

Report  
of the  
Examination of  
Network Health Insurance Corporation  
Menasha, Wisconsin  
As of December 31, 2017

## TABLE OF CONTENTS

	<b>Page</b>
I. INTRODUCTION.....	1
II. HISTORY AND PLAN OF OPERATION .....	3
III. MANAGEMENT AND CONTROL .....	5
IV. AFFILIATED COMPANIES .....	7
V. REINSURANCE .....	12
VI. FINANCIAL DATA .....	13
VII. SUMMARY OF EXAMINATION RESULTS .....	24
VIII. CONCLUSION.....	28
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	30
X. ACKNOWLEDGMENT .....	31



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

October 5, 2018

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](mailto:ociinformation@wisconsin.gov)  
Web Address: [oci.wi.gov](http://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:

NETWORK HEALTH INSURANCE CORPORATION  
Menasha, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Network Health Insurance Corporation (NHIC or the company) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 transactions as deemed necessary to complete the examination.

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.

## II. HISTORY AND PLAN OF OPERATION

Network Health Insurance Corporation (NHIC or the company) is a not-for-profit service insurance corporation organized under ch. 613, Wis. Stat. NHIC was incorporated on March 1, 2001, and commenced business on August 1, 2001, as a stock insurance corporation. The company transitioned into a nonstock service insurance corporation on April 1, 2013. Notable changes in the holding company system are summarized below.

February 15, 2013	Ministry Health Care, Inc. became the ultimate controlling affiliate of NHP and its subsidiary, NHIC, through reorganization in an upstream holding company. This reorganization resulted in transferring the 100% ownership interest of NHIC from NHP to Ministry Holdings, Inc. (MHI).
November 1, 2014	Froedtert Health, Inc. (Froedtert) became a 50% corporate member of MHI, n.k.a. Network Health, Inc. (NHI), resulting in NHI being owned equally by Froedtert and Ministry.

The major product lines for NHIC are a Point-of-Service (POS) health insurance plan, which is jointly issued with NHP, and a Medicare Advantage (MA) Preferred Provider Organization (PPO) product that includes the Medicare Part D Prescription Drug Plan. As part of the jointly issued POS policy, out-of-network benefits are provided through NHIC and the company is allocated 10% of all premiums pertaining to the business; however, the commercial premiums are not to exceed 2% of the company's total premiums. In the event that it does exceed the 2% threshold, the company is to return all the premiums back to NHP after a calculation is performed to determine the amount of premiums to be returned. The company is allowed 10 months after the benefit year to complete the calculations and an additional year to settle the amount. This arrangement has been terminated. The company only writes in the state of Wisconsin. NHIC primarily offers its policies in northeastern and southeastern Wisconsin.

The following chart is a summary of premium income as reported by the company in 2017. As shown below, the company reported a negative value in "Direct Premium" for the Comprehensive line of business. This is related to the company exceeding the 2% margin mentioned in the previous paragraph for the 2015 benefit year which required the company to return the commercial premiums back to NHP. The negative value reflects a larger amount of

return premiums than premiums received in 2017. The growth of the company is discussed in the “Financial Data” section of this report.

<b>Line of Business</b>	<b>Premium Income</b>		
	<b>Direct Premium</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Comprehensive (hospital and medical)	\$ (539,214)	\$ 28,847	\$ (568,061)
Title XVIII—Medicare	561,457,608	443,125	561,014,483
Other health	<u>1,218,582</u>	<u>49,749</u>	<u>1,168,833</u>
Total All Lines	<u>\$562,136,976</u>	<u>\$521,721</u>	<u>\$561,615,255</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of ten members. All directors are elected annually to serve a one-year term. The President and Chief Executive Officer is appointed by the board of directors for a one-year term or as otherwise determined by the employment agreement. Other 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 group. The internal board members do not receive compensation for serving on the board. The external board members are compensated through NHI for their services on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
John Bykowski Appleton, WI	Retiree from Secura Insurance	2019
Scott Hawig Whitefish Bay, WI	Senior Vice President & Chief Financial Officer of Froedtert Health, Inc.	2019
Catherine Jacobson Brookfield, WI	President & Chief Executive Officer of Froedtert Health, Inc.	2019
David Olson Mequon, WI	Chief Strategy Officer of Froedtert Health, Inc.	2019
Larry Rambo Hartland, WI	Retiree from Humana SE WI	2019
Christopher Zwygart West Bend, WI	Chief Legal Officer of West Bend Mutual	2019
Tracy Rogers Milwaukee, WI	Chief Operating Officer of Ascension Wisconsin	2019
Jonathan Sohn Brookfield, WI	Chief Financial Officer of Ascension Wisconsin	2019
Essie Whitelaw Mequon, WI	Retiree from Wisconsin Physician Services	2019
Bernard Sherry Milwaukee, WI	Senior Vice President of Ascension Health	2019

