

Report of the Examination of
Security Health Plan of Wisconsin, Inc.
Marshfield, Wisconsin
As of December 31, 2022

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April 12, 2024

Honorable Nathan D. Houdek
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

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

SECURITY HEALTH PLAN OF WISCONSIN, INC.
Marshfield, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Security Health Plan of Wisconsin, Inc. (the company, SHP, or Security) was conducted in 2019 as of December 31, 2017. The current examination covered the intervening period ending December 31, 2022, and included a review of such subsequent 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 the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation

of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

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

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

II. HISTORY AND PLAN OF OPERATION

The Security Health Plan of Wisconsin, Inc. is described as a nonprofit 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. HMOs compete with traditional fee-for-service health care delivery.

The company was incorporated on April 25, 1986, and commenced business on September 3, 1986. The company's sole corporate member is Marshfield Clinic Health System.

Security has over 13,000 affiliated providers, including ancillary providers, of which there were 4,573 specialists, 1,232 primary care physicians, and 3,221 non-physician providers. Contracts with hospitals and affiliated providers include hold-harmless provisions for the protection of policyholders. Referrals outside of the network require prior approval of the Security Chief Medical Officer or designee.

In some products, upon becoming enrolled, every member is encouraged to select a primary care physician. Participating primary care physicians may be from general practice, family practice, family medicine, geriatric medicine, general internal medicine, obstetrics/gynecology, and pediatrics. These physicians agree to provide high-quality, cost-effective medical care to members 24 hours a day, seven days a week.

For the time period under examination, Security contracted with the Marshfield Clinic, Inc. (Marshfield Clinic, Clinic, or MC) for the provision of health care services to Security members treated within the MCHS system. For specific covered programs, the Clinic was paid a per-member/per month global capitation, for attributed members, that covers all the members' claims. The Clinic was at risk for capitation shortfalls if any. For non-attributed members or programs not covered under global capitation, services were reimbursed under a fee-for-service model. The contract became effective on January 1, 1996, and had a term of one year for each year thereafter. The contract is automatically renewed for a one-year term unless either party gives notice to the other party to terminate 60 days prior to the end of

the contract year. In addition, either party, upon 30 days' advance written notice at any time, could terminate the contract for cause. Health care services rendered by other (non-MC) affiliated providers are paid based on discounted fee-for-service rates, which are subject to Security fee maximums.

With respect to Medicare Select, contracted providers accept assignment for Medicare Part B services. Security pays a discounted rate on charges for Security-covered services not covered by Medicare and the balance of the charge up to the Medicare-approved amount for any Medicare deductibles or coinsurance. In accordance with the contract's hold-harmless provision and Wisconsin law, affiliated providers may not seek compensation from participants for covered services but must look exclusively to Security for payment. An agreement to abide by this provision is mandatory for all affiliated providers and opting out of this requirement constitutes good cause for termination.

Security contracts with MedImpact, Healthcare Systems, Inc. to provide a pharmacy network, adjudication of pharmacy claims, and implementation of the Security formulary. Security pays the pharmacies for the covered prescriptions and supplies dispensed to participants.

Security contracts with Allied Insurance Solutions to provide chiropractic services. Security pays a per-member/per-month capitation to Allied Insurance Solutions.

Inclusive of all products, Security contracts with 70 hospitals to provide inpatient services. Hospitals are reimbursed for commercial and Security Administrative Services (SAS) members on a discounted fee-for-service basis; Medicare Advantage members per Medicare's fee schedule; and Medicaid per the Medicaid fee schedule.

Security Health Plan of Wisconsin offers a variety of health insurance options for employers and consumers. For consumers and their families, SHP offers; Medicare Advantage, Medicare Supplement, Medicare Medical Savings Account, Medicaid, and individual and family plans including federally-facilitated exchange and non-exchange plans. For large employers, SHP offers custom plan designs with a traditional HMO, Point-of-Service (POS), or indemnity plan. For small employers, SHP supports transitional plans and offers Affordable Care Act (ACA) small group plans.

Effective December 1, 1996, Security contracted with the Department of Health Services (DHS) of the State of Wisconsin to participate in the Medicaid HMO program. The program expanded in 2000 to include the BadgerCare population. In 2008, DHS merged family Medicaid with BadgerCare to

create BadgerCare Plus. Security has contracted with the Clinic and affiliated providers on a fee-for-service rate based on the State of Wisconsin Medicaid fee-for-service rate. Hospitals are paid based on Diagnostic Related Groupings (DRGs) for inpatient care and Fee-For-Service Enhanced Ambulatory Patient Grouping (EAPG) rates for outpatient care. The Security BadgerCare Plus program does not include chiropractic or dental services. Security maintains the BadgerCare Plus program as a separate product line with a 49-county service area:

