

Report
of the
Examination of
Group Health Cooperative of Eau Claire
Eau Claire, 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

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September 9, 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:

GROUP HEALTH COOPERATIVE OF EAU CLAIRE
Eau Claire, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Group Health Cooperative of Eau Claire (GHC-EC, the cooperative, or the HMO) 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

GHC-EC can be described as a nonprofit network 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 network model, the cooperative has a delivery system consisting of clinics and/or independent contracting physicians operating out of their separate offices. HMOs compete with traditional fee-for-service health care delivery.

The cooperative was incorporated on May 23, 1972, and commenced business on November 1, 1976. The cooperative is licensed under the provisions of ch. 185, Wis. Stat., as a cooperative health care association.

GHC-EC was operating as a staff model HMO until January 1, 1998, when the cooperative sold its medical operations to Marshfield Clinic. In 2008 and 2011, the cooperative sold its pharmacies and dental clinic, respectively. As of August 2014, GHC-EC contracts with 95 hospitals, 430 primary care clinics, and 869 specialty clinics, with 11,674 total contracted physicians. Providers are generally reimbursed on a discounted fee-for-service basis. The contracts include hold-harmless provisions for the protection of enrollees. The contracts typically have a one-year term (with automatic renewal) and may be terminated upon advance notice. Members are required to designate a primary care physician/clinic, which oversees referrals for specialty care when needed.

The cooperative contracts with the hospitals listed in Appendix I to provide inpatient services. Hospitals are reimbursed on a discounted fee-for-service basis. The contracts include hold-harmless provisions for the protection of enrollees.

According to its business plan, the cooperative's service area is comprised of the following 44 counties:

Adams	Ashland	Barron
Bayfield	Burnett	Chippewa
Clark	Columbia	Crawford
Douglas	Dunn	Eau Claire
Forest	Grant	Green
Green Lake	Iowa	Iron
Jackson	Juneau	La Crosse
Lafayette	Langlade	Lincoln
Marathon	Monroe	Oneida
Pepin	Pierce	Polk
Portage	Price	Richland
Rusk	St. Croix	Sauk
Sawyer	Shawano	Taylor
Trempealeau	Vernon	Vilas
Washburn	Wood	

GHC-EC offers comprehensive health care coverage which may include deductibles and copayments. The following basic health care coverages are provided:

Outpatient Services

- Office visits for diagnosis and treatment of injury and illness
- Physical, occupational therapy and speech therapy
- Diagnostic x-rays, laboratory tests, and procedures
- Preventive health care, including office visits and routine immunizations
- Treatment of allergies including allergens
- Obstetrical care, including prenatal and postnatal maternity care
- Pediatric and well-baby care
- Periodic vision examinations
- Surgical procedures including anesthesia
- Emergency and urgent care

Referral Services

- Specialist care and consultation
- Short-term physical, occupational, and/or speech therapy, upon referral of primary care physician
- Mental health/substance abuse services

Inpatient Services

- Unlimited number of days of care
- Room (semi-private)
- Intensive care unit
- X-ray and laboratory service
- Drugs and injections
- Surgical procedures including anesthesia
- In-hospital physician care
- Organ transplants
- Rehabilitation services

Additional Services

- Chiropractic care
- Durable medical equipment and prosthetic appliances, limited medical supplies
- Prescription drugs
- Specified oral surgery procedures
- Home health services
- Hospice services
- Skilled nursing facility services
- Emergency transportation (ambulance, air ambulance)

Inpatient and transitional mental health and AODA services are covered based on medical necessity. Outpatient therapies (including mental health/AODA, PT, OT, or speech) are subject to health plan authorization after the sixth visit in a calendar year, with coverage under actively marketed, small group plans limited to 20 visits each for PT/OT/Speech (separate limits for habilitative and rehabilitative services). Depending on the plan, outpatient services may be subject to either a copayment (up to \$150 for emergency room) or coinsurance (up to 50%). Inpatient services are generally subject to coinsurance only. Durable medical equipment is subject to authorization at a certain dollar threshold (currently \$300 per item). There are generally no lifetime or annual dollar limits on covered services. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral of participating physicians. An out-of-network authorization process is available for services/specialties unavailable within the provider network.

