

Report
of the
Examination of
Dean Health Insurance, Inc.
Madison, Wisconsin
As of December 31, 2014

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

May 6, 2016

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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:

DEAN HEALTH INSURANCE, INC.
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Dean Health Insurance, Inc. (DHI or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2014, and included a review of such 2015 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurer to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles,

annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on 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

Dean Health Insurance, Inc., was incorporated on August 22, 1995, and commenced business January 1, 1997, under the name of Premier Medical Insurance Group, Inc. (Premier) as a for-profit entity under ch. 611, Wis. Stat. The primary business in which the corporation was intended to initially engage was disability insurance. The company was previously owned 53% by Dean Health Systems, Inc., and 47% by SSM Health Care Corporation (SSMHC). As of September 2013, SSM Health Care Corporation became the ultimate controlling parent organization of the company.

Premier was licensed to conduct indemnity insurance business. On November 14, 1995, Premier formed its own wholly owned subsidiary, Dean Health Plan Acquisition Company. Effective January 1, 1996, Dean Health Plan, Inc. (DHP), a group model health maintenance organization (HMO) licensed in Wisconsin, merged with Dean Health Plan Acquisition Company. DHP stock was converted into stock of Premier and the common stock of Premier owned by DHP was canceled. Concurrent with the reorganization, Dean Health Plan Acquisition Company changed its name to Dean Health Plan, Inc. As a result of these transactions, DHP became a wholly owned subsidiary of Premier. In conjunction with the reorganization, 1,500 shares of preferred stock of DHP were converted to 1,500 shares of preferred stock of Premier. The Dean Foundation for Health, Research and Education, Inc., owned 1,500 shares of preferred stock of Premier until September 6, 2000, when Premier redeemed all 1,500 shares of stock. Premier changed its name to DHI on July 12, 2005.

Effective January 1, 2004, DHI and DHP entered into a pharmacy benefit administration agreement with their affiliate, Navitus Health Solutions LLC (Navitus). Navitus provides services related to pharmacy management and claims processing for enrollees. Services include record keeping and statutory compliance, payment of claims and the provision of written notices. Additional duties of Navitus include online transaction processing, cost management services direct pharmacy reimbursement, direct member reimbursement, benefit plan record keeping, and standard management reports. In return for their services Navitus is compensated by fees which are included as a schedule to the agreements and must forward

pharmacy rebates applicable to DHP and DHI from manufacturers on a quarterly basis for eligible products. The agreement has dispute resolution procedures including arbitration, automatic renewal, and any of the parties may terminate having furnished notification under mutual agreement, without cause, material breach, failure to deposit funds, and no consent or notice need be given to any member, participating pharmacy, or other third parties.

DHI and DHP operate according to an intercompany agreement that went into effect on September 8, 1995. The intercompany agreement assigns to DHP the following responsibilities:

- the maintenance of the facilities,
- the insurance administration including the collection of premiums and underwriting functions and related activities,
- the indemnification of claims including the claims processing,
- the facilitation of provider agreements and benefits, and
- various business administration functions.

The agreement may be terminated by DHI upon furnishing written notice and may be terminated by either party if the parties fail to agree upon an appropriate adjustment to the monthly reimbursement to DHP to cover expenses of the organization. These expenses include actual out-of-pocket expenses paid by DHP on behalf of DHI together with a percentage of the unallocated administrative expenses proportionate to DHI gross written premiums as a percentage of the aggregate gross written premiums for both DHI and DHP. Such termination is effective as of the latest date of expiration of the then current term of any health care policy or group health plan issued by DHI and then in effect.

On January 1, 2006, DHI entered into a pharmacy management services agreement with Navitus specifically governing the Medicare Part D business. Navitus provides services related to account management, pharmacy network management, pharmacy/formulary listing, claims processing/coordination of benefits/explanation of benefits, and various additional services for eligible persons. At that time, the Medicare Part D Prescription Drug coverage was written on a stand-alone basis through a contract with the Centers for Medicare and Medicaid Services, with such coverage available to those individuals who are entitled to Medicare Part A and/or enrolled

in Medicare Part B. The company terminated its participation in Medicare Part D Prescription Drug coverage for individual and Employer Group Waiver Plan on December 31, 2010, and December 31, 2011, respectively. No business was written in 2013 and 2014. As of January 1, 2015, the company reentered the Medicare Part D Employer Group Waiver Plan line of business.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 10 members. The directors are elected annually to serve a three-year term. Officers are appointed by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board chair currently receives \$40,000 per year. The board members currently receive \$8,000 per year for serving on the board. The Audit Committee chair receives an additional \$800 per meeting; Audit Committee members receive an additional \$400 per meeting. The Finance Committee members receive an additional \$600 per meeting.

