

Report of the Examination of
Wisconsin Physicians Service Insurance Corporation
Madison, Wisconsin
As of December 31, 2020

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL.....	6
IV. AFFILIATED COMPANIES.....	9
V. REINSURANCE.....	12
VI. FINANCIAL DATA	14
VII. SUMMARY OF EXAMINATION RESULTS.....	24
VIII. CONCLUSION.....	28
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS	29
X. ACKNOWLEDGMENT.....	30



April 13, 2022

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

Commissioner:

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

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 2016 - 2017 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

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

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

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

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

In 2020, the company collected direct premium in the following states:

Wisconsin	\$336,470,597	99.17%
Illinois	1,870,733	0.55
Michigan	732,812	0.22
Ohio	162,199	0.05
Indiana	<u>47,975</u>	<u>0.01</u>
Total	<u>\$339,284,316</u>	<u>100.00%</u>

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, WPS provides claims administration services for self-insured employer groups and the federal government's TRICARE, Veterans Affairs (VA), and Medicare programs. In addition, the company assumes select business written by its subsidiary, The EPIC Life Insurance Company (EPIC), through quota-share reinsurance agreements, and health business written by one unaffiliated insurance company, Delta Dental Plan of Wisconsin, Inc.

In 2004, The Westwood Conference Center, LLC (Westwood) was established with the company having an ownership share of 30.128%. Westwood is a Wisconsin limited liability company which operates the Westwood Conference facility in Wausau, Wisconsin. On December 16, 2020, the company sold its interest in Westwood.

During 2015, the company created a holding company, Arise Health Ventures, Inc., with its equal partner, Aspirus Inc., for the purpose of creating a Wisconsin health maintenance organization (HMO), Aspirus Arise Health Plan of Wisconsin, Inc. (AAHP). AAHP was licensed as an HMO on April 13, 2016, and offered insurance plans in 16 counties throughout North Central Wisconsin effective January 1, 2017. Upon approval from the Wisconsin Commissioner of Insurance in March 2019, the company sold its interest to the other 50% owner, with an effective date of December 31, 2018.

The following chart is a summary of premium income as reported by the company in 2020. 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)	\$153,544,134	\$	\$ 696,892	\$152,847,242
Medicare supplement	152,163,747	1,171,710		153,335,457
Dental only		6,732,837		6,732,837
Other health	<u>33,576,435</u>	<u> </u>	<u>486,665</u>	<u>33,089,770</u>
Total All Lines	<u>\$339,284,316</u>	<u>\$7,904,547</u>	<u>\$1,183,557</u>	<u>\$346,005,306</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 five to ten years and are separated by regions and/or benefit. During the examination period, WPS provided claims administrative services through three separate TRICARE contracts.

WPS is subcontracted by Humana Government Business Healthcare Services, Inc. to process claims for active-duty service members and their families under age 65 in the East region. The East region includes all states east of the Mississippi River and Arkansas, Louisiana, Oklahoma, and Texas.

WPS is subcontracted by International SOS Government Services, Inc., a London-based company, for processing all international TRICARE claims, known as the TRICARE Overseas Program. 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 administrative fees based on the contract. The company administered \$12.8 billion of TRICARE claims in 2020. The TRICARE administration business resulted in net loss of \$31.5 million for calendar year 2020.

Medicare

WPS provides claims administrative services for Medicare recipients under various cost-reimbursement type contracts with the Centers for Medicare & Medicaid Services (CMS). The company currently is the prime contractor for two Medicare Administrative Contractor (MAC) contracts in which it performs Medicare Part A and B claims administration services. In November 2011, the company was awarded the Jurisdiction 8 contract which covers the states of Michigan and Indiana, and began providing services on this contract in July 2012. This contract has been extended through December 31, 2025. In September 2019, the company was re-awarded the Jurisdiction 5 (J5) contract which covers the states of Nebraska, Iowa, Missouri, and Kansas along with J5 Part A National workload for all states except New York. This contract, which would have ended February 29, 2020, was extended through August 31, 2026. WPS is reimbursed for administrative expenses based on a budget set by CMS each fiscal year. During 2020, WPS received \$99.7 million for administrative expenses from CMS.

