

Report of the Examination of
WPS Health Plan, Inc.
Green Bay, 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.....	8
V. REINSURANCE.....	11
VI. FINANCIAL DATA.....	12
VII. SUMMARY OF EXAMINATION RESULTS	23
VIII. CONCLUSION.....	27
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	28
X. ACKNOWLEDGMENT.....	29



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:

WPS HEALTH PLAN, INC.
Green Bay, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of WPS Health Plan, Inc. (the company) 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 insurer 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 concerning the alternative or additional examination steps performed during 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 staff 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 of 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 contracts with more than 4,900 primary care providers and more than 10,100 specialty care providers, maintains a broad provider network, and actively offers a narrow network called WPS Health Plan Select Plus. Referrals to non-contracted providers must be preauthorized by the company and are generally limited to situations in which care is not available from a contracted provider.

The provider contracts generally have a two-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 typically compensated based on fee schedules that are indexed to the Medicare Resource Based Relative Value Scale (RBRVS) with discounted fee-for-service and other methodologies employed where appropriate.

The company contracts with 59 hospitals to provide inpatient services, plus many additional facilities providing services such as ambulatory surgery, skilled nursing, 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 and are subject to the same without cause termination provisions as contracted providers.

The company currently markets to groups and individuals. The company uses outside agencies and pays a 0.5% to 10% commission on new and renewal business.

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 from 2017 through 2019 and began offering individual products on the Marketplace again beginning in 2020.

According to its business plan, the company's service area is comprised of the following 50 counties: Adams, Brown, Calumet, Clark, Columbia, Crawford, Dane, Dodge, Door, Florence, Fond du Lac, Forest, Grant, Green Lake, Iron, Jackson, Jefferson, Juneau, Kenosha, Kewaunee, La Crosse, Langlade, Lincoln, Manitowoc, Marathon, Marinette, Marquette, Milwaukee, Monroe, Oconto, Oneida, Outagamie, Ozaukee, 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
- Inpatient services
- Outpatient services
- Emergency care
- Mental health, drug and alcohol abuse services
- Special dental procedures (oral surgery)
- Prosthetic devices and durable medical equipment
- Newborn services
- Home health care
- Preventive health services
- Routine hearing examinations
- Diabetes treatment
- Routine eye examinations
- Skilled nursing home care in a skilled nursing facility
- Hospice care
- Prescription drugs (copayment level varies by type)
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Kidney disease treatment

Certain transplants
Chiropractic services
Autism treatment

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.

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 annually to serve a one-year term and the Wisconsin Physicians Service Insurance Corporation Board Chair 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 HMO group.

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

Name and Residence	Principal Occupation	Term Expires
James Baird Middleton, Wisconsin	Executive VP – WPS Health Insurance Wisconsin Physicians Service Ins. Corp.	2022
Vicki Bernards Madison, Wisconsin	Chief Financial Officer Wisconsin Physicians Service Ins. Corp.	2022
Kristine Euclide Madison, Wisconsin	Retired	Ex Officio
Michael Hamerlik Madison, Wisconsin	President and CEO Wisconsin Physicians Service Ins. Corp.	2022
John Stephens Fitchburg, Wisconsin	Chief Strategy Officer Wisconsin Physicians Service Ins. Corp.	2022

Officers of the Company

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

Name	Office
Michael Hamerlik	President
Kimberly Olson	Secretary
Vicki Bernards	Treasurer

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 the 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:

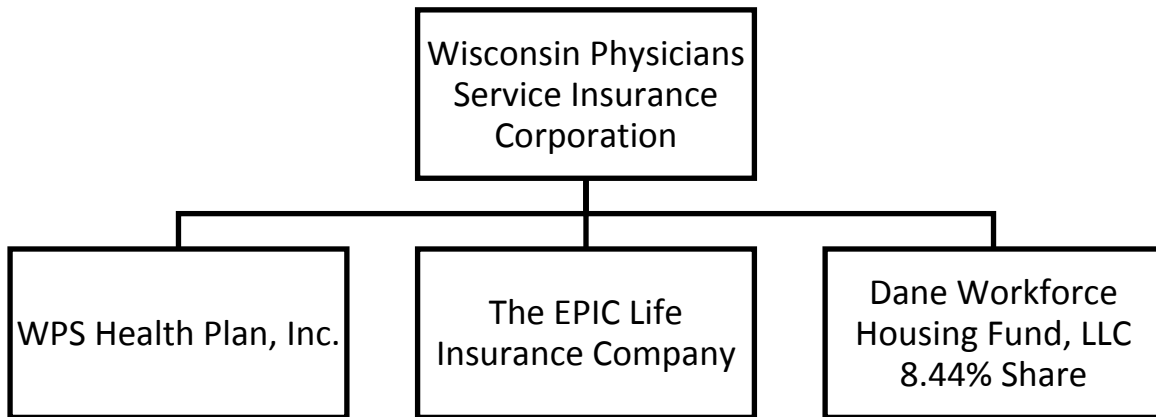
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

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

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Wisconsin Physicians 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.

**Holding Company Chart
As of December 31, 2020**



Wisconsin Physicians Service Insurance Corporation

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. The company writes direct premium primarily in Wisconsin, Illinois, and Michigan. In addition, the company assumes select business written by its subsidiary, The EPIC Life Insurance Company, through quota-share reinsurance agreements, and assumes business from Delta Dental Plan of Wisconsin, Inc. The company provides claims administrative services for the Health and Medical Program for military personnel, dependents, and retirees known as TRICARE. In addition, the company provides claims administration services for Medicare and Veterans Affairs (VA). As of December 31, 2020, the company's audited financial statement reported assets of \$381,975,142,

liabilities of \$170,718,384, and capital and surplus of \$211,256,758. Operations for 2020 produced net income of \$15,811,051 on revenues of \$344,373,903.

The EPIC Life Insurance Company (EPIC)

EPIC writes life, long-term and short-term disability, 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. On November 5, 2020, WPS 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 these agreements 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 EPIC 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 Health Plan, Inc. 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 currently has reinsurance coverage under the contract outlined below:

Reinsurer: Axis Insurance Company
Type: HMO Medical Excess of Loss
Effective date: January 1, 2020
Retention: \$750,000 ultimate net loss for each covered person
Coverage: 100% of an unlimited amount of ultimate net loss in excess of \$750,000 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.

Termination: Agreement shall expire January 1, 2021. This agreement may be terminated as a whole at any time by mutual written consent of the ceding company and the reinsurer. Notwithstanding anything herein to the contrary, upon at least 60 days prior notice, in writing, either party may terminate this agreement upon the circumstances outlined in the agreement.

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.

WPS Health Plan, Inc.
Assets
As of December 31, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$20,759,224	\$	\$20,759,224
Cash, cash equivalents and short-term investments	24,450,121		24,450,121
Investment income due and accrued	110,504		110,504
Uncollected premiums and agents' balances in the course of collection	277,152		277,152
Amounts recoverable from reinsurers	1,643,442		1,643,442
Amounts receivable relating to uninsured plans	477,936		477,936
Current federal and foreign income tax recoverable and interest thereon	81,070		81,070
Furniture and equipment, including health care delivery assets	598,961	598,961	
Health care and other amounts receivable	1,259,515	12,334	1,247,181
Write-ins for other than invested assets:			
State Income Tax Recoverable	33,994		33,994
Prepaid Expenses	<u>28,805</u>	<u>28,805</u>	<u> </u>
Total Assets	<u>\$49,720,724</u>	<u>\$640,100</u>	<u>\$49,080,624</u>