The board of directors consists of the following persons as of the date of this exam:

Name and Residence	Principal Occupation	Term Expires
John M. Phelan, MD, Chair Fitchburg, Wisconsin	Cardiologist Dean St. Mary's Outpatient Center	2015
Michelle A. Behnke Madison, Wisconsin	Attorney Michelle Behnke & Associates	2015
Mark A. Covaleski, PhD Madison, Wisconsin	Professor UW School of Business	2017
Gaurov Dayal, MD St. Louis, Missouri	President Health Care Delivery, Finance and Integration SSM Health Care Corporation	2016
Chris D. Howard Frontenac, Missouri	President Hospital Operations SSM Health Care Corporation	2015
Ralph R. Kauten Madison, Wisconsin	Lucigen Corporation Chairman and CEO	2016
Jane K. Pearson, MD Madison, Wisconsin	Cardiologist Dean St. Mary's Outpatient Center	2016
Shane H. Peng St. Louis, Missouri	President Physician & Ambulatory SSM Health Care of St. Louis	2017
John G. Rose, MD Madison, Wisconsin	Ophthalmology & Plastic Surgery Davis Duehr Dean; Aesthetic Surgery Center	2017
William P. Thompson St. Louis, Missouri	President and CEO SSM Health Care Corporation	2017

Officers of the Company

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

Name	Office	2014 Salary
Frank L. Lucia	President and CEO	\$605,538
Donald A. Tuscany	Treasurer and Controller	114,110
Dean A. Sutton	Secretary and General Counsel	124,818
Kevin J. Borchert	VP Pricing and Underwriting	291,794
John C. McWilliams	VP Strategy and Network Management	305,546
Marcus A. Julian*	VP Operations	0
Robert K. Sanchez	IT Executive Director	187,565

* Marcus A. Julian commenced employment with the company on January 19, 2015.

Note that the listed 2014 compensation is paid through DHI's subsidiary, DHP.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Audit Committee

Ralph R. Kauten, Chair
John M. Phelan, MD
Mark A. Covaleski, PhD
Michelle A. Behnke

Joint Finance Committee

John M. Phelan, MD, Chair
Mark A. Covaleski, PhD
Ralph R. Kauten
Frank L. Lucia*
John C. McWilliams*

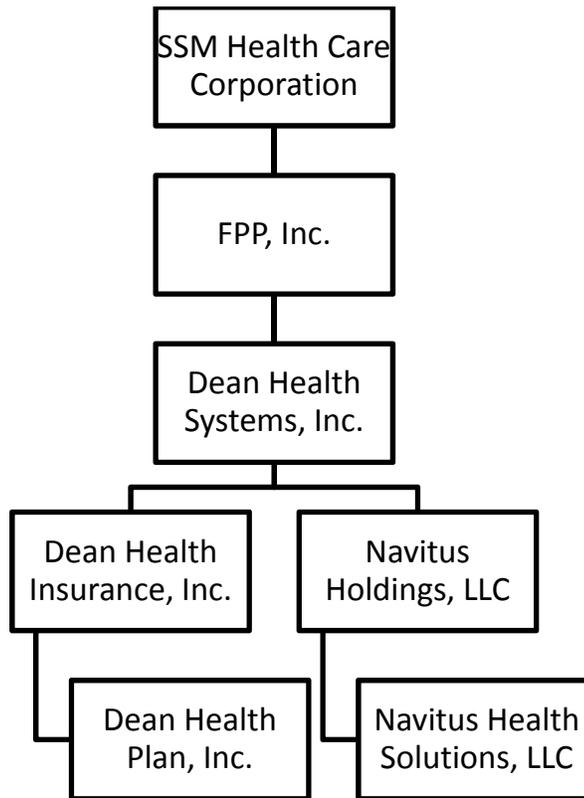
* Non-voting committee member.

