

Report  
Of the  
Examination of  
Care Wisconsin 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

November 7, 2016

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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:

CARE WISCONSIN HEALTH PLAN, INC.  
Madison, Wisconsin

And this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Care Wisconsin Health Plan, Inc. (CWHP or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 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.

## II. HISTORY AND PLAN OF OPERATION

Care Wisconsin Health Plan, Inc., is described as a nonprofit 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 employed by the company or an affiliate, and/or one or more clinics and/or independently contracting physicians operating out of their separate offices.

The company was incorporated on May 23, 2003, under the name Elder Care Health Plan, Inc., and commenced business on January 1, 2005. The plan was originally capitalized through the transfer of \$4 million (\$2 million surplus contribution/\$2 million surplus note) from its sole member, Elder Care of Wisconsin, Inc., to meet the initial capital requirements established by the Wisconsin Office of the Commissioner of Insurance (which granted the plan its Certificate of Authority on December 23, 2004). The company changed its name to Care Wisconsin Health Plan, Inc., effective August 1, 2007 (concurrent with the name change of Elder Care of Wisconsin, Inc., to Care Wisconsin First, Inc.). The plan repaid the remaining balance on the surplus note on December 19, 2007.

CWHP has no employees. The operations of this HMO are administered by the parent company, Care Wisconsin First, Inc. (CWF), under separate administrative and health care services agreements (described in the "Affiliated Companies" section of the report). CWF and CWHP also contract with a nonaffiliated third-party administrator for the provision of certain services including, but not limited to, claims administration.

Since inception, CWF and CWHP have worked cooperatively to provide services under the following programs:

- Wisconsin Family Care Program (CWF): A Medicaid program administered by the Wisconsin Department of Health Services (DHS) designed to provide services for frail elderly, developmentally disabled, and physically disabled populations.
- Family Care Partnership Program (CWHP): This is an integrated Medicare/Medicaid program for dual-eligible enrollees that was originally operated under demonstration authority but has

since been transitioned by the Centers for Medicare & Medicaid Services (CMS) to a Medicare Advantage Special Needs Plan and by DHS to the Family Care Program. The Family Care Partnership Program's (a/k/a Partnership program) benefits include all Wisconsin Medicaid-covered benefits, all Medicare Advantage benefits, all Medicare Part D benefits, and "necessary long-term care services and supports," including services to assist plan enrollees with daily living activities.

- **SSI (CWHP):** A Medicaid program administered by the Wisconsin Department of Health Services for individuals with a disability who qualify for Federal Supplemental Security Income (SSI).
- **Medicare Dual-Eligible Advantage (CWHP):** CWHP will begin offering the Medicare Dual-Eligible Advantage program, a Medicare Advantage Special Need Plan through the Centers for Medicare & Medicaid Services for dual-eligible members, on January 1, 2017. The Medicare Dual-Eligible Advantage plan is for individuals that are eligible for both Medicaid and Medicare services, and covers Medicare-covered benefits.

CWHP's Partnership services include a care management component, consisting of an interdisciplinary team comprised of: the enrollee, a CWF-employed nurse practitioner, a CWF-employed registered nurse, a CWF-employed social worker, and a CWF-employed care coordinator or a CWF-employed administrative assistant. The teams use a Resource Allocation Decision-Making (RAD) process approved by Wisconsin to pre-authorize long-term care services.

CWHP's SSI and Medicare Dual-Eligible Advantage services include a care management component, consisting of a team of: the enrollee, a CWF-employed care coordinator and a CWF-employed nurse care manager.

For acute and primary care administered by CWHP, enrollees may choose any primary care physician (PCP) who has agreed to work collaboratively with CWF nurse practitioners. Currently, there are approximately 5,171 primary care physicians that members may choose from and over 4,553 physician extenders. The PCP does not act as a gatekeeper, and specialty care does not require prior authorization or referral.

CWF's and CWHP's principal provider networks are reflected in the table below.

