Report

of the

Examination of

WEA Insurance Corporation

Madison, Wisconsin

As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

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January 26, 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:

WEA INSURANCE CORPORATION
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of WEA Insurance Corporation (the company) was conducted in 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 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.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate accident and health reserves and asset adequacy analysis. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1985 as the WEAIT Insurance Corporation. The present name was adopted in 1991. WEA Insurance Corporation (WEAIC) is licensed as a stock life insurance company under ch. 611, Wis. Stat., and is controlled by its shareholder, Wisconsin Education Association Insurance Trust (WEAIT). Both WEAIT and WEAIC are recognized as Voluntary Employees' Beneficiary Associations and thus are exempt from federal income tax.

WEAIT was established by an agreement and declaration of trust by and between the Trustees and the Wisconsin Education Association, Inc. The company is a wholly owned subsidiary of WEAIT, and was formed to provide insurance coverage to teachers and school district employees throughout Wisconsin. Historically, the company has written group medical, dental, long-term and short-term disability, and long-term care business. The products are marketed through a staff of salaried field representatives as well as commissioned and appointed intermediaries.

On February 20, 2010, the agreement between WEAIT and WEAIC was amended to expand WEAIC's potential markets beyond school districts. The amendment allowed WEAIC to sell its products to all state and municipal public employees in Wisconsin in addition to teachers and school district employees.

In 2011 there were major developments in Wisconsin that affected the company's key market. These changes had an adverse effect on the company's operations through both decreased membership and a shift to lower-cost plans by many of the remaining groups. The company has implemented a plan to adapt its product offerings and operations in an effort to more effectively compete under these new market conditions by, among other actions, exiting ancillary and/or unprofitable lines of business in order to focus on its health plan offerings. Lines of business the company has completely or mostly exited from include dental, disability and long-term care plans.

The growth of the company is discussed in the "Financial Data" section of this report. All premiums are reported as group accident and health. The following table shows the distribution of premium and reserves among various categories within the group accident and health line of business for the year ended December 31, 2016:

Category	Direct Premiums Written	Percent of Total
Medical	$418,441,659	83.7%
Prescription drug	53,201,577	10.6
Dental	(13,247)	0.0
Long-term care	26,178,380	5.2
Long-term disability	1,591,568	0.3
Short-term disability	467,220	0.1
Vision	253,584	0.1
Total	$500,120,741	100.0%

Category	Direct Reserves	Percent of Total
Medical	$ 80,344,079	18.7%
Prescription drug	2,321,182	0.5
Dental		0.0
Long-term care	312,551,036	72.9
Long-term disability	33,297,372	7.8
Short-term disability	8,226	0.0
Vision		0.1
Total	$428,521,895	100.0%

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of no less than nine and no more than thirteen members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors also serve as members of the board for WEA Insurance Trust. The board members currently receive no compensation for serving on the board.

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

Name and Residence	**Principal Occupation**	**Term Expires**
Mary Theisen, Chairperson Franklin, WI	Retired Teacher	2018
Margaret Guertler Berlin, WI	Retired Teacher	2018
Mike Halloran Milwaukee, WI	Teacher	2018
Amy Johnson Milwaukee, WI	Teacher	2018
Carol Kettner Rice Lake, WI	Retired Teacher	2018
Allen Knop Madison, WI	Retired Teacher	2018
Mark Litow Mequon, WI	Retired Actuary	2018
Heather Mielke Elkhorn, WI	Teacher	2018
Dr. Geoffrey Priest Madison, WI	Clinical Adjunct Professor	2018
David Stella Middleton, WI	Pension Management Advisor Consultant	2018
Susan Thomson Madison, WI	Executive Coach	2018
Daniel Weidner Bonduel, WI	Retired Teacher	2018

Officers of the Company

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

Name	Office	2016 Compensation
Mark Moody*	Chief Executive Officer & President	$ 486,094
Mike Quist*	Chief Executive Officer & President	$ 409,790
Vaughn Vance	Vice President, General Counsel & Secretary	$ 243,973
Timothy Bartholow	Chief Medical Director	$ 359,760
Jon Klett	Vice President of Sales	$ 327,372

(*) Mark Moody retired at the end of 2016 and was replaced by Mike Quist, who was previously the CFO/Treasurer.

