

Report  
of the  
Examination of  
Community Care Health Plan, Inc.  
Brookfield, Wisconsin  
As of December 31, 2012

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

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March 13, 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:

COMMUNITY CARE HEALTH PLAN, INC.  
Brookfield, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Community Care Health Plan, Inc. (CCHP or the company) was conducted in 2009 as of December 31, 2008. The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 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

Community Care Health Plan, Inc. (CCHP) 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 physicians and/or one or more clinics and/or independent contracting physicians operating out of their separate offices. HMOs compete with traditional fee-for-service health care delivery.

The company was incorporated on August 12, 2004, and commenced business on July 1, 2005. The company was capitalized by its sole member, Community Care Organization (CCO) and was granted its Certificate of Authority on June 24, 2005. Community Care Organization then changed its legal name to Community Care, Inc. (CCI or the parent) which became effective on December 19, 2005.

Community Care Health Plan, Inc., provides care under two programs: the Program of All-Inclusive Care for the Elderly (PACE) and the Family Care Partnership Program (Partnership). Both programs had been previously provided under an exemption order since 1991 through Community Care, Inc. (then known as Community Care Organization), which were transferred to CCHP in 2005. These programs provide long-term care services to enrollees who qualify for both Medicare and Medicaid (referred to as dual-eligible enrollees) under the guidelines established by the Centers for Medicare and Medicaid Services (CMS) and the Wisconsin Department of Health Services (DHS). Dual-eligible enrollees are defined as low-income seniors and persons with disabilities who are enrolled in both Medicare and Medicaid, who rely on Medicaid to cover Medicare premiums, and cost-sharing to cover critical benefits not covered by Medicare (such as long-term care). CCHP offers two managed care products:

- Program of All-Inclusive Care for the Elderly (PACE): A national model of care integrating Medicare and Medicaid funding and providing all primary, acute and long-term care services to enrollees, through an interdisciplinary team. PACE also provides medication coverage

through a Medicare Part D plan. The PACE program is administered by CCHP to dual-eligible enrollees.

- Family Care Partnership (Partnership): A state of Wisconsin model of care fashioned after the national model, integrating Medicare and Medicaid funding and providing all primary, acute and long-term care services to enrollees through an interdisciplinary team. Family Care Partnership also provides medication coverage through a Medicare Part D plan. The Partnership program is administered by CCHP to dual-eligible enrollees.

Community Care Health Plan, Inc., has no employees. The operations of the plan are administered by Community Care, Inc., under an Administrative Services Agreement (described in the "Management and Control" section of the report). All of the organization's programs include a care management component, consisting of an interdisciplinary team composed of the enrollee, a CCI-employed nurse practitioner, a CCI-employed registered nurse, and a CCI-employed social services coordinator. The teams use a Resource Allocation Decision-Making (RAD) process approved by the state of Wisconsin to preauthorize long-term care services. For acute and primary care, PACE members use plan physicians while Partnership enrollees may choose any Primary Care Physician (PCP) who has agreed to work collaboratively with CCI nurse practitioners.

CCHP's 2013 Partnership program service area included Calumet, Kenosha, Milwaukee, Outagamie, Ozaukee, Racine, Washington, Waukesha and Waupaca counties. The PACE program service area includes Milwaukee and Waukesha counties. The company provides services at 12 sites throughout its service area. The organization contracts with area hospitals to provide inpatient services, emergency care and surgical care to enrollees. Hospitals are reimbursed in accordance with Medicare/Medicaid diagnosis-related group rates (DRGs) or on a discounted fee-for-service basis. These contracts include hold-harmless provisions for the protection of policyholders. The company lists 37 hospitals and 1,563 primary care physicians as being a part of the Family Care Partnership provider group.

