

Report
of the
Examination of
Trilogy Health Insurance, Inc.
Brookfield, Wisconsin
As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

December 22, 2017

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

TRILOGY HEALTH INSURANCE, INC
Brookfield, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Trilogy Health Insurance, Inc. (hereinafter also the company or THI) was conducted in 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 transactions as deemed necessary to complete the examination.

The examination was conducted using a modified 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 financial condition, either currently or prospectively), and document the system controls and procedures used to mitigate those risks. The approach was modified to focus on the significant financial statement balances, transactions and operations.

All significant accounts and activities of the company were considered in accordance with the modified risk-focused examination process. This includes 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. These areas included (but were not limited to) claims, premiums, reinsurance, and business strategies. 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 audited annually by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this 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

Trilogy Health Insurance, Inc. is described as a for profit network model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, comprehensive health care services performed by providers selected by the organization." Under the network model, the company provides care through contracts with two or more clinics. HMOs compete with traditional fee-for-service health care delivery.

The company was incorporated on July 27, 2006, and commenced business on January 2, 2007, as a health insurer under s. Ins 6.75 (1) (c), Wis. Adm. Code. As a health insurer, the company had originally served small businesses and the medium-size employer market in eastern Wisconsin.

Effective January 1, 2013, US Health and Life Insurance Co. (USHL), a Michigan insurance company, assumed all of Trilogy's in-force group health policies. However, the company retained all responsibility for the runoff of group health policies prior to January 1, 2013. During 2013, the company continued to maintain its provider network and make it available on a fee-for-service basis to insurers, self-funded employer groups and third-party administrators.

On January 16, 2014, the company received an amended Certificate of Authority pursuant to a change of business plan approved by this office. The company now engages in business as a Wisconsin HMO with focus on Medicaid and maintaining a contract with the Wisconsin Department of Health Services (DHS) to provide health services to BadgerCare Plus and Medicaid Supplemental Security Income (SSI) eligible members. In connection with the change in business plan, the company transferred its network business to Trilogy Health Solutions (THS), an affiliate, including cash of \$550,000 and non-insurance contract rights, in exchange for the assumption of the company's surplus notes of \$2,000,000.

The company is wholly owned by Trilogy Health Holdings, LLC (THH). THH was founded by five experienced Wisconsin insurance executives. Following an approval from the Office of the Commissioner of Insurance (OCI), THH received \$1,198,000 on January 21, 2014, from new partners,

namely Independent Physicians Network (IPN), Scas Management Group, LLC (SMG), and Bonita Warner. THH used \$1,188,000 of the amount received to capitalize THI.

As an HMO, the company makes available to enrolled participants, comprehensive health care services provided by providers selected by the company and who are partners of the company or who have entered into a referral or contractual arrangement with the company, for the purpose of providing for BadgerCare Plus and/or Medicaid Supplemental Security Income (SSI) and SSI-related Medicaid contract services. The State of Wisconsin BadgerCare Plus and/or Medicaid SSI program was approved by the Secretary of the United States Department of Health and Human Services pursuant to the provisions of the Social Security Act, and for the further specific purpose of promoting coordination and continuity of preventive health services and other medical care including prenatal care, emergency care, and HealthCheck services. After seeking approval from DHS and OCI, THI ceased writing SSI business effective August 1, 2017. The SSI business represented about 330 members at August 1, 2017, which was approximately 3.5% of THI's total membership.

According to its business plan, the company's service area is comprised of the following Wisconsin counties: Brown, Dodge, Green Lake, Kenosha, Marinette, Marquette, Milwaukee, Oconto, Outagamie, Ozaukee, Racine, Shawano, Sheboygan, Washington, Waukesha, Waupaca, Waushara, and Winnebago.

Once enrolled, HMO members can choose a Primary Care Provider (PCP) from those available in THI's provider directory. If a particular member does not choose a PCP within 30 days after enrollment, THI will assign one to that member based on the member's zip code. A member can change his or her PCP anytime. Routine care received from non-THI providers needs approval from THI prior to receiving services. THI has a 24-hour emergency telephone number.