<b>Provider Name</b>	<b>Counties Served</b>
Dean Health System	Columbia, Dane, Dodge, Iowa, Jefferson, Rock, Sauk, and Walworth
University of Wisconsin Medical Foundation	Columbia, Dane, Dodge, Eau Claire, Jefferson, and Outagamie
Mayo Clinic Health Systems-Franciscan Medical Center	Crawford, La Crosse, Monroe, and Trempealeau
ProHealth Solutions	Dodge, Jefferson, and Waukesha
Fort HealthCare	Dane, Jefferson, and Walworth

<b>Provider Name</b>	<b>Counties Served</b>
Children's Hospital and Health Systems	Kenosha, Milwaukee, Ozaukee, and Waukesha
Community Health Network	Fond du Lac, Green Lake, Marquette, and Waushara
Community Health Systems	Rock
Madison Community Health Center	Dane
Fond du Lac Regional Clinic	Dodge, Fond du Lac, and Green Lake
Beaver Dam Community Hospitals	Columbia and Dodge
Sauk Prairie Memorial Hospital & Clinics	Sauk
Southwest Health Center	Grant
Memorial Hospital of Boscobel	Grant
Group Health Cooperative of South Central Wisconsin	Dane
Watertown Regional Medical Center	Dodge, Jefferson, and Waukesha
Wild Rose Community Memorial Hospital	Waushara
CSM Community Physicians	Milwaukee, Ozaukee, Sheboygan, and Washington
Gundersen Clinic	Crawford, Juneau, La Crosse, Monroe, Richland, Trempealeau, and Vernon

The company's provider network includes hospitals and clinics outside of the formal service areas to offer services to members that would not otherwise be available. Physicians are required by the HMO to provide services on a 24-hour basis. The HMO contracts generally provide for reimbursement on a discounted fee-for-service basis and include hold-harmless provisions for the protection of enrolled members.

CWF and CWHP contract with area hospitals to provide inpatient services to CWHP's members. Hospitals are reimbursed in accordance with applicable Medicare/Medicaid DRGs or on a discounted fee-for-service basis. Active contracts at December 31, 2015, include over 50 hospitals and over 300 primary care clinics.

CWHP's Partnership service area is comprised of the following 8 counties: Columbia, Dane, Dodge, Jefferson, Sauk, Washington, Waukesha, and Ozaukee. The service area for CWHP's SSI program included the following 30 counties: Adams, Calumet, Clark, Columbia, Crawford, Dane, Dodge, Fond du Lac, Grant, Green, Green Lake, Iowa, Jackson, Jefferson, Juneau, La Crosse, Lafayette, Marquette, Monroe, Outagamie, Ozaukee, Richland, Rock, Sauk, Trempealeau, Vernon, Waukesha, Waupaca, Waushara, and Winnebago.

Enrollment in the Partnership program has been at 1,500 members for several years. Enrollment growth in SSI has been coming from steady expansion into additional counties since the program began in 2014. The current enrollment in SSI is approximately 1,800.

On January 1, 2017, the Medicare Dual-Eligible Advantage program will be offered in the following 5 counties: Columbia, Dane, Dodge, Jefferson, and Waukesha.

CWHP offers comprehensive health care coverage which may be changed only by amendment of the contracts with DHS and/or CMS. The following basic health care coverages are provided:

- Physician services
- Inpatient services
- Outpatient services
- Mental health, drug, and alcohol abuse services
- Ambulance services
- Special dental procedures (oral surgery)
- Prosthetic devices and durable medical equipment
- Newborn services
- Home health care
- Preventive health services
- Family planning
- Hearing exams and hearing aids
- Diabetes treatment
- Routine eye examinations
- Convalescent nursing home service
- Prescription drugs – co-payments as dictated by Medicare Part D
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Physical fitness or health education
- Kidney disease treatment
- Certain transplants
- Chiropractic services

Individuals enrolled in the Partnership program are subject to specified co-pays but do not pay premiums. Program participants are required to meet all of the Wisconsin Medicaid financial eligibility requirements. CWHP is compensated through capitation payments received from DHS and CMS. The capitation rates have been actuarially determined, taking into account the health conditions and needs of CWHP's members.



### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of eight members. Two or three directors (based on expiring terms) are elected annually to serve a three-year term. Officers are elected by the board of directors. Members of the company's board of directors may also be members of Care Wisconsin First, Inc.'s board of directors, the parent company. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Karen Musser Middleton, WI	President/CEO Care Wisconsin First, Inc.	Permanent Ex Officio
Melvin McCartney Madison, WI	Retired WI Lawyers Mutual Insurance	2017
Robert Mucci Madison, WI	Vice President National Guardian Life Insurance Company	2017
Denise Delong Madison, WI	Retired WEA Insurance Trust	2019
Glenn Johnston Waunakee, WI	CFO, Palmer Johnson Power Systems	2019
Gregory Thomas Madison, WI	Executive Director of Finance — Early Clinical Services Covance, Inc.	2017
Rolf Hanson Fish Creek, WI	Retired CEO, Northeast Wisconsin Family Care District	2018
Steven Cable Waunakee, WI	CFO, Total Administrative Services	2018

## Officers of the Company

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

Name	Office	2015 Compensation*
Karen Joanne Musser	President/Chief Executive Officer	\$397,760
Kenneth Roy Eimers	Secretary/Chief Operating and Information Officer	275,119
Janette Jaye Townsend	Treasurer/Chief Financial Officer	357,279**

\* Officers are employed and compensated by Care Wisconsin First, Inc.

\*\* Projected compensation due to the individual being hired in January 2016 and not holding the position for the year 2015.

## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company does not currently have any board committees. The Care Wisconsin First, Inc., Finance and Investment Committee serves as the Finance Committee for CWHP.

The company has no employees. Necessary staff is provided through a management agreement with its parent, Care Wisconsin First, Inc., who administers its programs. Under the administrative services agreement, effective June 1, 2005, Care Wisconsin First, Inc., agrees to provide the following administrative services: marketing services, information services, financial services, general and administrative services, Medicare Advantage and WI DHS Program services, and management of clinical records.

## 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:

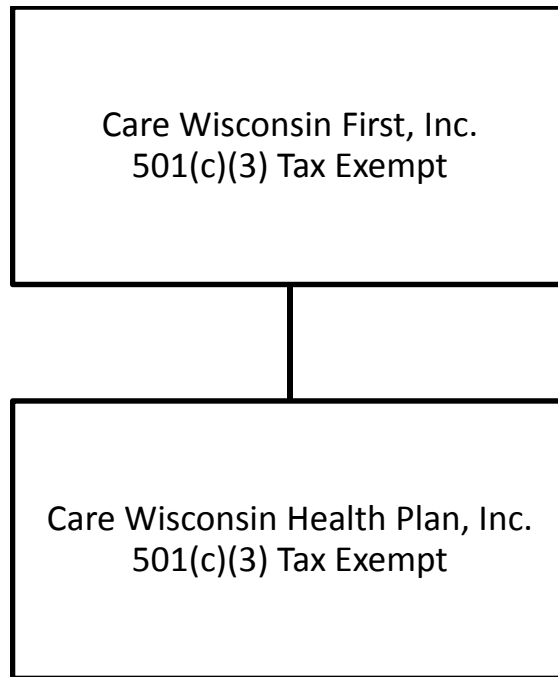
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

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

#### IV. AFFILIATED COMPANIES

The company is a member of a nonprofit holding company system. CWHP's sole member is Care Wisconsin First, Inc. The organizational chart below depicts the relationship 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, 2015**



#### **Care Wisconsin First, Inc.**

Care Wisconsin First, Inc., is a not-for-profit corporation organized for the purpose of providing health and long-term care services through the Wisconsin Family Care Program. As of December 31, 2015, the company's audited financial statement reported total assets of \$51,319,778, total liabilities of \$28,169,092, and total net assets of \$23,150,687. Operations for 2015 produced an increase in net assets of \$410,961 on revenues and other support of \$230,417,640.

