

Report
of the
Examination of
Unity Health Plans Insurance Corporation
Sauk City, Wisconsin
As of December 31, 2014

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

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February 22, 2016

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

Commissioner:

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

UNITY HEALTH PLANS INSURANCE CORPORATION
Sauk City, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Unity Health Plans Insurance Corporation (Unity or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2014, and included a review of such 2015 transactions as deemed necessary to complete the examination.

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

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

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

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

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

II. HISTORY AND PLAN OF OPERATION

The Unity Health Plans Insurance Corporation is described as a for-profit 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 hospitals, clinics and otherwise independent physicians operating out of their separate offices. HMOs compete with traditional fee-for-service health care delivery.

The company was incorporated on October 31, 1983, as HMO of Wisconsin (HMOW), and commenced business January 1, 1984. United Wisconsin Services, Inc. (UWS) (a subsidiary of Blue Cross Blue Shield United of Wisconsin) acquired HMOW on November 1, 1994, through a cash purchase of 100% of the stock of HMOW. At the same time UWS acquired the insurance business of U-Care HMO, Inc., and HMOW assumed both the benefit and provider contracts of U-Care HMO, Inc. The company changed its name to Unity Health Plans Insurance Corporation effective April 1, 1995. On January 1, 2005, Unity was acquired by University Health Care, Inc. (UHC) as a wholly owned subsidiary. UHC is a tax-exempt membership corporation composed of the University of Wisconsin Medical Foundation (UWMF), University of Wisconsin School of Medicine and Public Health, and University of Wisconsin Hospitals and Clinics Authority (UWHCA).

Unity offers a health care system with more than 1,000 Primary Care Physicians (PCP) and in excess of 3,800 Specialty Physicians in a 20-county core service area. For state and local government members, Unity currently separates its service area into two distinct operational areas, Dane County and the Regional service area. The Regional service area is made up of counties other than Dane County. Within Dane County, the University of Wisconsin Hospital and Clinics (UW Health) delivery system provides the majority of the services with some additional services provided by non-UW entities for members selecting a PCP within Dane

County. In the Regional portion of the company's service area, Unity contracts directly with hospitals, primary care and specialty care providers and clinics as well as ancillary health care providers. For all other members, the Regional and Dane County operational areas are combined into a single provider network.

The company offers a variety of commercial group plans known as HMO, Point of Service (POS), Preferred Provider Organization (PPO), and Health Savings Account (HSA) that include deductible, copayment, and coinsurance products. In addition, Unity offers individual HMO and Medicare supplement products. At enrollment, Unity HMO members are required to select a PCP. The physical location of the PCP determines which payment arrangement Unity follows. The PCP coordinates the member's medical care and is responsible for providing routine health care to that member. For state and local government members, Dane County members may self-refer to any participating provider within Dane County, while Regional members may self-refer to any participating provider within the Regional network. All other members may self-refer to participating providers in both the Regional and Dane County operational areas. For those members who select the HMO product, Unity requires a member to obtain prior written authorization from the company for treatment from a provider not participating (not under contract) with the company.

Payment to providers in the Dane and Regional Networks falls under various payment arrangements depending on PCP selection, location of the member, the provider of service, and type of service. Payment arrangements include: capitation, per diems, DRGs, discounted fee-for-service, and fee schedules. Certain provider contracts include a withhold provision that is settled after year-end. However, virtually all payments are part of an overall capitation arrangement under which UHC is at risk for medical services provided. Certain individual products are not included in the capitation arrangement.

All contracts include hold-harmless provisions for the protection of policyholders (members). The provider agreement with UHC is a renewable annual agreement and may be terminated by either party upon 90 days' written notice prior to the end of any term.