THI has partnered with Independent Physicians Network (IPN) to coordinate care for all medical and social needs of each member. Along with IPN's own multi-specialty network of more than 900 member physicians, THI's overall network includes access to over 7,100 contracted physicians throughout the service area comprising the 18 counties mentioned above.

THI currently contracts with physician groups (IPN, and others depending on specialty) and several hospitals to provide health services to its membership. These contracts include hold-

harmless provisions for the protection of the membership. The contracts have a one-year term and may be terminated with 30 days written notice by either party (given reasonable cause).

THI currently contracts with 26 hospitals to provide inpatient services. Hospitals are reimbursed at a rate equal to a percentage of the applicable Wisconsin State Medicaid diagnosis-related group (DRG) base rate payment. These contracts also include hold-harmless provisions for the protection of membership. The following is a listing of hospitals in which participating physicians have admitting privileges:

- Appleton Medical Center
- Bay Area Medical Center
- Bellin Memorial Hospital
- Bellin Psychiatric Center
- Berlin Memorial Hospital
- Childrens Hospital of Wisconsin
- Columbia St. Mary's Hospital Ozaukee
- Columbia St. Mary's Hospital Milwaukee
- Columbia St. Mary's Women's Hospital
- Midwest Orthopedic Specialty Hospital
- Midwest Spine & Orthopedic Hospital
- New London Medical Center
- Oconomowoc Memorial Hospital
- Orthopedic Hospital of Wisconsin
- Rehabilitation Hospital of Wisconsin
- Riverside Medical Center
- Sacred Heart Rehabilitation Institute
- Shawano Medical Center
- Theda Clark Medical Center
- Waukesha Memorial Hospital
- Wheaton Franciscan Healthcare-All Saints (Spring Street)
- Wheaton Franciscan Healthcare-All Saints (Wisconsin Avenue)
- Wheaton Franciscan Healthcare-Franklin
- Wheaton Franciscan Healthcare-St. Francis
- Wheaton Franciscan-Elmbrook Memorial
- Wild Rose Community Memorial Hospital

The company offers comprehensive health care coverage through DHS to eligible members of BadgerCare Plus (and Medicaid SSI through August of 2017). The terms of these coverages are dictated through the terms of a contractual agreement with DHS. The following basic health care coverages are provided:

- Dental Services
- Vision Services
- Physician Services
- Emergency/Urgent Care
- Inpatient services
- Outpatient services
- Mental health, drug, and alcohol abuse services

Ambulance services
Newborn services
Preventive health services
Hearing Care
Diabetes treatment
Physical, speech, and/or occupational therapy

The following are the primary care clinics and physician groups that provide comprehensive health care services to THI membership:

Bellin Health System
Columbia St. Mary Clinics
Community Health Network
Eastside Family Practice
Healthcare for the Homeless (FQHC)
Hillside Family Health Center (FQHC)
Independent Physicians Network
Isaac Coggs Heritage Health Center (FQHC)
Lisbon Avenue Health Center (FQHC)
MLK Heritage Health Center (FQHC)
North Reach Healthcare
North Shore Health Network
ProHealth Care Clinics
Sixteenth Street Community Health Center – Chavez Health Center (FQHC)
Sixteenth Street Community Health Center – Parkway Health Center (FQHC)
ThedaCare Physicians
Wheaton Franciscan Healthcare Clinics

The contracts with these providers include hold-harmless provisions for the protection of membership. The majority of these contracts have a one-year term and auto-renew. These contracts may be terminated without cause upon written notice to the other party within a certain number of days.

THI's contract with DHS prohibits the company from marketing to potential BadgerCare Plus and/or Medicaid SSI managed care members and BadgerCare Plus and/or Medicaid SSI members who are not the HMO's members. DHS defines "marketing" as any unsolicited contact by the HMO, its employees, affiliated providers, subcontractors, or agents with a potential member. However, the HMO is allowed to distribute communication materials and outreach plans to members with DHS prior approval. The member communication material and the outreach plan must describe the HMO's timeline and process for distributing outreach and member communication materials, including materials posted to the HMO's Web site or distributed electronically. The HMO must also specify the format of its member communication and outreach materials (mailings, radio, TV, billboards, etc.) and its target population or intended audience.