The cooperative has entered into an agreement with CompCare Health Services Insurance Corporation (CompCare), a Wisconsin-domiciled health maintenance organization insurer, under which the cooperative provides Medicaid contract services to recipients enrolled in CompCare's State Medicaid Plan in western Wisconsin. GHC-EC receives the Medicaid HMO capitation rate based on per member per month, less a base fee, for all CompCare enrollees. In addition, GHC-EC reimburses CompCare for the net cost of providing credentialing for providers. The initial term of this contract was five and a half years and expired on December 31, 2003. The contract is renewable for five-year terms and is currently effective until December 31, 2018. An amendment, effective September 1, 1999, included CompCare enrollees in the Wisconsin BadgerCare Program to be included under the terms of the contract. The contract was then amended a second time, effective July 1, 2010, to include the provision of certain administrative

services on a per member per month basis for Compcare Medicaid enrollees in southeastern Wisconsin. Effective July 1, 2014, Compcare terminated the administrative services arrangement with GHC-EC; however, the risk contract remains in place.

The cooperative currently markets to groups. GHC-EC uses marketing staff provided under the management agreement with its administrator, KMTSJ, Inc. (KMTSJ or the administrator). This management agreement is outlined in the section of this report captioned "Management and Control."

The cooperative's board of directors oversees the general guidelines for premium rate setting. The board delegates the responsibility to its fiscal committee to annually review the budget and establish premium targets, under the guidance of the cooperative's administrator. The administrator uses an actuarially determined modified community rating approach to establish small group premiums. Large groups remain medically underwritten. The administrator establishes specific group rates based on per member per month premium targets. Group rates are adjusted to reflect the age, sex, and coverage characteristics for new and renewal groups. Individual policy premium rates are age and sex rated.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 13 members. The bylaws state that the number of directors will be at least 12, but not more than 17. All directors shall be cooperative members and are elected by members in the manner prescribed in the bylaws. The number of health care providers, or their employees, on the board may not exceed 2, and enrollees who are 18 years of age or older are eligible for board membership, with the exception of individuals working for GHC-EC. Officers are appointed by the board of directors. No director may be elected to succeed her/himself after having served three consecutive three-year terms. The board members receive \$25 per meeting if they attend at least 75% of all board and committee meetings during the year. There is a \$25 per diem paid for each board and committee meeting attended. The bylaws require the board to meet at least four times each year.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Mary Beth Steinke Eau Claire, WI	General Manager Huebsch Services	2015
John (Jack) Halbleib Chippewa Falls, WI	Administrator Fall Creek Valley Care Center	2016
Erin Pankratz Eau Claire, WI	Employee L.E. Phillips Career Development Center	2017
Barbara Koski Eau Claire, WI	Assessment Technician Bowmar Appraisal	2015
Scott Trippler Eau Claire, WI	Vice President J&D Manufacturing	2017
Jim Ward Elk Mound, WI	President Applied Data Consultants, Inc.	2017
Cheryl Gullicksrud Eleva, WI	District Administrator Mondovi School District	2015
Dessin Campbell Eau Claire, WI	Plant Manager Mail Source, Inc.	2015
Betty Reinke Eau Claire, WI	Retired	2015

Name and Residence	Principal Occupation	Term Expires
Jim Jones Stanley, WI	Administrator Stanley-Boyd Area Schools	2016
Paul Gibson Eau Claire, WI	Heavy Equipment Operator City of Eau Claire	2016
Luke Salter Eau Claire, WI	Fixed Operations Coordinator Trubilt Collision Center	2016
Kimberly Plautz Chippewa Falls, WI	Human Resources Manager W.S. Darley & Company	2017

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows. These officers comprise the executive committee of the board. Individuals do not receive additional compensation for serving as officers.

Name	Office
Mary Beth Steinke	President
Betty Marie Reinke	First Vice President
Erin Pankratz	Second Vice President
John (Jack) Halbleib	Secretary
Dessin Matthew Campbell	Treasurer

Committees of the Board

The cooperative'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.

