

Report  
of the  
Examination of  
Gundersen Health Plan, Inc.  
Onalaska, 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*

*Wisconsin.gov*

August 14, 2013

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

Honorable Theodore K. Nickel  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

GUNDERSEN HEALTH PLAN, INC.  
Onalaska, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Gundersen Health Plan, Inc. (the company or GHP) was conducted in 2010 as of December 31, 2009. 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

Gundersen Health Plan, Inc., can be described as a not-for-profit 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, GHP provides care through agreements with two or more clinics. HMOs compete with traditional fee-for-service health care delivery.

The company was incorporated in Wisconsin on March 13, 1995, as a non-stock service insurance corporation under ch. 613, Wis. Stat., and commenced business September 1, 1995. The company is exempt from federal income taxes under § 501(c)(4) of the Internal Revenue Code. The company is subject to the state franchise tax. Initially, GHP was controlled by Gundersen Clinic, Ltd. (the Clinic) and Gundersen Lutheran Medical Center, Inc. (the Hospital), the HMO's primary clinic and founder. Effective June 10, 1996, the Clinic and the Hospital formally affiliated through the creation of a common parent corporation, Gundersen Lutheran, Inc. Effective January 1, 2000, Gundersen Lutheran, Inc., became the sole member of GHP replacing the Clinic and the Hospital. In August 2006 GHP expanded its territory by obtaining a certificate of authority in the state of Iowa to transact business as an HMO in five northern counties. Effective June 30, 2008, the legal name of the common parent corporation, Gundersen Lutheran, Inc., was changed to Gundersen Lutheran Health System. Effective March 26, 2013, the legal name of the parent company was changed to Gundersen Health System (Health System) and the company's name was changed to Gundersen Health Plan, Inc.

Prior to the formation of GHP, the Clinic administered a managed-care product called Security Care, in conjunction with Security Health Plan of Wisconsin, Inc. (SHP) located in Marshfield, Wisconsin. On August 30, 1995, GHP entered into an agreement whereby SHP transferred the business previously administered by the Clinic to GHP. Under the terms of the

agreement, GHP assumed SHP's rights and obligations under the SHP insurance and plan agreements.

GHP uses one standard template agreement for all providers (primary and specialty). Primary care physicians are participating providers practicing medicine in the fields of family practice, general internal medicine, pediatrics, or obstetrics/gynecology. The majority of providers are compensated on a discount of billed charges basis; however, the Clinic and the Hospital are currently reimbursed a percentage of premiums, which will be discussed later in the report. The agreements include hold-harmless provisions for the protection of policyholders. Providers agree to continue to provide services in the event that GHP becomes insolvent. The agreements have a one-year term, with automatic renewal, and may be terminated by either party upon 90 days' prior written notice thereof prior to the end of a term.

Medical services are provided to members by way of a Provider Services Agreement (PSA) which governs the charges between Gundersen Health Plan, Inc., and Gundersen Health System having an effective date of January 1, 1999. This contract was reviewed for hold-harmless provisions for the protection of members in the event of insolvency as well as provisions protecting members' privacy. All necessary provisions for timely payment of contract fees were also reviewed and compared to the accounting information necessary to confirm that the terms of the contract are being followed. The PSA has an automatic renewal provision for a term of one year. The Health System agrees to accept a monthly capitation amount (based on a percentage of premium) for services rendered, thus transferring all risk to the Health System. Either party may terminate the agreement by providing written notice 90 days prior to the end of the term.

The company has 1,400 participating physicians and 100 primary care clinics in its provider system. Members may seek services from any of the primary or specialty care providers within GHP's participating provider network; however, members are encouraged through new-member materials to select a primary care provider to coordinate their medical care. Preauthorization by primary care physicians is only required if they are referring a member outside GHP's network or if the service is not available in-network.

GHP contracts with 24 hospitals to provide inpatient services. The majority of hospitals are reimbursed on a discount of billed charges basis. The agreements include hold-harmless provisions for the protection of policyholders.

The company also has Individual Practice Association (IPA) agreements with ChiroCare of Wisconsin and Clear Script/National Pharmaceutical Technologies, Inc., for chiropractic and prescription management services, respectively. Under these agreements GHP pays the IPA a per member per month fee to cover administrative services in addition to the agreed-upon fees for claims. The agreements include hold-harmless provisions for the protection of policyholders.

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

<u>Wisconsin</u>	
Buffalo	Monroe
Crawford	Richland
Grant	Sauk
Jackson	Trempealeau
Juneau	Vernon
La Crosse	
<u>Iowa</u>	
Allamakee	Howard
Clayton	Winneshiek
Fayette	

In 2012 the company expanded to sell health insurance in Minnesota through its wholly owned subsidiary, Gundersen Health Plan Minnesota. Gundersen Health Plan Minnesota will offer a Medicare Advantage product and will have a service region in southeast Minnesota and started writing business in 2013. The subsidiary was capitalized by a \$1.55 million contribution from GHP.