Veterans Affairs

WPS provides claims administration services as a subcontractor to TriWest Healthcare Alliance (TriWest) on multiple regional VA contracts which provide services to veterans outside of the VA system. WPS is reimbursed based on contract prices for services performed. WPS began transitioning out of the VA contracts during 2020.

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 2020, the company administered approximately \$1.65 billion of claims. These lines of business resulted in a net operating gain of \$2.6 million for 2020.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 14 members. WPS has established staggered, three-year terms for its board members to maintain continuity of knowledge and experience while also allowing periodic opportunities for new board members with desired skill sets to join the board of directors. 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.

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

Name and Residence	Principal Occupation	Term Expires
Brad Anderson** Reedsburg, Wisconsin	Human Resources Consultant Partnerships in Human Resources	2024
Thomas Belot Kohler, Wisconsin	Retired	2024
Teri Bruns Madison, Wisconsin	Vice President Service Now	2022
Kristine Euclide, J.D.* Madison, Wisconsin	Retired	2023
William Haight III Madison, Wisconsin	President Magna Publication, Inc.	2022
Michael Hamerlik, J.D. Madison, Wisconsin	President and Chief Executive Officer Wisconsin Physicians Service Ins. Corp.	Ex officio
Christine Hunter, M.D. Arlington, Virginia	Retired	2024
James Lord, D.D.S. Middleton, Wisconsin	Retired	2023
Nick Mastronardi Middleton, Wisconsin	Chief Executive Officer POLCO	2024
John Matthews Madison, Wisconsin	Retired	2023
Stephen Skoronski Estero, Florida	Retired	2024
Kim Sponem Cottage Grove, Wisconsin	Chief Executive Officer and President Summit Credit Union	2024

Name and Residence	Principal Occupation	Term Expires
William Winkenwerder Jr., M.D. Asheville, North Carolina	Chief Executive Officer/Consultant Winkenwerder Strategies LLC	2022
Kaleth Wright Reston, Virginia	Chief Executive Officer Air Force Aid Society	2023

* Chair

** Vice Chair

Officers of the Company

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

Name	Office
James Baird	Executive VP – WPS Health Insurance
Vicki Bernards	Chief Financial Officer
Frank Gumina	Chief Legal and Governance Officer
Michael Hamerlik	President and Chief Executive Officer
John Hogan	Chief Administrative Officer
Janet Kyle	Executive VP – Government Health Administrators
David Marshall	Chief Business Officer
Wendy Perkins	Chief Management and Risk Officer
John Stephens	Chief Strategy Officer

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Audit, Compliance and Risk Committee

Stephen Skoronski, Chair
Kristine Euclide
Christine Hunter, M.D.
James Lord, D.D.S.
Nick Mastronardi
Kaleth Wright

Executive Committee

Kristine Euclide, Chair
Brad Anderson
Thomas Belot
Michael Hamerlik
William Winkenwerder Jr., M.D.

Medicare Committee

Thomas Belot, Chair
Teri Bruns
Kristine Euclide
William Haight III
Michael Hamerlik
Robert Luck (advisory member)

Technology Committee

Nick Mastronardi, Chair
Teri Bruns
Kristine Euclide
Michael Hamerlik
Stephen Skoronski
Kim Sponem
William Winkenwerder Jr., M.D.

Planning, Governance and Nomination Committee

William Winkenwerder Jr., M.D., Chair
Brad Anderson
Kristine Euclide
Michael Hamerlik
Christine Hunter M.D.
John Matthews

Finance and Investment Committee

John Matthews, Chair
Kristine Euclide
William Haight III
Michael Hamerlik
James Lord, D.D.S.