The company has no employees. Necessary staff is provided through an intercompany agreement with Dean Health Plan, Inc. Under the agreement, effective September 8, 1995, DHP agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; and provides or contracts for claims processing and information technology and security (IT). DHP receives reimbursement for the actual cost of expenses. The term of the agreement is two years with automatic renewal for successive two-year periods. The company may terminate the agreement upon written notice to DHP.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is SSM Health Care Corporation. 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, 2014**



SSM Health Care Corporation

SSM Health Care Corporation is a not-for-profit health care delivery system based in St. Louis, Missouri. The company owns and operates 20 hospitals, 62 outpatient care sites, 2 long-term care facilities, comprehensive home care and hospice services, a health maintenance organization, and a national pharmacy benefits management company; it has a network of more than 8,500 physicians and more than 31, 000 employees. As of December 31, 2014, the company's consolidated audited financial statement reported assets of \$6.0 billion, liabilities of

\$4.2 billion, and net assets of \$1.8 billion. Operations for 2014 produced net excess of revenues over expenses of \$142.5 million on revenues of \$4.9 billion. Excess of revenue over expenses attributable to non-controlling interest was \$4.9 million.

Dean Health Systems, Inc.

Dean Health Systems, Inc. (DHS) and subsidiaries is a health care delivery system that provides health care services and coverage primarily to the residents of southern Wisconsin. DHS owns 100% of Dean Health Insurance, Inc., the parent of DHP. Prior to 1995, DHS' legal name was Dean Medical Center, S.C. The organization uses the name "Dean Medical Center" for marketing purposes. As of December 31, 2014, DHS' unconsolidated, unaudited financial statement reported total assets of \$356.9 million, total liabilities of \$91.3 million, and total shareholders' equity of \$265.6 million. Operations for 2014 produced net loss of \$15.3 million on revenues of \$1.2 billion.

Dean Health Plan, Inc.

Dean Health Plan, Inc., is a health maintenance organization (HMO) organized for the purpose of delivering health care services. The company is a wholly owned subsidiary of DHI, which is a subsidiary of Dean Health Systems, Inc. As of December 31, 2014, DHP's statutory financial statement reported total assets of \$178.3 million, total current liabilities of \$85.0 million, and equity of \$93.3 million. Operations for 2014 produced net income of \$183,337.

Navitus Health Solutions, LLC

Navitus Health Solutions, LLC, is a wholly owned subsidiary of Navitus Holdings, LLC, which in turn is 100% owned by Dean Health Systems, Inc. Navitus provides pharmacy benefit management services to DHP. As of December 31, 2014, the audited, GAAP financial statements reported assets of \$191.0 million, total current liabilities of \$158.9 million, and equity of \$32.1 million. Operations for 2014 produced a net income of \$12.0 million on revenues of \$67.9 million.

Affiliated Agreements

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

- Effective September 8, 1995, DHI and DHP entered into an intercompany operating agreement. The intercompany agreement assigns to DHP the following responsibilities: the maintenance of the facilities, the insurance administration including the collection of premiums and underwriting functions and related activities, the indemnification of claims including the claims processing, the facilitation of provider agreements and benefits, and various business administration functions. The agreement may be terminated by DHI upon furnishing written notice. This agreement was also discussed in the section captioned "History and Plan of Operation."
- Medicare Part D - Employer Group Waiver Plan Pharmacy Benefit Management Services Agreement effective October 1, 2014, between Navitus Health Solutions, LLC, and DHI. Under the agreement, Navitus provides services related to pharmacy management and claims processing for Medicare Part D enrollees covered under Employer Group Waiver Plans approved by CMS, where DHI is a contracted party with CMS for such plans. DHI receives from Navitus an administrative fee of \$1.25 per eligible person per month, which is collected from the enrollees by Navitus.
- Services and Support Agreement between DHP, DHI, SSMHC and DHS, effective January 1, 2014. Under the agreement DHP and DHI will provide the following services to DHS and SSMHC in exchange for fees or other consideration: medical management services for participants in SSMHC's self-insured health and benefit plans, medical, business and actuarial analytics, and consultation service related to Medicare inpatient care. The following services will be provided by SSMHC and DHS to DHP and DHI: computer and data processing for medical imaging decision support, software and information technology support, access and use of contract management software, payroll administrative support, and access to back-up care services. The agreement can be terminated by either party at any time and for any reason by providing at least 30 days' prior written notice to the other parties.
- Tax Allocation Agreement between DHS, DHI and DHP, effective January 1, 2009. The tax liability shall be apportioned among all members of the affiliated group in accordance with the ratio which that portion of the consolidated tax liability attributable to each member of the group having tax liability bears to the consolidated tax return based on separate return calculations with current credit for net losses.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2014, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company for the period under examination.

