

Report of the Examination of
Molina Healthcare of Wisconsin, Inc.
Milwaukee, Wisconsin
As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

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May 29, 2020

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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:

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 MHWI) was conducted in 2016 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the insurers in the holding company system controlled by Molina Healthcare, Inc. (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 concerning the alternative or additional examination steps performed during 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. (MHWI), 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 a combination of staff physicians and/or one or more clinics and/or independent contracting physicians operating out of their separate offices.

The company was incorporated February 26, 2004, and commenced business on May 13, 2004, as Abri Health Plan, Inc. 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 MHWI'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. MHWI 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.

MHWI also serves members through the Affordable Care Act (ACA) Marketplace. In some instances, the Marketplace allows qualified individuals to purchase health insurance that is federally subsidized. MHWI had participated in the state of Wisconsin's Marketplace primarily to serve members who have lost Medicaid (BadgerCare) eligibility. Due to heavy losses sustained from the

ACA Marketplace business in 2016 and 2017, MHWI did not participate in the ACA Marketplace in 2018. MHWI reentered the ACA Marketplace as of January 1, 2019. The ACA Marketplace was the source of 35% of MHWI's premium in 2019.

MHWI contracts with individual providers, clinics, and large health systems. MHWI had contracts with nearly 1,150 different providers during 2018. The company contracts with 69 hospitals to provide inpatient services. Hospitals are reimbursed on a negotiated diagnosis-related group (commonly abbreviated as "DRG") rate per diem or per case basis (depending on the length of stay). These contracts also include hold-harmless provisions for the protection of policyholders.

MHWI 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 MHWI).

Provider agreements have agreed upon rates set for most services (and/or have floors and caps assigned) for the amount that MHWI will reimburse the provider. The provider contracts that MHWI 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 120-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	Vilas
Calumet	Kewaunee	Oneida	Walworth
Dodge	Langlade	Outagamie	Washington
Door	Lincoln	Ozaukee	Waukesha
Florence	Manitowoc	Portage	Waupaca
Fond du Lac	Marathon	Racine	Waushara
Forest	Marinette	Shawano	Winnebago
Green Lake	Marquette	Sheboygan	Wood
Jefferson	Milwaukee	Taylor	

The company offers comprehensive health care coverage on the ACA Marketplace which may include deductibles and copayments. The following basic health care coverages are provided:

- Physician services
- Inpatient services
- Outpatient services
- Mental health and 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 – copayment amount varies by product
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Physical fitness or health education
- 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 subject to no maximum. In general, members are not required to choose a primary care physician (PCP) upon enrolling in the ACA Marketplace. If a member chooses to be assigned a PCP of their choice, they must select a PCP from

the listing of participating physicians available. However, if a member does not select a PCP, MHWI will assign them a PCP as per their PCP Auto Assignment program.

The company currently markets to individuals. The company does not use outside agencies to market its Medicaid or Medicare products. MHWI does use brokers for its ACA Marketplace 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. MHWI 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. 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 company group. The board members do not receive compensation specific to their service on the board.

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

Name and Residence	Principal Occupation	Term Expires
Scott Johnson Oconomowoc, Wisconsin	President Molina Healthcare of Wisconsin, Inc.	2020
Roseline Agboke Long Beach, California	Chief Financial Officer, HP Services and Finance Transactions Molina Healthcare, Inc.	2020
Rhet Perrett Las Vegas, Nevada	Vice President – Quality Molina Healthcare, Inc.	2020

Officers of the Company

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

Name	Office	2019 Compensation
Scott Johnson	President	\$ 624,772
Vijay Parthasarathy	Chief Financial Officer	398,980
Jefferey Don Barlow	Secretary	3,848,407**

**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. MHWI 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
Barbara Brasier
Richard Schapiro
Richard Zoretic

Corporate Governance and Nominating Committee

Daniel Cooperman, Chair
Garrey E. Carruthers
Ronna Romney
Dale Wolf

Compliance and Quality Committee

Garry E. Carruthers, Chair
Dale Wolf
Richard Zoretic

Compensation Committee

Richard Schapiro, Chair
Steve Orlando
Ronna Romney

Cybersecurity Committee

Daniel Cooperman, Chair
Barbara Brasier
Richard Zoretic

Finance

Dale Wolf, Chair
Steven Orlando
Richard Schapiro

The company has its own employees. The company also has a services agreement with its parent, MHI. A detailed description of this agreement is included in Section IV of this report, which is entitled "Affiliated Agreements."