Bylaws & Nomination Committee

Betty Reinke, Chair
Barb Koski
Scott Trippler

Fiscal Committee

Dessin Campbell, Chair
Betty Reinke
Jack Halbleib
Luke Salter
Paul Gibson
Scott Trippler

Member Relations Committee

Betty Reinke, Chair
Jim Ward
Kim Plautz
Mary Steinkie
Paul Gibson

Personnel & Policy Committee

Scott Trippler, Chair
Kim Plautz
Mary Steinke
Cheryl Gullicksrud
Erin Pankratz

The cooperative has its own employees in the areas of quality improvement and utilization management. Other significant management/administrative staff are provided through a management agreement with KMTSJ. The provisions of this agreement are outlined below:

- Services:** KMTSJ, agrees to provide accounting, group underwriting, marketing, enrollment, claims processing, personnel management, payroll, information systems, and any other miscellaneous administrative services to GHC-EC. KMTSJ, also has the responsibility of appointing the general manager and the medical director.
- Purchase option:** The cooperative is required to give KMTSJ at least 90 days' prior written notice of its intention to dispose or transfer the assets of the cooperative. For 60 days after notice is given, KMTSJ, has the right to acquire the assets and must provide written notice to the cooperative within the 60-day time period.
- Compensation:** Set percentages of monthly premium and fee-for-service income.
- GHC-EC is also responsible for reimbursement of services for categories specified by the agreement, including information systems activity predominately benefiting the cooperative and a percentage of advertising expenses.
- Term:** The agreement became effective on January 1, 1983. The contract terminated as of December 31, 2013; however, the board has authorized a renewal through December 31, 2016.
- Termination:** Either party may terminate the agreement with at least 120 days' written notice to the other party.

Prior to 2009, KMTSJ made capital contributions to the cooperative aggregating approximately \$1,000,000. At December 31, 2010, the administrator agreed to advance \$6,000,000, for interest at the prime rate plus 3%, to the cooperative in exchange for a surplus note agreement. The note was approved by the Wisconsin Commissioner and, in accordance with Statement of Statutory Accounting Principles (SSAP) No. 72; the cooperative received approval to record a \$6,000,000 surplus note contribution and a corresponding receivable, at December 31, 2010. The surplus note was formally issued on February 9, 2011. An initial interest payment of \$1,085,959 was recorded as a liability at December 31, 2013, and was later approved for payment on January 29, 2014, by the Commissioner, effective December 31, 2013.

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 HMO'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 cooperative has met the first requirement through its reinsurance contract. The second requirement is met through the requirements of the Affordable Care Act which no longer permits most medical underwriting or preexisting conditions for medical insurance. The reinsurance contract is discussed in the section of this report captioned "Reinsurance."

IV. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	HM Life Insurance Company (HM Life)
Type:	Excess of Loss Reinsurance
Effective date:	January 1, 2014–December 31, 2014
Retention:	Commercial: \$300,000 per Member/Agreement Year Medicaid: \$200,000 per Member/Agreement Year Medicaid/Medicare Duals: \$200,000 per Member/Agreement Year
Reinsurance limit:	The maximum the reinsurer will pay, subject to coinsurance, is: \$2,000,000 per Member per Agreement Year; \$2,000,000 Per Member per Lifetime.
Coinsurance:	The amount the reinsurer will pay for eligible expenses, after application of reinsurance limits and retention: 90% Services Other than Transplant Services 90% Approved Transplants 50% Non-Approved Transplants
Coverage:	Eligible expenses are reimbursed at the lesser of (a) amount paid, (b) amount billed, (c) reinsurer-negotiated amount, (d) company's negotiated amount (approved by the reinsurer), or (e) Medicare DRG fee schedule (duals only). For Medicaid and Medicare enrollees, eligible inpatient hospital expenses are limited to an average daily maximum (ADM) of \$3,500 (per confinement). For commercial enrollees, eligible inpatient hospital expenses are limited to an ADM of \$4,500 (all stays).
Premium:	Premium rates for each member per month are: Commercial HMO: \$2.37 State Employees: \$3.89 Medicaid/Duals: \$0.34
Termination:	The reinsurer may terminate this agreement upon the occurrence of any of the following: (a) Nonpayment of premium; (b) The company acquires the assets and liabilities of another entity or is acquired, comes under the control of, or is merged with any other entity; (c) The company is ordered by the Department of Insurance or other legal authority to cease writing business that is reinsured under this agreement; (d) The company is placed into liquidation or receivership or there has been instituted against the company proceedings for the appointment of a receiver, liquidator, rehabilitator, trustee, conservator, statutory successor or other legal agent to take possession of the company's assets or control of its operation;