Adams	Dodge	Juneau	Pepin	Taylor
Ashland	Door	LaCrosse	Pierce	Trempealeau
Barron	Douglas	Langlade	Polk	Vernon
Bayfield	Dunn	Lincoln	Portage	Vilas
Brown	Eau Claire	Marathon	Price	Washburn
Buffalo	Florence	Marquette	Richland	Waupaca
Burnett	Forest	Monroe	Rusk	Waushara
Chippewa	Green Lake	Oconto	Saint Croix	Winnebago
Clark	Iron	Oneida	Sawyer	Wood
Crawford	Jackson	Outagamie	Shawano	

In 2001, Security signed a contract with the Centers for Medicaid and Medicare Services (CMS) to provide a Medicare+Choice product (M+C), now called Medicare Advantage, in a 28-county service area. The product was marketed for enrollees beginning coverage on January 1, 2002. The product is marketed through employed representatives and independent agents and features coordinated care, benefits in excess of Medicare, and a flat monthly premium, regardless of age. This product is monitored by CMS through monthly reports, routine site visits, and member feedback. On January 1, 2006, Security also began offering coverage under Part D of Medicare as an additional drug benefit available to its AdvoCare members for an additional premium. The service area for Security's Medicare Advantage products was expanded into 50 Wisconsin counties as of January 2018:

Adams	Columbia	Iron	Oconto	Shawano
Ashland	Dane	Jackson	Oneida	Taylor
Barron	Douglas	Jefferson	Outagamie	Trempealeau
Bayfield	Dunn	Juneau	Pepin	Vilas
Brown	Eau Claire	Kewaunee	Portage	Washburn
Buffalo	Florence	Langlade	Price	Waukesha
Burnett	Forest	Lincoln	Richland	Waupaca
Calumet	Green	Marathon	Rusk	Waushara
Chippewa	Green Lake	Marinette	Sauk	Winnebago
Clark	Iowa	Marquette	Sawyer	Wood

Security also has a subsidiary named Security Administrative Services to serve as a Third-Party Administrator (TPA) for customers desiring to self-fund their health insurance risk. The product features administration services coupled with Security's medical management expertise. Stop-loss coverage for TPA business is provided by insurers licensed to do business in the state of Wisconsin.

Security offers comprehensive health care coverage through various plans to groups and individuals. Although covered benefits are generally consistent among groups, Security is capable of designing benefit plans to meet the specific requests of employers. Individual policies come with a variety of benefit options, including a Medicare Supplement program that is offered in all Wisconsin counties. Security Health Plan covers the following basic health care services through our contracted provider network. POS and indemnity plans allow members to receive these services outside of Security's in-network providers, however usual and customary may apply.

- Physician services
- Hospital services
- X-ray and laboratory services
- Diabetic services
- Home health care
- Kidney disease treatment
- Chiropractic care
- Hospice
- Certain transplants
- Prosthetics/durable medical equipment
- Mental health and alcohol chemical dependency
- Skilled nursing home
- Maternity
- Emergency services
- Prescription drug
- Ambulatory surgery
- Hearing exams
- Eye exams (excluding our individual and family plans)
- Some dental services

Security offers a wide variety of product cost-sharing designs associated with these benefits, including Health Savings Account eligible plans.

Generally, health plan coverage is contingent on non-emergency services being provided by affiliated physicians and hospitals or on the authorization of a Security medical director or designee.

Security's service area for Individual and Family Plans is comprised of the following 35 counties:

Adams	Clark	Jackson	Oneida	Taylor
Ashland	Douglas	Juneau	Pepin	Trempealeau
Barron	Dunn	Langlade	Portage	Vilas
Bayfield	Eau Claire	Lincoln	Price	Washburn
Buffalo	Florence	Marathon	Rusk	Waupaca
Burnett	Forest	Menominee	Sawyer	Waushara
Chippewa	Iron	Monroe	Shawano	Wood

Security's service area for Group Plans is comprised of the following 49 counties:

Adams	Dodge	Juneau	Oneida	Taylor
Ashland	Douglas	Kewaunee	Outagamie	Trempealeau
Barron	Dunn	LaCrosse	Pepin	Vernon
Bayfield	Eau Claire	Langlade	Pierce	Vilas
Brown	Florence	Lincoln	Polk	Washburn
Buffalo	Fond du lac	Marathon	Portage	Waupaca
Burnett	Forest	Marinette	Price	Waushara
Chippewa	Green Lake	Marquette	Rusk	Winnebago
Clark	Iron	Monroe	Sawyer	Wood
Crawford	Jackson	Oconto	Shawano	

Security currently markets to employer groups and individuals. Business is solicited through in-house sales consultants and independent sales agents. For some group policies, independent agents are paid commission on a sliding scale based on the number of contracts. The in-house sales consultants are paid base salaries plus incentives.

Premium is actuarially determined to obtain sufficient revenue to cover anticipated net incurred claims for the contract period plus allocated administrative expenses and a contribution of 2% of premium to contingency reserves. For Individual (non-Medicare) and Small Group, rates are developed using the criteria set by the Affordable Care Act (age, geography, family size, medical trend, and smoking status). Rates are filed annually for each of these products. Small Group rates are modified quarterly to account for increased group medical trends coming after January 1.

