Report

of the

Examination of

Harken Health Insurance Company

Onalaska, Wisconsin

As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, *Governor*
Mark V. Afable*, Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
ociinformation@wisconsin.gov
oci.wi.gov

April 11, 2019

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:

HARKEN HEALTH INSURANCE COMPANY
Onalaska, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Harken Health Insurance Company (HHIC or the company) was conducted in 2013 as of December 31, 2012 (under the name Midwest Security Life Insurance Company). The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of UnitedHealth Group Inc. The Connecticut Insurance Department acted in the capacity as the lead state for the coordinated examinations with the Indiana Department of Insurance as exam facilitator for Group 3. Work performed by the Connecticut Insurance Department and Indiana Department of Insurance was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook.

This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

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

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Pennsylvania Insurance Department. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, dividends to policyholders, asset adequacy analysis, and deferred life insurance premiums. 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.

Investment Review

Winthrop Capital Management was engaged by the Indiana Department of Insurance to perform a review of the company's invested assets portfolio as of December 31, 2017. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated in Indiana on August 4, 1972, as Golden Investors Life Insurance Corporation and commenced business on March 15, 1973. The company changed its name several times during its existence as depicted below.

- September 8, 1976 - Knickerbocker Life Insurance Corporation of Indiana
- September 24, 1976 - Knickerbocker Life Insurance Company of Indiana
- October 22, 1981 - Omnivest Life Insurance Company
- September 5, 1986 - Midwest Security Life Insurance Company (MSLIC).

At that time the company's issued and outstanding shares were owned by R.W. Houser & Associates, Ltd., a Wisconsin Corporation, which changed its name to R.W. Houser, Inc. on February 11, 1988. MSLIC redomiciled to the state of Wisconsin from Indiana on January 1, 1993.

On October 1, 2002, UnitedHealthcare, Inc. (UHC) purchased 100% of R.W. Houser, Inc., the parent company of MSLIC. R.W. Houser, Inc. changed its name to Midwest Security Holding, Inc. (MSH) on October 24, 2002. On December 31, 2007, MSH issued a dividend of 100% stock ownership of MSLIC to UHC. Effective March 10, 2015, the company changed its name to Harken Health Insurance Company.

Prior to this exam period, the company was in runoff. The company stopped writing new life and disability products and discontinued renewing active groups in March 2010. Effective January 1, 2016, HHIC offered comprehensive commercial products (both on and off the Affordable Care Act [ACA] exchange) to individuals and employer groups in Georgia and Illinois. Effective January 1, 2017, the company exited the ACA individual and employer groups exchange market in all states. In 2017, HHIC exited the individual off-exchange marketplace and transitioned all remaining group membership to other affiliates. As a result, the company has no membership beginning January 1, 2018. The company is licensed to write business in Florida, Indiana, Iowa, Michigan, Nebraska, Ohio, Texas, and Wisconsin.

In 2017, the company collected direct premium in the following states:

Illinois	$15,192,479	90.9%
Georgia	1,524,505	9.1
Total	$16,716,984	100.0%

The following table is a summary of premium income as reported by the company in 2017. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Comprehensive (hospital and medical)				
Individual	$15,318,128	$	$	$15,318,128
Group	1,398,856			1,398,856
Total all lines	$16,716,984	$0	$0	$16,716,984

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. The directors are all employed by UnitedHealth Group. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

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

Name and Residence	Principal Occupation	Term Expires
James Becker Wayzata, MN	Business Segment COO	2018
Nyle Cottington Maple Grove, MN	VP, Accounting	2018
Stevan Garcia Larkspur, CO	SVP Ops, Employer & Individual (E&I)	2018
Juliet Scott Pompano Beach, FL	VP Finance, E&I	2018
Kathryn Sullivan Chicago, IL	CEO E&I Regions	2018

Officers of the Company

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

Name	Office	2017* Compensation
Stevan Garcia	President and Director	$2,644,013
Juliet Scott	Chief Financial Officer and Director	43,475
Richard Sullivan	Secretary	21,715
Robert Oberrender	Treasurer	18,347

* Each officer may have responsibility for multiple regulated entities in the UnitedHealth Group. The portion of compensation shown above for each officer is primarily allocated based on the quantity of total legal entities the officer serves as well as the percentage of the year that each officer served for Harken Health Insurance Company. These amounts would be included in total salaries and benefits for the respective officer and allocated to the health plan through the United HealthCare Services, Inc. management fee.

