

Report of the Examination of
Children's Community Health Plan, Inc.
Milwaukee, Wisconsin
As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

Wisconsin.gov

September 26, 2019

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Honorable Mark V. Afable
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:

CHILDREN'S COMMUNITY HEALTH PLAN, INC.
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Children's Community Health Plan, Inc. (the company or CCHP) was conducted in 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 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

The Children's Community 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, 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 direct contracts with independent clinics, physicians, and physician associations.

The predecessor for profit company, also named Children's Community Health Plan, Inc., was incorporated May 17, 2005, commenced business February 1, 2006, and was a wholly owned subsidiary of Seeger Health Resources, Inc., a for-profit corporation owned by Children's Hospital and Health System, Inc. (CHHS) that operated and invested in health care-related activities.

On January 1, 2010, the original for-profit company was merged into a new corporation called CC Health Plan, Inc., a non-stock, non-profit HMO insurer, which carried forward the assets, liabilities, capital and surplus, and contracts of the for-profit company as of December 31, 2009. On the date of merger, CC Health Plan, Inc., changed its name to Children's Community Health Plan, Inc.

CCHP derives its revenue from two sources, the Wisconsin Title XIX Medical Assistance, known as BadgerCare (Medicaid) and individual and family products offered on and off the exchange under the Affordable Care Act (ACA), referred to as Together with CCHP.

The company provides primary and specialty health services to BadgerCare and ACA enrollees through contractual arrangements with physicians, group practices, and clinics. Physician, hospital, and other professional/ancillary services are reimbursed on either a fee schedule or capitated basis. For BadgerCare in 2018, 0.5% of medical expenses were capitation payments and 99.5% were contractual fee payments. In addition, certain contractual arrangements for BadgerCare include quality-based incentives, and cost-based gain sharing. For ACA in 2018, 100% were contractual fee payments. As of June 30, 2019, the company had 8,589 physicians in its Medicaid network and 4,379 physicians in its ACA network.

The provider contracts include hold-harmless provisions for the protection of policyholders, have a one-year term, and automatically renew unless terminated by either party giving written notice to the other party of 90 to 180 days, based on negotiation, prior to the end of the initial or renewal term. In addition, the provider contracts require physicians to participate in and contribute information for the company's quality improvement and utilization management programs.

The company contracts with 58 hospitals to provide inpatient services. The hospitals are paid on a diagnosis-related group (DRG), per diem, or discount off billed charges basis. The contracts include hold-harmless provisions for the protection of policyholders, automatically renew for one-year terms, and may be terminated by either party upon 90 to 180 days' written notice, based on negotiation, prior to the end of the initial or renewal term.

The company's service area is comprised of the following counties:

| | | | |
|-------------|------------|-----------|-------------|
| Brown | Kenosha* | Oneida | Vilas |
| Calumet | Kewaunee | Outagamie | Walworth |
| Door | Lincoln | Ozaukee* | Washington* |
| Fond du Lac | Manitowoc | Racine* | Waukesha* |
| Forest | Marinette | Rock | Waupaca |
| Green Lake | Milwaukee* | Shawano | Waushara |
| Jefferson | Oconto | Sheboygan | Winnebago |

* Indicates ACA Marketplace service area

Benefits for its BadgerCare members are provided for in the contract between CCHP and the Wisconsin Department of Health Services. Coverage must be consistent with coverage specified in the BadgerCare Plan; however, CCHP retains the right to determine the medical necessity of a covered service and to require prior authorization of certain specified services. Benefits for its ACA members are provided for in the contract between CCHP and its members (Evidence of Coverage and Summary Plan Document). Coverage must comply with the Essential Health Benefits required under the ACA as a Qualified Health Plan. The company retains the right to determine the medical necessity of a covered service and to require prior authorization of certain specified services.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. One or two directors are elected annually to serve a three-year term. Under the company's bylaws, the president and chief executive officer of the Children's Hospital and Health System, Inc., and the president of CCHP are ex-officio directors, which are included in the total number of directors and not subject to election. The chair is elected by the sole voting member or Children's Hospital and Health System, Inc. (CHHS) at its annual meeting. The president, secretary, and treasurer are appointed by CHHS and vice presidents are appointed by the president with the consent of the president and chief executive officer of CHHS. Members of the company's board of directors may also be members of other boards of directors in the holding company group. Neither the independent board members nor employees of Children's Hospital and Health System, Inc., receive compensation for serving on the board.