Security also maintains two pools of products that supplement Medicare: Medicare Supplement and Medicare Select products are offered by the Plan. Initial rates are determined by age,

sex, and geography and renewal rates also include a factor for the overall health of the pool and general Medicare medical cost trend in addition to the initial rate factors. Both products are medically underwritten on a pass/fail basis. The product is guaranteed renewable for the life of the product or until the member cancels their policy.

For Large Group businesses, distinctions are made for the age, gender, and average family size makeup of a group. Further adjustment is made for the group's location and benefits. A pooling charge for high-cost claims is also applied. For Large Group renewal business, where information is available, the rate determination incorporates up to 24 months of the group's actual claim experience on a credibility-weighted basis as a modifier to the demographics and group characteristics. At approximately 400 average employees, a group will reach full credibility so that its rates will be determined entirely on its own claim experience and not on the basis of pool rates.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of eight members. The chairperson and vice-chairperson of the Marshfield Clinic, Inc. board of directors, and the MCHS Chief Medical Officer and Chief Executive Officer serve as ex officio directors so long as they continue to hold such offices. The other four directors serve staggered three-year terms. Officers are elected by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the holding HMO group.

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

Name and Residence	Principal Occupation	Term Expires
Matthew Oelstrom, M.D., FAAP Marshfield, Wisconsin	Marshfield Clinic Board Chair	N/A
Elvis Peter, M.D. Schofield, Wisconsin	Marshfield Clinic Vice Chair	N/A
Samantha Klebe, D.O. Weston, Wisconsin	Marshfield Clinic Chief Medical Officer	N/A
Brian Hoerneman, M.D. Marshfield, Wisconsin	Marshfield Clinic Interim Chief Executive Officer	N/A
Terry Frankland Marshfield, Wisconsin	Retired	2026
Thomas Evert Kirkland, Washington	Retired	2026
Mary Jo Johnson Wausau, Wisconsin	Chief Executive Officer/Owner EO Johnson	2027
Thomas Wenzel Northbrook, Illinois	Retired	2026

Officers of the Company

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

Name	Office
Michael Luebke	Chair, Board of Directors
Krista Hoglund	Chief Executive Officer
Chris Buel	Chief Financial Officer
David Nyman	Chief Operating Officer
Jenny Shermo	Chief Growth Officer
Lisa Boero	Chief Legal and Compliance Officer

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:

ERM Committee

Lisa Boero, Chair
Scott Westphal
Dave Nyman
Kelly Wilson
Mike Sautebin
Heather Kurtz
Jenny Shermo
Sara Foemmel
Lacey Bell

Audit and Compliance Committee

Bernie Patterson, Chair
Michael Luebke
Mark Bradley
Terry Frankland
William Fonti
Tom Evert

The company has no employees. Necessary staff are provided through an Administrative Services Agreement with MCHS. Under the agreement, effective November 24, 2021, MCHS agrees to provide or cause to be provided the personnel, facilities, equipment, systems, and management to perform administrative services in a professional and workmanlike manner in accordance with customary industry standards. MCHS receives the actual cost of these services as compensation for services rendered. The agreement auto-renews annually on January 1 for one-year terms. The agreement may also be terminated, in whole or in part, at any time upon mutual agreement of the parties without cause upon 180 days written notice.

