

Report  
of the  
Examination of  
Trilogy Health Insurance, Inc.  
Brookfield, Wisconsin  
As of December 31, 2013

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Scott Walker**, Governor  
**Theodore K. Nickel**, Commissioner

*Wisconsin.gov*

January 29, 2015

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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:

TRILOGY HEALTH INSURANCE, INC.  
Brookfield, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Trilogy Health Insurance, Inc. (THI, Trilogy, or the company) was conducted in 2009 as of December 31, 2008. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

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

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

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

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## II. HISTORY AND PLAN OF OPERATION

Trilogy Health Insurance, Inc., is described as a 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 company was incorporated on July 27, 2006, and commenced business on January 2, 2007, as a health insurer under s. Ins 6.75 (1) (c), Wis. Adm. Code. As a health insurer, the company had served small businesses and the medium-size employer market in 24 counties of eastern Wisconsin and offered a variety of benefit plan options, including traditional PPO plans and High Deductible Health Plans that qualified for Health Savings Accounts, Pharmacy, and Tri-Healthy Wellness Program.

Effective January 1, 2013, US Health and Life Insurance Co. (USHL), a Michigan insurance company, assumed all of Trilogy's in-force group health policies. However, the company retained all responsibility for the runoff of group health policies prior to January 1, 2013. During 2013, the company continued to maintain its provider network and make it available on a fee-for-service basis to insurers, self-funded employer groups and third-party administrators.

On January 16, 2014, the company received an amended Certificate of Authority pursuant to a change of business plan approved by this office. The company will now engage in business as a Wisconsin HMO with focus on Medicaid and maintaining a contract with the Wisconsin Department of Health Services (DHS) to provide health services to BadgerCare Plus and Medicaid Supplemental Security Income (SSI) eligible members. In connection with the change in business plan, the company transferred its network business to Trilogy Health Solutions (an affiliate), including cash of \$550,000 and non-insurance contract rights, in exchange for the assumption of the company's surplus notes of \$2,000,000.

The company is owned by Trilogy Health Holdings, LLC (THH). THH is a Wisconsin limited liability company that was organized on June 16, 2006, for the purpose of acquiring and holding 100% of the outstanding stock of the company. THH was founded by five experienced Wisconsin insurance executives. Following an approval from the Office of the Commissioner of Insurance (OCI), THH received \$1,198,000 on January 21, 2014, from new partners, namely Independent Physicians Network (IPN), Scas Management Group, LLC (SMG), and Bonita Warner. THH used \$1,188,000 of the amount received to capitalize THI.

### **Services and Service Area**

According to its business plan, the company's initial service area was comprised of the following counties: Ozaukee, Waukesha, Milwaukee, and Racine. In November 2014, OCI approved a business plan amendment to add seven counties in northeastern Wisconsin to the service area: Brown, Marinette, Oconto, Outagamie, Shawano, Waupaca, and Winnebago,

As an HMO, the company makes available to enrolled participants, in consideration of periodic fixed payments, comprehensive health care services provided by providers selected by the company and who are partners of the company or who have entered into a referral or contractual arrangement with the company, for the purpose of providing for BadgerCare Plus and/or Medicaid SSI and SSI-related Medicaid contract services to members enrolled in the HMO. The State of Wisconsin BadgerCare Plus and/or Medicaid SSI program was approved by the Secretary of the United States Department of Health and Human Services pursuant to the provisions of the Social Security Act, and for the further specific purpose of promoting coordination and continuity of preventive health services and other medical care including prenatal care, emergency care, and HealthCheck services.

Once enrolled, HMO members can choose a Primary Care Provider (PCP) from those available in Trilogy's provider directory. If a particular member does not choose a PCP within 30 days after enrollment, THI will assign one to that member based on the member's zip code. A member can change his or her PCP anytime. Urgent care or routine care received from non-THI providers needs approval from THI. This includes children who are spending time away from home with a parent or relative. Likewise, emergency care from a non-THI hospital or

provider needs approval from THI or from the PCP before going to the emergency care, unless the emergency is severe. THI has a 24-hour emergency telephone number.