Committees of the Board

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

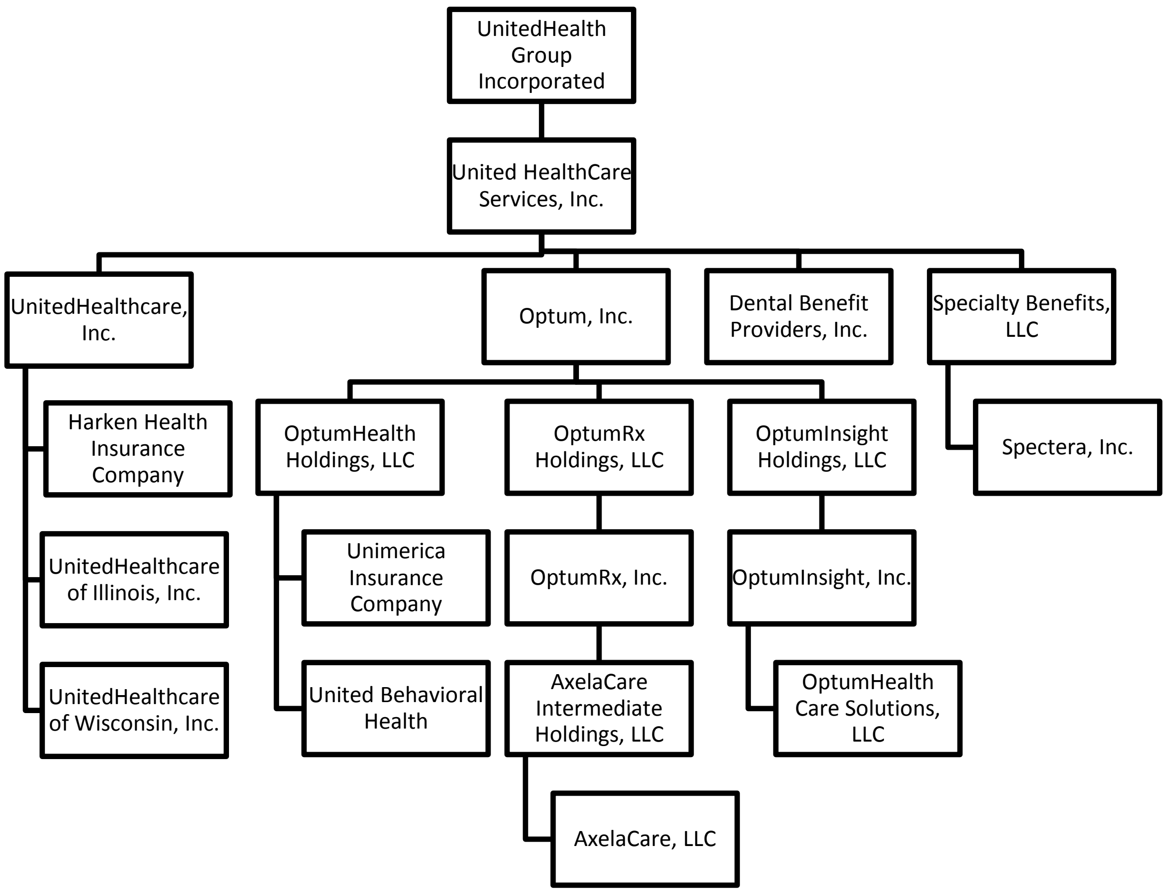
The Board of Directors of United HealthCare Services, Inc. has established a Central Region Audit Committee for the purpose of overseeing the accounting and financial reporting processes of the company. The members of the Central Region Audit Committee are as follows:

Audit Committee
Salli Thompson, Chair
Elizabeth Sween
John Tenaglia

IV. AFFILIATED COMPANIES

Harken Health Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant follows the organizational chart.