<b>Year</b>	<b>Wisconsin Premium (Membership)</b>	<b>Iowa Premium (Membership)</b>
2012	\$277,514,483 (55,255)	\$3,642,294 (787)
2011	255,886,263 (54,172)	2,538,146 (732)
2010	240,643,390 (50,868)	1,482,541 (559)
2009	210,643,115 (46,767)	860,098 (367)

The company offers comprehensive health care coverage which may be changed by riders to include deductibles and copayments. Because GHP offers various benefit designs,

health care coverage varies depending on which benefit package the group chooses. The following is a list of basic health care coverages provided according to the GHP Schedule of Benefits:

**Hospital Services**

- Inpatient Hospital Services
- Inpatient Rehabilitation Services
- Outpatient Surgery
- Emergency Room Services
- Bariatric Surgery

**Physician/Clinician Services**

- Physician Office Visits or Consultation
- Chiropractor
- Urgent Care
- Emergency Care
- Vision Care
- Inpatient Visits or Consultation
- Medically Necessary Surgery/Anesthesia
- Outpatient Rehabilitation Visit - includes physical, occupational, and speech
- X-Ray, Laboratory, Diagnostic Testing
- Dietary Counseling
- Biofeedback

**Wellness Benefits**

- Preventive Physical Exam - includes screening laboratory testing
- Well Baby Visits - Through Age 2, including standard immunizations
- Preventive Gynecological Exam
- Screening Mammogram and Pap
- Physician/Clinician Services
- Vision Exams - including refraction
- Hearing Screening Test(s)
- Immunizations - includes child to age 6, adolescent, and adult
- Tobacco/Smoking Cessation Programs

**Dental Services**

- Dental Accidents to Natural Teeth
- Oral Surgery

**Durable Medical Equipment, Prosthetics and Supplies**

**Ambulance Services**

- Emergency Ambulance Services

**Autism Spectrum Disorders**

**Kidney Disease Services**

- Kidney Disease Services - covers dialysis, transplantation, re-transplantation, related outpatient medications, and donor-related services
- Dialysis - provided out of the service area for up to two weeks per year

**Home Care, Hospice Care and Skilled Nursing Services**

- Home Care - limited to 40 visits per any 12-month period
- Hospice Services - limited to 180 days per lifetime
- Skilled Nursing Facility / Swing Bed

**Transplant Services**

- Transplants - prior authorization is required

Under the standard plan members are required to use the services of participating providers except in cases of emergency care. Use of a nonparticipating provider without a written referral from a participating provider which has been approved in writing by the Medical Director is not allowed. Coinsurance is 20% of the percentage of the allowable charge for covered expenses that members are required to pay. The calendar year deductible amount which is required of members is \$1,000 (individual) and \$2,000 (family). The calendar year deductible is the amount of money a member must pay before benefits are payable. Copays, coinsurance, and any amounts over usual and customary charges do not apply to the calendar year deductible. The calendar year member out-of-pocket maximum amount, which is required of members, is \$2,000 (individual) and \$4,000 (family). Deductible and coinsurance amounts apply to the out-of-pocket maximum. Emergency room copays do not apply. A member's individual lifetime maximum while insured was \$2,000,000; however, this no longer applies as of September 1, 2010, mandated by the Patient Protection and Affordable Care Act (PPACA).

The company also writes a point-of-service (POS) product. Under a point-of-service plan, members are allowed to choose service with a participating or nonparticipating provider, with different benefit levels and coinsurance requirements associated with the use of nonparticipating providers.

In addition to traditional HMO products, GHP has third-party administration (TPA) agreements with an affiliated entity, Gundersen Administrative Services, Inc. (GAS) and nine other nonaffiliated self-funded groups within Wisconsin and Iowa. The company agrees to provide underwriting and claim services and all other general administrative personnel and facilities necessary for the proper administration of the plans.

In 1999 GHP entered into an agreement with the then federal Health Care Financing Administration to market a Medicare+Choice product. In 2005 GHP recontracted with the Centers for Medicare and Medicaid Services to market a Medicare Advantage Prescription Drug (MA-PD) product, Gundersen Senior Preferred (Medicare Advantage). Medicare Advantage is a comprehensive medical plan that combines coverage with those services provided by traditional Medicare with the wellness, preventative care, and prescription drug benefits offered by GHP.

The MA-PD product is only offered to members that have Medicare Advantage medical coverage; it is not marketed as a stand-alone product. Medicare Advantage is currently offered in six counties in western Wisconsin as well as select zip code areas in five other adjoining counties, and five counties in northeast Iowa. It is available only through marketing representatives who are employed directly by the plan.

With the exception of the Medicare Advantage and BadgerCare products, GHP markets to groups only. This marketing is done through outside agencies, as well as through GHP's marketing department. Outside agents are compensated as follows:

New and Renewal Business – 10% on the first \$25,000 of premium declining to 1% for premium \$250,000 and over for large group business.