Dean Health Insurance, Inc.
Assets
As of December 31, 2014

	Assets	Nonadmitted Assets	Net Admitted Assets
Common stocks	\$93,277,458	\$	\$93,277,458
Cash, cash equivalents and short-term investments	4,092,178		4,092,178
Net deferred tax asset	<u>204,000</u>	—	<u>204,000</u>
Total Assets	<u>\$97,573,635</u>	<u>\$</u>	<u>\$97,573,635</u>

Dean Health Insurance, Inc.
Liabilities and Net Worth
As of December 31, 2014

General expenses due or accrued		\$ 612,600
Amounts due to parent, subsidiaries and affiliates		3,100
Aggregate write-ins for other liabilities [including \$(1) current]		<u>3,695</u>
Total liabilities		619,395
Common capital stock	\$ 2,000,000	
Gross paid in and contributed surplus	9,070,000	
Unassigned funds (surplus)	<u>85,884,241</u>	
Total capital and surplus		<u>96,954,241</u>
Total Liabilities, Capital and Surplus		<u>\$97,573,635</u>

Dean Health Insurance, Inc.
Statement of Revenue and Expenses
For the Year 2014

Total revenues		\$
Prescription drugs	\$ 3,567	
General administrative expenses	<u>14,095</u>	
Total underwriting deductions		<u>17,662</u>
Net underwriting gain or (loss)		(17,662)
Net investment income earned		6,324
Net gain or (loss) from agents' or premium balances charged off		<u>102</u>
Net income or (loss) before federal income taxes		(11,236)
Federal and foreign income taxes incurred		<u>2,432</u>
Net Income (Loss)		<u><u>\$(13,668)</u></u>

Dean Health Insurance, Inc.
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2014

	2014	2013	2012	2011	2010
Capital and surplus, beginning of year	\$90,333,395	\$92,710,056	\$84,390,335	\$85,708,154	\$72,456,297
Net income (loss)	(13,668)	5,901,495	1,078,653	(937,852)	1,510,521
Change in net unrealized capital gains/losses	(3,365,487)	(2,634,379)	7,459,347	(797,291)	11,459,779
Change in net deferred income tax		6	(219,891)	416,540	(55,142)
Change in nonadmitted assets			1,611	785	17,027
Surplus adjustments: Paid in	10,000,000				
Dividends to stockholders		(5,913,783)			
Write-ins for gains and (losses) in surplus: Prior year adjustment	_____	_____	_____	_____	319,672
Surplus, End of Year	<u>\$96,954,240</u>	<u>\$90,333,395</u>	<u>\$92,710,056</u>	<u>\$84,390,335</u>	<u>\$85,708,154</u>

**Dean Health Insurance, Inc.
Statement of Cash Flows
As of December 31, 2014**

Net investment income		\$ 6,324
Less:		
Benefit- and loss-related payments	\$ 3,567	
Commissions, expenses paid and aggregate write-ins for deductions	1,495	
Federal and foreign income taxes paid (recovered)		
\$0 net tax on capital gains (losses)	<u>2,432</u>	
Total		<u>7,494</u>
Net cash from operations		(1,170)
Cost of investments acquired—long-term only:		
Stocks	<u>10,000,000</u>	
Net cash from investments		(10,000,000)
Cash provided/applied:		
Capital and paid in surplus, less treasury stock	10,000,000	
Other cash provided (applied)	<u>4,422</u>	
Net cash from financing and miscellaneous sources		<u>10,004,422</u>
Net change in cash, cash equivalents, and short-term investments		3,252
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>4,088,927</u>
End of Year		<u>\$ 4,092,178</u>