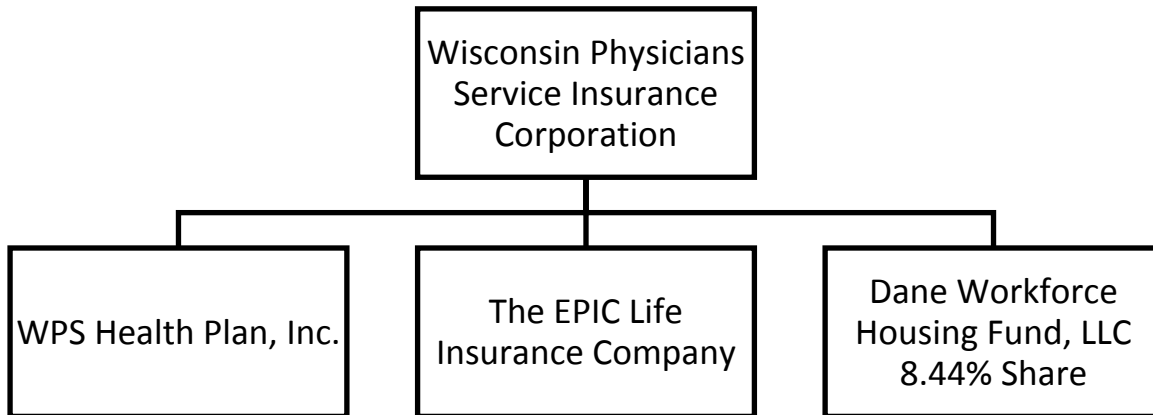
Human Resources and Compensation Committee

Brad Anderson, Chair
Thomas Belot
Kristine Euclide
Michael Hamerlik
Kim Sponem
Kaleth Wright

IV. AFFILIATED COMPANIES

Wisconsin Physicians Service 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, 2020



WPS Health Plan, Inc.

WPS Health Plan, Inc. (the Plan or WPS HP), 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. From 2014 through 2016, the Plan offered products through the health insurance exchanges established by the Patient Protection and Affordable Care Act (ACA). From 2017 through 2019, the Plan no longer offered products through the health insurance exchanges. Beginning in 2020, the Plan has limited product offerings on the health insurance exchanges. As of December 31, 2020, the audited financial statements

of WPS Health Plan, Inc. reported assets of \$49,080,624, liabilities of \$14,556,586, and capital and surplus of \$34,524,038. Operations for 2020 produced net income of \$18,713,138.

The EPIC Life Insurance Company

EPIC writes life, long-term and short-term disability, and dental and vision insurance policies. EPIC also writes select medical policies, which are assumed and administered by WPS. As of December 31, 2020, the audited financial statements of EPIC reported assets of \$31,674,389, liabilities of \$15,003,424, and capital and surplus of \$16,670,965. Operations for 2020 produced a net loss of \$1,272,350.

Dane Workforce Housing Fund, LLC

Dane Workforce Housing Fund, LLC is a Wisconsin limited liability company which is a social investment fund established and managed by Madison Development Corporation. The fund is intended to be a long-term strategy that will help create and sustain more workforce housing units in Dane County by filling financing gaps developers face with affordable workforce housing projects. In November and December 2020, the company invested \$274,873 in the fund for 8.44% ownership with a total commitment of \$1 million. As of December 31, 2020, Dane Workforce Housing Fund, LLC reported total assets of \$1,813,224, total liabilities of \$105,752, and partners' equity of \$1,707,472. The WPS share of liabilities was \$3,671 with partners' equity of \$271,216. The WPS share of operations for 2020 produced a net loss of \$3,657. Since Dane Workforce Housing Fund, LLC did not have audited statements, the investment was treated as a nonadmitted asset by WPS as of December 31, 2020.

Agreements with Affiliates

WPS has a Services 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 receipt of a written billing statement but no less frequently than quarterly.

WPS has an Administrative Services Agreement with EPIC under which WPS provides administrative services, including claims processing services, to EPIC with respect to Medicare

Supplement products. EPIC shall pay 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 receipt of a written billing statement but no less frequently than quarterly.