Abbreviated Organizational Chart*
As of December 31, 2017



*As of December 31, 2017 UHG's holding company system consisted of 864 companies.

UnitedHealth Group Incorporated

UnitedHealth Group Incorporated, the ultimate controlling entity in the insurance holding company system, is a diversified health and well-being company. Through its affiliated companies, UHG offers a broad spectrum of health care products and services. As of December 31, 2017, UHG's audited financial statement (consolidated) reported assets of $139 billion, liabilities of $87 billion, and shareholders' equity of $49.8 billion. Operations for 2017 produced a net income of $10.5 billion on total revenues of $201 billion. UHG is traded over the New York Stock Exchange under the symbol "UNH."

UHG has two distinct, but strategically aligned business platforms: health benefits operating under UnitedHealthcare and health services operating under Optum through its OptumHealth, OptumInsight, and OptumRx businesses. To the extent there are contracts between Harken and any UnitedHealthcare or Optum affiliate, they will be within these four operating segments.

(Billions)	**UnitedHealthcare**	**OptumHealth**	**OptumInsight**	**OptumRX**
2017 Total earnings before income taxes	$ 8.5	$ 1.8	$ 1.8	$ 3.1
Revenues	163.3	20.6	8.1	63.8
Total assets	76.7	26.9	11.3	29.6

United HealthCare Services, Inc.

United HealthCare Services, Inc. (UHS) is the employer for a large percentage of the personnel who provide services to UHG and its subsidiaries. It is a direct subsidiary of UHG and functions as an intermediate holding company for all of the other subsidiaries of UHG. As of December 31, 2017, the consolidated audited financial statements for UHS and subsidiaries reported assets of $119.6 billion, liabilities of $52.9 billion, noncontrolling interests of $1.3 billion, and equity of $65.4 billion. Operations for 2017 produced net earnings of $8.9 billion on revenues of $182.0 billion.

UnitedHealthcare, Inc.

UnitedHealthcare, Inc. (UHC) is a direct subsidiary of UHS and functions as a holding company. UHC provides global health care benefits, serving individuals and employers, and Medicare and Medicaid beneficiaries.

Optum, Inc.

Optum, Inc. (Optum) is a direct subsidiary of UHS and functions as a holding company for the health services business serving the global health care marketplace, including payers, care providers, employers, governments, life sciences companies, and consumers through its OptumHealth, Optumlnsight, and OptumRx businesses. As of December 31, 2017, the unaudited financial statements of Optum reported assets of $67.8 billion. Operations for 2017 produced a net income of $6.7 billion on total revenues of $91.2 billion.

Agreements with Affiliates

UHG Tax Sharing Agreement

Harken became a party to the Tax Sharing Agreement with UHG effective October 1, 2002. The Tax Sharing Agreement establishes a formal method for the allocation and payment of federal, state, and local income tax liabilities related to the consolidated federal tax returns of UHG and its subsidiaries filed each year.

UHG Subordinated Revolving Credit Agreement

Effective August 1, 2012, Harken and UHG entered into a Subordinated Revolving Credit Agreement whereby UHG provides Harken with a short-term borrowing facility. Harken may borrow funds upon demand from UHG up to a maximum of $10 million at an interest rate equal to LIBOR plus 50 basis points.

UHS Management Services Agreement

Harken entered into a management services agreement with UHS effective July 1, 2011. Pursuant to the agreement, UHS provides management services to Harken under a fee structure, which is based on a percentage of premium charges representing UHS' expenses for services or use of assets provided to Harken. In addition, UHS provides or arranges for services on behalf of the company using a pass-through of charges incurred by UHS on a per member per month basis or using another allocation methodology consistent with the agreement.

AxelaCare Facility Participation Agreement

Effective February 1, 2016, Harken entered into the Facility Participation Agreement with AxelaCare Intermediate Holdings, LLC (AxelaCare). Under the terms of the agreement, AxelaCare provides home infusion therapy services, including per diem nursing services and the cost of drugs. The agreement covers all products, commercial, Medicare, and Medicaid that Harken may offer.

