Report

of the

Examination of

Network Health Plan

Menasha, Wisconsin

As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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October 5, 2018

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 PLAN
Menasha, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Network Health Plan (NHP 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 Plan (NHP or the company) was incorporated on September 30, 1982, and commenced business on April 1, 1983, as a not-for-profit Health Maintenance Organization Insurer (HMO). Network Health System, Inc. (NHS) owned NHP. Several corporate changes have occured as reflected in the table below.

December 31, 1986	NHP was essentially reorganized as a for-profit HMO
October 31, 1995	The company requested to amend its certificate of authority as an indemnity insurer.
September 1, 1998	Affinity Health System (co-sponsored by Wheaton Franciscan Services, Inc. and Ministry Health Care, Inc.) acquired the all shares of the stock of NHS.
December 6, 2001	The company requested to amend its certificate of authority reverting back to a health maintenance organization insurer.
April 4, 2001	NHP incorporated Network Health Insurance Corporation (NHIC) as a wholly owned indemnity health insurer.
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.

Network Health Plan contracts with 2,121 primary care providers, 12,031 specialists, 48 hospitals, and 1,523 facility and ancillary providers to deliver covered services. The provider contracts include hold-harmless provisions for the protection of policyholders. In addition, there is an insolvency provision in place to ensure the continuation of benefits for covered services for members in the event that the company becomes insolvent. The contracts generally have a one-year term and may be

terminated between 60 and 180 days' prior notice. A complete list of NHP hospitals can be found in Section XII of this report.

According to its business plan, the company's service area is comprised of 23 counties. The list of counties follows:

Brown	Kenosha	Milwaukee	Sheboygan
Calumet	Kewaunee	Outagamie	Waukesha
Dodge	Manitowoc	Ozaukee	Waupaca
Door	Marinette	Portage	Waushara
Fond du Lac	Marquette	Racine	Winnebago
Green Lake	Menominee	Shawano	

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
Cardiac rehabilitation, physical, speech, and/or occupational therapy
Physical fitness or health education
Kidney disease treatment
Certain transplants

Inpatient and outpatient mental health and AODA coverage follows the state mandated benefits. Emergency services may have a copayment or a deductible and coinsurance, which are waived upon admission into an inpatient facility. Skilled nursing care is limited to 60 days per benefit period. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral to a non-participating provider.

NHP has point-of-service products, which provide comprehensive benefits similar to those listed above when participating providers are used. The enrollee may elect, at the time of service, to use providers that are not part of NHP's network for higher deductibles and coinsurance levels. Out-of-network, skilled nursing facility, inpatient, some outpatient hospital, and some durable medical equipment

services require precertification. If precertification is not received, benefits are denied. Eligible out-of-network services are covered by NHIC.

NHP has contracted with the Wisconsin Department of Health Services (DHS) to provide and pay for services to recipients enrolled in the company under the Medicaid SSI HMO and BadgerCare Plus HMO Programs. The company has entered into a subcontract with Managed Health Services Insurance Corporation (MHSIC) to provide health care services to NHP's Medical Assistance HMO enrollees. In consideration for the services to be provided, MHSIC receives the Medicaid HMO capitation rate per member per month and pays NHP a base fee. The agreement was effective on January 1, 2001, for a period of five years. The agreement was amended on July 1, 2006, to extend the initial agreement to 15 years. On July 1, 2014, the agreement was amended again to change the initial term of the agreement to 17 years with an agreement effective date of January 1, 2001, and to allow for automatic three-year renewals unless terminated by mutual consent or pursuant to the agreement's termination provisions.

The company currently markets to groups and individuals. The company markets through 967 independent agents licensed to sell the company's insurance products. Current marketing efforts are directed toward the company's commercial group major medical plans through NHP. Large and small commercial employer groups are targeted throughout northeast Wisconsin. In southeast Wisconsin, the company started marketing for large employer group products in the spring of 2015. During 2016, the company began offering individual products through the Federally Facilitated Marketplace (FFM).

The company uses an actuarially determined base as a beginning point in commercial major medical premium determination. This rate is adjusted to reflect the age, sex, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate or cancelling the group. The base rate is adjusted annually for inflation and other trending factors. Individual rates are subject to a similar review with additional consideration of changes to the federal programs, such as Risk Adjustment and Cost-Sharing Reduction, and the company's risk-sharing agreements with its provider network.