THI has partnered with Independent Physicians Network (IPN) to coordinate care for all medical and social needs of each member. Along with IPN's own multi-specialty network of more than 900 member physicians, THI's overall network includes access to over 3,300 contracted physicians throughout the service area comprising the 11 counties mentioned above.

The company contracts with hospitals to provide inpatient services. Hospitals are reimbursed at a rate equal to a percentage of the applicable Wisconsin State Medicaid DRG base rate payment. The following is a listing of hospitals in which participating physicians have admitting privileges:

- Appleton Medical Center
- Bay Area Medical Center
- Bellin Memorial Hospital
- Bellin Psychiatric Center
- Berlin Memorial Hospital
- Childrens Hospital of Wisconsin
- Columbia St. Mary's Hospital Ozaukee
- Columbia St. Mary's Hospital Milwaukee
- Columbia St. Mary's Women's Hospital
- Midwest Orthopedic Specialty Hospital
- Midwest Spine & Orthopedic Hospital
- New London Medical Center
- Oconomowoc Memorial Hospital
- Orthopaedic Hospital of Wisconsin
- Rehabilitation Hospital of Wisconsin
- Riverside Medical Center
- Sacred Heart Rehabilitation Institute
- Shawano Medical Center
- Theda Clark Medical Center
- Waukesha Memorial Hospital
- Wheaton Franciscan Healthcare-All Saints (Spring Street)
- Wheaton Franciscan Healthcare-All Saints (Wisconsin Avenue)
- Wheaton Franciscan Healthcare-Franklin
- Wheaton Franciscan Healthcare-St. Francis
- Wheaton Franciscan-Elmbrook Memorial
- Wild Rose Community Memorial Hospital

The contracts with providers include hold-harmless provisions for the protection of policyholders. The contracts have either a one-year term or a two-year term and may be terminated without cause upon written notice to the other party within a certain number of days.

The company offers comprehensive health care coverage as required by the DHS contract. The following basic health care coverages are included:

- Dental services – DentaQuest
- Vision Services – Herslof Vision
- Mental Health and Substance Abuse – Beacon Health Strategies
- Hearing Services
- Health Checks
- Durable Medical Equipment
- Emergency/Urgent Care
- Physical, Speech, and Occupational Therapy
- Family Planning Services
- Chiropractic Services
- Home Health Services

Following are the primary care clinics and physician groups that provide comprehensive health care services:

- Bellin Health System
- Columbia St. Mary Clinics
- Community Health Network
- Eastside Family Practice
- Healthcare for the Homeless (FQHC)
- Hillside Family Health Center (FQHC)
- Independent Physicians Network
- Isaac Coggs Heritage Health Center (FQHC)
- Lisbon Avenue Health Center (FQHC)
- MLK Heritage Health Center (FQHC)
- North Reach Healthcare
- North Shore Health Network
- ProHealth Care Clinics
- Sixteenth Street Community Health Center – Chavez Health Center (FQHC)
- Sixteenth Street Community Health Center – Parkway Health Center (FQHC)
- ThedaCare Physicians
- Wheaton Franciscan Healthcare Clinics

### **HMO Contract**

The company's contract with DHS prohibits the company from marketing to potential BadgerCare Plus and/or Medicaid SSI managed care members and BadgerCare Plus and/or Medicaid SSI members who are not the HMO's members. DHS defines "marketing" as any unsolicited contact by the HMO, its employees, affiliated providers, subcontractors, or agents with a potential member. However, the HMO is allowed to distribute communication materials and outreach plans to members with DHS prior approval. The member communication material and the outreach plan must describe the HMO's timeline and process for distributing outreach and member communication materials, including materials posted to the HMO's Web site or

distributed electronically. The HMO must also specify the format of its member communication and outreach materials (mailings, radio, TV, billboards, etc.) and its target population or intended audience.