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:

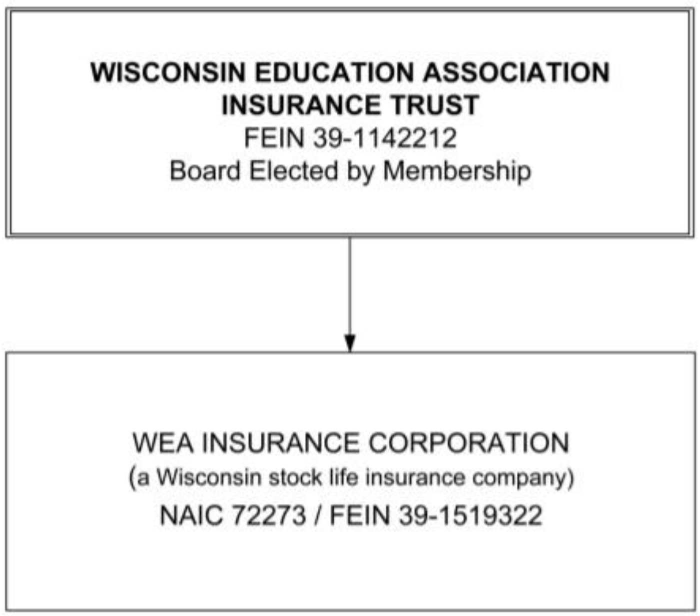
Executive Committee
Mary Theisen, Chair
Margaret Guertler
Heather Mielke
David Stella

Audit Committee
Margaret Guertler, Chair
Amy Johnson
Heather Mielke
David Stella
Daniel Weidner

IV. AFFILIATED COMPANIES

WEA Insurance Corporation 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 affiliates deemed significant follows the organizational chart.

Organizational Chart
As of December 31, 2016



Wisconsin Education Association Trust (WEAIT) - *Amounts are in thousands.*

WEAIT was established by the Wisconsin Education Association, Inc., in 1970 to provide various insurance benefits to qualified union member teachers and school district employees. WEAIT is exempt from federal income tax as a Voluntary Employee's Beneficiary Association. WEAIT's benefit plans are underwritten exclusively by WEAIC.

As of December 31, 2016, the audited consolidated financial statements of Wisconsin Education Association Trust reported assets of $726,612, liabilities of $545,381, and equity of $181,231. Operations for 2016 produced net income of $6,022.

Group Insurance Program Operating Agreement

The company had a Group Insurance Program Operating Agreement with its parent, WEAIT, throughout the examination period. This agreement was executed to facilitate the record-keeping and administrative functions of the organizations. The agreement allows for the utilization of the company's personnel as needed to maintain complete records and administration of the organizations. Annually, a cost study is completed for the total costs of the shared operations on a prorated basis, including analysis of the relative activities of personnel to determine proportionate allocations of joint expenses. The Agreement was amended effective July 1, 2016 to reflect changes in the allocation of joint expenses.

V. REINSURANCE

The company has a medical excess of loss ceded reinsurance contract with Partner Re America Insurance Company that protects the company from losses that exceed the retention level specified in the treaty. This contract is annually renewable each May 1st.

A 50% quota-share ceded reinsurance contract covering the company's short-term and long-term disability has also been in place since May 1, 2013. This contract remains in force for an indefinite period, with either party having the option to terminate in accordance with the specific provisions stated therein.

Both contracts contain proper insolvency provisions. The following are specific details of the aforementioned unaffiliated ceded reinsurance contracts:

1.	Type:	Medical Excess of Loss
	Reinsurer:	PartnerRe America Insurance Company
	Scope:	Group Health and Small Group Self-Funded
	Retention:	$1,000,000
	Coverage:	Unlimited after $1,000,000 retention is met
	Premium:	$3.69 per Covered Person per month, minimum reinsurance premium $2,807,719
	Commissions:	N/A
	Effective date:	5/1/2016
	Termination:	4/30/2017

2.	Type:	Quota Share Disability
	Reinsurer:	Union Security Insurance Company
	Scope:	Group Long Term Disability and Group Short Term Disability
	Retention:	50% of each loss.
	Coverage:	50% of each loss ceded to reinsurer
	Premium:	50% of the risk premium on each reinsured policy

Commissions:	Reinsurance Intermediary Broker (Towers Watson Pennsylvania, Inc.) Fees shall be earned each month the Contract is in force and until Recapture. The fee is equal to 1.5% of premiums collected by the company, net of return premiums, for Business Covered. Reinsurance Intermediary Manager (Disability Reinsurance Management Services, Inc.) fees shall be earned each month this Contract is in force and until Recapture. The fee is equal to 11% of Risk Premium for LTD Reinsured Policies and 15.4% of Risk Premium for STD Reinsured Policies.
Effective date:	5/1/2013
Termination:	Continuous

The company does not assume any reinsurance.

