

Report  
of the  
Examination of  
Wisconsin Physicians Service Insurance Corporation  
Madison, Wisconsin  
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

Wisconsin.gov

May 11, 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:

WISCONSIN PHYSICIANS SERVICE INSURANCE CORPORATION  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Wisconsin Physicians Service Insurance Corporation (the company or WPS) was conducted in 2011-2012 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 and 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. 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

Wisconsin Physicians Service was created in 1946 as a division of the State Medical Society under ch. 148, Wis. Stat. Wisconsin Physicians Service Insurance Corporation is a successor company to Wisconsin Physicians Service that was incorporated on April 27, 1977.

The company issues traditional indemnity and managed care health policies to groups and individuals. The majority of health insurance business involves preferred provider organization (PPO) type managed care products. In addition, the company provides claims administration services for self-insured employer groups and for the federal government's TRICARE, Veterans Affairs, and Medicare programs. WPS also assumes business written in other states by its subsidiary, The EPIC Life Insurance Company (EPIC), and health business written by one unaffiliated insurance company, Delta Dental of Wisconsin, Inc.

In 2015, the company collected direct premium in the following states:

Wisconsin	\$540,960,107	99.78%
Michigan	744,886	0.14
Illinois	<u>467,459</u>	<u>0.08</u>
Total	<u>\$542,172,452</u>	<u>100.00%</u>

Additionally, the company is licensed in Indiana and Ohio. No direct premium was written in either state during 2015.

During 2015, the company created a holding company, Arise Health Ventures, Inc. (AHV), with its equal partner, Aspirus Inc., for the purpose of creating a Wisconsin health maintenance organization (HMO), Aspirus Arise Health Plan of Wisconsin, Inc. (AHP). AHP was licensed as an HMO on April 13, 2016, and will offer insurance plans in 16 counties throughout north central Wisconsin effective January 1, 2017.

In 2015, the company made the business decision to begin exiting the individual insurance market to focus on its Medicare and administrative services business. Throughout 2016 individual policies have continually decreased.

WPS Community Bank, FSB, was incorporated on January 20, 2009, as a wholly owned subsidiary of WPS. During 2015, the bank was sold and is no longer affiliated with the company.

The following chart is a summary of premium income as reported by the company in 2015. The growth of the company is discussed in the “Financial Data” section of this report.

#### Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Comprehensive (hospital and medical)	\$377,827,880	\$ 2,458	\$2,653,302	\$375,177,036
Medicare supplement	122,755,647	174,282		122,929,929
Dental only		7,915,589		7,915,589
Other	<u>41,588,925</u>	<u>                    </u>	<u>409,764</u>	<u>41,179,161</u>
Total All Lines	<u>\$542,172,452</u>	<u>\$8,092,329</u>	<u>\$3,063,066</u>	<u>\$547,201,715</u>

#### TRICARE

WPS bids on contracts to process claims for the U.S. Department of Defense (DOD) health care program known as TRICARE. TRICARE provides civilian health benefits for military personnel, retirees, and their dependents. WPS continually bids on new contracts as they become available. These contracts are generally for a period of 5 to 10 years and are separated by regions and/or benefit. During the examination period, WPS was providing claims administrative services through three separate TRICARE contracts.

WPS partnered with a company known as TriWest Healthcare Alliance (TriWest) to process all claims for active duty service members and their families under age 65 in the West region. The West region included all states west of Mississippi, except Texas and Oklahoma. TriWest held the contract and WPS provided claims processing for TriWest. This contract ended in 2013.

WPS has partnered with International SOS, a London-based company, for processing all international TRICARE claims. This contract covers all active duty personnel and families stationed overseas and any retirees who now live in a foreign country.

In addition, WPS contracts directly with DOD for the processing of all Medicare-eligible military personnel. This program known as TRICARE-for-Life is a Medicare supplement plan that pays secondary to Medicare.

WPS pays benefit dollars for claims using a federal government letter of credit and receives an administrative fee per claim. The company administered \$3.9 billion of TRICARE

claims in 2015. The TRICARE administration business resulted in net loss of \$8.4 million for calendar year 2015.

**Medicare**

WPS provides claims administrative services for Medicare recipients under various cost-reimbursement type contracts with the Centers for Medicare and Medicaid Services (CMS). WPS is reimbursed for administrative expenses based on a budget set by Medicare each fiscal year. During 2015 WPS received \$143 million for administrative expenses from CMS.

