

Report  
of the  
Examination of  
Children's Community Health Plan, Inc.  
Milwaukee, Wisconsin  
As of December 31, 2013

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Scott Walker**, Governor  
**Theodore K. Nickel**, Commissioner

[Wisconsin.gov](http://Wisconsin.gov)

July 23, 2014

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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:

CHILDREN'S COMMUNITY HEALTH PLAN, INC.  
Milwaukee, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Children's Community Health Plan, Inc. (the company, the HMO, or CCHP) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 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

Children's Community 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 direct contracts with independent clinics, physicians, and physician associations. HMOs compete with traditional fee-for-service health care delivery.

The predecessor company, also named CCHP, was incorporated May 17, 2005, commenced business February 1, 2006, and was a wholly owned subsidiary of Seeger Health Resources, Inc., a for-profit corporation owned by Children's Hospital and Health System, Inc. (CHHS) that operated and invested in health care-related activities.

On January 1, 2010, the original CCHP was merged into a new corporation called CC Health Plan, Inc., which carried forward the assets, liabilities, capital and surplus and contracts of CCHP as of December 31, 2009, into this non-stock, non-profit HMO. On the date of merger, CC Health Plan, Inc., then changed its name to Children's Community Health Plan, Inc.

CCHP derives all of its revenue from the Wisconsin Title XIX Medical Assistance known as BadgerCare Plus. The company contracts directly with the Wisconsin Department of Health Services (DHS) to provide health care benefits to eligible Medical Assistance (Medicaid) recipients through its CCHP license.

There are currently two BadgerCare Plus contracts with DHS: one covers the enrollees in the counties of Kenosha, Milwaukee, Ozaukee, Racine, Washington and Waukesha and is effective from September 1, 2010, through December 31, 2013; the second contract covers the counties of Brown, Calumet, Outagamie, Sheboygan, Walworth, Waupaca, and Winnebago and was originally effective from January 1, 2010, through December 31, 2011, though this has been subsequently amended and renewed to remain effective through December 31, 2013.

The company provides primary and specialty health services to BadgerCare enrollees through contractual arrangements with physicians, group practices, and clinics. Physician, hospital and other professional/ancillary services are reimbursed on either a fee schedule or capitated basis. For 2013, 4% of medical expenses were capitation payments, 65% were contractual fee payments, and 31% were paid under aggregate cost arrangements. As of March 31, 2014, the company had 6,429 physicians in its network.

The contracts include hold-harmless provisions for the protection of policyholders, have a one-year term, and automatically renew unless terminated by either party giving written notice to the other party of 90 to 180 days, based on negotiation, prior to the end of the initial or renewal term. In addition, the Medicaid contracts require physicians to participate in and contribute information for the company's quality improvement and utilization management programs.

A list of the primary care clinics and physician groups serving enrollees is included in Appendix I of this report.

The company contracts with 49 hospitals to provide inpatient services. The hospitals are paid on a DRG or a per diem basis. The contracts include hold-harmless provisions for the protection of policyholders, automatically renew for one-year terms, and may be terminated by either party upon 90 to 180 days' written notice, based on negotiation, prior to the end of the initial or renewal term. The following is a list of hospitals serving Medicaid/BadgerCare Plus enrollees:

Appleton Medical Center	Kenosha Medical Center Campus
Aurora BayCare Medical Center	Lakeview Neurorehab Hospital
Aurora Lakeland Medical Center	Midwest Orthopedic Specialty Hospital, LLC
Aurora Medical Center - Kenosha	New London Family Medical Center
Aurora Medical Center Grafton	Oconomowoc Memorial Hospital
Aurora Medical Center Oshkosh	Orthopedic Hospital of Wisconsin
Aurora Medical Center Summit	Rehabilitation Hospital of Wisconsin
Aurora Medical Center Washington County	Riverside Medical Center
Aurora Memorial Hospital of Burlington	Rogers Memorial Hospital
Aurora Psychiatric Hospital	Sacred Heart Rehab Institute
Aurora Sheboygan Memorial Medical Center	Shawano Medical Center
Aurora Sinai Medical Center	St. Mary's Medical Center
Aurora St. Lukes South Shore	St. Nicholas Hospital
Aurora West Allis Memorial Hospital	St. Vincent Hospital
Bellin Health Oconto Hospital	St. Catherine's Medical Center Campus
Bellin Memorial Hospital	St. Joseph's Community Hospital
Bellin Psychiatric Hospital	Theda Clark Medical Center
Children's Hospital of Wisconsin	Waukesha Memorial Hospital

Columbia Center, Inc.  
Columbia St. Mary's - Ozaukee  
Columbia St. Mary's - Columbia Campus  
Columbia St. Mary's - Milwaukee Campus  
Community Memorial Hospital  
Fort HealthCare Memorial Hospital  
Froedtert Memorial Lutheran Hospital

Wheaton Franciscan Healthcare - All Saints  
Wheaton Franciscan Healthcare - Elmbrook  
Memorial  
Wheaton Franciscan Healthcare - Franklin, Inc.  
Wheaton Franciscan Healthcare - St. Francis  
Wheaton Franciscan Healthcare - St. Joseph  
Wheaton Franciscan Wisconsin Heart Hospital