**WPS Health Plan, Inc.
Liabilities and Net Worth
As of December 31, 2020**

Claims unpaid		\$ 8,693,000
Accrued medical incentive pool and bonus payments		18,324
Unpaid claims adjustment expenses		233,140
Aggregate health policy reserves		1,339,393
Premiums received in advance		1,666,719
General expenses due or accrued		1,506,450
Ceded reinsurance premiums payable		49,559
Amounts withheld or retained for the account of others		259
Remittance and items not allocated		575,646
Amounts due to parent, subsidiaries, and affiliates		367,888
Liability for amounts held under uninsured accident and health plans		69,617
Aggregate write-ins for other liabilities (including \$0 current)		
Reserve of escheatable items		<u>36,591</u>
Total Liabilities		14,556,586
Common capital stock	\$ 100	
Gross paid in and contributed surplus	77,649,900	
Unassigned funds (surplus)	<u>(43,125,962)</u>	
Total Capital and Surplus		<u>34,524,038</u>
Total Liabilities, Capital and Surplus		<u>\$49,080,624</u>

WPS Health Plan, Inc.
Statement of Revenue and Expenses
For the Year 2020

Net premium income		\$96,199,118
Change in unearned premium reserves and reserve for rate credits		<u>34,820</u>
Total revenues		96,233,938
Medical and Hospital:		
Hospital/medical benefits	\$44,131,592	
Outside referrals	1,811,492	
Emergency room and out-of-area	6,719,427	
Prescription drugs	<u>10,261,583</u>	
Subtotal	62,924,094	
Less		
Net reinsurance recoveries	<u>2,604,172</u>	
Total medical and hospital	60,319,922	
Claims adjustment expenses	3,893,783	
General administrative expenses	<u>9,060,474</u>	
Total underwriting deductions		<u>73,274,179</u>
Net underwriting gain or (loss)		22,959,759
Net investment income earned	494,108	
Net realized capital gains or (losses)	<u>329,920</u>	
Net investment gains or (losses)		<u>824,028</u>
Net income or (loss) before federal income taxes		23,783,787
Federal and foreign income taxes incurred		<u>5,070,649</u>
 Net Income		 <u>\$18,713,138</u>

WPS Health Plan, Inc.
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2020

	2020	2019	2018	2017	2016
Capital and surplus, beginning of year	\$12,961,414	\$13,147,738	\$16,130,187	\$23,056,413	\$20,181,905
Net income (loss)	18,713,138	(6,528,557)	(3,535,314)	(6,652,759)	(5,991,627)
Change in net unrealized capital gains/losses	322	22,465	(20,075)	16,074	(8,503)
Change in net deferred income tax			(252,677)	(204,652)	(2,870,570)
Change in nonadmitted assets	349,164	(680,232)	(825,617)	(84,889)	3,095,208
Surplus adjustments: Paid in	<u>2,500,000</u>	<u>7,000,000</u>	_____	_____	<u>8,650,000</u>
Capital and Surplus, End of Year	<u>\$34,524,038</u>	<u>\$12,961,414</u>	<u>\$13,147,738</u>	<u>\$16,130,187</u>	<u>\$23,056,413</u>

**WPS Health Plan, Inc.
Statement of Cash Flow
For the Year 2020**

Premiums collected net of reinsurance		\$98,911,000
Net investment income		610,669
Total		<u>99,521,669</u>
Less:		
Benefit- and loss-related payments	\$60,124,365	
Commissions, expenses paid and aggregate write-ins for deductions	12,481,605	
Federal and foreign income taxes paid (recovered) net of tax on capital gains	<u>4,956,758</u>	
Total		<u>77,562,728</u>
Net cash from operations		21,958,941
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	<u>\$7,517,025</u>	
Total investment proceeds	7,517,025	
Cost of Investments Acquired—Long-term Only:		
Bonds	<u>7,936,935</u>	
Total investments acquired	<u>7,936,935</u>	
Net cash from investments		(419,910)
Cash Provided/Applied:		
Capital and paid in surplus, less treasury stock	2,500,000	
Other cash provided (applied)	<u>776,295</u>	
Net cash from financing and miscellaneous sources		<u>3,276,295</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		24,815,326
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>(365,205)</u>
End of Year		<u>\$24,450,121</u>