**Veterans Affairs (VA)**

WPS provides claims administrative services as a subcontractor for TriWest on two regional Veterans Affairs contracts for services provided outside of the VA system. WPS is reimbursed based on contract prices for services performed.

**Administrative Service Contracts (ASC) and Administrative Service Only Contracts (ASO)**

WPS also provides claims administration for private self-insured employer groups and governmental entities. During 2015, the company administered approximately \$1.1 billion of claims. These lines of business resulted in a net operating loss of \$8.0 million for 2015.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of 13 members. Four directors are elected annually to serve a three-year term, and the Chief Executive Officer is a director ex officio. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive \$1,800 per board and/or committee meeting with an additional \$900 if two or more meetings are held on the same day, not to exceed \$3,600 in any one day. Each board member also receives an additional \$300 for each meeting they chair, and the chairman of the board receives a \$40,000 annual retainer. Employees on the board are not paid director's fees.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Brad Anderson** Reedsburg, WI	Human Resources Consultant Partnerships in Human Resources	2018
Thomas Belot Kohler, WI	Retired	2018
Kristine Euclide Madison, WI	Retired	2020
William Haight III Madison, WI	President Magna Publications, Inc.	2019
Timothy T. Flaherty, M.D.* Neenah, WI	Retired	2019
Michael Hamerlik Fitchburg, WI	President and Chief Executive Officer Wisconsin Physicians Service Ins. Corp.	Ex Officio
Leland Kauth Wisconsin Rapids, WI	Retired	2018
James A. Lord, D.D.S. Middleton, WI	Practicing Dentist	2020
John Matthews Madison, WI	Retired	2020
Kim Sponem Cottage Grove, WI	Chief Executive Officer and President Summit Credit Union	2019



<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Stephen Skoronski Kohler, WI	Healthcare Supply Chain Consultant	2018
David L. Vogel Madison, WI	Civil Engineer and Chairman Vogel Bros. Building Co.	2020
William Winkenwerder, Jr., M.D. Locust Valley, NY	Healthcare Consultant Winkenwerder Strategies	2019

- \* Chair
- \*\* Vice Chair

### **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>
Brian Brugger	VP - Military and Veterans Health	\$ 498,958
Craig Campbell	Chief Administrative Officer	566,625
Kerra Guffey	Chief Information Officer	420,211
Michael Hamerlik	President and Chief Executive Officer	1,121,761
Scott Kowalski	Executive VP - WPS Health Insurance	468,402
Janet Kyle	Executive VP - Government Health Administrators	285,891
Jay Martinson	Chief Operating Officer	418,978
Thomas R. Nelson	Chief Financial Officer	554,051
Daniel Schwandt	Chief Legal and Governance Officer	568,421

## **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**

Timothy T. Flaherty, M.D., Chair  
Brad Anderson  
Kristine Euclide  
Michael Hamerlik  
David L. Vogel

### **Finance & Investment Committee**

John Matthews, Chair  
Timothy T. Flaherty, M.D.  
William Haight III  
Michael Hamerlik  
Leland Kauth  
James A. Lord, D.D.S.  
Stephen Skoronski  
Kim Sponem  
William Winkenwerder, Jr., M.D.

### **Medicare Committee**

Thomas Belot, Chair  
Timothy T. Flaherty, M.D.  
William Haight III  
Michael Hamerlik  
Robert Luck (Advisory member)  
John Matthews  
David L. Vogel

### **Audit and Compliance Committee**

Leland Kauth, Chair  
Kristine Euclide  
Timothy T. Flaherty, M.D.  
James A. Lord, D.D.S.  
Steve Skoronski  
Kim Sponem

### **Planning, Governance & Nominating Committee**

David L. Vogel, Chair  
Brad Anderson  
Thomas Belot  
Timothy T. Flaherty, M.D.  
Michael Hamerlik  
John Matthews  
William Winkenwerder, Jr., M.D.

