with the requirements of the NAIC Financial Condition Examiners Handbook by having the board of directors approve a custodial agreement by resolution.

Action—Compliance.

13. Holding Company—It is recommended that the company comply with ss. Ins 40.04 (2) and 40.17, Wis. Adm. Code, by filing all transactions at least 30 days prior to the effective date with the Commissioner.

Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

14. Holding Company—It is recommended that the company properly disclose the Parent’s credit agreement in its Form B pursuant to s. Ins 40.03 (3), Wis. Adm. Code.

Action—Compliance.

Summary of Current Examination Results

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

Business Plan

The examination's review of the company's revised business plan disclosed the insurer was approved to write in 30 counties. The company listed 36 counties in the 2015 Annual Statement, General Interrogatories Part 2 - Health Interrogatories, Question #12. It is again recommended that the company accurately report its approved service area in the General Interrogatories Part 2 - Health Interrogatories, Question #12 in accordance with the NAIC Annual Statement Instructions - Health.

Compulsory and Security Surplus Form

The examination's review of the annual Compulsory and Security Surplus Calculation disclosed the company omitted a value for line 7(b): Security Fund Deposits despite having funds on deposit with the state of Wisconsin as reported on Schedule E - Part 3. Pursuant to s. 609.98 (3), Wis. Stat. ". . . An amount deposited under this section is not available for the purpose of determining permanent capital or surplus, compulsory surplus or the financial condition, including insolvency, of the health maintenance organization insurer," therefore the company is required to exclude the value required to be on deposit with the state of Wisconsin. It is recommended that the company accurately complete its Compulsory and Security Surplus Calculation in accordance with s. 609.98, Wis. Stat.

Escheat Process

The examination's review of the company's escheat process disclosed MWI did not perform a proper due diligence procedure. Section 177.17 (5), Wis. Stat., requires the company to send written notice to the apparent owner not more than 120 days before filing the holder report with the state of Wisconsin. It is recommended that the company add a due diligence procedure to its escheat process to be in accordance with s. 177.17 (5), Wis. Stat.

Executive Compensation

The examination's review of executive compensation disclosed that the company is under/over reporting the compensation of the officers listed on the 2015 Report on Executive Compensation. The under/over reporting was noted when the examination was unable to reconcile what was reported as total compensation for each officer on the 2015 Report on Executive Compensation to each officer's W2. Pursuant to ss. 601.42 and 611.63 (4), Wis. Stat., the insurer is required to report any and all gross direct and indirect remuneration paid and accrued during the report year for the benefit of an individual director, officer, or manager, and shall include wages, salaries, bonuses, retirement benefits, deferred compensation, commissions, directors' fees, retainers, stock grants, gains from the exercise of stock options, and all other forms of personal compensation (including employer-paid health, life and any other premiums). In addition, the company incorrectly responded to the question, "Is the reporting insurer a member of a group of insurers or other holding company system?" The insurer responded with a "No" despite being part of the Molina Healthcare Group which is comprised of multiple insurers and thus is in an insurance holding company system. It is again recommended that the company properly include all compensation on the Report of Executive Compensation in accordance with s. 611.63 (4), Wis. Stat.

Holding Company

The examination review of the Form B and C filings dated June 1, 2016, disclosed MWI did not timely file its affiliated agreement titled "Health Insurance Providers Fee Payment Consent and Agreement." The agreement had an effective date of April 15, 2014; however, the company did not file the required Form D filing with the Wisconsin Office of the Commissioner of Insurance until April 17, 2014, which was two days subsequent to the effective date. Section Ins 40.04 (2), Wis. Adm. Code, requires the company to file all transactions at least 30 days prior to the effective date. It is again recommended that the company comply with ss. Ins 40.04 (2) and 40.17, Wis. Adm. Code, by filing all transactions at least 30 days prior to the effective date with the Commissioner.

VIII. CONCLUSION

The company was incorporated February 26, 2004, and commenced business on May 13, 2004. The company is a wholly owned subsidiary of Molina Healthcare, Inc., a Delaware corporation, which acquired it in 2010.

The examination determined that, as of December 31, 2015, the company had admitted assets of \$69,685,670, liabilities of \$39,760,192, and policyholders' surplus of \$29,925,478. The company was profitable in two of the last four years. The largest loss of \$5.9 million occurred in 2012 when the company experienced a very high medical loss ratio. In 2013, enrollment doubled from the prior year and the medical loss ratio decreased to 82.8% from 94.3% in the prior year resulting in a net income of \$5.5 million. In 2014, enrollment decreased slightly generating a loss of \$0.9 million. In 2015, enrollment increased to 98,385 members, the highest amount of members in the last five years. Capital and surplus increased approximately \$7.5 million in 2015 due to a \$4.2 million net income and a capital contribution from MHI of \$5.0 million to support the growth of individual business.

MWI was in compliance with 11 out of the 14 prior examination recommendations. The current examination resulted in no adjustments to policyholders' surplus or reclassifications to the balance sheet. There were 5 recommendations made as a result of the current examination of the company with 3 being repeated from the prior examination. These recommendations are summarized on the following page.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Business Plan—It is again recommended that the company accurately report its approved service area in the General Interrogatories Part 2 - Health Interrogatories, Question #12 in accordance with the NAIC Annual Statement Instructions - Health.
2. Page 27 - Compulsory and Security Surplus Form—It is recommended that the company accurately complete its Compulsory and Security Surplus Calculation in accordance with s. 609.98, Wis. Stat.
3. Page 27 - Escheat Process—It is recommended that the company add a due diligence procedure to its escheat process to be in accordance with s. 177.17 (5), Wis. Stat.
4. Page 28 - Executive Compensation—It is again recommended that the company properly include all compensation on the Report of Executive Compensation in accordance with s. 611.63 (4), Wis. Stat.
5. Page 28 - Holding Company—It is again recommended that the company comply with ss. Ins 40.04 (2) and 40.17, Wis. Adm. Code, by filing all transactions at least 30 days prior to the effective date with the Commissioner.

X. ACKNOWLEDGMENT

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

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

Name	Title
Karl Albert	Workpaper Specialist
Jerry DeArmond	Reserve Specialist
Thomas Houston	IT Specialist
James Krueger	Insurance Financial Examiner
Sheng Vang	Insurance Financial Examiner
Kongmeng Yang	Insurance Financial Examiner

Respectfully submitted,

Marisa K. Rodgers
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On February 15, 2017, the company notified this office that MHI's nationwide earnings of \$137 million before taxes were significantly less than the prior year's earnings. The company stated that these adverse results were due to the marketplace business loss of \$110 million. MHI has a significant presence in the Wisconsin marketplace, and thus was impacted by the adverse results. The company's parent contributed capital of \$51.5 million to MHI during 2016 to help offset the losses as well as support enrollment growth.