- (e) The number of members has declined by 50% or more from the number that was in effect at the inception of this agreement; or
- (f) The date of insolvency.

In the event of termination of coverage for any reason, reinsurer and company agree to provide each other 30 days' advance written notice.

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

1. HM Life will continue plan benefits for a member who is confined in a hospital or other eligible inpatient facility on the date of insolvency until the earliest of:
 - The member(s) discharge from the hospital; or
 - The date member(s) become covered for health coverage or benefits under another group or blanket policy or plan or any federal, state or local governmental plan or program; or
 - 365 days from the date in which the company's insolvency occurs.
2. HM Life will continue plan benefits for members with respect to expenses incurred for medical services or treatment received after the date of company insolvency until the end of the period for which premium was received by the company for members prior to the date of company insolvency, but not to extend beyond the end of the calendar month in which the date of insolvency occurs as long as such expenses are payable by the company.

Coverage under the above endorsement is subject to a maximum total benefit of \$5 million.

V. 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."

**Group Health Cooperative of Eau Claire
Assets
As of December 31, 2013**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$24,028,032	\$ 85,000	\$23,943,032
Cash, cash equivalents and short-term investments	14,405,026		14,405,026
Investment income due and accrued	35,902		35,902
Uncollected premiums and agents' balances in the course of collection	2,486,493		2,486,493
Amounts recoverable from reinsurers	24,750		24,750
Current federal and foreign income tax recoverable and interest thereon	242		242
Electronic data processing equipment and software	5,074		5,074
Health care and other amounts receivable	1,282,609	24,629	1,257,980
Aggregate write-ins for other than invested assets	<u>62,291</u>	<u>62,291</u>	<u> </u>
Total Assets	<u>\$42,330,419</u>	<u>\$171,920</u>	<u>\$42,158,499</u>

**Group Health Cooperative of Eau Claire
Liabilities and Net Worth
As of December 31, 2013**

Claims unpaid		\$15,570,276
Accrued medical incentive pool and bonus payments		46,680
Unpaid claims adjustment expenses		271,964
Premiums received in advance		2,507,320
General expenses due or accrued		4,458,615
Amounts withheld or retained for the account of others		2,279
Borrowed money		<u>1,085,959</u>
Total liabilities		23,943,093
Gross paid in and contributed surplus	\$ 1,001,422	
Surplus notes	6,000,000	
Aggregate write-ins for other than special surplus funds	1,430	
Unassigned funds (surplus)	<u>11,212,554</u>	
Total capital and surplus		<u>18,215,406</u>
Total Liabilities, Capital and Surplus		<u>\$42,158,499</u>

**Group Health Cooperative of Eau Claire
Statement of Revenue and Expenses
For the Year 2013**

Net premium income		\$133,958,323
Risk revenue		34,298,328
Aggregate write-ins for other non-health revenues		<u>2,598,151</u>
Total revenues		170,854,802
Medical and hospital:		
Hospital/medical benefits	\$114,713,479	
Emergency room and out-of-area	11,784,670	
Prescription drugs	5,280,885	
Aggregate write-ins for other medical and hospital	15,348,909	
Incentive pool and withhold adjustments	<u>(19,607)</u>	
Subtotal	147,108,336	
Less		
Net reinsurance recoveries	<u>436,254</u>	
Total medical and hospital	146,672,082	
Claims adjustment expenses	3,400,419	
General administrative expenses	<u>15,848,719</u>	
Total underwriting deductions		<u>165,921,220</u>
Net underwriting gain or (loss)		4,933,582
Net investment income earned	349,839	
Net realized capital gains or (losses)	<u>(7,345)</u>	
Net investment gains or (losses)		342,494
Aggregate write-ins for other income or expenses		<u>(860,315)</u>
Net income or (loss) before federal income taxes		4,415,761
Federal and foreign income taxes incurred		<u>11,193</u>
Net Income (Loss)		<u>\$ 4,404,568</u>

