

Report
of the
Examination of
WPS Health Plan, Inc.
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:

WPS Health Plan, Inc.
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of WPS Health Plan, Inc. (the company or WPS HP) 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 insurer 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

WPS Health Plan, Inc., is described as a for-profit mixed model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, comprehensive health care services performed by providers selected by the organization." Under the mixed model, the company has a delivery system consisting of a combination of physicians and/or one or more clinics and/or independent contracting physicians operating out of their separate offices. HMOs compete with traditional fee-for-service health care delivery.

The company was incorporated April 19, 2005, and commenced business June 1, 2005. The company is a wholly owned subsidiary Wisconsin Physicians Service Insurance Corporation (WPS), a nonprofit service insurance corporation. On June 1, 2005, WPS Health Plan, Inc., entered into an Asset Purchase Agreement with PHP Insurance Plan, Inc. (PHP), Prevea Health Services, Inc., and Prevea Clinic, Inc. Under this agreement, all of PHP's group and individual health insurance policies and certificates were transferred to WPS Health Plan, Inc. The company began doing business under the trade name of Arise Health Plan in October 2006.

The company contracts with more than 4,000 primary care and nearly 15,000 specialty care providers, maintains a broad provider network, and actively offers a narrow network called Arise AboutHealth. Referrals must be preauthorized by the company for health care services not available from a participating contracted provider.

The provider contracts generally have a one-year term and automatically renew for additional one-year terms. The contracts include hold-harmless provisions for the protection of policyholders. Typically, contracts may be terminated by either party giving 180 days' written notice prior to the end of a contract term. Providers are compensated based on fee schedules that are percentages of RBRVS (Medicare rates) or, in rare instances, on a discounted fee-for-service basis.

The company contracts with 58 hospitals to provide inpatient services, plus a variety of additional facilities to provide other services such as ambulatory surgery, skilled nursing home and long-term care. Hospitals are reimbursed on a diagnosis-related group (DRG), per diem, case rate and discounted fee-for-service basis. The contracts include hold-harmless provisions for the protection of policyholders.

Contracted hospitals are:

American Family Children's Hospital, Madison, WI
Aspirus Grand View Hospital, Ironwood, MI
Aspirus Iron River Hospital, Iron River, MI
Aspirus Keweenaw Hospital, Laurium, MI
Aspirus Langlade Hospital, Antigo, WI
Aspirus Medford Hospital, Medford, WI
Aspirus Ontonagon Hospital, Ontonagon, MI
Aspirus Riverview Hospital, Wisconsin Rapids, WI
Aspirus Wausau Hospital, Wausau, WI
Aurora BayCare Medical Center, Green Bay, WI
Aurora Lakeland Medical Center, Elkhorn, WI
Aurora Medical Center Grafton, Grafton, WI
Aurora Medical Center Kenosha, Kenosha, WI
Aurora Medical Center Manitowoc, Manitowoc, WI
Aurora Medical Center Oshkosh, Oshkosh, WI
Aurora Medical Center Summit, Summit, WI
Aurora Medical Center Washington County, Hartford, WI
Aurora Memorial Hospital of Burlington, Burlington, WI
Aurora Sheboygan Medical Center, Sheboygan, WI
Aurora Sinai Medical Center of Aurora, Milwaukee, WI
Aurora St. Luke's Medical Center, Milwaukee
Aurora St. Luke's South Shore, Cudahy, WI
Aurora West Allis Medical Center, West Allis, WI
Bay Area Medical Center, Marinette, WI
Bellin Memorial Hospital, Green Bay, WI
Children's Hospital of Wisconsin-Fox Valley, Neenah, WI
Children's Hospital of Wisconsin, Milwaukee, WI
Dickinson Memorial Hospital, Iron Mountain, MI
Door County Medical Center, Sturgeon Bay, WI
Gundersen Boscobel Hospital, Boscobel, WI
Gundersen Lutheran Medical Center, La Crosse, WI
Gundersen St. Joseph's Hospital, Hillsboro, WI
Gundersen Tri-County Hospital, Whitehall, WI
Holy Family Medical Center, Manitowoc, WI
Oconomowoc Memorial Hospital, Oconomowoc, WI
Oconto Hospital, Oconto, WI
Rehabilitation Hospital of Wisconsin, Waukesha, WI
Ripon Medical Center, Ripon, WI
St. Agnes Hospital, Fond du Lac, WI
St. Clare Memorial Hospital, Oconto Falls, WI
St. Mary's Hospital Medical Center, Green Bay, WI
St. Nicholas Hospital, Sheboygan, WI
St. Vincent Hospital, Green Bay, WI
ThedaCare Medical Center-Berlin, Berlin, WI

