

Report of the Examination of
Network Health Insurance Corporation
Menasha, Wisconsin
As of December 31, 2020

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November 29, 2021

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:

NETWORK HEALTH INSURANCE CORPORATION
Menasha, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Network Health Insurance Corporation (the company or NHIC) was conducted in 2018 as of December 31, 2017. The current examination covered the intervening period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an 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. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

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

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's reserving assumptions and methodologies, unpaid claims liability, unpaid claims adjustment expenses, medical loss ratio rebate liability, premium deficiency reserves, accrued retrospective premiums, amounts recoverable from reinsurer, health care and other receivables, and accrued medical incentive pool and bonus amounts. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated on March 1, 2001, as a stock insurance corporation and commenced business on August 1, 2001. Effective April 1, 2013, the company transitioned into a nonstock, not-for-profit service insurance corporation organized under ch, 613, Wis. Stat. The company's sole member is Network Health, Inc. (NHI). NHI is jointly owned by Froedtert Health, Inc. (FHI) and Ministry Health Care, Inc. (MHC), effective November 1, 2014.

As of December 31, 2020, the company is only licensed in the state of Wisconsin. The company does not have any plans to expand outside of Wisconsin and intends to focus its efforts where it has a strong provider network presence.

The major products marketed by the company include stop-loss coverage provided to self-insured clients currently administered by Network Health Administrative Services, LLC and a Medicare Advantage (MA) Preferred Provider Organization (PPO) product that includes Medicare Part D Prescription Drug Plan. The company primarily offers the majority of its services in northeast Wisconsin. In recent years, the company has expanded further into southeast Wisconsin and has been steadily growing its business there.

The following chart is a summary of premium income as reported by the company in 2020. 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
Title XVIII - Medicare	\$667,648,548		\$666,569	\$666,981,979
Other health	<u>10,549,315</u>	<u> </u>	<u>220,720</u>	<u>10,328,595</u>
Total All Lines	<u>\$678,197,863</u>	<u>\$ 0</u>	<u>\$887,289</u>	<u>\$677,310,574</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 10 directors. All directors are elected annually to serve a one-year term. The position of president and chief executive officer of the company is appointed by the board of directors for a two-year term. Other officers are elected by the board of directors. Members of the company's board of directors also serve as members of other boards of directors in the holding HMO group. The board members working for affiliated companies do not receive compensation for serving on the board of directors. External board members are compensated through NHI for their services on the board.

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

Name and Residence	Principal Occupation	Term Expires
John Bykowski Appleton, Wisconsin	Retired, Secura Insurance	2021
Robert Culling Milwaukee, Wisconsin	President/Clinical Ascension Medical Group	2021
Scott Hawig Whitefish Bay, Wisconsin	Senior Vice President & Chief Financial Officer, Froedtert Health, Inc.	2021
Catherine Jacobson Brookfield, Wisconsin	President & Chief Executive Officer, Froedtert Health, Inc.	2021
David Olson Mequon, Wisconsin	Chief Strategy Officer, Froedtert Health, Inc.	2021
Larry Rambo Hartland, Wisconsin	Retired, Humana, Southeast Wisconsin	2021
Christopher Zwygart West Bend, Wisconsin	Vice President/Chief Risk Officer, West Bend Mutual	2021
Jonathan Sohn Brookfield, Wisconsin	Senior Vice President/Chief Revenue, Ascension Wisconsin	2021
Essie Whitelaw Mequon, Wisconsin	Retired, Wisconsin Physician Services	2021

Name and Residence	Principal Occupation	Term Expires
Bernard Sherry, Chair Milwaukee, Wisconsin	Senior Vice President, Ascension Health	2021

Officers of the Company

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

Name	Office
Coreen Dicus-Johnson	President & Chief Executive Officer
Brian Ollech	Chief Financial Officer
Penelope Ransom	Chief Administrative Officer
Gregory Buran, MD	Chief Medical Officer

