

Report
of the
Examination of
Medica Health Plans of Wisconsin
Minnetonka, Minnesota
As of December 31, 2014

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION	3
III. MANAGEMENT AND CONTROL.....	6
IV. AFFILIATED COMPANIES.....	9
V. REINSURANCE.....	11
VI. FINANCIAL DATA	12
VII. SUMMARY OF EXAMINATION RESULTS.....	19
VIII. CONCLUSION.....	22
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	23
X. ACKNOWLEDGMENT.....	24



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

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May 3, 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:

MEDICA HEALTH PLANS OF WISCONSIN
Minnetonka, Minnesota

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Medica Health Plans of Wisconsin (MHPW or the company) was conducted in 2014 as of December 31, 2013. 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 of the company was conducted concurrently with the examination of Medica Insurance Group. The Minnesota Department of Commerce acted in the capacity as the lead state for the coordinated examination. Work performed by the Minnesota Department of Commerce was reviewed and relied on where deemed appropriate.

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.

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.

Lead State's Contracted Actuary's Review

The Minnesota Department of Commerce engaged an independent actuarial firm to perform a review of the Medica Insurance Group's reserves. The actuary reviewed the carried reserves for adequacy and the 2014 Statement of Actuarial Opinion and Actuarial Memorandum for compliance with the NAIC Annual Statement Instructions—Health. The actuary's results were reported to the Minnesota Department of Commerce Examiner-in-Charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Medica Health Plans of Wisconsin is incorporated under ch. 613, Wis. Stat., as an insurance service company. MHPW is also licensed as a Minnesota nonprofit health insurance corporation.

The company was incorporated April 8, 1996, and commenced business January 1, 1998. The company is controlled by Medica Holding Company (MHC), a Minnesota corporation that also owns or controls a health maintenance organization, a property and casualty insurance company, a third-party administrator, a medical management company and two foundations.

Prior to January 1, 2014, MHPW was dormant. Effective January 1, 2014, the company writes new business in the individual and family business market in Minnesota and Wisconsin. The company also writes business on the Health Insurance Exchange (Exchange). The company offers comprehensive health care coverage; all products are Qualified Health Plans (QHP) as defined by the Affordable Care Act (ACA) and fall within the metal levels Gold, Silver and Bronze, as well as Catastrophic for those under age 30 or those with a hardship (as deemed by the Exchange). Additionally, the products follow the respective essential health benefits, above and beyond those required of QHPs by the ACA, as determined by the benchmark/default plan (as defined by ACA) for Minnesota and Wisconsin. In Minnesota, QHPs must include coverage for dietary medical treatment of phenylketonuria (PKU), growth hormone replacement therapy, hearing aids, port wine stain removal, and scalp hair prostheses due to alopecia areata. In Wisconsin, QHPs must include coverage for intensive autism treatment, hearing aids, and kidney disease. As QHPs, all products must meet CMS and state requirements for provider network access and availability and for essential community providers.

The company markets individual policies, both on- and off-Exchange, in almost all Minnesota counties. The few exceptions are generally in the sparsely populated far northeastern and north central regions of the state. All products sold by the company are considered open access; the selection of a primary care provider/clinic is not required, and no referrals are necessary as long as care is received in-network.

In 2014 and 2015, the company marketed the following three products in Minnesota: Medica Applause, Inspiration Health by HealthEast and MHPW, and North Memorial Acclaim by MHPW. Medica Applause provides access to one of the company's largest networks: nearly 27,000 providers of all types at more than 4,000 offices, clinics and hospitals in Minnesota, North Dakota, South Dakota and Western Wisconsin. These products will continue to be sold in 2016.

Inspiration Health by HealthEast and MHPW is a product offered by the company for coverage and care in the Twin Cities east metro area with 17 primary and specialty care clinic locations and 4 hospitals, and featuring the HealthEast care system. Because of the localized network, the product is available for sale in 4 counties in Minnesota and is not available for sale in Wisconsin.

North Memorial Acclaim by MHPW offers a large, localized network in the Twin Cities west metro area with more than 900 specialist and primary care practitioners, 13 primary care clinic locations and 2 hospitals, featuring the North Memorial Care system. The product is available for sale in 5 counties in the Minneapolis area.

