

Report  
of the  
Examination of  
UCare Health, Inc.  
Minneapolis, Minnesota  
As of December 31, 2015

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Scott Walker**, Governor  
**Theodore K. Nickel**, Commissioner

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May 3, 2017

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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:

UCARE HEALTH, INC.  
Minneapolis, Minnesota

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of UCare Health, Inc. (UCare or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 transactions as deemed necessary to complete the examination.

The examination 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 insurance company 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

The company was incorporated on January 18, 2007, and commenced business on January 1, 2008. The company was originally capitalized through an investment of \$2 million in cash and an additional \$3 million in exchange for a surplus note from its parent, UCare Minnesota, Inc. (U-Care MN) to meet the initial capital requirements established by the Wisconsin Office of the Commissioner of Insurance.

UCare is a nonprofit service insurance corporation licensed in the State of Wisconsin under ch. 613, Wis. Stat., initially established to provide Medicare coverage through the Medicare Advantage program for Wisconsin residents.

The company contracted with the Centers for Medicare & Medicaid Services (CMS) from 2008 through 2015 to offer Medicare Advantage plans in Wisconsin. UCare decided to forego contracting in 2016 due to adverse experience with the block.

The company began marketing an individual product in Minnesota that is issued as a companion product to UCare MN's individual HMO product sold on the Minnesota Exchange. The companion product covers out-of-network (OON) services should HMO enrollees opt to seek services from nonparticipating providers. Generally the OON services are subject to higher deductibles and coinsurance than services provided by participating providers.

The company has no employees. The operations of the company are administered by UCare MN under an administrative services agreement (described in the "Affiliated Companies" section of the report).

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of fifteen members. Four directors are elected annually to serve a three-year term. There are three board members that are appointed to the board of directors with no term limit. Officers are elected at the board's annual meeting.

Members of the company's board of directors are also members of the UCare MN board of directors. The board members currently receive no compensation for serving on the board.

Currently, as of May 2017, the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Patricia Adam, M.D. Minneapolis, MN	Physician, Smiley's Clinic	2017
Macaran Baird, A.M.D. Roseville, MN	Physician, Chair of University of Minnesota	No term
Charity L. Bennett St. Cloud, MN	Retired	2019
Catherine M. Godlewski Minneapolis, MN	University of Minnesota Medical School Administration	No term
John Gross Minneapolis, MN	Retired	2019
Peter J. Kiedrowski Minneapolis, MN	Senior Fellow, University of Minnesota	2018
Teresa C. McCarthy, M.D. Minneapolis, MN	Physician, University of Minnesota, Family Practice	2017
Bert J. McKasy Mendota Heights, MN	Retired	2017
James L. Miller New Brighton, MN	Retired	2018
Mirella O. Cejz-Orozco Minnetonka, MN	Retired	2018
Peter J. Mitsch Minneapolis, MN	Director of Financial Services, University of Minnesota Medical School	No term
William O. Roberts, M.D. Minneapolis, MN	Physician, Phalen Village Clinic	2019
Lance L. Teachworth St. Paul, MN	Retired	2017

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
James S. Van Vooren, M.D. Minneapolis, MN	Physician, Bethesda Clinic	2018
Michael R. Wootten, M.D. Minneapolis, MN	Physician, North Memorial Family Practice Clinic	2018

### **Officers of the Company**

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

<b>Name</b>	<b>Office</b>	<b>2015* Compensation</b>
Jim W. Eppel, Jr.	President and CEO	\$560,307
Mark W. Traynor	Secretary, Senior VP, General Counsel	400,196
Beth A. Monsrud	Treasurer, Senior VP, Finance	514,985

\* 2015 salary is the combined salary for UCare Minnesota, Inc., and all affiliates including UCare Health, Inc.