**Group Health Cooperative of Eau Claire
Analysis of Surplus
For the Three-Year Period Ending December 31, 2013**

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

	2011	2012	2013
Capital and surplus, beginning of year	\$20,437,022	\$11,716,124	\$13,895,928
Net income or (loss)	(8,713,353)	2,177,351	4,404,568
Change in nonadmitted assets	<u>(7,545)</u>	<u>2,543</u>	<u>(85,090)</u>
	<u>\$11,716,124</u>	<u>\$13,895,928</u>	<u>\$18,215,406</u>

**Group Health Cooperative of Eau Claire
Statement of Cash Flows
As of December 31, 2013**

Premiums collected net of reinsurance		\$130,495,896
Net investment income		373,077
Miscellaneous income		<u>36,896,479</u>
Total		167,765,452
Less:		
Benefit- and loss-related payments	\$148,407,140	
Commissions, expenses paid and aggregate write-ins for deductions	19,883,880	
Federal and foreign income taxes paid (recovered) net of \$0 tax on capital gains (losses)	<u>11,692</u>	
Total		<u>168,302,712</u>
Net cash from operations		(537,260)
Proceeds from investments sold, matured or repaid:		
Bonds	\$11,698,524	
Real estate	<u>557,078</u>	
Total investment proceeds		12,255,602
Cost of investments acquired - long-term only:		
Bonds	7,235,760	
Miscellaneous applications	<u>1,229,764</u>	
Total investments acquired		<u>8,465,524</u>
Net cash from investments		3,790,078
Cash provided/applied:		
Borrowed funds	1,085,959	
Other cash provided (applied)	4,368	
Net cash from financing and miscellaneous sources		<u>1,090,327</u>
Net change in cash, cash equivalents, and short-term investments		4,343,145
Cash, cash equivalents, and short-term investments: Beginning of year		<u>10,061,881</u>
End of Year		<u>\$ 14,405,026</u>

Growth of Group Health Cooperative of Eau Claire

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2013	\$42,158,499	\$23,943,093	\$18,215,406	\$133,958,323	\$147,108,336	\$ 4,404,568
2012	40,634,731	26,738,803	13,895,928	162,432,044	180,384,250	2,177,351
2011	50,983,603	39,267,480	11,716,123	235,387,664	258,604,668	(8,713,353)
2010	91,830,696	71,393,675	20,437,021	239,240,620	269,265,570	(8,488,094)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2013	2.6	87.2	11.3	-10.9
2012	1.1	89.8	10.1	-27.7
2011	-3.2	94.3	9.5	-5.5
2010	-3.0	94.0	9.5	7.1

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2013	40,788	288.20	3.5
2012	45,764	329.93	3.8
2011	63,315	309.25	3.6
2010	67,001	263.02	3.4

Per Member Per Month Information

	2013	2012	Percentage Change
Premiums:			
Commercial	\$504.36	\$500.14	0.8%
Medicare	526.11	553.72	-5.0
Medicaid	192.80	202.11	-4.6
Expenses:			
Hospital/medical benefits	223.74	246.68	-9.3
Emergency room and out-of-area	23.06	23.65	-2.5
Prescription drugs	10.33	11.17	-7.5
Other medical and hospital	30.03	31.22	-3.8
Incentive pool and withhold adjustments	-0.04	0.08	-146.0
Less: Net reinsurance recoveries	0.85	0.85	0.9
Total medical and hospital	286.26	311.95	-8.2
Claims adjustment expenses	6.57	6.60	-0.5
General administrative expenses	30.96	28.27	9.5
Increase in reserves for accident and health contracts		(4.28)	-100.0
Total Underwriting Deductions	<u>\$323.79</u>	<u>\$342.54</u>	-5.5