For small group business:

# of employees enrolled in contract	\$/employee
1 <sup>st</sup> 1 – 3	\$25
Next 4 – 10	\$40
Next 11 – 25	\$30
Next 26 – 50	\$12

GHP uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the age, sex, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate or cancelling the group.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of 15 members. Directors are divided in three classes with the term of one class expiring each year. Officers are elected 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 HMO group. The board members do not receive compensation for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Mary Ament Waukon, IA	Executive Director, TASC, Inc.	2014
Michael Dolan, MD La Crosse, WI	Internal and General Medicine, Gundersen Health System	2014
Gary Lenth, MD La Crosse, WI	Ophthalmology, Gundersen Health System	2014
Ron Pugh Onalaska, WI	Director of Risk Management and Employee Benefits, Ashley Furniture Industries, Inc.	2014
Linda Sullivan La Crosse, WI	Director Payroll & Benefits, Gundersen Health System	2014
Bob Borchardt La Crosse, WI	Retired Engineer	2015
Robyn Borge, MD La Crosse, WI	Family Medicine, Gundersen Health System	2015
Scott Kniprath La Crosse, WI	Regional Executive Director, Gundersen Health System	2015
Greg Thompson, MD La Crosse, WI	Pulmonary, Gundersen Health System	2015
Linda Zoerb La Crosse, WI	Owner and Chief Executive Officer, La Crosse Floral	2015
Jeff Rich La Crosse, WI	Executive Director of Business Services Gundersen Health System	2016
Alexander Wade, MD La Crosse, WI	General Surgery, Gunderson Health System	2016
Steve McConaghy La Crosse, WI	Vice President, State Bank of La Crosse	2016
Brent Smith La Crosse, WI	Attorney, Johns, Flaherty & Rice	2016
Paul Wiese La Crosse, WI	Retired Elementary School Principal	2016

## Officers of the Company

The officers elected by the board of directors and serving at the time of this examination are as follows:

Name	Office	2012 Salary
Gary Lenth	Chief Executive Officer	\$287,982
Michael Dolan	President	0
Jeff Rich	Secretary	0

Annual compensation of the company's officers is paid by the Health System. On an annual basis an aggregate expense budget is established whereby a portion of operating expenses including officer compensation is allocated to GHP. Officers of the board of directors are not separately compensated for their service as officers. The amount of compensation represented above reflects compensation allocated to GHP during 2012.

## 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:

### Executive Committee

Marilu Bintz, Chair  
Dara Bartels  
Michael Dolan

### Audit Committee

Steven McConaghy, Chair  
Linda Zoerb  
Linda Sullivan  
Brent Smith

### Medical Director's Committee

Gary Lenth, Chair  
Bob Fendt  
Daniel Ecklund  
Catherine Ryan  
James Kauphusman  
Joseph Caron  
Laura Krister  
Nancy Korn-Smith

### Compliance Operations Committee

Kelly Skifton, Chair  
Kari Adank  
Ohbe Johnson  
Bob Fendt  
Gary Lenth  
Sue Rochholz  
Karla Lord  
Sam Schmirler  
Greg Skemp

### Grievance & Appeals Committee

Tina Shuda, Chair  
Bernard Hammes  
Laura Krister  
Daniel Ecklund  
Kelly Skifton  
Bob Fendt  
Ken Kittleson  
Melissa Holthaus  
Mary Ann Bissen

The company has no employees. General and administrative services are provided to GHP through an affiliated agreement with Gundersen Health System and Gundersen Administrative Services, Inc. Further discussion regarding the Management Services Agreement is included in the "Affiliated Companies" section of this examination report.