Growth of WPS Health Plan, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2020	\$49,080,624	\$14,556,586	\$34,524,038	\$ 96,233,938	\$ 60,319,922	\$18,713,138
2019	24,741,442	11,780,028	12,961,414	71,982,036	69,920,089	(6,528,557)
2018	28,446,015	15,298,277	13,147,738	89,089,260	78,194,963	(3,535,314)
2017	34,014,440	17,884,253	16,130,187	106,026,243	102,360,540	(6,652,759)
2016	50,384,461	27,328,048	23,056,413	185,799,830	173,758,900	(5,991,627)
2015	50,159,631	29,977,726	20,181,905	150,209,394	142,617,798	(22,437,592)

Year	Profit Margin	Medical Loss Ratio	Administrative Expense Ratio	Change in Enrollment
2020	19.3%	62.7%	13.5%	-6.55%
2019	-9.0	98.4	13.9	-17.47
2018	-3.9	87.8	17.3	-35.49
2017	-6.2	96.5	13.4	-39.35
2016	-3.2	89.2	17.8	26.02
2015	-14.9	100.2	19.2	-12.56

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2020	10,945	402.88	7.5
2019	11,712	1,487.27	22.8
2018	14,192	219.09	3.8
2017	22,001	1,816.52	29.1
2016	36,278	300.90	5.0
2015	28,788	286.38	4.6

Per Member Per Month Information

	2020	2019	Percentage Change
Premiums:			
Commercial	\$729.45	\$510.34	42.9%
Medicare	<u>459.68</u>	<u>490.79</u>	-6.3
Expenses:			
Hospital/medical benefits	334.45	350.24	-4.5
Outside referrals	13.73	24.44	-43.8
Emergency room and out-of-area	50.92	67.57	-24.6
Prescription drugs	77.77	68.58	13.4
Incentive pool and withhold adjustments		(0.13)	-100.0
Less: Net reinsurance recoveries	<u>19.74</u>	<u>15.82</u>	24.7
Total medical and hospital	457.14	494.88	-7.6
Claims adjustment expenses	29.51	22.33	32.1
General administrative expenses	68.67	48.27	42.3
Increase in reserves for accident and health contracts		<u>6.37</u>	-100.0
Total underwriting deductions	<u>\$555.31</u>	<u>\$571.85</u>	-2.9

Total admitted assets decreased 2% to \$49.1 million and total liabilities decreased 51% to \$14.6 million since 2015. Total admitted assets decreased each year during the examination period, except for an increase from 2019 to 2020 due to a \$28.5 million settlement with the federal government related to the 2014-2016 ACA risk corridor program. The liability with the largest decrease of \$6.8 million for the examination period was aggregate health policy reserves. Capital and surplus increased 71% to \$34.5 million in 2020 from \$20.2 million in 2015. The increase in capital and surplus was primarily due to capital contributions by WPS of \$8.7 million, \$7.0 million, and \$2.5 million in 2016, 2019, and 2020, respectively, offset by total net losses of \$4.0 million during the examination period. Capital contributions by WPS were needed due to continued operating losses by the company.

The company reported total net losses of \$4.0 million during the examination period which included net income of \$18.7 million in 2020. In 2020, the company benefitted from the \$28.5 million settlement which was included in premiums. In 2015 and 2016, the company's ACA compliant individual insurance business incurred significant underwriting losses.

In 2016, the company experienced significant growth in enrollment and premium due to a combination of rate increases and membership growth, primarily in the group market. In 2017, enrollment and premium declined significantly due to the company's exit from the individual exchange marketplace.

The company refocused its efforts in the small and large group markets and worked on overall profitability in these markets. Renewal increases were focused on restoring profitability to the block and releasing unprofitable business. As a result, enrollment and premium decreased throughout the examination period. Medical expenses incurred and medical loss ratio were higher in 2017 and 2019. In 2017, it was due to high losses related to ACA and large group products. In 2019, the company had two cases with claims of \$1 million each and one large group with an excessive loss ratio.

