

Report  
of the  
Examination of  
Care Wisconsin Health Plan, Inc.  
Madison, Wisconsin  
As of December 31, 2010

## TABLE OF CONTENTS

	<b>Page</b>
I. INTRODUCTION.....	1
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL.....	7
IV. AFFILIATED COMPANIES .....	9
V. REINSURANCE .....	11
VI. FINANCIAL DATA.....	12
VII. SUMMARY OF EXAMINATION RESULTS .....	20
VIII. CONCLUSION .....	27
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS .....	28
X. ACKNOWLEDGMENT .....	29



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

January 26, 2012

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [ociinformation@wisconsin.gov](mailto:ociinformation@wisconsin.gov)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

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:

CARE WISCONSIN HEALTH PLAN, INC.  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Care Wisconsin Health Plan, Inc. (hereinafter CWHP, the plan, or the company) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2010, and included a review of such 2011 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

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

## II. HISTORY AND PLAN OF OPERATION

Care Wisconsin Health Plan, Inc., is described as a nonprofit mixed model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, 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 mixed model, the company has a delivery system consisting of a combination of staff employed by the company or an affiliate, and/or one or more clinics and/or independently contracting physicians operating out of their separate offices.

The company was incorporated on May 23, 2003, under the name Elder Care Health Plan, Inc., and commenced business on January 1, 2005. The plan was originally capitalized through the transfer of \$4 million (\$2 million surplus contribution/\$2 million surplus note) from its sole member, Elder Care of Wisconsin, Inc., to meet the initial capital requirements established by the Wisconsin Office of the Commissioner of Insurance (which granted the plan its Certificate of Authority on December 23, 2004). The company changed its name to Care Wisconsin Health Plan, Inc., effective August 1, 2007 (concurrent with the name change of Elder Care of Wisconsin, Inc., to Care Wisconsin First, Inc.). The plan repaid the remaining balance on the surplus note on December 19, 2007.

Care Wisconsin Health Plan, Inc. (CWHP) has no employees. The operations of this HMO are administered by the parent company, Care Wisconsin First, Inc. (CWF), under separate administrative and health care services agreements (described in the "Affiliated Companies" section of the report). CWF and CWHP also contract with a nonaffiliated third-party administrator for the provision of certain services including, but not limited to, claims administration and premium billing.

Since inception, CWF and CWHP have worked cooperatively to provide services under the following programs:

- Wisconsin Family Care Program (CWF): A Medicaid program administered by the Wisconsin Department of Health Services (DHS) designed to provide services for frail elderly populations that do not require institutional care.
- Family Care Partnership Program (CWHP): This is an integrated Medicare/Medicaid program for dual eligible enrollees<sup>1</sup> that was originally operated under demonstration authority but has since been transitioned by the Center for Medicare and Medicaid Services (CMS) to a Medicare Advantage Special Needs Plan and by the DHS to the Family Care Program. The Family Care Partnership Program's (a/k/a Partnership program) benefits include all Wisconsin Medicaid-covered benefits, all Medicare Advantage benefits, all Medicare Part D benefits, and "necessary long-term care services and supports," including services to assist plan enrollees with daily living activities. The Partnership program represented approximately 100% of the plan's membership at December 31, 2010.
- InFocus Health (CWHP): This is a Medicare Advantage Special Needs Plan for Medicare beneficiaries who are permanent residents of a nursing home. The company requested and received approval from CMS to discontinue offering this program effective January 1, 2009. This program was discontinued effective January 1, 2008.
- CareSurround (CWHP): This is a Medicare Advantage Special Needs Plan for Medicare beneficiaries with one or more of four chronic diseases. The company requested and received approval from CMS to discontinue offering this program effective January 1, 2008. This program was discontinued effective January 1, 2009.

The CWHP services include a care management component, consisting of an interdisciplinary team comprised of: the enrollee, a CWF-employed Nurse Practitioner, a CWF-employed Registered Nurse, and a CWF-employed Social Services Coordinator. The

---

<sup>1</sup> "Dual Eligibles" are defined as low-income seniors and persons with disabilities who are enrolled in Medicaid and Medicare. This population relies on Medicaid to cover Medicare premiums and cost-sharing to cover critical benefits not covered by Medicaid (such as long-term care).

teams use a Resource Allocation Decision-Making (RAD) process approved by Wisconsin to pre-authorize long-term care services.