The prior examination disclosed that Group Health Cooperative of Eau Claire had profitable operations in 2008 and 2009 which were driven by favorable underwriting results in the Medicaid line of business. Beginning in 2010, however, a series of adverse revenue and cost trends appeared. The prior examination noted that the cooperative posted a net loss of \$8.5 million, which was largely attributable to underwriting losses of \$8.1 million in the Medicaid line and \$2.0 million in the commercial line. The unfavorable results for the Medicaid line in 2010 were driven by a reduction in the 2010 Medicaid capitation rates which were not fully offset by cost reductions in the Medicaid fee schedule. The prior examination report went on to explain that the unfavorable commercial results were then attributable to the cooperative's contract with the State of Wisconsin Employee Trust Funds (ETF) which prompted the cooperative to record a premium deficiency reserve of \$2.8 million for the year-ended December 31, 2010. As mentioned previously, in order to improve the cooperative's capital level, KMTSJ contributed \$6.0 million in capital through a surplus note. Despite the contribution, the cooperative triggered a company action level event under s. Ins 51.15, Wis. Adm. Code, requiring the submission of a risk-based capital plan which included corrective actions to be taken by the cooperative in early 2011 in reaction to the above trends.

The underwriting losses continued throughout 2011 resulting in a second year of net operating losses of \$8.7 million and further reduction in the capital and surplus. Capital and surplus declined to \$11.7 million at December 31, 2011, down significantly from \$20.4 million at prior year-end. The cooperative's risk-based capital ratio, at 109%, had fallen below the regulatory action level under s. Ins 51.20, Wis. Adm. Code, as mitigation efforts by management under the cooperative's risk-based capital plan continued.

By December 31, 2012, the financial condition of the cooperative showed marked improvement. The cooperative reported favorable net income of \$2.2 million by year-end. Most balance sheet accounts improved, and total capital and surplus had increased to \$13.9 million. Additionally, the RBC ratio had improved to 190%. The cooperative's membership decreased by 27.7% or 17,551 members, primarily due to changes to the ETF contract taking effect in 2012 and secondarily due to the loss of various commercial accounts which were underperforming.

Performance continued to improve in 2013. Overall, net income increased to \$4.4 million by year-end. The cooperative's membership decreases had slowed to 4,976 in 2013 and total membership stood at 40,788 members by the end of 2013. The RBC ratio had improved to 301%. Utilization indicators also showed improvement in 2013, reflected by the Hospital Days/1000 at 288.20 and Average Length of Stay at 3.5 days. The mix of business had reached approximately 60% Medicaid by this time, concentrating most of the cooperative's business in government programs.

Reconciliation of Capital and Surplus per Examination

There were no examination adjustments to capital and surplus as a result of this examination.

Examination Reclassifications

There were no reclassifications as a result of this examination.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five 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. Board Approval of Investment Transactions—It is recommended that the board or a committee thereof review a summary of all investment transactions that have occurred since the prior board/committee meeting and formally approve (or disapprove) of the appropriateness of the transactions that have transpired. The board's/committee's approval (or disapproval) should be reflected in the board minutes, as evidence that the board is carrying out its fiduciary responsibilities.

Action—Compliance.

2. Custodial Agreements—It is recommended that the cooperative obtain a safekeeping agreement with U.S. Bank, signed by both parties to the agreement, with proper language as required by the NAIC Financial Condition Examiners Handbook.

Action—Compliance.

3. Bond Amortization Methodology—It is recommended that the cooperative disclose the methodology it uses to amortize bond premium/discount in the Notes to Financial Statements in accordance with SSAP No. 26, paragraph 17d.

Action—Compliance.

4. Repurchase Areements—It is recommended that the cooperative report the repurchase agreement in the Notes to Financial Statements in accordance with the required disclosures prescribed by the NAIC Annual Statement Instructions – Health and SSAP No. 91R, paragraph 89.

Action—Compliance.

5. Insolvency Protection for Policyholders—It is recommended that the cooperative enter into and arrangement to ensure the availability of conversion of coverage for its enrollees in the event of insolvency in accordance with s. Ins 9.04 (6) (2), Wis. Adm. Code.

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.