## Officers of the Company

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

<b>Name</b>	<b>Office</b>	<b>2017 Compensation</b>
Coreen Dicus-Johnson	President & Chief Executive Officer	\$806,621
Brian Ollech	Chief Financial Officer	\$200,953
Penelope Ransom	Chief Administrative Officer	\$615,653
Kevin Borchert	Chief Actuary	\$240,005
Gregory Buran	Chief Medical Officer	\$323,560
Timothy Riley	Chief Information Officer	\$306,917
Kathryn Finerty	General Counsel	\$217,344

## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

### **Executive Committee**

Bernard Sherry, Chair  
Catherine Jacobson, Vice Chair  
David Olson  
Jonathan Sohn

### **Audit Committee**

Christopher Zwygart, Chair  
John Bykowski  
Scott Hawig  
Essie Whitelaw

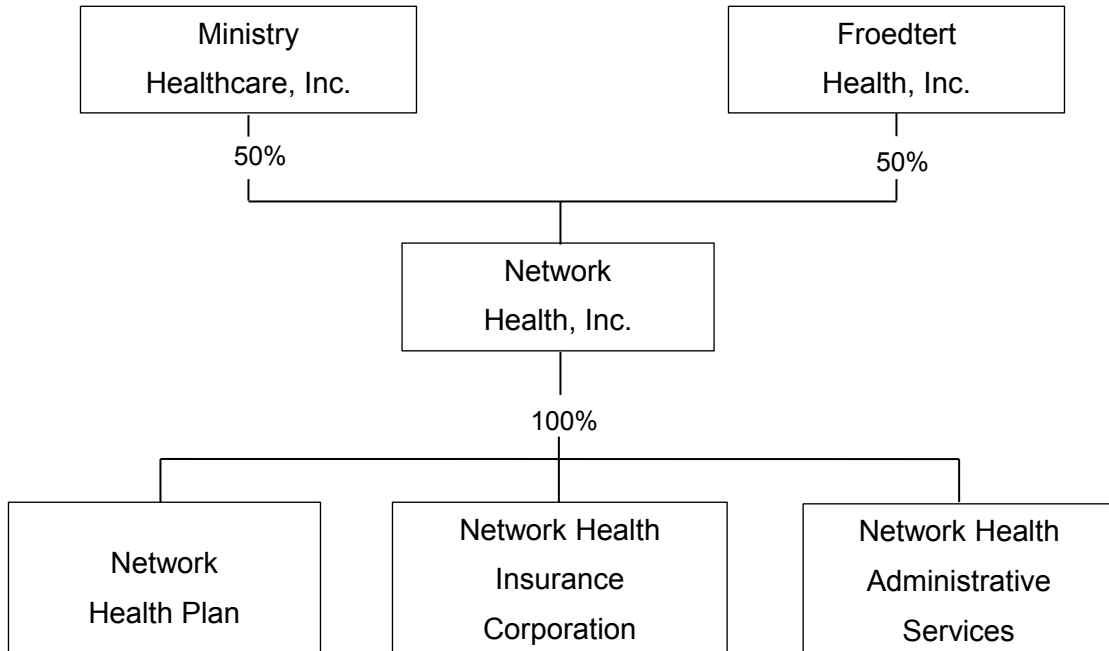
The company has no employees. Necessary staff is provided through a leased employee agreement with NHI. Under the agreement, effective December 14, 2013, NHI agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; provides or contracts for claims processing, and MIS. Refer to section IV—Affiliated Companies of this report for more information.