For acute and primary care administered by CWHP, enrollees may choose any primary care physician (PCP) who has agreed to work collaboratively with CWF Nurse Practitioners. Currently, there are approximately 2,148 primary care physicians that members may choose from and over 1,492 in-network specialists. The PCP does not act as a gatekeeper and specialty care does not require prior authorization or referral.

CWF's and CWHP's principal provider networks include the Dean Medical Center/Dean Health System (Madison, Wisconsin), the University of Wisconsin Hospitals and Clinics (Madison, Wisconsin), Children's Medical Group hospitals and clinics (Milwaukee, Wisconsin), CHN Medical Center (Berlin, Wisconsin), and St. Mary's Dean Ventures (SMDV) hospitals and clinics. The company's provider network includes hospitals and clinics outside of the formal service areas to offer services to members that would not otherwise be available. For example, the health plan has an active contract with Children's Medical Group, even though Milwaukee County is not in their formal service area. Physicians are required by the HMO to provide services on a 24-hour basis. The HMO contracts generally provide for reimbursement on a discounted fee-for-service basis and include hold-harmless provisions for the protection of enrolled members.

CWF and CWHP contract with area hospitals to provide inpatient services to the plan's members.<sup>2</sup> Hospitals are reimbursed in accordance with applicable Medicare/Medicaid DRGs<sup>3</sup>, or on a discounted fee-for-service basis. Active contracts at December 31, 2010, include 14 hospitals and 128 primary care clinics. The following is a list of hospitals serving both CMO<sup>4</sup> and HMO enrollees:

---

<sup>2</sup> The examination noted that although CWF performs provider contracting on behalf of the plan, the Health Care Services Agreement between the plan and CWF does not specifically delegate this function to CWF.

<sup>3</sup> Diagnosis-related groups, or DRGs, is a system to classify hospital cases into one of originally 467 groups. The original objective of DRGs was to develop a classification system that identified the "products" that the patient received.

<sup>4</sup> Care management organizations, or CMOs, are Wisconsin companies that provide services for the DHS through annual contracts which specify the services the state is purchasing and describe the mutual obligations between the parties. Also known as managed care organizations.

Berlin Memorial Hospital  
Children's Hospital of Wisconsin  
Children's Hospital of Wisconsin – Fox Valley  
Columbus Community Hospital  
Divine Savior Hospital  
Meriter Hospital  
Reedsburg Area Medical Center

Sauk Prairie Memorial Hospital  
St. Claire Hospital & Health Service  
St. Mary's Hospital  
Stoughton Hospital  
UW Hospital and Clinics  
Vernon Memorial Hospital  
Wild Rose Community Memorial Hospital

According to the census data provided by the management, as of December 31, 2010, CWHP's service area is comprised of the following counties: Columbia, Dane, Dodge, Jefferson, and Sauk.

CWHP offers comprehensive health care coverage which may be changed only by changes in the contracts with DHS and/or CMS. The following basic health care coverages are provided:

- Physician services
- Inpatient services
- Outpatient services
- Mental health, drug, and alcohol abuse services
- Ambulance services
- Special dental procedures (oral surgery)
- Prosthetic devices and durable medical equipment
- Newborn services
- Home health care
- Preventive health services
- Family planning
- Hearing exams and hearing aids
- Diabetes treatment
- Routine eye examinations
- Convalescent nursing home service
- Prescription drugs – co-payments as dictated by Medicare Part D
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Physical fitness or health education
- Kidney disease treatment
- Certain transplants
- Chiropractic services

Individuals enrolled in the Partnership program are subject to specified co-pays, but do not pay premiums. Program participants are required to meet all of the Wisconsin Medicaid financial eligibility requirements. CWHP is compensated through capitation payments received from DHS and CMS. The capitation rates have been actuarially determined, taking into account the health care needs of the plan's members.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of six members. Directors are elected/re-elected annually to serve a three-year term to fill expiring terms. Officers are appointed by the board of directors for a one-year term at the board's annual meeting. Members of the company's board of directors may also be members of the CWF board. Board members currently receive no 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>
Karen Joanne Musser Middleton, WI	President/CEO Care Wisconsin First, Inc.	NA <sup>5</sup>
James Allen Jaeger Madison, WI	Elder Law Attorney Glowacki, Jaeger & Hughes Law Firm	NA <sup>6</sup>
Robert Allen Mucci Madison, WI	Vice President National Guardian Life Insurance Company	2014
Peggy Ann Smelser Madison, WI	Chief Operating Officer WEA Trust	2012
Dennis Linden Carlson Madison, WI	Retired, American Family Insurance	2013
Steven Lee Cable Waunakee, WI	Chief Financial Officer Total Administrative Services Corp.	2013

---

<sup>5</sup> Per the bylaws, the President of the corporation shall be an ex-officio voting member of the board, and shall continue in this capacity as long as he or she holds the office of the President of the corporation.