Administrative services are provided through CWHP's administrative and health care services agreements with CWF, discussed below:

- Administrative Services Agreement: Under the administrative services agreement, effective June 1, 2005, CWF agrees to perform administrative services necessary for CWHP's operations, including, but not limited to: marketing, information systems, financial, general and administrative, Medicare Advantage and WI DHS Program services, and management of clinical records. As compensation for these services, CWHP agrees to reimburse CWF for the cost of direct services and its allocated portion of indirect services. The agreement may be terminated without cause by either party with at least 180 days' advance written notice of the intention to terminate.
- Health Care Services Agreement: Under the health care services agreement, effective January 1, 2005, CWF agrees to provide the specified health care services on behalf of CWHP's participants. As compensation for these services, CWHP agrees to reimburse CWF for the cost of direct services and its allocated portion of indirect services. The agreement may be terminated without cause by either party with at least 180 days' advance written notice of the intention to terminate.

## V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	Zurich American Insurance Company
Type:	Specific Excess of Loss Reinsurance
Effective date:	January 1, 2016
Covered services:	Inpatient Hospital Services Long-Term Acute Care Facility Services
Limitations:	Excludes charges exceeding the Medicare or Medicaid allowable amount, respectively.  Inpatient Hospital Services is limited to the lesser of amount paid, provider contracted amount, or an average daily maximum of \$4,000; excluding diagnosis-related groups and case-rate payments for either a hospital listed in the scheduled provider contract section or for an approved transplant network contract or confinement if the outlier threshold is reached.  Long-Term Acute Care Facility Services is limited to the lesser of amount paid, provider contracted amount, or an average daily maximum of \$2,000; excluding diagnosis-related groups and case-rate payments for either a hospital listed in the scheduled provider contract section or for an approved transplant network contract or confinement if the outlier threshold is reached.  Excludes Medicaid/BadgerCare members, infants weighing less than 1200 grams at birth, members who are ventilator dependent for six hours per day for more than 30 days, and neonates who die while ventilator dependent.
Retention:	\$225,000
Coverage:	90% of all covered services in excess of retention up to \$2,000,000 per agreement period.
Premium:	\$6.93 per member per month for Medicare/Medicaid Dual-Eligible, Medicaid ABD, and old Medicaid SSI (Partnership). \$1.91 per member per month for new Medicaid SSI
Termination:	December 31, 2016, or upon 30-day notice

The reinsurance policy has an endorsement containing the following insolvency provisions:

1. Reinsurer will continue plan benefits for Medicaid members who are confined in an inpatient facility on the date of insolvency until their discharge or the member becomes entitled to other health insurance coverage. Reinsurer will continue plan benefits for Medicare members who are confined in an acute care hospital or skilled nursing facility on the date of insolvency or cessation of operations until their loss of eligibility under the membership service agreement,

discharge, 120 days after the date of insolvency, or the member obtains other health coverage or benefits.

2. Reinsurer will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to plan by that member or on his behalf.

## **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.

**Care Wisconsin Health Plan, Inc.**  
**Assets**  
**As of December 31, 2015**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$13,884,648	\$	\$13,884,648
Common stocks	1,818,144		1,818,144
Cash, cash equivalents and short-term investments	16,434,026		16,434,026
Investment income due and accrued	78,966		78,966
Uncollected premiums and agents' balances in the course of collection	1,158,765	143,891	1,014,874
Accrued retrospective premiums and contracts subject to redetermination	85		85
Amounts recoverable from reinsurers	32,292		32,292
Amounts receivable relating to uninsured plans	1,047,746		1,047,746
Health care and other amounts receivable	248,489	82,733	165,756
Aggregate write-ins for other than invested assets	<u>332,228</u>	<u>332,228</u>	<u>                    </u>
<b>Total Assets</b>	<b><u>\$35,035,388</u></b>	<b><u>\$558,852</u></b>	<b><u>\$34,476,536</u></b>