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

| Name and Residence | Principal Occupation | Term Expires |
|---|--|---------------------|
| Peggy Nye Troy Pewaukee, Wisconsin | President and Chief Executive Officer Children's Hospital and Health System | N/A |
| Robert Elijah Duncan Lisbon, Wisconsin | President CCHP and Executive Vice President Community Services, CHHS | 2019 |
| David John Drury Brookfield, Wisconsin | Chairman of the CCHP Board of Directors and partner, Wing Capital Group | 2019 |
| James Patrick Purko Sussex, Wisconsin | Director and CFO, SKYGEN, Inc. | 2021 |
| Benjamin Blanton Melson Sugar Land, Texas | Director and EVP & CFO, MD Anderson Cancer Center | 2019 |
| Thomas Berry Precia Jr. Delafield, Wisconsin | Director and CEO, WI Hub International | 2021 |
| Clark Egan Slipher New Berlin, Wisconsin | Director and Retired Actuary | 2020 |

Officers of the Company

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

| Name | Office | 2018 Compensation |
|---------------------------|--|-------------------|
| Robert Elijah Duncan | President | \$261,615* |
| Mark David Rakowski | Vice President | 353,803* |
| Marc Andre Cadieux | Treasurer | 106,585* |
| Michelle Intrater Mettner | Secretary and Corporate VP of Government and Legal Affairs | 102,718* |
| David John Drury | Board Chairman | 0 |

*The officers' salaries are paid by Children's Hospital and Health System, Inc. The above include the portion of the officers' salary allocated to the company through a cost allocation agreement between CHHS and the company.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The CCHP board has not formed any of its own committees but uses the following committees of the parent company: Audit and Compliance Committee, Finance Committee, Investment Subcommittee, Compensation Committee, Strategic Planning Committee, and Governance Committee. The committees at the time of the examination are listed below:

Strategic Planning Committee

Jay Rothman, Chair
Joseph Gehrke
Patrick Hammes
Jim Popp
Peter Sommerhauser
Paul Sweeney
Peggy Troy (ex-officio)
Mark Witt (ex-officio)

Audit & Compliance Committee

Joseph Gehrke, Chair
Michael Altschaefl
Tom Arenberg
Bruce Betters
Todd Endress
Bill Komisar
Benard Kubale
Steven Marcus
James Purko
Peter Ruud
Mark Witt (ex-officio)
Peggy Troy (ex-officio)

Finance Committee

Paul Sweeney, Chair
Matt D'Attilio
Joseph Gehrke
Paul Knoebel
Benjamin Melson
Jim Popp
John Schliftske
Peter Sommerhauser
Greg Renz
Jay Rothman
Mark Witt (ex-officio)
Peggy Troy (ex-officio)

Investment Subcommittee

Matt D'Attilio, Chair
Marina Carlson
Ryan Chimenti
Brian Davidson
Jolie Keller
Ted Kellner
Brian Lucareli
Joseph Schlidt
Scott Schroeder
Edward Zore
Peter Sommerhauser

Governance Committee

Jim Popp, Chair
 Tom Arenberg
 Matt D'Attilio
 Bernard Kubale
 Chris Kaltenbach (ex-officio)
 Jay Rothman
 Phoebe Williams
 Mark Witt (ex-officio)
 Peggy Troy (ex-officio)

Investment Subcommittee (cont.)

Paul Sweeney (ex-officio)
 Mark Witt (ex-officio)
 Peggy Troy (ex-officio)

Compensation Committee

Kevin Mansell, Chair
 Todd Adams
 Kim Popp
 Paul Sweeney
 Elizabeth Brenner
 Bernard Kubale
 Mark Witt (ex-officio)
 Peggy Troy (ex-officio)

Several internal committees have been established to help manage the day-to-day operations of the company. The management committees at the time of the examination are listed below:

Quality Oversight Committee (QOC)

Mark Rakowski, Chair
 Julie Antholine
 Mike Boeder
 Kari Washburn
 Dawn Rady
 Amanda Kaye
 Erin Kelly
 Lynn Kryfke
 Phillip Kissack
 Ken Schellhase, MD
 Jim Slawson, MD
 Jamie Heberer
 Leticia Herrera
 Peter Kleibor
 Danielle Coterel
 Mike O'Leary
 Rachelle Barachy
 Jacqueline Johnson
 Stacie Adler

Grievance and Appeals Committee

Lynn Kryfke, Chair
 Mary Lindstrom
 Tanisha Collins-Johnson
 Ben Wollman
 Cherise Carter
 Kari Washburn
 Kathleen Garrett
 Dr. Ken Schellhase
 Erin Kelly
 Danielle Coterel
 Rachelle Barachy
 Peter Kleibor
 Kristin Kroll
 Diana Schneider
 Melanie Vasquez

Medical Advisory Committee

James Slawson, MD, Chair
 Kenneth Schellhase, MD
 Lynn Maskel, MD
 Kelly Campbell, MSN NP-BC, CCM
 Kristen Fox, MD
 L. Kevin Hamberger, PhD
 Lynn Kryfke, RN, MSN
 Marylyn Ranta, MD
 David Waters, MD

Credentialing Committee

James Slawson, MD, Chair
 Kenneth Schellhase, MD
 Lynn Maskel, MD
 Kelly Campbell, MSN NP-BC, CCM
 Kristen Fox, MD
 L. Kevin Hamberger, PhD
 Lynn Kryfke, RN, MSN
 Marylyn Ranta, MD

Operations Committees

Julie Antholine
Tanya Hodorowski
Bobbi Becker
Sue Gorecki
Denise McDowell
Dawn Rady
Diana Schneider
Tina Powell
Stacey Martinez
Leticia Herrera

Medical utilization and case management, provider relations/network management, and quality improvement are provided by CCHP employees. Officers are employees of Children's Hospital and Health System, Inc., and are provided to CCHP, along with other administrative staff, through an affiliated agreement discussed in the section of this report captioned "Affiliated Companies."