Rates are set by DHS and administered through the contractual agreement. These rates are reviewed and adjusted annually. There are no interim adjustments to the rates set by DHS. For each month of coverage throughout the term of the HMO contract, DHS transmits "HMO Enrollment Rosters" to THI. These rosters provide Trilogy with ongoing information about its BadgerCare Plus and/or Medicaid SSI members and dis-enrollees and is used as the basis for the monthly premium payments to the HMO. In consideration of full compliance by the HMO with contract requirements, DHS agrees to pay the HMO monthly payments based on the capitation rates for BadgerCare Plus Standard, Childless Adults and Medicaid SSI plans. The capitation rates are prospective and based on actuarial methodology required by federal regulations. The capitation rate may not include any amount for recoupment of losses incurred by the HMO under previous contracts, nor does it include services that are not covered under the State Plan.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one year term. Officers are appointed by the board of directors. The Board Members currently do not receive any compensation for serving on the Board of Directors.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
William Felsing Delafield, Wisconsin	Chief Executive Officer Trilogy Health Insurance	2017
Glenn Reinhardt Waukesha, Wisconsin	Executive VP & Chief Operating Officer Trilogy Health Insurance	2017
Michael Repka Hartland, Wisconsin	Executive Director Independent Physicians Network	2017
Dr. Ajitkumar Parekh Franklin, Wisconsin	Physician and Retired President Independent Physicians Network	2017
Joanne Bolz Port Washington, Wisconsin	Director of Contracting Scas Management Group	2017
Rebeca Ornelas Milwaukee, Wisconsin	Director of IS Scas Management Group	2017
Bonita Warner Eden Prairie, Minnesota	President and Medicaid Executive Director Trilogy Health Insurance	2017

Officers of the Company

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

Name	Office	2016 Compensation
William Felsing	Chief Executive Officer	*\$ 0
Bonita Warner	President and Medicaid Executive Director	175,404
Glenn Reinhardt	Treasurer, Executive Vice President and Chief Operating Officer	202,130

*Mr. Felsing does not receive a salary from Trilogy Health Insurance. His compensation comes from an affiliate (Trilogy Health Solutions)

The amounts reported in the above section differed from the amounts that appear in the Report of Executive Compensation. The amounts above reflect net earnings that were reported to the examination team during the examination process. The amounts reported on the Report of Executive Compensation do not include certain disability and life insurance benefits that were offered to employees. An examination recommendation was made as a result of this and is further discussed in the Summary of Examination Results section of the report.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the Board of Directors. The only committee at the time of the examination was the audit committee. Committee members are as follows:

Audit Committee

William Felsing, Chair
Glenn Reinhardt
Bonita Warner
Michael Repka
Dr. Ajitkumar Parekh
Joanne Bolz
Rebeca Ornelas

The company has its own employees. THI's main departments are accounting/operations, member services, and information technology. Most of THI's staff is shared with an affiliate (Trilogy Health Solutions) through a cost allocation agreement. All other day-to-day operations are performed by IPN and SMG through executed agreements, which will be discussed further in the Affiliated Companies section of this report.

Insolvency Protection for Policyholders

Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

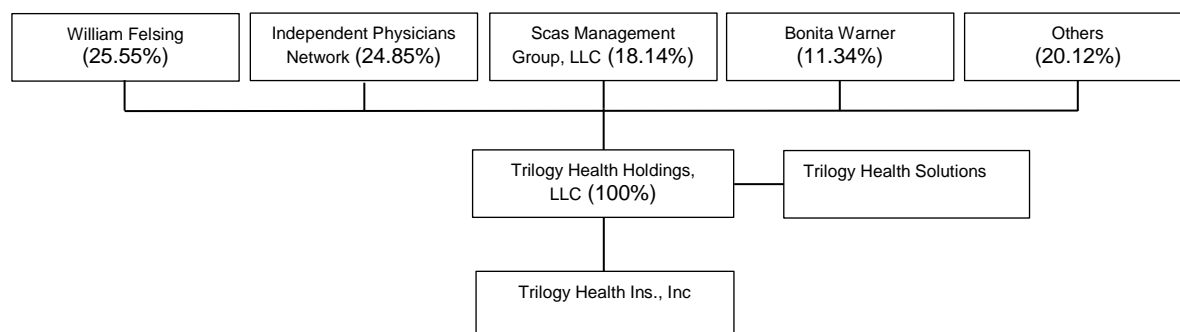
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

