

Report of the Examination of  
Dean Health Insurance, Inc.  
Madison, Wisconsin  
As of December 31, 2018

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

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November 26, 2019

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Honorable Mark V. Afable  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

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

DEAN HEALTH INSURANCE, INC.  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Dean Health Insurance (DHI or the “company”) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an 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 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.

## **II. HISTORY AND PLAN OF OPERATION**

Dean Health Insurance, Inc. (DHI) was incorporated on August 22, 1995, and commenced business January 1, 1997, under the name of Premier Medical Insurance Group, Inc. (Premier) as a for-profit entity under ch. 611, Wis. Stat. The primary business in which the corporation was intended to initially engage was disability insurance. SSM Health Care Corporation (SSMHC) is the ultimate controlling parent organization of the company. Premier changed its name to DHI on July 12, 2005.

As of January 1, 2015, the company contracted with Centers for Medicare and Medicaid (CMS) to offer an 800 Series Employer Waiver Plan, and with Navitus Health Solutions, Inc., to administer the plans on behalf of the company. Effective January 1, 2019, the company began offering stop-loss insurance coverage for self-funded groups. The company is only licensed to operate in the State of Wisconsin. No premiums were reported in 2018.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of 13 members. Directors are elected annually, depending on their division, to serve a three-year term. Officers are elected at the board's annual meeting or at such other time as determined by the board. Members of the company's board of directors may also be members of other boards of directors in the holding company group. External board members receive compensation for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
John Phelan, MD (Chair) Fitchburg, Wisconsin	Physician	2019
Damond Boatwright, FACHE Verona, Wisconsin	Executive	2020
Mark Covaleski, PhD Madison, Wisconsin	Professor	2019
Carter Dredge Des Peres, Missouri	Executive	2019
William Ehrhardt Madison, Wisconsin	Physician	2021
Jason Isenberg Madison, Wisconsin	Physician	2021
Ralph Kauten Madison, Wisconsin	Entrepreneur, Biotechnology Executive	2020
Jennifer Maskel, MD Cottage Grove, Wisconsin	Physician	2021
Gregory Matzke, MD Madison, Wisconsin	Physician	2020
Albert Musa, MD Deerfield, Wisconsin	Physician	2019
Steve Smoot St. Louis, Missouri	Executive	2021
Wesley Sparkman Madison, Wisconsin	Executive	2020
Stephen Sramek, MD Madison, Wisconsin	Physician	2020

## Officers of the Company

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

<b>Name</b>	<b>Office</b>	<b>2018 Compensation</b>
David Fields	President	*\$298,704
Dean Sutton	Secretary and General Counsel	192,542
Randy Ruplinger	Treasurer and Chief Financial Officer	298,772
Julia Wright	Chief Medical Officer	390,127
David Docherty	Chief Growth Officer	272,725
Stephen Arnhold	Chief Actuary and Government Program Leader	324,034
Marcus Julian	Chief Operating Officer	342,256

\*Individual was hired in 2018, therefore amount does not reflect the annualized amount.

## Committees of the Board

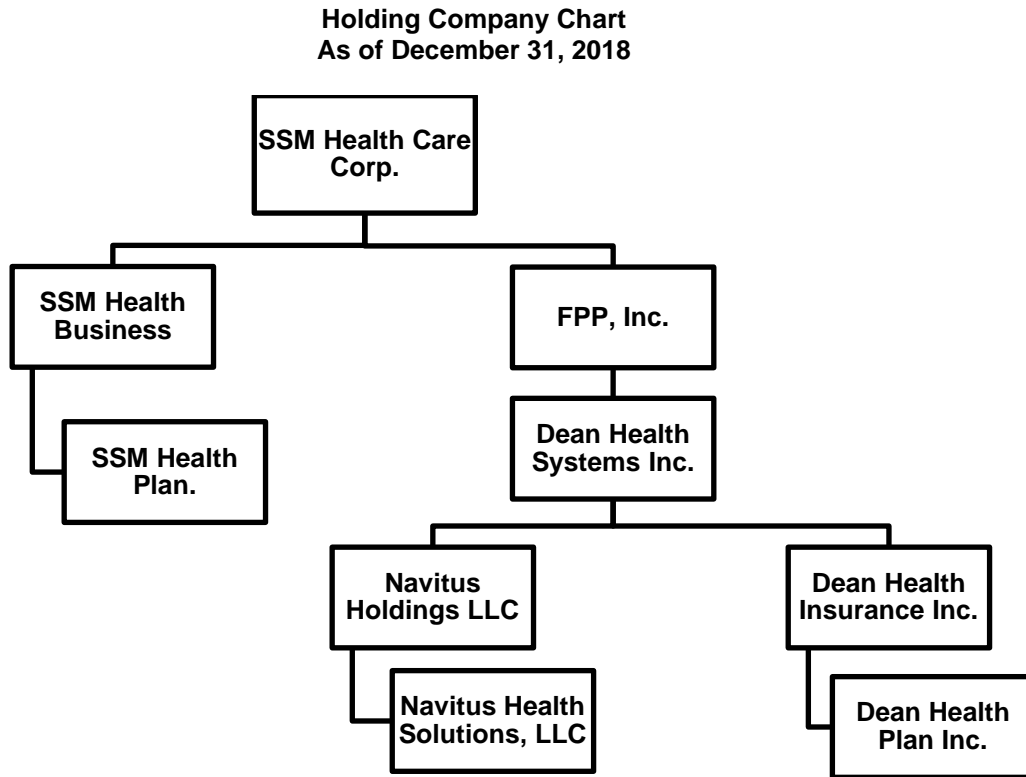
The company's bylaws allow for the formation of certain committees by the board of directors. The one committee in existence at the time of the examination is listed below:

**Audit Committee**  
Ralph Kauten, Chair  
Mark Covaleski, PhD  
John Phelan, MD  
Wesley Sparkman

The company does not have any employees. Necessary staff is provided through an intercompany agreement with Dean Health Plan, Inc. (DHP). Under the terms of the agreement, effective September 8, 1995, DHP 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; and provide or contract for claims processing and information technology and security (IT). DHI shall reimburse DHP for the actual cost of the services provided. The term of the agreement is two years with automatic renewal for successive two-year periods. The company may terminate the agreement upon written notice to DHP.

#### IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is SSM Health Care Corporation, 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.



#### SSM Health Care Corporation

SSM Health Care Corporation (SSMHC) is a not-for-profit health care delivery system based in St. Louis, Missouri. SSMHC owns and operates 23 hospitals, 290 outpatient care sites, 10 long-term care facilities, comprehensive home care and hospice services, a health maintenance organization, and a national pharmacy benefits management company. SSMHC also has a network of more than 11,000 active providers and more than 39,000 employees. As of December 31, 2018, the company's consolidated audited financial statement reported assets of \$8.4 billion, liabilities of \$5.4 billion, and net assets of \$3.0 billion. Operations for 2018 produced net excess of revenues over expenses of \$505.2 million on revenues of \$7.6 billion. Excess of revenue over expenses attributable to non-controlling interest was \$8.2 million.



**Dean Health Systems, Inc.**

Dean Health Systems, Inc., (DHS) and subsidiaries is a health care delivery system that provides health care services and coverage primarily to the residents of southern Wisconsin. DHS owns 100% of Dean Health Insurance, Inc., the parent of DHP. The organization uses the name “Dean Medical Group” for marketing purposes. As of December 31, 2018, DHS’ unconsolidated, unaudited GAAP financial statement reported total assets of \$330.9 million, total liabilities of \$100.3 million, and total shareholders’ equity of \$230.6 million. Operations for 2018 produced net operating loss of \$45.0 million on revenues of \$634.6 million.

**Dean Health Plan, Inc.**

Dean Health Plan, Inc., is an HMO organized for the purpose of delivering healthcare services to its members. The insurer offers traditional HMO coverages as well as Point-of-Service (POS) coverage. It also participates in various government programs such as Medicare Advantage Prescription Drug, Medicaid, Medicare Cost, and Medicare Supplement. As of December 31, 2018, the insurer’s audited financial statement reported total assets of \$282.9 million, total liabilities of \$124.8 million, and total surplus of \$158.1 million. Operations for 2018 produced net income of \$27.8 million on revenues of \$1.4 billion.

**Navitus Health Solutions, LLC**

Navitus Health Solutions, LLC (Navitus) is a wholly owned subsidiary of Navitus Holdings, LLC, which in turn is 100% owned by Dean Health Systems, Inc. Navitus provides pharmacy benefit management services to DHP and DHI. As of December 31, 2018, the audited, consolidated GAAP financial statements reported assets of \$601.1 million, total liabilities of \$496.5 million, and equity of \$104.6 million. Operations for 2018 produced a net income of \$29.6 million on revenues of \$595.6 million.