<sup>6</sup> James Allen Jaeger resigned from the board effective in January of 2011.

## Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows<sup>7</sup>:

<b>Name</b>	<b>Office</b>	<b>2010 Salary</b>
Karen Joanne Musser	President	\$247,000
Kenneth Roy Eimers	Secretary	192,931
Michael John Tegler <sup>8</sup>	Treasurer	170,000

## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company does not currently have any board committees.

## 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's continuation of coverage provisions of its reinsurance contract are sufficient to meet the requirements of s. Ins 9.04 (6), Wis. Adm. Code.

---

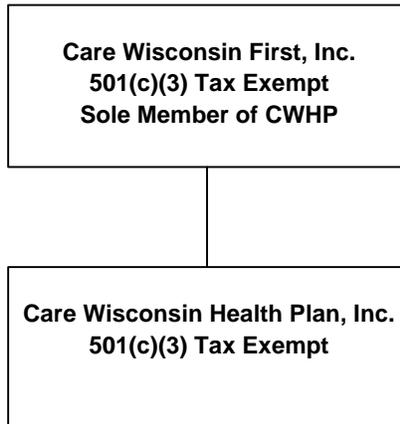
<sup>7</sup> Officers are employed and compensated by Care Wisconsin First, Inc.

<sup>8</sup> Michael Tegler has left the company, effective in September 2011, and has since been replaced by Terry Metzger as Chief Financial Officer.

#### IV. AFFILIATED COMPANIES

The company is a member of a nonprofit holding company system. The plan's sole member is Care Wisconsin First, Inc. The organizational chart below, along with accompanying description, describes the affiliated relationship.

##### Holding Company Chart As of December 31, 2010



##### Care Wisconsin First, Inc.

Care Wisconsin First, Inc. (CWF) is a not-for-profit corporation organized for the purpose of providing health and long-term care services to the elderly in Dane County, Wisconsin. As of December 31, 2010, the company's audited financial statement reported total assets of \$53,015,414, total liabilities of \$55,725,151, and total net assets of \$(2,709,736). Operations for 2010 produced an increase in net assets of \$779,317 on revenues and other support of \$157,060,961.

Administrative services are provided through the plan's administrative and health care services agreements with CWF, discussed below:

- Administrative Services Agreement: Under the administrative services agreement, effective June 1, 2005, CWF agrees to perform administrative services necessary for the plan's operations, including, but not limited to: marketing, information systems, financial,

- and other specified general and administrative services. As compensation for these services, the plan agrees to reimburse CWF for the cost of direct services and its allocated portion of indirect services. The Agreement may be terminated without cause by either party with at least 180 days' advance written notice of the intention to terminate.
- Health Care Services Agreement: Under the health care services agreement, effective January 1, 2005, CWF agrees to provide the specified health care services on behalf of the plan's participants enrolled in the plan's Partnership programs. As compensation for these services, the plan agrees to reimburse CWF for the cost of direct services and its allocated portion of indirect services. The Agreement may be terminated without cause by either party with at least 180 days' advance written notice of the intention to terminate.

## V. REINSURANCE

Reinsurer:	HCC Life Insurance Company (HCC Life)
Type:	Excess of Loss
Effective dates:	January 1, 2011, through December 31, 2011
Lines of business:	Medicare Dual Eligible – Partnership Program Medicare Dual Eligible – Partnership Dane Transfer
Eligible expenses:	Expenses for health care services and supplies provided to a member that are incurred during the contract year and are:  A. Covered by the membership services agreement as the responsibility of the plan to provide to a member; and B. Have an incurred date of service during the contract period; and C. Are not excluded on the coverage summary; and D. Are not excluded elsewhere under this agreement.
Retention:	\$125,000
Percentage payable:	90% The percentage payable will be reduced by one-half if written notice of potential claim is received after 90 days of the date of the payment that causes the claim to exceed the specific retention as required in Article 5.1.
Lifetime maximum:	\$2,000,000
Monthly premium:	\$15.58 per member per month
Notice:	The plan will give HCC Life timely written notice of any claim or potential reinsurance claims (those exceeding or expected to exceed 50% of the applicable retention) within 30 days of the plan's knowledge of such claims. The plan will also submit a monthly update to HCC Life of changes to potential reinsurance claims.