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

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Trilogy Health Holdings, LLC. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

**Holding Company Chart
As of December 31, 2016**



Independent Physicians Network

IPN is a physician managed and controlled medical delivery network established in 1984. IPN owns 24.85% of THH's voting units. IPN has over 900 member physicians in the network who utilize all hospitals in the Milwaukee and surrounding areas. IPN also offers patient access to many freestanding centers such as imaging, laboratory and therapy sites. Member physicians currently provide medical services to over 75,000 commercial, Medicaid and Medicare enrollees through its Accountable Care Organizations (ACOs) and contracted health plans.

The company entered into an affiliated network agreement for physician services with IPN effective February 1, 2013 and amended January 1, 2016. IPN is a corporation organized for the purpose of arranging for services to include health services provided by health care providers to individual members. IPN has agreed to supply such services to THI members under the terms dictated by DHS and by the Affiliate Network Agreement with THI.

In an administrative service agreement with THI effective January 1, 2014, IPN agrees to supervise and administer the day-to-day business operations, including IPN provider relations, referral and authorization, credentialing, care coordination, disease management, quality improvement,

medical director, claims review, claims appeal review, after hours calls, etc. In return, THI agrees to pay IPN \$7.05 per member per month (PMPM) for members participating under the products identified as Supplemental Security Income (SSI) or BadgerCare Plus members. THI also agrees to pay IPN \$5.03 PMPM fee for all childless adult members.

Scas Management Group, LLC

SMG is a non-insurance company based in Milwaukee. The company offers management and “back room” administrative services to businesses engaged in insurance, managed care, and third-party administration. SMG owns 18.14% of THH’s voting units.

Through an administrative service agreement with THI effective January 1, 2014, SMG agrees to provide certain administrative and management services to THI, including reinsurance reporting, IT/IS support and data management, compliance support, administrative and operations support, human resources, provider relations and contracting, claims processing, membership and enrollment, customer service, and other client support functions. In return, THI makes monthly payments of certain fixed fees (ASO fee) to SMG.

Trilogy Health Holdings, LLC

THH is a Wisconsin limited liability company that was organized on June 16, 2006, for the purpose of acquiring and holding 100% of the outstanding stock of THI. THH was founded by five Wisconsin insurance executives. Following an approval from OCI, THH received \$1,198,000 on January 21, 2014, from three new partners, namely, Independent Physicians Network, Scas Management Group, LLC, and Bonita Warner. THH used \$1,188,000 of the \$1,198,000 received to additionally capitalize THI.

On May 3, 2016, OCI approved the company to pay off its surplus notes totaling \$750,000 that were held by THH.

Trilogy Health Solutions, Inc.

THS was founded by five insurance executives who partly own THH. The majority of the voting shares of THS are owned by William D. Felsing (55.94%), Glenn J. Reinhardt (18.23%), and Michael T. Flock (10.9%). THS is a Wisconsin preferred provider network which sold under the name of Trilogy Health Networks (THN), originally developed for THI. The network includes most of the

major hospital systems and medical groups in eastern Wisconsin. Its coverage spans the geographic areas of Racine/Kenosha, Milwaukee/Waukesha, Oshkosh/Appleton, as well as Green Bay and surrounding areas.