**Insolvency Protection for Policyholders**

Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

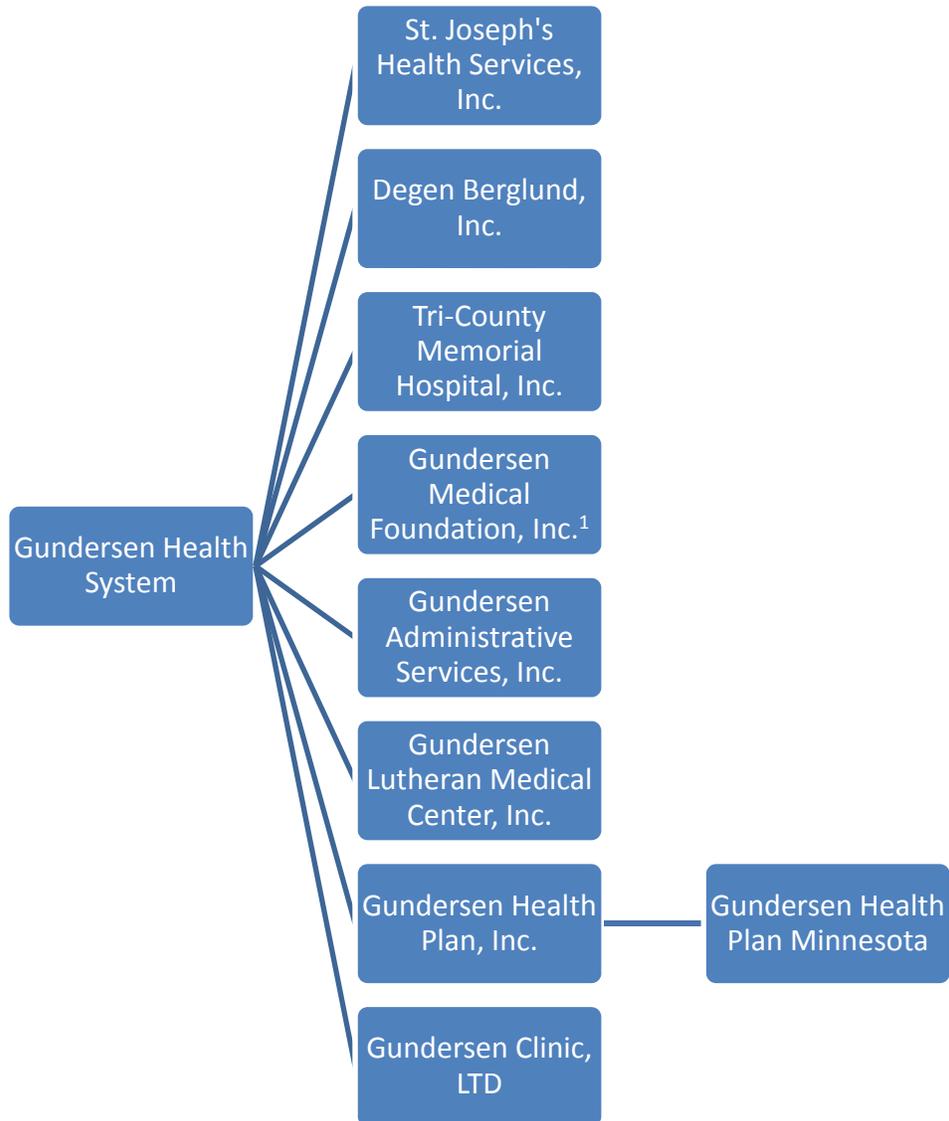
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The company has met this requirement through its reinsurance contract, as discussed in the "Reinsurance" section of this report.

#### IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Gundersen Health System. 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, 2012**



<sup>1</sup> Gundersen Health System (GHS) is the sole member of Gundersen Medical Foundation, Inc. (GMF); however, control of GMF is vested in its board of directors. According to its Articles and Bylaws the GMF board of directors consists of a majority of unrelated community representatives, and has broad authority in promoting its mission, strategic plan, budget approval, capital resources, annual reporting, tax exempt status, and accountability to its donors.

**Gundersen Health System**

Gundersen Health System (the Health System) is the ultimate controlling person in the insurance holding company system. The Health System is a Wisconsin nonprofit corporation organized on January 25, 1996, under ch. 181, Wis. Stat., and is exempt from federal and state income taxes under § 501(c)(3) of the Internal Revenue Code and applicable state laws. The Health System's principal business is managing the business and affairs of the members of the holding company system.

The consolidated audited financial statements as of December 31, 2012, show that the Health System reported total assets of \$1,299 million and total liabilities of \$611 million. For 2012 revenues were \$882 million compared to \$842 million in 2011 while operating expenses were \$838 million in 2012 compared to \$814 million in 2011. This resulted in operating income of \$43 million in 2012 and \$27 million in 2011.

**Gundersen Clinic, Ltd.**

Gundersen Clinic, Ltd. (the Clinic) is a Wisconsin nonprofit corporation organized on October 21, 1963, under ch. 181, Wis. Stat., and is exempt from federal and state income taxes under § 501(c)(3) of the Internal Revenue Code and applicable state laws. The Clinic provides comprehensive medical care to patients and conducts medical education and research programs in Wisconsin, Iowa and Minnesota.

**Gundersen Medical Foundation, Inc.**

Gundersen Medical Foundation, Inc. (the Foundation) is a Wisconsin nonprofit corporation organized on July 21, 1976, under ch. 181, Wis. Stat., and is exempt from federal and state income taxes under § 501(c)(3) of the Internal Revenue Code and applicable state laws. The foundation was created to advance the promotion of health care and to carry out the charitable purposes of the members of the holding company system by supporting programs of medical education, medical research and community health promotion activities.

**Gundersen Administrative Services, Inc.**

Gundersen Administrative Services, Inc. (GAS) is a Wisconsin nonprofit corporation organized on November 20, 1987, under ch. 181, Wis. Stat., and is exempt from federal and state

income taxes under § 501(c)(3) of the Internal Revenue Code and applicable state laws. The primary purpose of GAS is to provide administrative services to members of the holding company system.