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, 2016, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

WEA Insurance Corporation
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$452,047,206	$	$452,047,206
Stocks:			
Preferred stocks	329,936		329,936
Common stocks	146,421,216		146,421,216
Cash, cash equivalents, and short-term investments	32,575,569		32,575,569
Receivables for securities	1,374,018		1,374,018
Investment income due and accrued	2,398,871		2,398,871
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	4,048,519	33,807	4,014,712
Reinsurance:			
Amounts recoverable from reinsurers	1,283,968		1,283,968
Electronic data processing equipment and software	195,896	177,423	18,472
Furniture and equipment, including health care delivery assets	212,282	212,282	
Receivable from parent, subsidiaries and affiliates	643,845		643,845
Health care and other amounts receivable	3,787,792		3,787,792
Write-ins for other than invested assets:			
Prepaid Expense	1,294,871	1,294,871	
Other Assets	1,449,867	1,449,867	
Total Assets	$648,063,856	$3,168,250	$644,895,606

WEA Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Aggregate reserve for accident and health contracts		$364,010,062
Contract claims:		
Accident and health		61,215,565
Premiums and annuity considerations received in advance		15,530,379
Interest maintenance reserve		6,500,748
General expenses due or accrued		11,464,096
Taxes, licenses, and fees due or accrued, excluding federal income taxes		2,401,189
Amounts withheld or retained by company as agent or trustee		15,245
Miscellaneous liabilities:		
Asset valuation reserve		30,329,971
Payable to parent, subsidiaries and affiliates		129,769
Payable for securities		12,404,609
Total Liabilities		504,001,633
Common capital stock	$ 2,000,000	
Unassigned funds (surplus)	138,893,973	
Total Capital and Surplus		140,893,973
Total Liabilities, Capital and Surplus		$644,895,606

WEA Insurance Corporation
Summary of Operations
For the Year 2016

Premiums and annuity considerations for life and accident and health contracts		$496,570,257
Net investment income		11,561,532
Amortization of interest maintenance reserve		2,425,088
Write-ins for miscellaneous income:		
Miscellaneous Income		158,621
Dental Commissions		571,857
Total income items		511,287,355
Disability benefits and benefits under accident and health contracts	$465,826,476	
Increase in aggregate reserves for life and accident and health contracts	9,457,018	
Subtotal	475,283,494	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	3,631,966	
General insurance expenses	49,020,180	
Insurance taxes, licenses, and fees excluding federal income taxes	3,772,800	
Total deductions		531,708,440
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		(20,421,085)
Net realized capital gains or (losses)		21,512,463
Net Income		$ 1,091,378

WEA Insurance Corporation
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$493,477,169
Net investment income			13,003,056
Miscellaneous income			730,478
Total			507,210,702
Benefit- and loss-related payments		$467,806,107	
Commissions, expenses paid, and aggregate write-ins for deductions		57,696,693	
Total deductions			525,502,800
Net cash from operations			(18,292,098)
Proceeds from investments sold, matured, or repaid:			
Bonds	$637,254,205		
Stocks	113,993,633		
Net gains (losses) on cash, cash equivalents, and short-term investments	(13,922)		
Miscellaneous proceeds	10,990,782		
Total investment proceeds		762,224,697	
Cost of investments acquired (long-term only):			
Bonds	616,067,647		
Stocks	128,410,068		
Miscellaneous applications	1,264,167		
Total investments acquired		745,741,881	
Net cash from investments			16,482,816
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			232,899
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			(1,576,383)
Cash, cash equivalents, and short-term investments:			
Beginning of year			34,151,952
End of year			$ 32,575,569

WEA Insurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2016

Assets		$644,895,606
Less liabilities		504,001,633
Adjusted surplus		140,893,973
Annual premium:		
Group life and health	$496,570,257	
Factor	10%	
Compulsory surplus (subject to a $2,000,000 minimum)		49,657,025
Compulsory Surplus Excess (Deficit)		$ 91,236,948
Adjusted surplus (from above)		$140,893,973
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%)(126% in this case)		62,567,851
Security Surplus Excess (Deficit)		$ 78,326,122

WEA Insurance Corporation
Analysis of Surplus
For the Five-Year Period Ending December 31, 2016