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

Claims unpaid		\$11,401,301
Unpaid claims adjustment expenses		348,416
Aggregate health policy reserves		159,945
Premiums received in advance		6,995
General expenses due or accrued		461,628
Amounts withheld or retained for the account of others		1,473
Amounts due to parent, subsidiaries and affiliates		285,578
Liability for amounts held under uninsured accident and health plans		<u>1,048</u>
Total liabilities		12,666,384
Unassigned funds (surplus)	<u>\$21,810,152</u>	
Total capital and surplus		<u>21,810,152</u>
<b>Total Liabilities, Capital and Surplus</b>		<b><u>\$34,476,536</u></b>



**Care Wisconsin Health Plan, Inc.**  
**Statement of Revenue and Expenses**  
**For the Year 2015**

Net premium income		\$118,784,025
Aggregate write-ins for other health care related revenues		<u>49,395</u>
Total revenues		118,833,420
Medical and hospital:		
Hospital/medical benefits	\$44,716,840	
Other professional services	30,717,131	
Emergency room and out-of-area	1,800,210	
Prescription drugs	13,321,008	
Aggregate write-ins for other medical and hospital	<u>7,503,301</u>	
Subtotal	98,058,490	
Less		
Net reinsurance recoveries	<u>170,914</u>	
Total medical and hospital	97,887,576	
Claims adjustment expenses	9,007,314	
General administrative expenses	6,346,093	
Increase in reserves for life and accident and health contracts	<u>(5,241,342)</u>	
Total underwriting deductions		<u>107,999,641</u>
Net underwriting gain or (loss)		10,833,779
Net investment income earned	443,467	
Net realized capital gains or (losses)	<u>(168,917)</u>	
Net investment gains or (losses)		274,550
Net gain or (loss) from agents' or premium balances charged off		<u>(96,939)</u>
Net Income (Loss)		<u>\$ 11,011,390</u>

**Care Wisconsin 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	\$10,754,003	\$20,542,356	\$15,429,214	\$ 9,085,901	\$15,172,723
Net income (loss)	11,011,390	(9,357,909)	4,524,829	6,601,188	(3,046,634)
Change in net unrealized capital gains/losses	(31,121)	(15,839)	99,844		
Change in nonadmitted assets	75,880	(414,605)	131,469	(257,875)	180,084
Dividends to stockholders					(3,000,000)
Prior year audit adjustments	<u>                    </u>	<u>                    </u>	<u>357,000</u>	<u>                    </u>	<u>(220,272)</u>
Surplus, End of Year	<u>\$21,810,152</u>	<u>\$10,754,003</u>	<u>\$20,542,356</u>	<u>\$15,429,214</u>	<u>\$ 9,085,901</u>

**Care Wisconsin Health Plan, Inc.**  
**Statement of Cash Flows**  
**As of December 31, 2015**

Premiums collected net of reinsurance		\$118,622,603
Net investment income		474,013
Miscellaneous income		<u>(96,939)</u>
Total		118,999,677
Less:		
Benefit- and loss-related payments	\$96,936,169	
Commissions, expenses paid and aggregate write-ins for deductions	<u>16,259,638</u>	
Total		<u>113,195,807</u>
Net cash from operations		5,803,870
Proceeds from investments sold, matured or repaid:		
Bonds	3,498,543	
Cost of investments acquired—long-term only:		
Bonds	3,690,254	
Stocks	<u>34,143</u>	
Net cash from investments		(225,854)
Other cash provided (applied)		<u>1,473</u>
Net change in cash, cash equivalents, and short-term investments		5,579,489
Cash, cash equivalents, and short-term investments: Beginning of year		<u>10,854,537</u>
End of Year		<u>\$ 16,434,026</u>