Growth of Dean Health Insurance, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2014	\$97,573,635	\$ 619,395	\$96,954,241	\$ 0	\$ 3,567	\$ (13,668)
2013	90,938,318	604,923	90,333,395	0	(18,221)	5,901,495
2012	93,481,909	771,853	92,710,056	13,593	(1,352,334)	1,078,653
2011	85,152,057	761,722	84,390,335	10,997,614	10,180,453	(937,852)
2010	86,966,831	1,258,677	85,708,154	27,488,928	21,703,014	1,510,521

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Enrollment	Change in Enrollment
2014	0.0%	0.0%	0.0%	0	0.0%
2013	99.8	0.0	0.0	0	0.0
2012	9,399.8	(9,948.8)	629.6	0	(100.0)
2011	(9.4)	92.6	14.6	5,364	(69.6)
2010	8.1	79.0	12.9	17,625	(1.8)

In 2011 and prior years DHI provided prescription drug benefits in accordance with Medicare Part D to its subscribers. Effective January 1, 2012, the company discontinued its participation in the Medicare Part D program. In 2013, the company reported net operating income of \$5.9 million. The exceptional operating results were due to the dividend received from DHP in the form of 100% interest in its subsidiary Navitus Holdings, LLC. DHI distributed through dividend this interest to Dean Health Systems, Inc., on December 31, 2013. Navitus Holdings, LLC, became a wholly owned subsidiary of DHS. Operating activities in 2013 and 2014 were limited to runoff of the old business. As of January 1, 2015, the company reentered the Medicare Part D Employer Group Waiver Plan line of business.

Financial Requirements

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

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

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

The company's calculation as of December 31, 2014, as modified for examination

adjustments is as follows:

Assets	\$97,573,635	
Less:		
Investments in insurance subsidiary	93,277,458	
Liabilities	619,395	
Add:		
Security surplus excess of insurance subsidiaries	<u>43,166,184</u>	
Assets available to satisfy surplus requirements		\$46,842,966
Net premium earned	0	
Compulsory factor	3%	
Compulsory surplus		<u>2,000,000</u>
Compulsory Surplus Excess/(Deficit)		<u>\$44,842,966</u>
Assets available to satisfy surplus requirements		\$46,842,966
Compulsory surplus	\$ 2,000,000	
Security factor	<u>140%</u>	
Security surplus		<u>2,800,000</u>
Security Surplus Excess/(Deficit)		<u>\$44,042,966</u>

In addition, there is a special deposit requirement equal to the lesser of the following:

1. An amount necessary to maintain a deposit equaling 1% of premium written in this state in the preceding calendar year;
2. One-third of 1% of premium written in this state in the preceding calendar year.

The company did not write any business since 2012; therefore, no special deposit is required with the State Treasurer.

Reconciliation of Capital and Surplus per Examination

No adjustments and reclassifications were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2014, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific recommendation in the previous examination report.

Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Transactions—It is recommended that the company properly file transactions at least 30 days prior to the effective date as required by s. Ins 40.04, Wis. Adm. Code.

Action—Compliance

Summary of Current Examination Results

The current examination resulted in no adverse or material findings.

VII. CONCLUSION

Dean Health Insurance, Inc., is a wholly owned subsidiary of DHS and the direct parent of DHP.

During the period under examination, the company discontinued its participation in the Medicare Part D program effective January 1, 2012. DHI reported no income from operations in 2012 and 2013. The exceptional results in 2013 were due to the liquidation dividend income received from DHP, representing DHP's interest in Navitus Holdings, LLC.. Surplus has increased approximately 13% over the past four years to \$ 96.9 million.

As of December 31, 2014, the company reported assets of \$97,573,635, liabilities of \$619,395 and surplus of \$96,954,241.

The company complied with the prior exam recommendation.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no recommendations. There were no adjustments or reclassifications to the balance sheet amounts as a result of this examination.

IX. ACKNOWLEDGMENT

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

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

Name	Title
James Krueger	Insurance Financial Examiner
John Ebsen	Insurance Financial Examiner
Jerry DeArmond	Reserves Specialist
David Jensen	IT Specialist
Amy Malm	Insurance Financial Examiner - Quality Review

Respectfully submitted,

Ana Careaga
Examiner-in-Charge