According to s. 49.49 (3m), Wis. Stat., the HMO and its providers and subcontractors must not bill a BadgerCare Plus or Medicaid SSI member for medically necessary covered services provided during the member's period of HMO enrollment, except for allowable copayments and premiums established by the Division of Health Care Access and Accountability (DHCAA) for covered services provided during the member's period of enrollment in BadgerCare Plus.

For each month of coverage throughout the term of the HMO contract, DHS transmits "HMO Enrollment Rosters" to the HMO. These rosters provide the HMO with ongoing information about its BadgerCare Plus and/or Medicaid SSI members and dis-enrollees and will be used as the basis for the monthly capitation claim payments to the HMO. In consideration of full compliance by the HMO with contract requirements, DHS agrees to pay the HMO monthly payments based on the capitation rates for BadgerCare Plus Standard, Benchmark and Medicaid SSI plans. The capitation rates are prospective and based on actuarial methodology required by federal regulations. The capitation rate may not include any amount for recoupment of losses incurred by the HMO under previous contracts, nor does it include services that are not covered under the State Plan.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of seven members appointed in accordance with the THH Second Amended and Restated Operating Agreement. 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 company. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
William Felsing Delafield, WI	Chief Executive Officer Trilogy Health Insurance, Inc.	Annually
Bonita Warner Eden Prairie, MN	President and Executive Director Trilogy Health Insurance, Inc.	Annually
Glenn Reinhardt New Berlin, WI	Treasurer, Executive Vice President and Chief Operating Officer Trilogy Health Insurance, Inc.	Annually
Randall Westley New Berlin, WI	President Medical Management Associates	Annually
Ajitkumar Parekh, MD Franklin, WI	Physician Pulmonary and Critical Care Associates	Annually
Ronald Scasny Muskego, WI	President Scas Management Group, LLC	Annually
Michael Repka Hartland, WI	Chief Executive Officer Independent Physicians Network, Inc.	Annually

#### 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	2014 Salary
William Felsing	Chief Executive Officer	\$ 0
Bonita Warner	President and Executive Director	124,241
Glenn Reinhardt	Treasurer, Executive Vice President and Chief Operating Officer	157,553

### **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. There was only one committee at the time of the examination: the audit committee, which consisted of all members of the board.

### **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:

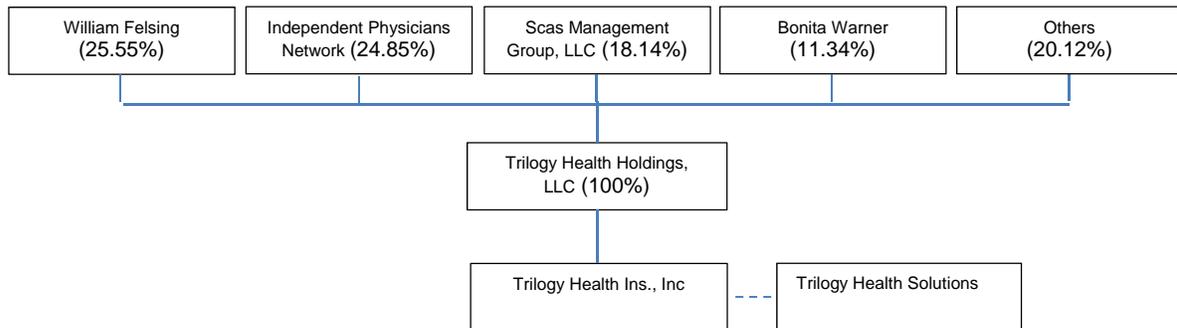
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

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 Trilogy Health Holdings, LLC. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the affiliates deemed significant for this examination report follows the organizational chart.

**Holding Company Chart  
As of December 31, 2013**



#### Independent Physicians Network (IPN)

IPN is a physician managed and controlled medical delivery network established in 1984. IPN owns 24.85% of THH. IPN has over 900 member physicians in the network who utilize all hospitals in the Milwaukee and surrounding areas. IPN also offers patient access to many freestanding centers such as imaging, laboratory and therapy sites. Member physicians currently provide medical services to over 75,000 commercial, Medicaid and Medicare enrollees through its Accountable Care Organizations (ACOs) and contracted health plans.