Insolvency Protection for Policyholders

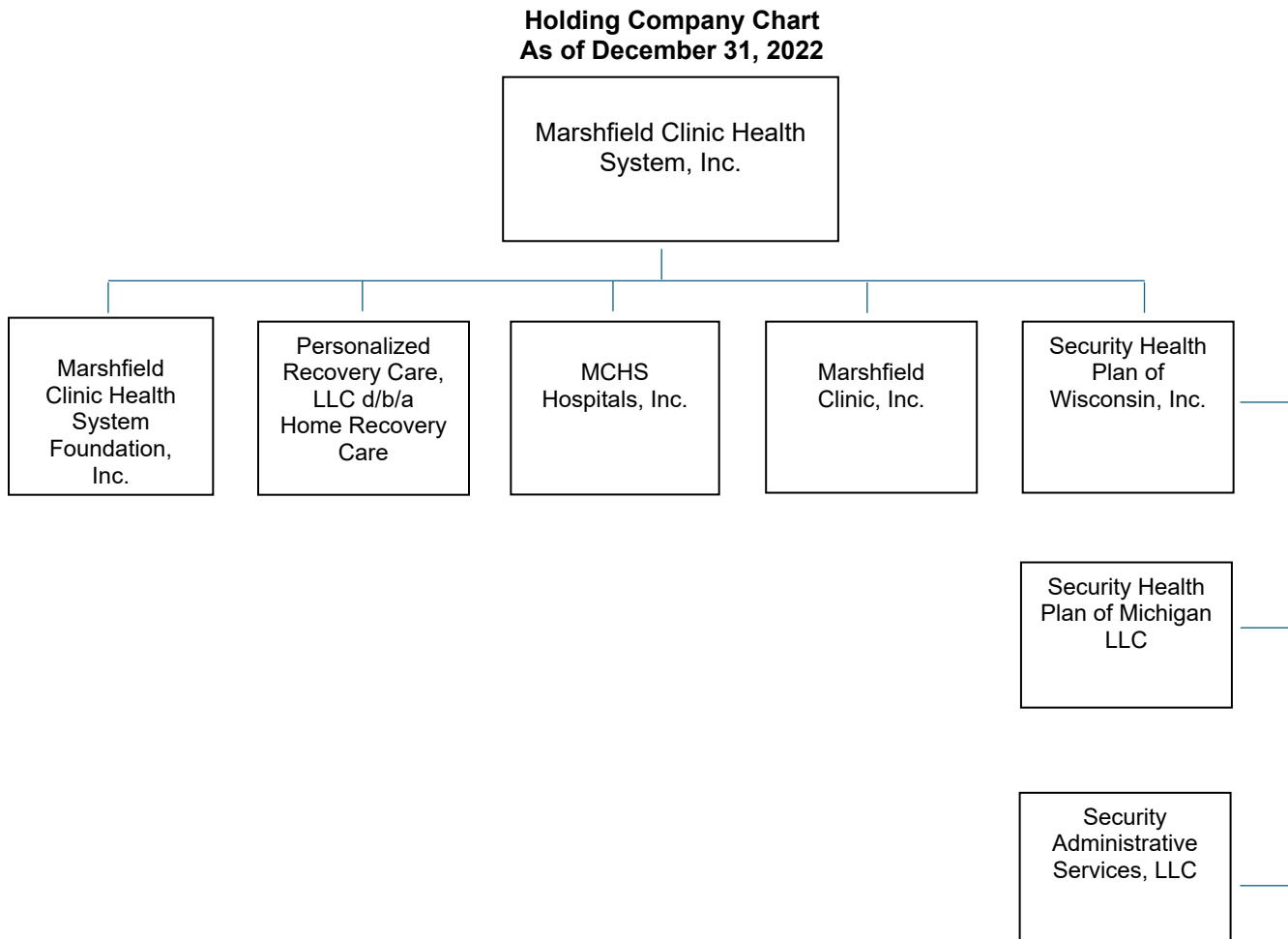
Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

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

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

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Marshfield Clinic Health System, Inc. The abbreviated 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.



Marshfield Clinic Health System, Inc.

Marshfield Clinic Health System, Inc., was incorporated in October 2012 as part of a prospective reorganization of Marshfield Clinic and its affiliated entities. In particular, MCHS was formed to serve as a parent entity for a reorganized health care system that includes Marshfield Clinic, Inc., Lakeview Medical Center, Inc., Flambeau Hospital, Inc., and Security Health Plan of Wisconsin, Inc. MCHS is a Section 501(c) (3) tax-exempt organization. As of December 31, 2022, the MCHS's restated consolidated audited financial statement reported assets of \$3.1 billion, liabilities of \$2.1 billion, and net assets of \$1.0 billion. Revenues for the fiscal year ending December 31, 2022, totaled \$2.9 billion, and total operating expenses totaled \$3.3 billion.

Marshfield Clinic, Inc.

Marshfield Clinic, Inc., founded in 1916, is a nonprofit group medical practice engaged in providing health care, health care education, medical research, and community service. For auditing purposes, the Marshfield Clinic, Inc., is part of an obligated group that has certain long-term debt which, under the terms of the obligated group bond indentures, holds each member of the obligated group jointly and severally liable for all obligations issued thereunder. The obligated group consists of the following companies:

- Lakeview Medical Center, Inc.
- Marshfield Clinic, Inc.
- Marshfield Clinic Health System Foundation, Inc.
- Marshfield Clinic Health System, Inc. (MCHS)
- Family Health Center of Marshfield, Inc.
- MCHS Hospitals, Inc.

As of December 31, 2023, the obligated group's consolidating audited financial statement reported assets of \$2.9 billion, liabilities of \$2.0 billion, and net assets of \$903.7 million. Revenues for the fiscal year ending December 31, 2023, totaled \$2.2 billion. The decrease in unrestricted net assets for the same fiscal year totaled (\$153.8 million).

Security Health Plan of Michigan LLC

On March 18, 2022, Articles of Organization were filed for Security Health of Michigan LLC. On April 22, 2022, the name was officially changed from Security Health of Michigan LLC to Security Health Plan of Michigan LLC. Security Health Plan of Michigan LLC is a subsidiary of Security Health Plan of Wisconsin, Inc. Currently, Security Health Plan of Michigan LLC is not licensed in Michigan as an HMO nor is Security Health Plan of Michigan LLC seeking licensure. As it is not licensed, Security Health of Michigan LLC has no reportable financial activity for 2023.

