

Report
of the
Examination of
UCare Wisconsin, Inc.
Minneapolis, Minnesota
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

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October 18, 2011

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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:

UCARE WISCONSIN, INC.
Minneapolis, Minnesota

and this report is respectfully submitted.

I. INTRODUCTION

This is the first examination of UCare Wisconsin, Inc. (the company or the Plan). The current examination covered the period ending December 31, 2010, and included a review of such 2011 transactions as deemed necessary to complete the examination.

The examination was conducted 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.

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

UCare Wisconsin, Inc., is a nonprofit service insurance corporation licensed in the State of Wisconsin under ch. 613, Wis. Stat., established to provide Medicare coverage through the Medicare Advantage program for Wisconsin residents.

The company was incorporated on January 18, 2007, and commenced business on January 1, 2008. The company was originally capitalized through an investment of \$2 million in cash and an additional \$3 million in exchange for a surplus note from its sole member, UCare Minnesota, to meet the initial capital requirements established by the Wisconsin Office of the Commissioner of Insurance.

The company has no employees. The operations of the company are administered by UCare Minnesota under an administrative services agreement (described in the “Affiliated Companies” section of the report).

Enrollees are encouraged, but not required, to choose a Primary Care Physician (PCP). The PCP does not act as a gatekeeper and specialty care does not require prior authorization or referral.

The company’s principal provider networks are Associated Eye Care, Oakwood Villa, St. Croix Orthopedics PA, The Evangelical Lutheran, Chippewa Valley Eye Clinic, Northern Lights Services, River Falls Medical Clinic, New Richmond Clinic, Stillwater Medical Group, and Golden Living Center Court, which maintain clinics throughout the Plan’s 26-county service area. Physicians are required to provide services on a 24-hour basis. The provider contracts provide for reimbursement on a fee-for-service basis and include hold-harmless provisions for the protection of enrolled members.

The company contracts with 44 hospitals to provide inpatient services. Hospitals are reimbursed on a discounted fee-for-service basis. The contracts include hold-harmless provisions for the protection of policyholders.

The following is a listing of hospitals in which participating physicians have admitting

privileges:

Amery Regional Medical Center	Memorial Medical Center
Baldwin Area Medical Center Inc	Mile Bluff Medical Center
Black River Memorial Hospital	Oakleaf Surgical Hospital
Boscobel Area Health Care	Osceola Medical Center
Burnett Medical Center	Prairie du Chien Memorial Hospital
Chippewa Valley Hospital	Red Cedar Medical Center
Cumberland Memorial Hospital	Reedsburg Area Medical Center
Essentia Health-St. Mary's Hospital - Superior	River Falls Area Hospital
Flambeau Hospital	Sacred Heart Hospital
Grant Regional Health Center	Sacred Heart Hospital - Rehab Unit
Hayward Area Memorial Hospital	Sauk Prairie Memorial Hospital
Hudson Hospital & Clinics	Southwest Health Center Inc.
Indianhead Medical Center	Spooner Health System
Libertas Treatment Center	St. Croix Regional Medical Center
Luther Midelfort Chippewa Valley MHS	St. Joseph's Community Health Services
Luther Midelfort Oakridge MHS - Osseo	St. Luke's Outpatient Surgery Center
Mayo Clinic Health System Eau Claire- Luther Campus	St. Joseph's Hospital
Mayo Clinic Health System Franciscan Healthcare La Crosse	The Richland Hospital
Mayo Clinic Health System Franciscan Healthcare Sparta	Tomah Memorial Hospital
Mayo Clinic Health System Northfield	Tri-County Memorial Hospital
	University of Wisconsin Hospitals and Clinics
	Upland Hills Health
	Vernon Memorial Hospital
	Westfields Hospital

According to its business plan, the company's service area is comprised of the following counties: Ashland, Barron, Bayfield, Buffalo, Burnett, Chippewa, Crawford, Douglas, Dunn, Eau Claire, Grant, Iowa, Jackson, Juneau, La Crosse, Monroe, Pepin, Pierce, Polk, Richland, Sauk, Sawyer, St. Croix, Trempealeau, Vernon, and Washburn. The company contracts with the Centers for Medicare and Medicaid Services (CMS) to provide coverage to beneficiaries eligible for Medicare coverage through the Medicare Advantage program.