In an administrative service agreement with THI effective January 1, 2014, IPN agrees to supervise and administer the day-to-day business operations, including IPN provider relations, referral and authorization, credentialing, care coordination, disease management, quality improvement, medical director, claims review, claims appeal review, after hours calls, etc. In return, THI agrees to pay IPN \$7.05 per member per month (PMPM) for members participating under the products identified as Supplemental Security Income (SSI) or BadgerCare Plus members. THI also agrees to pay IPN \$5.03 PMPM fee for all childless adult members.

### **Scas Management Group, LLC (SMG)**

SMG is a non-insurance company based in Milwaukee. The company offers management and backroom administrative services to businesses engaged in insurance, managed care, and third-party administration.

Through an administrative service agreement with THI effective January 1, 2014, SMG agrees to provide certain administrative and management services to THI, including reinsurance reporting, IT/IS support and data management, compliance support, administrative and operations support, human resources, provider relations and contracting, claims processing, membership and enrollment, customer service, and other client support functions. In return, THI makes monthly payments of certain fixed fees (ASO fee) to SMG.

SMG owns 18.14% of THH.

### **Trilogy Health Holdings, LLC (THH)**

THH is a Wisconsin limited liability company that was organized on June 16, 2006, for the purpose of acquiring and holding 100% of the outstanding stock of THI. THH was founded by five Wisconsin insurance executives. Following an approval from OCI, THH received \$1,198,000 on January 21, 2014, from three new partners, namely, Independent Physicians Network, Scas Management Group, LLC, and Bonita Warner. THH used \$1,188,000 of the amount received to additionally capitalize THI.

### **Trilogy Health Solutions, Inc. (THS)**

THS was founded by five insurance executives who partly own THH. The majority of the voting shares of THS are owned by William D. Felsing (55.94%), Glenn J. Reinhardt (18.23%), and Michael T. Flock (10.9%). THS is a Wisconsin preferred provider network which sold under the name of Trilogy Health Networks (THN), originally developed for THI. The network includes most of the major hospital systems and medical groups in eastern Wisconsin. Its coverage spans the geographic areas of Racine/Kenosha, Milwaukee/Waukesha, Oshkosh/Appleton, as well as Green Bay and surrounding areas.

In connection with the change in business plan, THI entered into an administrative services agreement with THS effective January 1, 2014. Under this agreement, THI transferred,

assigned and set over to THS all rights, in non-Medicaid commercial provider contracts, network access agreement and consulting and management contracts in exchange for the assumption of the company's surplus notes of \$2.0 million. THI retains all personnel that will be utilized in the network business. THI provides THS with administrative, consulting and management services. In return, THS reimburses THI for the personnel costs and a percentage of other administrative expenses.

On January 21, 2014, with the approval of OCI, the company paid interest accrued to the surplus note holders as of December 31, 2013, in the amount of \$855,960.

## V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	PartnerRe America Ins. Co. (PartnerRe)
Type:	Specific Excess Loss Reinsurance
Effective date:	March 1, 2014
Retention:	\$200,000 per person
Coverage:	\$2,000,000 maximum payable per person
Premium:	\$2.58 per person for Medicaid BadgerCare Plus \$1.14 per person for Childless Adults \$5.18 per person for Medicaid SSI
Termination:	March 1, 2015

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

1. PartnerRe will continue to provide the benefits covered under the applicable Membership Services Agreement with respect to each covered person who is confined in a hospital on the insolvency date for expenses incurred and payable by such covered person on or after such date until the earlier of:
  - a. The covered person's discharge from the hospital; or
  - b. The date the covered person becomes eligible for health insurance coverage or benefits under another group or blanket policy or plan or any federal, state or local governmental plan or program. The reinsurer shall pursue any coordination of benefits, subrogation or any other right of recovery that may be available to the reinsurer as a result of the covered persons being covered under two or more health care policies or plans.
2. PartnerRe will continue the plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to the plan by that member or on his behalf.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2013, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination."