DBP Dental Services Agreement

Effective January 1, 2016, Harken entered into the Dental Services Agreement with Dental Benefit Providers, Inc. (DBP), in which DBP is responsible for managing a network of dental providers, claims processing, and other administrative functions in order to provide dental services to Harken's members.

Evercare Ancillary Provider Participation Agreement

Effective July 1, 2007, the Ancillary Provider Participation Agreement was entered into by and between Evercare Hospice, Inc. (Evercare) and UnitedHealthcare Insurance Company on behalf of itself and any affiliates who chose to participate. Harken became a party to the agreement by way of a participating addendum effective September 1, 2009. Pursuant to the agreement, Evercare is providing its commercial and Medicaid customers with covered services for hospice care.

OHCS Administrative Services Agreement

Harken entered into an administrative services agreement with OptumHealth Care Solutions, Inc. (OHCS) effective January 1, 2016. Pursuant to the agreement, OHCS is responsible for managing a network of therapy providers and other administrative functions in order to provide physical health solutions such as chiropractic and physical, occupation, and speech therapy for Harken's members.

OptumInsight Services Agreement

Harken entered into the OptumInsight Services Agreement with OptumInsight, Inc., (OptumInsight) effective November 1, 2016, in which OptumInsight provides Harken with services related to claim analytics and recovery services, retrospective fraud, waste and abuse services, subrogation services, and premium audit services.

OptumRx Facility Participation Agreement Durable Medical Equipment Services and Hearing Aids

Harken and OptumRx, Inc. (OptumRx) entered into the Facility Participation Agreement in which OptumRx provides durable medical equipment services and hearing aids for Harken's members. The agreement covers all products, commercial, Medicare, and Medicaid that Harken may offer. The agreement was amended effective January 1, 2013 to update the rates, add additional hearing aids, and delete the durable medical equipment fee schedule as it is no longer being utilized.

OptumRx Prescription Drug Benefit Administration Agreement (Commercial)

UHS entered into the Prescription Drug Benefit Administration Agreement (commercial) with OptumRx effective January 1, 2013. Harken became a party to the agreement by entering into a participating plan addendum effective October 1, 2013, in which OptumRx provides to Harken with core prescription drug benefit services and mail order pharmacy services. Under the core prescription drug benefit services, OptumRx establishes and maintains a network of pharmacies to service the benefit plans and provides claims processing services, benefits administration and support, marketing and sales support, account management services, rebate administration, clinical services and finance, and analytical support services. Under the mail order pharmacy services, OptumRx provides Harken with mail order network prescription services. Harken remains ultimately responsible for the pharmacy benefit administration services provided to its members.

OptumRx Facility Participation Agreement Specialty Pharmacy for the Medical Benefit

Effective December 1, 2015, Harken entered into the Facility Participation Agreement-Specialty Pharmacy for the Medical Benefit. Pursuant to the agreement, OptumRx is a specialty pharmacy provider. OptumRx provides the specialty pharmacy medications covered under the member's medical benefits. In addition to dispensing and delivering the specialty pharmacy medications, OptumRx provides information, including side effect management, storage of the medication, missed dose management, and disease state information to Harken's members or their caregivers. OptumRx also provides access to customer service representatives and pharmacists to provide support and guidance to Harken's members and family members.

OptumRx Facility Participation Agreement Specialty Pharmacy for the Pharmacy Benefit

Effective December 1, 2015, Harken entered into the Facility Participation Agreement-Specialty Pharmacy for the pharmacy benefit. Pursuant to the agreement, OptumRx is a specialty pharmacy provider. OptumRx provides the specialty pharmacy medications covered under the member's pharmacy benefits. In addition to dispensing and delivering the specialty pharmacy medications, OptumRx provides information, including side effect management, storage of the medication, missed dose management, and disease state information to Harken's members or their caregivers. OptumRx also provides access to customer service representatives and pharmacists to provide support and guidance to Harken's members and family members.

Spectera Vision Services Agreement

Harken entered into a Vision Services Agreement with Spectera, Inc. (Spectera) and Specialty Benefits, LLC (Specialty Benefits) effective January 1, 2016. The agreement provides that Spectera is responsible for managing a network of vision providers to provide vision services and/or products (frames and contact lenses), claims processing and other administrative functions related to its vision services to Harken's members. Specialty Benefits provides optometric materials, such as eyeglasses and contact lenses prescribed by network providers for Harken's members.