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:

Name and Residence	Principal Occupation	Term Expires
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 senior management serving at the time of this examination are as follows:

Name	Office	2017 Compensation
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	**Audit Committee**
Bernard Sherry, Chair	Christopher Zwygart, Chair
Catherine Jacobson, Vice Chair	John Bykowski
David Olson	Scott Hawig
Jonathan Sohn	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.

Insolvency Protection for Policyholders

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

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

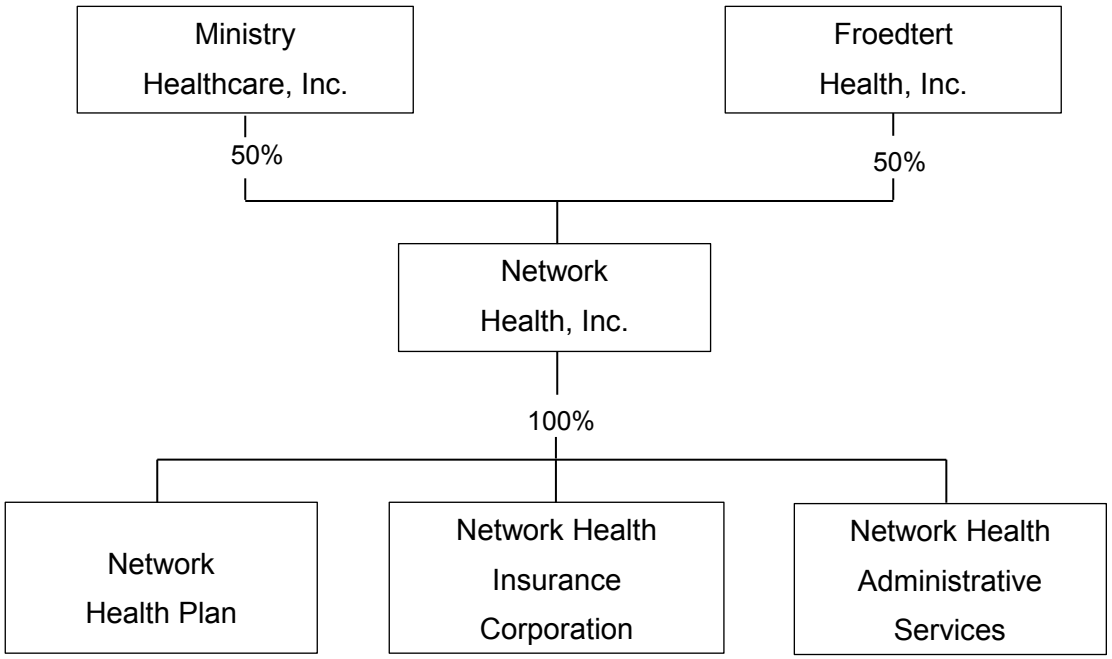
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

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

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. 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
- Pain Centers of Wisconsin-Wausau, LLC

Ministry Health Care, Inc. downstream affiliates (cont.)

- 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 GAAP audited 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 GAAP audited 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 Insurance Corporation (NHIC)

NHIC is a nonstock, nonprofit corporation incorporated in the state of Wisconsin under the provisions of Chapter 613 of the Wisconsin statutes as a service insurance corporation, whose sole member is NHI. NHIC is engaged in the business of health insurance for health care services provided to groups, individuals, and Medicare beneficiaries. NHIC contracts with various health care facilities to provide covered medical services and supplies to NHIC participants who pay a fixed monthly premium for insurance coverage. The majority of these services are provided in northeastern Wisconsin. As of December 31, 2017, NHIC's audited statutory financial statement reported assets of $172.2 million, liabilities of $107.7 million, and capital and surplus of $65.5 million. Operations for 2017 produced a net loss of $16.6 million on revenues of $561.6 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 agreements 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.

NHP and NHAS have an Intercompany Service Agreement (IA) in which NHAS is to provide or arrange payments for contraceptive services for certain religious employers who filed a self-certification objecting to payment of contraceptive benefits pursuant to the ACA. NHP is to provide coverage for contraceptive services for those members.

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 and Ministry have a HMO/POS Clinic Agreement in which Ministry is to provide covered services to covered members under HMO or POS plans for compensation as set forth in the agreement. There was one amendment made during the examination period to update the compensation for Home Health and Hospice Services. There were various amendments made prior to the examination period to modify the compensation and update some languages within the agreement.