**Trilogy Health Insurance, Inc.**  
**Assets**  
**As of December 31, 2013**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 764,824	\$	\$ 764,824
Cash, cash equivalents and short-term investments	<u>1,081,163</u>		<u>1,081,163</u>
Subtotals, cash and invested assets	1,845,987		1,845,987
Investment income due and accrued	13,641		13,641
Net deferred tax asset	1,391,611	1,391,611	
Electronic data processing equipment and software	4,830	65	4,765
Furniture and equipment, including health care delivery assets	10,881	10,881	
Aggregate write-ins for other than invested assets	<u>134,235</u>	<u>9,747</u>	<u>124,488</u>
<b>Total Assets</b>	<b><u>\$3,401,185</u></b>	<b><u>\$1,412,304</u></b>	<b><u>\$1,988,881</u></b>

**Trilogy Health Insurance, Inc.**  
**Liabilities and Net Worth**  
**As of December 31, 2013**

Claims unpaid		\$ 205,000
General expenses due or accrued		275,886
Current federal and foreign income tax payable and interest thereon		<u>7,655</u>
Total liabilities		488,541
Common capital stock	\$ 1,000,000	
Gross paid in and contributed surplus	2,770,000	
Surplus notes	2,000,000	
Unassigned funds (surplus)	<u>(4,269,660)</u>	
Total capital and surplus		<u>1,500,340</u>
<b>Total Liabilities, Capital and Surplus</b>		<b><u>\$1,988,881</u></b>

**Trilogy Health Insurance, Inc.**  
**Statement of Revenue and Expenses**  
**For the Year 2013**

Net premium income		\$
Medical and hospital:		
Hospital/medical benefits	\$ (973,045)	
Other professional services	(20,400)	
Prescription drugs	<u>(42,988)</u>	
Subtotal	(1,036,433)	
Less:		
Net reinsurance recoveries	<u>(347,840)</u>	
Total medical and hospital	(688,593)	
General administrative expenses	<u>2,043,166</u>	
Total underwriting deductions		<u>1,354,573</u>
Net underwriting gain or (loss)		(1,354,573)
Net investment income earned		26,991
Aggregate write-ins for other income or expenses:		
Network access fees	2,517,689	
Other revenue	<u>129,146</u>	<u>2,646,835</u>
Net income or (loss) before federal income taxes		1,319,253
Federal and foreign income taxes incurred		<u>13,655</u>
Net Income (Loss)		<u>\$ 1,305,598</u>

**Trilogy Health Insurance, Inc.**  
**Capital and Surplus Account**  
**For the Five-Year Period Ending December 31, 2013**

	2013	2012	2011	2010	2009
Capital and surplus, beginning of year	\$ 264,309	\$ 2,020,001	\$ 3,147,585	\$1,271,190	\$ 2,010,162
Net income (loss)	1,305,598	106,027	(1,157,829)	6,733	(1,420,782)
Change in net deferred income tax	(485,713)	(47,376)	383,806	(14,497)	481,260
Change in nonadmitted assets	591,145	(239,343)	(353,561)	134,159	(299,450)
Change in surplus notes	<u>(175,000)</u>	<u>(1,575,000)</u>	<u>                    </u>	<u>1,750,000</u>	<u>500,000</u>
Surplus, End of Year	<u>\$1,500,340</u>	<u>\$ 264,309</u>	<u>\$ 2,020,001</u>	<u>\$3,147,585</u>	<u>\$ 1,271,190</u>