The company also offers Medica Individual Choice and Medica with Mayo Clinic. Medica Individual Choice provides access to the largest network: nearly 33,000 providers of all types at more than 6,000 offices, clinics and hospitals in Minnesota, North Dakota, South Dakota and western Wisconsin. Medica with Mayo Clinic offers access to the expertise and resources of Mayo Clinic and Mayo Clinic Health System, with more than 40 primary and specialty clinics and 3 hospitals. The product is available for sale in 18 counties of southern Minnesota.

In 2014, the company sold individual policies (both on- and off-Exchange) in the Wisconsin counties of Pierce, Polk and St. Croix. In 2015, MHPW added 6 other counties to the sales area: Ashland, Bayfield, Burnett, Douglas, Sawyer, and Washburn.

The company offers one product, Medica Applause, to Wisconsin residents. Medica Applause provides access to one of the company's largest networks: nearly 27,000 providers of all types at more than 4,000 offices, clinics and hospitals in Minnesota, North Dakota, South Dakota and western Wisconsin.

The company contracts with providers in Wisconsin, Minnesota, South Dakota and North Dakota to make health care services available to its enrollees. Providers execute one or sometimes two contracts covering services provided to enrollees of the company, Medica Health Plans (a Minnesota-domiciled HMO), Medica Insurance Company, and Medica Self-Insured.

The provider contracts include hold-harmless provisions for the protection of policyholders. The contracts have a one- or two-year term and may be terminated immediately for breach of contract if the provider loses his/her license to provide contracted services. The contract(s) can be terminated without cause upon 125-day prior written notice in advance of the anniversary date or upon mutual consent.

Hospitals are reimbursed using a variety of methods including fee-for-service (FFS), discounted FFS, per diem, per case and/or per stay basis. The contracts include hold-harmless provisions for the protection of policyholders.

The company currently markets directly to individuals, using independent agencies, paying a flat dollar commission on new and renewal business. The company also markets policies directly online and over the phone.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of thirteen members. Four or five 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 system. The board members currently receive compensation for serving on the board, which includes an annual retainer, an amount per board or committee meeting attended, and expense reimbursement for travel costs. Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Rajesh Kumar Aggarwal, Ph.D. Manchester, Maine	Professor of Finance	2017
Mark Lyman Baird Eden Prairie, Minnesota	Senior Vice President and Chief Financial Officer	2016
John Dean Buck Naples, Florida	Business Executive	2018
Daryl Eugene Durum Woodbury, Minnesota	Retired Business Executive	2016
James Paul Jacobson Minneapolis, Minnesota	Senior Vice President and General Counsel	2016
Peter Hoyt Kelly, M.D. St. Paul, Minnesota	General Surgeon	2016
Samuel Howard Leon, M.D. Edina, Minnesota	Physician	2018
John Mark Stanoch Wayzata, Minnesota	Retired County District Court Judge	2018
Earl Douglas Stratton St. Augustine, Florida	Retired Business Executive	2017
Austin Padraic Sullivan Richmond Hill, Georgia	Retired Business Executive	2017
David Micheal Tilford Minneapolis, Minnesota	President and CEO	2016

Board of Directors (cont.)

Name and Residence	Principal Occupation	Term Expires
Esther Moellering Tomljanovich Lake Elmo, Minnesota	Retired Associate State Supreme Court Justice	2017
Mary Jane Twinem Wayzata, Minnesota	Retired Executive Vice President and CFO of Buffalo Wild Wings, Inc.	2018

Officers of the Company

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

Name	Office	2014 Compensation*
David Micheal Tilford	President and CEO	\$2,141,543
James Paul Jacobson	Senior Vice President and General Counsel	804,926
Mark Lyman Baird	Senior Vice President and CFO	764,070

* Total compensation paid by Medica Health Plans (MHP). MHPW reimburses MHP via an allocation amount based on direct expenses.

