

Report
of the
Examination of
Network Health Plan
Menasha, Wisconsin
As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

January 17, 2012

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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:

NETWORK HEALTH PLAN
Menasha, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Network Health Plan (the company or NHP) was conducted in 2007 as of December 31, 2006. The current examination covered the intervening period ending December 31, 2010, and included a review of such 2011 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

Network Health Plan is described as 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, the company provides care through contracts with two or more clinics. HMOs compete with traditional fee-for-service health care delivery. The major product lines for the insurer are a network model closed-panel HMO and a point-of-service (POS) plan.

The company was incorporated on September 30, 1982, and commenced business on April 1, 1983, as a not-for-profit HMO. As of December 31, 1986, NHP was reincorporated as a for-profit HMO. Effective October 31, 1995, the company received an amended certificate of authority as an indemnity insurer. NHP is owned by Network Health System, Inc. (NHS). On September 1, 1998, Affinity Health System (AHS) acquired the common and preferred stock of NHS. AHS is co-sponsored by Wheaton Franciscan Services, Inc., and Ministry Health Care, Inc. Effective December 6, 2001, the company received an amended certificate of authority reverting back to an HMO. Also in 2001, NHP established Network Health Insurance Corporation (NHIC) as a wholly owned subsidiary that provides indemnity health insurance coverage to NHP's POS members.

According to its business plan, the company's service area is comprised of the following counties: Brown, Calumet, Dodge, Door, Fond du Lac, Green Lake, Kewaunee, Manitowoc, Marquette, Oconto, Outagamie, Portage, Shawano, Sheboygan, Waupaca, Waushara, and Winnebago. The principal service area of the company is the Fox Valley region. NHP has 692 contracted primary care practitioners and 3,931 contracted specialist practitioners. For all HMO and POS products, NHP encourages an enrollee to choose a primary care practitioner to direct the member's care. Thus, an NHP/HMO member's primary care practitioner

is responsible for the member's care. If the member's primary care practitioner feels that specialty care is needed, he or she may refer the member to a contracted specialist.

NHP's primary care contract is with its direct parent Network Health System (NHS) (also referred to as Affinity Medical Group). The agreement defines Affinity Medical Group to include all its subsidiaries, including all "employed and contracted health care professionals, employees, agents, assigns, and subcontracts, who are professional service corporations, licensed health care providers, and/or who provide health care services." Thus, individual providers are contractually included under the hold-harmless provision where the provider agrees to not hold the member responsible for covered services. Under the contract, NHS agrees to provide medically necessary covered services and to make necessary and appropriate arrangements to assure the availability of primary care services covered by the HMO in exchange for contracted levels of reimbursement. The agreement's current reimbursement terms and conditions require NHP to pay AHS pursuant to various methodologies based on provider type, service location, and type of service or item. The agreement was amended to be effective October 1, 2010, and has an automatic renewal provision.

Other non-affiliated provider contracts in place are based on standard provider or hospital provider contracts. The standard contract generally specifies services covered by reference to the NHP Member's Health Service agreement. The contract requires that services be rendered promptly in a manner consistent with community standards. If a referral is required in a given situation, the provider agrees to provide only the health care services preauthorized by the referral. Providers are typically reimbursed on a fixed schedule of fees or discounted fee-for-service basis. The contracts include hold-harmless provisions for the protection of policyholders. The contracts have terms varying from one to three years.

NHP has contracts with 30 hospitals to provide inpatient and outpatient services. Hospitals are reimbursed on a per diem or discounted fee-for-service or diagnostic-related group basis. The 30 hospitals are as follows:

Appleton Medical Center	Appleton, WI
Berlin Memorial Hospital	Berlin, WI
Calumet Medical Center	Chilton, WI
Community Memorial Hospital	Oconto Falls, WI

Door County Memorial Hospital	Sturgeon Bay, WI
Door County Memorial Hospital	Fish Creek, WI
Door County Memorial Hospital	Algoma, WI
Eagle River Memorial Hospital	Eagle River, WI
Good Samaritan Health Center	Merrill, WI
Holy Family Memorial, Inc.	Manitowoc, WI
Howard Young Medical Center	Woodruff, WI
Mercy Medical Center	Oshkosh, WI
New London Family Medical Center	New London, WI
Our Lady of Victory Hospital	Stanley, WI
Ripon Medical Center	Ripon, WI
Riverside Medical Center	Waupaca, WI
Sacred Heart Hospital	Tomahawk, WI
Shawano Medical Center	Shawano, WI
St. Agnes Hospital	Fond du Lac, WI
St. Clare's Hospital	Weston, WI
St. Elizabeth Hospital	Appleton, WI
St. Mary's Hospital	Rhineland, WI
St. Mary's Hospital Medical Center	Green Bay, WI
St. Michael's Hospital	Stevens Point, WI
St. Nicholas Hospital	Sheboygan, WI
St. Vincent Hospital	Green Bay, WI
Theda Clark Regional Medical Center	Neenah, WI
UW Hospitals & Clinics	Madison, WI
Waupun Memorial Hospital	Waupun, WI
Wild Rose Community Memorial Hospital	Wild Rose, WI