UBH Behavioral Health Services Agreement

Harken entered into the Behavioral Health Services Agreement with United Behavioral Health (UBH) effective January 1, 2016. Under the agreement, UBH is responsible for arranging for provision for certain mental health and substance abuse treatment services for Harken's members.

UHCIL Healthcare Provider Services Agreement

Effective March 19, 2017, Harken entered into the Healthcare Provider Services Agreement with UnitedHealthcare of Illinois, Inc. (UHCIL). Under the agreement, certain services from healthcare providers to be employed by UHCIL will be provided to Harken. Harken operates health centers in the State of Illinois, for the benefit of its members and certain services from healthcare providers are employed by UHCIL. UHCIL healthcare provider employees will provide Harken with any and all services for the provision of medical and health benefits to members of Harken. Harken will reimburse UHCIL for all costs and risk associated with the UHCIL's providing healthcare services to Harken's members.

Agreement for Combined Billing and Disbursement Operations

Effective April 1, 2010, Harken entered into the Agreement for Combined Billing and Disbursement Operations with UnitedHealthcare Insurance Company, United HealthCare Services, Inc., and PacifiCare Health Plan Administrators, Inc., through a participating addendum. The purpose of the agreement is to provide a common lockbox for premium collection and zero balance disbursements account for paying certain bills. The services covered under the agreement are covered under the Management Services Agreement between Harken and UHS.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contain proper insolvency provisions.

Ceding Contracts

Section 1341 of the ACA established a transitional reinsurance program to stabilize premiums in the individual market inside and outside of the marketplaces. This was effective from January 1, 2014 through December 31, 2016. This program was designed to protect insurers in the individual market from an expected increase in large claims due to the elimination of preexisting condition limitations. The ACA imposes fees and premium stabilization provisions on health insurance insurers offering comprehensive commercial health insurance.

Harken has accident and health insurance premiums in the individual and group lines of business subject to the risk-sharing provisions of the ACA. This business represents 100% of the company’s premium revenue. As of December 31, 2017, the company had established receivables of $2.7 million and liabilities of $0 pursuant to the ACA provisions. The receivable is reported as in amounts recoverable from reinsurer for claims paid. Under this provision, the reinsurer is the U.S. Department of Health and Human Services. Effective January 1, 2018, the company is exiting the individual and group lines of business.

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, 2017, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.

Harken Health Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 1,661,275	$	$ 1,661,275
Cash, cash equivalents, and short-term investments	29,727,306		29,727,306
Investment income due and accrued	16,195		16,195
Uncollected premiums and agents' balances in course of collection	153,980	118,165	35,815
Accrued retrospective premiums and contracts subject to redetermination	651,465		651,465
Amounts recoverable from reinsurers	2,693,593		2,693,593
Amounts receivable relating to uninsured plans	104,202		104,202
Current federal and foreign income tax recoverable and interest thereon	7,483,841		7,483,841
Receivable from parent, subsidiaries and affiliates	574,282		574,282
Health care and other amounts receivable	620,064	216,589	403,475
Write-ins for other than invested assets:			
			1,603,437
State income tax recoverable	1,603,437		
Prepaid premium taxes	1,155,323		1,155,323
Total assets	$46,444,963	$334,754	$46,110,209

Harken Health Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2017

Claims unpaid		$ 2,602,560
Accrued medical incentive pool and bonus payments		30,201
Unpaid claims adjustment expenses		13,863
Aggregate health policy reserves		512,164
Aggregate life policy reserves		21,747
Aggregate health claim reserves		34,792
General expenses due or accrued		355,283
Remittance and items not allocated		1,627
Write-ins for liabilities		
Unclaimed property		2,947
Miscellaneous liabilities		423,766
Total liabilities		$ 3,998,950
Common capital stock	$ 2,500,000	
Gross paid in and contributed surplus	163,198,293	
Unassigned funds (surplus)	(123,587,034)	
Total capital and surplus		42,111,259
Total liabilities, capital, and surplus		$46,110,209