The company's service area for Medicaid and BadgerCare is comprised of the following counties:

Brown	Outagamie	Sheboygan	Waukesha
Calumet	Ozaukee	Walworth	Waupaca
Kenosha	Racine	Washington	Winnebago
Milwaukee			

Benefits for its Medicaid/BadgerCare members are provided for in the contract between CCHP and DHS. Coverage must be consistent with coverage specified in the State Plan; however, the HMO retains the right to determine the medical necessity of a covered service and to require prior authorization of certain specified services.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of six members. One or two directors are elected annually to serve a three-year term. Under the company's bylaws the President and Chief Executive Officer of the Children's Hospital and Health System, Inc., and the President of CCHP are ex-officio directors which are included in the total number of directors and not subject to election. The Chair is elected by the sole voting member or Children's Hospital and Health System, Inc. (CHHS) at its annual meeting. The President, Secretary, and Treasurer are appointed by CHHS and Vice Presidents are appointed by the President with the consent of the President and Chief Executive Officer of CHHS. Members of the company's board of directors may also be members of other boards of directors in the holding company group. Neither the independent board members nor employees of Children's Hospital and Health System, Inc., 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>
Peggy Nye Troy Pewaukee, Wisconsin	President and Chief Executive Officer Children's Hospital and Health System	N/A
Robert Elijah Duncan Lisbon, Wisconsin	Executive Vice President Community Services Children's Hospital and Health System	N/A
Weldon Wayne Gage Pewaukee, Wisconsin	Chief Financial Officer/Treasurer Children's Hospital and Health System	2015
Larry Arlen Rambo Hartland, Wisconsin	Retired	2016
Mark Joseph Backe Shorewood, Wisconsin	Attorney Northwestern Mutual	2016
David John Drury West Allis, Wisconsin	President (Manufacturing Executive) Poblocki Sign Company	2016

#### Officers of the Company

The officers elected and/or appointed by CHHS and serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2013 Salary</b>
Peggy Nye Troy	Board Chairman	\$ 31,142*
Robert Elijah Duncan	President	148,702*
Weldon Wayne Gage	Treasurer	13,062*
Sheila Marie Reynolds	Secretary	10,186*
Mark David Rakowski	Vice President	223,330*

\* The officers' salaries are paid by Children's Hospital and Health System, Inc. The above represent the portion of the officers' salary allocated to the company through a cost allocation agreement between CHHS and the company.

### **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The CCHP board has not formed any of its own committees, instead it uses the following committees of the parent company: Audit and Compliance Committee, Finance Committee, Investment Subcommittee, Compensation Committee, Strategic Planning Committee, and Governance Committee. The committees at the time of the examination are listed below:

#### **Strategic Planning Committee**

David J. Drury, Chair  
Michael W. Altschaefl  
Elizabeth Brenner  
Mark R. Hogan  
Paul W. Jones  
Joseph E. Kerschner  
Albert S. Orr  
Jay O. Rothman  
Peter M. Sommerhauser  
Paul Sweeney  
Peggy Troy (Ex-Officio)

#### **Finance Committee**

Peter M. Sommerhauser, Chair  
Thomas Arenberg  
Thomas M. Bolger  
Elizabeth Brenner  
David J. Drury  
Mark R. Hogan  
Joseph E. Kerschner  
John E. Schlifske  
Paul Sweeney  
Mark C. Witt  
Jay O. Rothman (Ex-Officio)  
Peggy Troy (Ex-Officio)

#### **Audit & Compliance Committee**

Michael W. Altschaefl, Chair  
Thomas Arenberg  
Thomas M. Bolger  
Jay O. Rothman (Ex-Officio)  
Peggy Troy (Ex-Officio)

#### **Investment Subcommittee**

Non-board member, Chair  
Peter M. Sommerhauser  
Jay O. Rothman (Ex-Officio)  
Peggy Troy (Ex-Officio)

#### **Governance Committee**

Albert S. Orr, Chair  
David J. Drury  
Paul W. Jones  
Joseph E. Kerschner  
Albert S. Orr  
Phoebe Williams  
Jay O. Rothman (Ex-Officio)  
Peggy Troy (Ex-Officio)

#### **Compensation Committee**

Paul W. Jones, Chair  
Albert S. Orr  
Jay O. Rothman (Ex-Officio)  
Peggy Troy (Ex-Officio)

Several internal committees have been established to help manage the day-to-day operations of the HMO. The management committees at the time of the examination are listed below:

**Quality Oversight Committee**

Mark Rakowski  
Ken Schellhase, MD  
Jim Slawson, MD  
Lynn Kryfke  
Sue Gorecki  
Julie Antholine  
Laura Kerecman  
Dawn Edwards

**Medical Advisory Committee**

Kenneth Schellhase, MD  
Jim Slawson, MD  
Fredrik Broekhuizen, MD  
Kelly Campbell, MSN, NP-BC, CCM  
Linda Jean Dinzans, MD  
Kevin Hamberger, MD  
Leigh LoPresti, MD  
A. David Penney, MD  
Lyn Ranta, MD  
David Waters, MD  
Lynn Kryfke