The company offers long-term care, primary, and acute health care coverage which may be changed only by changes in the contracts with DHS and/or CMS. The following basic health care coverage's are provided:

- Physician services
- Inpatient services
- Outpatient services
- Behavioral health care
- Mental health, drug, and alcohol abuse services
- Ambulance services
- Special dental procedures (oral surgery)
- Prosthetic devices and durable medical equipment
- Home health care
- Preventative health services
- Hearing exams and hearing aids
- Diabetes treatment
- Routine eye examinations
- Convalescent nursing home service
- Prescription drugs – copayments 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

In addition, the company provides the following services to enrollees based upon their assessed needs:

- Homemaker services
- Rehabilitation therapy
- Social services
- Transportation
- Home meal delivery
- Respite for caregivers
- Vision care
- Foot care
- Pastoral care
- End of life and palliative care
- Adult day services
- Self-directed supports

Individuals enrolled in the Partnership program are subject to specified copays but do not pay premiums. Program participants are required to meet all of the Wisconsin Medicaid financial eligibility requirements. The company is compensated through capitation payments received from DHS and CMS. The capitation rates are actuarially determined, taking into account the care needs of the plan's members but may be adjusted by DHS.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of seven members. Directors are elected annually to serve a one-year term to fill expiring terms. The 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>
Ed Corrigan (Chair) Whitefish Bay, WI	Chief Executive Officer Diachemix, LLC	2014
Robert P. Goldstein (Ex-Officio) Milwaukee, WI	Attorney Law Office and Center for Nonprofit Excellence	2014
Anne Kiekhofer Elm Grove, WI	Former Registered Nurse Community Care Program	2014
Kenneth Munson (President) Milwaukee, WI	Chief Executive Officer Community Care, Inc.	2014
Larry Paplham (Secretary/Treasurer) Milwaukee, WI	Chief Financial Officer Community Care, Inc.	2014
Richard Theado Greenfield, WI	Executive Director (retired) Planning Council for Health & Human Services	2014
Virginia Thomas Cedar Grove, WI	Public Health Planning Manager (retired) Milwaukee Health Department	2014

#### Officers of the Company

The officers elected by the board of directors and serving at the time of this examination are as follows:<sup>1</sup>

<b>Name</b>	<b>Office</b>	<b>2012 Salary</b>
Kirby Shoaf (succeeded by Kenneth Munson)	CEO and President	\$368,346
Larry Paplham	CFO and Sec./Treasurer	257,880

<sup>1</sup> Officers are employed and compensated by Community Care, Inc.

## Committees of the Board

The company's bylaws allow for the establishment of certain committees by the board of directors. The company does not currently have any board committees.<sup>2</sup>

The company has no employees. Necessary staff is provided through a management agreement with its parent, Community Care, Inc., who administers its programs. Under the Administrative Services Agreement (ASA), effective July 1, 2005, CCI agrees to provide the following administrative services:

- Billing and Collections
- Courier
- Administrative support
- Personal property
- Professional health care and social services
- Human resources
- Maintenance/mechanical support
- Information systems
- Contracting and management
- Marketing
- Financial/accounting support
- Mail and receiving
- Corporate minutes
- Books and records
- Central business office facility and support
- Payroll
- Telecommunications
- Provider network employment
- Medicaid and Medicare contract administration
- Claims adjudication and payment

The administrator also arranges for insurance and pharmacy benefit management services. CCI receives monthly compensation for services rendered under the agreement, which are described in a regular monthly invoice provided by the administrator pursuant to the agreement, and are due within 10 days after the receipt of the statement. The term of the ASA is one year and automatically renews each year unless terminated by either party in writing. The company may terminate the agreement upon 30 days' written notice if default of standards of performance continues 30 days after notice of such default.

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<sup>2</sup>The Finance Committee of Community Care, Inc., serves as the finance committee of CCHP and approves investment transactions in the company investment portfolio.

### **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 first requirement through its reinsurance contract, as discussed in the "Reinsurance" section of this report. The second requirement is not necessary for this company as there is no commercial coverage available that combines both medical and long-term care coverages, and with the Patient Protection and Affordable Care Act (PPACA) requirements there will be no underwriting or limitations on plans.

#### IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Community Care, Inc. The organizational chart below depicts the relationships among the affiliates in the group (the chart is a current diagram; Community Care HUD Housing, Inc., was formed in 2012). A brief description of the significant affiliates of the company follows the organizational chart.



#### **Community Care, Inc.**

Community Care, Inc., is a 501(c)3, incorporated in 1977 in the state of Wisconsin, governed by a volunteer board of directors with between 12 and 20 members. The board is responsible for the overall policy and fiduciary oversight for all operations within CCI, including oversight of Community Care Health Plan, Inc., and Community Care HUD Housing, Inc., both wholly owned subsidiaries of CCI. CCI is organized for the purpose of providing health and long-term care services to the elderly in its service area. The Family Care program is operated as a part of CCI.