ThedaCare Medical Center-New London, New London, WI
ThedaCare Medical Center-Shawano, Shawano, WI
ThedaCare Medical Center-Waupaca, Waupaca, WI
ThedaCare Medical Center-Wild Rose, Wild Rose, WI
ThedaCare Regional Medical Center-Appleton, Appleton, WI
ThedaCare Regional Medical Center-Neenah, Neenah, WI
United Hospital System, Kenosha Medical Center Campus, Kenosha, WI
United Hospital System, St. Catherine's Medical Center Campus, Pleasant Prairie, WI
UW Health at The American Center, Madison, WI
UW Health Rehabilitation Hospital, Madison, WI
UW Health University Hospital, Madison, WI
Waukesha Memorial Hospital, Waukesha, WI
Waupun Memorial Hospital, Waupun, WI
UPH-Meriter Hospital, Madison, WI

According to its business plan, the company's service area is comprised of the following 48 counties: Adams, Brown, Calumet, Clark, Columbia, Crawford, Dane, Dodge, Door, Florence, Fond du Lac, Forest, Green Lake, Iron, Jackson, Jefferson, Kenosha, Kewaunee, La Crosse, Langlade, Lincoln, Manitowoc, Marathon, Marinette, Marquette, Milwaukee, Monroe, Ozaukee, Oconto, Oneida, Outagamie, Portage, Price, Racine, Sauk, Shawano, Sheboygan, Taylor, Trempealeau, Vernon, Vilas, Walworth, Washington, Waukesha, Waupaca, Waushara, Winnebago, and Wood.

The company offers comprehensive health care coverage. The following basic health care coverages are provided:

- Physician services
- Prescription drugs—copayment level varies by type
- Preventive health services
- Routine eye examinations
- Routine hearing examinations
- Inpatient services
- Outpatient services
- Emergency care
- Chiropractic services
- Mental health, drug, and alcohol abuse services
- Special dental procedures
- Prosthetic devices and durable medical equipment
- Newborn services
- Home health care
- Diabetes treatment
- Skilled nursing home care in a skilled nursing facility
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Hospice care
- Kidney disease treatment
- Certain transplants
- Autism treatment

Skilled nursing care is limited to 30 days per confinement. Except for emergency care, the company's policy requires members to seek care from a participating provider. The company also offers point-of-service (POS) plans, under which a member may choose to seek services from nonparticipating providers for lesser levels of coverage. Members are encouraged to choose a primary care physician from the listing of participating physicians available.

The company markets group, self-funded, and individual policies. The company uses a mixed distribution force consisting of selected agencies in the Northeastern Wisconsin/Fox Valley and North Central Wisconsin area, and also offered individual products on the Federally Facilitated Marketplace (Marketplace) from 2014 through 2016. The company made the business decision to cease participation in the Marketplace for 2017.

In 2015, the company's parent, WPS, created a holding company, Arise Health Ventures, Inc. (AHV), with its equal partner, Aspirus Inc., for the purpose of creating a Wisconsin 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 with effective dates of January 1, 2017. The service regions of WPS HP and AHP overlap, and it is anticipated that several groups will move from WPS HP to AHP in 2017.

The company uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted for age/gender distribution, benefit plan, area, and administrative cost on a group-by-group basis. Experience is reviewed for renewal groups; credibility factors are used to blend the "book" rate with the experience rate, giving more weight to the experience portion of the rate as the group size increases. A portion of the large claim amounts are pooled or removed from the experience in determining the subsequent renewal rates. This pooled claim amount is replaced with a pooling charge that is spread out to all groups in the large group block of business. Small groups are handled separately at the home office in Madison. New business and renewal rates are assigned within the rating requirements set forth in the Affordable Care Act (ACA), as ACA-compliant plans are community rated.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Four directors are elected to serve a one-year term, and the Chief Executive Officer serves ex officio. Officers are elected by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive \$900 per meeting for serving on the board. Employees on the board do not receive fees.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Timothy T. Flaherty, M.D. Neenah, WI	Retired Physician	2017
Michael Hamerlik Fitchburg, WI	President and Chief Executive Officer Wisconsin Physicians Service Ins. Corp.	Ex Officio
Scott Kowalski Madison, WI	Executive VP - WPS Health Insurance Wisconsin Physicians Service Ins. Corp.	2017
Thomas R. Nelson Cottage Grove, WI	Chief Financial Officer Wisconsin Physicians Service Ins. Corp.	2017
Daniel Schwandt Madison, WI	Chief Legal and Governance Officer Wisconsin Physicians Service Ins. Corp.	2017

Officers of the Company

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

Name	Office	2015 Compensation
Michael Hamerlik	President and CEO	\$1,121,761*
Thomas R. Nelson	Treasurer	554,051*
Kimberly Olson	Secretary	N/A^

* This is total compensation paid by WPS, a portion of which is allocated to subsidiaries.