WPS has an intercompany tax allocation agreement with each of 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 pre-existing 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.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination 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:	<u>Fully Insured</u> Includes: group and individual PPO, student medical, assumed intercompany reinsurance, self-funded benefit plan Excludes: Medicare supplement and Medicare Part D prescription drug policies <u>Self-Funded</u> Stop-loss policies issued to self-funded group health plans
Retention:	\$1 million ultimate net loss for each covered person
Coverage:	100% of an unlimited amount of ultimate net loss in excess of \$1 million 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.
Effective date:	January 1, 2020 through January 1, 2021

Affiliated Assuming Contracts

Type:	Quota Share
Reinsured:	The EPIC Life Insurance Company
Scope:	Accident and health coverage defined as CORE medical business
Retention:	0%
Coverage:	100%
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.

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.

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, 2020, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.

Wisconsin Physicians Service Insurance Corporation
Assets
As of December 31, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 58,686,405	\$	\$ 58,686,405
Stocks:			
Common stocks	85,319,684		85,319,684
Real estate:			
Occupied by the company	26,894,313		26,894,313
Cash, cash equivalents, and short-term investments	96,255,641		96,255,641
Other invested assets	274,873	274,873	
Investment income due and accrued	429,351		429,351
Uncollected premiums and agents' balances in course of collection	1,790,659		1,790,659
Accrued retrospective premiums and contracts subject to redetermination	2,590,828		2,590,828
Amounts recoverable from reinsurers	1,200,022		1,200,022
Amounts receivable relating to uninsured plans	85,062,918		85,062,918
Current federal and foreign income tax recoverable and interest thereon	1,398,821		1,398,821
Net deferred tax asset	20,244,257	6,757,439	13,486,818
Electronic data processing equipment and software	11,739,757	9,991,129	1,748,628
Furniture and equipment, including health care delivery assets	2,918,423	2,918,423	
Receivable from parent, subsidiaries and affiliates	481,302		481,302
Health care and other amounts receivable	6,929,545	299,793	6,629,752
Write-ins for other than invested assets:			
Deferred Charges	16,789,828	16,789,828	
Leasehold Improvements	5,986,965	5,986,965	
Prepaid Expenses	<u>3,741,974</u>	<u>3,741,974</u>	<u> </u>
Total Assets	<u>\$428,735,566</u>	<u>\$46,760,424</u>	<u>\$381,975,142</u>

Wisconsin Physicians Service Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2020

Claims unpaid	\$ 38,877,000
Accrued medical incentive pool and bonus payments	103,836
Unpaid claims adjustment expenses	1,043,037
Aggregate health policy reserves	14,502,867
Premiums received in advance	13,408,349
General expenses due or accrued	87,039,343
Ceded reinsurance premiums payable	110,403
Amounts withheld or retained for the account of others	71,797
Remittance and items not allocated	2,124,486
Funds held under reinsurance treaties with reinsurers	814,721
Liability for amounts held under uninsured accident and health plans	3,503,075
Aggregate write-ins for other liabilities (including \$0 current)	
Additional pension liability	10,815,920
Reserve for escheatable items	<u>303,550</u>
Total Liabilities	170,718,384
Unassigned funds (surplus)	<u>211,256,758</u>
Total Liabilities, Capital and Surplus	<u>\$381,975,142</u>

Wisconsin Physicians Service Insurance Corporation
Statement of Revenue and Expenses
For the Year 2020

Net premium income		\$346,005,306
Change in unearned premium reserves and reserve for rate credits		<u>(1,631,403)</u>
Total revenues		344,373,903
Medical and Hospital:		
Hospital/medical benefits	\$191,600,481	
Outside referrals	1,919,735	
Emergency room and out-of-area	26,781,335	
Prescription drugs	<u>35,082,799</u>	
Subtotal	255,384,350	
Less		
Net reinsurance recoveries	<u>(1,727,764)</u>	
Total medical and hospital	257,112,114	
Claims adjustment expenses	10,942,781	
General administrative expenses	<u>52,631,558</u>	
Total underwriting deductions		<u>320,686,453</u>
Net underwriting gain or (loss)		23,687,450
Net investment income earned	1,656,432	
Net realized capital gains or (losses)	<u>2,405,553</u>	
Net investment gains or (losses)		4,061,985
Aggregate write-ins for other income or expenses		
Government lines		(13,567,474)
Miscellaneous income/expense		<u>6,222,579</u>
Net income or (loss) before federal income taxes		20,404,540
Federal and foreign income taxes incurred		<u>4,593,489</u>
Net Income (Loss)		<u>\$ 15,811,051</u>