In 2012, the consolidated audited financial statement for CCI (which are prepared on a GAAP basis) reported assets of \$92,565,730, liabilities of \$48,852,163, and net assets of \$43,713,567. The statement reported a change in net assets of \$10,967,865 for the year ended December 31, 2012, on a consolidated basis. Operations for 2012 produced net income of \$11,095,199 on operating revenue and support of \$428,193,443.

For 2011, the consolidated audited financial statement for CCI reported assets of \$81,526,040, liabilities of \$48,780,338 and net assets of \$32,745,702. The statement reported a change in net assets of \$13,690,490 for the year ended December 31, 2011, on a consolidated basis. Operations for 2011 produced net income of \$12,687,503 on operating revenue and support of \$414,432,548.

Community Care Health Plan, Inc., is dependent on the operations and results of Community Care, Inc., its parent. This dependence represents a financial risk to the health plan; this examination was conducted in parallel with the concurrent examination of the parent, CCI, which included a review of the 2014 business plan for both entities, as submitted to DHS, and the operating results of both organizations.

In addition to the PACE and Family Care Partnership Programs offered through CCHP, Community Care, Inc., offers the Family Care Program to enrollees which is defined as follows:

- Family Care Program is a state of Wisconsin model of care that coordinates all home and community-based waiver and long-term care services through an interdisciplinary team. The Family Care Program is administered through CCI to enrollees who are adults living in the 11 counties served, meet a level of care determined by a Wisconsin functional screen, and are eligible for Medicaid.

The relative financial performance of the 2012 and 2011 programs offered by the organization are presented in the following tables which were reported in the consolidated financial statements for the appropriate year:

**Community Care, Inc., and Related Corporations  
Statement of Activities by Program  
For the Year Ended December 31, 2012**

	<b>Family Care Program (CCI)</b>	<b>PACE Program (CCHP)</b>	<b>Partnership Program (CCHP)</b>
Revenues and support	\$333,600,108	\$53,761,590	\$40,700,996
Operating expenses	321,709,285	52,002,806	42,979,097
Other income (expense)	<u>(655,880)</u>	<u>244,290</u>	<u>205,354</u>
Change in Net Assets	<u>\$ 11,234,943</u>	<u>\$ 2,003,074</u>	<u>\$ (2,072,747)</u>

**Community Care, Inc. and Related Corporations  
Statement of Activities by Program  
For the year ended December 31, 2011**

	<b>Family Care Program (CCI)</b>	<b>PACE Program (CCHP)</b>	<b>Partnership Program (CCHP)</b>
Revenues and support	\$322,032,335	\$56,807,268	\$35,343,221
Operating expenses	310,981,770	51,428,851	38,885,346
Other income (expense)	<u>610,098</u>	<u>423,273</u>	<u>                    </u>
Change in Net Assets	<u>\$ 11,660,663</u>	<u>\$ 5,801,690</u>	<u>\$ (3,542,125)</u>

Based on this financial information it is noted that the Family Care and PACE programs have both performed positively in the prior two years, adding \$13.2 million and \$17.5 million to consolidated net assets in 2012 and 2011, respectively. The CCHP Partnership program has experienced declines in net assets in both 2012 and 2011, partially offsetting the gains in Family Care and PACE. (Although final 2013 consolidated results are not yet available, preliminary results for the year show that the Family Care Program of CCI had net income of approximately \$3.2 million and CCHP showed an immaterial net income. This result is likely due to reduced capitation rates for the programs from the state and federal government.)

**Community Care HUD Housing, Inc.**

Community Care HUD Housing, Inc., was filed on July 24, 2012, with the State of Wisconsin, Department of Financial Institutions. A determination letter requesting 501(c)3 status has been filed with the IRS and is currently outstanding. The purpose of Community Care HUD Housing, Inc., is to hold HUD facilities which can be used by Community Care program members.

Community Care HUD Housing, Inc., is a wholly owned subsidiary overseen by the Community Care, Inc., board of directors. The Community Care HUD Housing, Inc., board contains between three and seven members.

Community Care, Inc., and its subsidiaries function as independent business enterprises. The subsidiaries' boards may act independently from the Community Care, Inc., board.

The examination included a review of the agreement between the affiliates. The Administrative Services Agreement (ASA), effective July 1, 2005, between CCHP and CCI, has been discussed previously (see section III, "Management and Control"). The agreement was modified subsequent to the prior examination of CCHP in 2009 which recommended that the agreement include the costs of health services provided by CCI to CCHP enrollees, so that it meets the requirements of s. 617.21, Wis. Stat.