The company contracts with 56 hospitals to provide inpatient services. Hospitals are reimbursed on a variety of payment terms.. 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:

| | |
|---|---|
| Beaver Dam Community Hospital | Riverside Medical Center |
| Beloit Memorial Hospital | Riverview Hospital |
| Berlin Memorial Hospital | Rogers Memorial Hospital-Brown Deer |
| Boscobel Area Health Care | Rogers Memorial Hospital-Kenosha |
| Central Community Hospital | Rogers Memorial Hospital-Madison |
| Children's Hospital of Wisconsin | Rogers Memorial Hospital-Milwaukee |
| Children's Hospital of Wisconsin-Fox Valley | Rogers Memorial Hospital-Oconomowoc |
| Children's Hospital of Wisconsin-Kenosha | Sacred Heart Hospital |
| Columbus Community Hospital | Sauk Prairie Memorial Hospital |
| Divine Savior Healthcare, Inc. | Select Specialty Hospital |
| Edgerton Hospital and Health Services | Southwest Health Center |
| Fort Memorial Hospital | St. Agnes Hospital |
| Grant Regional Health Center | St. Clare Hospital and Health Services |
| Hess Memorial Hospital | St. Joseph's Hospital |
| Memorial Hospital of Lafayette County | St. Joseph's Memorial Hospital |
| Mercy Harvard Hospital | St. Mary's Hospital Medical Center |
| Mercy Hospital | Stoughton Hospital |
| Mercy Medical Center-Dubuque | The Finley Hospital |
| Mercy Walworth Hospital | Tomah Memorial Hospital |
| Meriter Hospital | Upland Hills Health |
| Monroe Clinic Hospital | UW Health-American Family Children's Hospital |
| Moundview Memorial Hospital & Clinics | UW Health-Rehabilitation Hospital |
| Oakleaf Surgical Hospital | UW Health-UW Hospital & Clinics |
| Oconomowoc Memorial Hospital | Vernon Memorial Hospital |
| Prairie du Chien Memorial Hospital | Watertown Regional Medical Center |
| Reedsburg Area Medical Center | Waukesha Memorial Hospital |
| Richland Hospital | Waupun Memorial Hospital |
| Ripon Medical Center | Wild Rose Community Memorial Hospital |

According to its business plan, the company's service area is comprised of the following 20 counties:

| | | | |
|------------|-------------|-----------|----------|
| Adams | Columbia | Crawford | Dane |
| Dodge | Fond du Lac | Grant | Green |
| Green Lake | Iowa | Jefferson | Juneau |
| Lafayette | Marquette | Richland | Rock |
| Sauk | Vernon | Walworth | Waushara |

The following basic health care coverages are provided by the insurance contracts:

- Ambulance Services
- Chiropractic Services
- Diagnostic Services
- Diabetic Treatment and Education
- Durable Medical Equipment and Medical Supplies
- Emergency Room Services
- Hearing Exams
- Home Health Care Services
- Hospice
- Inpatient Hospital Services
- Outpatient Hospital Services
- Kidney Disease Treatment (including Dialysis and Transplant)
- Physician Services
- Skilled Nursing Care
- Therapy – physical, speech, occupational, cardiac rehab
- Temporomandibular Joint Treatment (TMJ)
- Transplants
- Urgent Care
- Vision Care
- Maternity and Newborn Benefits
- Mental Health Service (Psychological and Chemical Dependency - AODA)
- Oral Surgery (specific procedures only)
- Pharmaceutical Drugs

HMO plans may include deductible, coinsurance and/or copayments on covered services. These out-of-pocket expense amounts vary by plan and are selected by each employer or individual policyholder. Services relating to behavioral health or alcohol and other drug abuse (AODA) coverage are covered in accordance with federal and state mental health parity laws.

For non-marketplace individual HMO plans that cover behavioral health, coverage is limited to a maximum of \$500 outpatient and \$5,000 inpatient. Copayment or coinsurance does not apply to any of the behavioral health or AODA benefits.

In addition to HMO products, Unity offers a Point of Service (POS) plan. The POS plan covers services by participating providers as well as services by non-participating providers with two or three levels of benefits depending on the benefit plan design. Services may be subject to a copayment, deductible or coinsurance based on the participating status of the provider.

Unity offers a Preferred Provider Organization (PPO) program. The provider network is provided on a rental basis through Multi-Plan PPO. The PPO is generally available as an accommodation to employers with their principal location in Unity's service area with employees

who live outside of the Unity service area. On a limited basis, the PPO is offered to members who reside within the Unity service area.

Unity currently markets to groups and individuals. The company uses outside agencies and an internal sales staff to procure new business. The majority of agent commissions are paid in a range from \$3.50 to \$34.00 per contract per month. A small number of agents are paid commissions of up to 6% of premiums on new and renewal business.