In connection with the change in business plan, THI entered into an administrative services agreement with THS effective January 1, 2014. Under this agreement, THI transferred, assigned and sent over to THS all rights, in non-Medicaid commercial provider contracts, network access agreement and consulting and management contracts in exchange for the assumption of the company's surplus notes of \$2.0 million. THI retains all personnel that are utilized in the network business and has a cost sharing arrangement with THS for these personnel. THI provides THS with administrative, consulting and management services. In return, THS reimburses THI for the personnel costs and a percentage of other administrative expenses as per the allocation agreement.

V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	PartnerRe America Insurance Company (PartnerRe)
Type:	HMO Specific Excess of Loss Reinsurance
Effective date:	March 1, 2017
Retention:	\$200,000 per covered person
Coverage:	\$2,000,000 maximum payable per covered person
Premium:	\$2.24 per covered person per month A minimum premium of \$174,000 shall be received by the reinsurer during the 12-month period
Termination:	March 1, 2018

The reinsurance policy has an experience refund endorsement where the reinsurer may refund Trilogy a portion of the net profit during the agreement term if the following conditions are satisfied:

1. The gross premium due and paid for the agreement term is not less than \$400,000; and
2. The reinsurer renews the agreement for the subsequent agreement term; and
3. The results of the refund calculation are a positive balance. If the refund calculation results in a negative balance, no refund will be paid.

The calculation of the refund will be completed on the later of twelve months after the end of the agreement term or when the reinsurer's liability for the agreement term is finally determined and the reinsurer and Trilogy had agreed to settle and commute their interests and liabilities under the agreement. The refund will be 35% of the result of the following calculation: 65% of gross premium due and paid by Trilogy for the agreement term, minus 100% of the reinsurer's liability for the agreement term, minus any deficit carried forward from the previous agreement term.

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

1. PartnerRe will continue to provide the benefits covered under the applicable Membership Services Agreement with respect to each covered person who is confined in a hospital on the insolvency date for expenses

incurred and payable by such covered person on or after such date until the earlier of:

- a. The covered person's discharge from the hospital; or
 - b. The date the covered person becomes eligible for health insurance coverage or benefits under another group or blanket policy or plan or any federal, state or local governmental plan or program. The reinsurer shall pursue any coordination of benefits, subrogation or any other right of recovery that may be available to the reinsurer as a result of the covered persons being covered under two or more health care policies or plans.
2. PartnerRe 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, 2016, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company for the period under examination.

Trilogy Health Insurance, Inc.
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 236,671	\$	\$ 236,671
Cash, cash equivalents and short-term investments	5,990,736		5,990,736
Investment income due and accrued	256		256
Net deferred tax asset	358,655	227,519	131,136
Electronic data processing equipment and software	12,081	5,220	6,861
Furniture and equipment, including health care delivery assets	2,423	2,423	
Health care and other amounts receivable	925,432		925,432
Write-ins for other than invested assets:			
Security Deposit – Long Term	9,747	9,747	
Prepaid Insurance	<u>12,676</u>	<u>12,676</u>	
Total Assets	<u>\$7,548,677</u>	<u>\$257,585</u>	<u>\$7,291,092</u>

Trilogy Health Insurance, Inc.
Liabilities and Net Worth
As of December 31, 2016

Claims unpaid		\$3,191,143
Unpaid claims adjustment expenses		82,600
General expenses due or accrued		228,108
Amounts withheld or retained for the account of others		426
Amounts due to parent, subsidiaries and affiliates		4,616
Total Liabilities		<u>3,506,893</u>
Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	5,408,000	
Unassigned funds (surplus)	<u>(2,623,801)</u>	
Total Capital and Surplus		<u>3,784,199</u>
Total Liabilities, Capital and Surplus		<u>\$7,291,092</u>

Trilogy Health Insurance, Inc.
Statement of Revenue and Expenses
For the Year 2016

Net premium income		\$20,398,672
Medical and Hospital:		
Hospital/medical benefits	\$15,033,680	
Other professional services	<u>2,500,941</u>	
Subtotal	17,534,621	
Less		
Net reinsurance recoveries	<u>114,926</u>	
Total medical and hospital	17,419,695	
Claims adjustment expenses	1,018,465	
General administrative expenses	<u>1,876,109</u>	
Total underwriting deductions		<u>20,314,269</u>
Net underwriting gain or (loss)		84,403
Net investment income earned		17,066
Aggregate write-ins for other income or expenses		<u>(21,875)</u>
Net Income (Loss)		<u>\$ 79,594</u>