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Executive Committee

Bernard Sherry, Chair
Catherine Jacobson
David Olson
Jonathon Sohn

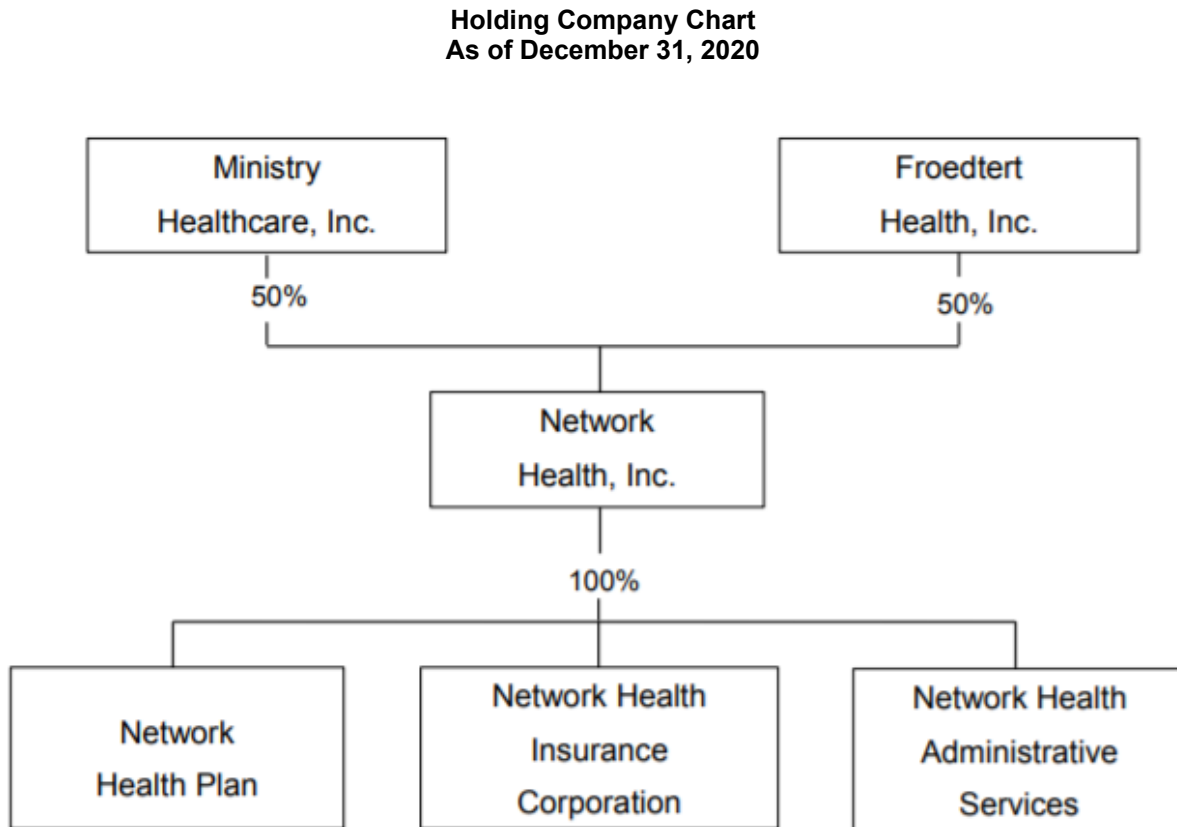
Audit Committee

Christopher Zwygart, Chair
John Bykowski
Essie Whitelaw
Jonathon Sohn
Scott Hawig (Non-voting member)

The company has no employees. Necessary staff is provided through a leased employee agreement with NHI. Under the agreement, effective December 14, 2013, NHI agrees to negotiate employer, provider, subscriber, and other contracts; advise the board; maintain accounting and financial records; recruit marketing, utilization review, and claims processing personnel; provide or contract for claims processing, and management information systems.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parents are Froedtert Health, Inc. and Ministry Healthcare, Inc. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.



Ministry Health Care, Inc.