Harken Health Insurance Company
Statement of Revenue and Expenses
For the Year 2017

Net premium income		$16,716,984
Medical and hospital:		
Hospital/medical benefits	$ 9,605,802	
Other professional services	54,285	
Prescription drugs	3,656,549	
Write-in for other medical and hospital		
Change in tabular reserves – long-term disability claims	(60,664)	
Incentive pool and withhold adjustments	122,390	
Subtotal	13,378,362	
Less		
Net reinsurance recoveries	4,469,235	
Total medical and hospital	8,909,127	
Non-health claims	15,000	
Claims adjustment expenses	3,640,220	
General administrative expenses	23,814,997	
Increase in reserves for life and accident and health contracts	(10,771,390)	
Total underwriting deductions		25,607,954
Net underwriting gain or (loss)		(8,890,970)
Net investment income earned		398,955
Net gain or (loss) from agents' or premium balances charged off		(460,422)
Write-in for other income or expenses		
Contract termination settlement		4,000,000
Net income or (loss) before federal income taxes		(4,952,437)
Federal and foreign income taxes incurred		(5,253,851)
Net income (loss)		$ 301,414

Harken Health Insurance Company
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2017

	2017	2016	2015	2014	2013
Capital and surplus, beginning of year	$40,723,909	$ 10,266,572	$ 6,699,734	$ 6,177,402	$ 20,817,200
Net income (loss)	301,414	(63,729,425)	(61,488,287)	523,241	625,477
Change in net deferred income tax					(268,531)
Change in nonadmitted assets	1,085,936	(1,420,690)			2,982
Surplus adjustments: Paid in		95,000,000	65,000,000		(9,000,000)
Dividends to stockholders					(6,000,000)
Write-ins for gains and (losses) in surplus: IMR and AVR prior to conversion from a blue blank to an orange blank		607,452	55,125	(909)	274
Capital and surplus, end of year	$42,111,259	$40,723,909	$10,266,572	$6,699,734	$6,177,402

Harken Health Insurance Company
Statement of Cash Flow
For the Year 2017

Premiums collected net of reinsurance		$28,878,494
Net investment income		421,748
Total		29,300,242
Less:		
Benefit- and loss-related payments	$50,470,813	
Commissions, expenses paid, and aggregate write-ins for deductions	23,875,193	
Federal and foreign income taxes paid (recovered) $0 net tax on capital gains (losses)	1,656,303	
Total		76,002,309
Net cash from operations		(46,702,067)
Cash provided/applied:		
Other cash provided (applied)	2,608,908	
Net cash from financing and miscellaneous sources		2,608,908
Net change in cash, cash equivalents, and short-term investments		(44,093,159)
Cash, cash equivalents, and short-term investments:		
Beginning of year		73,820,465
End of year		$29,727,306

Growth of Harken Health Insurance Company

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2017	$ 46,110,209	$ 3,998,950	$42,111,259	$ 16,716,984	$ 8,909,127	$ 301,414
2016	112,518,385	71,794,476	40,723,909	147,227,408	244,082,271	(63,729,425)
2015	58,099,709	47,833,137	10,266,572	0	(39,54)	(61,488,287)
2014	7,588,444	888,710	6,699,734	0	(29,147)	523,241
2013	7,234,115	1,056,713	6,177,402	0	(84,968)	625,477
2012	22,227,930	1,410,730	20,817,200	0	(275,142)	949,460

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2017	1.8%	-11.1%	164.2%	-94.0%
2016	-43.2	144.7	33.7	100.0
2015	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A

N/A (not applicable) - Company was not writing comprehensive commercial products.

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2017	2,110	399	5.01
2016	35,445	315	4.35
2015	N/A	N/A	N/A
2014	N/A	N/A	N/A
2013	N/A	N/A	N/A
2012	N/A	N/A	N/A

N/A (not applicable) - Company was not writing comprehensive commercial products.