The company has continuation of coverage protection under the reinsurance contract which are sufficient to meet the requirements of s. Ins 9.04 (6), Wis. Adm. Code, as outlined below:

1. HCC Life will continue plan benefits for members who are confined in an acute-care hospital (Short-Term Hospital) on the date of insolvency until the earlier of 365 days or the date of their discharge.
2. HCC Life will continue plan benefits for any member insured plan in a Long-Term Acute Care Facility, Skilled Nursing Facility, or Rehabilitation Facility beginning on the date of plan insolvency and continue until the earlier of 120 days or the date of discharge.
3. For any members who are Medicaid or Title XVIII Medicare enrollees, (1) and (2) above will apply, subject to the further limit that plan benefits will not extend beyond the date such member is entitled to coverage under other Title XVIII Medicare provisions or any other federal or state program.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2010, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company for the period under examination. 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."

**Care Wisconsin Health Plan, Inc.**  
**Assets**  
**As of December 31, 2010**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$12,506,923	\$	\$12,506,923
Cash, cash equivalents and short-term investments	25,113,589		25,113,589
Aggregate write-ins for invested assets	185,070	185,070	0
Investment income due and accrued	112,349		112,349
Uncollected premiums and agents' balances in the course of collection	99,792	52,193	47,599
Accrued retrospective premiums	511		511
Receivables from parent, subsidiaries and affiliates	295	295	0
Health care and other amounts receivable	<u>1,208,950</u>	<u>36,247</u>	<u>1,172,703</u>
<b>Total Assets</b>	<b><u>\$39,227,479</u></b>	<b><u>\$273,805</u></b>	<b><u>\$38,953,674</u></b>

**Care Wisconsin Health Plan, Inc.**  
**Liabilities and Net Worth**  
**As of December 31, 2010**

Claims unpaid		\$ 6,912,576
Unpaid claims adjustment expenses		205,000
Aggregate health policy reserves		207,667
Premiums received in advance		13,912,257
General expenses due or accrued		1,644,378
Amounts due to parent, subsidiaries and affiliates		357,883
Liability for amounts held under uninsured accident and health plans		<u>541,191</u>
<b>Total liabilities</b>		<b>23,780,952</b>
Common capital stock		
Preferred capital stock		
Gross paid in and contributed surplus		
Surplus notes		
Aggregate write-ins for other than special surplus funds	\$ 1,750,000	
Unassigned funds (surplus)	<u>13,422,723</u>	
<b>Total capital and surplus</b>		<b><u>15,172,723</u></b>
<b>Total Liabilities, Capital and Surplus</b>		<b><u>\$38,953,675</u></b>

**Care Wisconsin Health Plan, Inc.  
Statement of Revenue and Expenses  
For the Year 2010**

Net premium income		\$73,497,798
Aggregate write-ins for other health care related revenues		<u>(10,123)</u>
Total revenues		73,487,675
Medical and hospital:		
Hospital/medical benefits	\$30,296,070	
Other professional services	16,760,088	
Outside referrals	(3,809)	
Emergency room and out-of-area	1,098,402	
Prescription drugs	3,806,805	
Aggregate write-ins for other medical and hospital	3,323,710	
Net reinsurance recoveries	<u>(86,402)</u>	
Total medical and hospital	55,194,864	
Claims adjustment expenses	11,115,721	
General administrative expenses	<u>4,734,160</u>	
Total underwriting deductions		<u>71,044,745</u>
Net underwriting gain or (loss)		2,442,930
Net investment income earned	451,690	
Net realized capital gains or (losses)	<u>416,858</u>	
Net investment gains or (losses)		868,548
Net gain or (loss) from agents' or premium balances charged off		<u>(49,834)</u>
Net Income (Loss)		<u>\$ 3,261,644</u>

**Care Wisconsin Health Plan, Inc.  
Capital and Surplus Account  
As of December 31, 2010**

Capital and surplus prior reporting year		\$12,132,421
Net income or (loss)	\$ 3,261,644	
Change in nonadmitted assets	(80,892)	
Surplus adjustments, transferred from capital	(250,000)	
Aggregate write-ins for gains or losses in surplus	<u>109,550</u>	
Net change in capital and surplus		<u>3,040,302</u>
Capital and Surplus End of Reporting Year		<u>\$15,172,723</u>