^ Denotes an officer new to the position after the examination date and had no 2015 compensation.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees appointed by the board at the time of the examination.

The company has its own employees to carry out the general operations of the organization. Additional administrative staff is provided through a services and supplies agreement with WPS. Under the agreement, effective June 1, 2005, WPS agrees to provide the company with general management services, the services and expertise of WPS' officers and staff and other services and supplies as required by the company. Each party shall pay the other party, as full compensation for services and supplies rendered, the cost of services and supplies provided, including a reasonable allocation of overhead expenses. The agreement shall be in effect and enforceable against the parties unless terminated by written mutual agreement of the parties.

Insolvency Protection for Policyholders

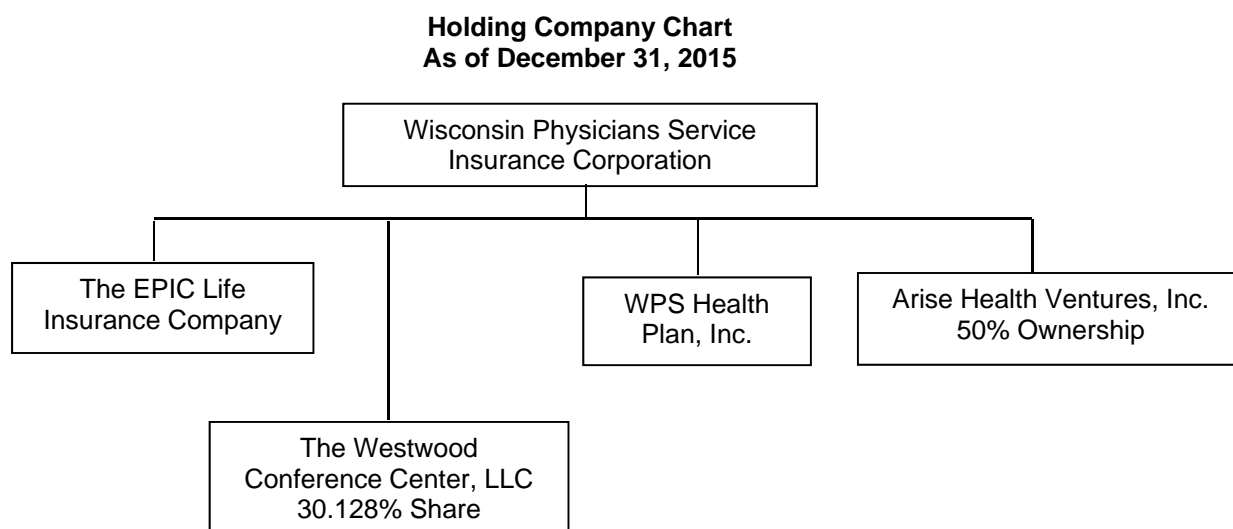
Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

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

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

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Wisconsin Physician Service Insurance Corporation. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.



Wisconsin Physicians Service Insurance Company

WPS owns 100% of WPS Health Plan, Inc. WPS issues traditional indemnity and managed care health policies and provides claims administration services for self-insured employers and governmental agencies. WPS writes direct premium in Wisconsin, Michigan, and Illinois and assumes business written in other states by its subsidiary, The EPIC Life Insurance Company, through a quota share reinsurance agreement, and assumes business from Delta Dental of Wisconsin, Inc., an unaffiliated insurance company. As of December 31, 2015, the audited financial statements of WPS reported assets of \$265,511,954, liabilities of \$171,580,141 and capital and surplus of \$93,931,813. Operations for 2015 produced a net loss of \$7,080,351.

The EPIC Life Insurance Company (EPIC)

EPIC issues life, long-term and short-term disability, dental and vision insurance policies. EPIC also provides select medical products, 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.