**Credentialing Committee**

Kenneth Schellhase, MD  
Jim Slawson, MD  
Fredrik Broekhuizen, MD  
Kelly Campbell, MSN, NP-BC, CCM  
Linda Jean Dinzans, MD  
Kevin Hamberger, MD  
Leigh LoPresti, MD  
A. David Penney, MD  
Lyn Ranta, MD  
Lynn Kryfke  
Dawn Edwards  
Julie Antholine

**Grievance and Appeals Committee**

Mark Rakowski  
Lynn Kryfke  
Sue Gorecki  
Laura Kerecman  
Julie Antholine

**Operations Committee**

Sue Gorecki  
Rebecca Gall  
Julie Antholine

Medical utilization and case management, provider relations/network management, and quality improvement are provided by CCHP employees. Officers are employees of Children's Hospital and Health System, Inc., and are provided to CCHP, along with other administrative staff, through an affiliated agreement discussed in the section of this report captioned "Affiliated Companies." Additional staff is provided through an administrative services agreement with Dean Health Plan, Inc. (Dean). Under the agreement, effective April 1, 2010, Dean agrees to provide administrative services, including, but not limited to: information services, financial services, standard reports, claims processing, premium management, and member services. Dean receives a per member per month fee. The term of the agreement is through December 31, 2015, with automatic annual renewals going forward. The agreement may be terminated by either party for cause upon written notice and may be terminated without cause after January 1, 2016, by either party upon 180 days' written notice.

### **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:

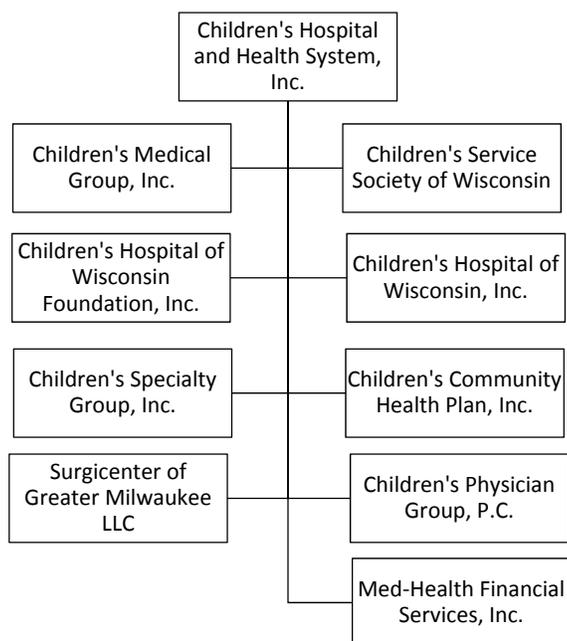
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

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 Children's Hospital and Health System, 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.

##### Holding Company Chart As of December 31, 2013



##### Children's Hospital and Health System, Inc.

Children's Hospital and Health System, Inc., is a Wisconsin nonstock, nonprofit corporation and a charitable organization under Section 501(c)(3) of the Internal Revenue Code. CHHS provides administrative support to CCHP in the areas of administration, financial services, corporate compliance, human resources, corporate counsel, information systems, public relations, planning and marketing, and managed care. CHHS also provides urgent care services at four off-site locations for patients who require non-emergency care after daytime hours. As of December 31, 2013, the consolidated audited financial statement reported assets of \$1.6 billion, liabilities of \$447.2 million, and net assets of \$1.1 billion. Operations for 2013 produced an excess of revenue over expenses of \$99.6 million on revenues of \$878.3 million.

## **Agreements with Affiliates**

The company currently has affiliated agreements with Children's Hospital and Health System, Inc., as shown below. Additional comment on certain agreements is in the "Summary of Examination Results" section of this report.

### Cost Allocation and Financial Management Agreement

- Effective February 20, 2012, the company entered into a cost-allocation agreement with Children's Hospital and Health System, Inc. Under this agreement, CCHP will pay an equitable share of allocable costs to CHHS. Allocable costs shall mean the costs incurred by CHHS or other members of the group for activities and expenditures that benefit CCHP. Allocable costs shall include the salaries of CHHS employees who are officers of CCHP and other costs of administering the following: investments; legal matters; finances; tax matters; human resource services; insurance procurement and risk management services; strategic planning, marketing and public relations; information systems support services; general administrative and corporate compliance services; and all fees for leased space incurred on the insurer's behalf (charged in full). CCHP's equitable share of allocable costs shall be determined in conformity with GAAP and CHHS shall allocate to CCHP for CCHP's share of allocable costs of each month within 15 business days after the end of that month. Final settlement will occur within 30 days after the end of the calendar year. The agreement automatically renews annually unless terminated by either party by providing the other party at least 30 days' prior written notice.