Ministry Health Care, Inc. (MHC) is a nonstock, not-for-profit corporation organized to support and carry out the missions of its downstream affiliates:

- Affinity Health System (including its downstream affiliates Network Health System, Inc., Mercy Health Foundation, Inc., St. Elizabeth's Hospital, Inc., Mercy Medical Center of Oshkosh, Inc., Calumet Medical Center, Gold Cross Ambulance Service, Inc., and Catalpa Health, Inc.)
- Agape Community Center of Milwaukee, Inc.
- Putnam Capital Management, LLC
- Sacred Heart St. Mary's Hospitals, Inc.
- Howard Young Health Care, Inc.
- St. Michael's Hospital of Stevens Point, Inc.
- Good Samaritan Health Center of Merrill, Wisconsin, Inc.

- St. Claire's Hospital of Weston, Inc.
- Pain Centers of Wisconsin-Stevens Point, LLC
- Pain Centers of Wisconsin-Wausau, LLC
- Ministry Medical Group, Inc.
- Ministry Home Care, Inc.
- St. Joseph's Hospital of Marshfield, Inc.
- Our Lady of Victory Hospital, Inc.
- Door County Memorial Hospital
- St. Elizabeth's Hospital of Wabasha, Inc.

As of June 30, 2020, MHC's GAAP audited financial statement reported assets of \$41.9 billion, liabilities of \$20.3 billion, and total net assets of \$21.6 billion. Operations for the year ended June 30, 2020, produced net loss of \$(639.4) million on revenues of \$25.3 billion.

Froedtert Health, Inc.

Froedtert Health, Inc. (FHI) is a nonstock, not-for-profit corporation organized to support and carry out the missions of its downstream affiliates:

- Froedtert Memorial Lutheran Hospital, Inc. (including its downstream affiliate Froedtert Hospital Foundation, Inc.)
- Community Memorial Hospital of Menomonee Falls, Inc. (including its downstream affiliates Community Memorial Foundation of Menomonee Falls, Inc., and Community Outpatient Health Services of Menomonee Falls, Inc.)
- St. Joseph's Community Hospital of West Bend, Inc. (including its downstream affiliates St. Joseph's Community Foundation, Inc., and West Bend Surgery Center, LLC)
- Froedtert & The Medical College of Wisconsin Community Physicians
- Progressive Physician Network, Inc.

As of June 30, 2020, FHI's consolidated GAAP audited financial statement reported assets of \$4.5 billion, liabilities of \$1.8 billion, and total net assets of \$2.7 billion. Operations for the year ended June 30, 2020, produced a change in unrestricted net assets of \$130.2 million on revenues of \$2.7 billion.

Network Health, Inc.

Network Health, Inc. (NHI) is a nonstock, nonprofit corporation and is the sole shareholder/corporate member of Network Health Insurance Corporation and Network Health Administrative Services, LLC. Network Health Plan is a wholly owned subsidiary of NHI. NHI is jointly owned by Froedtert Health, Inc. and Ministry Health Care, Inc. As of December 31, 2020, NHI's audited GAAP financial statement reported assets of \$404.2 million, liabilities of \$182.4 million, and net assets of \$221.8 million. Operations for 2020 produced a change in net assets of \$22.4 million on revenues of \$930.5 million.

Network Health Plan

Network Health Plan (NHP) is incorporated in the state of Wisconsin under the provisions of Chapter 611 of the Wisconsin Statutes as a Wisconsin stock insurance corporation and a wholly owned subsidiary of NHI. NHP is engaged in the business of health insurance for health care services provided to groups and individuals. NHP contracts with various health care facilities to provide covered medical services and supplies to NHP participants who pay a fixed monthly premium for insurance coverage. The majority of these services are provided in northeastern Wisconsin. As of December 31, 2020, NHP's audited statutory financial statement reported assets of \$100.9 million, liabilities of \$50.3 million, and capital and surplus of \$50.6 million. Operations for 2020 produced a net loss of \$4.3 million on revenues of \$298.6 million.