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

Daryl Durum, Chair
John Buck
Peter Kelly, M.D.
John Stanoch

Community & Public Affairs Committee

Samuel Leon, M.D., Chair
John Buck
Daryl Durum
David Tilford
Esther Tomljanovich

Personnel & Compensation Committee

Austin Sullivan, Chair
Rajesh Aggarwal
Peter Kelly, M.D.
Earl Stratton

Medical Committee

Peter Kelly, M.D., Chair
Samuel Leon, M.D.
Austin Sullivan
Esther Tomljanovich

Governance Committee

Esther Tomljanovich, Chair
John Buck
Daryl Durum
Austin Sullivan
David Tilford

Finance Committee

Rajesh Aggarwal, Chair
John Buck
Samuel Leon, M.D.
John Stanoch
Earl Stratton

Technology Committee

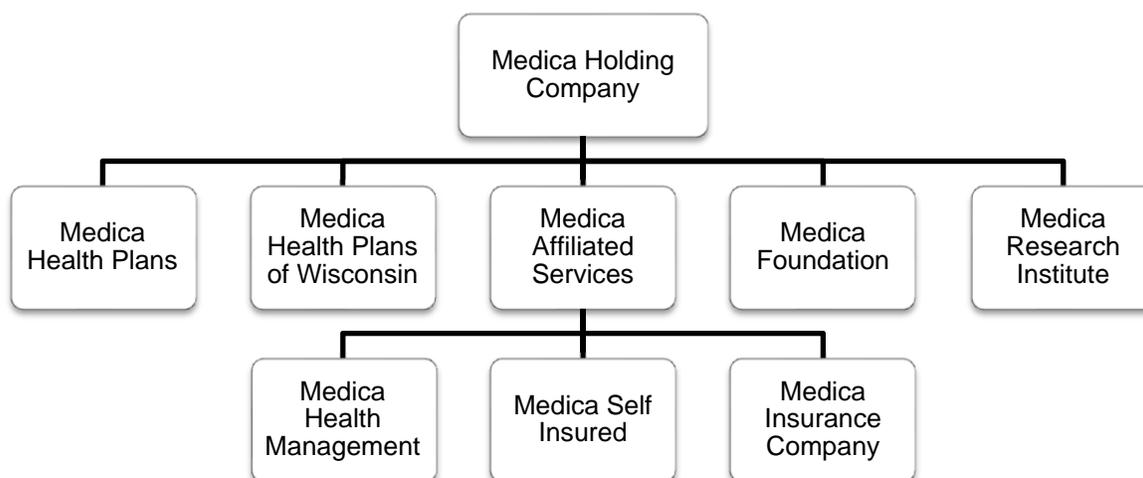
Earl Stratton, Chair
Rajesh Aggarwal
John Buck
David Tilford

The company has no employees. Necessary staff is provided through an affiliated administrative service agreement with MHP. Under the agreement, effective January 1, 2002, MHP 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; provides or contracts for claims processing, and MIS. MHP receives monthly installments, with amounts due being based on MHP standard methodologies for the allocation of direct and indirect administrative expenses across market segments. The methodologies may vary based on membership, FTEs or other standards. The agreement remains in effect until there is a mutual written agreement by both parties to terminate the agreement.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Medica Holding Company (MHC). 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**



Medica Holding Company

MHC is a Minnesota nonprofit corporation, organized and operated exclusively for the promotion of social welfare. Control of MHPW was transferred to MHC under a Plan of Reorganization and Disassociation Agreement between MHC and Allina Health System. The transfer was filed with the Office of the Commissioner of Insurance on January 10, 2002, and subsequently approved. As of December 31, 2014, this company's audited financial statement reported assets of \$1.6 billion, liabilities of \$624.9 million, and net assets of \$931.8 million. Operations for 2014 produced operating income of \$124.9 million on revenues of \$3.5 billion.

Medica Health Plans

MHP is a tax-exempt health maintenance organization that operates in the state of Minnesota. As of December 31, 2014, this company's audited financial statement reported assets of \$856.9 million, liabilities of \$396.8 million, and surplus of \$460.1 million. Operations for 2014 produced a net income of \$46.9 million on revenues of \$1,719.6 million.

Medica Insurance Company

Medica Insurance Company (MIC) is a Minnesota property and casualty insurance company that is licensed in Minnesota, Wisconsin, North Dakota and South Dakota. During 2015 MIC obtained a license in Iowa and Nebraska and will be offering business in both states starting in 2016. As of December 31, 2014, this company's audited financial statement reported assets of \$545.0 million, liabilities of \$235.3 million, and capital and surplus of \$309.7 million. Operations for 2014 produced net income of \$76.7 million on net premium income of \$1,664.5 million.