#### IV. AFFILIATED COMPANIES

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

##### Holding Company Chart As of December 31, 2017



##### Ministry Health Care, Inc. (Ministry)

Ministry is a non-stock, not-for-profit corporation organized to support and carry out the missions of its downstream affiliates:

- Affinity Health System (including its downstream affiliates Network Health System, Inc., Mercy Health Foundation, Inc., St. Elizabeth's Hospital, Inc., Mercy Medical Center of Oshkosh, Inc., Calumet Medical Center, Gold Cross Ambulance Service, Inc., and Catalpa Health, Inc.)
- Agape Community Center of Milwaukee, Inc.
- Putnam Capital Management, LLC
- Sacred Heart St. Mary's Hospitals, Inc.
- Howard Young Health Care, Inc.
- St. Michael's Hospital of Stevens Point, Inc.
- Good Samaritan Health Center of Merrill, Wisconsin, Inc.
- St. Claire's Hospital of Weston, Inc.
- Pain Centers of Wisconsin-Stevens Point, LLC

Downstream Affiliates (cont.)

- Pain Centers of Wisconsin-Wausau, LLC
- Ministry Medical Group, Inc.
- Ministry Home Care, Inc.
- St. Joseph's Hospital of Marshfield, Inc.
- Our Lady of Victory Hospital, Inc.
- Door County Memorial Hospital
- St. Elizabeth's Hospital of Wabasha, Inc.

As of June 30, 2017, Ministry's audited GAAP financial statement reported assets of \$1.2 billion, liabilities of \$1.1 billion, and total net assets of \$47.4 million. Operations for the year ended June 30, 2017, produced net income of \$128.5 million on revenues of \$3.1 billion.

**Froedtert Health, Inc. (Froedtert)**

Froedtert is a non-stock, not-for-profit corporation organized to support and carry out the missions of its downstream affiliates:

- Froedtert Memorial Lutheran Hospital, Inc. (including its downstream affiliate Froedtert Hospital Foundation, Inc.)
- Community Memorial Hospital of Menomonee Falls, Inc. (including its downstream affiliates Community Memorial Foundation of Menomonee Falls, Inc., and Community Outpatient Health Services of Menomonee Falls, Inc.)
- St. Joseph's Community Hospital of West Bend, Inc. (including its downstream affiliates)
- St. Joseph's Community Foundation, Inc., and West Bend Surgery Center, LLC)
- Froedtert & The Medical College of Wisconsin Community Physicians
- Progressive Physician Network, Inc.

As of June 30, 2017, the Froedtert's consolidated audited GAAP financial statement reported assets of \$3.6 billion, liabilities of \$1.5 billion, and total net assets of \$2.1 billion. Operations for the year ended June 30, 2017, produced a change in unrestricted net assets of \$310.3 million on revenues of \$2.2 billion.

**Network Health, Inc. (NHI)**

NHI is a non-stock, nonprofit corporation and is the sole shareholder/corporate member of Network Health Insurance Corporation and Network Health Administrative Services, LLC. Network Health Plan is a wholly owned subsidiary of NHI. NHI is jointly owned by Froedtert Health, Inc. and Ministry Health Care, Inc. As of December 31, 2017, NHI's audited GAAP financial statement reported assets of \$328.0 million, liabilities of \$166.0 million, and net assets of \$162.1 million. Operations for 2017 produced a change in net assets of \$(16.0) million on revenues of \$795.0 million.

### **Network Health Plan (NHP)**

NHP is incorporated in the state of Wisconsin under the provisions of Chapter 611 of the Wisconsin Statutes as a Wisconsin stock insurance corporation. NHP is engaged in the business of health insurance for health care services provided to groups and individuals. NHP contracts with various health care facilities to provide covered medical services and supplies to NHP participants for a fixed monthly premium. The majority of these services are provided in northeastern Wisconsin, and in the last three years NHP has expanded its service area to Southeast Wisconsin. As of December 31, 2017, NHP's audited statutory financial statement reported assets of \$92.7 million, liabilities of \$39.7 million, and capital and surplus of \$53.0 million. Operations for 2017 produced a net income of \$11.7 million on revenues of \$298.9 million.