Network Health Administrative Services

Network Health Administrative Services (NHAS) is a nonstock corporation whose sole member is NHI. NHAS is primarily an Administrative Services Only (ASO) plan that provides services such as claims processing for self-insured, employer-sponsored health and welfare plans. Claims are paid either from a bank account owned and funded directly by the self-insured plan, or from bank accounts owned by NHAS that have been adequately funded by the self-insured plan to fully cover the claims. NHAS began performing ASO services in northeastern and southeastern Wisconsin in 2015. As of December 31, 2020, the NHAS's unaudited GAAP financial statement reported assets of \$5.3 million, liabilities of \$2.1 million, and Equity and Retained Earnings of \$3.2 million. Operations for 2020 produced a net gain of \$1.0 million on revenues of \$5.1 million.

Affiliated Agreements

The following agreements were in place as of December 31, 2020: NHI, MHC, and FHI have a Members Agreement (MA) and Member Admission Agreement (MAA), both effective November 1, 2014, in which FHI acquired a 50% interest in NHI and its subsidiaries. Taken together, the agreements describe a process whereby a capital deficiency in the company and/or NHP will be cured via capital contributions by MHC and FHI if, along with other conditions, the capital and surplus levels of the company and/or NHP fall below levels required by the state of Wisconsin.

NHIC, NHAS, and NHP have an Intercompany Service Agreement (ISA) with NHI, effective January 1, 2017, which supersedes all prior intercompany service agreements between NHI and the subsidiaries. Under the terms of the agreement, NHI is to provide management and operations support services to the subsidiaries. Direct expenses are allocated entirely to the entity that incurred such expenses and indirect expenses are allocated to each entity based on available drivers outlined in the agreement. The estimated expenses are settled monthly with a minimum of three true-ups during the year to better reflect the actual expenses incurred by each entity. A final true-up is performed during the close process at year-end.

NHIC, NHP, NHAS, and NHI have a Tax Allocation Agreement (TAA), effective January 1, 2014, and amended in February 2015. In the TAA, the group files a consolidated tax form through NHI for years subsequent to 2013, and NHI allocates the tax liability among the members in proportion to what they would be obligated to pay if filing individually. Additionally, NHI will reimburse each member its allocable portion of NOL or tax credit amounts.

NHIC, NHP, NHAS, and NHI have a Leased Employee Agreement (LEA), effective December 14, 2013, and amended in March 2015. The lessor, NHI, agrees to lease its staff to the lessee entities: NHAS, NHIC, and NHP. As compensation, the lessor receives the full cost of providing the personnel to the lessee entities. The agreement requires monthly billing by the 10th business day of each month and full payment within 30 days of receipt.

NHP and NHAS have an Intercompany Service Agreement (IA), effective October 15, 2015, in which NHAS is to provide or arrange payments for contraceptive services for certain religious employers who filed a self-certification objecting to payment of contraceptive benefits pursuant to the Affordable Care Act. NHP is to provide coverage for contraceptive services for those members.

NHP, NHIC, NHI, and NHAS and Inception Health Operations, LLC have a Master Services Agreement (MSA), effective September 1, 2019. The purpose of this agreement is to provide a baseline agreement to potentially add third-party innovative health services through Inception Health to their members. These services will be added through addendums to this underlying agreement. An addendum was signed on November 15, 2019, to provide an Ambulatory Diabetes Outreach Program (ADOP) and the Glooko Application which is a software application that enables patients and health care

professionals to remotely monitor and manage diabetes treatment, to certain Network Health members that are attributed to Froedtert Health, Inc., and that qualify for the program.

NHP, NHIC, and Mosaic Family Health have a combined HMO/MA/Point of Service (POS) Agreement, effectively April 1, 2018, which describes the reimbursement terms and conditions with respect to payment for covered services provided to NHP and NHIC.

NHP, NHIC, and Regional Medical Laboratory (RML) have an Ancillary Provider Service Agreement, effective October 1, 2015, in which RML will provide laboratory health services or supplies to members of NHP's commercial and individual products and NHIC's Medicare Advantage products.

NHP, NHIC, and Froedtert and the Medical College of Wisconsin Network, LLC (FMCWN), have a Risk-Sharing Agreement, effective January 1, 2020, in which FMCWN shall provide and/or arrange for the provision of covered services to members. NHP, NHIC, and FMCWN, through the Medicare Advantage plans, Affordable Care Act plans and commercial plans of the above referenced combined Agreement, agree to align all parties' incentives towards improving patient health, enhancing patient experiences and reducing or controlling the cost of health care in the parties' shared communities.