### **Gundersen Lutheran Medical Center, Inc.**

Gundersen Lutheran Medical Center, Inc. (the Hospital) is a Wisconsin nonprofit corporation organized on October 28, 1899, under ch. 181, Wis. Stat., and is exempt from federal and state income taxes under § 501(c)(3) of the Internal Revenue Code and applicable state laws. The primary purpose of the Hospital is to provide general medical and surgical care.

### **Affiliated Agreements**

Gundersen Health Plan, Inc., has entered into agreements with affiliates as described below:

- **Parental Guarantee Agreement**  
Effective June 8, 1998, the Clinic and the Hospital agreed to contribute the funds as necessary to GHP to protect members from suffering adverse consequences as a result of insolvency and financial requirements of GHP in order to enter into a Medicare Risk Contract with the federal Health Care Financing Administration. The agreement shall continue in effect during the term of the Medicare Risk Contract.
- **Provider Services Agreement**  
Discussed in the “History and Plan of Operation” section of this examination report.
- **Management Services Agreement**  
Necessary staff is provided through a management agreement with GAS; however, the board of directors of GHP exercise ultimate control over the financial assets, management and operations of GHP. Under the agreement, effective January 1, 2003, GAS agrees to provide the following services:
  - enrollment
  - claims processing and evaluation
  - development of premium rates
  - provider relations
  - operational policies and procedures
  - program planning and development
  - coordination of benefits
  - marketing and sales
  - human resources
  - billing and premium collections
  - regulatory relations
  - investment and asset management
  - agent contracting
  - plan administration

financial and accounting  
data processing and IT  
peer and utilization reviews  
legal

GAS receives reimbursement on a monthly basis at the actual cost of services and materials provided. The term of the agreement is one year with automatic renewal on an annual basis. The company may terminate the agreement upon 60 days' written notice prior to the renewal.

- **Business Associate Agreement**  
Effective April 14, 2003, GHP and GAS, individually and as an agent for the Clinic and the Hospital, entered into this agreement to allow access to certain patient health information and records kept by GHP that are confidential under ss. 51.30 and 146.82, Wis. Stat., the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and the Standards for Privacy of Individually Identifiable Health Information.
- **Sublease Agreement**  
Effective January 1, 2006, GHP began leasing approximately 13,245 square feet of office space from GAS in accordance with a sublease agreement. GHP makes equal monthly payments to GAS by the first day of each month. Rent increases each year based on the previous year's annual rent, by an amount equal to the percentage increase in the Consumer Price Index (CPI) on each one-year anniversary date over the CPI on the previous one-year anniversary date. GHP is responsible for all routine maintenance and repairs of the premises at its own expense. GAS is responsible for providing and/or paying for all utilities and housekeeping services. The term of the agreement is 6 years with automatic renewal for a period of 10 years. The company may terminate the agreement upon 30 days' written notice.

## V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

1. Reinsurer: Westport Insurance Corporation, a Swiss Re company
- Type: Excess HMO Reinsurance Agreement
- Effective date: January 1, 2013, to December 31, 2013
- Retention: Retention Each Member, Each Agreement Period
- A. Specific Retention: The reinsured shall retain the following amount of loss incurred by the reinsured during the agreement period:
- |  |                     |
|--|---------------------|
| Commercial HMO/POS/PPO/Gundersen Health Plan Minnesota | The first \$650,000 |
| GAS Members  | The first \$700,000 |
| Medicare and Medicaid/BadgerCare Members:              | The first \$500,000 |
- plus
- B. Excess Retention: The reinsured shall also retain 50% of loss incurred by the reinsured during the agreement period in excess of the specific retention.
- C. Carryover: For each member, loss incurred by the reinsured during the last 31 days of an agreement period for which the specific retention is not satisfied will be reinsured hereunder as if incurred during the next agreement period, provided the agreement is renewed.
- D. Transfer of Membership Type:
- In the event a member under this agreement transfers from one membership type to another during the agreement period:
- (1) Loss incurred and any specific retention accumulated for such member while reinsured under the initial membership type will be applied toward the subsequent membership type, as of the date of such transfer in membership type.
  - (2) Loss for which the reinsured has been indemnified by the corporation under the prior membership type will not be indemnified by the corporation under the subsequent membership type.
  - (3) All such services will be considered at the most restrictive terms of either the initial or subsequent membership type.
- Coverage: Hospital and Medical Services

Premium: Reinsurance premium rate including conversion fee, if any, per member, each month:

**Hospital/Medical Services**  
**Underlying Policies Annual Maximum**  
**\$2,000,000                      \$5,000,000**

Commercial HMO	\$2.26	\$2.41
Commercial POS	2.26	2.41
Commercial PPO	2.26	2.41
GHP Minnesota	2.26	2.41
GAS	3.15	3.30
Medicare	.25	.40
Medicaid/BadgerCare	.19	.34

Termination: The agreement terminates immediately in the declaration of insolvency by the reinsured. Otherwise the agreement is effective until the expiration date unless terminated by mutual consent or by either party giving 30 days' written notice.