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 | <p>Either:</p> <p style="padding-left: 20px;">\$750,000, if organized on or after July 1, 1989</p> <p style="padding-left: 20px;">or</p> <p style="padding-left: 20px;">\$200,000, if organized prior to July 1, 1989</p> |
| 2. Compulsory surplus | <p>The greater of \$750,000 or:</p> <p style="padding-left: 40px;">If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months;</p> <p style="padding-left: 40px;">If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months</p> |
| 3. Security surplus | <p>The greater of:</p> <p style="padding-left: 20px;">140% of compulsory surplus reduced by 1% of compulsory surplus for each \$33 million of additional premiums earned in excess of \$10 million</p> <p style="padding-left: 20px;">or</p> <p style="padding-left: 20px;">110% of compulsory surplus</p> |

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

The company's calculation as of December 31, 2020, as modified for examination

adjustments is as follows:

Assets			\$49,080,624
Less:			
Special deposit			1,156,275
Liabilities			<u>14,556,586</u>
Assets available to satisfy surplus requirements			33,367,763
Net premium earned			
HMO business	\$95,205,554		
Factor	<u>3%</u>		
Total		\$2,856,166	
Incidental Indemnity	1,028,384		
Factor	<u>10%</u>		
Total		<u>102,838</u>	
Compulsory surplus			<u>2,959,004</u>
Compulsory Surplus Excess (Deficit)			<u>\$30,408,759</u>
Assets available to satisfy surplus requirements			\$33,367,763
Compulsory surplus			\$2,959,004
Security factor			<u>138%</u>
Security surplus			<u>4,083,425</u>
Security Surplus Excess (Deficit)			<u>\$29,284,338</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 2020 with a deposit of \$1,156,275 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, 2020, is accepted.

Examination Reclassifications

	Debit	Credit
Accrued retrospective premiums and contracts subject to redetermination	\$1,580,267	
Aggregate health policy reserves		\$1,580,267

Further discussion of this reclassification is reflected in Section VII of this report under the heading "Summary of Current Examination Results."

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 modifications 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.

Accrued Retrospective Premiums and Contracts Subject to Redetermination **\$1,580,267**

The above balance reflects an increase of \$1,580,267 to the amount reported in the company's annual statement due to a reclassification. The ACA risk adjustment payable consisted of an individual market – receivable and a small group market – payable. Generally, payables and receivables for the ACA risk adjustment program should be separated and receivables from the ACA risk adjustment program should generally be reported on Page 2, Line 15.3 as stated in the NAIC *Annual Statement Instructions—Health*. The reclassification of \$1,580,267 from Aggregate Health Policy Reserves to Accrued Retrospective Premiums and Contracts Subject to Redetermination is reflected in Section VI of this report under the heading “Examination Reclassifications.”

It is recommended that the company report future ACA risk adjustment receivables on Page 2, Line 15.3 as per the NAIC *Annual Statement Instructions—Health*.

Aggregate Health Policy Reserves **\$2,919,660**

The above balance reflects an increase of \$1,580,267 to the amount reported in the company's annual statement as a result of the reclassification described above under “Accrued Retrospective Premiums and Contracts Subject to Redetermination.”

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 percent 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*.

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

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 admitted assets decreased 2% to \$49.1 million and total liabilities decreased 51% to \$14.6 million since 2015. Total admitted assets decreased each year during the examination period, except for an increase from 2019 to 2020 due to a \$28.5 million settlement with the federal government related to the 2014-2016 ACA risk corridor program. The company's capital and surplus increased 71% to \$34.5 million during the examination period due to the \$28.5 million settlement and capital contributions by WPS of \$18.2 million, offset by continued operating losses.

In order to reduce operating losses, the company exited the individual exchange marketplace and refocused its efforts in the small and large group markets by working on overall profitability in these markets. As a result, enrollment and premiums decreased throughout the examination period.

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 24 - Accrued Retrospective Premiums and Contracts Subject to Redetermination—It is recommended that the company report future ACA risk adjustment receivables on Page 2, Line 15.3 as per the NAIC *Annual Statement Instructions—Health*.
2. Page 24 - 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*.
3. Page 25 - 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 26 - 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.

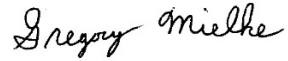
X. ACKNOWLEDGMENT

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