### **Committees of the Board**

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

#### **Finance and Audit Committee**

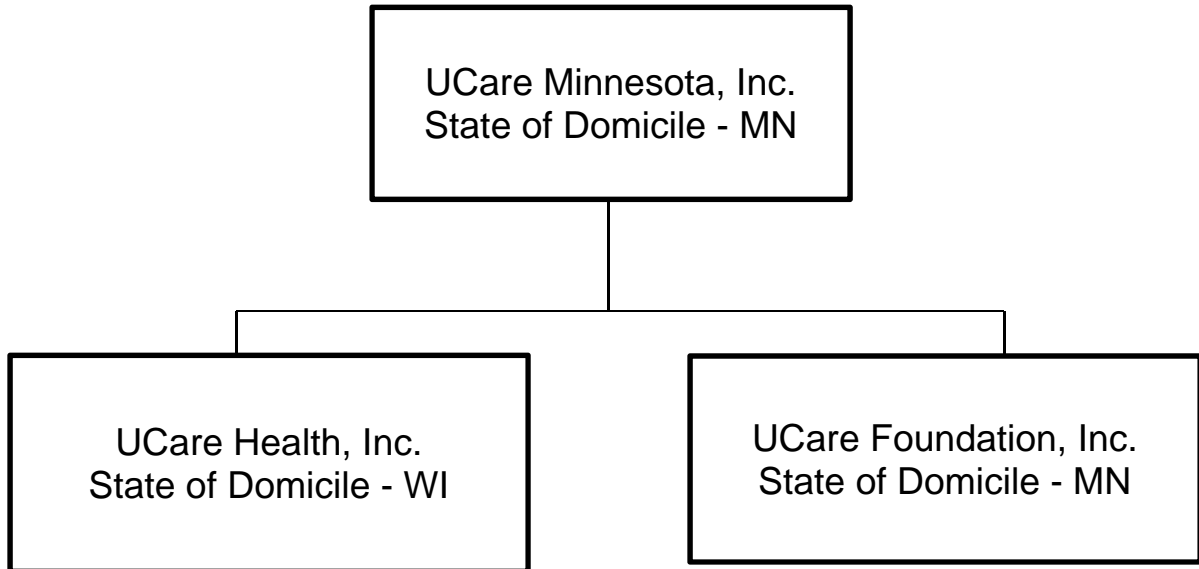
James Van Vooren, Chair  
William Roberts  
Jay Kiedrowski  
Peter Mitsch  
Bert McKasy

The company has no employees. Necessary staff is provided through an administrative agreement with UCare MN.

#### IV. AFFILIATED COMPANIES

UCare is a member of a holding company system. Its ultimate parent is UCare Minnesota, Inc. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant follows the organizational chart.

##### Organizational Chart As of December 31, 2015



##### **UCare Minnesota, Inc.**

UCare Minnesota, Inc., is a nonprofit health plan that writes Medicare and Medicaid business in Minnesota. This company is the sole member of UCare Health, Inc. As of December 31, 2015, UCare MN's audited financial statement reported assets of \$1,233,918,799, liabilities of \$687,562,464 and capital and surplus of \$546,356,335. Operations for 2015 produced a net income of \$27,691,669 on revenues of \$3,513,929,868.

##### **UCare Foundation, Inc.**

UCare Foundation, Inc., was incorporated on February 5, 2014, as a nonprofit corporation and is a wholly owned subsidiary of UCare MN. UCare Foundation, Inc., is controlled by UCare MN's board of directors. UCare MN contributed \$1,000,000 to UCare Foundation, Inc., in 2014, but made no additional contribution in 2015. UCare Foundation, Inc., supports, through grants, family medicine research and education projects at the University of Minnesota Medical



School and helps defray expense of community health research programs conducted in the Department of Family Medicine and Community Health.

**Agreements with Affiliates**

UCare Health, Inc., entered into an administrative services agreement with its parent, UCare MN effective June 7, 2007, and amended effective November 1, 2012. UCare MN provides the overall management and administration of UCare's business, including, but not limited to, administrative management, financial management, provider contracting services, marketing services and public affairs services and other tasks as may be necessary to carry out any policies related to UCare's business. Under this agreement, UCare reimburses UCare MN for the costs and expenses directly incurred and associated with the business and operations of UCare. The agreement is in effect as of the effective date and will continue indefinitely until terminated. The agreement may be terminated at any time, without cause, upon mutual written agreement of the parties. In addition, the agreement may be terminated for cause by either party, for breach of contract, upon 30 days' prior written notice.