**Care Wisconsin Health Plan, Inc.  
Statement of Cash Flows  
As of December 31, 2010**

Premiums collected net of reinsurance		\$88,134,225
Net investment income		459,435
Miscellaneous income		<u>(285,491)</u>
Total		88,308,169
Less:		
Benefit- and loss-related payments	\$57,135,663	
Commissions, expenses paid and aggregate write-ins for deductions	<u>14,778,504</u>	
Total		<u>71,914,167</u>
Net cash from operations		16,394,002
Proceeds from investments sold, matured or repaid:		
Bonds	8,276,537	
Cost of investments acquired - long-term only:		
Bonds	<u>8,485,432</u>	
Net cash from investments		(208,895)
Other cash provided (applied)		493,491
Net change in cash, cash equivalents, and short-term investments		<u>16,678,598</u>
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>8,434,991</u>
End of Year		<u>\$25,113,589</u>

**Growth of Care Wisconsin Health Plan, Inc.**

<b>Year</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Capital and Surplus</b>	<b>Premium Earned</b>	<b>Medical Expenses Incurred</b>	<b>Net Income</b>
2010	\$38,953,674	\$23,780,952	\$15,172,723	\$73,497,798	\$55,194,864	\$3,261,644
2009	22,982,775	10,850,354	12,132,421	68,222,489	51,415,409	1,343,859
2008	24,440,133	13,824,578	10,615,555	58,107,133	41,227,287	(285,319)

<b>Year</b>	<b>Profit Margin</b>	<b>Medical Expense Ratio</b>	<b>Administrative Expense Ratio</b>
2010	3.34%	75.10%	21.57%
2009	(0.12)	75.36	24.76
2008	(2.23)	70.95	31.28

**Enrollment and Utilization**

<b>Year</b>	<b>Enrollment</b>	<b>Change In Enrollment</b>	<b>Hospital Days/1,000</b>	<b>Average Length of Stay</b>
2010	1,172	3.1%	5,370.53	4.6
2009	1,137	2.6	4,795.51	4.2
2008	1,108	55.8	5,081.26	4.6

**Per Member Per Month Information**

	<b>2010</b>	<b>2009</b>	<b>Percentage Change</b>
<b>Premiums:</b>			
Medicare	\$5,332.08	\$5,146.14	3.61%
Medicaid	5,331.50	5,149.25	3.54
<b>Expenses:</b>			
Hospital/medical benefits	2,191.56	1,980.96	10.63
Other professional services	1,212.39	260.91	364.67
Outside referrals	(0.28)	99.06	-100.28
Emergency room and out-of-area	79.46	85.05	-6.57
Prescription drugs	275.38	280.74	-1.91
Other medical and hospital	<u>240.43</u>	<u>1,150.06</u>	-79.09
Total medical and hospital	<u>3,998.93</u>	<u>3,856.78</u>	3.69
Claims adjustment expenses	804.09	867.89	-8.30
General administrative expenses	<u>342.46</u>	<u>386.33</u>	-11.36
Total Underwriting Deductions	<u>\$5,145.48</u>	<u>\$5,120.00</u>	0.60

Care Wisconsin Health Plan, Inc., has had positive financial trends over the three intervening years since the prior examination. Net income in 2010 was \$3.3 million, the plan's second best year in the past five consecutive years. The total capital and surplus of \$15.2 million in 2010 represents a five-year high for the health plan. The health plan's liquidity position was also strong at year-end 2010, as its cash accounts at year-end totaled \$24.8 million. The cash accounts balance was high at year-end 2010 due to a significant prepaid capitation payment made by the DHS in December 2010 for first quarter 2011 member services.

After an increase in enrollment of 55.8% in 2008, the health plan experienced variations in its administrative and medical costs associated primarily with an expansion of its services. Beginning in 2008 the company expanded their Partnership program service area to include four additional counties. Then the company began adding developmentally and physically disabled populations to the frail elderly population for all counties which had historically been served in Dane County. In May of 2008 the company assumed all of the Partnership program members previously enrolled in Health Plan for Community Living, a company that was placed into liquidation. No expansion counties were added in 2009 or 2010. The expansion and the change in population mix tended to drive up administrative costs initially, while medical costs showed a more sustained pattern of growth beginning in 2008. The administrative expense ratio shows a steady decline: 31.28% (2008), 24.76% (2009), and 21.57% (2010). Over the same three-year period, increases to the medical expense ratio were 70.95% (2008), 75.36% (2009), and 75.10% (2010). These trends resulted in a profit margin of 3.34% by year-end 2010, representing a three-year high.