Additional staff is provided through an administrative services agreement with Dean Health Plan, Inc. (Dean). Under the agreement, effective January 1, 2015, (first amendment effective January 1, 2018), Dean agrees to provide administrative services, including, but not limited to: information services, financial services, standard reports, claims processing, premium management, and member services. Dean receives a per member per month fee. The term of the agreement is through December 31, 2021, with automatic annual renewals going forward. The agreement may be terminated by either party for cause upon written notice or may be terminated without cause on or after January 1, 2022, by either party upon 180 days' written notice.

Additional services are provided through an administrative services agreement with UPMC Benefit Management Services, Inc. (UPMC). Under the agreement, effective April 20, 2016, (seventh amendment effective December 1, 2018), UPMC agrees to provide administrative services, including, but not limited to, additional technical, operational, and/or consulting services as the parties may agree upon. UPMC invoices CCHP for the UPMC services on a monthly basis, and invoices are paid by CCHP within 30 days of receipt. The agreement remains in effect until the completion or expiration of the Statement of Work for the Initial UPMC Services or if a subsequently executed Statement of Work remains active (whichever is longer). The agreement may be terminated by either party for cause or may be terminated without cause by either party upon 180 days' written notice.

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:

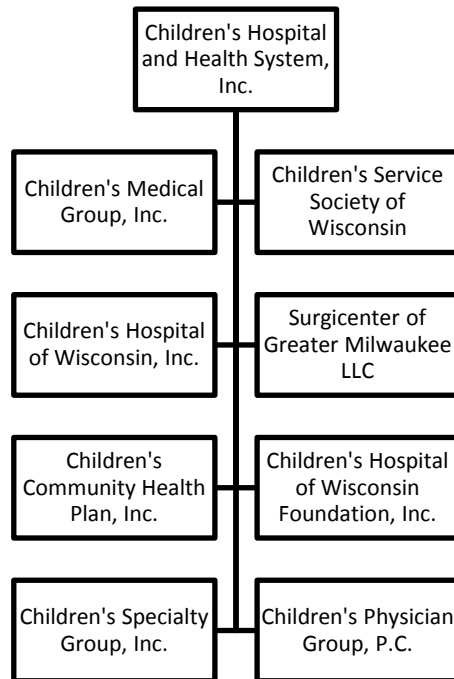
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The company has met this requirement by maintaining compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Children's Hospital and Health System, Inc. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the controlling affiliate of the company follows the organizational chart.

**Holding Company Chart
As of December 31, 2018**



Children's Hospital and Health System, Inc.

Children's Hospital and Health System, Inc., is a Wisconsin nonstock, nonprofit corporation and a charitable organization under Section 501(c)(3) of the Internal Revenue Code. CHHS provides administrative support to CCHP in the areas of corporate administration, financial services, corporate compliance, human resources, corporate counsel, information systems, public relations, and planning and marketing. CHHS also provides urgent care services at seven off-site locations for patients who require non-emergency care after daytime hours. As of December 31, 2018,

the consolidated audited financial statement reported assets of \$2.1 billion, liabilities of \$0.7 billion, and net assets of \$1.4 billion. Operations for 2018 produced an excess of revenue over expenses of \$40.4 million on revenues of \$1.3 billion

Agreements with Affiliates

The company currently has affiliated agreements with Children's Hospital and Health System, Inc., as shown below.

Hospital and Physician Services Agreement

- Effective December 1, 2005, the company entered into a network agreement for hospital and physician services with Children's Hospital and Health System, Inc. Under this agreement, CCHP reimburses CHHS for inpatient and outpatient, professional, behavioral health, urgent care, and ambulatory surgery services. The specific reimbursement for each service is defined in the agreement. The agreement has been amended eight times from the original agreement. The hospital provider is required to submit claims within 60 calendar days of the date of claim receipt or the date of primary carrier payment from another payor indicating that CCHP is primarily liable. CCHP will make payment to CHHS or its hospital providers within 30 days of receipt of a clean claim. If a claim is denied for improper submission, resubmission must occur within 60 calendar days of the denial. The agreement contains hold-harmless and continuity of care provisions. The agreement automatically renews annually unless renegotiated or terminated. Either party may terminate the agreement with or without cause at the end of any term by providing the other party at least 180 days' prior written notice.