## V. REINSURANCE

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

### Nonaffiliated Ceding Contracts

1. Type: Excess of Loss  
Reinsurer: RGA Reinsurance Company  
Scope: Covers Medicare business. Limited to nine defined eligible services.  
Retention: \$600,000 per member per agreement period. Agreement period is one year for this agreement.  
Coverage: Reinsurance maximum is \$2,000,000 per member per agreement period.  
Premium: The premium rate is \$0.42 per member per month for Medicare. The minimum premium of \$300,000 applies jointly to the company and its parent, UCare MN.  
Experience refund: 30% share of profits, not subject to deficit carry forward  
Effective date: July 1, 2015  
Termination: June 30, 2016

## **VI. FINANCIAL DATA**

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

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

**UCare Health, Inc.  
Assets  
As of December 31, 2015**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Cash, cash equivalents and short-term investments	\$13,957,138	\$	\$13,957,138
Uncollected premiums and agents' balances in the course of collection	78,438	20,067	58,371
Amounts receivable relating to uninsured plans	902,064		902,064
Receivables from parent, subsidiaries and affiliates	8,000,000		8,000,000
Health care and other amounts receivable	<u>135,320</u>	<u>135,320</u>	<u>                    </u>
<b>Total assets</b>	<b><u>\$23,072,960</u></b>	<b><u>\$155,387</u></b>	<b><u>\$22,917,573</u></b>

**UCare Health, Inc.  
Liabilities and Net Worth  
As of December 31, 2015**

Claims unpaid			\$10,436,458
Accrued medical incentive pool and bonus payments			289,547
Unpaid claims adjustment expenses			238,205
Aggregate health claim reserves			70,000
Premiums received in advance			33,635
General expenses due or accrued			179,867
Amounts due to parent, subsidiaries and affiliates			1,173,422
Aggregate write-ins for other liabilities (including \$0 current)			<u>750,000</u>
Total liabilities			13,171,134
Gross paid in and contributed surplus	\$ 23,000,000		
Surplus notes	26,000,000		
Unassigned funds (surplus)	<u>(39,253,561)</u>		
Total capital and surplus			<u>9,746,439</u>
<b>Total Liabilities, Capital and Surplus</b>			<b><u>\$22,917,573</u></b>

**UCare Health, Inc.**  
**Statement of Revenue and Expenses**  
**For the Year 2015**

Net premium income		\$55,774,971
Hospital and medical:		
Hospital/medical benefits	\$48,525,583	
Other professional services	7,592,105	
Outside referrals	564,456	
Emergency room and out-of-area	3,212,723	
Prescription drugs	4,048,639	
Aggregate write-ins for other medical and hospital	70,000	
Incentive pool and withhold adjustments	<u>222,058</u>	
Total hospital and medical	64,235,564	
Claims adjustment expenses	846,524	
General administrative expenses	3,424,075	
Increase in reserves for life and accident and health contracts	<u>(3,650,000)</u>	
Total underwriting deductions		<u>64,856,163</u>
Net underwriting gain or (loss)		(9,081,192)
Net investment income earned		2,653
Net gain or (loss) from agents' or premium balances charged off		<u>8,045</u>
Net Income (Loss)		<u>\$ (9,086,584)</u>

**UCare Health, Inc.**  
**Capital and Surplus Account**  
**For the Five-Year Period Ending December 31, 2015**

	2015	2014	2013	2012	2011
Capital and surplus, beginning of year	\$ 3,593,529	\$ 9,474,637	\$14,738,484	\$ 5,404,105	\$ 8,752,839
Net income (loss)	(9,086,584)	(10,653,148)	(5,266,260)	(540,579)	(5,818,649)
Change in nonadmitted assets	239,494	(227,960)	2,413	(125,042)	(30,085)
Change in surplus notes	8,000,000	5,000,000		10,000,000	
Surplus adjustments: Paid in	<u>7,000,000</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>2,500,000</u>
Surplus, End of Year	<u>\$ 9,746,439</u>	<u>\$ 3,593,529</u>	<u>\$ 9,474,637</u>	<u>\$14,738,484</u>	<u>\$ 5,404,105</u>

**UCare Health, Inc.**  
**Statement of Cash Flows**  
**As of December 31, 2015**

Premiums collected net of reinsurance		\$ 51,881,303
Net investment income		<u>2,653</u>
Total		51,883,956
Less:		
Benefit- and loss-related payments	\$62,239,618	
Commissions, expenses paid and aggregate write-ins for deductions	<u>3,717,608</u>	
Total		<u>65,957,226</u>
Net cash from operations		(14,073,270)
Cash provided/applied:		
Surplus notes, capital notes	8,000,000	
Capital and paid in surplus, less treasury stock	7,000,000	
Other cash provided (applied)	<u>(8,675,396)</u>	
Net cash from financing and miscellaneous sources		<u>6,324,604</u>
Net change in cash, cash equivalents, and short-term investments		(7,748,666)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>21,705,804</u>
End of Year		<u>\$ 13,957,138</u>