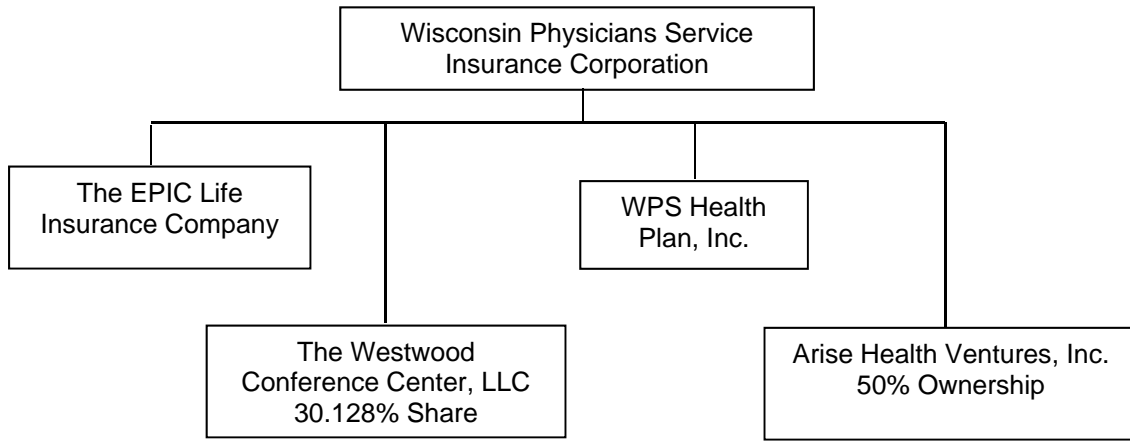
### **Human Resources & Compensation Committee**

Brad Anderson, Chair  
Thomas Belot  
Kristine Euclide  
Timothy T. Flaherty, M.D.  
Michael Hamerlik

#### IV. AFFILIATED COMPANIES

Wisconsin Physicians Service Insurance Corporation is the ultimate parent 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, 2015**



#### **The EPIC Life Insurance Company**

EPIC writes life, long-term and short-term disability, dental and vision insurance policies. The company also writes select medical policies, which are assumed and administered by WPS. As of December 31, 2015, the audited financial statements of EPIC reported assets of \$61,757,027, liabilities of \$31,156,557 and capital and surplus of \$30,600,470. Operations for 2015 produced a net loss of \$1,598,112. EPIC is the subject of a contemporaneous examination report.

#### **WPS Health Plan, Inc. (the Plan or WPS HP)**

WPS Health Plan, Inc., is described as a for-profit mixed model health maintenance organization (HMO) insurer. Beginning June 2005, the Plan writes group health insurance policies for employers in Northeastern Wisconsin and began providing health insurance policies to individuals on January 1, 2007. The majority of services provided to plan enrollees are provided under fee-for-service contracts with various health care providers in the service area.

The Plan also has Medicare supplement policies in effect but is not writing new Medicare supplement policies. Payments made to providers under the supplemental policies are based on Medicare-allowable charges. As of December 31, 2015, the audited financial statements of WPS Health Plan, Inc., reported assets of \$50,159,631, liabilities of \$29,977,726 and capital and surplus of \$20,181,905. Operations for 2015 produced a net loss of \$22,437,592. WPS HP is the subject of a contemporaneous examination report.

#### **The Westwood Conference Center, LLC (Westwood)**

Westwood is a Wisconsin limited liability company which operates the Westwood Conference facility in Wausau, Wisconsin. Westwood was established in 2004. The company's ownership share is 30.128%. As of December 31, 2015, the company's reported share of the unaudited financial statements of Westwood was total assets of \$1,813,224, total liabilities of \$105,752 and partners' equity of \$1,707,472. WPS' share of operations for 2015 produced net income of \$249,699. Since Westwood did not have audited statements, it was treated as a nonadmitted asset by WPS as of December 31, 2015.

#### **Arise Health Ventures, Inc.**

Arise Health Ventures, Inc., is a holding company created by WPS in 2015 with its partner, Aspirus Inc., each a 50% owner. The purpose of this holding company is to create and seek a Wisconsin HMO license for Aspirus Arise Health Plan of Wisconsin, Inc. The Wisconsin HMO was licensed on April 13, 2016.

#### **Agreements with Affiliates**

WPS has a Service and Supplies Agreement with EPIC and WPS Health Plan, Inc., under which WPS provides management, investment, administrative, and other services and supplies to each company. Additionally, EPIC may provide services and supplies to WPS. EPIC and WPS Health Plan, Inc., reimburse WPS for the actual cost of the services and supplies provided, including a reasonable allocation of overhead expenses. Settlement is to be made within 20 days after the invoice billing is exchanged but no less often than quarterly.