### **Network Health Administrative Services (NHAS)**

NHAS is a nonstock corporation whose sole member is NHI. NHAS is primarily an Administrative Services Only (ASO) plan that provides services such as claims processing for self-insured, employer-sponsored health and welfare plans. Claims are paid either from a bank account owned and funded directly by the self-insured plan, or from bank accounts owned by NHAS that have been adequately funded by the self-insured plan to fully cover the claims. NHAS commenced performance ASO services in northeastern and southeastern Wisconsin during 2015. As of December 31, 2017, the NHAS's unaudited GAAP financial statement reported assets of \$3.4 million, liabilities of \$4.8 million, and Equity & Retained Earnings of \$(1.4) million. Operations for 2017 produced a net loss of \$1.6 million on revenues of \$5.7 million.

### **Agreements with Affiliates**

NHI, Ministry, and Froedtert have a Members Agreement (MA), and MHI, Ministry, and Froedtert have a Member Admission Agreement (MAA), both effective November 1, 2014. Under these agreements Froedtert acquired a 50% ownership interest in NHI and its subsidiary NHP and 50% membership interest in NHIC. Taken together, the MA and the MAA describe a process whereby a capital deficiency in NHP and/or NHIC will be cured via capital contributions by Ministry and Froedtert if, along with other conditions, the capital and surplus levels of NHIC and NHP fall below levels required by the state of Wisconsin.

The following agreements were in place as of December 31, 2017:

NHIC, NHAS and NHP have an Intercompany Service Agreement (ISA) with NHI, effective January 1, 2017, which supersedes all prior intercompany service agreement between NHI and the subsidiaries. Under the terms of the agreement, NHI is to provide management and operations support services to the subsidiaries. Direct expenses are allocated entirely to the entity that incurred such expenses and indirect expenses are allocated to each entity based on available drivers outlined in the agreement. The estimated expenses are settled monthly with a minimum of three true-ups during the year to better reflect the actual expenses incurred by each entity. A final true-up is performed during the close process at year-end.

NHIC, NHP, NHAS, and NHI have a Tax Allocation Agreement (TAA), effective January 1, 2014, and amended in February 2015. In the TAA, the group members file a consolidated tax form through NHI for years subsequent to 2013, and NHI allocates the tax liability among the members in proportion to what they would be obligated to pay if filing individually. Additionally, NHI will reimburse each member its allocable portion of NOL or tax credit amounts.

NHIC, NHP, NHAS, and NHI have a Leased Employee Agreement (LEA), effective December 14, 2013, and amended in March 2015. The lessor, NHI, agrees to lease its staff to the lessee entities, NHAS, NHIC, and NHP. As compensation, the lessor receives the full cost of providing the personnel to the lessee entities. The agreement requires monthly billing by the 10th business day of each month and full payment within 30 days of receipt.

The following affiliated agreements with providers were material to the company as of December 31, 2017:

NHP, NHIC, and Integrated Health Network of Wisconsin, LLC (IHN) have an Integrated Health Care Delivery System Agreement in which IHN will provide covered services through itself or its providers to covered members who are entitled to benefits under their commercial HMO/POS plan in exchange for compensation as set forth in the agreement. The agreement has gone through seven amendments during the examination period to modify the reimbursement rates, update languages within the agreement, update provider rosters, and add risk-sharing between the providers and the insurers for ACA compliant plans.

NHP, NHIC, and Affinity Health System (AHS) have a Medicare Advantage Participating Provider Organization (PPO) Agreement in which AHS is to provide covered services to members on a prepaid basis, or to members who are eligible for health care benefits under Medicare Advantage PPO plans. There was one amendment made during the examination period to update the reimbursement terms and conditions. Various other amendments were noted for the period prior to the examination period to update compensation terms and conditions as well.

NHP, NHIC, and AHS have an HMO/POS Agreement in which AHS is to provide covered services through its providers to covered members who are eligible for the health care benefits under their health plans. There were two amendments made during the examination period to update the provider roster, update languages within the agreement, and to revise the reimbursement terms and conditions. Various other amendments were also noted for the similar purposes.

## V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

### Nonaffiliated Ceding Contracts

Reinsurer:	PartnerRe America Insurance Company
Type:	Fully Insured Medical Excess of Loss Contract
Effective date:	January 1, 2017
Retention:	\$550,000
Coverage:	1 <sup>st</sup> Layer: 90% of net losses in excess of the company's retention; but, not in excess of 90% of \$450,000 of any one Covered Person per contract year.  2 <sup>nd</sup> Layer: 100% of unlimited net losses in excess of \$1,000,000 for any one Covered Person per contract year.
Termination:	Contract will terminate at the end of the contract period on January 1, 2019. The company may also terminate the contract at any time by providing written notice to PartnerRe America Insurance Company in the event of the occurrence of a special termination event as outlined in the contract. If the contract is terminated prior to the contract term, liability for the reinsurance provided hereunder is for claims incurred during the Contract Year, paid by the company within three months following the termination of the contract and reported to PartnerRe America Insurance Company within six months.