**Wisconsin Physicians Service Insurance Corporation
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2020**

	2020	2019	2018	2017	2016
Capital and surplus, beginning of year	\$168,463,477	\$127,736,909	\$122,204,849	\$109,828,554	\$93,931,813
Net income (loss)	15,811,051	21,221,527	(1,281,708)	11,833,580	8,750,982
Change in net unrealized capital gains/losses	20,470,326	4,650,225	(6,042,742)	(6,354,166)	(7,302,849)
Change in net deferred income tax	(2,485,485)	(188,390)	107,512	(22,924,900)	1,403,792
Change in nonadmitted assets	10,222,637	6,439,648	16,210,321	21,213,654	12,538,493
Write-ins for gains and (losses) in surplus: Change in Pension Liability	<u>(1,225,248)</u>	<u>8,603,558</u>	<u>(3,461,323)</u>	<u>8,608,127</u>	<u>506,323</u>
Capital and Surplus, End of Year	<u>\$211,256,758</u>	<u>\$168,463,477</u>	<u>\$127,736,909</u>	<u>\$122,204,849</u>	<u>\$109,828,554</u>

Wisconsin Physicians Service Insurance Corporation
Statement of Cash Flow
For the Year 2020

Premiums collected net of reinsurance		\$346,945,786
Net investment income		<u>3,243,142</u>
Total		350,188,928
Less:		
Benefit- and loss-related payments	\$261,735,450	
Commissions, expenses paid and aggregate write-ins for deductions	16,443,050	
Federal and foreign income taxes paid (recovered) net of tax on capital gains (losses)	<u>5,552,314</u>	
Total		<u>283,730,814</u>
Net cash from operations		66,458,114
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	\$18,492,768	
Stocks	3,150,000	
Other invested assets	<u>1,852,530</u>	
Total investment proceeds		23,495,298
Cost of Investments Acquired—Long-term Only:		
Bonds	18,987,328	
Stocks	6,100,009	
Real estate	2,115,100	
Other invested assets	<u>274,873</u>	
Total investments acquired		<u>27,477,311</u>
Net cash from investments		(3,982,013)
Cash Provided/Applied:		
Other cash provided (applied)		<u>(433,722)</u>
Net cash from financing and miscellaneous sources		<u>(433,722)</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		62,042,379
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>34,213,262</u>
End of Year		<u>\$ 96,255,641</u>

Growth of Wisconsin Physicians Service Insurance Corporation

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2020	\$381,975,142	\$170,718,384	\$211,256,758	\$344,373,903	\$257,112,114	\$15,811,051
2019	329,165,899	160,702,422	168,463,477	346,024,956	264,740,907	21,221,527
2018	289,267,998	161,531,089	127,736,909	396,043,092	315,244,475	(1,281,708)
2017	277,099,917	154,895,068	122,204,849	417,055,524	336,205,044	11,833,580
2016	267,750,714	157,922,160	109,828,554	435,444,928	350,406,285	8,750,982
2015	265,511,954	171,580,141	93,931,813	547,468,678	450,968,626	(7,080,351)

Year	Net Underwriting Gain/(Loss)	Government Lines Income/(Expense)
2020	\$23,687,450	(\$13,567,474)
2019	20,987,142	12,126,293
2018	14,208,725	(17,435,362)
2017	10,372,000	2,290,071
2016	4,785,781	1,387,995
2015	(3,082,764)	(18,083,255)

Year	Profit Margin	Medical Loss Ratio	Administrative Expense Ratio	Change in Enrollment
2020	4.6%	74.7%	18.5%	-0.9%
2019	6.1	76.5	17.4	-8.1
2018	-0.3	79.7	16.7	-7.0
2017	2.8	80.5	17.0	-8.1
2016	2.0	79.8	19.1	-15.9
2015	-1.3	82.6	18.0	-11.9