Affiliated Agreements

The company has entered into an administrative services agreement with MHP in which administrative services are provided to the company, including provider relations, provider network development, management and contracting, medical management, communications, finance, sales and marketing member service, human resources, facilities planning, purchasing services, print and telecommunication services, mail distribution, payroll, accounts payable, controllership functions, underwriting, cash management, and bank account management.

The agreement allocates administrative costs and services each month that are paid for by MHP. The allocations are based on metrics that have been developed for each cost center to most appropriately align the costs with the products. In the accounting process at month-end, the month's costs are allocated to the products and legal entities. When the account reconciliations are done each month, a wire transfer request between MHPW and MHP is completed to settle the prior month balances.

V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	RGA Reinsurance Company
Type:	Excess Medical Reinsurance Agreement
Effective date:	January 1, 2014
Retention:	\$2,000,000 per covered person per coverage period
Coverage period:	January 1, 2014, through December 31, 2014
Claims basis:	Losses that are: Incurred from January 1, 2014, through December 31, 2014; and paid, reported and submitted by December 31, 2015
Premium:	\$0.09 per covered person per month \$300,000 minimum annual premium
Coinsurance:	50%
Reinsurance limits:	\$3,000,000 per covered person per coverage period
Termination:	This agreement will automatically terminate at the end of the coverage period shown in the Schedule of Coverage. Failure to pay premium. In the event that premiums are not paid within 60 days of the due date, coverage hereunder will automatically terminate.

In addition, section 1341 of the ACA establishes a three-year reinsurance program to mitigate premium increases in the individual insurance markets resulting from individuals with very high health care costs purchasing insurance in the new Exchanges. In 2014, a tax of \$63 per covered life, or \$5.25 per covered life per month, is assessed on every health insurance plan enrollee. The money collected is then used to reimburse insurers in the private market for high-cost cases that reach beyond an attachment point, reimbursing the insurer for 80% of costs for claims between \$45,000 and \$250,000 per person.

Note: On June 17, 2015, the Centers for Medicare and Medicaid Services (CMS) announced that the 2014 transitional reinsurance program would have a coinsurance rate of 100%, rather than the originally stated 80%.

VI. 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.

**Medica Health Plans of Wisconsin
Assets
As of December 31, 2014**

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents, and short-term investments	\$52,927,203	\$	\$52,927,203
Investment income due and accrued	198		198
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	84,876	611	84,265
Reinsurance:			
Amounts recoverable from reinsurers	4,177,201		4,177,201
Receivable from parent, subsidiaries and affiliates	5,152,607	5,152,607	
Health care and other amounts receivable	208,220	35,387	172,833
Write-ins for other than invested assets:			
ACA risk adjustments receivable	<u>400,000</u>	<u> </u>	<u>400,000</u>
Total Assets	<u>\$62,950,305</u>	<u>\$5,188,605</u>	<u>\$57,761,700</u>

**Medica Health Plans of Wisconsin
Liabilities, Capital, and Surplus
As of December 31, 2014**

Claims unpaid		\$ 3,609,065
Unpaid claims adjustment expenses		80,920
Aggregate health policy reserves		1,400,000
Premiums received in advance		1,559,678
General expenses due or accrued		747,880
Ceded reinsurance premiums payable		1,486,807
Amounts due to parent, subsidiaries and affiliates		<u>1,301,674</u>
Total liabilities		10,186,024
Aggregate write-ins for special surplus funds:		
Section 9010 ACA subsequent year fee assessment	\$ 100,000	
Gross paid in and contributed surplus	15,000,000	
Surplus notes	33,250,000	
Unassigned funds (surplus)	<u>(774,324)</u>	
Total capital and surplus		<u>47,575,676</u>
Total Liabilities, Capital and Surplus		<u>\$57,761,700</u>