The per member per month capitation premium paid by the federal and state governments on behalf of members, for both Medicare and Medicaid, grew in 2010 at 3.61% and 3.54%, respectively. Such increases in per member per month capitation are not expected to continue as the Department of Health Services has slowed the rate of growth to the Medicaid programs in Wisconsin, which includes the Partnership program. In addition to this, the population mix of the health plan has changed late in the fourth quarter of 2010. The proportion of developmentally disabled members increased late in 2010 and is expected to increase hospital

and medical costs going forward. The management has adjusted to these pressures by a remediation program aimed at further cost cutting to administrative expenses and contract changes with providers.

## Reconciliation of Capital and Surplus per Examination

The following schedule is a reconciliation of capital and surplus between that reported by the company and as determined by this examination:

Capital and surplus December 31, 2010, per annual statement			\$15,172,723
Examination adjustments:	<b>Increase</b>	<b>Decrease</b>	
General expenses due and accrued <sup>9</sup>	\$ _____	\$ 76,085	
Net increase or (decrease) to surplus			<u>(76,085)</u>
Capital and Surplus December 31, 2010, per Examination			<u>\$15,096,638</u>

For more information on this adjustment see the section captioned "Summary of Current Examination Recommendations" below.

### Examination Reclassifications

	<b>Debit</b>	<b>Credit</b>
Aggregate write-in for other than invested assets <sup>10</sup>	\$388,206	\$
Health care and other accounts receivable	<u>                    </u>	<u>388,206</u>
Total Reclassifications	<u>\$388,206</u>	<u>\$388,206</u>

<sup>9</sup> To accrue the HIRSP Assessment Payable at December 31, 2010.

<sup>10</sup> To properly record the State Income Tax Refund Receivable as an Aggregate write-in for other than invested assets.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were 17 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. Management and Control - Biographical Sketches—It is recommended that the company file a biographical sketch for any new officer or director within 15 days of the date of election/appointment, in accordance with s. 611.54, Wis. Stat., and s. Ins 6.52 (5), Wis. Adm. Code.

Action—Compliance.

2. Management and Control - Conflict of Interest Statements—It is recommended that the plan ensure that conflict of interest statements be completed every year by all directors and officers in compliance with the Directive of the Commissioner.

Action—Compliance.

3. Management and Control - Articles and Bylaws—It is recommended that the plan either adhere to the terms of its bylaws by establishing a Finance and Audit Committee or amend the bylaws to reflect current practice.

Action—Compliance.

4. Management and Control - Board Approval of Investment Transactions—It is recommended that the company's board or a committee thereof review a summary of all investment transactions at least quarterly and reflect formal approval/disapproval of the transactions in the board minutes.

Action—Compliance.

5. Investments - Cash—Escheat Policy—It is recommended that the company develop a formal written escheat policy.

Action—Compliance.

6. Investments - Cash—Escheat Policy—It is recommended that the escheat policy be presented to the board of directors for approval.

Action—Compliance.

7. Investments - Investment Policy—It is recommended that the company establish a separate investment policy for Care Wisconsin Health Plan, Inc.

Action—Compliance.

8. Fidelity Bond/Crime Insurance—It is recommended that Care Wisconsin Health Plan, Inc., be specifically identified as a "Named Insured" to the crime insurance policy via an endorsement.

Action—Compliance.

9. Reinsurance Contract - Insolvency Provision—It is recommended that the company either obtain an endorsement to its reinsurance contract that includes the insolvency protections required by s. Ins 9.04 (6) (a), Wis. Adm. Code, or maintain a level of surplus that meets the requirements of s. Ins 51.80, Wis. Adm. Code.

Action—Compliance.

10. Provider Contracts—It is recommended that the company amend the Health Care Services Agreement with CWF to clarify that CWF is performing provider contracting on behalf of the company.

Action—Compliance.

11. Annual Statement Reporting - HIRSP Assessment—It is recommended that, in the future, the company accrue an appropriate expense and liability for its HIRSP assessment payable on a monthly basis.

Action—Compliance.

12. Annual Statement Reporting - State Income Tax Refund Receivable—It is recommended that, in the future, the company report any state income tax refunds receivable as an admitted asset on the “Aggregate write-ins for other than invested assets” line of the “Assets” page of the statutory financial statement, with the description “State Income Tax Refund Receivable” on the “Details of Write-Ins” line, in accordance with SSAP No. 10 par. 4.

Action—Partial Compliance.