**SSM Health Plan, Inc.**

SSM Health Plan, Inc. (SHP), is an HMO incorporated in 2018 for the purpose of delivering healthcare services to its members in the St. Louis, Missouri region. The insurer plans to begin offering HMO products at some point on or after January 1, 2021. As of December 31, 2018,

SHP reported assets of \$6.6 million, liabilities of \$0.2 million, and net assets of \$6.4 million. The insurer had no operations for the year.

### **Affiliated Agreements**

Dean Health Insurance, Inc., has entered into numerous affiliated agreements. Certain agreements are described below:

- Effective September 8, 1995, DHI and DHP entered into an Intercompany Operating Agreement. The intercompany agreement assigns to DHP the following responsibilities: the maintenance of the facilities, the insurance administration, including the collection of premiums and underwriting functions and related activities, the indemnification of claims, including the claims processing, the facilitation of provider agreements and benefits and various business administration functions. The agreement may be terminated by DHI upon written notice.
- There is a Medicare Part D - Employer Group Waiver Plan Pharmacy Benefit Management Services Agreement effective October 1, 2014, between Navitus Health Solutions, LLC and DHI. Under the agreement, Navitus provides services related to pharmacy management and claims processing for Medicare Part D enrollees covered under Employer Group Waiver Plans approved by CMS where DHI is a contracted party with CMS for such plans. DHI receives from Navitus an administrative fee of \$1.25 per eligible person per month, which is collected from the enrollees by Navitus.
- DHP and DHI have an Amended and Restated Services and Support Agreement with DHS, Dean Health Services Company, LLC (DHSC), SHP, and SSMHC, effective January 1, 2019, which supersedes the prior agreements. Under the terms of the agreement, the administrative infrastructure will be centralized in DHSC to provide services to both DHP and SHP beginning on January 1, 2020. Initially, DHP will provide the administrative services to DHSC and DHSC will provide them to SHP. Services provided will be on a cost-basis and invoiced in a manner which is reasonable and fair to the interests of DHP and SHP. Services provided between the affiliates are briefly described below:

Services provided by DHP and DHI to SSMHC shall include, but are not limited to, medical and clinical analytics, and Version One software functionality.

Services provided by DHP and DHI to DHS shall include, but are not limited to, medical and clinical analytics, Epi-Pen program support, office space, and Health Works instructors.

Services provided by DHP and DHI to DHSC shall include, but are not limited to, computer services and data processing support services; telephone access, customer service support, policyholder services, quality assurance services, medical director services, claims management and settlement, and grievance and appeal services; medical and care management services; provider contracts and network management; reinsurance pricing and procurement; investment, actuarial, finance and underwriting services; premium and administrative fee collection and refunds; and legal services and corporate and tax accounting.

Services provided by SSMHC to DHP and DHI shall include, but are not limited to, medical imaging decision support; technical infrastructure, software maintenance and information technology support; human resource services; use of vendor/contract management software; support of medical management services; use of clinical analytics software; tax and audit support; medical director services; and provision of necessary or appropriate insurance coverage.

Services provided by SSMHC to SHP shall be identical to those provided to DHP and DHI. In addition, office space and provider contracting services will also be included.

Services provided by DHS to DHP and DHI shall include, but not be limited to, the use of registration software; payroll administrative support; human resource services; back-up day care services; outreach services; provision of necessary or appropriate insurance coverage; medical director services; telecommunication services; and Health Works supplies.

Services provided by DHSC to SHP shall include, but not be limited to, services provided to DHSC from DHP and DHI; general administration; marketing; and compliance and regulatory relations.

- There is a Tax Allocation Agreement between DHS, DHI and DHP, effective January 1, 2009. The tax liability shall be apportioned among all members of the affiliated group in accordance with the ratio which that portion of the consolidated tax liability attributable to each member of

the group having tax liability bears to the consolidated tax return based on separate return calculations with current credit for net losses.

## V. REINSURANCE

The company does not transfer any of its insurance risk to reinsurers; however, specific excess of loss coverage for self-funded groups is provided by the insurers listed below.

### Contracts

1. Type: Specific Excess of Loss  
Reinsurer: Companion Life Insurance Company  
Effective date: September 1, 2018  
Coverage: Self-Funded  
Retention: The greater of:
  1. \$500,000
  2. \$250,000 plus employer's specific self-funded retention, or
  3. \$250,000 plus specific deductible established by company for named covered personTermination: The contract will remain in-force unless terminated by written notice by either party.
  