2. Reinsurer: Celtic Insurance Company

Type: Medical Conversion Program

Effective date: January 1, 2013, to December 31, 2013

Coverage: The reinsurer provides all eligible participants with the ability to obtain conversion insurance coverage without evidence of insurability.

Premium: \$0.23 per member per month

Termination: The agreement can be terminated by the reinsurer if premiums are not paid for 60 days. Additionally, it can be terminated by either party with 90 days' notice.

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

1. Celtic will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.
2. Westpoint 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.
3. Celtic will make available to all members for a period of 31 days, without evidence of insurability, replacement coverage of the same benefit schedule and rates as then being offered by Westpoint to other prospective insureds within the state.

## **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. 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."

**Gundersen Lutheran Health Plan, Inc.**  
**Assets, Liabilities, and Capital and Surplus**  
**As of December 31, 2012**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
<b>Assets</b>			
Bonds	\$ 7,995,950	\$	\$ 7,995,950
Cash, cash equivalents and short-term investments	15,196,722		15,196,722
Other invested assets	1,550,000		1,550,000
Investment income due and accrued	20,233		20,233
Uncollected premiums and agents' balances in the course of collection	775,387	4,708	770,679
Amounts recoverable from reinsurers	250,000		250,000
Amounts receivable relating to uninsured plans	208,157		208,157
Receivables from parent, subsidiaries and affiliates	1,973,474		1,973,474
Health care and other amounts receivable	195,000	195,000	
Aggregate write-ins for other than invested assets	<u>340,404</u>	<u>338,987</u>	<u>1,417</u>
Total Assets	<u>\$28,505,327</u>	<u>\$538,695</u>	<u>\$27,966,632</u>
<b>Liabilities</b>			
Claims unpaid			\$ 269,026
Unpaid claims adjustment expenses			450,000
Aggregate health policy reserves			40,449
Premiums received in advance			4,421,105
General expenses due or accrued			1,013,659
Amounts due to parent, subsidiaries and affiliates			2,898,625
Liability for amounts held under uninsured accident and health plans			256,583
Aggregate write-ins for other liabilities [including \$(0) current]			<u>163,450</u>
Total liabilities			9,512,897
<b>Capital and Surplus</b>			
Gross paid in and contributed surplus		\$ 1,125,000	
Unassigned funds (surplus)		<u>17,328,735</u>	
Total capital and surplus			<u>18,453,735</u>
Total Liabilities, Capital and Surplus			<u>\$27,966,632</u>

**Gundersen Lutheran Health Plan, Inc.**  
**Statement of Revenue and Expenses**  
**For the Year 2012**

Net premium income		\$280,401,325
Medical and hospital:		
Hospital/medical benefits	\$200,275,879	
Outside referrals	10,909,950	
Emergency room and out-of-area	11,380,661	
Prescription drugs	15,810,043	
Aggregate write-ins for other medical and hospital	<u>24,298,237</u>	
Subtotal	262,674,770	
Less		
Net reinsurance recoveries	<u>393,070</u>	
Total medical and hospital	262,281,700	
Claims adjustment expenses	6,237,429	
General administrative expenses	<u>10,208,880</u>	
Total underwriting deductions		<u>278,728,009</u>
Net underwriting gain or (loss)		1,673,316
Net investment income earned		<u>45,482</u>
Net Income (Loss)		<u>\$ 1,718,798</u>

**Gundersen Lutheran Health Plan, Inc.**  
**Analysis of Surplus**  
**For the Five-Year Period Ending December 31, 2012**

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

Capital and surplus, beginning of year		\$16,720,660
Net income or (loss)	\$1,718,798	
Change in nonadmitted assets	<u>14,277</u>	
Net change in capital and surplus		<u>1,733,075</u>
Capital and Surplus, End of Year		<u>\$18,453,735</u>

**Gundersen Lutheran Health Plan, Inc.**  
**Statement of Cash Flows**  
**As of December 31, 2012**

Premiums collected net of reinsurance		\$281,345,581
Net investment income		<u>64,851</u>
Total		281,410,432
Less:		
Benefit- and loss-related payments	\$262,596,506	
Commissions, expenses paid and aggregate write-ins for deductions		<u>15,839,493</u>
Total		<u>278,435,999</u>
Net cash from operations		2,974,433
Proceeds from investments sold, matured or repaid:		
Bonds	\$5,408,000	
Other invested assets	<u>312</u>	
Total investment proceeds		5,408,312
Cost of investments acquired—long-term only:		
Bonds		<u>5,986,405</u>
Net cash from investments		(578,093)
Other cash provided (applied)		<u>(4,529,497)</u>
Net change in cash, cash equivalents, and short-term investments		(2,133,157)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>17,329,879</u>
End of Year		<u>\$ 15,196,722</u>