## V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	American National Insurance Company
Type:	HMO Excess of Loss Reinsurance
Effective date:	January 1, 2013
Retention:	\$225,000 per member per agreement period
Coverage:	Medicaid Family Care Partnership, Medicaid PACE, Medicare PACE, Medicare/Medicaid Family Care Partnership and Medicare/Medicaid PACE
Premium:	\$5.34 per member per month \$0.05 per member per month for continuation of coverage Minimum premium of \$75,000 is due over the entire agreement period
Coinsurance:	90%
Maximum:	\$2,000,000 per member per agreement period
Termination:	December 31, 2013

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

1. Reinsurer will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.
2. Reinsurer will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to plan by that member or on his behalf.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2012, 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.

**Community Care Health Plan, Inc.**  
**Assets**  
**As of December 31, 2012**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 7,637,560	\$	\$ 7,637,560
Stocks:			
Common stocks	581,199		581,199
Cash, cash equivalents and short-term investments	14,505,414		14,505,414
Investment income due and accrued	46,419		46,419
Uncollected premiums and agents' balances in the course of collection	744,713		744,713
Health care and other amounts receivable	403,198	224,868	178,330
Aggregate write-ins for other than invested assets	<u>19,046</u>	<u>19,046</u>	<u>0</u>
<b>Total Assets</b>	<b><u>\$23,937,548</u></b>	<b><u>\$243,914</u></b>	<b><u>\$23,693,634</u></b>

**Community Care Health Plan, Inc.**  
**Liabilities and Net Worth**  
**As of December 31, 2012**

Claims unpaid		\$ 6,017,567
Unpaid claims adjustment expenses		86,068
General expenses due or accrued		463,298
Amounts withheld or retained for the account of others		228,361
Amounts due to parent, subsidiaries and affiliates		214,586
Liability for amounts held under uninsured accident and health plans		616,471
Aggregate write-ins for other liabilities		<u>341,504</u>
Total liabilities		7,967,855
Gross paid in and contributed surplus	\$ 3,402,049	
Unassigned funds (surplus)	<u>12,323,730</u>	
Total capital and surplus		<u>15,725,779</u>
<b>Total Liabilities, Capital and Surplus</b>		<b><u>\$23,693,634</u></b>

**Community Care Health Plan, Inc.  
Statement of Revenue and Expenses  
For the Year 2012**

Net premium income		\$88,952,417
Medical and hospital:		
Hospital/medical benefits	\$29,678,800	
Other professional services	42,708,320	
Emergency room and out-of-area	1,338,465	
Prescription drugs	<u>7,195,783</u>	
Total medical and hospital	80,921,368	
Claims adjustment expenses	1,586,579	
General administrative expenses	<u>6,570,623</u>	
Total underwriting deductions		<u>89,078,570</u>
Net underwriting gain or (loss)		(126,154)
Net investment income earned	188,317	
Net realized capital gains or (losses)	<u>(85,657)</u>	
Net investment gains or (losses)		<u>102,661</u>
Net Income (Loss)		<u>\$ (23,493)</u>

**Community Care Health Plan, Inc.  
Capital and Surplus Account  
As of December 31, 2012**

Capital and surplus prior reporting year		\$15,615,316
Net income or (loss)	\$(23,493)	
Change in nonadmitted assets	(14,457)	
Aggregate write-ins for gains or (losses) in surplus	<u>148,412</u>	
Net change in capital and surplus		<u>110,463</u>
Capital and Surplus End of Reporting Year		<u>\$15,725,779</u>

**Community Care Health Plan, Inc.**  
**Statement of Cash Flows**  
**As of December 31, 2012**

Premiums collected net of reinsurance		\$88,958,268
Net investment income		<u>188,525</u>
Total		89,146,793
Less:		
Benefit- and loss-related payments	\$79,673,943	
Commissions, expenses paid and aggregate write-ins for deductions	<u>7,515,104</u>	
Total		<u>87,189,048</u>
Net cash from operations		1,957,745
Proceeds from investments sold, matured or repaid:		
Bonds	\$2,225,000	
Stocks	5,661,853	
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>158,505</u>	
Total investment proceeds	8,045,358	
Cost of investments acquired – long-term only:		
Bonds	<u>2,558,416</u>	
Net cash from investments		5,486,942
Cash provided/applied:		
Other cash provided (applied)	<u>102,519</u>	
Net cash from financing and miscellaneous sources		<u>102,519</u>
Net change in cash, cash equivalents, and short-term investments		7,547,207
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>6,958,207</u>
End of Year		<u>\$14,505,414</u>