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:

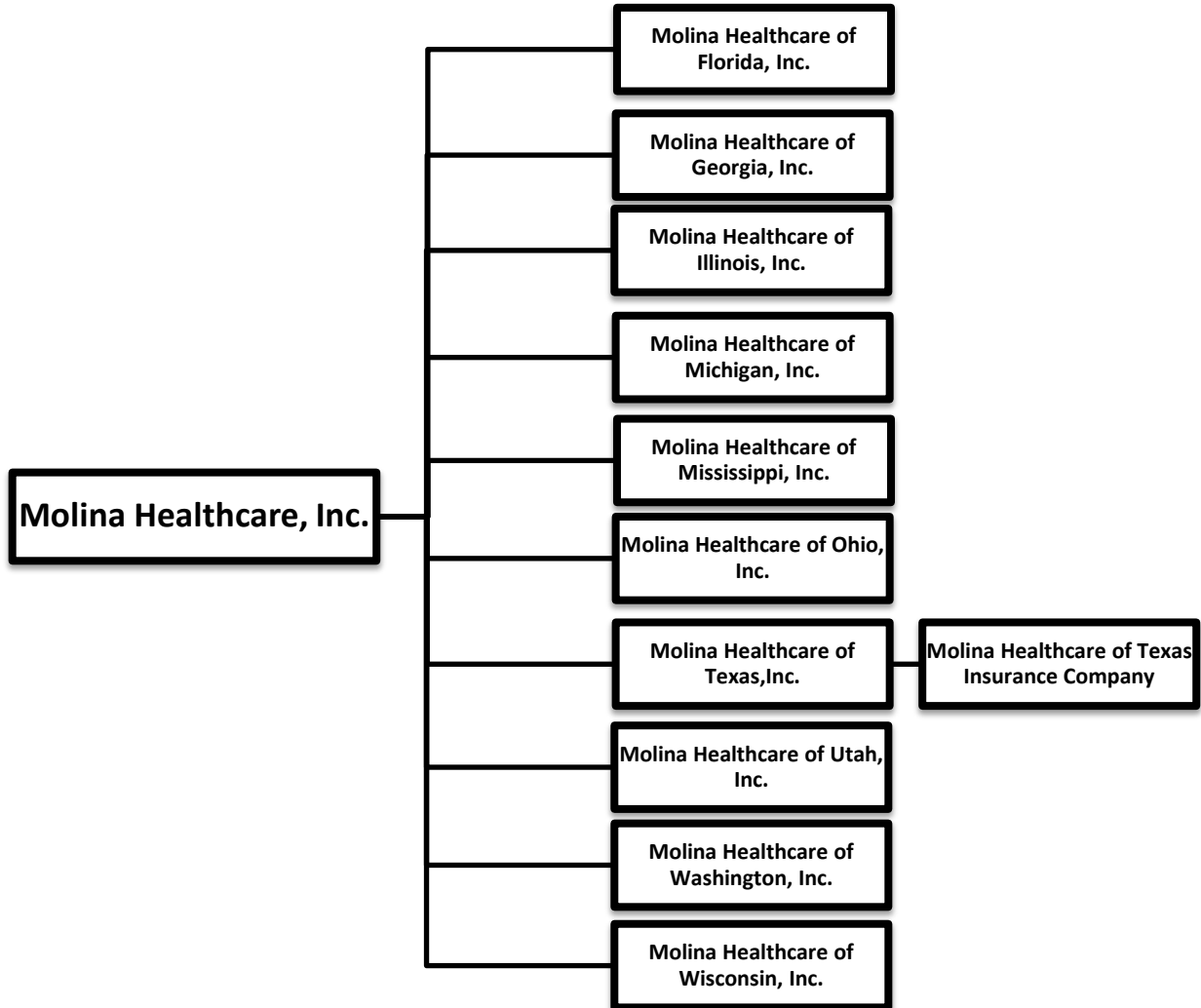
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The company has met this requirement through its reinsurance contract, as described in Section V of this report, which is entitled "Reinsurance."

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Molina Healthcare, Inc. The abridged organizational chart below, which includes all the plans that participated in the coordinated examination, 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, 2018**



Molina Healthcare, Inc.