Cost Allocation and Financial Management Agreement

- Effective February 20, 2012, and as amended effective January 31, 2016, the company entered into a cost-allocation agreement with Children's Hospital and Health System, Inc. Under this agreement, CCHP will pay a share of the costs incurred by CHHS or other members of the group for activities and expenditures that benefit CCHP. Allocable costs include the salaries of CHHS employees who are officers of CCHP and costs of administering the following services:
 - Investments
 - Finances
 - Legal Matters
 - Tax Matters

- Strategic Planning, Marketing and Public Relations
- Human Resource Services
- General Administrative
- Administrative and Clinical Consultation Services
- Insurance Procurement and Risk Management
- Information Systems Support Services
- Corporate Compliance Services
- Cost of Leased Space Incurred on the company's Behalf

CCHP's share of allocable costs shall be determined in conformity with GAAP and CHHS shall allocate to CCHP for CCHP's share of costs of each month within 15 business days after the end of that month. Final settlement will occur within 30 days after the end of the calendar year. The agreement automatically renews annually unless terminated by either party by providing the other party at least 30 days' prior written notice.

Credentialing Delegation Agreement

- Effective June 30, 2011, the company entered into a credentialing delegation agreement with CHHS and affiliates. Under this agreement, CCHP has agreed to perform credentialing and recredentialing activities pursuant to CHHS policies and procedures, applicable state and federal law, and the applicable National Committee for Quality Assurance (NCQA) Standards for Accreditation of Health Plans. CHHS reserves the right to conduct a review of all delegated activities annually. Both parties agree to work together to develop a corrective action plan to address and resolve any areas identified by CHHS as deficiencies in its review. CHHS will compensate CCHP \$90 per provider credentialed or recredentialled under the agreement, with payment due 30 days after receipt of invoice. The agreement continues until June 29, 2012, and automatically renews for successive renewal terms of 12 months each. Either party may terminate the agreement by providing the other party at least 30 days' prior written notice. This agreement was terminated effective as of December 31, 2015.

Care Coordination Services Agreement

- Effective August 1, 2011, the company entered into an agreement with Children's Service Society of Wisconsin (CSSW) and CHHS. Under this agreement, CCHP will compensate CSSW for completion of the State of Wisconsin Child Care Coordination questionnaire assessment, care plan, billing form, and other required forms for care coordination for certain CCHP enrollees. CSSW shall provide care coordination services for these enrollees and document each visit as noted in the agreement. This agreement automatically renews

annually. Either party may terminate the agreement by providing the other party at least 60 days' prior written notice. This agreement was terminated effective as of October 31, 2014.

Care4Kids Foster Care Medical Home Subcontract

- Effective January 1, 2014, and as amended January 2017, the company entered into an agreement with CHHS. Under this agreement, CHHS will reimburse CCHP for their costs to:
 - Administer payments to Dean Health Plan to process and pay claims
 - Maintain and reconcile capitation and eligibility under the Care4Kids Foster Care Medical Home program
 - Utilization review/management
 - Database management, analytic services and predictive modeling
 - Provider contracting/relations and education
 - Related administration and management
 - Provide customer and provider services
 - Medical Director services
 - HEDIS calculation and reporting
 - Case management
 - Member advocacy
 - Credentialing

After the first year, the subcontract automatically renews annually, provided that the Care4Kids contract between CHHS and the Wisconsin Department of Health Services has been renewed. Either party may terminate the subcontract by providing the other party at least 30 days' prior written notice.

Performance Improvement Analytics Subcontract

- Effective December 31, 2013, the company entered into an agreement with CHHS. Under this agreement CCHP pays CHHS \$20,000 per year for strategic analysis of potential methods to improve member care management, health outcomes, experience, and cost. CHHS also supports CCHP in research and development of population health management pilots and proposals in collaboration with Wisconsin Department of Health Services. After the first year the subcontract automatically renews annually. Either party may terminate the subcontract by providing the other party at least 30 days' prior written notice.

Subordinated Revolving Credit Note

- Effective June 24, 2013, the company executed a subordinated revolving credit note with CHHS. Under the note, CCHP may borrow, repay, and reborrow up to \$15 million at any time. CCHP agrees to repay any unpaid principal to CHHS on demand. CCHP will pay interest on any outstanding principal balance under the note at the one month London Inter-Bank Offered

Rate (LIBOR) plus 125 basis points in effect on the last business day of the month prior to the month for which interest is being calculated, and the rate is recalculated each month. Interest shall compound monthly and be payable on demand or at the time of payment in full prior to demand.

V. REINSURANCE

The company has reinsurance coverage under the contracts outlined below:

1. Reinsurer: General Security National Insurance Company
- Type: Excess of Loss Reinsurance
- Effective date: January 1, 2019 – December 31, 2019
- Line of business: Medicaid
- Retention: \$400,000 per member per agreement period
- Coverage: 90% of eligible expenses in excess of the retention
- Reinsurance has maximum coverage up to \$2 million per covered member per agreement period
- Termination: The agreement will terminate immediately upon the earliest of the following:
- The end of the agreement period
 - The end of the period for which premiums have been paid
 - The date that a court of competent jurisdiction declares a party to be insolvent
 - The date of a material change, provided reinsurance notifies Plan of termination for this reason
 - The effective date, if terminated because of a failure to adhere to the requirements
 - The date upon which the parties mutually agree to terminate the agreement
2. Reinsurer: Odyssey Reinsurance company
- Type: Specific Excess of Loss Reinsurance
- Effective date: January 1, 2019 – December 31, 2019
- Line of business: Commercial Exchange Business
- Retention: \$600,000 per Commercial member per agreement period
- Coverage: 90% of eligible expenses in excess of the retention
- Continuation of coverage included with \$1 million maximum
- Termination: The agreement will terminate immediately upon the earliest of the following:
- The end of the period for which premiums have been paid
 - The date that a court of competent jurisdiction declares a party to be insolvent
 - The date of a material change provided Reinsurer notifies Plan of termination for this reason

- The date set by Reinsurer according to Section 7.3 if Plan fails to send financial statements to Reinsurer
- The effective date if terminated because of misstated data
- The expiration date shown on the schedule of reinsurance

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, 2018, 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.