Per Member Per Month Information

	2017	2016	Percentage Change
Premiums:			
Commercial	$589.54	$377.97	56.0%
Expenses:			
Hospital/medical benefits	338.76	562.08	-39.7
Other professional services	1.91	1.57	21.9
Prescription drugs	128.95	91.25	41.3
Other medical and hospital	(2.14)	(0.03)	6,747.4
Incentive pool and withhold adjustments	4.32	1.13	281.2
Less: Net reinsurance recoveries	157.61	29.39	436.3
Total medical and hospital	314.19	626.62	-49.9
Claims adjustment expenses	128.38	24.98	413.9
General administrative expenses	839.86	102.29	721.1
Increase in reserves for accident and health contracts	(379.64)	(79.88)	375.3
Total underwriting deductions	$902.78	$674.01	33.9

Prior to this examination period, the company was in runoff. Effective January 1, 2016, the company began selling off-exchange and on-exchange individual health plans compliant with ACA and small group health insurance policies in the states of Illinois and Georgia. As a result of the changes in business, the company experienced large changes in many balance sheet items and financial trends. In anticipation of first-year losses expected to be incurred on the new business, the company established a premium deficiency reserve of $42 million in 2015. Also, in 2015, the company incurred general insurance expenses of $34 million related to start-up costs. Premiums increased to $147 million in 2016 from $0 in 2015. The company experienced greater than anticipated losses associated with the ACA business written and posted net losses of $61 million in 2015 and $64 million in 2016. These losses required capital contributions from the parent of $65 million in 2015 and $95 million in 2016. As a result of the losses, the company exited the ACA individual and employer groups exchange market in all states effective January 1, 2017. Premiums decreased to $17 million in 2017 and the company reported net income of $301 thousand. Capital and surplus increased 102% over the examination period due to capital contributions from the parent of $160 million offset by net losses of $124 million, a return of capital of $9 million, and dividends paid to the parent of $6 million.

Harken Health Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017

Assets			$46,110,209
Less liabilities			3,998,950
Adjusted surplus			42,111,259
Annual premium:			
Individual life and health	$15,318,129		
Factor	15%		
Total		$2,297,719	
Group life and health	1,398,856		
Factor	10%		
Total		139,886	
Compulsory surplus (subject to a $2,000,000 minimum)			2,437,605
Compulsory surplus excess (deficit)			$39,673,654
Adjusted surplus (from above)			$42,111,259
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%)			3,412,647
Security surplus excess (deficit)			$38,698,612

Reconciliation of 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, 2017, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

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.

Executive Compensation

The examination noted that the Report on Executive Compensation filed for 2017 did not include employer-paid health insurance and employer contributions to health savings accounts. The State of Wisconsin requires that each Wisconsin-domiciled insurer file a supplement to the annual statement titled “Report on Executive Compensation” pursuant to s. 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director and all “C” level executives or their equivalent. Compensation reported should include all gross direct and indirect remuneration paid and accrued during the report year for the benefit of an individual director, officer, or manager, and shall include wages, stock grants, gains from the exercise of stock options, and all other forms of personal compensation (including employer-paid health, life, and any other premiums). It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers, executive management, and directors in accordance with the instructions stated on the Report on Executive Compensation.

VIII. CONCLUSION

In March 2015, the company changed its name from Midwest Security Life Insurance Company to Harken Health Insurance Company.

In 2016, the company began selling off-exchange and on-exchange individual health plans compliant with ACA and small group health insurance policies. In 2017, the company exited the ACA individual and employer groups exchange market. Effective December 31, 2017, the company exited the individual off-exchange marketplace and transitioned all remaining group membership to other affiliates.

As a result of the above-mentioned business plan changes, assets, liabilities, and capital and surplus increased by 107%, 183%, and 102%, respectively, over the examination period. As of December 31, 2017, the company reported assets of $46 million and liabilities of $4 million. The company reported a net income of $301 thousand in 2017.

There were no prior examination recommendations for the company. The examination resulted in one recommendation. No adjustments to surplus or reclassifications of account balances were made as a result of the examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Executive Compensation—It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers, executive management, and directors in accordance with the instructions stated on the Report on Executive Compensation.

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
Angelita Romaker	Insurance Financial Examiner
Kongmeng Yang	Insurance Financial Examiner
Ana Careaga	ACL Specialist
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Greg Mielke
Examiner-in-Charge