Security Administrative Services, LLC

On January 1, 2016, Security Administrative Services, LLC purchased the assets of Cornerstone Benefit Administrator, Inc., to strengthen its third-party administration arm. The purchase price was \$1.3 million. SAS serves as the administrator of third-party services to the SHP self-insured groups. SHP is the sole corporate member of SAS, LLC. As of December 31, 2022, SAS's audited financial statement reported assets of \$2.4 million, liabilities of \$1.4 million, and net assets of \$976 thousand. Revenues for the calendar year ending December 31, 2022, totaled \$4.8 million. A decrease in unrestricted net assets for the same calendar year totaled \$(1.1 million) due to \$2.5 million in distributions to SHP. Net earnings for the same calendar year totaled \$1.4 million.

Agreements with Affiliates

The company has various agreements with its affiliates, as follows:

Administrative Service Agreement with Marshfield Clinic

- Effective October 7, 1986, SHP entered into an administrative service agreement with Marshfield Clinic. Under this agreement, SHP will reimburse MC for administrative and managerial services provided to SHP that are reasonably necessary for the efficient administration and operation of SHP. MC's compensation each month is the actual cost of these services. SHP pays MC each month based on an estimate of that cost per category of the member for the month multiplied by the number of members in that category, with a true-up/reconciliation of that estimate to the actual cost made in the next month's payment. On January 1, 2018, this administrative service agreement was replaced by an administrative service agreement between SHP and Marshfield Clinic Health System.

Affiliated Provider Agreements with Marshfield Clinic

- There are three affiliated provider agreements between SHP and Marshfield Clinic. There is a Commercial Affiliated Provider Agreement, effective January 1, 1996. There is a BadgerCare Plus Affiliated Provider Subcontractor Agreement,

effective October 1, 1996. There is a Medicare Advantage Affiliated Provider Subcontractor Agreement, effective June 15, 2005.

Under these agreements, SHP will reimburse MC for medical and related services within SHP's service area. Reimbursement terms are included in these agreements. MC agrees to submit itemized claims to SHP under the Commercial Affiliated Provider Agreement and the BadgerCare Plus Affiliated Provider Subcontractor Agreement within 180 days from the date the claim is incurred. MC agrees to submit itemized claims to SHP under the Medicare Advantage Affiliated Provider Subcontractor Agreement following Medicare claims submission guidelines.

Under the Commercial Affiliated Provider Agreement, SHP agrees to pay clean claims on a twice-a-month basis, and claims for employer self-insured groups and members pursuant to agreement terms. Under the Medicare Advantage Affiliated Provider Subcontractor Agreement, SHP agrees to pay clean claims on a twice-a-month basis. Under the BadgerCare Plus Affiliated Provider Subcontractor Agreement, SHP agrees to pay fully completed covered claims on a twice-a-month basis.

The term of these agreements is one-year and with automatic extensions for like periods unless either party notifies the other of the intent to terminate in writing 60 days prior to the end of the contract period.

Under the Commercial Affiliated Agreement, if upon a showing of good cause or material breach by one of the parties, the other party shall have the right and privilege of canceling and terminating this Agreement upon 30 days prior written notice to the breaching party.

Ground Lease Agreement with Marshfield Clinic

- Effective January 1, 1999, SHP entered into a Ground Lease Agreement with Marshfield Clinic. In consideration of rent, SHP leases the ground its facilities are located on. The rent is \$1,750 per month, adjusted periodically by changes to the Consumer Price Index. The term of the lease runs through December 31, 2049, unless terminated earlier. SHP is granted one option to extend the lease for 20 years. At the end of the lease, all of SHP's facilities become the property of Marshfield Clinic.

Maintenance Agreement with Marshfield Clinic

- Effective October 16, 1999, SHP entered into a Maintenance Agreement with Marshfield Clinic. MC agrees to perform maintenance and repairs on the building, maintenance of the parking lot, snow and ice removal, and custodial services. SHP will pay a monthly fee based on estimated budgeted costs for the fiscal year grossed up 5% with sales tax applied. The Agreement was effective for a term of one year beginning October 16, 1999, and will be automatically renewed for successive terms of one year unless and until either of the parties gives to the other party six months' written notice that the Agreement shall not be extended. Notwithstanding the foregoing, upon showing of good cause, either party shall have the right and privilege of canceling and terminating this Agreement by providing the other party at least six-month written notice to the other party.

Delegation of Credentialing Agreement with Marshfield Clinic

- Effective November 1, 2004, SHP entered into a Delegation of Credentialing Agreement with Marshfield Clinic. SHP shall credential and recredential all MC providers. The Agreement was effective for a term of one year beginning November 1, 2004, and will be automatically renewed for successive terms of one year unless and until either of the parties gives to the other party 60 days written notice that the Agreement shall not be so extended. Either party may terminate this Agreement by providing the other party at least 90 days prior written notice.

Specialty Pharmacy Agreement with Marshfield Clinic

- Effective August 4, 2009, SHP entered into a Specialty Pharmacy Agreement with Marshfield Clinic. A significant amendment occurred effective August 31, 2010, that greatly reduced the scope of the original agreement. The current agreement states that SHP will continue to support the utilization of Marshfield Clinic Specialty Pharmacy (MCSP) as the preferred specialty pharmacy provider with the same negotiated rates that are in effect in the original agreement. SHP will continue to support MCSP clinical endeavors as negotiated.