WPS has an intercompany tax allocation agreement with its wholly owned subsidiaries for the purpose of filing consolidated federal income tax and combined Wisconsin

franchise and income tax returns. Pursuant to that agreement each subsidiary will either pay to or receive refunds based on calculations performed by WPS at the end of every month. The determination of any deferred tax benefit or liability for either The EPIC Life Insurance Company or WPS Health Plan, Inc., is also determined at this time. Payments are to be made within 30 days of the financial statement close date, defined in the agreement, or no later than each estimated quarterly due date.

WPS has a Guaranty Agreement with WPS Health Plan, Inc., under which WPS guarantees medical insurance coverage to WPS Health Plan, Inc., members in the case WPS Health Plan, Inc., becomes insolvent. WPS will continue plan benefits for members who are hospitalized on the date of the insolvency until the member is discharged from the hospital, and will entitle members to alternate coverage that is similar to plan benefits and that does not contain any medical underwriting or preexisting limitation requirements.

WPS, EPIC, and WPS HP entered into a Line of Credit Agreement. The agreement allows one party to make a loan to another party for up to \$5 million, at an interest rate of LIBOR plus 150 basis points. All loans are to be repaid within 20 calendar days of the date of the loan. There is additional comment on this agreement in the section of this report captioned "Summary of Examination Results."

## 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

Type: Fully Insured Medical Excess of Loss & Self-funded Medical Excess of Loss

Reinsurer: Axis Insurance Company

Scope: Fully Insured  
Includes: group and individual PPO, short-term major medical, student medical, assumed intercompany reinsurance, self-funded benefit plan  
Excludes: Medicare supplement and Medicare Part D prescription drug policies

Self-Funded  
Stop-loss policies issued to self-funded group health plans

Retention: \$1 million ultimate net loss for each covered person

Coverage: 1st layer: 100% of \$1,000,000 in excess of \$1,000,000 per covered person  
2nd layer: 100% of \$3,000,000 excess of \$2,000,000 per covered person  
3rd layer: 100% of an unlimited amount of ultimate net loss in excess of \$5,000,000 per covered person

The reinsurer shall also be liable in the same proportion as its interest in the underlying claim, in addition to its limits of liability, for its share of extra contractual obligations and/or loss in excess of policy limits

Premium: WPS will pay premium for the reinsurance provided equal to the product of the number of employees in force as of the end of each month times the monthly premium rate of:

	<u>Fully Insured</u>	<u>Self-funded</u>
	Per Covered Person Per Month:	Per Employee Per Month:
1 <sup>st</sup> Layer:	\$0.92	\$2.16
2 <sup>nd</sup> Layer:	0.57	1.08
3 <sup>rd</sup> Layer:	0.18	0.25

Effective date: January 1, 2016, through January 1, 2017

### Affiliated Assuming Contracts

Type: Quota Share

Reinsured: The EPIC Life Insurance Company

Scope: Accident and health coverage defined as CORE business [medical business in the states of Minnesota, Iowa, Illinois (excluding certain zip codes), and Wisconsin]

Retention: 0%

Coverage: 100%

Premium: 100% of premium plus \$2,000 per month for indirect expenses

Effective date: January 1, 1991, last amended August 1, 2012

Termination: Continuously in force unless terminated by either party upon 60 days' prior written notice to the other party

### **Nonaffiliated Assuming Contracts**

Type: Joint Venture Agreement/Quota Share Reinsurance Agreement

Reinsured: Delta Dental Plan of Wisconsin, Inc. (Delta)

Scope: Group dental

Retention: 50% of the new group dental plans solicited by WPS and written on Delta policy forms with initial effective dates of January 1, 1996, or after

Coverage: WPS covers 100% of policies issued by WPS and then transferred to Delta policy forms. WPS also covers 50% of the new group dental plans solicited by WPS and written on Delta policy forms with initial effective dates of January 1, 1996, or after.

Premium: 50% of net premium

Effective date: January 1, 1996, last amended January 1, 2000

Termination: The agreement shall remain continuously in force unless terminated by either party at any time provided that written notice is delivered to the other party at least 180 days in advance of the effective date of termination.