**Trilogy Health Insurance, Inc.**  
**Statement of Cash Flows**  
**As of December 31, 2013**

Premiums collected net of reinsurance		\$ 14,511
Net investment income		28,487
Miscellaneous income		<u>2,940,521</u>
Total		2,983,519
Less:		
Benefit- and loss-related payments	\$3,281,637	
Commissions, expenses paid and aggregate write-ins for deductions	2,513,270	
Federal and foreign income taxes paid (recovered) \$0 net tax on capital gains losses	<u>6,000</u>	
Total		<u>5,800,907</u>
Net cash from operations		(2,817,388)
Cost of investments acquired—long-term only:		
Bonds	<u>22,173</u>	
Net cash from investments		(22,173)
Cash provided/applied:		
Surplus notes, capital notes	(175,000)	
Other cash provided (applied)	<u>(2,124)</u>	
Net cash from financing and miscellaneous sources		<u>(177,124)</u>
Net change in cash, cash equivalents, and short-term investments		(3,016,685)
Cash, cash equivalents, and short-term investments: Beginning of year		<u>4,097,848</u>
End of Year		<u>\$ 1,081,163</u>

### Growth of Trilogy Health Insurance, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2013	\$1,988,881	\$ 488,541	\$1,500,340	\$	\$ (688,593)	\$ 1,305,598
2012	5,371,248	5,106,938	264,310	25,788,791	22,888,283	106,027
2011	8,425,873	6,405,871	2,020,002	42,677,293	36,042,756	(1,157,829)
2010	7,496,373	4,348,788	3,147,585	30,940,137	25,105,341	6,733
2009	4,315,374	3,044,184	1,217,190	20,288,190	16,876,729	(1,420,782)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change In Enrollment
2013	0.0%	0.0%	0.0%	-100.0%
2012	0.4	88.8	23.1	-20.6
2011	-2.7	84.5	18.9	14.2
2010	0.0	81.1	19.2	39.3
2009	-7.0	82.6	24.6	63.9

### Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2013	0	0.0	0.0
2012	9,437	228.4	4.4
2011	11,888	176.3	3.7
2010	10,411	178.8	3.9
2009	7,474	159.3	3.5

### Per Member Per Month Information

	2013	2012	2011	2010	2009
Premiums:					
Commercial	<u>0</u>	<u>209</u>	<u>298</u>	<u>275</u>	<u>267</u>
Expenses:					
Hospital/medical benefits	0	274	227	204	198
Other professional services	0	1	2	1	1
Prescription drugs	0	25	24	23	23
Less: Net reinsurance recoveries	<u>0</u>	<u>114</u>	<u>2</u>	<u>4</u>	<u>2</u>
Total medical and hospital	0	186	252	224	220
Claims adjustment expenses	0	13	11	10	9
General administrative expenses	<u>0</u>	<u>36</u>	<u>6</u>	<u>3</u>	<u>7</u>
Total Underwriting Deductions	<u>0</u>	<u>234</u>	<u>308</u>	<u>76</u>	<u>286</u>

Results of operations in 2013 were significantly different from prior years due to assumption of all of the company's in-force group health policies effective January 1, 2013, by US Health and Life Insurance Company, an insurer domiciled in Michigan. Insurance-related activities in 2013 were primarily the run-off of claims incurred before the effective date of the transfer. The company's primary source of income was the network access business.

Over the first eight years since its inception in 2006, the company had difficulty reaching break-even and had reported a net loss in most years. In order to meet the state requirements on compulsory and security surplus, as well as required RBC ratios, the company issued several surplus notes.

### **Subsequent Events**

On January 16, 2014, the company received an amended certificate of authority, pursuant to a change in business plan approved by this office. The company will now engage in business as a Wisconsin HMO with a focus on Medicaid and maintain a contract with the Wisconsin Department of Health Services to provide health services to BadgerCare Plus and Medicaid Supplemental Security Income eligible members. In connection with the business plan, the company transferred its network business to Trilogy Health Solutions, Inc., in exchange for the surplus notes of \$2.0 million and some assets. Following an approval from this office, the holding company, THH, received \$1,198,000 on January 21, 2014, from three new partners, namely, Independent Physicians Network , Scas Management Group, LLC , and Bonita Warner. THH used \$1,188,000 of the amount received to capitalize THI.