Trilogy Health Insurance, Inc.
Capital and Surplus Account
For the Three-Year Period Ending December 31, 2016

	2016	2015	2014
Capital and surplus, beginning of year	\$4,656,677	\$1,203,910	\$1,500,340
Net income (loss)	79,594	3,096,572	(1,652,070)
Change in net deferred income tax	(27,768)	(1,075,482)	70,294
Change in nonadmitted assets	(174,304)	1,431,677	(102,654)
Change in surplus notes	(750,000)		(1,250,000)
Surplus adjustments:			
Paid in	<u> </u>	<u> </u>	<u>2,638,000</u>
Surplus, End of Year	<u>\$3,784,199</u>	<u>\$4,656,677</u>	<u>\$1,203,910</u>

Trilogy Health Insurance, Inc.
Statement of Cash Flow
For the Year 2016

Premiums collected net of reinsurance	\$19,913,280
Net investment income	<u>17,557</u>
Total	19,930,837
Less:	
Benefit- and loss-related payments	\$16,577,191
Commissions, expenses paid and aggregate write-ins for deductions	2,805,941
Federal and foreign income taxes paid (recovered)	
\$0 net tax on capital gains (losses)	<u>6,770</u>
Total	<u>19,389,902</u>
Net cash from operations	540,935
Cost of Investments Acquired—Long-term Only:	
Bonds	<u>1,671</u>
Net cash from investments	(1,671)
Cash Provided/Applied:	
Surplus notes, capital notes	(750,000)
Other cash provided (applied)	<u>(28,255)</u>
Net cash from financing and miscellaneous sources	<u>(778,255)</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments	(238,991)
Cash, cash equivalents, and short-term investments:	
Beginning of year	<u>6,229,727</u>
End of Year	<u>\$ 5,990,736</u>

Growth of Trilogy Health Insurance, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2016	\$7,291,092	\$3,506,893	\$3,784,199	\$20,398,672	\$17,419,695	\$ 79,594
2015	7,293,010	2,636,333	4,656,677	17,718,056	12,282,093	3,096,572
2014	3,110,299	1,906,389	1,203,910	5,145,842	4,476,421	(1,652,070)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2016	0.4%	85.4%	14.2%	19.8%
2015	17.5	69.3	12.5	33.8
2014	(32.0)	87.0	28.9	*

*Change in enrollment was not calculated for 2014 due to there being no members in 2013.

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2016	8,649	596.13	4.6
2015	7,263	484.31	4.3
2014	5,428	774.56	4.5

Per Member Per Month Information

	2016	2015	Percentage Change
Premiums:			
Medicaid	<u>\$212.78</u>	<u>\$227.74</u>	(6.6)%
Expenses:			
Hospital/medical benefits	156.82	136.31	15.0
Other professional services	26.09	23.40	11.5
Less: Net reinsurance recoveries	<u>1.20</u>	<u>1.85</u>	(35.1)
Total medical and hospital	181.71	157.27	14.8
Claims adjustment expenses	10.62	9.56	11.1
General administrative expenses	<u>19.57</u>	<u>18.96</u>	3.2
Total underwriting deductions	<u>\$211.90</u>	<u>\$186.39</u>	13.7

The company received its amended Certificate of Authority in 2014, pursuant to a change in its business plan. This new authority allowed the company to operate as a Wisconsin HMO that would operate only in the Medicaid and SSI market. In connection with this new authority and business plan, the company transferred its network business to Trilogy Health Solutions, Inc., in exchange for the surplus notes of \$2.0 million and some assets. Following an approval from OCI, the holding company, THH, received \$1,198,000 on January 21, 2014, from three new partners, namely, IPN, SMG and Bonita Warner. THH used \$1,188,000 of the amount received to capitalize THI.