### **Affordable Care Act (ACA) Transitional Reinsurance Program**

The transitional reinsurance program based on Section 1341 of the ACA is effective for plan years 2014 through 2016. Reinsurance assessments will be collected and distributions will be issued during the three-year term. Reinsurance is provided under this program once an insured member reaches his or her maximum out-of-pocket (MOOP) cost. Expenses above the MOOP up to \$70,000 are the full responsibility of the company. Medical expenses above \$70,000 up to \$250,000 are covered under the reinsurance at a 50% coinsurance level. Expenses above \$250,000 are the responsibility of the company.

## **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 Surplus per Examination." Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.



**Wisconsin Physicians Service Insurance Corporation**  
**Assets**  
**As of December 31, 2015**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 59,809,261	\$	\$ 59,809,261
Common stocks	78,228,528		78,228,528
Real estate:			
Occupied by the company	22,115,021		22,115,021
Held for production of income	9,297,239		9,297,239
Cash, cash equivalents, and short-term investments	(17,159,826)		(17,159,826)
Other invested assets	1,710,654	1,710,654	
Investment income due and accrued	748,709		748,709
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	3,149,946		3,149,946
Accrued retrospective premiums and contracts subject to redetermination	7,363,167		7,363,167
Reinsurance:			
Amounts recoverable from reinsurers	884,677		884,677
Amounts receivable relating to uninsured plans	72,202,835	8,081	72,194,754
Current federal and foreign income tax recoverable and interest thereon	11,995,481		11,995,481
Net deferred tax asset	45,106,820	38,553,812	6,553,008
Electronic data processing equipment and software	56,819,667	55,653,569	1,166,098
Furniture and equipment, including health care delivery assets	3,949,290	3,949,290	
Receivable from parent, subsidiaries and affiliates	1,858,435		1,858,435
Health care and other amounts receivable	5,463,042	709,519	4,753,523
Write-ins for other than invested assets:			
Deferred charges	8,300,685	8,300,685	
Prepaid expenses	3,340,059	3,340,059	
State income tax recoverable	2,553,933		2,553,933
Leasehold improvements	915,278	915,278	
Lease up fees	234,079	234,079	
Financing costs	4,518	4,518	
Lease incentives	5,633	5,633	
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Assets</b>	<b><u>\$378,897,131</u></b>	<b><u>\$113,385,177</u></b>	<b><u>\$265,511,954</u></b>

**Wisconsin Physicians Service Insurance Corporation**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2015**

Claims unpaid (less \$15,758,000 reinsurance ceded)	\$ 30,322,000
Accrued medical incentive pool and bonus amounts	423,667
Unpaid claims adjustment expenses	1,239,196
Aggregate health policy reserves, including the liability of \$0 for medical loss ratio rebate per the Public Health Service Act	15,502,393
Premiums received in advance	14,769,025
General expenses due or accrued	49,113,248
Apportioned for payment	
Ceded reinsurance premiums payable	203,293
Amounts withheld or retained for the account of others	52,582
Remittances and items not allocated	11,770,959
Amounts due to parent, subsidiaries and affiliates	12,000,000
Funds held under reinsurance treaties with reinsurers	753,341
Liability for amounts held under uninsured plans	1,157,033
Write-ins for liabilities:	
Additional pension liability	34,021,940
Reserve for escheatable items	<u>251,464</u>
Total liabilities	171,580,141
Write-ins for special surplus funds:	
Section 9010 fee	\$ 7,121,000
Unassigned funds (surplus)	<u>86,810,813</u>
Total capital and surplus	<u>93,931,813</u>
Total Liabilities, Capital and Surplus	<u>\$265,511,954</u>

**Wisconsin Physicians Service Insurance Corporation  
Summary of Operations  
For the Year 2015**

Net premium income		\$547,201,715
Change in unearned premium reserves and reserve for rate credits		<u>266,963</u>
Total revenues		547,468,678
Medical and hospital:		
Hospital/medical benefits	\$281,776,918	
Outside referrals	67,153,095	
Emergency room and out-of-area	47,943,751	
Prescription drugs	70,347,213	
Incentive pool and withhold adjustments	<u>326,915</u>	
Subtotal medical and hospital	467,547,892	
Less:		
Net reinsurance recoveries	<u>16,579,267</u>	
Total medical and hospital	450,968,625	
Claims adjustment expenses	18,339,665	
General administrative expenses	80,223,152	
Increase in reserves for life and accident and health contracts	<u>1,020,000</u>	
Total underwriting deductions		<u>550,551,442</u>
Net underwriting gain or (loss)		(3,082,764)
Net investment income earned	5,128,858	
Net realized capital gains or (losses)	<u>6,828,601</u>	
Net investment gains or (losses)		11,957,459
Aggregate write-ins for other income or expenses		
Miscellaneous income/expense		157,394
Government lines		(18,083,255)
New venture costs		(877,378)
Gain (loss) on sale of fixed assets		<u>(2,951)</u>
Net income or (loss) before federal income taxes		(9,931,495)
Federal and foreign income taxes incurred		<u>(2,851,144)</u>
Net Loss		<u>\$ (7,080,351)</u>