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 has reinsurance coverage under the contract outlined below:

Reinsurer:	PartnerRe America Insurance Company
Type:	Fully Insured Medical Excess of Loss Contract
Effective date:	January 1, 2017
Retention:	$450,000
Coverage:	1st Layer: 90% of net losses in excess of the company's retention; but, not in excess of 90% of $550,000 for any one Covered Person per contract year. 2nd 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.
Insolvency:	The reinsurance policy has an endorsement containing the following insolvency provisions: 1. PartnerRe America Insurance 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 date the Covered Person becomes eligible for health insurance coverage benefits under another group or blanket of policy or plan or any federal, state, or local governmental plan or program. 2. PartnerRe America Insurance 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 behalf. PartnerRe America Insurance Company's maximum aggregate liability under the endorsement is $5,000,000.

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 Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company for the period under examination.

Network Health Plan
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 53,123,350	$	$53,123,350
Real Estate:			
Properties occupied by the company	2,272,077		2,272,077
Cash, cash equivalents, and short-term investments	9,948,417		9,948,417
Investment income due and accrued	268,401		268,401
Uncollected premiums and agents' balances in the course of collection	1,593,900	325,489	1,268,411
Accrued retrospective premiums and contracts subject to redetermination	18,173,088		18,173,088
Amounts recoverable from reinsurers	3,104,208		3,104,208
Net deferred tax asset	3,194,069	485,337	2,708,732
Electronic data processing equipment and software	37,865	37,865	
Furniture and equipment, including health care delivery assets	703,197	703,197	
Receivables from parent, subsidiaries, and affiliates	4,746,770	4,746,770	
Health care and other amounts receivable	6,856,673	5,017,877	1,838,796
Write-ins for other than invested assets:			
Prepaid Expenses	85,000	85,000	
Total Assets	$104,107,015	$11,401,535	$92,705,480

Network Health Plan
Liabilities and Capital & Surplus
As of December 31, 2017

Claims unpaid		$24,734,974
Unpaid claims adjustment expenses		681,429
Premiums received in advance		2,418,473
General expenses due or accrued		4,049,444
Current federal and foreign income tax payable and interest thereon		6,456,897
Ceded reinsurance premiums payable		1,006,897
Amounts due to parent, subsidiaries and affiliates		388,025
Aggregate write-ins for other liabilities		7,789
Total Liabilities		39,743,928
Common capital stock	$ 200,000	
Gross paid in and contributed surplus	27,672,597	
Aggregate write-ins for special surplus funds	5,142,169	
Unassigned Funds (surplus)	19,946,786	
Total Capital and Surplus		52,961,552
Total Liabilities, Capital and Surplus		$92,705,480

Network Health Plan
Statement of Revenue and Expenses
For the Year 2017

Net premium income		$296,372,252
Change in unearned premium reserves and reserve for rate credits		2,496,672
Total revenues		298,868,924
Medical and Hospital:		
Hospital/medical benefits	$189,070,924	
Other professional services	13,032,025	
Emergency room and out-of-area	14,685,120	
Prescription drugs	31,767,732	
Subtotal	248,555,801	
Less		
Net reinsurance recoveries	4,323,907	
Total medical and hospital	244,231,894	
Claims adjustment expenses	5,941,832	
General administrative expenses	31,786,575	
Total underwriting deductions		281,960,301
Net underwriting gain or (loss)		16,908,623
Net investment income earned	1,303,319	
Net realized capital gains or (losses)	(38,579)	
Net investment gains or (losses)		1,264,740
Aggregate write-ins for other income or expenses		(20,007)
Net income or (loss) before federal income taxes		18,153,356
Federal and foreign income taxes incurred		6,477,671
Net Income (Loss)		$ 11,675,685

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

	2017	2016	2015
Capital and surplus, beginning of year	$41,435,262	$45,308,600	$39,320,082
Net income (loss)	11,675,685	644,037	5,953,650
Change in net deferred income tax	(947,450)	(614,626)	1,654,709
Change in nonadmitted assets	798,055	(3,902,749)	(1,619,841)
Surplus, End of Year	$52,961,552	$41,435,262	$45,308,601