**Medica Health Plans of Wisconsin
Statement of Revenue and Expenses
For the Year 2014**

Net premium income		\$31,957,763
Change in unearned premium reserves and reserve for rate credits		<u>(1,400,000)</u>
Total revenues		30,557,763
Medical and hospital:		
Hospital/medical benefits	\$18,246,938	
Emergency room and out-of-area	3,833,235	
Prescription drugs	<u>2,898,717</u>	
Subtotal	24,978,890	
Less		
Net reinsurance recoveries	<u>4,177,201</u>	
Total medical and hospital	20,801,689	
Claims adjustment expenses	323,681	
General administrative expenses	<u>4,275,991</u>	
Total underwriting deductions		<u>25,401,361</u>
Net underwriting gain or (loss)		5,156,402
Net investment income earned	<u>(342,938)</u>	
Net investment gains or (losses)		<u>(342,938)</u>
Net Income (Loss)		<u>\$ 4,813,464</u>

**Medica Health Plans of Wisconsin
Capital and Surplus Account
For the Two-Year Period Ending December 31, 2014**

	2014	2013
Capital and surplus, beginning of year	\$47,939,502	\$ 2,974,512
Net income (loss)	4,813,464	(23,694)
Change in nonadmitted assets	(5,177,289)	(11,316)
Change in surplus notes		30,000,000
Surplus adjustments:		
Paid in	<u> </u>	<u>15,000,000</u>
Surplus, End of Year	<u>\$47,575,677</u>	<u>\$47,939,502</u>

**Medica Health Plans of Wisconsin
Statement of Cash Flows
As of December 31, 2014**

Premiums collected net of reinsurance		\$34,694,418
Net investment income		<u>(343,064)</u>
Total		34,351,354
Benefit- and loss-related payments	\$21,369,825	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>3,778,122</u>	
Total deductions		<u>25,147,947</u>
Net cash from operations		9,203,407
 Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>(6,261,242)</u>
 Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		2,942,165
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>49,985,038</u>
End of Year		<u>\$52,927,203</u>

Growth of Medica Health Plans of Wisconsin

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2014	\$57,761,700	\$10,186,024	\$47,575,676	\$31,957,763	\$20,801,689	\$4,813,464
2013	49,985,110	2,045,608	47,939,502	0	0	(23,694)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2014	15.8%	68.1%	15.1%	N.A.

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2014	6,514	308.78	5.1
2013	0	0	0

Per Member Per Month Information

	2014	2013
Premiums:		
Commercial	<u>\$477.26</u>	<u>\$ 0.00</u>
Expenses:		
Hospital/medical benefits	272.50	0.00
Emergency room and out-of-area	57.25	0.00
Prescription drugs	43.29	0.00
Less: Net reinsurance recoveries	<u>62.38</u>	<u>0.00</u>
Total medical and hospital	310.65	0.00
Claims adjustment expenses	4.83	0.00
General administrative expenses	<u>63.86</u>	<u>0.00</u>
Total underwriting deductions	<u>\$379.35</u>	<u>\$ 0.00</u>

There were 6,514 enrolled members and 66,961 member months at year-end 2014.

As stated previously, the company began writing business on the Health Insurance Exchange with the implementation of the Affordable Care Act (ACA). The company currently offers health insurance products on and off the Exchange that are ACA-compliant in the individual market.

In preparation for the new writings, MHPW received \$15 million paid-in capital and issued a surplus note of \$30 million to MHP that was executed on October 1, 2013. This generated a capital and surplus of \$47,939,502 at January 1, 2014. During 2014, MHPW experienced a net income of \$4,813,464 that was offset by an increase in nonadmitted assets of \$5,177,289 generating a capital and surplus of \$47,575,677 at December 31, 2014.

**Medica Health Plans of Wisconsin
Compulsory and Security Surplus Calculation
December 31, 2014**

The company's calculation as of December 31, 2014, as modified for examination adjustments is as follows:

Assets	\$57,761,700	
Less:		
Special deposit	0	
Liabilities	10,186,025	
Investments in excess of maximum allowable by ch. 620, Wis. Stat.	0	
Examination adjustments	<u>0</u>	
Assets available to satisfy surplus requirements		\$47,575,675
Net premium earned	31,957,763	
Compulsory factor	15%	
Compulsory surplus		<u>4,793,664</u>
Compulsory Surplus Excess/(Deficit)		<u>\$42,782,011</u>
Assets available to satisfy surplus requirements		\$47,575,675
Compulsory surplus	\$ 4,793,664	
Security factor	<u>140%</u>	
Security surplus		<u>6,711,129</u>
Security Surplus Excess/(Deficit)		<u>\$40,864,546</u>

Reconciliation of Capital and Surplus per Examination

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

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

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.