The company offers individual plans that include deductible, copayment, and coinsurance products. The following basic health care coverages are provided:

- Physician services
- Inpatient services
- Outpatient services
- Mental health, drug, and alcohol abuse services
- Ambulance services
- Special dental procedures (oral surgery)
- Prosthetic devices and durable medical equipment
- Home health care
- Preventive health services
- Hearing exams and hearing aids
- Diabetes treatment
- Routine eye examinations
- Convalescent nursing home service
- Prescription drugs
- Physical, speech, and/or occupational therapy
- Health club
- Hospice care
- Chiropractic services
- Worldwide emergency care

The company's plans have specified dollar copayments for medical office visits, urgent care visits, routine vision exams and emergency room visits. Durable Medical Equipment is covered with a 20% coinsurance. Copayments do not apply towards the member's out-of-pocket maximum. Copayments, coinsurance and maximum out-of-pocket expense amounts vary by plan.

The company currently markets to individuals only and follows the Medicare Advantage marketing guidelines. Marketing materials require pre-approval from CMS prior to use.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 15 members. Four directors are elected annually to serve a three-year term. There are three board members that are appointed to the board of directors with no term limit. Officers are elected by the board of directors. Members of the company's board of directors are also members of the UCare Minnesota Board of Directors. 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
Patricia Adam Minneapolis, MN	Physician	2011
Macaran Baird Roseville, MN	Physician	No term
William Brombach St. Paul, MN	Retired	2011
Kimberly Carter Mounds View, MN	None	2012
Catherine Godlewski Minneapolis, MN	U of MN Medical School Administrator	No term
Peter Kiedrowski Minneapolis, MN	Senior Fellow, U of MN, Hubert H. Humphrey Institute of Public Affairs	2012
Bert McKasy Mendota Heights, MN	Attorney	2011
Teresa McCarthy Minneapolis, MN	Physician	2011
James Miller New Brighton, MN	Retired	2012
Peter Mitsch Minneapolis, MN	Director of Financial Service, U of MN Medical School	No term
William Roberts Minneapolis, MN	Physician	2013
Mary Schneeman St. Paul, MN	Retired	2013
Sharon Shonka Woodbury, MN	Retired	2013

Board of Directors (cont.)

Name and Residence	Principal Occupation	Term Expires
James Van Vooren Minneapolis, MN	Physician	2012
Michael Wooten Minneapolis, MN	Physician	2013

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	2010 Salary *
Nancy Feldman	President & CEO	\$660,579
Mark Traynor	Secretary	288,036
Beth Monsrud	Treasurer	292,885

* 2010 salary is the combined salary for UCare Wisconsin, Inc., and UCare Minnesota, Inc.

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

Macaran Baird, Chair
William Brombach
Teresa McCarthy
James Van Vooren

Finance & Audit Committee

James Van Vooren, Chair
P. Jay Kiedrowski
Bert McKasy
Peter Mitsch
William Roberts

Compensation Committee

Peter Mitsch, Chair
Macaran Baird
William Brombach
Sharon Shonka

Governance Committee

Teresa McCarthy, Chair
Patricia Adam
Bert McKasy
James Miller
Mary Schneeman
James Van Vooren

The company has no employees. Necessary staff is provided through a management agreement with UCare Minnesota. Under the agreement, effective June 7, 2007, UCare Minnesota agrees to negotiate employer, provider, subscriber, and other contracts; advise the board; maintain accounting and financial records; recruit marketing, utilization review, claims processing personnel; and provide claims processing. As compensation for these services, the

company agrees to reimburse UCare Minnesota for the cost of direct services, as well as the allocated portion of indirect services incurred in administering the company's operations. The agreement is in effect as of the effective date and will continue indefinitely until terminated. The agreement may be terminated at any time, without cause, upon mutual written agreement of the parties. In addition, the agreement may be terminated for cause by either party, for breach of contract, upon 30 days' prior written notice.