Unity uses an actuarially determined base rate as a beginning point in premium rate determination for new groups. The base rate is adjusted to reflect benefit, trend, geography, Standard Industrial Classification (SIC), administrative expense load, and demographic including age/sex factors. The base rate is reviewed and adjusted semiannually for inflation and utilization factors. Adjustments may also be applied for claims experience and health status during the rating process.

The company uses an Adjusted Community Rating (ACR) methodology to determine group renewal rates. Depending on the size of the group, this methodology may include evaluation of a group's incurred claim experience and makes adjustments for any high cost claims above the pooling point for current group enrollment levels and for any benefit changes made. Incurred claim experience from a prior base period is trended to the current base period time frame. The current and prior years of incurred claims experience is melded by a weighting factor determined by total group size. A completion factor is applied to the incurred claims. The incurred claims are trended to the next contract year and blended with manual claims using a credibility factor determined by the number of member months of claims experience to yield projected claims for the next contract year. An administrative expense is added on to projected claims to obtain total premium needed for the next contract year. This methodology is reviewed and adjusted on at least an annual basis.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Directors are designated by UWHC and UWMF and are appointed by UHC to serve a one-year term. Officers are appointed by the board of directors. Members of Unity's board of directors may also be members of other boards of directors in the holding company group. 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 |
|-----------------------------------|--|---------------------|
| Peter Christman Madison, WI | Executive VP, UW Medical Foundation | 2015 |
| Peter Newcomer, MD Madison, WI | Executive VP and Chief Medical Officer, UW Medical Foundation | 2015 |
| Kelly Wilson Madison, WI | Senior VP and General Counsel, UW Hospital and Clinics | 2015 |
| Timothy Gaillard Madison, WI | Senior VP and COO, UW Hospital and Clinics | 2015 |
| Robert O'Keefe Madison, WI | Senior VP and CFO, UW Hospital and Clinics | 2015 |

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 | 2014 Salary |
|------------------|---|--------------------|
| Terry Bolz | Chief Executive Officer | \$ 0* |
| James Hiveley | Treasurer and VP—Finance | 274,494 |
| David Diercks | Secretary | 263,586 |
| Gail Midlikowski | VP—Operations | 272,014 |
| Brian Collien | VP—Managed Care & Large Group | 260,285 |
| Robert Plesha | VP Actuarial, Small Group & Individual Sales | 226,607 |

* The CEO's salary is paid by the University of Wisconsin Medical Foundation. The above information represents the portion of the President's 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:

Audit Committee

Peter Christman, Chair
Robert O'Keefe
Peter Newcomer, MD
Kelly Wilson

Finance Committee

Peter Christman, Chair
Terry Bolz
Robert Flannery
Robert O'Keefe

Marketing Committee

Terry Bolz, Chair
Shiva Bldar-Sielaff
Kelly Wilson
Mike Dallman
Beth Zaher

Quality Improvement Committee

Mary Pak, MD, Chair
Terry Bolz
Julie Fagan, MD
Ron Sliwinski
Tim Size
Peter Newcomer, MD
Sandra Kamnetz, MD
Elaine Rosenblatt, NP
Timothy Gaillard
Jonathan Jaffery, MD
Grace Flood, MD

Human Resource Committee

Peter Christman, Chair
Terry Bolz
Timothy Gaillard
Kelly Wilson

The company has its own employees to carry out the general operations of the organization. Additional administrative staff is provided by the University of Wisconsin Medical Foundation and the University of Wisconsin Hospital and Clinics Authority. The company has an administrative service agreement in effect with the UWMF and UWHCA for the administrative services being provided.