Pay for Performance Agreement with Marshfield Clinic

- Effective January 1, 2010, SHP entered into a Pay for Performance Agreement with Marshfield Clinic within its Medicare Advantage Affiliated Provider Subcontractor Agreement, effective January 1, 2010. The Pay for Performance Agreement has been amended six times since its inception. The January 1, 2015, amendment changes how SHP compensates MC for quality- and performance-related initiatives. It is designed to transition from fee-for-service to a value- based model of care through the creation of value pools that will be used to incent MC's primary care providers for improved quality, lower cost of care, and improvement in population health.

Revolving Credit Note with Marshfield Clinic

- Effective June 25, 2010, SHP entered into a revolving credit note with Marshfield Clinic. Under the credit note, MC may borrow up to \$25 million at any time. MC agrees to repay any unpaid principal on demand to SHP. MC will pay interest on any outstanding principal balance under this note. The interest rate is adjusted on the first day of each month and equals the most recent one-month London InterBank Offered Rate (LIBOR) in effect on or before the close of business on that day plus 100 basis points. Interest on the outstanding balance for a calendar month shall be payable monthly on the 15th day of each month.

Administrative Services Agreement with Family Health Center

- Effective August 1, 2013, SHP entered into an administrative services agreement with Family Health Center of Marshfield, Inc. Under this agreement, FHC will reimburse SHP for certain administrative support services to effectuate FHC's day-to-day operations. SHP's compensation for services was determined by the parties outside of the agreement along with a Community Benefit Grant between SHP and FHC. SHP agreed to accept such compensation as payment in full for the administrative services provided.

Administrative Services Agreement with Security Administrative Services

- Effective May 19, 2016, SHP entered into an administrative services agreement with Security Administrative Services. Under this agreement, SAS will reimburse SHP for administrative and managerial services provided to SAS that are reasonably necessary for the efficient administration and operation of SAS.

Assignment of Lease from Marshfield Clinic to MCIS, Inc.

- Effective October 16, 1999, Marshfield Clinic became a tenant of SHP under a Lease Agreement. MC assigned their lease to MCIS, Inc., on November 1, 2014. SHP acknowledged and consented to the assignment of this lease.

V. REINSURANCE

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

Reinsurer:	RGA Reinsurance Company
Type:	HMO Excess Risk Reinsurance
Effective date:	January 1, 2022
Retention:	\$1,200,000 per commercial member \$1,100,000 per commercial exchange member \$2,000,000 per Marshfield Clinic employee member \$500,000 per Medicaid member
Coverage:	Inpatient Hospital Services Inpatient Rehabilitation Services Skilled Nursing Facility Services Outpatient Health Services Physician Services Drug-Related Services (including Retail Rx)
Termination:	

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

1. RGA Reinsurance Company will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.
2. RGA Reinsurance Company will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to the plan by that member or on his behalf.
3. RGA Reinsurance Company 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 RGA Reinsurance Company 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, 2022, 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.

Security Health Plan of Wisconsin, Inc.
Assets
As of December 31, 2022

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$221,002,140	\$	\$221,002,140
Stocks:			
Common stocks	33,420,603		33,420,603
Real Estate:			
Properties occupied by the company	9,088,854		9,088,854
Cash, cash equivalents and short-term investments	85,030,864		85,030,864
Other invested assets	4,643,173	975,568	3,667,605
Receivable for securities	1,137,079		1,137,079
Investment income due and accrued	1,286,967		1,286,967
Uncollected premiums and agents' balances in the course of collection	10,480,258	136,940	10,343,318
Amounts recoverable from reinsurers	20,315,000		20,315,000
Funds held by or deposited with reinsured companies	37,016	37,016	
Amounts receivable relating to uninsured plans	5,059,918		5,059,918
Electronic data processing equipment and software	1,260,093	1,260,093	
Furniture and equipment, including health care delivery assets	511,153	511,153	
Receivables from parent, subsidiaries and affiliates	335,892	335,892	
Health care and other amounts receivable	18,370,752		18,370,752
Write-ins for other than invested assets:			
Prepays	5,046,837	5,046,837	
Franchise tax receivable	925,860		925,860
Other receivables	<u>1,761,000</u>	<u> </u>	<u>1,761,000</u>
Total Assets	<u>\$419,713,459</u>	<u>\$8,303,499</u>	<u>\$411,409,960</u>

**Security Health Plan of Wisconsin, Inc.
Liabilities and Net Worth
As of December 31, 2022**

Claims unpaid		\$177,204,921
Accrued medical incentive pool and bonus payments		
Unpaid claims adjustment expenses		1,884,000
Aggregate health policy reserves		14,595,352
Premiums received in advance		23,626,865
General expenses due or accrued		2,580,024
Amounts due to parent, subsidiaries, and affiliates		5,876,214
Payable for securities		
Payable for securities lending		3,954,763
Liability for amounts held under uninsured accident and health plans		7,931,993
Aggregate write-ins for other liabilities		<u>15,351,068</u>
Total Liabilities		253,005,200
Unassigned funds (surplus)	<u>\$158,404,760</u>	
Total Capital and Surplus		<u>158,404,760</u>
Total Liabilities, Capital and Surplus		<u>\$411,409,960</u>