## 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, 2013, follows:

Assets	\$1,988,881	
Less:		
Liabilities	<u>488,541</u>	
Assets available to satisfy surplus requirements		\$1,500,340
Compulsory surplus		<u>750,000</u>
Compulsory Surplus Excess		<u>\$ 750,340</u>
Assets available to satisfy surplus requirements		\$1,500,340
Compulsory surplus	\$ 750,000	
Security factor	<u>110%</u>	
Security surplus		<u>825,000</u>
Security Surplus Excess		<u>\$ 675,340</u>

In addition, there is a special state 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

As an HMO specialized in Medicaid, the company is exempt from the above requirement under s. 646.01, Wis. Stat.; therefore, THI does not have a special state deposit.

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

There are no examination reclassifications and adjustments as a result of this examination.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

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

1. Plan Testing—It is recommended that the company discuss or outsource its disaster recovery plan to a local IT consulting firm.

Action—Partial compliance. The old plan is no longer applicable due to change in business plan. See comments in the “Summary of Current Examination Results” under Disaster Recovery/Business Continuity Plan.

2. Physical Access—It is recommended that the company secure its network server in a locked room, with proper ventilation, and restricted to authorized users only.

Action—Compliance.

3. Conflict of Interest Statements—It is recommended that the company require Conflict of Interest statements be completed by all directors annually and maintain them in the corporate records as required by the Directive of the Commissioner.

Action—Compliance.

4. Cost Containment Expense—It is recommended that the company classify management fees paid to Innoviant for pharmacy claims administration as cost containment expense under claim adjustment expenses in the future in compliance with SSAP 85.

Action—No longer applicable. The company was in run-off in 2013.

5. Unpaid Claims Adjustment Expenses—It is recommended that the company classify pharmacy administration fees on unpaid pharmacy claims as unpaid claim adjustment expenses.

Action—No longer applicable. The company was in run-off in 2013.

## **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.

### **Corporate Governance**

The current examination obtained an understanding of the company's corporate governance through discussions and interviews with the directors and officers, and other procedures such as review of board minutes, articles and bylaws, organizational structure, duties and responsibilities, risk management functions, etc. It was noted during the review that the company reorganized in 2014 pursuant to a change in business plan. Under the new business plan, substantial changes were made, which included frequency and schedule of board meetings. The articles and bylaws were not updated as to the current changes. It is recommended that the company amend its Articles and Bylaws to conform to its current changes in the organization and business plan and make the proper filing in accordance with s. Ins 9.06 (2), Wis. Adm. Code.

### **Disaster Recovery/Business Continuity Plan**

In conjunction with the financial examination planning, a separate IT review was performed by the OCI IT Specialist in order to provide assurance to financial examiners of the overall reliability of the company's IT systems and the reports generated from these systems. This allows the opportunity to test and rely on automated application controls during the examination.

The review included determination of compliance to the prior recommendation for the company to discuss or outsource its disaster recovery plan to a local IT consulting firm. Although the company had complied with this recommendation and developed a disaster recovery plan (old plan) with the assistance of its IT consulting firm, the old plan is not updated as to the current changes in the company's operation as an HMO. The current examination considered the old plan no longer applicable. However, the company is in the process of developing another plan for the new system. The new plan is designed for computer system recovery and phone system recovery in the event of an interruption in the service. It appears that the new design does not

take into consideration the entire operation of the company as an HMO. Further, the company does not have a specific target date to adopt and test the new plan. Inasmuch as it is still in the development stage, it is recommended that the new disaster recovery/business continuity plan cover all operations of the company as an HMO, as well as set a target date to complete and test the new plan.

### **Outside Services/Outsourcing**

Following the company's change in business plan and reorganization during 2014, the company entered into separate administrative service agreements with two affiliates, namely, Scas Management Group, LLC (SMG) and Independent Physicians Network (IPN).