### Hospital and Physician Services Agreement

- Effective December 1, 2005, the company entered into a network agreement for hospital and physician services with Children's Hospital and Health System, Inc. Under this agreement, CCHP will reimburse CHHS for the following services: inpatient and outpatient, professional, behavioral health, urgent care, and ambulatory surgery. The specific reimbursement percentage for each service is defined in the agreement. The agreement has been amended six times from the original agreement. The hospital provider shall submit claims within 60 calendar days of the date of claim receipt or the date of primary carrier payment from another payer indicating that CCHP is primarily liable and CCHP shall make payment to CHHS or its hospital providers within 30 days of receipt of a clean claim. If a claim is denied for improper submission, resubmission must occur within 60 calendar days of the denial. The agreement contains the required hold-harmless and continuity of care provisions. The agreement automatically renews annually unless renegotiated or terminated. Either party may terminate the agreement with or without cause at the end of any term by providing the other party at least 180 days' prior written notice.

### Credentialing Delegation Agreement

- Effective June 30, 2011, the company entered into a credentialing delegation agreement with CHHS and affiliates. Under this agreement, CCHP has agreed to perform credentialing and recredentialing activities pursuant to CHHS policies and procedures, applicable state and federal law, and the applicable National Committee for Quality Assurance (NCQA) Standards for Accreditation of Health Plans. CHHS reserves the right to conduct a review of all delegated activities annually. Both parties agree to work together to develop a corrective action plan to address and resolve any areas identified by CHHS as deficiencies in its review. CHHS will compensate CCHP \$90 per provider credentialed or recredentialled under the agreement with payment due 30 days after receipt of invoice. The agreement shall continue until June 29, 2012, and thereafter shall automatically renew for successive renewal terms of

12 months each. Either party may terminate the agreement by providing the other party at least 30 days' prior written notice.

#### Care Coordination Services Agreement

- Effective August 1, 2011, the company entered into an agreement with Children's Service Society of Wisconsin (CSSW) and CHHS. Under this agreement, CCHP will compensate CSSW for completion of the State of Wisconsin Child Care Coordination questionnaire assessment, care plan, billing form, and other required forms for care coordination for certain CCHP enrollees. CSSW shall provide care coordination services for these enrollees and document each visit as noted in the agreement. This agreement automatically renews annually. Either party may terminate the agreement by providing the other party at least 60 days' prior written notice.

#### Care4Kids Foster Care Medical Home Subcontract

- Effective January 1, 2014, the company entered into an agreement with CHHS. Under this agreement, CHHS will reimburse CCHP for their costs to administer payments to Dean Health Plan to pay claims, provide customer and provider services, maintain and reconcile capitation and eligibility under the Care4Kids Foster Care Medical Home program, Medical Director services, utilization review/management, HEDIS reporting, analytical reporting and predictive modeling, provider contracting/relations, credentialing, member advocacy, and related administration and management. After the first year the subcontract shall automatically renew annually provided that the Care4Kids contract between CHHS and the Department of Health Services (DHS) has been renewed. Either party may terminate the subcontract by providing the other party at least 30 days' prior written notice.

#### Performance Improvement Analytics Subcontract

- Effective December 31, 2013, the company entered into an agreement with CHHS. Under this agreement CCHP shall pay CHHS \$20,000 per year for strategic analysis of potential methods to improve member care management, health outcomes, experience, and cost. CHHS will also support CCHP in research and development of population health management pilots and proposals in collaboration with Wisconsin Department of Health Services. After the first year the subcontract shall automatically renew annually. Either party may terminate the subcontract by providing the other party at least 30 days' prior written notice.

#### Subordinated Revolving Credit Note

- Effective June 24, 2013, the company entered into a subordinated revolving credit note with CHHS. Under the credit note CCHP may borrow, repay, and reborrow up to \$15 million at any time from time to time. CCHP agrees to repay any unpaid principal to CHHS on demand. CCHP will pay interest on any outstanding principal balance under the note at the applicable currency one month London InterBank Offered Rate (LIBOR) plus 125 basis points in effect on the last business day of the month prior to the month for which interest is being calculated, and such rate shall reset each month. Interest shall compound monthly and be payable on demand or at the time of payment in full prior to demand.

## V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	Ironshore Indemnity Inc.
Type:	Specific Excess of Loss Reinsurance
Effective date:	February 1, 2014 – January 31, 2015
Retention:	\$300,000 per member per agreement period
Coverage:	Up to \$2 million per covered member in excess of retention

### Reinsured percentages:

- 90% eligible expenses in excess of retention for non-transplant services and for approved transplants (transplants with a facility which the underwriter has a formal contract)
- 50% eligible expenses in excess of retention for non-approved transplants

### Eligible expenses

#### Inpatient Hospital – Participating Provider

##### Lesser of:

- Amount paid
- 105% of Wisconsin Medicaid Allowable
- Negotiated rates for all other facilities
- \$4,000 Average Daily Maximum for Children's Hospital of Wisconsin
- \$2,000 Average Daily Maximum for all other facilities
- Average Daily Maximum waived if a claim is paid based on 110% of the Wisconsin Medicaid DRG fee schedule or less

#### Inpatient Hospital – Non-Participating Provider

##### Lesser of:

- Amount paid
- 100% of Wisconsin Medicaid Allowable
- \$2,000 Average Daily Maximum
- Average Daily Maximum waived if a claim is paid based on 110% of the Wisconsin Medicaid DRG fee schedule or less