Investment Custodial Agreement

The prior examination recommendation that pertained to the custodial agreement was between the cooperative and U.S. Bank. The cooperative complied with the prior recommendation and then switched their investment portfolio to the current custodian. The review of the cooperative's current custodial agreement disclosed that the agreement is between the broker and the cooperative. Section 610.23 (1), Wis. Stat., requires securities to be held in the cooperative's name except that securities kept under a custodial agreement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company. It is recommended that the cooperative either maintain securities in its own name or under a custodial agreement with a bank or banking and trust company in accordance with s. 610.23 (1), Wis. Stat.

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 cooperative's calculation as of December 31, 2013, is as follows:

Assets	\$ 42,158,499	
Less:		
Special deposit	1,500,000	
Liabilities	23,943,093	
Investments in excess of maximum allowable by ch. 620, Wis. Stat.		
Examination adjustments	_____	
Assets available to satisfy surplus requirements		\$16,715,406
Net premium earned	152,907,742	
Compulsory factor	_____ 3%	
Compulsory surplus		<u>4,587,232</u>
Compulsory Surplus Excess/(Deficit)		<u>\$12,128,174</u>
Assets available to satisfy surplus requirements		\$16,715,406
Compulsory surplus	\$ 4,587,232	
Security factor	_____ 136%	
Security surplus		<u>6,238,635</u>
Security Surplus Excess/(Deficit)		<u>\$10,476,771</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 has satisfied this requirement for 2013 with a deposit of \$1,500,000 with the State Treasurer.

VII. CONCLUSION

Group Health Cooperative of Eau Claire reported favorable financial results for two out of the past three years since the prior examination. The cooperative has been recovering from operationally unfavorable years in 2010 and 2011. Positive net income was generated in 2012 and net income doubled in 2013. Utilization appears to be stabilizing at significantly lower levels. Capital and surplus has recovered significantly over the examination period and the Risk-Based Capital has been restored to an acceptable level.

The cooperative complied on all five prior examination recommendations. The current examination resulted in one examination recommendation. There were no examination adjustments or reclassifications noted by the examination.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Investment Custodial Agreement—It is recommended that the cooperative either maintain securities in its own name or under a custodial agreement with a bank or banking and trust company in accordance with s. 610.23 (1), Wis. Stat.

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
Brian Jeremiason	Insurance Financial Examiner
Robert McLaughlin, CPA	Insurance Financial Examiner
Thomas Houston, CPA, CFE	IT Specialist