NHP, NHIC, and Ascension Wisconsin (Ascension) have a Risk-Sharing Agreement, effective January 1, 2018, in which Ascension shall provide and/or arrange for the provision of covered services to members. NHP, NHIC, and Ascension, through the above referenced Agreement, agree to align all parties' incentives towards improving patient health, enhancing patient experiences, and reducing or controlling the cost of health care in the parties' shared communities.

NHP and NHIC have an Administrative Services and Program Agreement (ASPA), effective July 1, 2001, in which NHP and NHIC offered point of service benefits together in one contract in NHP's Service Area in which NHP will administer pursuant to the terms of this contract.

NHP, NHIC, and Ascension NE Wisconsin, Inc. (f/k/a St. Elizabeth Hospital, Inc.) have a COPD Agreement, effective April 28, 2015, in which Ascension NE Wisconsin, Inc. provides intensive disease management through its COPD disease management program to NHP and NHIC members who have moderate to severe Chronic Obstructive Pulmonary Disease.

There is a Memorandum of Understanding (MOU), effective January 1, 2021, between NHI and its affiliates, and Ascension Wisconsin in which the parties will share the cost of a coder employed by

Ascension Wisconsin. The services contemplated include a review of the company's member medical records to ensure that the diagnosis codes listed are accurate and complete (including ensuring that medical conditions appearing in member medical records that are no longer accurate are correctly removed from the medical records to ensure that the records accurately reflect the member's medical conditions).

There is a Memorandum of Understanding, effective January 1, 2021, between NHI and its affiliates, and FMCWN in which the parties will share the cost of a registered nurse and clinical documentation specialist employed by FMCWN. The services contemplated include a review of the company's member medical records to ensure that the diagnosis codes listed are accurate and complete (including ensuring that medical conditions appearing in the member medical records that are no longer accurate are correctly removed from the medical records to ensure that the records accurately reflect the member's medical conditions).

There is a Credentialing Agreement, effective January 1, 2019, between the company, NHP and Ascension Wisconsin in which NHP and NHIC will utilize Ascension Wisconsin's services to credential and recredential Ascension's health care practitioners and entities who will or are participating in NHP and NHIC's network.

There is a Credentialing Agreement, effective May 1, 2021, between the company, NHP, and Froedtert and the Medical College of Wisconsin Network in which NHP and NHIC will utilize FMCWN services to credential and recredential FMCWN's health care practitioners and entities who or which will be or are participating in NHP and NHIC's network.

There is an Independent Practice Agreement, effective November 1, 2020, between the company, NHP, and Catalpa Health (Catalpa) in which Catalpa shall provide covered services by and through itself and/or its providers (including, but not limited to, its employed or contracted health care professionals, qualified staff personnel appropriately supervised by providers), and physical facilities, including any laboratory, x-ray and special care units, subject to the availability of such facilities, personnel and services to NHP and NHIC members.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. The contracts contained proper insolvency provisions.

The company currently has reinsurance coverage under the contract outlined below:

1. Reinsurer: Axis Insurance Company
- Type: Fully Insured Medical Excess of Loss Reinsurance
- Effective date: January 1, 2021
- Retention: \$850,000
- Coverage: 100% of unlimited amount of ultimate net loss in respect to each covered person for each policy period in excess of the company's retention amount. Maximum coverage is limited to \$1,000,000 per covered person, with an aggregate limit of \$5,000,000 per contract year.
- Termination: Contract will terminate at the end of the contract period on January 1, 2022. The company may also terminate the contract at any time by providing written notice to Axis Insurance Company in the event of the occurrence of a special termination event as outlined in the contract. If the contract is terminated prior to the contract term, Axis Insurance Company shall have no liability for claims incurred subsequent to the effective date of the termination.

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

1. Axis Insurance Company will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.
2. Axis Insurance Company 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.