The change in business strategy has resulted in overall favorable results. Net income was posted for two of the three years of the examination period. 2015 proved to be the most successful for the company during the exam period where net income of nearly \$3.1 million was incurred, which was a result of adequate rates approved by DHS and having 100% of the premium withheld by DHS, to ensure membership use and quality of care, returned to the company. In 2016, Trilogy was able to repay its \$750,000 in outstanding surplus notes due to its strong financial results in 2015. The company was also able to show a small net profit in 2016. At year end 2016, Trilogy Health Insurance, Inc. reported total admitted assets of nearly \$7.3 million and liabilities of slightly over \$3.5 million. The decrease in net income from 2015 to 2016 was due to lower rates approved by DHS than requested and a much lower return on premiums withheld by DHS for that year. While results during the examination period were mixed, the overall financial performance during the period was generally positive.

Financial Requirements

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

	Amount Required
1. Minimum capital or permanent surplus	Either: \$750,000, if organized on or after July 1, 1989 or \$200,000, if organized prior to July 1, 1989
2. Compulsory surplus	The greater of \$750,000 or: If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months; If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months
3. Security surplus	The greater of: 140% of compulsory surplus reduced by 1% of compulsory surplus for each \$33 million of additional premiums earned in excess of \$10 million or 110% of compulsory surplus

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

The company's calculation as of December 31, 2016, as modified for examination adjustments is as follows:

Assets		\$7,291,092
Less:		
Liabilities		<u>3,506,893</u>
Assets available to satisfy surplus requirements		3,784,199
Net premium earned		
HMO business	\$20,398,672	
Factor	<u>3%</u>	
Total	611,960	
Compulsory surplus		<u>750,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$3,034,199</u>
Assets available to satisfy surplus requirements		\$3,784,199
Compulsory surplus		\$ 750,000
Security factor		<u>140%</u>
Security surplus		<u>\$1,050,000</u>
Security Surplus Excess (Deficit)		<u>\$2,734,199</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.

As an HMO specialized in Medicaid, the company is exempt from the above requirement under s. 646.01, Wis. Stat.; therefore, THI does not have a special state deposit.

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, 2016, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two 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. Corporate Governance—It is recommended that the company amend its Articles and Bylaws to conform to its current changes in the organization and business plan and make the proper filing in accordance with s. Ins 9.06 (2), Wis. Adm. Code.

Action—Compliance

2. Disaster Recovery/Business Continuity Plan—It is recommended that the new disaster recovery/business continuity plan cover all operations of the company as an HMO, as well as set a target date to complete and test the new plan.

Action—Compliance

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Affiliated Agreements

The company has a network agreement for physician services with Independent Physicians Network, Inc. as described in the Affiliated Companies section of this report. During the review of the company's 2016 annual holding company registration filing, Form B, it was discovered that the agreement with IPN was not included. This agreement, while a provider contract agreement, is considered a service contract under s. Ins 40.04 (d), Wis. Adm. Code and is therefore to be included in annual holding company registration filing. It is recommended that the company include the network agreement with IPN in future annual holding company registration filings, Form B, in accordance with s. Ins 40.04 (d), Wis. Adm. Code.

Executive Compensation

The State of Wisconsin requires that each Wisconsin-domiciled insurer file the Report on Executive Compensation annually in accordance with ss. 601.42 and 611.63 (4), Wis. Stat. This report requires companies to report the total annual compensation paid to each director, officer and the four most highly paid members of executive management other than the officers. In addition, the report requires disclosure of all officers or employees whose total annual compensation exceeds specified threshold amounts based on year-end capital and surplus. Compensation reported should include all gross, direct and indirect remuneration paid and accrued during the report year for the benefit of the individual, including wages, salaries, bonus, retirement benefits, insurance and other forms of personal compensation.