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:

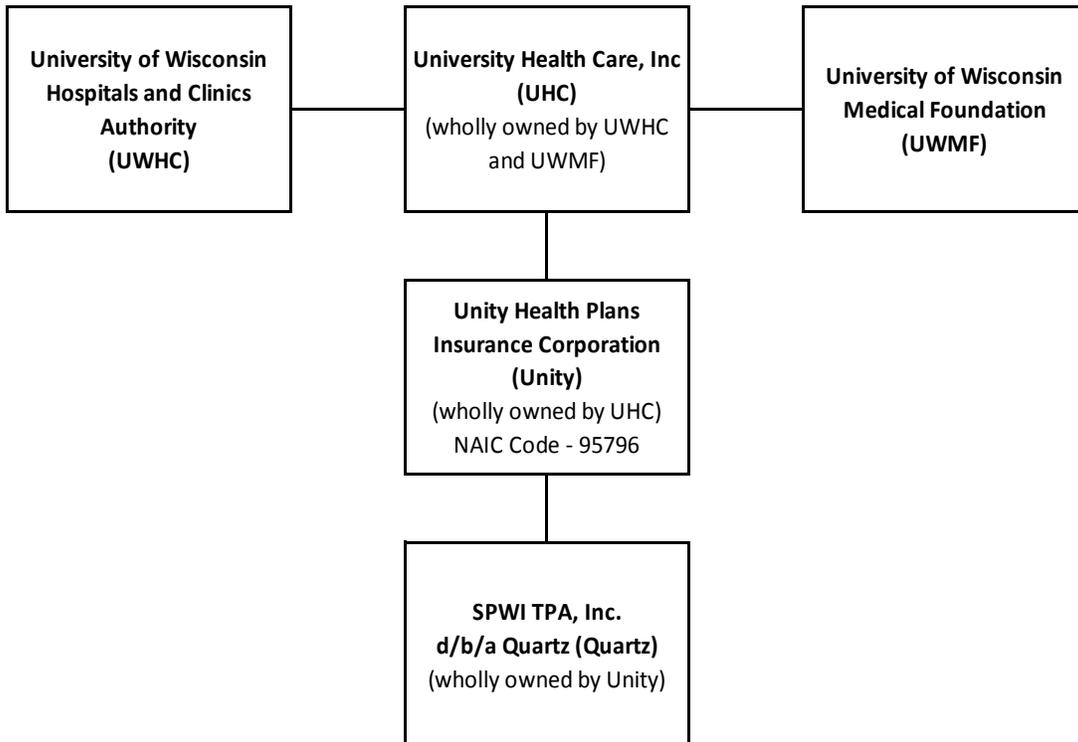
1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

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 with the ultimate parent being University Health Care, 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.

Holding Company Chart As of December 31, 2014



University Health Care, Inc.

University Health Care, Inc. (UHC) is a 501(c)(3) non-profit, tax-exempt corporation organized under ch. 181, Wis. Stat. UHC is the entrepreneurial arm of UW Health. A not-for-profit membership corporation, UHC serves as a network development vehicle by developing regional programs and clinical centers and developing business relationships with other health care providers. UHC's purpose is to support the missions of the University of Wisconsin Medical

School, the University of Wisconsin Hospitals and Clinics Authority and the University of Wisconsin Medical Foundation.

As of December 31, 2014, UHC's consolidated audited financial statements reported assets of \$221.5 million, liabilities of \$145.2 million, and net worth of \$76.3 million. Operations for 2014 produced net income of \$3.6 million on revenues of \$785.3 million.

University of Wisconsin Hospitals and Clinics Authority

University of Wisconsin Hospitals and Clinics Authority (UWHCA) is a health care provider and public body, corporate and politic, created under ch. 233, Wis. Stat.

University of Wisconsin Medical Foundation

University of Wisconsin Medical Foundation (UWMF) is a 501(c)(3) non-profit, non-stock corporation organized pursuant to ch. 181, Wis. Stat. University of Wisconsin Medical Foundation is the clinical practice organization for the faculty physicians of the UW School of Medicine and Public Health, the largest academic, multi-specialty physician group in Wisconsin.

Affiliated Agreements

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

1. Provider Services Agreement with UHC—Effective January 1, 2005, Unity entered into an agreement with UHC for hospital, physician, transplant, and other health care services.
2. Credentialing Services Agreement with UWHCA—Effective January 1, 2007, Unity entered into an agreement for credentialing services provided by UWHCA. Under this agreement UWHCA shall provide the company credentialing and re-credentialing services for participating providers of the health plan.
3. Administrative Services Agreement with UWHCA for Pharmacy Mail Order Services—Effective January 1, 2013, this contract was for UW Health pharmacies to participate in Unity's mail order program, called the RX90. This contract replaces a previous pharmacy contract for Pharmacy Mail Order, Specialty Injectable, and Utilization Management Services that was initially submitted as a Form D filing dated May 15, 2006.
4. Administrative Services Agreement for Injectable and Utilization Management Services with UWHCA—Effective November 1, 2012, Unity entered into a service agreement with UWHCA. Under this agreement UWHCA shall provide specialty injectable and utilization management pharmacy program services.
5. Administrative Services Agreement for Pharmacy Program Services with UWHCA—Effective January 1, 2007, Unity entered into a service agreement with UWHCA. Under this agreement UWHCA shall provide various pharmacy program services.