**Growth of Community Care 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>
2012	\$23,693,634	\$ 7,967,855	\$15,725,779	\$88,952,417	\$80,921,368	\$ (23,493)
2011	23,034,439	7,419,123	15,615,316	88,129,323	79,284,124	2,133,396
2010	33,638,611	22,099,308	11,539,304	75,716,984	70,681,523	(612,499)
2009	20,627,309	7,813,481	12,813,828	73,875,409	63,324,792	1,528,404

<b>Year</b>	<b>Profit Margin</b>	<b>Medical Expense Ratio</b>	<b>Administrative Expense Ratio</b>	<b>Change in Enrollment</b>
2012	0.0%	91.0%	9.2%	-2.4%
2011	2.4	89.9	7.9	7.0
2010	-0.8	93.3	7.8	11.0
2009	1.3	85.7	13.4	3.2

**Enrollment and Utilization**

<b>Year</b>	<b>Enrollment</b>	<b>Hospital Days/1,000</b>	<b>Average Length of Stay</b>
2012	2,612	2,185.3	6.12
2011	2,676	1,996.6	6.23
2010	2,500	2,197.2	6.55
2009	2,252	1,756.2	5.09

**Per Member Per Month Information**

	<b>2012</b>	<b>2011</b>	<b>Percentage Change</b>
<b>Premiums:</b>			
Total	\$2,818.52	\$2,743.84	2.7%
Medicare	2,343.58	2,487.23	-5.8
Medicaid	3,232.50	2,967.65	8.9
<b>Expenses:</b>			
Total medical benefits	2,564.05	2,468.45	3.9
Total administrative expenses	258.47	217.98	18.6

Since the previous examination, CCHP's financial results have been mixed. Over the previous four years shown in the tables above, the plan has fluctuated between net gains in 2009 and 2011, and net losses in 2010 and 2012. The company's RBC was 541% in 2012 and was at its lowest level of 438% in 2010.

The plan experienced a slight decline of enrollment of -2.4% between 2011 and 2012 and a decrease of -1.7% in member months between the two years. The plan has experienced a

decrease in member months in Milwaukee County and a shift in membership from PACE to the Partnership program.

Premium income increased by 1% to \$89.0 million from \$88.1 million in 2012, while underwriting deductions increased by 3.2% from 2011 to 2012 to \$89.1 million. The disproportional increase in underwriting expenses resulted in a decline from an underwriting gain of \$1.9 million in 2011 to an underwriting loss of \$126.1 thousand in 2012. The premium income increase was not quite sufficient to cover the increases in medical and administrative expenses between the two years. The 2012 MD&A reported that the underwriting loss in that year was primarily due to a 3.3% increase in operating expenses and a 3.2% reduction in Medicare capitation, in spite of a 9% increase in Medicaid capitation. The Medicare reduction was due to budget neutrality, normalizing and reduction in the frailty add-on factor. Medicaid rates in recent years have decreased as the methodology has changed from a fee-for-service to encounter-based system. The Medicaid reimbursement system now separates payments for Frail Elderly, Physically Disabled, and Developmentally Disabled which have unique cost profiles. Since 2011, Partnership Medicaid rates have increased due to a shift in enrollment toward the disabled populations which are the higher cost profiles. The per member per month figures confirm that while medical cost increased by 3.9% between 2011 and 2012, administrative expenses grew at a much more rapid rate of 18.6% between the two years. The increase in administrative expenses in 2012 was due primarily to more FTEs allocated to the health plan in human resources, IT and project management.

The increase in assets and liabilities reported in 2010 resulted in a one-time advance payment of capitation premiums from the state, which advanced payments for the first quarter of 2011 into December of 2010. The financial statement reported \$15.1 million in advance premiums as of December 31, 2010.

The company does not expect large-scale expansion in their current programs. CCHP has worked to redesign the PACE and Partnership programs under a demonstration project called "New PACE," which may have an impact on the overall profitability of their

programs. They may also be able to capture some efficiencies in their administrative expenses due to the new claims system that became operational in July 2013.