## **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, 2017, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.

**Network Health Insurance Corporation**  
**Assets**  
**As of December 31, 2017**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 94,099,122	\$	\$ 94,099,122
Cash, cash equivalents, and short-term investments	62,631,676		62,631,676
Investment income due and accrued	424,801		424,801
Uncollected premiums and agents' balances in course of collection	56,747	33,311	23,436
Accrued retrospective premiums and contracts subject to redetermination	1,761,462		1,761,462
Amounts recoverable from reinsurers	436,112		436,112
Current federal and foreign income tax recoverable and interest thereon	5,471,226		5,471,226
Receivable from parent, subsidiaries, and affiliates	2,588,563		2,588,563
Health care and other amounts receivable	3,319,258		3,319,258
Write-ins for other than invested assets:			
State Income Tax Receivable	1,470,899		1,470,899
Prepaid Expenses	<u>810,556</u>	<u>810,556</u>	<u>                    </u>
<b>Total Assets</b>	<b><u>\$173,070,422</u></b>	<b><u>\$843,867</u></b>	<b><u>\$172,226,555</u></b>



**Network Health Insurance Corporation**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2017**

Claims unpaid		\$ 81,805,825
Accrued medical incentive pool and bonus payments		325,000
Unpaid claims adjustment expenses		2,366,002
Aggregate health policy reserves		11,808,130
Premiums received in advance		1,860,964
General expenses due or accrued		2,495,122
Ceded reinsurance premiums payable		214,689
Amounts due to parent, subsidiaries, and affiliates		1,147,726
Liability for amounts held under uninsured accident and health plans		5,648,833
Aggregate write-ins for other liabilities		<u>25,692</u>
Total Liabilities		107,697,983
Gross paid in and contributed surplus	\$90,000,000	
Unassigned funds (surplus)	<u>(25,471,428)</u>	
Total Capital and Surplus		<u>64,528,572</u>
Total Liabilities, Capital and Surplus		<u>\$172,226,555</u>

**Network Health Insurance Corporation  
Statement of Revenue and Expenses  
For the Year 2017**

Net premium income		\$561,615,255
Medical and Hospital:		
Hospital/medical benefits	\$447,187,390	
Other professional services	10,162,668	
Prescription drugs	56,972,893	
Incentive pool and withhold adjustments	<u>1,149,133</u>	
Subtotal	515,472,084	
Less		
Net reinsurance recoveries	<u>449,312</u>	
Total medical and hospital	515,022,772	
Claims adjustment expenses	22,333,361	
General administrative expenses	50,466,851	
Increase in reserves for life and accident and health contracts	<u>(2,820,948)</u>	
Total underwriting deductions		<u>585,002,036</u>
Net underwriting gain or (loss)		(23,386,781)
Net investment income earned	1,394,051	
Net realized capital gains or (losses)	<u>(29,897)</u>	
Net investment gains or (losses)		1,364,154
Net income or (loss) before federal income taxes		(22,022,627)
Federal and foreign income taxes incurred		<u>(5,455,127)</u>
Net Income (Loss)		<u>\$ (16,567,500)</u>

**Network Health Insurance Corporation**  
**Capital and Surplus Account**  
**For the Three-Year Period Ending December 31, 2017**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Capital and surplus, beginning of year	\$81,528,136	\$81,718,761	\$64,734,094
Net income (loss)	(16,567,500)	(3,278,665)	(5,683,514)
Change in net deferred income tax			(446,295)
Change in nonadmitted assets	(432,062)	3,088,043	(908,678)
Surplus adjustments:			
Paid in			26,000,000
Write-ins for gains and (losses) in surplus:			
Rounding	(2)		
SSAP 3	_____	_____	(1,976,846)
Capital and Surplus, End of Year	<u>\$64,528,572</u>	<u>\$81,528,139</u>	<u>\$81,718,761</u>