Network Health Plan
Statement of Cash Flow
For the Year 2017

Premiums collected net of reinsurance			$279,721,692
Net investment income			1,505,203
Total			281,226,895
Less:			
Benefit- and loss-related payments		$255,784,598	
Commissions, expenses paid and aggregate write-ins for deductions		36,163,843	
Federal and foreign income taxes paid (recovered)		16,084,655	
Total			308,033,096
Net cash from operations			(26,806,201)
Proceeds from Investments Sold, Matured, or Repaid:			
Bonds	$15,784,982		
Miscellaneous proceeds	100,293		
Total investment proceeds		15,885,275	
Cost of Investments Acquired—Long-term Only:			
Bonds		15,389,412	
Net cash from investments			495,863
Cash Provided/Applied:			
Other cash provided (applied)			1,752,812
Net Change in Cash, Cash Equivalents, and Short-Term Investments			(24,557,526)
Cash, cash equivalents, and short-term investments:			
Beginning of year			34,505,944
End of Year			$ 9,948,418

The company had a decline in cash, cash equivalent, and short-term investments of $24.6 million, as shown above, due to a decline in commercial membership of almost 15,411 members in 2017, and the payment of approximately $16 million in intercompany tax settlements.

Growth of Network Health Plan

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2017	$ 92,705,480	$39,743,928	$52,961,552	$298,868,924	$244,231,894	$11,675,685
2016	102,578,441	61,143,178	41,435,263	370,915,826	322,387,860	644,037
2015	103,187,159	57,878,558	45,308,601	403,403,385	337,664,884	5,953,650
2014	83,826,691	44,506,608	39,320,083	402,574,886	343,188,295	2,489,429

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2017	3.9%	81.7%	12.6%	-18.4%
2016	0.2	86.9	12.7	-9.6
2015	1.5	83.7	12.9	-5.4
2014	0.6	85.2	13.0	1.4

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2017	74,650	245.40	4.0
2016	91,529	239.53	3.9
2015	101,194	236.95	4.1
2014	106,927	202.93	3.7

Per Member Per Month Information

	2017	2016	Percentage Change
Premiums:			
Commercial	$479.75	$422.28	13.6%
Medicaid	171.54	173.08	-0.9
Blended	337.93	327.18	3.3
Expenses:			
Hospital/medical benefits	213.78	227.41	-6.0
Other professional services	14.74	13.45	9.6
Emergency room and out-of-area	16.60	16.22	2.3
Prescription Drugs	35.92	30.49	17.8
Less: Net reinsurance recoveries	4.89	3.20	52.9
Total medical and hospital	276.15	284.37	-2.9
Claims adjustment expenses	6.72	7.00	-4.0
General administrative expenses	36.03	34.45	4.6
Total underwriting deductions	$318.90	$325.82	-2.1

During the examination period, the company's total admitted assets decreased by 10.1% (down to $92.7 million) and total liabilities decreased by 31.3% (down to $39.7 million), resulting in a favorable change to a surplus of 16.9% (to $53.0 million). The company has a history of net income, including the period under examination, indicating an overall profitable business. 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 as they are performing very well after the termination of the contract. In addition, review of the 2017 Supplemental Health Care Exhibit noted that the company failed to meet the 85% MLR requirement under the ACA for its large group for 2017, and therefore anticipates potentially paying rebates in 2018.

The company reported net income of $11.7 million in 2017. Underwriting gains were $16.9 million based on total revenue of $298.9 million. Total premiums experienced a significant decline due to the loss of the ThedaCare contract as noted above; however, on a per member per month (PMPM) basis, premium PMPM increased by 3.3%, medical and hospital PMPM decreased by 2.9%, and administrative expense PMPM increased by 3.1%. This favorable change led to a 5.3% decline in the combined ratio from 2016 to 2017.

Surplus declined from 2014 to 2015 due to a $5 million dividend paid to NHI. From 2015 to 2016, surplus declined again due to an increase in non-admitted assets, primarily attributable to an increase in affiliated receivables and additional non-admitted Deferred Tax Assets (DTA). From 2016 to 2017, surplus experienced a significant increase due to relatively high net income generated.

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, 2017, as modified for examination adjustments is as follows:

Assets		$92,705,480	
Less:			
Special deposit		4,207,199	
Liabilities		39,743,928	
Assets available to satisfy surplus requirements			$48,754,353
Net premium earned			
HMO business	$227,673,114		
Factor	0.3%		
Total		6,830,193	
Medicaid	71,195,810		
Factor	0.5%		
Total		355,979	
Compulsory surplus			7,186,172
Compulsory Surplus Excess (Deficit)			$41,568,181
Assets available to satisfy surplus requirements			$48,754,353
Compulsory surplus			7,186,172
Security factor			132%

Security surplus	9,485,747
Security Surplus Excess (Deficit)	$39,268,606

The examination modified the net premium earned reported for the HMO business to reflect the inclusion of the change in unearned premium reserves of $2.5 million. The modification did not result in any material change to the calculation. In addition, an order was placed on the company that reduced the factor on Medicaid premium to 0.5%.