6. Credentialing Delegation Agreement with Chartwell—Effective January 1, 2006, Unity entered into an agreement with Chartwell. Under this agreement Chartwell agrees to provide credentialing and recredentialing services for home health, DME, and home infusion services that are contracted with Chartwell.
7. Medical Management and Health Services Agreement with UWMF—Effective January 1, 2008, Unity entered into an agreement with UWMF for medical management services and health services. Under this agreement, UWMF agrees to provide medical management services (utilization management, case management health services) for the health plans underwritten and/or administered by Unity, including Medicaid/BadgerCare HMO Program.
8. Medical Management Delegation Agreement with Chartwell—Effective December 7, 2007, Unity entered into an agreement with Chartwell for specified medical management services.
9. Administrative Services Agreement for Audit Services with UWHCA—Effective September 1, 2007, Unity entered into an agreement with UWHCA for internal audit services provided by UWHCA.
10. Seasonal Flu Immunization Services Agreement with UWHCA—Effective October 1, 2009, Unity entered into an agreement with UWHCA for flu shots provided by UWHCA-operated pharmacies.
11. Home Health Service Agreement with UWHCA—Effective October 1, 2007, Unity entered into an agreement with UWHCA for home health flu shot services.
12. Administrative Services Agreement with UWHCA—Effective September 1, 2010, Unity assumed UWHCA's responsibility for providing administrative service to the University of Wisconsin-Madison Division of Intercollegiate Athletics in the filing of health insurance claims for services received by varsity student-athletes.
13. Administrative Services Agreement: Hardware & Software Maintenance and Support with UWMF and UWHCA—Effective January 1, 2013, Unity entered into an agreement for the purposes of sharing hardware and software with UWMF and UWHCA.
14. Administrative Services Agreement with UHC—Effective October 1, 2011, Unity entered into an agreement whereby UHC will provide appropriate hardware, software, consulting, data governance and staff services, which are required for Unity to perform certain services and operations as it relates to the development and maintenance of Unity's internal data warehouse in order to meet HIPAA requirements.
15. Sublease Agreement with UWMF—Unity leases certain space in the building located at 7974 UW Health Court, Middleton, Wisconsin. Unity's home office address remains at 840 Carolina Street, Sauk City, Wisconsin.
16. Ancillary Provider Agreement with UWHCA—Effective November 1, 2012, Unity contracted with UWHCA for covered ancillary services as are medically necessary. This agreement was amended to include UW Health in Unity's network of community pharmacies participating in the WPQC. Unity implemented a pharmacy Pay for Performance pilot program.
17. Administrative Services Agreement: Hyland Software Inc. for OnBase—Effective November 1, 2014, Unity became party to an agreement between Hyland Software, Inc., UWHCA, and UWMF for utilizing OnBase software for the administration of Unity's business. UWHCA and UWMF provide certain administrative services for Unity in connection with

OnBase; production system support, infrastructure and security, service levels, UWHC acts as agent for and on behalf of Unity.

18. Administrative Service Agreement with SPWI, Inc. (d/b/a Quartz)—Effective November 10, 2014, this agreement specifies the services that Unity will provide to Quartz and the reimbursement terms for those services.