### Exclusions

- Outpatient Services
- Physician Services
- Durable Medical Equipment
- Ambulance Services
- Extended Care Facility Services
- Skilled Nursing Facility Services
- Home Health Care Services
- Services provided to members that are ventilator dependent for more than 30 days
- Services provided to newborns weighing less than 1,200 grams

- Transplant Services except for Kidney and Cornea Transplant Services

Premium: \$0.14 per member per month with a minimum of \$200,000 per year

Termination: The agreement will terminate immediately upon the earliest of the following:

- The end of the agreement period
- The reinsured's dissolution or suspension or cessation of operations; the loss, suspension or revocation of any license of the reinsured; or the placing in receivership, bankruptcy, or liquidation of the reinsured

The underwriter may cancel the agreement for nonpayment of premium owed at the expiration of any grace period by mailing written notice to the reinsured stating when, not less than 10 days thereafter, such cancellation shall be effective

The underwriter may cancel the agreement by mailing written notice not less than 30 days prior for the following reasons:

- Material untruth, misrepresentation, omission, concealment or fraud
- Failure of the reinsured to comply with any material term or condition of the agreement
- A material change or failure of the reinsured to report a material change

The reinsured may cancel the agreement by surrendering it to the underwriter or by written notice at least 1 business day prior to the effective date of such cancellation

Bankruptcy or insolvency of the reinsured shall neither increase nor relieve any obligations of the underwriter under the agreement

Continuation of coverage: The reinsurance policy has a Continuation of Benefits endorsement containing the following insolvency provisions:

1. Reinsurer will continue plan benefits of members who are confined on the date of plan insolvency in a short-term facility. CCHP plan benefits for such services will begin on the date of plan insolvency and continue until the earlier of 365 days or the date of discharge.
2. Reinsurer will continue plan benefits for members who are confined on the date of plan insolvency in a long-term acute care facility, skilled nursing facility or rehabilitation facility. CCHP plan benefits for such services will begin on the date of plan Insolvency and continue until the earlier of 120 days or date of discharge.
3. The above insolvency provisions will apply for members who are Medicaid or Title XVIII enrollees, subject to the further limit that CCHP 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.

4. Liability of the underwriter under the Continuation of Coverage provision is limited to \$1,000,000 in the aggregate, over all other reinsurance agreements that include this type of amendment.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2013, 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."

**Children's Community Health Plan, Inc.**  
**Assets**  
**As of December 31, 2013**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 9,579,681	\$	\$ 9,579,681
Cash, cash equivalents and short-term investments	31,811,130		31,811,130
Investment income due and accrued	44,785		44,785
Uncollected premiums and agents' balances in the course of collection	19,353,062		19,353,062
Other amounts receivable under reinsurance contracts	30,000		30,000
Electronic data processing equipment and software	5,778		5,778
Furniture and equipment, including health care delivery assets	317,061	317,061	
Receivables from parent, subsidiaries and affiliates	43,058	43,058	
Health care and other amounts receivable	6,346,043	213,379	6,132,663
Aggregate write-ins for other than invested assets	<u>170,248</u>	<u>170,248</u>	<u>                    </u>
<b>Total Assets</b>	<b><u>\$67,700,845</u></b>	<b><u>\$743,746</u></b>	<b><u>\$66,957,099</u></b>

**Children's Community Health Plan, Inc.**  
**Liabilities and Net Worth**  
**As of December 31, 2013**

Claims unpaid		\$37,908,224
Accrued medical incentive pool and bonus payments		47,430
Unpaid claims adjustment expenses		512,412
Aggregate health policy reserves		501,000
General expenses due or accrued		1,101,335
Amounts due to parent, subsidiaries and affiliates		134,830
PPACA primary care pass-through payments received not yet distributed		<u>6,736,464</u>
<b>Total liabilities</b>		<b>46,941,695</b>
Gross paid in and contributed surplus	\$ 31,600,000	
Unassigned funds (surplus)	<u>(11,584,597)</u>	
<b>Total capital and surplus</b>		<b><u>20,015,403</u></b>
<b>Total Liabilities, Capital and Surplus</b>		<b><u>\$66,957,099</u></b>

**Children's Community Health Plan, Inc.  
Statement of Revenue and Expenses  
For the Year 2013**

Net premium income		\$274,827,152
Risk revenue		(13,709)
Aggregate write-ins for other health care-related revenues		<u>105,383</u>
Total revenues		274,918,827
Medical and hospital:		
Hospital/medical benefits	\$168,440,583	
Other professional services	16,224,614	
Aggregate write-ins for other medical and hospital	76,248,554	
Incentive pool and withhold adjustments	<u>47,490</u>	
Subtotal	260,961,240	
Less		
Net reinsurance recoveries	<u>5,485</u>	
Total medical and hospital	260,955,755	
Claims adjustment expenses	12,667,052	
General administrative expenses	<u>3,383,038</u>	
Total underwriting deductions		<u>277,005,845</u>
Net underwriting gain or (loss)		(2,087,018)
Net investment income earned	48,436	
Net realized capital gains or (losses)	<u>2,854</u>	
Net investment gains or (losses)		<u>51,290</u>
Net Income (Loss)		<u>\$ (2,035,728)</u>