The following schedule details items affecting the company's total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2016	2015	2014	2013	2012
Capital and surplus, beginning of year	$160,725,831	$200,191,968	$242,977,232	$232,066,127	$221,462,504
Net income	1,091,378	(34,190,960)	(28,003,883)	(15,128,978)	19,104,298
Change in net unrealized capital gains/losses	(16,925,144)	(5,219,292)	(8,463,569)	30,215,655	(9,656,367)
Change in nonadmitted assets and related items	781,537	(1,497,390)	803,529	(26,748)	3,739,612
Change in asset valuation reserve	(4,779,629)	1,441,505	3,178,659	(4,148,824)	(2,583,920)
Write-ins for gains and (losses) in surplus:					
Prior Year Correction for Understatement of Policy Benefits			(10,300,000)		
Capital and Surplus, End of Year	$140,893,973	$160,725,831	$200,191,968	$242,977,232	$232,066,127

WEA Insurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2016

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2016	2015	2014	2013	2012
#1	Net change in capital & surplus	-12%*	-20%*	-18%*	5%	5%
#2	Gross change in capital & surplus	-12*	-20*	-18*	5	5
#3	Net income to total income	0*	-6*	-4*	-2*	3
#4	Adequacy of investment income	NR	NR	NR	NR	NR
#5	Non-admitted to admitted assets	0	1	0	0	0
#6	Total real estate & mortgage loans to cash & invested assets	0	0	0	0	0
#7	Total affiliated investments to capital & surplus	0	1	9	4	0
#8	Surplus relief	0	0	0	0	0
#9	Change in premium	-10*	-7	-4	-2	-16*
#10	Change in product mix	0.0	0.0	0.0	0.0	0.0
#11	Change in asset mix	0.4	0.2	1.2	0.4	1.0
#12	Change in reserving	0	0	0	0	0

Ratio No. 1 measures the change in surplus net of changes in surplus notes, capital paid-in, or other paid-in adjustments, if any, and Ratio No. 2 measures the gross change in surplus. Both of these ratios were unusual for the years 2014 and 2015 due to significant net losses, and in 2016 due to significant net unrealized capital losses and an increase in the AVR. Ratio No. 3 is the ratio of net income to the sum of total income plus realized capital gains/losses. This ratio was unusual for the years 2013 – 2015 due to net losses, and for 2016 due to the ratio being effectively zero. Ratio No. 9 is simply the change in premium year-over-year; the company experienced significant reductions in premium volume in 2012 due to statewide changes affecting its key market, and in 2016 due to the exiting of less-profitable, ancillary lines of business.

Growth of WEA Insurance Corporation

Year	Admitted Assets	Liabilities	Capital and Surplus
2016	$644,895,606	$504,001,633	$140,893,973
2015	644,204,767	483,478,936	160,725,831
2014	683,936,236	483,744,268	200,191,968
2013	720,932,600	477,955,368	242,977,232
2012	686,807,363	454,741,236	232,066,127
2011	643,667,925	422,205,421	221,462,504

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2016	$496,570,257	$485,092,895	$3,631,966	$42,983,579	107.1%
2015	550,556,250	550,966,831	3,042,426	50,280,739	109.8
2014	593,275,605	602,078,541	3,427,585	52,393,751	110.9
2013	594,641,385	578,515,041	2,930,904	57,904,828	107.5
2012	635,930,196	608,320,913	2,157,617	49,867,489	103.9
2011	770,287,256	723,002,211	681,213	73,438,084	103.5

* Includes increase in contract reserves
** Includes taxes, licenses, and fees

As a result of statewide changes in 2011 that adversely affected the company's key market, premium volume trended sharply downward beginning in 2012. Since incurred claims and expenses decreased less sharply, the company has experienced a trend of significant net losses from operations throughout the exam period, with a peak loss of $49.1 million in 2014. Contributing to the challenging underwriting results was an increase in commissions incurred over the five-year exam period, which resulted from two changes in the company's operations: 1) a significant number of employer groups transitioned from being direct with WEAIC, paying no commission, to working with a commissioned broker; and 2) the company increased its standard commission for health business from 1.5% to 2.0% of premium beginning July 1, 2016. The company responded to the adverse trend with several initiatives, including exiting unprofitable lines of business while expanding its footprint in the state health insurance plan, as well as organizational and technology improvements in an effort to gain cost efficiencies. These initiatives appear to have reversed the negative trend, though operational profitability has yet to be attained. While capital and surplus has decreased approximately 36% over the 5-year period, the company's surplus position is in excess of the statutory minimum.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2016, is accepted.

Examination Reclassifications

No reclassifications were made as a result of the examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were eleven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Business Continuity Plan—It is recommended that the company identify alternate sites for their IT systems and employees as a key element in their business continuity plan.