The examination disclosed that the company excluded the Chief Executive Officer (CEO) and the Chief Information Officer (CIO) from the report. Both individuals are employees of THI and are directly compensated by the company. As described in the Affiliated Companies section of this exam report, the company has an administrative services agreement with THS whereby THS reimburses compensation paid to key individuals with whom THI shares with THS. Reimbursement allocation is

based on the percentage of time that the listed individuals dedicate to the operations of THS. For 2016 the CEO is listed as having 100% of his time being allocated to THS while the CIO is listed as having 70% of his time being allocated to THS. The company chose to disclose compensation for individuals listed in the report on an allocated basis rather than the gross compensation paid to each individual by the holding company system. Though the amount of the CEO's compensation allocated to THS was \$0, the company should have reported the CEO in the report. Though the CIO's compensation allocated to Trilogy is beneath the calculated threshold, as a member of executive management, the CIO and his compensation should have been listed in the report. It is recommended that the company report all required employees in the annual Report of Executive Compensation in accordance with s. 611.63 (4), Wis. Stat.

The examination also noted that for the two individuals listed in the Report on Executive Compensation the company did not include the employer's portion of paid disability and life insurance coverage benefits. It is recommended that the company comply with s. 611.63 (4) Wis. Stat., by reporting all remuneration paid to or accrued on behalf of officers or employees, which includes insurance premiums, in accordance with the instructions stated on the Report on Executive Compensation.

VIII. CONCLUSION

At year end 2016, Trilogy Health Insurance, Inc. reported total admitted assets of nearly \$7.3 million and liabilities of slightly over \$3.5 million. Capital and surplus of nearly \$3.8 million had decreased by 18.7% from the prior year. A primary contributing factor for the decline in surplus in 2016 was the repayment of \$750 thousand in surplus notes issued to the owners of THH. Net income incurred in 2016 was down significantly from 2015, from \$3.1 million to \$80 thousand or almost 97%. 2015 represented the company's best year in several years. The drop in net income can be attributed to significant increases in medical cost (declines in underwriting income) in 2016 combined with less favorable rates approved by DHS, resulting in a much higher Medical Loss Ratio compared to the previous year. Additionally, THI received less premium withheld by DHS in 2016 compared to 2015 due to significantly lower Health Effectiveness Data and Information Set (HEDIS) and Chronic Illness and Disability Payment System (CDPS) values.

In 2014, the company applied for and was approved for authority to operate as a Medicaid only HMO exclusively in the State of Wisconsin. In connection with this change in business plan in late 2013 and early 2014, the company transferred its network business to an affiliate in exchange for the surplus notes of \$2.0 million and some assets. The company received additional paid in capital of \$1,188,000 from its parent, which was financed by additional investment by management and affiliates. The holding company actually received \$1,198,000 from these new partners.

Since its inception in 2006, THI has experienced difficulty reaching profitability and had reported a net loss in most years. Because of this, the company had issued several surplus notes in order to meet statutory surplus requirements and to maintain an acceptable risk-based capital level. However, after the change in the company's business plan in 2014 the company has recorded net income in each of the subsequent years, which allowed the last of the surplus notes to be paid off by THI in 2016. The company has further modified its current business plan. These adjustments were made in an effort to further enhance profitability. The changes were the elimination of the SSI segment of their business and the expansion of its territory into nine additional counties.

The examination resulted in three recommendations and no adjustments to surplus or reclassifications on amounts reported in the company's balance sheet as of December 31, 2016.

These recommendations are summarized on the following page.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Affiliated Agreements— It is recommended that the company include the network agreement with IPN in future annual holding company registration filings, Form B, in accordance with s. Ins 40.04 (d), Wis. Adm. Code.
2. Page 27 - Executive Compensation—It is recommended that the company report all required employees in the annual Report of Executive Compensation in accordance with s. 611.63 (4), Wis. Stat.
3. Page 27 - Executive Compensation—It is recommended that the company comply with s. 611.63 (4) Wis. Stat., by reporting all remuneration paid to or accrued on behalf of officers or employees, which includes insurance premiums, 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 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
Marisa Rodgers	Insurance Financial Examiner
David Jensen	IT Specialist

Respectfully submitted,

Jim Krueger
Examiner-in-Charge