13. Annual Statement Reporting - Uncollected Premiums—It is recommended that the company establish a policy to periodically evaluate the collectability of its uncollected premium receivables.

Action—Compliance.

14. CPA Engagement Letter—It is recommended that the company either enter into an agreement with its current independent auditor that does not contain an indemnification provision or obtain a firm that meets the qualifications for an independent certified public accountant as prescribed under s. Ins 50.08 (1), Wis. Adm. Code.

Action—Compliance.

15. Security Deposit - Annual Statement Reporting—It is recommended that, in the future, the company report CDs with a maturity date in excess of one year from the date of acquisition on the “Bonds” line of the statutory financial statement in accordance with SSAP No. 26.

Action—Compliance.

16. Information Systems - Disaster Recovery Plan—It is recommended that the company include the following items in its revised disaster recovery plan: (1) management roles and responsibilities for calling a disaster; (2) individual plans for the functional units (including IS), which document the functional unit’s role in the recovery; procedures, critical supplies, contacts, and the relocation site; and (3) consideration of the company’s outside service providers.

Action—Compliance.

17. Information Systems - Access Reviews—It is recommended that the company perform a periodic review of all active IDs with access to the company's network and applications to ensure that the IDs are authorized with appropriate roles in relation to the responsibilities.

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.

### **Business Plan**

All significant changes to the health plan's business plan require the prior notification of the Commissioner's office. Section Ins 9.06 (1), Wis. Adm. Code, states:

"A health maintenance organization insurer...shall file a written report of any proposed substantial change in its business plan. The insurer shall file the report at least 30 days prior to the effective date of the change. The office may disapprove the change.... Substantial changes include changes in articles and bylaws, organization type, geographical service areas, provider availability, plan administration, financial projections and guarantees and any other change that might affect the financial solvency of the plan."

During the review of information technology it was noted by the EDP Specialist that significant changes were made by the IT management. Effective November 1, 2009, the third-party administrator in charge of claims payments was changed. Material changes of this nature should be brought to the attention of the Commissioner at least 30 days in advance of the effective date. It is recommended that significant changes in the business plan shall be reported to the Commissioner in writing at least 30 days prior to the effective date of the change in accordance with s. Ins 9.06 (1), Wis. Adm. Code.

### **Annual Statement Reporting**

The health plan must make reasonable estimates of all significant liabilities, which are both probable and can be reasonably estimated, and such estimates must be reported in the annual statements. Per Statement of Accounting Principle (SSAP) No. 35 (2b), the amount of the HIRSP accrual at December 31, 2010, should be estimated by using the most recent available assessment rate multiplied by the applicable 2010 premium income. The 2010 HIRSP assessment rate of 3.3581895 (divided by 1000) is multiplied by the 2010 Medicaid premiums of \$45,615,359. The estimated HIRSP liability at December 31, 2010, is \$153,185.02 based on SSAP No. 35 (4). This resulted in an examination adjustment of \$76,085, since the company

accrued for \$77,100 in the general expenses due and accrued account. It is recommended that the company accrue for its year-end HIRSP liability in accordance with SSAP No. 35 (4).

The examination determined that the company did not report any "aggregate write-in for other than invested assets" in 2008, 2009, and 2010. The prior examination instructed the company to report the state income tax receivable as an "aggregate write-in for other than invested assets." In 2010 the company reported the balance of the account receivable for income taxes in the "health care and other accounts receivable." This recommendation resulted in an examination reclassification of \$388,206 in 2010. It is recommended that the company report any state income tax refunds receivable on the "Aggregate write-ins for other than invested assets" line of the "Assets" page of the statutory financial statement, with the description "State Income Tax Refund Receivable" on the "Details of Write-Ins" line, in accordance with SSAP No. 10R par. 4.

### **Investments**

The examination's review of the custodial agreement between the company and Marshall & Ilsley Trust Company, Inc., dated May 10, 2010, has shown that there is no proper indemnification clause contained in the agreement (i.e., in regard to theft or dishonesty by the custodian's employees or through their negligence). Based on the NAIC Financial Condition Examiners Handbook:

"The custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody, except that, unless domiciliary state law, regulation, or administrative action otherwise require a stricter standard...the custodian shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian."

It is recommended that the company enter into a custodial agreement containing an indemnification clause consistent with the NAIC Financial Condition Examiners Handbook.