The Westwood Conference Center, LLC (Westwood)

Westwood is a Wisconsin limited liability company operating the Westwood Conference facility in Wausau, Wisconsin, established in 2004. WPS' ownership share is 30.128%. As of December 31, 2015, WPS' 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.

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. 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 HP members in the case WPS HP 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 has reinsurance coverage under the contract described below:

WPS Health Plan, Inc., has an HMO Medical Excess of Loss Reinsurance Agreement with Axis Insurance Company, in which it cedes its group medical insurance policies (including groups defined by the ceding company as one life groups), its individual insurance policies, and its self-funded benefit plan. There are three layers of coverage: Layer 1) 100% of ultimate net loss of \$1 million in excess of \$1 million; Layer 2) 100% of \$3 million in excess of \$2 million; and Layer 3) 100% of an unlimited amount of ultimate net loss in excess of \$5 million.

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 obligation and/or loss in excess of policy limits.

Affordable Care Act 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 Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company for the period under examination.

WPS Health Plan, Inc.
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$19,861,209	\$	\$19,861,209
Cash, cash equivalents and short-term investments	12,356,785		12,356,785
Investment income due and accrued	105,120		105,120
Uncollected premiums and agents' balances in the course of collection	785,078		785,078
Accrued retrospective premiums and contracts subject to redetermination	2,661,502		2,661,502
Amounts recoverable from reinsurers	1,563,916		1,563,916
Amounts receivable relating to uninsured plans	45,120		45,120
Net deferred tax asset	3,330,075	3,330,075	
Electronic data processing equipment and software	153,022	142,154	10,868
Furniture and equipment, including health care delivery assets	390,469	390,469	
Receivables from parent, subsidiaries and affiliates	12,000,000		12,000,000
Health care and other amounts receivable	870,310	100,277	770,033
Aggregate write-ins for other than invested assets	<u>181,993</u>	<u>181,993</u>	<u> </u>
Total Assets	<u>\$54,304,599</u>	<u>\$4,144,968</u>	<u>\$50,159,631</u>

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

Claims unpaid		\$ 5,525,000
Accrued medical incentive pool and bonus payments		563,518
Unpaid claims adjustment expenses		575,140
Aggregate health policy reserves		8,153,000
Premiums received in advance		1,940,179
General expenses due or accrued		3,754,922
Current federal and foreign income tax payable and interest thereon		1,584,258
Ceded reinsurance premiums payable		161,653
Amounts withheld or retained for the account of others		600
Remittance and items not allocated		4,466,705
Amounts due to parent, subsidiaries and affiliates		1,668,900
Liability for amounts held under uninsured accident and health plans		1,566,792
Aggregate write-ins for other liabilities [including \$(1) current]		<u>17,059</u>
Total liabilities		29,977,726
Aggregate write-ins for special surplus funds	\$ 2,525,247	
Common capital stock		100
Gross paid in and contributed surplus		59,499,900
Unassigned funds (surplus)		<u>(41,843,342)</u>
Total capital and surplus		<u>20,181,905</u>
Total Liabilities, Capital and Surplus		<u>\$50,159,631</u>

WPS Health Plan, Inc.
Statement of Revenue and Expenses
For the Year 2015

Net premium income		\$149,801,266
Change in unearned premium reserves and reserve for rate credits		<u>408,128</u>
Total revenues		150,209,394
Medical and hospital:		
Hospital/medical benefits	\$113,417,665	
Outside referrals	3,414,331	
Emergency room and out-of-area	19,535,826	
Prescription drugs	25,294,044	
Incentive pool and withhold adjustments	<u>448,344</u>	
Subtotal	162,110,210	
Less		
Net reinsurance recoveries	<u>19,492,412</u>	
Total medical and hospital	142,617,798	
Claims adjustment expenses	7,861,373	
General administrative expenses	20,986,543	
Increase in reserves for life and accident and health contracts	<u>7,883,000</u>	
Total underwriting deductions		<u>179,348,714</u>
Net underwriting gain or (loss)		(29,139,320)
Net investment income earned	397,728	
Net realized capital gains or (losses)	<u>41,232</u>	
Net investment gains or (losses)		<u>438,960</u>
Net income or (loss) before federal income taxes		(28,700,360)
Federal and foreign income taxes incurred		<u>(6,262,768)</u>
Net Income (Loss)		<u>\$ (22,437,592)</u>