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 2017 with a deposit of $4,207,199 with the State Treasurer.

Reconciliation of Capital and Surplus per Examination

No exam adjustment or reclassification resulted from the examination. The capital and surplus reported at December 31, 2017, of $52,961,552 is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 11 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. Escheatable Property—It is recommended that the escheat process be changed to reflect the reporting requirements described under s. 177.17 (2) (d), Wis. Stat.

    Action – Compliance.

11. 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 for 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 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

NHP is a for-profit HMO and operates solely in the state of Wisconsin. The company offers HMO and POS products, and contracts with the Wisconsin DHS to provide and pay for services to recipients enrolled in the company under the Medicaid SSI HMO and BadgerCare Plus HMO Programs. The company has a subcontract with MHSIC transferring 100% of the risk for providing health care services to NHP's Medical Assistance enrollees. Effective January 1, 2016, the company began offering individuals products through the FFM.

At the end of 2017, the company reported total net assets of $92.7 million, total liabilities of $39.7 million, and capital and surplus of $53.0 million. Adjusted capital and surplus of $48.8 million satisfied the compulsory and security surplus requirement at year-end 2017. The company paid a $12.5 million extraordinary dividend in 2018 to NHI, which in-turn, was infused into NHIC.

The company reported an underwriting gain of $16.9 million, which indicates an overall profitable business. The positive results have been a consistent trend for the company. Administrative expense ratio has been fairly consistent averaging 12.7% for the past three years. Medical loss ratio (MLR) has experienced a slight decline of 2% since 2015, ending the 2017 year-end at 81.7%. Review of the 2017 Supplemental Health Care Exhibit noted the company failed to meet the 85% MLR requirement under the ACA for its large group for 2017 and anticipates paying rebates in 2018.

At the end of 2016, the company lost its contract with ThedaCare which resulted in a significant loss in membership. Despite the loss, the company continues to perform well in 2017 as noted by the underwriting gain above.

The prior examination resulted in 11 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 29 - 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.

2. Page 29 - 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 30 - 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 30 - Other Recommendatons—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 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
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

XI. List of Hospitals

The Schedule of Covered Expenses lists 39 hospitals as of December 31, 2017. The list of hospitals is as follows:

- Beaver Dam Community Hospitals
- Bellin Psychiatric Center, Inc. DBS Bellin Behavorial Health
- Calumet Medical Center
- Children Hospital of Wisconsin
- Children Hospital of Wisconsin Fox Valley
- Columbia Center LLC
- Door County Memorial Hospital
- Froedtert Memorial Lutheran Hospital
- Holy Family Memorial, Inc. DBA Holy Family Memorial Medical
- Mercy Medical Center
- Midwest Orthopedic Specialty Hospital
- New Lifecare Hospitals of Milwaukee LLC
- OHMC Payment Processing Center
- Orthopaedic Hospital of Wisconsin, LLC
- Post Acute Medical Specialty Hospital of Milwaukee
- Ripon Medical Center
- Sacred Heart St. Marys Hospital, Inc.
- Sacred Heart Rehab
- St Agne's Hospital
- St Clare Memorial Hospital, Inc.
- St Clare's Hospital
- St Elizabeth Hospital
- St Mary's Hospital Medical Center
- St Michael's Hospital
- St Nicholas Hospital
- St Vincent Hospital
- ThedaCare Medical Center Berlin, Inc.
- ThedaCare Medical Center New London
- ThedaCare Medical Center Shawano, Inc.
- ThedaCare Medical Center Waupaca, Inc.
- ThedaCare Medical Center Wild Rose, Inc.
- ThedaCare Regional Medical Center Appleton
- ThedaCare Regional Medical Center Neenah, Inc.
- United Hospital System, Inc. DBA Kenosha Hospital
- UW Hospitals and Clinics
- Waupun Memorial Hospital
- WFH Franklin
- WFH St. Francis
- Wheaton Franciscan Healthcare All Saints DBA Lakeshore Manor