Molina Healthcare Inc.'s affiliate health plans arrange for the provision of managed health care services under the Medicaid and Medicare programs and through the state insurance marketplace. As of December 31, 2018, MHI's audited financial statement reported assets of \$7.15 billion, liabilities of \$5.5 billion, and capital and surplus of \$1.65 billion. Operations for 2018 produced net income of \$707 million on revenues of \$17.6 billion.

Affiliated Agreements

The company amended and restated its existing services agreement with Molina Healthcare Inc., on October 3, 2019. Under the services 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 periodically by mutual consent of the parties. The services agreement shall automatically renew for successive periods of one year unless either party gives 60 days' prior written notice.

The company entered into a Premium Administration Agreement with the parent on June 15, 2017. Pursuant to the terms, conditions, rights, and responsibilities of this agreement, MHI performs or will perform (either directly or by subcontract) Premium Collection Services for MHWI in support of MHWI's products. MHI warrants that if it holds premiums received from or on behalf of enrollee(s) covered under MHWI's products, then it shall hold such premiums in a fiduciary capacity. MHI further warrants that it shall, within no more than three business days of receipt, transfer such premiums into an account established and maintained by MHWI.

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 the other 60 days' prior written notice.

Effective April 15, 2014, MHWI 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, 2018
Retention:	\$1,300,000 per BadgerCare Plus including CLA Childless Adult Member \$1,300,000 per Medicaid SSI – Aged, Blind and Disabled Member \$650,000 per Medicare Member
Coverage:	BadgerCare Plus including Childless Adult Medicaid SSI – Aged, Blind, and Disabled Medicare
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. Reinsurer will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.
2. Reinsurer 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 behalf.
3. Reinsurer will make available to all members for a period of 30 days, without evidence of insurability, a replacement coverage of the same benefit schedule and rates as then being offered by reinsurer to other prospective insureds within the state.

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, 2018, 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.

Molina Healthcare of Wisconsin, Inc.
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 1,249,152	\$	\$ 1,249,152
Cash, cash equivalents and short-term investments	48,629,137		48,629,137
Investment income due and accrued	3,739		3,739
Uncollected premiums and agents' balances in the course of collection	7,128,485		7,128,485
Accrued retrospective premiums and contracts subject to redetermination	175,894		175,894
Amounts recoverable from reinsurers	76,549		76,549
Amounts receivable relating to uninsured plans	56,703		56,703
Electronic data processing equipment and software	85,084	85,084	
Furniture and equipment, including health care delivery assets	618,272	618,272	
Receivables from parent, subsidiaries and affiliates	148,142	148,142	
Health care and other amounts receivable	2,048,042	1,554,121	493,921
Write-ins for other than invested assets:			
State income tax recoverable	49		49
Goodwill, intangible and other assets	<u>1,399,391</u>	<u>288,788</u>	<u>1,110,603</u>
Total Assets	<u>\$61,618,639</u>	<u>\$2,694,407</u>	<u>\$58,924,232</u>

Molina Healthcare of Wisconsin, Inc.
Liabilities and Net Worth
As of December 31, 2018

Claims unpaid		\$12,295,709
Accrued medical incentive pool and bonus payments		323,558
Unpaid claims adjustment expenses		170,886
Aggregate health policy reserves		2,258,438
Premiums received in advance		730,532
General expenses due or accrued		3,641,171
Current federal and foreign income tax payable and interest thereon		294,286
Amounts withheld or retained for the account of others		467
Aggregate write-ins for other liabilities		<u>8,266,528</u>
Total Liabilities		27,981,575
Common capital stock		1
Gross paid in and contributed surplus	\$71,784,949	
Unassigned Funds	<u>(40,842,293)</u>	
Total Capital and Surplus		<u>30,942,657</u>
Total Liabilities, Capital and Surplus		<u>\$58,924,232</u>

Molina Healthcare of Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2018

Net premium income		\$157,585,004
Change in unearned premium reserves and reserve for rate credits		<u>(190,659)</u>
Total revenues		157,394,345
Hospital: and Medical		
Hospital/medical benefits	\$ 62,531,199	
Other professional services	6,546,814	
Outside referrals	6,183,655	
Emergency room and out-of-area	28,603,891	
Prescription drugs	861,171	
Incentive pool and withhold adjustments	<u>135,199</u>	
Subtotal	104,861,929	
Less		
Net reinsurance recoveries	<u>943,696</u>	
Total hospital and medical	103,918,233	
Claims adjustment expenses	8,564,040	
General administrative expenses	<u>32,116,338</u>	
Total underwriting deductions		<u>144,598,611</u>
Net underwriting gain or (loss)		12,795,734
Net investment income earned		<u>771,621</u>
Net income or (loss) before federal income taxes		13,567,355
Federal and foreign income taxes incurred		<u>4,749,424</u>
Net Income (Loss)		<u>\$ 8,817,931</u>