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 provider contracts.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is UCare Minnesota. 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, 2010



UCare Minnesota, Inc.

UCare Minnesota, Inc., is a nonprofit health plan that writes Medicare and Medicaid business in Minnesota. As of December 31, 2010, the company's audited financial statement reported assets of \$574,446,724, liabilities of \$266,070,468, and capital and surplus of \$308,376,256. Operations for 2010 produced a net income of \$60,994,854 on revenues of \$1,604,294,291.

V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	RGA Reinsurance Company
Type:	Specific Excess of Loss Reinsurance
Effective date:	July 1, 2011, through June 30, 2012
Lines of business:	Medicare
Deductible:	\$600,000 per member per agreement period
Coinsurance:	90% all eligible services
Premium:	\$0.41 per member per month for Medicare HMO
Minimum annual premium:	\$300,000 total for both Wisconsin and Minnesota
Experience refund:	30% share of profits with Plan without deficit carry forward
Reinsurance maximum:	\$2,000,000 per member per agreement period
Lifetime maximum:	\$2,000,000 per member for all agreement periods
Reinsurance coverage:	The Reinsurer will reimburse the Plan the reimbursement amount calculated as the coinsurance percent multiplied by the amount by which the eligible amount for a member exceeds the deductible. This reimbursement amount for any one member is limited to the reinsurance maximum.

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

If a court or jurisdiction declares the Plan to be insolvent, Reinsurer shall make payments directly to Plan or its court appointed receiver without diminution because of insolvency of Plan, and Plan or its receiver shall provide Reinsurer with full access to Plan's records and personnel, at Plan's expense, to enable Reinsurer to determine its obligation under this Agreement.

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. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

**UCare Wisconsin, Inc.
Assets
As of December 31, 2010**

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	\$ 6,712,107	\$	\$ 6,712,107
Uncollected premiums and agents' balances in the course of collection	68,958	14,207	54,751
Amounts receivable relating to uninsured plans	80,179		80,179
Receivables from parent, subsidiaries and affiliates	<u>9,000,000</u>	<u> </u>	<u>9,000,000</u>
Total Assets	<u>\$15,861,244</u>	<u>\$14,207</u>	<u>\$15,847,037</u>

**UCare Wisconsin, Inc.
Liabilities and Net Worth
As of December 31, 2010**

Claims unpaid		\$ 5,337,108
Accrued medical incentive pool and bonus payments		314,159
Unpaid claims adjustment expenses		121,298
Premiums received in advance		435,926
General expenses due or accrued		102,338
Amounts due to parent, subsidiaries and affiliates		617,994
Liability for amounts held under uninsured accident and health plans		64,375
Aggregate write-ins for other liabilities [including \$(1) current]		<u>101,000</u>
Total liabilities		7,094,198
Gross paid in and contributed surplus	\$13,500,000	
Surplus notes	3,000,000	
Unassigned funds (surplus)	<u>(7,747,161)</u>	
Total capital and surplus		<u>8,752,839</u>
Total Liabilities, Capital and Surplus		<u>\$15,847,037</u>

**UCare Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2010**

Net premium income		\$42,084,842
Medical and hospital:		
Hospital/medical benefits	\$30,102,004	
Other professional services	5,599,447	
Outside referrals	635,419	
Emergency room and out-of-area	1,071,173	
Prescription drugs	3,721,212	
Incentive pool and withhold adjustments	<u>203,862</u>	
Total medical and hospital	41,333,117	
Claims adjustment expenses	537,328	
General administrative expenses	<u>3,573,344</u>	
Total underwriting deductions		<u>45,443,789</u>
Net underwriting gain or (loss)		(3,358,947)
Net investment income earned		3,077
Net gain or (loss) from agents' or premium balances charged off		<u>(3,864)</u>
Net Income (Loss)		<u>\$ (3,359,734)</u>