Children's Community Health Plan, Inc.
Assets
As of December 31, 2018

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|-----------------------------|---------------------------|-----------------------------|
| Bonds | \$ 18,576,437 | \$ | \$ 18,576,437 |
| Cash, cash equivalents and short-term investments | 118,642,028 | | 118,642,028 |
| Investment income due and accrued | 100,828 | | 100,828 |
| Uncollected premiums and agents' balances in the course of collection | 13,111,250 | 7,748 | 13,103,502 |
| Accrued retrospective premiums and contracts subject to redetermination | 2,274,476 | | 2,274,476 |
| Electronic data processing equipment and software | 420,120 | 373,330 | 46,790 |
| Furniture and equipment, including health care delivery assets | 455,819 | 455,819 | |
| Health care and other amounts receivable | 7,963,107 | 1,683,287 | 6,279,820 |
| Write-ins for other than invested assets: | | | |
| Prepaid Expenses | <u>425,939</u> | <u>425,939</u> | <u> </u> |
| Total Assets | <u>\$161,970,004</u> | <u>\$2,946,123</u> | <u>\$159,023,881</u> |

Children's Community Health Plan, Inc.
Liabilities and Net Worth
As of December 31, 2018

| | | |
|--|-------------------|------------------------------|
| Claims unpaid | | \$ 53,466,331 |
| Accrued medical incentive pool and bonus payments | | 305,692 |
| Unpaid claims adjustment expenses | | 1,765,448 |
| Aggregate health policy reserves | | 19,905,652 |
| Premiums received in advance | | 1,867,854 |
| General expenses due or accrued | | 4,039,447 |
| Amounts due to parent, subsidiaries and affiliates | | 434,688 |
| Liability for amounts held under uninsured accident and health plans | | 5,756,303 |
| Aggregate write-ins for other liabilities (including \$(1) current) | | <u>113,566</u> |
| Total Liabilities | | 87,654,982 |
| Gross paid in and contributed surplus | \$31,600,000 | |
| Unassigned funds (surplus) | <u>39,768,899</u> | |
| Total Capital and Surplus | | <u>71,368,899</u> |
| Total Liabilities, Capital and Surplus | | <u>\$ 159,023,881</u> |

**Children's Health Plan of Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2018**

| | | |
|--|-------------------|----------------------|
| Net premium income | | \$434,391,090 |
| Aggregate write-ins for other health care related revenues | | <u>6,010</u> |
| Aggregate write-ins for other non-health revenues | | <u>(301)</u> |
| Total revenues | | 434,396,799 |
| Medical and Hospital: | | |
| Hospital/medical benefits | \$308,076,043 | |
| Other professional services | 19,461,900 | |
| Prescription drugs | 21,921,446 | |
| Aggregate write-ins for other medical and hospital | 4,042,163 | |
| Incentive pool and withhold adjustments | <u>426,861</u> | |
| Subtotal | 353,928,413 | |
| Less | | |
| Net reinsurance recoveries | <u>1,791,081</u> | |
| Total medical and hospital | 352,137,332 | |
| Claims adjustment expenses | 29,171,794 | |
| General administrative expenses | <u>20,804,605</u> | |
| Total underwriting deductions | | <u>402,113,731</u> |
| Net underwriting gain or (loss) | | 32,283,068 |
| Net investment income earned | 650,805 | |
| Net realized capital gains or (losses) | <u>(18,703)</u> | |
| Net investment gains or (losses) | | <u>632,102</u> |
| Net Income (Loss) | | <u>\$ 32,915,171</u> |

**Children's Health Plan of Wisconsin, Inc.
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2018**

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Capital and surplus, beginning of year | \$40,206,521 | \$44,069,357 | \$39,660,838 | \$29,797,830 | \$20,015,403 |
| Net income (loss) | 32,915,171 | (3,997,351) | 4,216,804 | 10,743,501 | 9,677,748 |
| Change in net unrealized capital gains/losses | | 500 | (500) | | |
| Change in nonadmitted assets | <u>(1,752,794)</u> | <u>134,015</u> | <u>192,215</u> | <u>(880,493)</u> | <u>104,679</u> |
| Surplus, End of Year | <u>\$71,368,898</u> | <u>\$40,206,521</u> | <u>\$44,069,357</u> | <u>\$39,660,838</u> | <u>\$29,797,830</u> |