**Children's Community Health Plan, Inc.  
Analysis of Surplus  
For the Three-Year Period Ending December 31, 2013**

The following schedule details items affecting the HMO's total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Capital and surplus, beginning of year	\$ 9,013,221	\$ 7,623,209	\$ 5,530,157
Net income or (loss)	(2,035,728)	(3,312,293)	(7,627,753)
Change in nonadmitted assets	537,910	(797,694)	220,805
Surplus adjustments:			
Paid in	<u>12,500,000</u>	<u>5,500,000</u>	<u>9,500,000</u>
Capital and Surplus, End of Year	<u>\$20,015,403</u>	<u>\$ 9,013,221</u>	<u>\$ 7,623,209</u>

**Children's Community Health Plan, Inc.**  
**Statement of Cash Flows**  
**As of December 31, 2013**

Premiums collected net of reinsurance		\$261,859,557
Net investment income		130,115
Miscellaneous income		<u>91,675</u>
Total		262,081,347
Less:		
Benefit- and loss-related payments	\$239,153,196	
Commissions, expenses paid and aggregate write-ins for deductions	<u>16,002,828</u>	
Total		<u>255,156,024</u>
Net cash from operations		6,925,323
Proceeds from investments sold, matured or repaid:		
Bonds	3,367,093	
Cost of investments acquired—long-term only:		
Bonds	<u>4,391,554</u>	
Net cash from investments		(1,024,461)
Cash provided/applied:		
Capital and paid in surplus, less treasury stock	12,500,000	
Other cash provided (applied)	<u>2,602,473</u>	
Net cash from financing and miscellaneous sources		<u>15,102,473</u>
Net change in cash, cash equivalents, and short-term investments		21,003,334
Cash, cash equivalents, and short-term investments: Beginning of year		<u>10,807,797</u>
End of Year		<u>\$ 31,811,131</u>

**Growth of Children's Community Health Plan, Inc.**

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2013	\$66,957,099	\$46,941,695	\$20,015,403	\$274,918,827	\$260,955,755	\$(2,035,728)
2012	27,824,734	18,811,512	9,013,221	103,636,280	100,714,347	(3,312,293)
2011	20,216,853	12,593,645	7,623,209	96,866,439	93,775,664	(7,627,753)
2010	33,078,665	27,548,507	5,530,157	84,770,141	78,325,640	143,810

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2013	(0.7)%	94.9%	5.8%	95.1%
2012	(3.2)	97.2	8.8	54.8
2011	(7.9)	96.8	8.3	5.4
2010	0.2	92.4	7.9	77.4

**Enrollment and Utilization**

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2013	136,334	360.3	3.4
2012	69,868	291.0	3.2
2011	45,141	269.4	3.1
2010	42,825	341.9	3.0

**Per Member Per Month Information**

	2013	2012	Percentage Change
<b>Premiums:</b>			
Medicaid, risk, and write-ins	<u>\$189.67</u>	<u>\$177.50</u>	6.9%
<b>Expenses:</b>			
Hospital/medical benefits	116.21	110.11	5.5
Other professional services	11.19	10.19	9.8
Aggregate write-ins for other hospital and medical	52.61	52.20	0.8
Incentive pool and withhold adjustments	0.03	0.03	0.0
Less: Net reinsurance recoveries	<u>0.00</u>	<u>(0.03)</u>	100.0
Total medical and hospital	180.04	172.50	4.4
Claims adjustment expenses	8.74	10.20	(14.3)
General administrative expenses	2.33	5.42	(57.0)
Increase in reserves for accident and health contracts	<u>0.00</u>	<u>(4.80)</u>	100.0
Total Underwriting Deductions	<u>\$191.11</u>	<u>\$183.31</u>	4.3%

During the fourth quarter of 2012, the HMO with the largest market share in southeastern Wisconsin terminated its Medicaid contract for the area, effective November 1, 2012. Consequently, the company had a significant increase in members at the end of 2012 and in 2013. As a result of the increased enrollment, premium and medical expenses also increased significantly. The administrative expense ratio decreased in 2013 to 5.8% from 8.8% in 2012 and 8.3% in 2011 due to the increase in enrollment.

The company has experienced continued net losses with a \$2.0 million net loss in 2013, a \$3.3 million net loss in 2012, and a \$7.6 million net loss in 2011 on its Medicaid business. Due to the substantial growth and operating losses, CHHS made capital contributions of \$12.5 million in 2013, \$5.5 million in 2012, and \$9.5 million in 2011. CCHP is highly dependent on its parent for operational support and funding. The HMO realized net income in the third and fourth quarter of 2013 as a result of capitation increases from DHS and ongoing utilization and case management efforts.

The trend in profitability continued into the first quarter of 2014 as the company reported a net income of \$2.8 million. The company's standard plan Medicaid capitation rates from the Wisconsin Department of Health Services (DHS) for regions 5 and 6 (Southeast Wisconsin) increased by 3.4% and 4.3% from 2013 rates, respectively. Additionally, Maternity Kick payments from DHS, which are additional payments received for deliveries by BadgerCare Plus members, also increased.