Respectfully submitted,

Gene M. Renard, CFE
Examiner-in-Charge

X. APPENDIX I

Contracting Hospitals

Abbot Northwestern Hospital-Minneapolis, MN	Mayo Clinic Health System Lake City Hospital-Lake City, MN
Amery Regional Medical Center-Amery, WI	Mayo Clinic Health System Northland Hospital-Barron, WI
Aspirus Grand View Hospital-Ironwood, MI	Mayo Clinic Health System Oakridge Hospital-Osseo, WI
Aspirus Medford Hospital-Medford, WI	Mayo Clinic Health System Oakridge Swing Bed-Osseo, WI
Aspirus Wausau Hospital-Wausau, WI	Mayo Clinic Health System Red Cedar Hospital-Menomonie, WI
Baldwin Area Medical Center-Baldwin, WI	Mayo Clinic Health System Red Wing Hospital-Red Wing, MN
Black River Memorial Hospital-Black River Falls, WI	Memorial Hospital of Lafayette County-Darlington, WI
Burnett Medical Center-Grantsburg, WI	Memorial Medical Center-Ashland, WI
Children's Hospitals Minneapolis-Minneapolis, MN	Memorial Medical Center-Neillsville, WI
Children's Hospitals of Wisconsin-Milwaukee, WI	Meriter Hospital-Madison, WI
Chippewa Valley Hospital and Oakview Care Center, Inc.-Durand, WI	Mile Bluff Medical Center-Mauston, WI
Community Memorial Hospital-Cloquet, MN	Moundview Memorial Hospital-Friendship, WI
Crossing Rivers Health Medical Center-Prairie Du Chien, WI	North Memorial Medical Center-Robbinsdale, MN
Cumberland Memorial Hospital-Cumberland, WI	Oakleaf Surgical Hospital-Eau Claire, WI
Door County Memorial Hospital-Sturgeon Bay, WI	Osceola Medical Center-Osceola, WI
Eagle River Memorial Hospital-Eagle River, WI	Our Lady of Victory Hospital-Stanley, WI
Essentia Health Duluth-Duluth, MN	Phillips Eye Institute-Minneapolis, MN
Essentia Health Grand Rapids Clinic-Deer River, MN	Reedsburg Area Medical Center-Reedsburg, WI
Essentia Health Northern Pines-Aurora, MN	Regina Medical Complex-Hastings, MN
Essentia Health Sandstone-Sandstone, MN	Regions Hospital-St. Paul, MN
Essentia Health St. Mary's Hospital-Superior, MN	Richland Hospitals, Inc.-Richland Center, WI
Essentia Health St. Mary's Medical Center-Duluth, MN	River Falls Area Hospital-River Falls, WI
Essentia Health Virginia, LLC-Virginia, MN	Riverview Hospital Association-Wisconsin Rapids, WI
Flambeau Hospital-Park Falls, WI	Rusk County Memorial Hospital-Ladysmith, WI
Good Samaritan Health Center of Merrill WI Inc.-Merrill, WI	Sacred Heart Hospital-Eau Claire, WI
Grant Regional Health Center-Lancaster, WI	Sacred Heart Hospital-Tomahawk, WI
Gundersen Boscobel Area Hospital and Clinics-Boscobel, WI	Southwest Health Center-Platteville, WI
Gundersen Lutheran Medical Center-La Crosse, WI	Spooner Health System Hospital-Spooner, WI
Gundersen St Joseph's Hospital and Clinics-Hillsboro, WI	St. Clare's Hospital and Health Services-Baraboo, WI
Gundersen Tri County Hospital and Clinic-Whitehall, WI	St. Clare's Hospital Dialysis Center-Baraboo, WI
Guttenberg Municipal Hospital-Guttenberg, IA	St. Clare's Hospital-Weston, WI
Hayward Area Memorial Hospital-Hayward, WI	St. Croix Regional Medical Center-St. Croix Falls, WI
Hennepin County Medical Center-Minneapolis, MN	St. Elizabeth Hospital, Inc.-Appleton, WI
Howard Young Medical Center-Woodruff, WI	St. Elizabeth Hospital-Wabasha, MN
Hudson Hospital, Inc.-Hudson, WI	St. Joseph's Hospital-Chippewa Falls, WI
Indianhead Medical Center-Shell Lake, WI	St. Joseph's Hospital-Marshfield, WI
Lakeview Medical Center, Inc., of Rice Lake-Rice Lake, WI	St. Luke's Hospital-Duluth, MN
Lakeview Memorial Hospital-Stillwater, MN	St. Mary's HMC Madison-Madison, WI
Langlade Memorial Hospital-Antigo, WI	St. Mary's Hospital-Rhineland, WI
LE Phillips Libertas Center-Chippewa Falls, WI	St. Michael's Hospital-Stevens Point, WI
Libertas Green Bay-Green Bay, WI	The Monroe Hospital and Clinics-Monroe, WI
Maple Grove Hospital-Maple Grove, MN	Tomah Memorial Hospital-Tomah, WI
Mayo Clinic Health System Chippewa Valley Hospital-Bloomer, WI	United Hospital, Inc.-St. Paul, MN
Mayo Clinic Health System Eau Claire Luther Campus-Eau Claire, WI	University of Minnesota Medical Center at Fairview-Minneapolis, MN
Mayo Clinic Health System Eau Claire Luther Campus-Eau Claire, WI	University of Wisconsin Hospital and Clinics Authority-Madison, WI
Mayo Clinic Health System Franciscan HC La Crosse-La Crosse, WI	Upland Hills Health Center-Dodgeville, WI
Mayo Clinic Health System Franciscan HC Sparta-Sparta, WI	Vernon Memorial Hospital-Viroqua, WI
	Westfield Hospital, Inc.-New Richmond, WI