Molina Healthcare of Wisconsin, Inc.
Capital and Surplus Account
For the Three-Year Period Ending December 31, 2018

	2018	2017	2016
Capital and surplus, beginning of year	\$68,055,958	\$47,231,990	\$29,925,478
Net income (loss)	8,817,931	(12,166,220)	(34,243,218)
Change in net deferred income tax			(2,375,447)
Change in nonadmitted assets	4,068,768	(2,009,812)	2,425,177
Surplus adjustments:			
Paid in	<u>(50,000,000)¹</u>	<u>35,000,000</u>	<u>51,500,000</u>
Capital and surplus, end of year	<u>\$30,942,657</u>	<u>\$68,055,958</u>	<u>\$47,231,990</u>

¹ Return of capital to shareholders

Molina Healthcare of Wisconsin, Inc.
Statement of Cash Flow
For the Year 2018

Premiums collected net of reinsurance	\$148,876,481
Net investment income	<u>767,435</u>
Total	149,643,916
Less:	
Benefit and loss-related payments	\$130,389,757
Commissions, expenses paid and aggregate write-ins for deductions	48,054,792
Federal and foreign income taxes paid (recovered) \$0 net tax on capital gains (losses)	<u>7,239,668</u>
Total	<u>185,684,217</u>
Net cash from operations	(36,040,301)
Cash Provided/Applied:	
Capital and paid in surplus, less treasury stock	(50,000,000)
Other cash provided (applied)	<u>(2,033,751)</u>
Net cash from financing and miscellaneous sources	<u>(52,033,751)</u>
Net change in cash, cash equivalents, and short-term investments	(88,074,051)
Cash, cash equivalents, and short-term investments:	
Beginning of year	<u>136,703,188</u>
End of Year	<u>\$ 48,629,137</u>

Growth of Molina Healthcare of Wisconsin, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2018	\$ 58,924,232	\$27,981,575	\$30,942,657	\$157,394,345	\$103,918,233	\$ 8,817,931
2017	154,857,069	86,801,111	68,055,958	491,337,225	419,667,777	(12,166,220)
2016	141,036,530	93,804,540	47,231,990	403,071,595	377,275,982	(34,243,218)
2015	69,685,670	39,760,192	29,925,478	266,030,217	206,853,394	4,188,428

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2018	5.6%	66.0%	25.8%	-49.8%
2017	-2.5%	85.4%	18.2%	-6.3%
2016	-8.5%	93.6%	18.4%	27.6%
2015	1.6%	77.8%	19.2%	16.4%

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2018	58,999	376.33	4.6
2017	117,578	295.79	4.1
2016	125,534	336.56	4.3
2015	98,385	346.90	4.1

Per Member Per Month Information

	2018	2017	Percentage Change
Premiums:			
Commercial	NR	\$ 477.53	N/A
Medicare	1,140.08	1,118.44	1.9%
Medicaid	<u>189.49</u>	<u>154.34</u>	22.8%
Expenses:			
Hospital/medical benefits	85.72	213.00	-59.8%
Other professional services	4.86	4.40	10.6%
Outside referrals	8.48	12.89	-34.2%
Emergency room and out-of-area	39.21	17.24	127.4%
Prescription drugs	1.18	27.08	-95.6%
Incentive pool and withhold adjustments	0.19	0.14	34.4%
Less: Net reinsurance recoveries	<u>1.29</u>	<u>0.82</u>	57.4%
Total medical and hospital	142.45	273.94	-48.0%
Claims adjustment expenses	11.74	9.20	27.6%
General administrative expenses	<u>44.02</u>	<u>49.08</u>	-10.3%
Total underwriting deductions	<u>\$198.21</u>	<u>\$332.22</u>	-40.3%

The company underpriced products offered in the ACA Marketplace which resulted in the enrollment of higher cost members. This resulted in high hospital and medical expenses during 2017 and 2016 as illustrated in the Medical Loss Ratio column in the table on the previous page. Therefore, MHWI did not participate in the ACA Marketplace for 2018. With the discontinued participation in the ACA Marketplace, MHWI has seen a better financial performance for 2018. Due to the implementation of the Wisconsin Healthcare Stability Plan, MHWI and MHI decided to reenter the ACA Marketplace as of January 1, 2019.