**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, 2013, is accepted.

There were no examination reclassifications as a result of this examination.

## 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. Custodial Agreements—It is again recommended that the company obtain a custodial agreement with proper language as required by the NAIC Financial Condition Examiners Handbook.

Action—Compliance.

2. Hospital Assessment/Access Payments—It is recommended that hospital assessment/access payments received after year-end which are for the prior year be recorded as accrued premiums payable and accrued claims payable.

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.

## **Conflict of Interest Statements**

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 which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination and the company was unable to locate copies of the conflict of interest statements for one of the key officers from 2012 and one of the directors from 2013. It is recommended that the company have conflict of interest statements completed for all officers and directors each year.

## **Bylaws**

Under Article X, Section 3, of the company's approved bylaws, action taken by the board which is inconsistent with the bylaws shall be given the same effect as though the bylaws were temporarily amended or suspended only so far as to permit the specific action. This appears contrary to s. 613.12 (2), Wis. Stat., which requires the company to file a copy of any amendments to the bylaws with the commissioner within 60 days after adoption. A temporary amendment would not necessarily require a board resolution to amend the bylaws and therefore would not be filed with the commissioner. The board of directors and member should follow the bylaws as written (without the implied amendment provision) and only amend the bylaws through a resolution of the board or member. It is recommended that the company amend its bylaws to remove Article X, Section 3, of the bylaws which is titled Implied Amendments within 45 days, and that future bylaw amendments should only be made through a resolution of the board or member and filed with this office, in accordance with s. 613.12 (2), Wis. Stat.

## **Investments**

A review was conducted of the minutes of the company's board and committee meetings. The minutes did not document the approval of the investment transactions made by the company's investment advisor. It was noted that, based on the CHHS Finance and Investment Committee Charter, the Investment Subcommittee is responsible to "Manage the investments of CHHS and its affiliates" and to "select and oversee investment managers." Upon review of the meeting packets for the Investment Committee, it was determined that data was provided on the overall value and performance of CCHP's investments; however, data on investment transactions (securities purchased and sold) was not included. As an insurer licensed under ch. 613, Wis. Stat., the board of directors is required to manage the business and affairs of the insurer, which includes the oversight of the company's investments, in accordance with s. 613.51 (4), Wis. Stat. To ensure that the company's investment transactions are made in accordance with the plan's investment policy, it is recommended that the board or a subordinate committee thereof review and approve purchases or sales of all investments in the future on at least a quarterly basis in accordance with s. 613.51 (4), Wis. Stat.

## **Affiliated Agreements**

As noted previously CCHP has an affiliated provider/network agreement with CHHS. This agreement has had five amendments since the company was licensed and only one was filed with the commissioner for review as an affiliated transaction. Under s. 617.21 (2), Wis. Stat., management contracts, service contracts and cost-sharing agreements with affiliates are considered to be material for purposes of s. 617.21 (1), Wis. Stat. Amendments to the affiliated provider or network agreement and a Form D are required to be filed with this office in accordance with s. 617.21 (3), Wis. Stat., and ch. Ins 40, Wis. Adm. Code. The commissioner then has 30 days to disapprove the transaction. It is recommended that for future affiliated transactions a Form D is completed and filed with this office in accordance with ch. Ins 40, Wis. Adm. Code, and s. 617.21 (3), Wis. Stat.

## 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 calculation as of December 31, 2013, as modified for examination adjustments is as follows:

Assets	\$ 66,957,099	
Less: Liabilities	<u>46,941,695</u>	
Assets available to satisfy surplus requirements		\$20,015,404
Net premium earned	200,430,752	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>6,012,922</u>
Compulsory Surplus Excess/(Deficit)		<u>\$14,002,482</u>
Assets available to satisfy surplus requirements		\$20,015,404
Compulsory surplus	\$ 6,012,922	
Security factor	<u>135%</u>	
Security surplus		<u>8,117,444</u>
Security Surplus Excess/(Deficit)		<u>\$11,897,960</u>

## VIII. CONCLUSION

CCHP derives all of its revenue from the Wisconsin Title XIX Medical Assistance known as BadgerCare Plus. The company contracts directly with the Wisconsin Department of Health Services (DHS) to provide health care benefits to eligible Medical Assistance (Medicaid) recipients. The company provides primary and specialty health services to BadgerCare enrollees through contractual arrangements with physicians, group practices, and clinics.

In 2012, the HMO with the largest market share in southeastern Wisconsin terminated its Medicaid contract for regions 5 and 6 effective November 1, 2012. Consequently, the company had a significant increase in members at the end of 2012 and in 2013. As a result of the increased enrollment, premium and medical expenses also increased significantly. The company has experienced continued net losses on its Medicaid business. Overall, surplus has increased due to capital contributions from the parent which enables the company to continue meeting minimum compulsory and security surplus requirements. CCHP is highly dependent on its parent for operations and funding.