Disaster Recovery Plan Testing

The review of the Information Technology controls disclosed that the company has a Disaster Recovery Plan for the HealthRules system; however, the plan's functions and objectives have not been fully tested. Testing of disaster recovery plans should be performed annually to determine the plan's viability and the company's readiness to operate continuously in the event of business interruption including estimated expenses and expected timeframes. It is recommended that the company conduct a test of its Disaster Recovery Plan. Test plan objectives should be clearly defined and results measured to establish the effectiveness of the Disaster Recovery Plan.

Report on Executive Compensation

The company filed a Report on Executive Compensation (Form OCI 22-049) as required by ss. 601.42 and 613.63, Wis. Stat. Part 1 of the report requires the company to report the compensation of the chief executive officer and four most highly paid officers or employees, along with all officers or employees whose total annual compensation is in excess of a threshold amount. The company reported the individuals' compensation as zero. The company selected "Yes" indicating that MHPW is a member of a holding company system and the officers and directors are paid using an allocation to each insurer. Management indicated the company reported the compensation as zero because the individuals are employed by MHP rather than MHPW.

Pursuant to an Administrative Service Agreement between MHPW and MHP, the company reimburses MHP for administrative services on a cost basis that included a portion of salaries and total compensation. Since a portion of the officers compensation is allocated to MHPW as reimbursement to MHP for administrative services the company is required, at a minimum, to report the amount paid to reimburse the administrator for salaries and fringe

benefits. The company has the option to report the consolidated amount of executive compensation if desired. It is recommended that the company report compensation in accordance with the instructions on the Report of Executive Compensation per s. 613.63, Wis. Stat.

Custodial Agreement

The company has a custodial agreement with a bank for the safekeeping of securities. This agreement was reviewed to verify it met the applicable statutory requirements and the guidelines for custodial agreements contained in the NAIC Financial Condition Examiners Handbook. This review disclosed the agreement did not have the specific indemnification language as prescribed in the NAIC Financial Condition Examiners Handbook. It is recommended that the company either amend its current custodial agreement or enter into a new agreement to include specific language prescribed in the NAIC Financial Condition Examiners Handbook.

VIII. CONCLUSION

Medica Health Plans of Wisconsin is incorporated under ch. 613, Wis. Stat., as an insurance service company. MHPW is also licensed as a Minnesota nonprofit health insurance corporation. The company was incorporated April 8, 1996, and commenced business January 1, 1998.

The company contracts with providers in Wisconsin, Minnesota, South Dakota and North Dakota to make health care services available to its enrollees. The company currently offers health insurance products on- and off-Exchange that are Affordable Care Act (ACA) compliant in the individual market.

Prior to January 1, 2014, MHPW was a dormant entity for the period under examination of 2009 through 2013. Since January 1, 2014, business in the individual and family business market in Minnesota and Wisconsin is written by MHPW.

Policyholders' surplus has decreased from \$47,939,502 as of year-end 2013, when policyholders' surplus was last verified by examination, to \$47,575,677 as of year-end 2014, as determined by this examination. During 2014, MHPW experienced a net income of \$4,813,464 that was offset by an increase in nonadmitted assets of \$5,177,289 generating a decrease of \$363,825.

The examination resulted in no adjustments to policyholders' surplus or reclassifications to the balance sheet. There were three recommendations made as a result of the current examination of the company. These recommendations are summarized on the following page.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - Disaster Recovery Plan Testing—It is recommended that the company conduct a test of its Disaster Recovery Plan.
2. Page 21 - Report on Executive Compensation—It is recommended that the company report compensation in accordance with the instructions on the Report of Executive Compensation per s. 613.63, Wis. Stat.
3. Page 21 - Custodial Agreement—It is recommended that the company either amend its current custodial agreement or enter into a new agreement to include specific language prescribed in the NAIC Financial Condition Examiners Handbook.

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:

Name	Title
John Ebsen	Insurance Financial Examiner
Jerry DeArmond	Reserve Specialist
Dave Jensen	IT Specialist
John Litweiler	ACL Specialist
Amy Malm	Workpaper Quality Specialist

Respectfully submitted,

Marisa K. Rodgers
Examiner-in-Charge