**Growth of Care Wisconsin Health Plan, Inc.**

<b>Year</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Capital and Surplus</b>	<b>Premium Earned</b>	<b>Medical Expenses Incurred</b>	<b>Net Income</b>
2015	\$34,476,536	\$12,666,384	\$21,810,152	\$118,784,025	\$97,887,576	\$11,011,390
2014	28,567,679	17,813,676	10,754,003	102,143,658	92,346,063	(9,357,909)
2013	30,068,926	9,526,570	20,542,356	92,743,654	76,051,217	4,524,829
2012	24,560,454	9,131,240	15,429,214	87,355,847	64,895,229	6,601,188
2011	19,531,630	10,445,729	9,085,901	78,502,347	65,244,234	(3,046,634)

<b>Year</b>	<b>Profit Margin</b>	<b>Medical Expense Ratio</b>	<b>Administrative Expense Ratio</b>	<b>Change in Enrollment</b>
2015	9.2%	78.0%	12.9%	12.4%
2014	(9.1)	95.5	14.2	101.8
2013	4.9	82.0	13.5	8.4
2012	7.5	74.3	18.6	0.8
2011	(3.8)	82.7	21.9	11.5

**Enrollment and Utilization**

<b>Year</b>	<b>Enrollment</b>	<b>Hospital Days/1,000</b>	<b>Average Length of Stay</b>
2015	3,242	3,391	7.4
2014	2,884	3,776	6.0
2013	1,429	5,253	5.3
2012	1,318	4,798	5.1
2011	1,307	7,757	7.7

**Per Member Per Month Information**

	<b>2015</b>	<b>2014</b>	<b>Percentage Change</b>
<b>Premiums:</b>			
Medicare	\$6,698.83	\$5,822.68	15.0%
Medicaid	<u>2,412.77</u>	<u>3,110.07</u>	(22.4)
Blended rate	<u>3,107.01</u>	<u>3,768.72</u>	
<b>Expenses:</b>			
Hospital/medical benefits	1,169.65	1,617.92	(27.7)
Other professional services	803.46	1064.41	(24.5)
Emergency room and out-of-area	47.09	69.95	(32.7)
Other medical and hospital	544.70	672.21	(19.0)
Less: Net reinsurance recoveries	<u>4.47</u>	<u>17.27</u>	(74.1)
Total medical and hospital	2,560.42	3,407.23	(24.9)
Claims adjustment expenses	235.60	335.94	(29.9)
General administrative expenses	165.99	200.21	(17.1)
Increase in reserves for accident and health contracts	<u>(137.10)</u>	<u>193.39</u>	(170.9)
<b>Total Underwriting Deductions</b>	<u>\$2,824.92</u>	<u>\$4,136.77</u>	(31.7)

Care Wisconsin Health Plan, Inc., has had positive financial trends over the five years of the examination period. Net income for 2015 was \$11.1 million, the most profitable year in the examination period. Total capital and surplus increased 43.7% over the examination period to \$21.8 million at year-end 2015. The health plan's liquidity position was also strong at year-end 2015 as its cash accounts at year-end totaled \$15.4 million.

As a result of an increase in enrollment of 101.8% in 2014, the health plan experienced variations in its administrative and medical costs associated primarily with an expansion of its services. With an enrollment expansion of 12.4% in 2015, the health plan returned to profitability as noted above. The administrative expense ratio shows a declining trend, decreasing to 12.9% for 2015 from the previous low in the examination period of 13.5% attained in 2013. The medical expense ratio, at 78.0% for 2015, was the second lowest in the examination period, surpassed only by 74.3% in 2012.