During the three-year period, MHWI has received \$86.5 million in capital infusions from its parent company (MHI) in order to be able to participate in the ACA Marketplace. MHWI did not participate in the ACA Marketplace for 2018 which resulted in lower leverage. Subsequently, MHWI paid an extraordinary dividend of \$50 million to MHI. The capital infusions by MHI and the dividend helps to explain the large swing in admitted assets over the course of the three-year period under examination.

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, 2018, as modified for examination adjustments is as follows:

Assets		\$58,924,232
Less:		
Special deposit		1,249,152
Liabilities		27,981,575
Investments in excess of maximum allowable by Ch. 620, Wis. Stat.		0
Examination adjustments		<u>0</u>
Assets available to satisfy surplus requirements		29,693,505
Net premium earned		
HMO business	157,394,345	
Factor	<u>3%</u>	
Compulsory surplus		<u>4,721,830</u>
Compulsory Surplus Excess (Deficit)		<u>\$24,971,675</u>
Assets available to satisfy surplus requirements		\$29,693,505
Compulsory surplus		\$4,721,830
Security factor		<u>136%</u>
Security surplus		<u>6,421,688</u>
Security Surplus Excess (Deficit)		<u>\$23,271,817</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 2018 with a deposit of \$1,250,000 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, 2018, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five 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. 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*.

Action— Compliance.

2. 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.

Action— Compliance.

3. 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.

Action— Compliance.

4. 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.

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

5. 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.

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.

Executive Compensation

The state of Wisconsin requires that each Wisconsin-domiciled insurer file a supplement to the annual statement titled "Report on Executive Compensation" pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report should include annual compensation to each director and each officer and member of executive management of the insurer whose compensation exceeds specified amounts. Compensation reported should include 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). The examination's review of executive compensation disclosed the company is under-reporting the compensation of the officers listed on the 2018 Report on Executive Compensation. The under-reporting was noted when the examination was unable to reconcile what was reported as total compensation for each officer on the 2018 Report on Executive Compensation to each officer's W2. It is again recommended that the company properly include all compensation on the Report of Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat. The examination noted that the company has corrected this for the 2019 reporting year.

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, 2018, the company had admitted assets of \$58,924,232, liabilities of \$27,981,575, and policyholders' surplus of \$30,942,657. The company was profitable in two of the last four years. The largest loss of \$34.2 million occurred in 2016 when the company experienced a very high medical loss ratio on its ACA Marketplace line of business. Enrollment in 2016 also increased 27.6%, from 98,385 at year-end 2015 to 125,534 at year-end 2016. In 2017, enrollment decreased 6.3% down to 117,578 while generating a loss of \$12.2 million. The company's capital and surplus fluctuated substantially during the examination period with the parent contributing \$51.5 million in 2016 and another \$35.0 million in 2017 and then the parent receiving a \$50 million return of capital from the company in 2018.

The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2015, when policyholders' surplus was last verified by examination, to December 31, 2018:

Policyholders' surplus, December 31, 2015	\$29,925,478
Net income	(37,591,507)
Paid-in surplus adjustments	36,500,000
Change in nonadmitted assets	4,484,133
Change in net deferred income tax	<u>(2,375,447)</u>
Policyholders' surplus, December 31, 2018	<u>\$30,942,657</u>

MHWI complied with four of the five prior examination recommendations. The current examination resulted in one recommendation, which was repeated from the prior examination and relates to the reporting of executive compensation. No adjustments to surplus or reclassifications to the balance sheet were made as a result of the current examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 Executive Compensation—It is again recommended that the company properly include all compensation on the Report of Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

X. ACKNOWLEDGMENT

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

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

Name	Title
Karl Albert, CFE	Workpaper Specialist
Eleanor Lu, CISA	IT Specialist

Respectfully submitted,



John E. Pollock
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization (WHO) declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. This office is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. OCI and all insurance regulators with the assistance of the National Association of Insurance Commissioners are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. OCI has been in communication with Molina Healthcare, Inc. regarding the impact of COVID-19 on business operations and the financial position of Molina Healthcare of Wisconsin, Inc., and no immediate action was deemed necessary at that time of this report.