#### **Reconciliation of Capital and Surplus per Examination**

There were no adjustments made to capital and surplus or any account reclassifications made as a result of this examination.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were 11 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—It is recommended that the plan's board of directors hold annual meetings which are required by its bylaws.

Action—Compliance.

2. Fidelity Bonds and Other Insurance—It is recommended that the plan obtain an appropriate level of fiduciary liability coverage or otherwise add its name as an insured on the fiduciary liability policy of the parent entity.

Action—Compliance.

3. Investments - Approval of Investments—To ensure that the plan's investment transactions are made in accordance with the plan's investment policy, it is recommended that the plan's board of directors, or a committee thereof, review a summary of all investment transactions at least quarterly and record formal approval of the transactions in the board minutes.

Action—Partially Complied. A new recommendation will be made to make explicit the approval of investment transactions and to include the relevant pages of the investment manager's report to the committee.

4. Investments - Custodial Statements—It is recommended that the plan amend the Investment Management Account Agreement with the custodian to include NAIC recommended controls and safeguards over custodial agreements.

Action—Compliance.

5. Affiliated Transactions—It is recommended that the health plan enter into a governing agreement with the affiliate, for the transaction related to the services provided by the affiliate's clinics and medical staff, which verifies that all of the above conditions are met in accordance with s. 617.21, Wis. Stat.

Action—Compliance.

6. Insolvency Provisions for the Protection of Policyholders—It is recommended that the company either arrange for a third party to provide the alternative coverage required by s. Ins 9.04 (6), Wis. Adm. Code, or calculate compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code.

Action—Compliance.

7. Financial Statements - Annual Statement Filings—It is recommended the company implement procedures to ensure the financial statements are consistent and accurately stated.

Action—Compliance.

8. Financial Statements - Reporting Errors—It is recommended that the plan's statutory financial statements be reported in accordance with the NAIC Annual Statement Instructions – Health with respect to the items noted during the examination.

Action—Compliance.

9. Financial Statements - Accrued Retrospective Premiums and Contracts Subject to Redetermination—It is recommended that the plan's statutory financial statements report retrospective rate adjustments and redeterminations in accordance with SSAP No. 66 and SSAP No. 54, respectively.

Action—Compliance.

10. Data Processing - Electronic Security—It is recommended that the plan require users to change their passwords every 90 days.

Action—Compliance.

11. Data Processing - Business Continuity Plan—To ensure that the business continuity is completed, it is recommended that the company have a tested business continuity plan in place by December 31, 2010. In addition, the company should provide evidence of their business continuity plan to this office when completed and tested.

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.

### **Management and Control**

The examination noted that the board of directors does not act to approve the compensation of the Chief Executive Officer, nor review the performance of the executive. The minutes of the company's board meetings do not properly evidence review and approval of key executives as required by ss. 613.63 and 181.0302 (11) and (14), Wis. Stat. The review of the company's board minutes did not show evidence of actions to approve compensation. It is recommended that the board act annually to review and approve the compensation of the Chief Executive Officer.

### **Financial Statement Reporting**

The examination noted that the company incorrectly reported \$0 in Footnote B of the Exhibit of Premiums, Enrollments and Utilization. All of the company's Medicare Title XVIII premiums should have been entered in the footnote as they are all exempt from state taxes or other fees by Section 1854(g) of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. It is recommended that the company report the premiums correctly on the Exhibit of Premiums, Enrollments and Utilization as required by the NAIC Annual Statement Instructions - Health.

The examination noted that the company did not report an amount in Column 8 of Schedule Y, Part 2, Transactions with Affiliates, even though the company had outstanding balances due under its Administrative Services Agreement at the end of 2012. This schedule requires the company to report balances due to or from affiliates, as described in Holding Company System detail in Schedule Y. It should have recorded \$3,909,157 in Part 2 of the schedule. It is recommended that the company properly complete Schedule Y to show balances due to/from affiliates as required by NAIC Annual Statement Instructions - Health.