**UCare Wisconsin, Inc.
Capital and Surplus Account
As of December 31, 2010**

Capital and surplus prior reporting year		\$3,120,361
Net income or (loss)	\$(3,359,734)	
Change in nonadmitted assets	(7,788)	
Surplus adjustments:		
Paid in	<u>9,000,000</u>	
Net change in capital and surplus		<u>5,632,478</u>
Capital and Surplus End of Reporting Year		<u>\$8,752,839</u>

UCare Wisconsin, Inc.
Statement of Cash Flows
As of December 31, 2010

Premiums collected net of reinsurance		\$42,087,174
Net investment income		<u>3,077</u>
Total		42,090,251
Less:		
Benefit- and loss-related payments	\$40,169,000	
Commissions, expenses paid and aggregate write-ins for deductions	<u>4,102,995</u>	
Total		<u>44,271,995</u>
Net cash from operations		(2,181,744)
Other cash provided (applied)		<u>401,493</u>
Net change in cash, cash equivalents, and short-term investments		(1,780,251)
Cash, cash equivalents, and short-term investments: Beginning of year		<u>8,492,358</u>
End of Year		<u>\$ 6,712,107</u>

Growth of UCare Wisconsin, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2010	\$15,847,037	\$7,094,198	\$8,752,839	\$42,084,842	\$41,333,117	\$(3,359,734)
2009	8,566,943	5,446,582	3,120,361	24,493,406	23,712,356	(1,778,164)
2008	4,089,326	1,684,382	2,404,944	6,894,247	6,902,951	(1,764,024)
2007	4,517,358	348,390	4,168,968	0	0	(831,032)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2010	(8.0)%	98.2%	8.5%	75.5%
2009	(7.3)	96.8	9.4	180.6
2008	(25.6)	100.1	25.4	-

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2010	5,346	914.6	3.8
2009	3,047	803.8	3.8
2008	1,086	866.9	3.8

Per Member Per Month Information

	2010	2009	Percentage Change
Premiums:			
Medicare	<u>\$688.05</u>	<u>\$711.48</u>	-3.3%
Expenses:			
Hospital/medical benefits	492.14	518.41	-5.1
Other professional services	91.55	69.94	30.9
Outside referrals	10.39	14.82	-29.9
Emergency room and out-of-area	17.51	25.91	-32.4
Prescription drugs	60.84	53.07	14.6
Incentive pool and withhold adjustments	<u>3.33</u>	<u>6.67</u>	-50.0
Total medical and hospital	<u>675.76</u>	<u>688.82</u>	-1.9
Claims adjustment expenses	8.78	7.23	21.6
General administrative expenses	<u>58.42</u>	<u>67.04</u>	-12.8
Total Underwriting Deductions	<u>\$742.97</u>	<u>\$763.08</u>	-2.6

The company had seen rapid growth since it started writing business in 2008. Enrollment increased from 1,086 members in 2008 to 5,346 members in 2010. Assets increased from approximately \$4.5 million in 2007 to nearly \$16 million in 2010. The increase in assets is mainly due to \$11.5 million of capital contributions received by the company, which is discussed below.

The company has experienced a net loss in each year under examination, with a reported net loss of \$3.4 million in 2010. The net losses are due to relatively high medical expense ratios and high administrative expense ratios. As the company has built its membership its administrative expense ratio had decreased from 25.4% in 2008 to 8.5% in 2010.