The company offers comprehensive health care coverage which may be changed by riders to include deductibles and copayments. The following basic health care coverages are provided:

- Physician services
- Inpatient services
- Outpatient services
- Mental health, drug, and alcohol abuse services
- Ambulance services
- Prosthetic devices and durable medical equipment
- Newborn services
- Home health care
- Preventive health services
- Family planning
- Hearing exams and hearing aids
- Diabetes treatment
- Routine eye examinations
- Convalescent nursing home service
- Prescription drugs with copayments
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Kidney disease treatment
- Certain transplants
- Chiropractic services

Inpatient and outpatient mental health and AODA coverage follows the state mandated benefits. Emergency services may have a copayment or a deductible and

coinsurance, which are waived upon admission into an inpatient facility. Skilled nursing care is limited to 40 days. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral to a non-participating provider.

NHP has point-of-service products, which provide comprehensive benefits similar to those listed above when participating providers are used. The enrollee may elect, at the time of service, to use providers that are not part of NHP's network for higher deductibles and coinsurance levels. Out-of-network maternity, skilled nursing facility, extended care facility, and inpatient and some outpatient hospital services require precertification. If precertification is not received, benefits are denied. Out-of-network services are covered by Network Health Insurance Corporation.

NHP has contracted with the Wisconsin Department of Health Services (DHS) to provide and pay for services to recipients enrolled in the company under the Medicaid SSI HMO and BadgerCare Plus HMO Programs. The company has entered into a subcontract with Managed Health Services Insurance Corporation (MHSIC) to provide health care services to NHP's Medical Assistance enrollees. In consideration for the services to be provided, the company agreed to pay MHSIC the Medicaid HMO capitation rate per member per month less a base fee, plus an amount to cover the Health Insurance Risk-Sharing Plan assessment for all NHP's Medical Assistance enrollees. The contract was effective July 1, 1996, and was renewed on January 1, 2001, for a term of five years. On July 1, 2006, the initial contract was extended to 15 years.

Currently, NHP markets to employer groups, chamber of commerce members, and association members. NHP utilizes employee account representatives, as well as outside brokers.

The company uses an actuarially determined base as a beginning point in premium determination. For small groups, this rate is adjusted to reflect the age, gender, coverage characteristics, and risk assessment for new groups. Experience is reviewed for renewal groups and, based on the review; adjustments are made to a group's risk assessment factor, within limits as dictated by law. For large groups, this rate is adjusted to reflect the age, gender and coverage

characteristics. Experience is reviewed for groups and a recommendation is made regarding adjusting the rate or canceling the group given a credibility factor that is actuarially determined based on group size. Rates are determined by a weighted average of base and experience. The weighting is determined by the credibility factor. The base rate is adjusted monthly for inflation and other trending factors.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of ten members. Three 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 Affinity System. Board members not employed by Affinity Health System currently receive \$500 per meeting for serving on the board. Employees of Affinity Health System are paid through Affinity Health System and do not receive any additional compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Jeff Badger Appleton, WI	Sr. VP Finance, Affinity Health System	2013
Robert Dusenberry Appleton, WI	Community Representative Retired from JC Penney	2013
David Gitter Little Chute, WI	Community Representative Retired President M&I Bank	2013
Christine Griger M.D., Menasha, WI	President, Affinity Medical Group	2013
Fritz Hildebrand, M.D. Neenah, WI	Cardiology, Affinity Medical Group	2011
Sheila Jenkins Neenah, WI	President, Network Health Plan	NA*
Mark Kehrberg, M.D. Oshkosh, WI	Chief Medical Director, Affinity Health System	2012
Daniel Neufelder Neenah, WI	CEO, Affinity Health Systems	2011
Brian Scott, M.D. Appleton, WI	Family Practice, Affinity Medical Group	2011
Paul Veregge, M.D. Appleton, WI	VPMA & Physician Executive McKesson Corporation	2011

* The position as president does not have a term limit on the board of directors.