**Network Health Insurance Corporation  
Statement of Cash Flow  
For the Year 2017**

Premiums collected net of reinsurance		\$561,686,006
Net investment income		<u>1,688,220</u>
Total		563,374,226
Less:		
Benefit- and loss-related payments	\$507,080,643	
Commissions, expenses paid, and aggregate write-ins for deductions	62,625,259	
Federal and foreign income taxes paid (recovered)		
\$(16,874) net tax on capital gains (losses)	<u>(18,764,504)</u>	
Total		<u>550,941,398</u>
Net cash from operations		12,432,828
Proceeds from Investments Sold, Matured, or Repaid:		
Bonds	\$ 21,866,414	
Cost of Investments Acquired—Long-term Only:		
Bonds	<u>21,934,753</u>	
Net cash from investments		(68,339)
Cash Provided/Applied:		
Other cash provided (applied)	<u>(2,865,890)</u>	
Net cash from financing and miscellaneous sources		<u>(2,865,890)</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		9,498,599
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>53,133,077</u>
End of Year		<u>\$ 62,631,676</u>

### Growth of Network Health Insurance Corporation

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2017	\$172,226,555	\$107,697,983	\$64,528,572	\$561,615,255	\$515,022,772	\$(16,567,500)
2016	185,040,938	103,512,799	81,528,139	550,634,983	503,826,870	(3,278,665)
2015	175,998,009	94,279,248	81,718,761	556,516,298	511,423,275	(5,683,514)
2014	155,166,117	90,432,023	64,734,094	499,083,633	464,043,041	(33,244,154)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2017	-2.9%	91.2%	13.0%	-22.4%
2016	-0.6	91.0	10.6	11.5
2015	-1.0	91.0	11.4	10.1
2014	-6.6	97.4	11.3	13.4

### Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2017	67,241	1,736	7.0
2016	86,678	1,268	6.8
2015	77,733	1,544	6.9
2014	70,584	1,470	6.7

### Per Member Per Month Information

	2017	2016	Percentage Change
<b>Premiums:</b>			
Commercial	(\$ 97.91)	\$378.78	-125.9%
Medicare	720.90	705.43	2.2
Other Health	152.71	32.37	371.8
Blended	<u>709.41</u>	<u>615.51</u>	15.3
<b>Expenses:</b>			
Hospital/medical benefits	564.87	496.00	13.9
Other professional services	12.84	11.01	16.6
Emergency room and out-of-area		0.06	-100.0
Prescription Drugs	71.97	57.15	25.9
Incentive pool and withhold adjustments	1.45	0.31	365.5
Less: Net reinsurance recoveries	<u>0.57</u>	<u>1.34</u>	-57.6
Total medical and hospital	650.55	563.19	15.5
Claims adjustment expenses	28.21	19.80	42.5
General administrative expenses	63.75	45.71	39.5
Increase in reserve for accident	<u>(3.56)</u>	<u>(2.81)</u>	26.7
Total underwriting deductions	<u>\$738.95</u>	<u>\$625.89</u>	18.1

During the examination period, the company's total admitted assets decreased by 2.1% (down to \$172.2 million), and total liabilities increased by 14.2% (to \$107.7 million), resulting in a surplus decrease of 21.0% (to \$64.5 million). The primary driver of the surplus decrease is a history of net losses. The unprofitable business trend is the result of the company pricing its Medicare products low to gain market share combined with the CMS sequestrations. The losses incurred during 2017 were the result of an increase in general administrative expenses and an increase in net incurred medical expenses resulting in a net loss of \$16.6 million. The increase in general administrative expenses was related to the company implementing certain initiatives in preparation of bringing the Medicare Advantage claims administration in-house in 2018. The company recorded a Premium Deficiency Reserve (PDR) of \$11.7 million at the end of 2017 pertaining to the anticipated future losses for its Medicare Advantage line of business. In addition, as shown above, the company lost a significant amount of members from 2016 to 2017 as a result of losing its contract with ThedaCare Community Health System (ThedaCare) on December 31, 2016. The company noted that it does not plan to reestablish the relationship with ThedaCare and will seek other alternatives, if necessary.