### Growth of UCare Health, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2015	\$22,917,573	\$13,171,134	\$ 9,746,439	\$55,774,971	\$64,235,564	\$ (9,086,584)
2014	23,489,761	19,896,232	3,593,529	73,868,873	75,072,208	(10,653,148)
2013	19,889,657	10,415,020	9,474,637	59,012,414	59,800,247	(5,266,260)
2012	26,749,592	12,011,108	14,738,484	66,431,478	62,388,564	(540,579)
2011	16,151,386	10,747,281	5,404,105	58,879,611	60,181,972	(5,818,649)
2010	15,847,037	7,094,198	8,752,839	42,084,842	41,333,117	(3,359,734)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2015	(16.3)%	108.6%	7.7%	(16.6)%
2014	(14.4)	106.6	7.8	36.6
2013	(8.9)	101.3	7.6	(3.3)
2012	(0.8)	93.9	6.9	3.1
2011	(9.9)	102.2	7.7	33.1

### Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2015	8,087	660.9	3.94
2014	9,694	666.2	3.62
2013	7,099	1,147.3	5.48
2012	7,340	785.5	3.64
2011	7,118	866.5	3.62

### Per Member Per Month Information

	2015	2014	Percentage Change
<b>Premiums:</b>			
Medicare	<u>\$565</u>	<u>\$642</u>	(12.0)%
<b>Expenses:</b>			
Total medical and hospital	\$652	\$653	(0.2)
Total administrative expenses	<u>44</u>	<u>50</u>	(12.0)
Total Underwriting Deductions	<u>\$696</u>	<u>\$703</u>	(1.0)

The company has experienced a net loss in each year under examination, with the highest reported net loss of \$9 million in 2015. The net losses are due to relatively high medical expense ratios, which is common in the Medicare Advantage line of business. Since inception,

UCare has experienced \$44.1 million in underwriting losses for this line of business. Due to the adverse underwriting results UCare discontinued its Medicare Advantage product in Wisconsin as of January 1, 2016. The only business that the company is currently handling is the out-of-area Minnesota individual business written on the Exchange.

Total assets increased 45% to nearly \$22.9 million in 2015 from \$16 million in 2010, while capital and surplus increased 134% to \$9.7 million from \$4.1 million in 2010. The substantial increase in assets and capital and surplus during the examination period is due to a total of \$9.5 million capital contributions from UCare MN in 2011 and 2015. The company issued additional surplus notes during the examination period for a total of \$23 million; the total surplus notes outstanding are \$26 million.

#### **Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus of \$9,746,439 reported by the company as of December 31, 2015, is accepted.



## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were two 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. Exhibit of Premiums, Enrollment, and Utilization—It is recommended that the company complete the Exhibit of Premiums, Enrollment, and Utilization in accordance with the NAIC Annual Statement Instructions – Health.

Action—Compliance

2. Capital Requirements—It is recommended that the company take a proactive approach in monitoring and maintaining adequate surplus levels.

Action—Compliance

### **Summary of Current Examination Results**

There were no adverse or material examination findings as a result of the current examination of the company.

## VIII. CONCLUSION

UCare Health, Inc., currently is insuring only the out-of-area individual coverage sold as a companion product to UCare MN's individual HMO coverage issued on the Minnesota Exchange. During the examination period total assets increased 45% to nearly \$22.9 million in 2015, from \$16 million in 2010, while capital and surplus increased 134% to \$9.7 million, from \$4 million in 2010. The substantial increase in capital and surplus during the examination period is due to a \$7 million capital contribution from its parent company, UCare MN, in 2015. In addition, \$23 million in surplus notes were issued to the parent during the examination period. The total surplus notes outstanding are \$26 million. The company's operations have never shown a profit; the capital contribution and surplus notes enable the company to be in compliance with capital requirements.

The current examination resulted in no recommendations, and there were no reclassifications of account balance or adjustments to surplus as reported by the company in its year-end 2015 financial statutory financial statements. The examination verified the financial condition of the company as reported in its annual statement as of December 31, 2015.

## **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:

<b>Name</b>	<b>Title</b>
John Ebsen	Insurance Financial Examiner
Dana Tice	Insurance Financial Examiner
Thomas Houston	ACL Specialist
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Judith Michael  
Examiner-in-Charge

## **XI. SUBSEQUENT EVENT**

On February 24, 2016, UCare MN contributed additional capital through the purchase of an \$8 million surplus note, to maintain UCare's capital position. The \$8 million was reported as a subsequent event on the December 31, 2015, annual statement.