Total assets increased 85% to nearly \$16 million in 2010 from \$8.5 million in 2009, while capital and surplus increased 181% to \$8.8 million from \$3.1 million in 2009. The substantial increase in assets and capital and surplus during 2010 is due to a \$9 million capital contribution from its parent company, UCare Minnesota, in January 2011. Without the capital contribution the company would have had negative capital and surplus which would have triggered a mandatory control level RBC event. The company also received a \$2.5 million capital contribution in 2009 after the company reported a negative compulsory surplus amount during the first quarter of 2009. The company again failed compulsory and security surplus requirements at September 30, 2011, due to continuing losses.

Reconciliation of Capital and Surplus per Examination

The examination made no adjustments to capital and surplus as reported at December 31, 2010. In addition, there were no examination reclassifications.

VII. SUMMARY OF EXAMINATION RESULTS

Summary of Current Examination Results

Exhibit of Premiums, Enrollment, and Utilization

The examinations review of the Exhibit of Premiums, Enrollment, and Utilization identified that the company did not include the number of hospital patient days incurred. It is recommended that the company complete the Exhibit of Premiums, Enrollment, and Utilization in accordance with the NAIC Annual Statement Instructions – Health.

Capital Requirements

The company has experienced issues in maintaining the required level of surplus during the period under examination and rather than taking corrective action before falling below the required levels the company has taken corrective action after falling below the required levels. Beginning in the first quarter of 2009 the company had a negative compulsory surplus balance. To remedy the problem, the company received a capital contribution of \$2.5 million during August of 2009. The company again had a negative compulsory surplus balance in the third quarter of 2010. In December of 2010, the board of directors approved an additional capital contribution of \$9,000,000. Without this capital contribution the company would have had a negative capital and surplus balance and its RBC ratio would have been below the company action level. It is recommended that the company take a proactive approach in monitoring and maintaining adequate surplus levels.

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;

VIII. CONCLUSION

The company was incorporated on January 18, 2007, and commenced business on January 1, 2008. The company was originally capitalized through an investment of \$2 million in cash and an additional \$3 million in exchange for a surplus note from its sole member, UCare Minnesota, to meet the initial capital requirements established by the Wisconsin Office of the Commissioner of Insurance. The company has no employees. The operations of the company are administered by UCare Minnesota under an administrative services agreement.

The company had seen rapid growth since it started writing business in 2008. Enrollment increased from 1,086 members in 2008 to 5,346 members in 2010. Assets increased from approximately \$4.5 million in 2007 to nearly \$16 million in 2010. The increase in assets is mainly due to \$11.5 million of capital contributions received by the company, which is discussed below.

The company has experienced a net loss in each year under examination, with a reported net loss of \$3.4 million in 2010. The net losses are due to relatively high medical expense ratios and high administrative expense ratios. As the company has built its membership its administrative expense ratio had decreased from 25.4% in 2008 to 8.5% in 2010.

Total assets increased 85% to nearly \$16 million in 2010 from \$8.5 million in 2009, while capital and surplus increased 181% to \$8.8 million from \$3.1 million in 2009. The substantial increase in assets and capital and surplus during 2010 is due to the company receiving capital contribution of \$9 million from its parent company UCare Minnesota. Without the capital contribution the company would have had negative capital and surplus which would have triggered a mandatory control level RBC event. The company also received a \$2.5 million capital contribution in 2009 after the company reported a negative compulsory surplus amount during the first quarter of 2009. The company again failed compulsory and security surplus requirements at September 30, 2011, due to continuing losses.

The examination resulted in two recommendations, see the "Summary of Current Examination Results" section of this report.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Exhibit of Premiums, Enrollment, and Utilization—It is recommended that the company complete the Exhibit of Premiums, Enrollment, and Utilization in accordance with the NAIC Annual Statement Instructions – Health
2. Page 17 - Capital Requirements—It is recommended that the company take a proactive approach in monitoring and maintaining adequate surplus levels.

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
Richard Janosik	Insurance Financial Examiner
Victoria Chi	IT Specialist

Respectfully submitted,

Terry Lorenz
Examiner-in-Charge