2. Type: Specific Excess of Loss  
Reinsurer: Axis Insurance Company  
Effective date: September 1, 2018  
Coverage: Employer Specific Stop-Loss Policies  
Retention: The employer's retention will be \$500,000.  
The company will retain \$250,000 in excess of the employer's retention.  
Termination: The contract will term after one year unless terminated by written notice by either party.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.

**Dean Health Insurance, Inc.**  
**Assets**  
**As of December 31, 2018**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Stocks:			
Common stocks	\$158,054,388	\$	\$158,054,388
Cash, cash equivalents, and short-term investments	5,798,211		5,798,211
Net deferred tax asset	126,000		126,000
Receivable from parent, subsidiaries and affiliates	68,499		68,499
<b>Total Assets</b>	<u><u>\$164,047,098</u></u>	<u><u>\$</u></u>	<u><u>\$164,047,098</u></u>

**Dean Health Insurance, Inc.**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2018**

General expenses due or accrued		\$ 600,000
Amounts due to parent, subsidiaries and affiliates		<u>214,683</u>
<b>Total Liabilities</b>		814,683
Common capital stock	\$ 2,000,000	
Gross paid in and contributed surplus	9,070,000	
Unassigned funds (surplus)	<u>152,162,415</u>	
<b>Total Capital and Surplus</b>		<u>163,232,415</u>
<b>Total Liabilities, Capital and Surplus</b>		<u><u>\$164,047,098</u></u>

**Dean Health Insurance, Inc.  
Statement of Revenue and Expenses  
For the Year 2018**

General administrative expenses	<u>\$(710,083)</u>
Net underwriting gain or (loss)	710,083
Net investment income earned	<u>42,003</u>
Net income or (loss) before federal income taxes	752,086
Federal and foreign income taxes incurred	<u>158,000</u>
Net Income (Loss)	<u>\$594,086</u>

**Dean Health Insurance, Inc.  
Capital and Surplus Account  
For the Four-Year Period Ending December 31, 2018**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Capital and surplus, beginning of year	\$133,805,855	\$117,567,846	\$99,901,301	\$96,954,240
Net income (loss)	594,086	363,272	314,257	307,630
Change in net unrealized capital gains/losses	28,832,474	15,952,737	17,352,288	2,639,431
Change in net deferred income tax		<u>(78,000)</u>		
Surplus, End of Year	<u>\$163,232,415</u>	<u>\$133,805,855</u>	<u>\$117,567,846</u>	<u>\$99,901,301</u>



**Dean Health Insurance, Inc.  
Statement of Cash Flow  
For the Year 2018**

Net investment income	\$ 42,003
Less:	
Commissions, expenses paid and aggregate write-ins for deductions	<u>(774,583)</u>
Net cash from operations	816,586
Other cash provided (applied)	<u>(259,312)</u>
 Net Change in Cash, Cash Equivalents, and Short-Term Investments	 557,274
Cash, cash equivalents, and short-term investments:	
Beginning of year	<u>5,240,937</u>
End of Year	<u>\$5,798,211</u>

**Growth of Dean Health Insurance, Inc.**

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2018	\$164,047,098	\$814,683	\$163,232,415	\$ 0	\$ 0	\$594,086
2017	134,639,280	833,425	133,805,855	0	638	363,272
2016	118,371,382	803,536	117,567,846	0	356	314,257
2015	100,705,106	503,805	99,901,301	501,302	(113)	307,630

The company did not write any business during the examination period.

**Dean Health Insurance, Inc.  
Compulsory and Security Surplus Calculation  
December 31, 2018**

Assets	\$ 164,047,098
Less investments in insurance subsidiaries	158,054,388
Add security surplus of insurance subsidiaries	102,755,754
Less liabilities	<u>814,683</u>
Adjusted surplus	107,933,781
Compulsory surplus (subject to a \$2,000,000 minimum)	<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)	<u>\$105,933,781</u>
Adjusted surplus (from above)	\$107,933,781
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>2,800,000</u>
Security Surplus Excess (Deficit)	<u>\$105,133,781</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, 2018, is accepted.

## **VII. SUMMARY OF EXAMINATION RESULTS**

### **Compliance with Prior Examination Report Recommendations**

There were no recommendations made in the prior 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.