The per member per month (PMPM) capitation premium paid by the federal and state governments on behalf of members in 2015 (compared to the prior year) decreased (22.4)% for Medicaid but increased 15.0% for Medicare. PMPM utilization decreased (24.9)% year-to-year driven by a (27.7)% decrease in hospital/medical benefits. The lower PMPM costs in 2015 are attributable to a new product line, Medicaid SSI, which began in April 2014. Medicaid SSI has a lower PMPM revenue and utilization expense than the Partnership program, due to lower member needs and a benefit package that does not include long-term supports and services. In 2014, the SSI program equaled 32% of total member months, where in 2015 it equaled 54%.

## Financial Requirements

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

	<b>Amount Required</b>
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	\$ 34,476,536	
Less:		
Special deposit		
Liabilities	<u>12,666,384</u>	
Assets available to satisfy surplus requirements		\$21,810,152
Net premium earned	118,784,025	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>3,563,520</u>
Compulsory Surplus Excess/(Deficit)		<u>\$18,246,632</u>
Assets available to satisfy surplus requirements		\$21,810,152
Compulsory surplus	\$ 3,563,520	
Security factor	<u>137%</u>	
Security surplus		<u>4,882,022</u>
Security Surplus Excess/(Deficit)		<u>\$16,928,130</u>

**Reconciliation of Capital and Surplus per Examination**

No adjustments were made to equity as a result of the examination. The amount of equity reported by the company as of December 31, 2015, is accepted.

There were no examination reclassifications as a result of this examination.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

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

1. Business Plan—It is recommended that significant changes in the business plan shall be reported to the Commissioner in writing at least 30 days prior to the effective date of the change in accordance with s. Ins 9.06 (1), Wis. Adm. Code.

Action—Compliance

2. Annual Statement Reporting—It is recommended that the company accrue for its year-end HIRSP liability in accordance with SSAP No. 35 (4).

Action—Compliance

3. Annual Statement Reporting—It is recommended that the company report any state income tax refunds receivable on the “Aggregate write-ins for other than invested assets” line of the “Assets” page of the statutory financial statement, with the description “State Income Tax Refund Receivable” on the “Details of Write-Ins” line, in accordance with SSAP No. 10R par. 4.

Action—Compliance

4. Investments—It is recommended that the company enter into a custodial agreement containing an indemnification clause consistent with the NAIC Financial Condition Examiners Handbook.

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

5. Management and Control—It is recommended that all forms of compensation be reported in the Report on Executive Compensation - Domestic Insurers in accordance with the instructions to the 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**

The examination found that the company had made revisions to the Administrative Services Agreement and Health Care Services Agreement, which were not submitted to the Office of the Commissioner of Insurance (OCI). Pursuant to s. Ins 40.04 (2) (d), Wis. Adm. Code, management and service agreements with affiliates shall be reported to the commissioner at least 30 days before the insurer enters into the transaction, unless the commissioner approves a shorter period. It is recommended that the company file any amendment to its affiliated agreements with OCI for non-disapproval in accordance with s. Ins 40.04 (2) (d), Wis. Adm. Code.

## **External Auditor Awareness Letter**

During 2011 Care Wisconsin Health Plan, Inc., had a change in external audit firms. Pursuant to s. Ins 50.07 (3) (a), Wis. Adm. Code, the insurer is required to obtain a letter from the new independent certified public accountant stating that the certified public accountant is aware of the provisions of the insurance code and rules and regulations of the insurance department. The company submitted one letter for both Care Wisconsin First, Inc., and Care Wisconsin Health Plan, Inc. The letter states that the certified public accountant is aware of the provisions of the Wisconsin Administrative Code and rules and regulations of the Office of the Commissioner of Insurance that relate specifically to the accounting and financial matters of care management organizations. The letter lacks the acknowledgment of awareness of insurance code and rules and regulations applicable to insurance companies such as HMOs. It is recommended that the insurer obtain a letter from the independent certified public accountant it retains to conduct the annual audit which meets the conditions specified under s. Ins 50.07 (3) (a), Wis. Adm. Code.