Underwriting loss for 2017 was \$23.4 million based on total revenue of \$561.6 million. Total premiums experienced a slight increase of 2% despite the declining enrollment due to an increase in premium PMPM of 15.3%, which is attributable to the company's repricing of its Medicare plans from 2016 to 2017. Offsetting the change is a 15.5% increase in medical and hospital expense PMPM and a 40.4% increase in administrative expense PMPM, resulting in an unfavorable development for the company. The company is projecting to lose money in 2018 and 2019 and to achieve profitability on a consolidated (with NHP) basis in 2020.

Surplus declined every year during the examination period due to unfavorable experience. The company received a capital contribution from NHI of \$8 million in 2016. Another capital contribution of \$12.5 million was made in the second quarter of 2018, which was funded by NHP. NHP paid a \$12.5 million dividend to NHI, which in-turn, was infused into NHIC to keep its RBC ratio above 300%. The company's MLR has been fairly consistent for the period under examination, 91.2% for 2017.

**Network Health Insurance Corporation  
Compulsory and Security Surplus Calculation  
December 31, 2017**

Assets		\$172,226,555
Less liabilities		<u>107,697,983</u>
Adjusted surplus		64,528,572
Annual premium:		
Individual life and health	\$ 63,495	
Factor	<u>15%</u>	
Total		\$ 9,524
Group life and health	561,551,760	
Factor	<u>10%</u>	
Total		<u>56,155,176</u>
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>56,164,700</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 8,363,872</u>
Adjusted surplus (from above)		\$64,528,572
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)		<u>69,644,228</u>
Security Surplus Excess (Deficit)		<u>\$ (5,115,656)</u>



**Reconciliation of Surplus per Examination**

No exam adjustment or reclassification resulted from the examination. The Capital & Surplus reported at December 31, 2017, of \$64,528,572 is accepted.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were twelve 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. Board of Directors—It is recommended that the company comply with its bylaws and consistently maintain the required number of members on its board of directors.

Action – Compliance.

2. Biographical Reports—It is recommended that the insurer promptly file biographical reports of newly elected or appointed directors, trustees, and officers within 15 days of their election or appointment in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

Action – Compliance.

3. Conflict of Interest Policy—It is recommended that the insurer comply with its conflict of interest policy and have each of its officers, directors and committee members sign an annual conflict of interest statement.

Action – Compliance.

4. Investment Policy—It is recommended that the investment policy be amended to reflect all changes in ownership, that amendment dates be included in the policy, and that the policy specify the name of the insurer covered.

Action – Compliance.

5. Investment Transactions Approval—It is recommended that the board approve the insurer's investment transactions at least semiannually.

Action – Compliance.

6. Direct Administrative Costs—It is recommended that identifiable expenses directly related to the operation of NHIC be allocated to NHIC in accordance with SSAP No. 70.

Action – Compliance.

7. Administrative Services Program Agreement—It is recommended the Administrative Services Program Agreement be amended to make the agreement fair to each insurer and that records be maintained in a clear and accurate manner in accordance with s. 617.21 (1), Wis. Stat.

Action – Compliance.

8. Internal Audit Services Agreement—It is recommended that the Internal Audit Services Agreement, dated October 1, 2015, either be terminated or amended to grant ownership of reports, information, data or other intellectual property to the insurer.

Action – Compliance.

9. Other-Than-Financial Reporting Risks—It is recommended that the insurer prepare formal narratives and flowcharts for all key functional activities of the insurer depicting the risk mitigation strategies governing other-than-financial reporting risks.

Action – Compliance.

10. Financial Reporting Risks—It is recommended that NHIC take the necessary steps to ensure compliance with s. Ins 50.17, Wis. Adm. Code, by December 31, 2017, and that NHIC report its progress towards meeting the requirement to this office no later than six months from adoption of this report.

Action – Compliance.

11. Accrued Retrospective Premiums—It is recommended that the company report premium receivables associated with Medicare Advantage as accrued retrospective premiums (Line 15.3) in accordance with SSAP No. 66.

Action – Compliance.

12. Escheatable Property—It is recommended that the insurer submit all of the required information when submitting abandoned property to the state of Wisconsin in accordance with s. 177.17 (2) (a) and (e), Wis. Stat.

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. Comments on the remaining areas of the company's operations are contained in the examination work papers.