**Growth of Gundersen Lutheran Health Plan, Inc.**

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2012	\$27,966,632	\$ 9,512,897	\$18,453,735	\$280,401,325	\$262,281,700	\$1,718,798
2011	27,914,963	11,194,303	16,720,660	257,719,893	240,071,245	1,884,013
2010	29,696,305	14,854,747	14,841,558	241,754,828	225,671,300	2,280,784
2009	22,943,395	8,204,320	14,739,075	211,251,836	197,888,136	1,034,371

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2012	0.61%	93.54%	5.87%	2.1%
2011	0.73	93.15	6.13	6.8
2010	0.94	93.35	5.72	9.1
2009	0.49	93.67	5.91	43.3

**Enrollment and Utilization (Wisconsin Only)**

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2012	56,042	629.74	5.7
2011	54,905	666.11	5.7
2010	51,427	643.86	5.3
2009	47,134	660.85	5.0

**Per Member Per Month Information**

	2012	2011	Percentage Change
<b>Premiums:</b>			
Commercial	\$409.51	\$392.09	4.4%
Medicare	777.96	786.33	-1.1
Medicaid	164.73	122.76	34.2
Net premium income	421.79	396.34	6.4
<b>Expenses:</b>			
Hospital/medical benefits	301.26	287.10	4.9
Outside referrals	16.41	17.21	-4.6
Emergency room and out-of-area	17.12	15.81	8.3
Other medical and hospital	36.55	25.46	43.6
Prescription drugs	23.78	25.16	-5.5
Less: Net reinsurance recoveries	<u>0.59</u>	<u>1.53</u>	-61.5
Total medical and hospital	394.54	369.20	6.9
Claims adjustment expenses	9.38	8.78	6.9
General administrative expenses	<u>15.36</u>	<u>15.52</u>	-1.0
Total Underwriting Deductions	<u>\$419.27</u>	<u>\$393.49</u>	6.6

The company's enrollment increased 18% to 56,042 members in 2012 from 47,134 in 2009. Total assets have decreased 6% to \$27.9 million from \$29.7 million over the examination period. Capital and surplus has increased 24% to \$18.4 million from \$14.8 million over the examination period. The increase in capital and surplus is mainly attributable to the company's net income over the examination period.

The company has posted positive financial results over the examination period, posting net income in all three years under examination. The company's per member per month premium increased 6.4% from the prior year while their total underwriting deductions increased 6.6% from the prior year which led to a very slight decrease in the company's net income to \$1.7 million from \$1.9 million.

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

No adjustments to surplus or reclassifications were made as a result of the examination. The amount of surplus reported by the company as of December 31, 2012, is accepted.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were three 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. Reporting and Disclosure—It is again recommended the company report all affiliates and their significant agreements on the holding company registration statement forms B and C in accordance with s. Ins 40.03, Wis. Adm. Code.

Action—Compliance.

2. Reporting and Disclosure—It is recommended that the company report its accrued retrospective premium adjustment for Medicare Part D risk corridor as an adjustment to premium in accordance with the NAIC Annual Statement Instructions - Health.

Action—Compliance.

3. Affiliated Agreements—It is recommended that, in the future, the Commissioner be notified of material transactions at least 30 days prior to the effective date in accordance with s. 617.21 (2) (b), Wis. Stat.

Action—Compliance.

## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

### **Business Continuity Plan Testing**

The examination of GHP's business continuity plan (BCP) determined that it does not appear that the company has been conducting tests of the plan. It is important to test the BCP at least annually to provide reasonable assurance that the plan is executable in a disaster scenario. The BCP contains a form to be completed when BCP testing is conducted; however, it was not completed during the examination period. It is recommended that the company test its business continuity plan on an annual basis.

### **Investments**

The examination of the investment classification of short-term and long-term investments disclosed that the company had certificates of deposit with maturity of under one year that were listed as short-term investments in Schedule DA. According to Statement of Statutory Accounting Principle (SSAP) No. 2, par. 10., short-term investments shall not include certificates of deposit. Per the NAIC Annual Statement Instructions all certificates of deposit with maturity of under one year should be considered cash and listed on Schedule E. It is recommended that certificates of deposit with maturity dates of less than one year be classified as cash per SSAP No. 2, par. 10.

The examination of the company's investments disclosed that the company is reporting the acquisition date of an investment as the settlement date not the trade date as required under SSAP No. 26, par. 4. It is recommended that the company report the acquisition date of investments as of their trade date in accordance with SSAP No. 26, par. 4.

The company failed to properly complete Schedule D and Schedule DA of the 2012 Annual Statement. On Schedule D the company incorrectly reported the name of the custodian under bond description and left the date acquired column blank. On Schedule DA the company left the CUSIP column blank and did not correctly complete the description column. It is

recommended the company complete the Schedule D and DA investment schedules in accordance with the NAIC Annual Statement Instructions.