## **Investments**

The previous examination of the company had recommended that the company's board or an appropriate committee should review the company's investment transactions at least quarterly and record formal approval of the transactions in the minutes of the meeting. The examiners reviewed copies of the Finance Committee of CCI, which is designated to serve as the finance committee of CCHP as well, and it was noted that the committee takes action on a "consent agenda" that includes action to approve the investment transactions since the previous meeting. In reviewing the materials presented to the committee, it was noted that the account statements from The Northern Trust included only summary positions of the account activities of the relevant account that holds the company's investable securities and did not show the buy/sell and maturity transactions for the account. It is recommended that the company act to approve the investment transactions as a separate item on the Finance Committee agenda and provide the committee members with the account detail showing the buy/sell and maturity transactions in the statements, rather than just the summary of account holdings from the statements.

The examination reviewed the Finance Committee minutes regarding the activity of the investment portfolio and noted that the "consent agenda" action taken by the committee did not include a review of the portfolio performance. As noted in the recommendation above, the committee is not getting the essential parts of the portfolio account statement that would show the transactions that took place in the account, and a review of performance was not evidenced by the minutes that were reviewed. It is recommended that the Finance Committee receive a report on investment performance, at least quarterly, as a part of its oversight of the investment transactions that have taken place since the previous meeting.

## 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 and security calculation as of December 31, 2012, is as follows:

Assets	\$23,693,634	
Less:		
Liabilities	7,967,855	
Examination adjustments	<u>0</u>	
Assets available to satisfy surplus requirements		\$15,725,779
Net premium earned	88,952,417	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>2,668,572</u>
Compulsory Surplus Excess/(Deficit)		<u>\$13,057,307</u>
Assets available to satisfy surplus requirements		\$15,725,779
Compulsory surplus	\$ 2,668,572	
Security factor	<u>138%</u>	
Security surplus		<u>3,682,629</u>
Security Surplus Excess/(Deficit)		<u>\$12,043,149</u>

## VIII. CONCLUSION

Community Care Health Plan, Inc., is a nonprofit mixed model HMO that was incorporated on August 12, 2004, and commenced business on July 1, 2005. The plan's operations are administered by Community Care, Inc., the plan's parent and sole member, under an Administrative Services Agreement. Operations are centered on the plan's core products, the PACE and Family Care Partnership Programs, which are integrated Medicare/Medicaid products serving dual-eligible enrollees including frail elderly and developmentally and physically disabled adults in the counties it serves.

CCHP's financial results have been mixed since the previous examination in 2008. All of the company's revenues are derived from the two governmental programs that fund PACE and Family Care Partnership—the Wisconsin DHS and the federal CMS under Medicaid and Medicare. The plan's enrollment grew due to initial expansion following its formation in 2005, but over the previous four years enrollment has been more stable, declining by 2.4% in 2012. Between 2011 and 2012, the increase in premium income was not sufficient to keep up with the increase in underwriting expenses, resulting in a net underwriting loss of \$126 thousand in 2012 compared to a net gain of \$1.9 million in 2011. The company experienced a net loss of \$23 thousand in 2012 compared to a net gain of \$2.1 million in 2011.

The company does not expect large-scale expansion of its current programs. It continues to work on a re-design of its programs under the demonstration project called "New PACE," which is intended to allow more flexibility in designing services to meet the needs of the enrolled membership. The company also intends to continue focusing on ways to be more efficient in the services it currently provides.

The current examination resulted in five recommendations and no reclassifications or adjustments to surplus. These items are explained in the "Summary of Examination Results" and "Reconciliation of Capital and Surplus per Examination" sections of this report.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Management and Control—It is recommended that the board act annually to review and approve the compensation of the Chief Executive Officer.
2. Page 23 - Financial Statement Reporting—It is recommended that the company report the premiums correctly on the Exhibit of Premiums, Enrollments and Utilization as required by the NAIC Annual Statement Instructions - Health.
3. Page 23 - Financial Statement Reporting—It is recommended that the company properly complete Schedule Y to show balances due to/from affiliates as required by NAIC Annual Statement Instructions - Health.
4. Page 24 - Investments—It is recommended that the company act to approve the investment transactions as a separate item on the Finance Committee agenda and provide the committee members with the account detail showing the buy/sell and maturity transactions in the statements, rather than just the summary of account holdings from the statements.
5. Page 24 - Investments—It is recommended that the Finance Committee receive a report on investment performance, at least quarterly, as a part of its oversight of the investment transactions that have taken place since the previous meeting.

## 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>
Holly Poore	Insurance Financial Examiner
Robert McLaughlin	Insurance Financial Examiner
David Jensen	IT Specialist

Respectfully submitted,

Richard Janosik  
Examiner-in-Charge