**Wisconsin Physicians Service Insurance Corporation**  
**Cash Flow**  
**For the Year 2015**

Premiums collected net of reinsurance		\$540,295,903
Net investment income		<u>7,677,809</u>
Total		547,973,712
Benefit- and loss-related payments	\$454,016,828	
Commissions, expenses paid, and aggregate write-ins for deductions	138,837,259	
Federal and foreign income taxes paid (recovered)	<u>7,406,385</u>	
Total deductions		<u>600,260,472</u>
Net cash from operations		(52,286,760)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$110,946,167	
Stocks	44,680,154	
Other invested assets	<u>338,949</u>	
Total investment proceeds		155,965,270
Cost of investments acquired (long-term only):		
Bonds	85,849,169	
Stocks	38,308,591	
Real estate	<u>1,389,462</u>	
Total investments acquired		<u>125,547,222</u>
Net cash from investments		30,418,048
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>11,035,204</u>
Net cash from financing and miscellaneous sources		<u>11,035,204</u>
<b>Reconciliation:</b>		
Net change in cash, cash equivalents, and short-term investments		(10,833,508)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>(6,326,318)</u>
End of Year		<u>\$(17,159,826)</u>

**Wisconsin Physicians Service Insurance Corporation  
Compulsory and Security Surplus Calculation  
December 31, 2015**

Assets		\$276,340,689
Less investments in insurance subsidiaries		50,782,375
Add: security surplus excess of insurance subsidiaries		39,410,242
Less liabilities		<u>171,580,141</u>
Adjusted surplus		93,388,415
Annual premium:		
Individual life and health	\$242,004,213	
Factor	<u>15%</u>	
Total		\$36,300,631
Group life and health	277,292,325	
Factor	<u>10%</u>	
Total		27,729,232
All other insurance	27,009,218	
Factor	<u>7%</u>	
Total		<u>1,890,645</u>
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>65,920,508</u>
Compulsory Surplus Excess or (Deficit)		<u>\$ 27,467,907</u>
Adjusted surplus (from above)		\$ 65,350,306
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)		<u>82,400,635</u>
Security Surplus Excess or (Deficit)		<u>\$ 10,987,780</u>

**Wisconsin Physicians Service Insurance Corporation  
Analysis of Surplus (in thousands)  
For the Five-Year Period Ending December 31, 2015**

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:

	2015	2014	2013	2012	2011
Capital and surplus, beginning of year	\$145,416	\$172,735	\$135,495	\$141,600	\$167,209
Net income	(7,080)	3,618	10,393	(932)	7,505
Change in net unrealized capital gains/losses	(26,202)	(10,304)	7,588	3,335	(6,135)
Change in net deferred income tax	5,800	12,085	(9,907)	7,772	12,880
Change in nonadmitted assets and related items	(15,718)	(735)	(6,865)	(19,132)	(12,837)
Cumulative effect of changes in accounting principles				6,409	
Write-ins for gains and (losses) in surplus:					
Change in pension liability	<u>(8,284)</u>	<u>(31,982)</u>	<u>36,032</u>	<u>(3,558)</u>	<u>(27,021)</u>
Capital and Surplus, End of Year	<u>\$93,932</u>	<u>\$145,416</u>	<u>\$172,735</u>	<u>\$135,495</u>	<u>\$141,600</u>

**Growth of Wisconsin Physicians Service Insurance Corporation**

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2015	\$265,511,954	\$171,580,141	\$ 93,931,813	\$547,468,678	\$450,968,626	\$(7,080,351)
2014	315,609,654	170,193,650	145,416,004	560,867,710	470,224,406	3,617,773
2013	345,096,245	172,361,468	172,734,777	499,019,062	407,423,730	10,393,016
2012	332,467,082	196,972,458	135,494,624	480,949,973	406,315,573	(932,402)
2011	327,594,473	185,994,081	141,600,392	490,808,738	413,380,149	7,504,962

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2015	(1.3)%	82.4%	18.0%	(11.91)%
2014	0.6	83.8	18.8	3.65
2013	2.1	81.6	20.8	(3.95)
2012	(0.2)	84.5	19.4	(5.98)
2011	1.5	84.2	19.0	1.40

In 2015, total admitted assets showed a decrease of 16% to \$266 million from \$315 million at the prior year-end. The decrease was largely attributable to losses incurred on government lines of business (TRICARE) and losses incurred on ACA policies.