Officers of the Company

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

Name	Office	2010 Compensation
Sheila Jenkins	President	\$431,456*
Jeff Badger	Secretary/Treasurer	27,842*
Daniel Neufedler	Vice Chairperson	51,968*
Tim Temperly	Chief Operating Officer	293,068*
Edward Scanlan, M.D.	Medical Director	219,472*
Donald Schumann	VP Network Development	114,508*
William O'Brien	VP Sales	175,804

* These officers' salaries are paid by Affinity Health System through a management agreement with NHP, which has an agreement with the company. The above represents the portion of the officers' salary allocated to the company.

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

Sheila Jenkins, Chair
Dan Neufelder
Jeff Badger
Ed Scanlan, M.D.

There are numerous management committees that do not include any members of the board except the chair. Those committees include a Business Operations Committee, Senior Leadership Team, and a Quality Management Committee. Other management committees that report to the Quality Management Committee are as follows:

Compliance Committee
Credentials Committee
Peer Review Committee
Medical Policy Committee
Pharmacy and Therapeutics Committee
Grievance Committee
Medicare/PlatinumPlus Appeals Committee

The company has no employees. Necessary staff is provided through a management agreement with Network Health System (NHS). Under the agreement, effective October 1, 2005, NHS agrees to negotiate employer, provider, subscriber, and other contracts; advise the board; maintain accounting and financial records; provide recruiting, marketing, utilization review, and

claims processing personnel; provide or contract for claims processing, and management information services. NHS receives 100% of the cost of services being provided as compensation. The term of the agreement is one year and automatically renews for successive one-year terms. The company may terminate the agreement upon 60 days' written notice if default of standards of performance continues 30 days after notice of such default.

Insolvency Protection for Policyholders

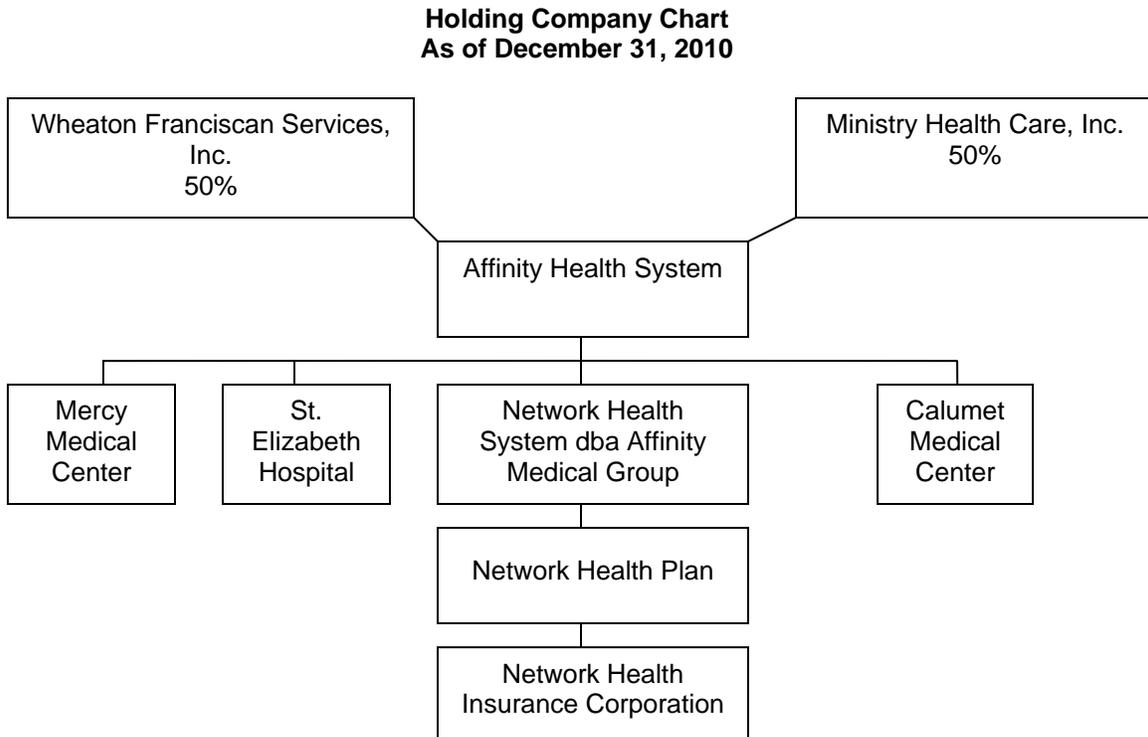
Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

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 a parental guaranty with AHS, as discussed in the "Affiliated Companies" section of this report.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Affinity Health System, which is co-sponsored by Ministry Health Care, Inc., and Wheaton Franciscan Services, Inc. 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.