## **Holding Company Registration Form B and C**

The examination's review of the company's related party transactions for the exam period noted that the company appeared to have failed to disclose new and/or active affiliated agreements in its Holding Company Registration Form B and C filing. Instead of identifying each agreement, the company included a general statement noting that there are various agreements in place that are at arm's length; however, that does not meet the requirement of disclosure under s. Ins 40.15, Wis. Adm Code which requires that the company disclose all information required on Form B and Form C. The Form B requirement for Item 5, entitled "Transactions and Agreements," states that the company shall include, at a minimum, "the nature and purpose of the transactions, the nature and amounts of any payments or transfers of assets between the parties, the identity of all parties to the transaction, and relationship of the affiliates of the registrant." None of the requirements were met by the general statement included by the company to describe its agreements. In addition, the examination noted that there appear to be various amendments to existing agreements that were not disclosed in Form C. Form C requires that, "if a transaction disclosed on the immediately prior year's annual registration statement has been changed, the nature of such change shall be included." By failing to disclose the nature of the amendment in the Form C filing, the company has failed to comply with s. Ins 40.15, Wis. Adm. Code. It is recommended that the company properly disclose all related party transactions and any amendments thereto in the annual Holding Company Registration Form B and Form C filing in accordance with s. Ins 40.15, Wis. Adm Code.

## **Conflict of Interest Statement**

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees that conflict, or are likely to conflict, with the official duties of such person. Part of this procedure is the annual completion of a conflict of

interest questionnaire by the appropriate persons. A review of the conflict of interest statements for all years under examination disclosed that the company failed to have its officers and directors complete an annual conflict of interest statement. It is recommended that the company's officers, directors, and key employees annually complete conflict of interest statements in accordance with the directive of the Commissioner of Insurance.

**Other Information Technology Recommendations**

It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management provided in conjunction with this report.

## VIII. CONCLUSION

Dean Health Insurance, Inc., was incorporated for the purpose of delivering prescription drug benefits, as part of the Medicare Part D program, to its members. Effective January 1, 2012, the insurer no longer participated in the Medicare Part D program. Effective January 1, 2015, the insurer began offering an 800 Series Employer Group Waiver Plan. Effective January 1, 2019, the insurer began offering stop-loss policies for employer groups. As of December 31, 2018, DHI's statutory financial statements reported total assets of \$164.0 million, total liabilities of \$0.8 million, and equity of \$163.2 million. Operations for 2018 produced net income of \$594,086, which came from the administrative fee paid by Navitus to the company. No premiums were reported by the company as it did not write any business for the period under examination.

The prior examination did not result in any recommendation. The current examination resulted in three recommendations. Areas of improvement recommended by this examination include holding company reporting, disclosure of potential conflicts of interest, and information technology matters. There were no adjustments to surplus or reclassifications made to the balance sheet as a result of this examination.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Holding Company Registration—It is recommended that the company properly disclose all related party transactions and any amendments thereto in the annual Holding Company Registration Form B and Form C filing in accordance with s. Ins 40.15, Wis. Adm Code.
2. Page 20 - Conflict of Interest Statements—It is recommended that the company's officers, directors, and key employees annually complete conflict of interest statements in accordance with the directive of the Commissioner of Insurance.
3. Page 20 - Other Information Technology Recommendations—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management provided in conjunction with this report.



**X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Jacob Burkett	Insurance Financial Examiner
Nicholas Feyen	Insurance Financial Examiner
Jerry DeArmond, CFE	Reserve Specialist
Ana Careaga	ACL Specialist
Eleanor Lu	IT Specialist
Terry Lorenz, AFE	Workpaper Specialist

Respectfully submitted,



Kongmeng Yang  
Examiner-in-Charge

## XI. SUBSEQUENT EVENTS

The following significant subsequent events were noted that would impact the holding company system:

- The following entities were newly created since December 31, 2018:
  - SSM Health Insurance Company (100% owned by FPP, Inc.)
    - The insurer anticipates writing health business in the State of Missouri beginning on or after January 1, 2021.
  - Dean Health Holdings, LLC (100% owned by DHS)
    - The company is a shell created for the purpose of holding ownership in Dean Health Service Company, LLC.
  - Dean Health Service Company, LLC (100% owned by Dean Health Holdings, LLC)
    - The company will be providing administrative services for all insurance operations beginning in 2020.

Shown below is the most recent organizational chart of the holding group. The new entities are denoted with a “#” next to the entity name.