Under s. 620.23 (2) (b), Wis. Stat., investments in a single issuer and its affiliates, other than a) the government of the United States and b) subsidiaries of the types authorized under s. 611.26 (1) to (3), Wis. Stat., are limited to 10% of assets in calculating the compulsory surplus requirement. The examination of the company's investments determined that the company had funds invested in a money market mutual fund in excess of the 10% limitation. In addition, s. 620.22 (9), Wis. Stat., permits an additional 5% in investments not otherwise permitted by ch. 620, Wis. Stat., and not specifically prohibited by statute. It is recommended that the company either limit investments in accordance with s. 620.23 (2) (b), Wis. Stat., or deduct unauthorized investments from its compulsory surplus calculation.

Pursuant to s. 620.21, Wis. Stat., the amount of the investment exceeding these limitations cannot be counted toward satisfying the compulsory and security surplus requirement. The following reflects investments that exceed the limitation:

10% of admitted assets		\$2,796,633
	<b>Fund Name</b>	<b>Carrying Value</b>
		<b>Excess Investment</b>
	Wells Fargo MM Mutual Fund	\$9,857,027
	Less:	\$7,060,394
	Additional 5% of assets allowed	<u>1,398,331</u>
	Excess	<u>\$5,662,063</u>

The \$5,662,063 difference has been adjusted in the compulsory surplus calculation following this section.

### Financial Requirements

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

	<b>Amount Required</b>
1. Minimum capital or permanent surplus	Either: \$750,000, if organized on or after July 1, 1989 or \$200,000, if organized prior to July 1, 1989

2. Compulsory surplus            The greater of \$750,000 or:
- If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months;
- If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months
3. Security surplus                The greater of:
- 140% of compulsory surplus reduced by 1% of compulsory surplus for each \$33 million of additional premiums earned in excess of \$10 million
- or
- 110% of compulsory surplus

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

The company's calculation as of December 31, 2012, as modified for examination adjustments is as follows:

Assets	\$ 27,966,632	
Less:		
Adjustment for security surplus of insurance subsidiaries	1,050,000	
Special deposit	2,555,000	
Investments in excess of maximum allowable by ch. 620, Wis. Stat.	5,662,063	
Liabilities	9,512,897	
Assets available to satisfy surplus requirements		\$ 9,186,672
Net premium earned (HMO)	272,541,340	
Compulsory factor	3%	
	8,176,240	
Net premium earned (indemnity)	718,861	
Compulsory factor	10%	
	71,886	
Compulsory surplus		8,248,126
Compulsory Excess		\$ 938,564
Assets available to satisfy surplus requirements		\$ 9,186,672
Compulsory surplus	\$8,248,126	
Security factor	133%	
Security surplus		10,970,008
Security Excess		\$(1,783,336)

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 2012 with a deposit of \$2,555,000 with the State Treasurer.

## VIII. CONCLUSION

Gundersen Health Plan, Inc., is a nonprofit, network model health maintenance organization serving southwestern Wisconsin and northern Iowa. The company has an agreement with Gundersen Administrative Services, Inc., through which it receives administrative services.

The company's enrollment increased 18% to 56,042 members in 2012 from 47,134 in 2009. Total assets have decreased 6% to \$27.9 million from \$29.7 million over the examination period. Capital and surplus has increased 24% to \$18.4 million from \$14.8 million over the examination period.

The company has posted positive financial results over the examination period. They have posted a net income in all three years under examination. The company's per member per month premium increased 6.4% from the prior year while their total underwriting deductions increased 6.6% from the prior year which led to a very slight decrease in the company's net income to \$1.7 million from \$1.9 million.

The company complied with all three of the prior examination recommendations. There were a total of five current examination recommendations and no examination reclassification or adjustments to capital and surplus. Four of the five recommendations are regarding investment issues while the other is in response to the company's business continuity plan testing.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Business Continuity Plan Testing—It is recommended that the company test its business continuity plan on an annual basis.
2. Page 26 - Investments—It is recommended that certificates of deposit with maturity dates of less than one year be classified as cash per SSAP No. 2, par. 10.
3. Page 26 - Investments—It is recommended that the company report the acquisition date of investments as of their trade date in accordance with SSAP No. 26, par. 4.
4. Page 26 - Investments—It is recommended the company complete the Schedule D and DA investment schedules in accordance with the NAIC Annual Statement Instructions.
5. Page 27 - Investments—It is recommended that the company either limit investments in accordance with s. 620.23 (2) (b), Wis. Stat., or deduct unauthorized investments from its compulsory surplus calculation.

## 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>
Richard Onasch	Insurance Financial Examiner
Rachel Liu	Insurance Financial Examiner
Brian Jeremiason	Insurance Financial Examiner
Thomas Houston	IT Specialist

Respectfully submitted,

Terry Lorenz  
Examiner-in-Charge