Ministry Health Care, Inc.

Ministry Health Care, Inc., is a Wisconsin nonstock not-for-profit corporation that manages, promotes, and supports the health care and related ministries of the Milwaukee region of the Sisters of the Sorrowful Mother. As of September 30, 2010, the company's audited financial statement reported assets of \$1.6 billion, liabilities of \$810 million, and net assets of \$802 million. Operations for 2010 produced net income of \$62 million on revenues of \$1.1 billion.

Wheaton Franciscan Services, Inc.

Wheaton Franciscan Services, Inc. (WFS) is organized as an Illinois not-for-profit organization and operates under the tenets of the Roman Catholic Church and in accordance

with the philosophy and values of the Franciscan Sisters. WFS's subsidiaries provide general health care services to residents within its geographic locations including inpatient, outpatient, emergency room, physician, long-term care, and other related services. As of June 30, 2010, the company's audited financial statement reported assets of \$2.3 billion, liabilities of \$1.5 billion, and net assets of \$761 million. Operations for 2010 produced net income of \$63 million on revenues of \$1.9 billion.

Affinity Health System

Affinity Health System is an Illinois nonstock, not-for-profit corporation whose corporate members are Ministry Health Care, Inc. (MHS) and WFS. MHS and WFS operate an integrated health care delivery system in the Fox Valley of Wisconsin through Affinity Health System. As of September 30, 2010, Affinity Health System and Network Health System combined audited financial statement reported assets of \$449 million, liabilities of \$257 million, and net assets of \$192 million. Operations for 2010 produced net income of \$30.8 million on revenues of \$515 million.

Network Health System

Network Health System (NHS) provides medical services through its clinic operations and managed care products and services through the company. NHS became a member of AHS as a result of a series of acquisition transactions effective September 1, 1998. NHS filed a combined audited financial statement with AHS as noted above.

Network Health Insurance Corporation

Network Health Insurance Corporation (NHIC) began operations on August 1, 2001, and is a wholly owned subsidiary of Network Health Plan. NHIC provides indemnity health insurance coverage for out-of-area medical costs related to the point-of-service products and also has a Medicare Advantage product, with the majority of these services being provided in northeastern Wisconsin. As of December 31, 2010, the company's audited financial statement reported assets of \$77.5 million, liabilities of \$37.6 million, and capital and surplus of \$39.9 million. Operations for 2010 produced net loss of \$3.1 million on revenues of \$314.5 million.

Agreements with Affiliates

The company has entered into numerous affiliated agreements. These agreements are described below:

- Effective July 1, 2001 and amended in 2008, the company entered into an administrative and program agreement with NHIC. Under this agreement NHP and NHIC offer a point-of-service benefit plan in NHP's service area to be administered by NHP. NHIC provides the indemnity health insurance coverage to NHP's point-of-service members for a percentage of the premium.
- Effective October 1, 2005, and amended in 2008, the company entered into an allocation agreement with AHS. This agreement is discussed in the section of the report captioned "Management and Control."
- Effective December 23, 2003, and amended in 2009, the company entered into a tax-sharing agreement with NHIC. Under this agreement, NHP and NHIC file a consolidated tax return. NHIC agrees to make payments within 10 days of the tax allocation in the amount equal to the full separate federal, state, and local income tax liability attributable to the net taxable income if the return had been filed separately. Reimbursement is 60 days after estimated taxes are filed.
- Effective December 21, 2004, the company entered into a parental guaranty agreement with AHS. AHS guaranties payment of liabilities and that NHP will maintain an NAIC risk-based capital of 275% of company action level.
- Effective September 1, 2009, the company entered into a HMO/POS Provider agreement with NHIC, Ministry Health Care and Affinity Health Systems. These agreements are discussed in the section of the report captioned "History and Plan of Operations."
- Effective January 1, 2011, the company entered into an Administrative Service Agreement with Affinity Health Systems. This agreement provides AHS employees with health insurance through a self-funded option which NHP administers for a fee.
- Effective October 1, 2003, the company entered into a Management and Staff Service agreement with Network Health Systems. Under this agreement NHS provides the administration of payroll and fringe benefits for NHP. NHP agrees to reimburse NHS every two weeks based on payroll and benefits paid or accrued for.