2. Reinsurer: Axis Insurance Company
- Type: Stop Loss Medical Excess of Loss Reinsurance
- Effective date: January 1, 2021
- Retention: \$850,000
- Coverage: 100% of unlimited amount of ultimate net loss in respect to each covered person for each policy period in excess of the company's retention amount. Maximum coverage is limited to \$1,000,000 per covered person, with an aggregate limit of \$5,000,000 per contract year.

Termination: Contract will terminate at the end of the contract period on January 1, 2022. The company may also terminate the contract at any time by providing written notice to Axis Insurance Company in the event of the occurrence of a special termination event as outlined in the contract. If the contract is terminated prior to the contract term, Axis Insurance Company shall have no liability for claims incurred subsequent to the effective date of the termination.

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

1. Axis Insurance Company will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.
2. Axis Insurance Company 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, 2020, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.

Network Health Insurance Corporation
Assets
As of December 31, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$138,614,528	\$	\$138,614,528
Cash, cash equivalents, and short-term investments	38,399,331		38,399,331
Investment income due and accrued	657,918		657,918
Uncollected premiums and agents' balances in course of collection	418,145	103,075	315,070
Accrued retrospective premiums and contracts subject to redetermination	12,080,898		12,080,898
Amounts recoverable from reinsurers	61,313		61,313
Amounts receivable relating to uninsured plans	7,704,975		7,704,975
Current federal and foreign income tax recoverable and interest thereon	1,204,938		1,204,938
Net deferred tax asset	3,713,677	952,941	2,760,736
Receivable from parent, subsidiaries and affiliates	4,038,774		4,038,774
Health care and other amounts receivable	16,497,556	888,823	15,608,733
Write-ins for other than invested assets:			
State Income Tax Receivable	3,295		3,295
Prepaid Expenses	<u>869,709</u>	<u>869,709</u>	<u> </u>
Total Assets	<u>\$224,265,058</u>	<u>\$2,814,548</u>	<u>\$221,450,510</u>

Network Health Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2020

Claims unpaid		\$ 66,706,495
Accrued medical incentive pool and bonus payments		14,574,835
Unpaid claims adjustment expenses		2,001,195
Aggregate health policy reserves		5,633,273
Premiums received in advance		1,282,329
General expenses due or accrued		740,320
Ceded reinsurance premiums payable		93,509
Amounts due to parent, subsidiaries, and affiliates		3,379,001
Payable for securities		1,088,352
Aggregate write-ins for other liabilities (including \$60,023 current)		<u>60,023</u>
Total Liabilities		95,559,332
Gross paid in and contributed surplus	\$102,500,000	
Unassigned funds (surplus)	<u>23,391,178</u>	
Total Capital and Surplus		<u>125,891,178</u>
Total Liabilities, Capital and Surplus		<u>\$221,450,510</u>

Network Health Insurance Corporation
Statement of Revenue and Expenses
For the Year 2020

Net premium income		\$677,310,574
Medical and Hospital:		
Hospital/medical benefits	\$462,637,368	
Other professional services	27,158,479	
Prescription drugs	60,106,790	
Incentive pool and withhold adjustments	<u>13,417,950</u>	
Subtotal	563,320,587	
Less		
Net reinsurance recoveries	<u>135,510</u>	
Total medical and hospital	563,185,077	
Non-health claims		
Claims adjustment expenses	14,211,254	
General administrative expenses	66,778,261	
Increase in reserves for life and accident and health contracts	<u>5,633,273</u>	
Total underwriting deductions		<u>649,807,865</u>
Net underwriting gain or (loss)		27,502,709
Net investment income earned	2,958,397	
Net realized capital gains or (losses)	<u>19,075</u>	
Net investment gains or (losses)		<u>2,977,472</u>
Net income or (loss) before federal income taxes		30,480,181
Federal and foreign income taxes incurred		<u>7,972,559</u>
Net Income (Loss)		<u>\$ 22,507,622</u>

Network Health Insurance Corporation
Capital and Surplus Account
For the Three-Year Period Ending December 31, 2020