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2020	93,392	2,559.24	17.9
2019	94,234	2,451.03	15.3
2018	102,485	2,131.80	14.0
2017	110,196	1,996.90	13.9
2016	123,251	1,759.21	12.6
2015	146,620	1,735.94	13.3

Per Member Per Month Information

	2020	2019	Percentage Change
Premiums:			
Commercial	\$554.83	\$544.77	1.8%
Medicare	267.66	268.76	-0.4
Other health	<u>125.60</u>	<u>121.09</u>	3.7
Expenses:			
Hospital/medical benefits	172.33	175.47	-1.8
Outside referrals	1.73	2.21	-21.7
Emergency room and out-of-area	24.09	25.16	-4.3
Prescription drugs	31.55	25.34	24.5
Incentive pool and withhold adjustments		(0.10)	100.0
Less: Net reinsurance recoveries	<u>2.46</u>	<u>0.44</u>	463.5
Total medical and hospital	227.24	227.64	-0.2
Claims adjustment expenses	9.24	9.68	-4.6
General administrative expenses	<u>46.71</u>	<u>42.10</u>	10.9
Total underwriting deductions	<u>\$283.18</u>	<u>\$279.42</u>	1.3

Total admitted assets have increased 44% to \$382 million and total liabilities decreased 1% to \$171 million since 2015.

Capital and surplus increased 125% to \$211 million in 2020 from \$94 million in 2015. The increase was primarily due to net income of \$56 million and decreases in nonadmitted assets of \$67 million during the examination period.

The company reported net income in four of the five years under examination, ranging from a net income of \$21,221,527 in 2019 to a net loss of \$1,281,708 in 2018. Membership has decreased 36% over the examination period. The decrease in membership was primarily due to the company's decision to exit the ACA compliant individual market beginning in the later part of 2015. In addition, there was a decline in group business as the company worked to improve its large group loss ratio through rate increases which caused natural attrition beginning in 2017. Premium earned experienced a similar decrease of 37% to \$344 million since 2015.

The variability in net income can be attributed to the government lines of business. The TRICARE programs, in particular TRICARE East, had significant losses in 2018, 2019, and 2020. In 2019, WPS was awarded an option period by the VA for the other regions it was not servicing. As a result, the additional income offset the losses by the TRICARE programs in that year.

**Wisconsin Physicians Service Insurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2020**

Assets		\$381,975,142
Less security surplus of insurance subsidiaries		8,039,700
Less liabilities		<u>170,718,384</u>
Adjusted surplus		203,217,058
Annual premium:		
Individual life and health	\$174,999,627	
Factor	<u>15%</u>	
Total		\$26,249,944
Group life and health	154,954,388	
Factor	<u>10%</u>	
Total		15,495,438
All other insurance	16,051,291	
Factor	<u>7.0%</u>	
Total		<u>1,123,590</u>
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>42,868,972</u>
Compulsory Surplus Excess (Deficit)		<u>\$160,348,086</u>
Adjusted surplus (from above)		\$203,217,058
Security surplus (125% of compulsory surplus based on Order 06-C30630)		<u>53,586,215</u>
Security Surplus Excess (Deficit)		<u>\$149,630,843</u>

Reconciliation of Capital and 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, 2020, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. 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.

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.

Custodial Agreement Compliance

The company has investments held by Associated Trust Company N.A. under a formal custodial agreement. However, this custodial agreement does not contain several provisions recommended by the NAIC *Financial Condition Examiners Handbook*. The agreement lacks the following provisions:

- The custodian is obligated to indemnify the insurance company for any insurance company's loss of securities in the custodian's custody, except that, unless domiciliary state law, regulation or administrative action otherwise require a stricter standard, the custodian shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian.
- In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.
- If this agreement has been terminated or if 100% of the assets of the account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the depositor's domiciliary commissioner.
- During regular business hours, and upon reasonable notice, an officer or employee of the depositor, an independent accountant selected by the depositor, or a representative of the depositor's domiciliary commissioner shall be entitled to examine, on the premises of the custodian, the custodian's records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the depositor.

- The custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian.

It is recommended that the company amend its custodial agreement to conform with standards set forth by the NAIC *Financial Condition Examiners Handbook*.