V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

1. Reinsurer: RGA Reinsurance Company
- Type: Excess of Loss Reinsurance
- Effective date: January 1, 2011
- Services covered: Inpatient hospital
Inpatient rehabilitation
Skilled nursing facility
Outpatient health
Physician
Drug related
- Covered member types: Commercial HMO, POS (in-network benefits)
Affinity Health Plan employees
- Coverage: Lesser of 100% of billed charges or the amount paid by the company
- Claims basis: Losses that are:
Incurred from January 1, 2011, through December 31, 2011;
Paid and reported by June 30, 2012; and
Submitted by July 31, 2012
- Deductible: \$350,000 per member per agreement period
- Coinsurance: 90% (company retains 10%)
95% (company retains 5%) for qualifying newborn members under the reinsurer's Rosebud program
- Reinsurance limit: \$5,000,000 per member per agreement period
- Premium: \$4.13 pmpm
Experience refund is applicable if premium exceeds \$500,000
Experience refund calculated as 30% of the difference between 70% of premiums paid and all losses reimbursed during the agreement period
- Termination: Agreement automatically terminates on December 31, 2011

The reinsurance policy contains the following insolvency provisions:

1. Reinsurer is obligated to continue benefits, without the deductible or coinsurance limitation, for members who are confined in a hospital on the date of insolvency until their discharge or the effective date of any replacement coverage. Members receiving eligible skilled nursing facility services or custodial care are not eligible for inclusion in the insolvency coverage provided under this provision.
2. Reinsurer is obligated to continue benefits, without the deductible or coinsurance limitation, for all benefits for all eligible members until

the earlier of (a) the end of the then-current agreement year; (b) thirty days following the date of insolvency; (c) the end of the period for which premiums have been paid to plan on behalf of such members; (d) the effective date of any replacement coverage; and (e) the date a member's coverage would otherwise terminate under term of the reinsurance agreement.

The policy insolvency coverage is subject to an aggregate limit of \$7,500,000.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2010, 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.

**Network Health Plan
Assets
As of December 31, 2010**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 35,093,705	\$ 0	\$ 35,093,705
Stocks:			
Common stocks	39,920,675		39,920,675
Real estate:			
Properties occupied by the company	3,233,287		3,233,287
Cash, cash equivalents and short-term investments	19,440,528		19,440,528
Investment income due and accrued	371,939		371,939
Uncollected premiums and agents' balances in the course of collection	1,189,577	18,600	1,170,977
Amounts recoverable from reinsurers	363,951		363,951
Current federal and foreign income tax recoverable and interest thereon	2,444,667		2,444,667
Net deferred tax asset	1,979,110	171,950	1,807,160
Guaranty funds receivable or on deposit			
Electronic data processing equipment and software	324,746	172,287	152,460
Furniture and equipment, including health care delivery assets	171,700	171,700	0
Receivables from parent, subsidiaries and affiliates	1,270,359	1,270,359	0
Health care and other amounts receivable	<u>1,616,879</u>	<u>1,002,371</u>	<u>614,509</u>
Total Assets	<u>\$107,421,124</u>	<u>\$2,807,267</u>	<u>\$104,613,857</u>

**Network Health Plan
Liabilities and Net Worth
As of December 31, 2010**

Claims unpaid		\$ 19,935,247
Unpaid claims adjustment expenses		1,000,000
Premiums received in advance		3,514,002
General expenses due or accrued		3,118,037
Amounts due to parent, subsidiaries and affiliates		<u>1,640,645</u>
Total liabilities		29,207,931
Common capital stock	\$ 200,000	
Gross paid in and contributed surplus	25,172,597	
Unassigned funds (surplus)	<u>50,033,329</u>	
Total capital and surplus		<u>75,405,926</u>
Total Liabilities, Capital and Surplus		<u>\$104,613,857</u>

**Network Health Plan
Statement of Revenue and Expenses
For the Year 2010**

Net premium income		\$396,063,987
Medical and hospital:		
Hospital/medical benefits	\$237,293,139	
Other professional services	18,106,076	
Emergency room and out-of-area	17,400,748	
Prescription drugs	24,756,263	
Aggregate write-ins for other medical and hospital	<u>33,286,098</u>	
Subtotal	330,842,323	
Less		
Net reinsurance recoveries	<u>1,231,664</u>	
Total medical and hospital	329,610,659	
Claims adjustment expenses	18,068,173	
General administrative expenses	<u>20,250,444</u>	
Total underwriting deductions		<u>367,929,276</u>
Net underwriting gain or (loss)		28,134,711
Net investment income earned	2,097,003	
Net realized capital gains or (losses)	<u>371,463</u>	
Net investment gains or (losses)		2,468,466
Aggregate write-ins for other income or expenses		<u>(5,420)</u>
Net income or (loss) before federal income taxes		30,597,756
Federal and foreign income taxes incurred		<u>11,075,275</u>
 Net Income (Loss)		 <u>\$ 19,522,481</u>