Children's Community Health Plan, Inc.
Statement of Cash Flow
For the Year 2018

| | |
|---|----------------------|
| Premiums collected net of reinsurance | \$452,894,907 |
| Net investment income | 640,410 |
| Miscellaneous income | <u>5,709</u> |
| Total | 453,541,026 |
| Less: | |
| Benefit- and loss-related payments | \$331,973,963 |
| Commissions, expenses paid and aggregate write-ins for deductions | <u>46,168,835</u> |
| Total | <u>378,142,798</u> |
| Net cash from operations | 75,398,228 |
| Proceeds from Investments Sold, Matured or Repaid: | |
| Bonds | 9,601,988 |
| Miscellaneous proceeds | <u>6</u> |
| Total investment proceeds | 9,601,994 |
| Cost of Investments Acquired—Long-term Only: | |
| Bonds | <u>10,537,955</u> |
| Net cash from investments | (935,961) |
| Other cash provided (applied) | <u>(322,227)</u> |
| Net Change in Cash, Cash Equivalents, and Short-Term Investments | 74,140,039 |
| Cash, cash equivalents, and short-term investments: | |
| Beginning of year | <u>44,501,988</u> |
| End of Year | <u>\$118,642,027</u> |

Growth of Children's Community Health Plan, Inc.

| Year | Assets | Liabilities | Capital and Surplus | Premium Earned | Medical Expenses Incurred | Net Income |
|------|---------------|--------------|---------------------|----------------|---------------------------|--------------|
| 2018 | \$159,023,881 | \$87,654,982 | \$71,368,899 | \$434,391,090 | \$353,928,413 | \$32,915,171 |
| 2017 | 92,942,968 | 52,736,447 | 40,206,521 | 258,314,448 | 235,208,702 | (3,997,351) |
| 2016 | 85,346,290 | 41,276,933 | 44,069,357 | 235,664,430 | 208,156,696 | 4,216,804 |
| 2015 | 81,283,216 | 41,622,378 | 39,660,838 | 237,520,521 | 207,626,994 | 10,743,501 |
| 2014 | 70,302,553 | 40,504,723 | 29,797,830 | 228,204,179 | 201,252,302 | 9,677,748 |

| Year | Profit Margin | Medical Expense Ratio | Administrative Expense Ratio | Change in Enrollment |
|------|---------------|-----------------------|------------------------------|----------------------|
| 2018 | 7.6% | 81.1% | 11.5% | 12.6% |
| 2017 | -1.5 | 90.5 | 11.1 | -0.3 |
| 2016 | 1.8 | 88.3 | 10.0 | -1.9 |
| 2015 | 4.5 | 87.3 | 8.2 | -1.5 |
| 2014 | 3.1 | 88.2 | 5.5 | -0.0 |

Enrollment and Utilization

| Year | Individual | Enrollment Medicaid | Total | Hospital Days/1,000 | Average Length of Stay |
|------|------------|---------------------|---------|---------------------|------------------------|
| 2018 | 24,364 | 122,111 | 146,475 | 327.6 | 3.8 |
| 2017 | 2,835 | 127,228 | 130,063 | 377.8 | 4.0 |
| 2016 | 0 | 130,430 | 130,430 | 376.1 | 4.0 |
| 2015 | 0 | 132,932 | 132,932 | 350.6 | 3.7 |
| 2014 | 0 | 134,991 | 134,991 | 371.2 | 3.6 |

Per Member Per Month Information

| | 2018 | 2017 | Percentage Change |
|---|-----------------|-----------------|-------------------|
| Premiums: | | | |
| Commercial | \$623.16 | \$605.45 | 2.9% |
| Medicaid | 159.72 | 153.76 | 3.9 |
| Blended | <u>239.13</u> | <u>163.48</u> | 46.3 |
| Expenses: | | | |
| Hospital/medical benefits | 169.60 | 132.20 | 28.3 |
| Other professional services | 10.71 | 11.75 | -8.8 |
| Prescription Drugs | 12.07 | 2.77 | 336.2 |
| Other medical and hospital | 2.23 | 1.82 | 22.0 |
| Incentive pool and withhold adjustments | 0.23 | 0.32 | -26.1 |
| Less: Net reinsurance recoveries | <u>0.99</u> | <u>0.81</u> | 22.4 |
| Total medical and hospital | 193.85 | 148.05 | 30.9 |
| Claims adjustment expenses | 16.06 | 13.28 | 20.9 |
| General administrative expenses | <u>11.45</u> | <u>4.86</u> | 135.5 |
| Total underwriting deductions | <u>\$221.37</u> | <u>\$166.20</u> | 33.2 |

The company's operations have been profitable over the period under examination, except in 2017 where the company experienced a net loss of \$3,997,351. Premium revenue increased from \$228.2 million in 2014 to \$434.3 million in 2018, primarily due to the addition of the individual commercial line of business in 2017. Assets, capital, and surplus increased steadily during the examination period. At year-end 2018, the company's overall gross paid in and contributed capital amounted to \$31.6 million. Total capital and surplus increased to \$71.4 million at year-end 2018, from \$40.2 million at year-end 2017, mainly due to the net income of \$32.9 million.