**Security Health Plan of Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2022**

Net premium income		\$1,299,967,348
Medical and Hospital:		
Hospital/medical benefits	\$ 849,842,853	
Other professional services	123,761,815	
Outside referrals	68,238,657	
Emergency room and out-of-area	34,389,579	
Prescription drugs	127,140,084	
Subtotal	1,203,372,988	
Less		
Net reinsurance recoveries	<u>21,690,585</u>	
Total medical and hospital	1,181,682,403	
Claims adjustment expenses	15,733,984	
General administrative expenses	96,707,375	
Increase in reserves for life and accident and health contracts	<u>(98,000)</u>	
Total underwriting deductions		<u>1,294,025,762</u>
Net underwriting gain or (loss)		5,941,586
Net investment income earned	10,188,803	
Net realized capital gains or (losses)	<u>(2,869,145)</u>	
Net investment gains or (losses)		7,319,658
Write-ins for other income or expenses:		
Misc income		<u>584,958</u>
Net Income (Loss)		<u>\$ 13,846,202</u>

**Security Health Plan of Wisconsin, Inc.
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2022**

	2022	2021	2020	2019	2018
Capital and surplus, beginning of year	\$149,975,395	\$166,486,157	\$198,352,579	\$146,586,909	\$171,988,437
Net income (loss)	13,846,202	11,819,505	92,424,919	47,853,292	28,714,027
Change in net unrealized capital gains/losses	(9,611,031)	3,487,451	(1,829,692)	6,572,937	(17,463,303)
Change in nonadmitted assets	4,194,195	3,182,282	2,538,351	32,457,904	(36,187,343)
Write-ins for gains and (losses) in surplus:					
Write-in #1	<u> </u>	<u>(35,000,000)</u>	<u>(125,000,000)</u>	<u>(35,045,462)</u>	<u>(537,911)</u>
Capital and Surplus, End of Year	<u>\$158,404,760</u>	<u>\$149,975,395</u>	<u>\$166,486,156</u>	<u>\$198,352,578</u>	<u>\$146,586,909</u>

Security Health Plan of Wisconsin, Inc.
Statement of Cash Flow
For the Year 2022

Premiums collected net of reinsurance		\$1,308,785,018
Net investment income		<u>11,585,476</u>
Total		1,320,370,494
Less:		
Benefit- and loss-related payments	\$1,151,076,980	
Commissions, expenses paid and aggregate write-ins for deductions	<u>112,961,040</u>	
Total		<u>1,264,038,020</u>
Net cash from operations		56,332,474
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	\$93,230,740	
Stocks	37,155	
Net gains (losses) on cash, cash equivalents, and short-term investments	3,124	
Miscellaneous proceeds	<u>2,738,695</u>	
Total investment proceeds		96,009,714
Cost of Investments Acquired—Long-term Only:		
Bonds	103,416,210	
Stocks	1,306,939	
Miscellaneous applications	<u>1,067,237</u>	
Total investments acquired		<u>105,790,385</u>
Net cash from investments		(9,780,672)
Cash Provided for/Applied from Financing and Miscellaneous Sources:		
Other cash provided (applied)		<u>15,577,357</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		62,129,159
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>22,901,705</u>
End of Year		<u>\$ 85,030,865</u>

Growth of Security Health Plan of Wisconsin, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2022	\$411,409,960	\$253,005,200	\$158,404,760	\$1,299,967,348	\$1,203,372,988	\$13,846,202
2021	349,593,408	199,618,014	149,975,395	1,217,378,642	1,217,378,642	11,819,505
2020	403,336,900	236,850,744	166,486,156	1,263,696,320	1,263,696,320	92,424,919
2019	430,413,399	232,060,820	198,352,579	1,326,651,926	1,326,651,925	47,853,293
2018	395,926,459	249,339,550	146,586,909	1,340,072,854	1,203,489,740	28,714,027

Year	Profit Margin	Medical Loss Ratio	Administrative Expense Ratio	Change in Enrollment
2022	0.5%	90.9%	8.6%	5.8%
2021	0.1	91.3	8.6	2.9
2020	5.8	85.1	9.1	-4.4
2019	2.0	89.7	8.3	-4.1
2018	0.6	89.8	9.6	

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2022	204,308	363.6	5.2
2021	193,097	500.0	5.2
2020	187,695	439.9	4.8
2019	196,346	473.0	4.6
2018	204,714	429.9	4.5