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

	2015	2014	2013	2012	2011
Capital and surplus, beginning of year	\$ 14,635,414	\$ 7,897,506	\$ 9,894,586	\$ 9,987,999	\$9,790,808
Net income (loss)	(22,437,592)	(7,366,414)	(3,690,396)	(1,569,256)	(20,223)
Change in net unrealized capital gains/losses	(9,713)	10,079	76	19,409	26,962
Change in net deferred income tax	2,661,144	(82,296)	(137,274)	(92,665)	92,636
Change in nonadmitted assets	(2,667,348)	(323,461)	(169,486)	49,099	97,816
Surplus adjustments: Paid in	<u>28,000,000</u>	<u>14,500,000</u>	<u>2,000,000</u>	<u>1,500,000</u>	<u> </u>
Surplus, End of Year	<u>\$ 20,181,905</u>	<u>\$14,635,414</u>	<u>\$ 7,897,506</u>	<u>\$ 9,894,586</u>	<u>\$9,987,999</u>

WPS Health Plan, Inc.
Statement of Cash Flows
As of December 31, 2015

Premiums collected net of reinsurance		\$156,747,189
Net investment income		<u>604,524</u>
Total		<u>157,351,713</u>
Less:		
Benefit- and loss-related payments	\$147,181,234	
Commissions, expenses paid and aggregate write-ins for deductions	29,441,419	
Federal and foreign income taxes paid (recovered)		
\$0 net tax on capital gains (losses)	<u>(7,782,303)</u>	
Total		<u>168,840,350</u>
Net cash from operations		(11,488,637)
Proceeds from investments sold, matured or repaid:		
Bonds	<u>\$ 5,378,787</u>	
Total investment proceeds	5,378,787	
Cost of investments acquired—long-term only:		
Bonds	<u>10,514,009</u>	
Total investments acquired	<u>10,514,009</u>	
Net cash from investments		(5,135,221)
Cash provided/applied:		
Surplus notes, capital notes		
Capital and paid in surplus, less treasury stock	28,000,000	
Other cash provided (applied)	<u>1,963,750</u>	
Net cash from financing and miscellaneous sources		<u>29,963,750</u>
Net change in cash, cash equivalents, and short-term investments		13,339,892
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>(983,107)</u>
End of Year		<u>\$ 12,356,785</u>

Growth of WPS Health Plan, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2015	\$50,159,631	\$29,977,726	\$20,181,905	\$150,209,394	\$142,617,798	\$(22,437,592)
2014	28,393,969	13,758,555	14,635,414	139,974,870	131,002,933	(7,366,414)
2013	23,109,194	15,211,688	7,897,506	78,775,986	74,643,642	(3,690,396)
2012	30,340,557	20,445,971	9,894,586	97,323,843	88,927,946	(1,569,256)
2011	30,694,950	20,706,951	9,987,999	103,615,124	91,363,343	(20,223)
2010	26,238,160	16,447,352	9,790,808	93,612,814	84,624,254	(1,283,791)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2015	(14.9)%	94.9%	19.2%	(12.56)%
2014	(5.3)	93.6	14.7	64.78
2013	(4.7)	94.8	13.8	(19.58)
2012	(1.6)	91.4	12.1	(14.63)
2011	0.0	88.2	12.7	6.00

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2015	28,788	286.38	4.6
2014	32,925	305.95	4.8
2013	19,981	296.23	3.8
2012	24,845	297.15	3.9
2011	29,102	314.50	4.2

Per Member Per Month Information

	2015	2014	Percentage Change
Premiums:			
Commercial	\$413.13	\$390.68	5.7%
Medicare	<u>400.24</u>	<u>357.85</u>	11.8
Expenses:			
Hospital/medical benefits	312.77	299.17	4.5
Outside referrals	9.42	8.21	14.7
Emergency room and out-of-area	53.87	51.81	4.0
Prescription drugs	69.75	58.34	19.6
Incentive pool and withhold adjustments	1.24	1.70	(27.2)
Less: Net reinsurance recoveries	<u>53.75</u>	<u>52.84</u>	1.7
Total medical and hospital	393.30	366.39	7.3
Claims adjustment expenses	21.68	10.80	99.1
General administrative expenses	57.87	46.68	24.0
Increase in reserves for accident and health contracts	<u>21.74</u>	_____	N/A
Total Underwriting Deductions	<u>\$494.59</u>	<u>\$423.96</u>	16.7

The company's total assets showed an increase in 2015 to \$50.2 million from \$28.4 million in 2014 due to a \$28.0 million capital contribution by its parent company. The company's capital and surplus more than doubled over the examination period from \$9.8 million at year-end 2010 to \$20.2 million at year-end 2015. The increase in capital and surplus is mainly due to capital contributions made by WPS over the examination period totaling \$46 million. Capital contributions by WPS were needed due to the continued operating losses of the company.