**Network Health Plan
Capital and Surplus Account
As of December 31, 2010**

Capital and surplus prior reporting year		\$69,802,712
Net income or (loss)	\$ 19,522,481	
Net unrealized capital gains and losses	(3,089,948)	
Change in net deferred income tax	542,864	
Change in nonadmitted assets	(1,072,183)	
Dividends to stockholders	<u>(10,300,000)</u>	
Net change in capital and surplus		<u>5,603,214</u>
 Capital and Surplus End of Reporting Year		 <u>\$75,405,926</u>

**Network Health Plan
Statement of Cash Flows
As of December 31, 2010**

Premiums collected net of reinsurance		\$397,078,208
Net investment income		<u>2,850,926</u>
Total		399,929,134
Less:		
Benefit- and loss-related payments	\$332,646,300	
Commissions, expenses paid and aggregate write-ins for deductions	39,499,667	
Federal and foreign income taxes paid (recovered) \$0 net tax on capital gains (losses)	<u>13,622,999</u>	
Total		<u>385,768,966</u>
Net cash from operations		14,160,168
Proceeds from investments sold, matured or repaid:		
Bonds	21,705,359	
Cost of investments acquired—long-term only:		
Bonds	\$ 7,365,601	
Stocks	16,000,000	
Real estate	<u>34,744</u>	
Total investments acquired	<u>23,400,346</u>	
Net cash from investments		(1,694,987)
Cash provided/applied:		
Dividends to stockholders	10,300,000	
Other cash provided (applied)	<u>(1,218,295)</u>	
Net cash from financing and miscellaneous sources		<u>(11,518,295)</u>
Net change in cash, cash equivalents, and short-term investments		946,886
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>18,493,642</u>
End of Year		<u>\$ 19,440,528</u>

Growth of Network Health Plan

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2010	\$104,613,857	\$29,207,931	\$75,405,926	\$396,063,987	\$329,610,659	\$ 19,522,481
2009	103,113,529	33,310,816	69,802,712	424,433,283	375,752,003	10,493,066
2008	80,298,598	26,861,250	53,437,348	352,991,588	309,106,743	(338,276)
2007	67,397,746	37,082,036	30,315,710	348,644,365	317,987,036	(1,756,095)
2006	56,821,787	27,327,417	29,494,370	349,234,900	308,689,151	2,254,628

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2010	4.9%	83.2%	9.7%	-15.7%
2009	2.5	88.5	9.0	5.9
2008	-0.1	87.6	10.9	0.7
2007	-0.5	91.2	10.9	-6.0
2006	0.6	88.4	11.1	3.0

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2010	105,009	233	3.6
2009	124,565	246	4.0
2008	117,674	251	3.9
2007	116,832	241	3.8
2006	124,316	310	3.7

Per Member Per Month Information

	2010	2009	Percentage Change
Premiums:			
Commercial	\$202.24	\$195.06	3.68%
Medicare			
Medicaid	84.46	97.87	(13.70)
Expenses:			
Hospital/medical benefits	171.77	180.62	(4.90)
Other professional services	13.11	12.58	4.18
Prescription drugs	17.92	20.07	(10.71)
Emergency room and out-of-area	12.60	12.44	1.22
Other medical and hospital	24.09	34.45	(30.05)
Less: Net reinsurance recoveries	<u>0.89</u>	<u>2.35</u>	(62.02)
Total medical and hospital	238.59	259.33	(8.00)
Claims adjustment expenses	13.08	12.45	5.09
General administrative expenses	<u>14.66</u>	<u>13.48</u>	8.71
Total Underwriting Deductions	<u>\$266.33</u>	<u>\$285.26</u>	(6.64)

Assets and capital and surplus have increased 84% and 156%, respectively, since 2006. The increase in capital and surplus is primarily due to favorable operating results with minimal increases in liabilities. Capital and surplus has steadily increased since 2007. The company paid a \$10.3 million dividend in 2010 and \$3 million dividend in 2009. The company paid additional capital to its insurance subsidiary, NHIC, of \$16 million in 2011.

NHP has had a 15.5% enrollment decrease during the four-year examination period due in part from NHP switching to a self-funded plan and a decrease in Medicaid membership. The company reported decreased enrollment in two of the last four years; however, the company's earned premium has increased 13.4% over the same period.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 16 specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that NHP report its financial results to its board on an individual company basis and on the company's actual reporting year.