Premium revenue from Medicaid in 2018 was \$240.4 million, compared to \$237.7 million in 2017, an increase of 1.1%. Member months decreased by 2.6% from 1.546 million in 2017 to 1.505 million in 2018. In 2018, Medicaid premium revenue per member per month increased by 3.9% to \$159.7 per member per month from \$153.8 per member per month in 2017. This was due to an increase in capitation rates and changes in program enrollment and member demographics. Total claim adjustment expenses increased by \$8.2M or 30.9% due to the enrollment growth for the commercial line of business and due to an increase in the utilization and case management staff. The administrative costs increased in 2018 at a higher rate than net revenue, mostly due to the premium revenue reductions for the medical loss ratio related rebates and reinsurance.

CCHP's individual comprehensive insurance plan enrollment decreased from 24,364 in December 2018 to approximately 12,000 in the first quarter of 2019 due to the entrance of a competitor and competitive pricing. The company plans to continue monitoring the claims and loss ratios on the 2019 enrollment.

In January 2017, CCHP started selling individual and family Wisconsin commercial products on the Federally Facilitated Marketplace and off exchange in six counties in southeastern Wisconsin. Premium revenue from the commercial products per member per month increased by 2.9% to \$623.2 in 2018 from \$605.5 per member per month in 2017. The company's administrative operating ratio was 11.1% in 2017 and 10.0% in 2016. The operating cost ratios increased in 2017 compared to 2016 as administrative costs increased at a slightly higher rate than revenue. CCHP's individual comprehensive insurance plan enrollment increased from 2,835 in 2017 to 24,364 in 2018 due to the exit of a competitor.

Financial Requirements

Pursuant to s. Ins 9.04 (6) (a), Wis. Adm. Code the company is required to maintain compulsory and security surplus levels required by s. Ins 51.80, Wis. Adm. Code.

The company's calculation as of December 31, 2018, as modified for examination adjustments is as follows:

| | | |
|--|-------------------|---------------------|
| Assets | \$159,023,881 | |
| Less: | | |
| Special deposit | 70,045 | |
| Liabilities | <u>87,654,982</u> | |
| Assets available to satisfy surplus requirements | | \$71,298,854 |
| Net premium written: | | |
| Individual business | 193,966,628 | |
| Compulsory Factor | <u>15%</u> | \$29,094,994 |
| Group business | 240,424,462 | |
| Compulsory Factor | <u>10%</u> | <u>24,042,446</u> |
| Compulsory Surplus | | <u>53,137,440</u> |
| Compulsory Surplus Excess (Deficit) | | <u>\$18,161,414</u> |
| Assets available to satisfy surplus requirements | | \$71,298,854 |
| Compulsory Surplus | 53,137,440 | |
| Security Factor | <u>128%</u> | |
| Security Surplus | | <u>68,015,924</u> |
| Security Surplus Excess (Deficit) | | <u>\$ 3,282,930</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 2018, with a deposit of \$70,045 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 capital and surplus reported by the company as of December 31, 2018, is accepted.

Examination Reclassifications

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

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four 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. Conflict of Interest Statements—It is recommended that the company have conflict of interest statements completed for all officers and directors each year.

Action— Compliance.

2. Bylaws—It is recommended that the company amend its bylaws to remove Article X, Section 3, of the bylaws which is titled Implied Amendments within 45 days, and that future bylaw amendments should only be made through a resolution of the board or member and filed with this office, in accordance with s. 613.12 (2), Wis. Stat.

Action— Compliance.

3. Investments—It is recommended that the board or a subordinate committee thereof review and approve purchases or sales of all investments in the future on at least a quarterly basis in accordance with s. 613.51 (4), Wis. Stat.

Action— Compliance.

4. Affiliated Agreements—It is recommended that for future affiliated transactions a Form D is completed and filed with this office in accordance with ch. Ins 40, Wis. Adm. Code, and s. 617.21 (3), Wis. Stat.

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.

Corporate Governance

In accordance with a directive of the Commissioner of Insurance, each insurer is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The review of the company's conflict of interest questionnaires over the examination period revealed some individuals listed on the jurat page left one or more sections blank in the disclosure forms. It is a best practice to write "None" rather than to leave the statement blank. It is recommended that the officers and directors provide an answer to all sections in the Conflict of Interest Statement.

Third Party Administrators

The report issued under the new guidance of SSAE 16 is called the Service Organization Controls Report 1, or SOC 1. SOC 1 engagements are performed in accordance with SSAE 16 and focus solely on controls at the service organization that are likely to be relevant to an audit of a client's financial statements. SSAE 16 does not include predetermined control objectives or control activities that organizations must achieve, rather, it is designed to provide information about the service organization's internal controls over the financial reporting environment to user organizations and user auditors.