According to the contract, SMG provides administrative services such as claims processing, initial high-level review of cap payment to DHS membership report (820) and provision of report to Trilogy, pass thru payments to PCPs under ACA Primary Care enhancement payments, and Access payment processing, and other Finance and IT/IS support services. SMG uses Virtual Benefits Administration (VBA) system in processing and adjudication of the claims submitted through the automated entry in DHS ANSI 834 file format, or through manual entry from the providers. Additionally, the contract provides that SMG shall provide a disaster recovery plan which includes backup of Trilogy data and a backup physical location at the Trilogy office with a secondary location at IPN which will be available to both SMG and Trilogy in the event of disaster.

IPN is a managed medical provider network which provides various administrative services, including credentialing, medical management and quality improvement services, including assistance to Trilogy in fulfilling its obligations to DHS. According to the contract, IPN shall supervise and administer the day-to-day business operations for the administrative services such as provider relations, referral and authorization, credentialing, care coordination, disease management, quality improvement, medical director services, claims review, claims appeals review, and after hours call. Additionally, IPN agrees to permit Trilogy to conduct a routine audit annually on its credentialing services in order to determine compliance with NCQA, DHS, and

Trilogy standards. A report will be generated by Trilogy and submitted to Trilogy's board of directors for review and recommendations at least on an annual basis.

Based on the discussion with the company, neither SMG nor IPN prepare audited financial statements, nor is either the subject of a SSAE 16 (SOC 1) report on internal controls. Trilogy does not perform an onsite review of these providers but does perform an extensive review and reconciliation of the claims documents and payments. Considering that the company has just started as an HMO, company management determined that it is more costly than beneficial to perform an extensive review of the providers' internal controls. However, as the enrollment and/or volume of claims may increase, it is the company's prerogative to perform a regular onsite review of the providers' operation and document the internal controls as deemed appropriate. Nonetheless, it is Trilogy's responsibility to ensure that the critical functions or operations outsourced to providers are effectively and efficiently performed and controlled in order to deliver quality services to members and to avoid significant losses arising from such things as fraud, data breaches, operational inefficiencies or business disruptions.

### **Cash and Investments**

The company has one bank Certificate of Deposit that exceeds the FDIC insured limits. It is suggested that the company develop a plan to limit the investment in a bank Certificate of Deposit to the FDIC insured limit.

## VIII. CONCLUSION

The company reported total assets of almost \$2.0 million against liabilities of almost \$488 thousand as of year-end 2013. Capital and surplus of \$1.5 million had increased 468% from prior year mainly due to the net income of \$1.3 million during the year. Results of operations in 2013 were significantly different from prior years due to the transfer of all of the company's in-force group health policies to an insurer domiciled in Michigan effective January 1, 2013. Insurance-related activities in 2013 were primarily the run-off of claims. The company's primary source of income was the network access business.

Over the last eight years since its inception in 2006, the company had experienced difficulty reaching break-even and had reported a net loss in most years. The company issued several surplus notes in order to meet statutory surplus requirements and risk-based capital level.

The company filed a change in business plan in 2014 and was approved and received an amended certificate of authority to do business as a new Medicaid HMO. As an HMO, the company focuses on Medicaid and maintains a contract with the Wisconsin Department of Health Services to provide health services to BadgerCare Plus and Medicaid Supplemental Security Income eligible members. The company outsources most of its operations to third-party administrators.

In connection with the change in business plan, the company transferred its network business to an affiliate in exchange for the surplus notes of \$2.0 million and some assets. The company received an additional paid in of \$1,188,000 from the holding company. This amount was part of the total contribution of \$1,198,000 received by the holding company from new partners.

This examination resulted in two recommendations in areas related to corporate governance and business continuity. The recommendations are summarized on the following page.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Corporate Governance—It is recommended that the company amend its Articles and Bylaws to conform to its current changes in the organization and business plan and make the proper filing in accordance with s. Ins 9.06 (2), Wis. Adm. Code.
2. Page 24 - Disaster Recovery/Business Continuity Plan—It is recommended that the new disaster recovery/business continuity plan cover all operations of the company as an HMO, as well as set a target date to complete and test the new plan.

**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>
Scott Bleifuss	Insurance Financial Examiner
David Jensen	IT Specialist

Respectfully submitted,

Angelita M. Romaker  
Examiner-in-Charge