CCHP recorded net income in the third and fourth quarters of 2013. This trend continued into the first quarter of 2014, as the company received an increase in Medicaid capitation rates.

The previous examination of Children's Community Health Plan, Inc., resulted in two examination recommendations and one examination reclassification which did not result in a change to surplus. The company was found to be in compliance with the prior exam recommendations. The current examination resulted in four recommendations related to the completion of conflict of interest statements, the company's bylaws, the approval of investment transactions, and the filing of affiliated agreements. No adjustments were made to surplus as a result of the examination.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Conflict of Interest Statements—It is recommended that the company have conflict of interest statements completed for all officers and directors each year.
2. Page 24 - Bylaws—It is recommended that the company amend its bylaws to remove Article X, Section 3, of the bylaws which is titled Implied Amendments within 45 days, and that future bylaw amendments should only be made through a resolution of the board or member and filed with this office, in accordance with s. 613.12 (2), Wis. Stat.
3. Page 25 - Investments—It is recommended that the board or a subordinate committee thereof review and approve purchases or sales of all investments in the future on at least a quarterly basis in accordance with s. 613.51 (4), Wis. Stat.
4. Page 25 - Affiliated Agreements—It is recommended that for future affiliated transactions a Form D is completed and filed with this office in accordance with ch. Ins 40, Wis. Adm. Code, and s. 617.21 (3), Wis. Stat.

## 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 Callahan	Insurance Financial Examiner
Jerry DeArmond	Advanced Ins. Financial Examiner
Amy Malm	Workpaper Specialist
Dave Jensen	IT Specialist

Respectfully submitted,

Stephanie Falck, CFE  
Examiner-in-Charge

## XI. APPENDIX I

Primary care clinics and physician groups serving enrollees

Aids Resource Center of Wisconsin*	Hispanic Medical Center, SC
Greendale Primary Care	Internal Medicine Associates
Greenfield Highlands Health Center	Jeremias B. Vinluan, MD
Aurora BayCare Medical Center*	Joseph S. Kostrzewski, DO
Aurora Health Center*	Karim Bakhtiar, MD, SC
Aurora Sheboygan Clinic*	Kenosha Community Health Center*
Aurora Sinai Medical Center*	Lake Country Pediatrics, SC*
Aurora St. Luke's Medical Center*	Lake Country Private Medical
Aurora Wilkinson Medical Clinic*	Lakeshore Medical Clinic Ltd*
Aurora Wiselives Center	Lee Medical Clinic*
BayCare Clinic LLC*	Lincoln Avenue Clinic - MCW
Baylon Family Physicians	Lincoln Health Center
Bellin Health Family Medical Center*	Lubsey Medical Center
Best Care Pediatrics LLC	Luzstella Moreno, MD
Capitol Pediatric Care	Marquette Neighborhood Health Center
Caroline Conti, MD	Marsho Family Medical Group*
Cedar Mills Medical Group	Medpoint Family Care Center*
Central Medical Clinic SC	Milwaukee Family Practice
Children's Medical Group*	Milwaukee Health Services Inc*
Clinica Latina	Milwaukee Immediate Care
Clinica Panamericana*	North Avenue Family Medical Clinic
Columbia St. Marys Community Physician Medical Clinic*	North Hills Health Center
Columbia St. Marys Grafton Medical Center	Nova Medical Clinic
Compassionate Doctors, Inc.	Omni Family Medical Clinic
CSM Family Health Center - MCW	Outreach Community Health Centers
DeVang Gandhi	Padre Pio Clinic Inc.
Eagle Medical Center	Pediatric & Adult Medicine Associates
Elmbrook Pediatrics SC	Pediatric Healthcare SC
Family Medical Clinic*	Pediatrics West
Family Pediatrics Inc.	Plank Road Clinic - MCW
Fort HealthCare Clinic*	Prevea Health Center*
Froedtert & MCW Community Physicians*	ProCare Medical Group*
Froedtert & MCW General Internal Medicine East	Progressive Community Health Center*
Gerald Ignace Indian Health Center, Inc.	ProHealth Care Medical Associates*
Glenn Caine, DO	Racine Community Health Center
Goran T Rudic, MD, SC	S T Sy, MD, SC
Great Lakes Family Medical Center Inc.	Samara Services, LLC
Greater Milwaukee Medical Services SC	Sami Roumani, MD

List of primary care clinics and physician groups (cont.)

Shalem Healing	Taha Medical Center SC
Samir Mullick, MD, SC*	ThedaCare Physicians*
Shafi Medical Center	Thiensville Family Health Care
Southeastern Pediatric & Adolescent Clinic*	U.H.S. Physician Clinic*
Southeastern Pediatrics SC	Villard Primary & Specialty Care, SC
Southside Primary Care Clinic	Waukesha Community Health Center
Springdale Health Center - MCW	Waukesha Family Practice Center - MCW
St. Francis Pediatrics, LLC	Westbrook Health Center - MCW
Stevanovic Family Clinic	WFHC All Saints Family Care Center
Sunnyslope Primary Care Clinic - MCW	Wheaton Franciscan Medical Group*

\* All locations within Service Area.