Form B (Insurance Holding Company System Annual Registration Statement) Reporting

During the examination of the company, it was noted that the company's Form B filings do not adhere to the expectations set forth in the Insurance Holding Company System Model Regulation. Insurance Holding Company System Model Regulation specifies that agreements in force with affiliated parties including loans, management agreements, service contracts and cost-sharing arrangements, reinsurance agreements, and consolidated tax allocation agreements be briefly described in a manner as to permit the proper evaluation thereof by the Commissioner.

Item 5 Transactions and Agreements in Form B filed by Wisconsin Physicians Service Insurance Corporation on May 28, 2021, referenced Note 4 in the CPA report filed as part of Form B. Note 4 contained a brief description of services and expense amounts for affiliated agreements. However, Note 4 did not provide enough detail, like title, effective date, and amendments of the agreements, to identify and determine whether all affiliated agreements have been filed with OCI.

It is recommended that the company report affiliated agreements in Form B as specified in Insurance Holding Company System Model Regulation. In order to evaluate the agreements, the names of the agreements, effective dates of the agreements and any amendments, description of services, amounts of payments, etc. would be valuable in identification of the agreements.

Actuarial Opinion

The consulting actuary reviewed the 2020 Statement of Actuarial Opinion and found that the Scope Section did not use the form prescribed by the NAIC *Annual Statement Instructions-Health*. The elements opined on appear to be appropriate, but the format specified by the instructions was not used. In addition, the Opinion Section contained statements that are not prescribed in the instructions. When statements other than those prescribed in the instructions are included, it must be disclosed in the Table of Key Indicators.

It is recommended that the appointed actuary, when preparing future Statements of Actuarial Opinion, use the format and language prescribed in the NAIC *Annual Statement Instructions-Health* unless deemed inappropriate. When alternative language is used, it must be disclosed in the Table of Key Indicators.

Information Technology

During the course of examination, a review was made of the company's general controls over its information systems. The review resulted in certain findings, which were presented in a letter to management dated April 13, 2022. It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated April 13, 2022.

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. Upon approval from the Wisconsin Commissioner of Insurance in March 2019, the company sold its interest to the other 50% owner, with an effective date of December 31, 2018.

Total admitted assets have increased 44% to \$382 million and total liabilities decreased 1% to \$171 million since 2015.

Capital and surplus increased 125% to \$211 million in 2020 from \$94 million in 2015. The increase was primarily due to net income of \$56 million and decreases in nonadmitted assets of \$67 million.

The company reported a net income in four of the five years during examination, ranging from a net income of \$21,221,527 in 2019 to a net loss of \$1,281,708 in 2018. The variability in net income can be attributed to the government lines of business. Membership has decreased 36% over the examination period. The decrease in membership was primarily due to the company's decision to exit the ACA compliant individual market beginning in the later part of 2015. In addition, there was a decline in group business as the company worked to improve its large group loss ratio through rate increases which caused natural attrition beginning in 2017. Premium earned experienced a similar decrease of 37% to \$344 million since 2015.

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

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Custodial Agreement Compliance—It is recommended that the company amend its custodial agreement to conform with standards set forth by the NAIC Financial Condition Examiners Handbook.
2. Page 26 - Form B Reporting—It is recommended that the company report affiliated agreements in Form B as specified in Insurance Holding Company System Model Regulation. In order to evaluate the agreements, the names of the agreements, effective dates of the agreements and any amendments, description of services, amounts of payments, etc. would be valuable in identification of the agreements.
3. Page 26 - Actuarial Opinion—It is recommended that the appointed actuary, when preparing future Statements of Actuarial Opinion, use the format and language prescribed in the NAIC *Annual Statement Instructions-Health* unless deemed inappropriate. When alternative language is used, it must be disclosed in the Table of Key Indicators report.
4. Page 27 - Information Technology—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated April 13, 2022.

X. ACKNOWLEDGMENT

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

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

Name	Title
Shelly Bueno, AFE	Insurance Financial Examiner
Dan Hanes	Insurance Financial Examiner
Angelita Romaker	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Gregory Mielke
Examiner-in-Charge