### **Form B Filing**

Review of the Form B/C filings for the period under examination noted that the affiliated agreements reported in the company's Form B, Item 5, (e)—Transactions and Agreements were a mirror of the agreements in Form C in that they both reported the changes to the affiliated agreements since the prior filing. Though this is correct for the Form C filing, it is not for the Form B filing. Section Ins 40.03 (3) (c), Wis. Adm. Code requires the company to report all agreements in force and transactions currently outstanding or which have occurred during the last calendar year between the company and its affiliates. It is recommended the company properly file its Form B in accordance with s. Ins 40.03 (3) (c), Wis. Adm. Code.

### **Report on 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. Compensation reported should include all gross, direct, and indirect remuneration paid and accrued during the report year for the benefit of the individual, including wages, salaries, bonus, retirement benefits, deferred compensation, commissions, fees, and other forms of personal compensation. The examination noted that the Report on Executive Compensation filed by the company for the year 2017 did not include the employer's paid portion on certain benefits for its employees. It is recommended the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

### **Business Continuity Plan**

As the company increases its reliance on third-party service providers, it is critical the company periodically assess the potential business impact from such service providers in the event of a business disruption, and include back-up plans in the company's business continuity

plan to address such events. It is recommended the company include third-party service providers in the business impact analysis and risk assessment for its business continuity plan.

**Other Information Technology Recommendations**

The examination noted other areas where IT controls could be further strengthened, which were presented in a letter to management dated October 5, 2018. It is recommended the company strengthen its IT control environment as specifically described in the management letter dated October 5, 2018.

## VIII. CONCLUSION

NHIC is a not-for-profit, service insurance corporation organized under ch. 613, Wis. Stat. The major product lines for NHIC are a Point-of-Service (POS) health insurance plan and a Medicare Advantage (MA) Preferred Provider Organization (PPO) product that includes the Medicare Part D Prescription Drug Plan. NHP and NHIC have a jointly issued POS policy where out-of-network benefits are provided through NHIC. The company only does business in the state of Wisconsin.

At the end of 2017, the company reported total net assets of \$172.2 million, total liabilities of \$107.7 million, and capital and surplus of \$64.5 million. During the examination period, the company received an \$8.0 million capital infusion from NHI. Another capital infusion in the amount of \$12.5 million was made in the second quarter of 2018, indirectly from NHP, to keep the company's RBC above 300%. Adjusted capital and surplus of \$64.5 million failed to satisfy the security surplus for the year-end 2017.

The company reported an underwriting loss of \$23.4 million, which was attributable to the company's largest line of business Medicare Advantage. The loss incurred during 2017 was the result of an increase in general administrative expense due to the company implementing certain initiatives in preparation of bringing the Medicare Advantage claims administration in-house in 2018 and an increase in medical expenses. Losses have been an ongoing issue for the company due to CMS sequestrations and product underpricing. An \$11.7 million PDR was established by the company in anticipation of future losses and is expected to decline going forward as the company projects profitability in 2020.

The company's MLR has been consistent during the examination period, 91.2% for 2017. Administrative expense ratio experienced a decline in 2016 from 2015; however, the ratio went back up as a result of the initiative to bring Medicare Advantage claims administration functions in-house from its vendor. The company's enrollment has had a net decrease over the examination period primarily due to the termination of its contract with ThedaCare at the end of 2016.

The prior examination resulted in 12 exam recommendations, all of which have been complied with. The current examination resulted in four recommendations, which are outlined in Section IX below.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Form B Filing—It is recommended the company properly file its Form B in accordance with s. Ins 40.03 (3) (c), Wis. Adm. Code. It is recommended the company properly file its Form B in accordance with s. Ins 40.03 (3) (c), Wis. Adm. Code.
2. Page 26 - Report on Executive Compensation—It is recommended the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.
3. Page 27 - Business Continuity Plan—It is recommended the company include third-party service providers in the business impact analysis and risk assessment for its business continuity plan.
4. Page 27 - Other Recommendations—It is recommended the company strengthen its IT control environment as specifically described in the management letter dated October 5, 2018.



## 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:

<b>Name</b>	<b>Title</b>
Joshua Daggett	Insurance Financial Examiner
James Krueger	Insurance Financial Examiner
Eleanor Lu	IT Examiner
Jerry DeArmond	Loss Reserve Specialist
Ana Carega	ACL Specialist

Respectfully submitted,

Kongmeng Yang  
Examiner-in-Charge