### **Management and Control**

The Report on Executive Compensation - Domestic Insurers requires that all compensation be included. Per the instructions to the report, the following forms of compensation are to be included: wages, salaries, bonuses, retirement benefits, deferred compensation, commissions, director's fees, retainers, stock grants, gains from the exercise of stock options,

and all other forms of compensation. The management should report the employer match in the 401k plan as "other compensation" in accordance with the instructions to the Report on Executive Compensation - Domestic Insurers. It is recommended that all forms of compensation be reported in the Report on Executive Compensation - Domestic Insurers in accordance with the instructions to the report.

### **Financial Requirements**

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

	<b>Amount Required</b>
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 compulsory surplus calculation as of December 31, 2010, as

modified for examination adjustments is as follows:

Assets	\$ 38,953,674	
Less:		
Special deposit	(224,537)	
Liabilities	(23,780,952)	
Investments in excess of maximum allowable by ch. 620, Wis. Stat.	0	
Examination adjustments	<u>(76,085)</u>	
Assets available to satisfy surplus requirements		\$14,872,100
Net premium earned	73,497,798	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>2,204,933</u>
Compulsory Excess		<u>\$12,667,167</u>
Assets available to satisfy surplus requirements		\$14,872,100
Compulsory surplus	\$ 2,204,933	
Security factor	<u>139%</u>	
Security surplus		<u>3,064,856</u>
Security Excess		<u>\$11,807,244</u>

The health plan's special deposit with the State of Wisconsin, Department of Administration, is no longer required due to recent changes in the law exempting Medicare and Medicaid premiums from the calculation of the special deposit.

## VIII. CONCLUSION

Care Wisconsin Health Plan, Inc., is a nonprofit mixed model HMO that was incorporated on May 23, 2003, and commenced business on January 1, 2005. The company's operations are administered by Care Wisconsin First, Inc., the plan's sole member, under separate administrative services and health care services agreements. Operations to date have been centered on the health plan's core product, the Family Care Partnership Program, an integrated Medicare/Medicaid product serving dual eligible enrollees in Dane County. Since the prior examination the health plan has exited its other two lines of business. The company has expanded operations into four additional adjacent counties, varied its population mix and added members from the Health Plan for Community Living since the prior examination.

Care Wisconsin Health Plan, Inc., has had improving financial results since the expansion of services which began in 2008. Net income in 2010 was \$3.3 million, total capital and surplus was \$15.2 million, and the health plan's liquidity position was also strong at year-end 2010. The health plan made capital contributions to the parent company of \$250,000 in 2010 and \$3.0 million in early 2011. However increases to premium income are not expected to continue due to the capitation rate measures enacted by DHS Medicaid programs in Wisconsin in 2011 which includes the Partnership program. In addition to this the population mix of the health plan has changed late in the fourth quarter of 2010, increasing costs substantially. A remediation program aimed at further cost cutting was implemented by management in 2011. These efforts are likely to continue to stabilize the financial condition of the health plan going forward.

The current examination resulted in five recommendations, one reclassification, and a net adjustment to surplus of \$76,085. These recommendations and adjustments/reclassifications are explained in the "Summary of Examination Results" section of this report.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Business Plan—It is recommended that significant changes in the business plan shall be reported to the Commissioner in writing at least 30 days prior to the effective date of the change in accordance with s. Ins 9.06 (1), Wis. Adm. Code.
2. Page 24 - Annual Statement Reporting—It is recommended that the company accrue for its year-end HIRSP liability in accordance with SSAP No. 35 (4).
3. Page 24 - Annual Statement Reporting—It is recommended that the company report any state income tax refunds receivable on the “Aggregate write-ins for other than invested assets” line of the “Assets” page of the statutory financial statement, with the description “State Income Tax Refund Receivable” on the “Details of Write-Ins” line, in accordance with SSAP No. 10R par. 4.
4. Page 24 - Investments—It is recommended that the company enter into a custodial agreement containing an indemnification clause consistent with the NAIC Financial Condition Examiners Handbook.
5. Page 25 - Management and Control—It is recommended that all forms of compensation be reported in the Report on Executive Compensation - Domestic Insurers in accordance with the instructions to the 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>
Margaret E. Callahan	Insurance Financial Examiner
Rachel Liu	Insurance Financial Examiner
Richard A. Onasch	Insurance Financial Examiner
Amy J. Malm, CFE	Insurance Financial Examiner – Advanced.
Victoria Chi	Insurance Financial Examiner – Advanced, Data Processing Audit Specialist

Respectfully submitted,

Gene M. Renard, CFE  
Examiner-in-Charge