Capital and surplus showed a decrease of 35% in 2015 to \$94 million, from \$145 million at the prior year-end. The decrease was mainly attributable to the company's \$7.1 million net loss, a decrease in net unrealized gains of \$26.2 million (\$22.4 million of which was due to losses on ACA policies by its subsidiary WPS HP), an increase in nonadmitted assets of \$15.7 million and a change in pension liability of \$8.3 million. The pension liability went from being overfunded by \$36 million at year-end 2013 to being underfunded by \$32 million at year-end 2014 due to a change in the pension plan discount rate.

The company reported a net income in three of the five years during examination, with net income ranging from a high of a \$10,393,016 in 2013 to a low of a \$7,080,351 net loss in 2015. During 2015, net premiums decreased \$13 million to \$547 million at year-end from \$560 million in 2014. The decrease is due to the company's decision to exit the ACA individual market in 2015.

#### **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, 2015, 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. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Executive Compensation—It is recommended that the company complete the Report on Executive Compensation in accordance with its instructions.

Action—Compliance.

2. Appraisal—It is recommended that the company comply with SSAP No. 40 and maintain appraisals of no more than five years old for all properties held for the production of income.

Action—Compliance.

3. Reporting—It is recommended that the company report rental income on leased properties as investment income in accordance with SSAP No. 22.

Action—Compliance.



## **Summary of Current Examination Results**

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

### **Affiliated Agreements**

During the examination, a Line of Credit Agreement was established among WPS, WPS HP, and EPIC for \$5 million effective June 25, 2015. Additionally, WPS executed an Amendment, effective January 1, 2015, to the Service and Supplies Agreement between the company and WPS HP, which amended the due date of amounts due to one party from the other party to 180 days. In accordance with s. Ins 40.04 (2) (b) and (d), Wis. Adm. Code, the company is required to report new or amended affiliated agreements in writing to this office for review and nondisapproval at least 30 days before entering into these transactions. However, neither agreement was filed with this office. It is recommended that the company report any affiliated transaction in writing to this office at least 30 days before entering into the transaction, which includes amendments or modification of transactions previously filed, in compliance with s. Ins 40.04, Wis. Adm. Code.

## VIII. CONCLUSION

Wisconsin Physicians Service Insurance Corporation is the ultimate parent in a holding company system with two other insurance companies, The EPIC Life Insurance Company and WPS Health Plan, Inc. During the examination period WPS invested in 50% ownership in Arise Health Ventures, Inc., which formed Aspirus Arise Health Plan of Wisconsin, Inc., in 2016.

In 2015, total admitted assets showed a decrease of 16% to \$266 million from \$315 million at the prior year-end. Capital and surplus showed a decrease of 35% in 2015 to \$94 million from \$145 million at the prior year-end. The decreases were largely attributable to losses incurred on government lines of business (TRICARE) and losses incurred on ACA policies in its subsidiary WPS Health Plan, Inc.

The company reported a net income in three of the five years during examination, ranging from a net income of \$10,393,016 in 2013 to a low of a \$7,080,351 net loss in 2015. During 2015, net premiums decreased \$13 million to \$547 million at year-end from \$560 million at the prior year-end. The decrease is due to the company's decision to exit the ACA individual market in 2015.

The examination resulted in one recommendation, no adjustments to surplus and found that the company was in compliance with all of the recommendations in the previous examination report.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Affiliated Agreements—It is recommended that the company report any affiliated transaction in writing to this office at least 30 days before entering into the transaction, which includes amendments or modification of transactions previously filed, in compliance with s. Ins 40.04, Wis. Adm. Code.

## 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>
Nick Hartwig	Insurance Financial Examiner
Shelly Bueno	Insurance Financial Examiner
Greg Mielke	Insurance Financial Examiner
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Terry Lorenz  
Examiner-in-Charge