   Action—Compliance.

2. Business Continuity Plan—It is recommended that key aspects of the business continuity plan be tested annually and that the test be based on clear objectives that will allow the results of the test to be scored to determine the effectiveness of the plan.

   Action—Compliance.

3. Business Continuity Plan—It is recommended that the company conduct a business impact analysis of all business functions and update their business continuity plans accordingly.

   Action—Compliance.

4. Affiliated Agreements—It is recommended that the company adopt management and service agreements that clearly identify all entities participating in the arrangement as well as the reimbursement and settlement arrangements between the entities, pursuant to SSAP 25, s. Ins 40.04 (1), Wis. Adm. Code, and s. 617.21 (1), Wis. Stat.

   Action—Compliance.

5. Holding Company Transactions—It is recommended that the company report all revenues/expenditures resulting from any intercompany agreements on Schedule Y, Part 2, as required by NAIC Annual Statement Instructions - Life.

   Action—Compliance.

6. Holding Company Transactions—It is recommended that the revised agreements be filed with the commissioner in compliance with s. Ins 40.04 (2), Wis. Adm. Code.

   Action—Noncompliance; see comments in the “Summary of Current Examination Results” section of this report.

7. Advanced Premiums—It is recommended that the company report the advance premiums based on cash receipts and transfer this amount from WEAIT to WEAIC, pursuant to SSAP No. 54.

   Action—Compliance.

8. Actuarial Examination—It is recommended that the company properly report the long-term care disabled life reserve and unaccrued portions of the incurred but not reported claims according to NAIC Annual Statement Instructions - Life.

   Action—Compliance.

9. <u>Actuarial Examination</u>—It is recommended that the company's appointed actuary prepare an actuarial memorandum documenting the asset adequacy analysis that is in compliance with s. Ins 50.79, Wis. Adm. Code.

   <u>Action</u>—Compliance.

10. <u>Actuarial Examination</u>—It is recommended that the company submit a statement of actuarial opinion that is in compliance with s. Ins 50.78, Wis. Adm. Code, in future annual statements.

    <u>Action</u>—Compliance.

11. <u>Actuarial Examination</u>—It is recommended that the company submit a RAAIS that adequately addresses each item required by s. Ins 50.79 (3), Wis. Adm. Code, in future annual statements.

    <u>Action</u>—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Filing of Biographical Affidavits

WEAIC is required to report biographical information to this office, within 15 days of their appointment or election, for persons selected as a director or principal officer as required by s. 611.54, Wis. Stat., and s. Ins 6.52, Wis. Adm. Code. Biographical affidavits were reviewed for the company's directors and officers as part of the examination. This review disclosed that on multiple occasions WEAIC failed to file a biographical report within 15 days after such appointment or election as required by s. Ins 6.52 (5), Wis. Adm. Code, and in some instances failed to file a biographical report entirely. It is recommended that the company file biographical information for all new officers and directors within 15 days of appointment or election in accordance with s. 611.54 (1), Wis. Stat., and s. Ins 6.52 (5), Wis. Adm. Code, and that the company establish procedures to ensure the proper filing of biographical information.

Filing of Intercompany Agreements

A review of intercompany agreements disclosed that the modified Group Insurance Program Operating Agreement effective July 1, 2016 between the company and its parent, WEAIT, had not been filed in accordance with s. Ins 40.04 (2), Wis. Adm. Code. In response to an inquiry made by the examiner, the company filed the agreement on November 2, 2017. It is recommended that revised intercompany agreements be filed in the form of a "Form D – Prior Notice of a Transaction" with the commissioner, in compliance with s. Ins 40.04 (2), Wis. Adm. Code.

Investments – Statutory Compliance

According to s. Ins 6.20 (8) (k), Wis. Adm. Code, investments in countries other than the United States and Canada cannot exceed 2% in aggregate of the insurer's assets. Section 620.22 (9), Wis. Stat. provides for investments not otherwise permitted by this section and not specifically prohibited by statute, which are limited to the extent of not more than 5% of the first $500,000,000 of the insurer’s assets plus 10% of the insurer’s assets exceeding $500,000,00. This is also referred to as the “basket clause”.