	2020	2019	2018
Capital and surplus, beginning of year	\$102,314,985	\$74,550,195	\$64,528,572
Net income (loss)	22,507,622	26,945,862	(2,333,871)
Change in net deferred income tax	1,415,100	2,298,574	
Change in nonadmitted assets	(346,529)	(1,479,646)	(144,506)
Paid in	<u> </u>	<u> </u>	<u>12,500,000</u>
Capital and Surplus, End of Year	<u>\$125,891,178</u>	<u>\$102,314,985</u>	<u>\$74,550,195</u>

Network Health Insurance Corporation
Statement of Cash Flow
For the Year 2020

Premiums collected net of reinsurance		\$678,160,384
Net investment income		<u>2,758,956</u>
Total		680,919,340
Less:		
Benefit- and loss-related payments	\$567,071,430	
Commissions, expenses paid and aggregate write-ins for deductions	82,258,009	
Federal and foreign income taxes paid (recovered) net of tax on capital gains (losses)	<u>11,504,117</u>	
Total		<u>660,833,556</u>
Net cash from operations		20,085,784
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	\$35,272,293	
Miscellaneous proceeds	<u>1,088,352</u>	
Total investment proceeds		<u>36,360,646</u>
Cost of Investments Acquired—Long-term Only:		
Bonds	31,817,198	
Total investments acquired		<u>31,817,198</u>
Net cash from investments		4,543,448
Cash Provided/Applied:		
Other cash provided (applied)		<u>(2,003,082)</u>
Net cash from financing and miscellaneous sources		<u>(2,003,082)</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		22,626,150
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>15,773,182</u>
End of Year		<u>\$ 38,399,332</u>

Growth of Network Health Insurance Corporation

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2020	\$221,450,510	\$95,559,332	\$125,891,178	\$677,310,574	\$563,185,077	\$22,507,622
2019	183,518,769	81,203,784	102,314,985	653,492,891	553,546,232	26,945,862
2018	161,323,564	86,773,369	74,550,195	590,125,254	539,914,096	(2,333,871)
2017	172,226,555	107,697,983	64,528,572	561,615,255	515,022,772	(16,567,500)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2020	3.3%	84.0%	12.0%	-1.8%
2019	4.1	84.2	11.4	2.67
2018	-0.4	90.0	11.3	3.88
2017	-2.9	91.2	13.0	-92.48

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2020	70,435	1,076.39	6.7
2019	71,716	1,349.98	7.1
2018	69,851	1,401.85	6.9
2017	67,241	1,736.44	7.0

Per Member Per Month Information

	2020	2019	Percentage Change
Premiums:			
Medicare	\$851.55	\$811.88	4.9%
Other	185.58	142.79	30.0
Aggregate	807.37	768.65	5.0
Expenses:			
Hospital/medical benefits	551.47	563.30	-2.1
Other professional services	32.37	22.78	42.1
Prescription Drugs	71.65	63.45	12.9
Incentive pool and withhold adjustments	15.99	1.74	820.8
Less: Net reinsurance recoveries	<u>0.16</u>	<u>0.17</u>	5.9
Total medical and hospital	671.33	651.09	3.1
Claims adjustment expenses	16.94	13.14	28.9
General administrative expenses	79.60	74.77	6.5
Increase in reserves for accident and health contracts	<u>6.71</u>	<u>(3.53)</u>	-290.0
Total underwriting deductions	<u>\$774.58</u>	<u>\$735.47</u>	5.3

The company had poor financial performance in 2017 and 2018; however, the trend reversed for 2019 and 2020 as the company had two consecutive years of net income. The strong operational performance in the last two years contributed to strong growth in surplus for the company as surplus grew from \$64.5 million at year-end 2017 to \$125.9 million at year-end 2020. Enrollment has been steadily increasing year-over-year for the company which led to a corresponding growth in premiums. Contributing to the company's strong performance is the company's effective cost management efforts which also led to a decline in hospital and medical expenses while keeping administrative expenses fairly consistent year-over-year.