The review of critical business functions outsourced to third parties revealed that the company was not verifying the adequacy and operating effectiveness of the controls of its critical third-party administrators. It is the responsibility of management to determine whether processes which have being outsourced are being effectively and efficiently performed and controlled. It is recommended that the company obtain SOC 1 reports from its third-party administrators or take action

to perform its own review to determine the adequacy and operating effectiveness of their controls by a qualified individual.

Unclaimed Funds

Insurers are required to report abandoned property to the state of Wisconsin, pursuant to ch. 177, Wis. Stat. The review of the company's escheats procedures disclosed that unclaimed properties were not properly filed and submitted to the State of Wisconsin in compliance with s. 177.17, Wis. Stat. It is recommended that the company comply with the Uniform Unclaimed Property Act, s. 177.17, Wis. Stat., as regards unclaimed funds.

Reinsurance Agreement with Odyssey

The review of the company's reinsurance agreement with Odyssey Reinsurance Company revealed that the reinsurance agreement did not contain an intermediary clause.

Statement of Statutory Accounting Principles No. 62R (8)(e), provides in order to take credit for reinsurance the agreement must include a proper reinsurance intermediary clause, if applicable, which stipulates that the credit risk for the intermediary is carried by the assuming insurance entity. Based on the fact an intermediary was used to procure the reinsurance cover it appears that Children's Community Health Plan entered into an agreement that does not include a proper intermediary clause. It is recommended that the company revise its agreement with Odyssey Reinsurance Company to include a proper reinsurance intermediary clause in compliance with SSAP No. 62R (8)(e).

Business Continuity Plan

The review of the company's business continuity plan revealed the business continuity plan combined the health plan with the hospital operation recoveries and a communication directive to provide connectivity. However, the plan did not include a step-by-step framework for action, and a test of the plan has not been conducted. It is recommended that the company's business continuity plan be written and include a step-by-step framework that is easily accessible to be read in an emergency.

IT Disaster Recovery Plan

The objective of recovery planning is to enable an organization to survive a disaster and to continue normal business operations. In order to survive, the organization must assure that critical operations can resume or continue normal processing.

The examination of the disaster recovery plan revealed the disaster recovery plan was written for the Children's Hospital of Wisconsin and not for the Children's Community Health Plan. It is recommended that the company prepares an IT disaster recovery plan for the Children's Community Health Plan to enable the company to survive a disaster and continue normal business operations.

Information Technology

The examination reviewed the company's general controls over its information systems. The review resulted in certain findings, which were presented in a letter to management. It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management provided in conjunction with this report.

VIII. CONCLUSION

Children's Community Health Plan, Inc., a subsidiary of Children's Hospital and Health System, Inc., is a nonstock, nonprofit mixed model health maintenance organization insurer, established under ch. 613 of the Wisconsin statutes. CCHP derives its revenue from the Wisconsin Title XIX Medical Assistance known as BadgerCare, and through the individual and family products offered on and off the exchange under the Affordable Care Act, referred to as Together with CCHP. The company provides primary and specialty health services to BadgerCare and ACA enrollees through contractual arrangements with physicians, group practices, and clinics.

At year end 2018, CCHP's total capital and surplus increased to \$71.4 million from \$40.2 million at year end 2017 primarily due to net income of \$32.9 million. The individual comprehensive enrollment decreased from 24,364 in December 2018 to approximately 12,000 in the first quarter of 2019 due to the entrance of a competitor and competitive pricing. Generally, CCHP has reported favorable results over the examination period.

There were no adjustments made to surplus as a result of the current examination. The company complied with all prior examination recommendations. The examination made seven recommendations as listed on the following page.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Corporate Governance—It is recommended that the officers and directors provide an answer to all sections in the Conflict of Interest Statement.
2. Page 26 - Third Party Administrators—It is recommended that the company obtain SOC 1 reports from its third-party administrators or take action to perform its own review to determine the adequacy and operating effectiveness of their controls by a qualified individual.
3. Page 27 - Unclaimed Funds—It is recommended that the company comply with the Uniform Unclaimed Property Act, s. 177.17, Wis. Stat., as regards unclaimed funds.
4. Page 27 - Reinsurance Agreement with Odyssey—It is recommended that the company revise its agreement with Odyssey Reinsurance Company to include the appropriate language to transfer liability of premiums paid by the company to its Reinsurance Intermediary in compliance with SSAP No. 62R (8)(e).
5. Page 27 - Business Continuity Plan—It is recommended that the company's business continuity plan be written and include a step-by-step framework that is easily accessible to be read in an emergency.
6. Page 28 - IT Disaster Recovery—It is recommended that the company prepares an IT disaster recovery plan for the Children's Community Health Plan to enable the company to survive a disaster and continue normal business operations.
7. Page 28 - Information Technology—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management provided in conjunction with this report.

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 |
|---------------------|-----------------------------------|
| Shelly Bueno | Insurance Financial Examiner |
| Angelita Romaker | Insurance Financial Examiner |
| Jerry DeArmond, CFE | Policy & Claim Reserve Specialist |
| Terry Lorenz, AFE | Work Paper Specialist |

Respectfully submitted,



Vickie Ostien
Examiner-in-Charge