A comparison of WEAIC’s investment portfolio as of December 31, 2016 to these statutory investment limitations found that the company’s investments in countries other than the United States and Canada exceeded the limitation set by s. Ins 6.20 (8) (k), Wis. Adm. Code by $44.1 million, which exceeded the basket clause established by 620.22 (9), Wis. Stat. by $4.6 million. Per s. 620.21 (1), Wis. Stat., “Assets may be counted toward satisfaction of the compulsory surplus requirement or the security surplus standard only so far as they are invested in compliance with this chapter and applicable rules promulgated by the commissioner.” It is recommended that the company exclude the value of its invested assets that exceed the investment limitations prescribed by s. Ins 6.20 (8) (k), Wis. Adm. Code, and s. 620.22 (9), Wis. Stat. from the calculation of its compulsory and security surplus requirements in accordance with s. 620.21, Wis. Stat.

Business Continuity Plan

Our review of the company’s information technology function found that increased reliance was being placed on third-party service providers. The business impact, risk assessment and action plans for operation disruptions from third-parties would need to be considered and added to the Business Continuity Plan (BCP). It is recommended that the company conduct business impact and risk assessment on its vendor reliance, and prepare the reaction plan for the business disruptions from vendors according to the assessment. To be effective, the BCP needs to be updated and tested with different scenarios (such as business operation disruptions from blackout, catastrophes, discontinued operation of third party service providers, etc.), with the results reviewed, and any updates approved, by senior management and the board of directors.

VIII. CONCLUSION

The company is a wholly owned subsidiary of WEA Insurance Trust (WEAIT), and was formed to provide insurance coverage to teachers and school district employees throughout Wisconsin. Both WEAIT and WEAIC are recognized as Voluntary Employees' Beneficiary Associations and thus are exempt from federal income tax. Historically, the company has written group medical, dental, long-term and short-term disability, and long-term care business. The products are marketed through a staff of salaried field representatives as well as commissioned and appointed intermediaries.

In 2011 there were major developments in Wisconsin that affected the company's key market that had an adverse effect on the company's operations through both decreased membership and a shift to lower-cost plans by many of the remaining groups. The company sought to counter these disruptions by expanding its market from just teachers and school district employees to offering its products to all state and municipal public employees in Wisconsin.

The impact of the disruption to WEAIC's key market is evidenced by the significant trend of operating losses throughout the exam period, with a peak loss of $49.1 million in 2014. Premium income decreased from $770.3 million in 2011, the last year of the prior examination period, to $496.6 million for 2016, a decrease of 35.5%. Total benefits and expenses incurred decreased only 33.3% during that time frame, from $797.1 million in 2011 to $531.7 million in 2016. While the combined loss ratio has improved since the peak value of 110.9% in 2014, it still is indicative of unprofitable operations at 107.1% for 2016. The company responded to the persistent unprofitability with several initiatives, including exiting unprofitable lines of business to focus on its health offerings as well as implementing organizational and technological improvements to gain cost efficiencies. These initiatives appear to have reversed the negative trend, though operational profitability has yet to be attained. While capital and surplus has decreased approximately 36% over the 5-year period, the company's surplus position is still well in excess of the statutory minimum as of December 31, 2016.

The current examination resulted in four recommendations, including one repeat recommendation, and no adjustments to surplus. The recommendations are explained in the "Summary of Current Examination Results" section of this report.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Filing of Biographical Affidavits—It is recommended that the company file biographical information for all new officers and directors within 15 days of appointment or election in accordance with s. 611.54 (1), Wis. Stat., and s. Ins 6.52 (5), Wis. Adm. Code, and that the company establish procedures to ensure the proper filing of biographical information.

2. Page 22 - Filing of Intercompany Agreements—It is recommended that revised intercompany agreements be filed in the form of a "Form D – Prior Notice of a Transaction" with the commissioner, in compliance with s. Ins 40.04 (2), Wis. Adm. Code.

3. Page 23 - Investments – Statutory Compliance—It is recommended that the company exclude the value of its invested assets that exceed the investment limitations prescribed by s. Ins 6.20 (8) (k), Wis. Adm. Code, and s. 620.22 (9), Wis. Stat. from the calculation of its compulsory and security surplus requirements in accordance with s. 620.21, Wis. Stat.

4. Page 23 - Business Continuity Plan—It is recommended that the company conduct business impact and risk assessment on its vendor reliance, and prepare the reaction plan for the business disruptions from vendors according to the assessment. To be effective, the BCP needs to be updated and tested with different scenarios (such as business operation disruptions from blackout, catastrophes, discontinued operation of third party service providers, etc.), with the results reviewed, and any updates approved, by senior management and the board of directors.

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:

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Joshua Daggett	Insurance Financial Examiner
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Respectfully submitted,

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