The company maintains a conservative investment portfolio comprised primarily of US Bonds and US Special Revenue Bonds. The company monitors its portfolio on an ongoing basis to ensure compliance with its investment policy. Due to the conservative nature of its investments, the yields generated remain low; however, this also serves as a safety net for the company in the event that it has short-term cash shortages.

**Network Health Insurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2020**

Assets		\$ 221,450,510
Less liabilities		<u>95,559,332</u>
Adjusted surplus		125,891,178
Group life and health	\$677,310,574	
Factor	<u>10%</u>	
Total		67,731,057
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>67,731,057</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 58,160,121</u>
Adjusted surplus (from above)		\$125,891,178
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%)		<u>81,277,268</u>
Security Surplus Excess (Deficit)		<u>\$ 44,613,910</u>

Reconciliation of Capital and Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2020, is accepted.

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. Form B Filing—It is recommended the company properly file its Form B in accordance with s. Ins 40.03 (3) (c), Wis. Adm. Code.

Action—Compliance.

2. Report on Executive Compensation—It is recommended the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

Action—Compliance.

3. Business Continuity Plan—It is recommended the company include third-party service providers in the business impact analysis and risk assessment for its business continuity plan.

Action—Compliance.

4. Other Recommendations—It is recommended the company strengthen its IT control environment as specifically described in the management letter dated October 5, 2018.

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.

Actuarial Memorandum

As part of the examination of the company, OCI contracted with NovaRest Actuarial Consulting to perform a review of the company's actuarial reserves. As part of this review, the contracted actuary noted that the company's reserves were not unreasonable; however, disclosure on the methods, procedures, assumptions, and data used to develop the reserves and other actuarial items within the actuarial memorandum were insufficient to allow another actuary to evaluate the reasonableness of all the actuarial items. The company was able to provide most of the information to the contracted actuary to support the underlying methods and assumptions that went into the calculations; however, the NAIC Annual Statement Instructions—Health require the company to prepare an actuarial memorandum with two components: 1) a narrative component that provides a broad overview of the actuarial items included in the scope of the actuarial opinion, and 2) a technical component, which provides sufficient detail so that another actuary could evaluate the reasonableness of the methods and assumptions used by the appointed actuary to determine the actuarial items. It is recommended that the company improve future actuarial memorandums to provide sufficient documentation and disclosure such that another actuary can evaluate the reasonableness of the methods and assumptions used by the appointed actuary to determine the actuarial items in accordance with the NAIC Annual Statement Instructions—Health.

VIII. CONCLUSION

Network Health Insurance Corporation is a not-for-profit, service insurance organization organized under ch. 613, Wis. Stat. and solely writes business in the state of Wisconsin. The company primarily offers a Medicare Advantage PPO product that includes the Medicare Part D Prescription Drug plan. In addition, the company also offers a POS health insurance plan in conjunction with its affiliate, NHP, where the company is responsible for out-of-network claims incurred.

As of December 31, 2020, the company reported total net assets of \$221.5 million, liabilities of \$95.6 million, and surplus of \$125.9 million. The company produced a net income of \$22.5 million on total premium of \$677.3 million, indicating a profitable business for the company. Investment yields continue to be low due to the conservative nature of the company's investment portfolio; however, the investments serve as a good safety net for the company in the event that it has cash shortages in the short term. The company's adjusted surplus of \$125.9 million has continued to satisfy the compulsory and security requirements.

The prior examination resulted in four recommendations, all of which have been complied with. The current examination resulted in one recommendation.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Actuarial Memorandum—It is recommended that the company improve future actuarial memorandums to provide sufficient documentation and disclosure such that another actuary can evaluate the reasonableness of the methods and assumptions used by the appointed actuary to determine the actuarial items in accordance with the NAIC Annual Statement Instructions—Health.

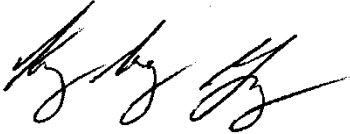
X. ACKNOWLEDGMENT

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
Martha Goettelman	Insurance Financial Examiner
Yi Xu	Insurance Financial Examiner
James Krueger	Data Specialist
Junji Nartatez	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Kongmeng Yang
Examiner-in-Charge