Action—Compliance

2. Executive Compensation—It is recommended that the company properly include all compensation amounts when completing the Report on Executive Compensation.

Action—Compliance

3. Agreements—It is again recommended that the company file agreements with affiliated entities in accordance with s. 617.21, Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

Action—Noncompliance; see comments in the "Summary of Current Examination Results."

4. Agreements—It is recommended that NHP either amend its cost allocation agreement with AHS to clearly describe the allocation calculation being used or allocate expenses in accordance with the stated agreement.

Action—Compliance

5. Agreements—It is recommended that the company require AHS to abide by its agreement and contribute capital in a timely manner to bring NHP to an RBC level of at least 275%.

Action—Compliance

6. Agreements—It is also recommended that the company establish procedures to monitor its capital and surplus in a manner that would allow it to determine when contributions would be necessary.

Action—Compliance

7. Agreements—It is recommended that the company properly file transactions at least 30 days prior to the effective date as required by s. Ins 40.04, Wis. Adm. Code, and properly report all transactions on the annual Holding Company Registration in accordance with s. Ins 40.04 (3), Wis. Adm. Code.

Action—Compliance

8. CPA Engagement Letter—It is recommend that NHP either enter into an agreement with their current independent auditor that does not contain indemnification language or obtain a firm that meets the qualification for an independent certified public accountant as prescribed under s. Ins 50.08 (1), Wis. Adm. Code.

Action—Compliance

9. Investments—It is recommended that NHP report its investment in NHIC in accordance with SSAP No. 88.

Action—Compliance

10. Investments—It is recommended that the company add indemnification clauses to its custodial agreement in accordance with the NAIC Financial Condition Examiners Handbook.

Action—Compliance

11. Accrued Medical Incentive—It is recommended that the company correctly report amounts owed under the risk-sharing/capitation agreement with Affinity Medical Group as an affiliated receivable or payable.

Action—Compliance.

12. Amounts Withheld on Account for Others—It is recommended that the company properly classify payroll/employee accruals due to affiliated entities as a payable to affiliates in accordance with SSAP No. 64.

Action—Compliance

13. HIRSP Accrual—It is recommended that the company accrue for the HIRSP assessment in accordance with SSAP No. 35.

Action—Compliance

14. Password Controls—It is recommended that the company require passwords for access to its data to be changed no less frequently than 90 days.

Action—Compliance

15. Authorized Access—It is again recommended that a formal periodic process be established to ensure that all IDs with access to the company's data are authorized and their access is appropriate for them to perform their job responsibilities.

Action—Compliance

16. Disaster Recovery Plan—It is again recommended that the company formally test its disaster recovery plans on an annual basis.

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.

Claims Checks not Properly Signed

NHP checks over \$10,000 require two signatures. This requirement is written on the face of the check. It was noted during a review of claim cancelled checks that a second signature was not included on a cancelled check over \$10,000. According to the company NHP has an unwritten policy that checks over \$10,000 require a second signature as control to prevent fraud.

It is recommended that NHP develop a written policy regarding signatures for checks over \$10,000 and that NHP develop procedures to ensure that the policy is enforced.

Audit Committee

The company does not have an audit committee but relies on the audit committee of Affinity Health System. The examiners reviewed the list of audit committee members and the audit committee charter of the Affinity Health System audit committee. It was noted during the review of the charter that the audit committee consists of two representatives of the corporate members and one community member from the Finance and Operations Committee. The examiners noted that the Audit Committee members are not members of the board of directors of the Affinity Health System.

Under s. Ins 50.15, Wis. Adm. Code, the insurance company is required to have an audit committee that is directly responsible for the appointment, compensation, and oversight of the company's auditor. The auditor engaged is required to report directly to the audit committee. Each member of the audit committee is required to be a member of the board of directors of the insurer or a member of the board of directors of the ultimate controlling person. For insurers with \$300 million to \$500 million in direct annual premium 50% or more of the audit committee members are required to be independent. The company does not have an audit committee meeting the requirements of s. Ins 50.15, Wis. Adm. Code. It is recommended that the company

come into compliance with s. Ins 50.15, Wis. Adm. Code, regarding the appointment and operation of its audit committee.