The company's increases in enrollment, premium volume, and losses are the result of the company offering products on the Marketplace with the implementation of the ACA in 2014. Enrollment decreased from 2014 to 2015 by 12.6% due to significant rate increases resulting in individual members leaving WPS HP. Although WPS HP implemented rate increases in 2015, it recorded a net loss of \$22.4 million in 2015. Losses in 2015 include an \$8.0 million premium deficiency reserve for anticipated losses on 2016 ACA business. WPS HP has made the business decision to cease participation in the Marketplace for 2017 because of continued operating losses.

The administrative expense ratio increased from 12.7% in 2011 to 19.2% in 2015, with the most significant increase taking place in 2015. The company implemented system enhancements starting in 2014, which contributed to the increase in administrative expenses.

Financial Requirements

The financial requirements for an HMO under s. Ins 9.04, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or Permanent surplus	Either: \$750,000, if organized on or after July 1, 1989 or \$200,000, if organized prior to July 1, 1989
2. Compulsory surplus	The greater of \$750,000 or: If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months
3. Security surplus	The greater of: 140% of compulsory surplus reduced by 1% of compulsory surplus for each \$33 million of additional premiums earned in excess of \$10 million or 110% of compulsory surplus

Covered liabilities are those due to providers who are subject to statutory hold-harmless provisions.

The company's calculation as of December 31, 2015, as modified for examination

adjustments is as follows:

Assets		\$50,159,631	
Less:			
Special deposit		1,508,191	
Liabilities		<u>29,977,726</u>	
Assets available to satisfy surplus requirements			\$18,673,714
Indemnity premium earned	\$ 2,963,421		
Compulsory factor	<u>10%</u>		
Total indemnity		296,342	
HMO premium earned	146,829,135		
Compulsory factor	<u>3%</u>		
Total HMO		<u>4,404,874</u>	
Compulsory surplus			<u>4,701,216</u>
Compulsory Surplus Excess/(Deficit)			<u>\$13,972,498</u>
Assets available to satisfy surplus requirements			\$18,673,714
Compulsory surplus	\$ 4,701,216		
Security factor	<u>136%</u>		
Security surplus			<u>6,393,653</u>
Security Surplus Excess/(Deficit)			<u>\$12,280,061</u>

In addition, there is a special deposit requirement equal to the lesser of the following:

1. An amount necessary to maintain a deposit equaling 1% of premium written in this state in the preceding calendar year;
2. One-third of 1% of premium written in this state in the preceding calendar year.

The company has satisfied this requirement for 2015 with a deposit of \$1,508,191 with the State Treasurer.

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, 2015, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

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

Action—Compliance.

2. Insolvency Protection—It is recommended that the company comply with the insolvency protection for policyholders' provision of s. Ins 9.04 (6), Wis. Adm. Code, within 60 days of adoption of this examination report.

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, WPS and affiliates established a Line of Credit Agreement among WPS, WPS HP, and EPIC for \$5 million effective June 25, 2015. Additionally, WPS and the company executed an Amendment, effective January 1, 2015, to the Service and Supplies Agreement between WPS 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

WPS Health Plan, Inc., was incorporated on April 19, 2005, and commenced business on June 1, 2005. The company started doing business using the trade name Arise Health Plan in October 2006. The company is a wholly owned subsidiary of Wisconsin Physicians Service Insurance Corporation, a nonprofit service insurance corporation.

The company's total assets increased in 2015 to \$50.2 million from \$28.4 million in 2014 due to a \$28.0 million capital contribution by its parent company. The company's capital and surplus more than doubled over the examination period from \$9.8 million at year-end 2010 to \$20.2 million at year-end 2015. The increase in capital and surplus is mainly due to capital contributions made by WPS over the examination period of \$46.0 million to cover continued operating losses of the company.

The company experienced overall increases in enrollment, premium volume, and losses during the examination period. These increases are largely due to the company offering products on the Marketplace with the implementation of the ACA in 2014. The company has made the business decision to cease participation in the Marketplace for 2017 because of the continued losses.

The company will experience further decline in its business from the creation of Aspirus Arise Health Plan, Inc., an affiliate HMO within the WPS group. AHP's service region overlaps with the company's in north central Wisconsin, and it is anticipated that several groups will move from WPS HP to AHP in 2017.

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

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - 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 is 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
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