Per Member Per Month Information

	2022	2021	Percentage Change
Premiums:			
Commercial	\$560.68	\$564.69	-0.7%
Medicare	543.78	517.62	5.1
Expenses:			
Hospital/medical benefits	359.10	347.91	3.2
Other professional services	52.30	54.20	-3.5
Outside referrals	28.83	28.98	-0.5
Emergency room and out-of-area	14.53	14.68	-1.0
Less: Net reinsurance recoveries	<u>9.17</u>	<u>9.84</u>	-6.8
Total medical and hospital	445.59	435.93	2.2
Claims adjustment expenses	6.65	6.31	5.3
General administrative expenses	40.86	39.49	3.5
Increase in reserves for accident and health contracts	<u>(0.04)</u>	<u>0.04</u>	(200.0)
Total underwriting deductions	<u>\$ 493.06</u>	<u>\$ 481.77</u>	2.3

Security Health Plan of Wisconsin, Inc. was profitable in all five of the years under examination. Underwriting performance fluctuated during the period, largely due to rising healthcare costs and utilization, though the company posted net underwriting gains for each year. The COVID-19 pandemic had a significant impact on financial results for the company as shown by the large income in 2020 as opposed to 2021 and beyond with a lot of insureds postponing non-life threatening medical concerns into 2021 and 2022. This was reflected in the 2021 and 2022 financials with increased medical costs and utilization as insureds began to catch up on their medical appointments. Over the five-year period assets increased by 3.9% and liabilities increased by 1.5%. The company's favorable operating results allowed for several cash distributions to the parent, Marshfield Clinic Health System, totaling \$35 million in 2019, \$125 million in 2020, and \$35 million in 2021. Despite these distributions, the company managed to increase capital and surplus by 8% during the five-year period.

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, 2022, as modified for examination

adjustments is as follows:

Assets			\$411,409,960
Less:			
Special deposit			4,706,404
Liabilities			253,005,199
Investments in excess of maximum allowable by Ch. 620, Wis. Stat.			<u>0</u>
Net amount available to satisfy surplus requirements			153,698,357
Net premium earned			
HMO business	1,298,665,294		
Factor	<u>3%</u>		
Total		38,959,959	
Incidental Indemnity	1,302,054		
Factor	<u>10%</u>		
Total		130,205	
<hr/>			
Compulsory surplus			39,090,164
Compulsory Surplus Excess (Deficit)			<u>\$114,608,193</u>
Net amount available to satisfy surplus requirements			\$153,698,357
Compulsory surplus		\$39,090,164	
Security factor		<u>110%</u>	
Security surplus			<u>42,999,180</u>
Security Surplus Excess (Deficit)			<u>\$110,699,177</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 2022 with a deposit of \$4,706,404 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 on December 31, 2022, of \$158,404,760 is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. The actions taken by the company as a result of the comments and recommendations were as follows:

1. Schedule of Covered Expenses—It is recommended that the company accurately complete the Schedule of Covered Expenses and report covered and uncovered liabilities and expenses on the quarterly and annual statements in accordance with the NAIC Quarterly and Annual Statement Instructions – Health.

Action—Compliance

2. Reinsurance Intermediary Brokerage Agreement—It is recommended that the company execute an agreement with its reinsurance intermediary that complies with the requirements set forth in s. Ins 47.03, Wis. Adm. Code.

Action—Compliance

3. Transactions with Affiliates—It is again recommended that the company provide an overview of all transactions among holding company system members in Schedule Y, Part 2, which involve an affiliated insurer in accordance with the NAIC Annual Statement Instructions – Health.

Action—Compliance.

Summary of Current Examination Results

There were no recommendations made as a result of this examination.

VIII. CONCLUSION

The Security Health Plan of Wisconsin, Inc., is described as a nonprofit mixed model health maintenance organization insurer. 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. Security has over 13,000 affiliated providers, including ancillary providers, of which there were 4,573 specialists, 1,232 primary care physicians, and 3,221 non-physician providers.

Security Health Plan of Wisconsin, Inc., was profitable in all five of the years under examination. The COVID-19 pandemic had a significant impact on financial results for the company as shown by the large income of \$92.2 million in 2020 as opposed to \$11.8 million in 2021 and \$13.8 million in 2022 due to many insureds postponing non-life-threatening medical concerns. This was reflected in the 2021 and 2022 financials with increased medical costs and utilization as insureds began to catch up on their medical appointments. Over the five-year period assets increased by 3.9% and liabilities increased by 1.5%. The company did experience a decline in total net premiums of 3%, as well as an enrollment decline of 0.2% for the five-year period.

The examination made no adjustments to the compulsory and security surplus calculation. No investments fell outside the limitations set forth in ch. 620, Wis. Stat., and S. Ins 6.20, Wis. Adm. Code. The company has an adequate surplus to meet the minimum compulsory and security surplus requirements.

The previous examination of Security Health Plan of Wisconsin, Inc., resulted in three recommendations. The company was found to be in compliance with all three recommendations. The current examination resulted in no recommendations. No adjustments to surplus or reclassifications of accounts balances were made as a result of the examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

X. ACKNOWLEDGMENT

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

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

Name	Title
Jacob Burkett, AFE	Insurance Financial Examiner
Caleb Lindert	Insurance Financial Examiner
Ian Anderson	Insurance Financial Examiner
Terry Lorenz, CFE	Workpaper Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Nicholas Siskoff

Nicholas Siskoff
Examiner-in-Charge