Agreements

The prior examination recommended that NHP execute a tax allocation agreement with NHIC and submit this agreement and all future agreements for review by the Commissioner in accordance with s. 617.21, Wis. Stat. The current examination determined that during the period under examination NHP did amend its tax allocation agreement with NHIC but did not submit this amended agreement for review by the Commissioner at least 30 days before the effective date of the transaction as required by s. Ins 40.04, Wis. Adm. Code. It is again recommended that the company file agreements with affiliated entities in accordance with s. Ins 40.04, Wis. Adm. Code.

Claims Reserves Deficiency

The year-end 2010 claim reserve appears to be deficient based on claims development through the second quarter of 2011. The indicated deficiency of \$1.8 million is below the examination's materiality standard.

The examiners noted that the company has recently selected claim reserves in the lower end of the actuary's reasonable range. It is suggested that the company review its process for estimating claims reserves and consider selecting a reserve estimate toward the mid point rather than the low end of the actuarial range.

Board of Directors

According to 3.2 of the company's Articles of Incorporation the terms of directors shall be staggered so that, as near as possible, an equal number of directors shall be elected in each year. As noted in the "Management and Control" section of this report the company reported four directors' terms expire in 2011, one director's term expires in 2012, and four directors' terms expire in 2013. It is recommended that the company comply with its Articles of Incorporation by staggering the terms of directors so that, as near as possible, an equal number of directors shall be elected in each year.

Financial Requirements

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

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

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

The company's calculation as of December 31, 2010, as modified for examination

adjustments is as follows:

Assets		\$104,613,857	
Less:			
Special deposit		2,833,439	
Liabilities		29,207,931	
Adjustments for security surplus of insurance subsidiaries		<u>41,201,742</u>	
Assets available to satisfy surplus requirements			\$31,370,745
Net HMO premium earned	\$279,382,417		
Compulsory factor	<u>3%</u>	8,381,472	
Net Medicaid premium earned	116,681,570		
Compulsory factor	<u>.5%</u>	583,408	
Compulsory surplus			<u>8,964,879</u>
Compulsory Surplus Excess/(Deficit)			<u>\$22,405,866</u>
Assets available to satisfy surplus requirements			\$31,370,745
Compulsory surplus Security factor		\$8,964,879	
		<u>124%</u>	
Security surplus			<u>11,564,693</u>
Security Surplus Excess/(Deficit)			<u>\$19,806,052</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 2010 with a deposit of \$2,833,439 with the State Controller.

VIII. CONCLUSION

Network Health Plan is a for-profit network health maintenance organization whose principal service area is the Wisconsin Fox Valley region. NHP is a wholly owned subsidiary of Network Health System, which is a wholly owned subsidiary of Affinity Health System. AHS is co-sponsored by Wheaton Franciscan Services, Inc., and Ministry Health Care, Inc.

The company's operating results were favorable in the years 2009 and 2010 of the four-year examination period. At December 31, 2010, the company reported assets of \$104.6 million, liabilities of \$29.2 million and capital and surplus of \$75.4 million. Premium earned over the four-year examination period increased from \$349.2 million in 2006 to \$396 million in 2010. The company reported a decrease in the medical expense ratio and change in enrollment in 2010.

The examination concluded the company has complied with 15 prior recommendations and failed to comply with 1 prior recommendation. This examination resulted in 4 recommendations as listed on the following page. The examination suggests that the company consider selecting reserve estimates toward the mid point rather than the low end of the actuarial range.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Claim Checks not Properly Signed—It is recommended that NHP develop a written policy regarding signatures for checks over \$10,000 and that NHP develop procedures to ensure that the policy is enforced.
2. Page 24 - Audit Committee—It is recommended that the company come into compliance with s. Ins 50.15, Wis. Adm. Code, regarding the appointment and operation of its audit committee.
3. Page 25 - Agreements—It is again recommended that the company file agreements with affiliated entities in accordance with s. Ins 40.04, Wis. Adm. Code.
4. Page 25 - Claims Reserve Deficiency—It is suggested that the company review its process for estimating claims reserves and consider selecting a reserve estimate toward the mid point rather than the low end of the actuarial range.
5. Page 25 - Board of Directors—It is recommended that the company comply with its Articles of Incorporation by staggering the terms of directors so that, as near as possible, an equal number of directors shall be elected in each year.

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
Thomas Houston	Insurance Financial Examiner
Raymond Kangogo	Insurance Financial Examiner
Victoria Chi	IT Specialist

Respectfully submitted,

Judith Michael
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On February 8, 2012, Ministry Health Care, Inc., purchased the 50% share of Affinity Health System from Wheaton Franciscan Services, Inc. Ministry Health Care, Inc., became the sole corporate sponsor of Affinity Health System, the ultimate parent of Network Health Plan.