## **Actuarial Opinion**

According to the NAIC 2015 Health Annual Statement Instructions "the Actuarial Opinion and the Actuarial Memorandum must be made available to the Board of Directors" and



“the minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors or the Audit Committee.” The examination reviewed the board and committee minutes and did not find any evidence of the receipt of the actuarial opinion. It is recommended that the CWHP board of directors, or a committee of the CWHP board, receive and review the actuarial opinion in accordance with the NAIC annual statement instructions.

### **Custodial Agreement**

The examination’s review of the custodial agreement between the company and Marshall & Ilsley Trust Company N.A., dated January 24, 2012, has shown several deficiencies in regard to the requirements in the NAIC Financial Condition Examiners Handbook for custodial or safekeeping agreements. There is again inadequate indemnification language. Additionally, the agreement lacks the following provisions as required under the NAIC Financial Condition Examiners Handbook:

- If the custodial agreement is terminated or all account assets have been withdrawn, the custodian should provide written notification within three business days to the insurer’s domiciliary commissioner.
- The right to examine records relating to securities during regular business hours.
- The custodian agrees to maintain records sufficient to determine and verify information relied upon by the company in preparation of its annual statement and supporting schedules.
- The providing of appropriate affidavits to regulators on request.
- The custodian shall hold an adequate amount of insurance protection.

It is again recommended that the company enter into a custodial agreement containing an indemnification clause consistent with the NAIC Financial Condition Examiners Handbook. It is also recommended that the company enter into a custodial agreement which is in compliance with the NAIC Financial Condition Examiners Handbook guidelines for custodial or safekeeping agreements.

## **VIII. CONCLUSION**

Care Wisconsin Health Plan, Inc., is a nonprofit mixed model HMO that was incorporated on May 23, 2003, and commenced business on January 1, 2005. CWHP's operations are administered by Care Wisconsin First, Inc., CWHP's parent and sole member, under separate administrative and health care services agreements. Operations are centered on CWHP's core products, the Family Care Partnership Program, SSI, and starting in 2017, the Medicare Dual-Eligible Advantage program, which is an integrated Medicare/Medicaid product serving dual-eligible enrollees in five counties.

CWHP reported net income of \$10.8 million in 2015 and a net loss of \$9.4 million in 2014. The company's capital and surplus has recovered, ending 2015 at \$21.8 million compared to \$20.5 million at year-end 2013.

The examination resulted in five recommendations relating to notifications to the Office of the Commissioner of Insurance, documentation from the external auditor, approval of actuarial opinion, and the custodial agreement. These recommendations are listed on the following page.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Affiliated Agreements—It is recommended that the company file any amendment to its affiliated agreements with OCI for non-disapproval in accordance with s. Ins 40.04 (2) (d), Wis. Adm. Code.
2. Page 22 - External Auditor Awareness Letter—It is recommended that the insurer obtain a letter from the independent certified public accountant it retains to conduct the annual audit which meets the conditions specified under s. Ins 50.07 (3) (a), Wis. Adm. Code.
3. Page 23 - Actuarial Opinion—It is recommended that the CWHP board of directors, or a committee of the CWHP board, receive and review the actuarial opinion in accordance with the NAIC annual statement instructions.
4. Page 23 - Custodial Agreement—It is again recommended that the company enter into a custodial agreement containing an indemnification clause consistent with the NAIC Financial Condition Examiners Handbook.
5. Page 23 - Custodial Agreement—It is recommended that the company enter into a custodial agreement which is in compliance with the NAIC Financial Condition Examiners Handbook guidelines for custodial or safekeeping agreements.

## 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:

<b>Name</b>	<b>Title</b>
Stephanie Falck	Insurance Financial Examiner
Jacob Burkett	Insurance Financial Examiner
Karl Albert	Advanced Ins. Financial Examiner
Jerry DeArmond	Advanced Ins. Financial Examiner
John Litweiler	Workpaper Specialist
David Jensen	IT Specialist

Respectfully submitted,

John Ebsen  
Examiner-in-Charge