V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

| | |
|--------------------|---|
| Reinsurer: | Westport Insurance Corporation, a SwissRE Company |
| Effective date: | Began coverage with Unity on January 1, 2014 |
| Enrollee coverage: | HMO enrollees POS enrollees PPO enrollees Exchange enrollees |
| Covered services: | Aggregate Coverage (Inpatient, Outpatient, Physician, Pharmacy) |
| Exclusions: | Services capitated with UW Hospital/Clinics and UW Medical Foundation |
| Excess retention: | \$1,000,000 Deductible 90% Coinsurance Unlimited coverage |
| Premium: | \$0.71 reinsurance and solvency \$0.66 (CY 2014) |
| Solvency: | \$5,000,000 maximum |

Affordable Care Act (ACA) Transitional Reinsurance Program (through 2016)

The transitional reinsurance program based on Section 1341 of the ACA is effective for plan years 2014 through 2016. Reinsurance assessments will be collected and distributions will be issued during the three-year term. Reinsurance is provided under this program once an insured member reaches his or her Maximum out of Pocket (MOOP) cost. The MOOP depends on the type of program selected, but is typically \$6,350 for a Silver Plan. The next \$45,000 is the full responsibility of Unity to pay. If the claim exceeds \$45,000, the reinsurance program covers 80% of the claim up to \$250,000. Unity is responsible for the remaining 20% of the amount between \$45,000 and \$250,000. The amount over \$250,000 is the full responsibility of Unity. Any claim over \$1,000,000 is covered by the commercial reinsurance described above.

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

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2014, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company for the period under examination.

Unity Health Plans Insurance Corporation
Assets
As of December 31, 2014

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|-----------------------------|-------------------------------|--------------------------------|
| Bonds | \$ 58,317,919 | \$ | \$ 58,317,919 |
| Stocks: | | | |
| Common stocks | 22,326,880 | 50,000 | 22,276,880 |
| Real estate: | | | |
| Properties occupied by the company | 1,684,409 | | 1,684,409 |
| Cash, cash equivalents and short-term investments | 40,061,753 | | 40,061,753 |
| Investment income due and accrued | 522,243 | | 522,243 |
| Uncollected premiums and agents' balances in the course of collection | 3,537,125 | 222,804 | 3,314,321 |
| Accrued retrospective premiums | 1,714,202 | | 1,714,202 |
| Amounts recoverable from reinsurers | 4,365,841 | | 4,365,841 |
| Amounts receivable relating to uninsured plans | 8,000 | | 8,000 |
| Net deferred tax asset | 1,475,212 | | 1,475,212 |
| Electronic data processing equipment and software | 1,245,100 | | 1,245,100 |
| Furniture and equipment, including health care delivery assets | 669,591 | 669,591 | |
| Receivables from parent, subsidiaries and affiliates | 182,537 | 182,537 | |
| Health care and other amounts receivable | 5,042,849 | 672 | 5,042,177 |
| Aggregate write-ins for other than invested assets | <u>3,602,928</u> | <u>502,928</u> | <u>3,100,000</u> |
| Total Assets | <u>\$144,756,588</u> | <u>\$1,628,532</u> | <u>\$143,128,056</u> |

Unity Health Plans Insurance Corporation
Liabilities and Net Worth
As of December 31, 2014

| | | |
|---|-------------------|----------------------|
| Claims unpaid | | \$ 50,685,746 |
| Accrued medical incentive pool and bonus payments | | 1,315,850 |
| Unpaid claims adjustment expenses | | 1,208,805 |
| Premiums received in advance | | 13,519,813 |
| General expenses due or accrued | | 15,498,901 |
| Current federal and foreign income tax payable and interest thereon | | 391,055 |
| Ceded reinsurance premiums payable | | 318,786 |
| Amounts withheld or retained for the account of others | | 63,042 |
| Remittance and items not allocated | | 20,484 |
| Payable for securities | | 568,112 |
| Aggregate write-ins for other liabilities [including \$(1) current] | | <u>395,778</u> |
| Total liabilities | | 83,986,372 |
| Aggregate write-ins for special surplus fund | \$14,250,000 | |
| Common capital stock | 1,000 | |
| Gross paid in and contributed surplus | 20,046,582 | |
| Unassigned funds (surplus) | <u>24,844,102</u> | |
| Total capital and surplus | | <u>59,141,684</u> |
| Total Liabilities, Capital and Surplus | | <u>\$143,128,056</u> |

Unity Health Plans Insurance Corporation
Statement of Revenue and Expenses
For the Year 2014

| | | |
|---|------------------|---------------------|
| Net premium income | | \$752,583,625 |
| Aggregate write-ins for other health care-related revenues | | 247,565 |
| Aggregate write-ins for other non-health revenues | | <u>2,250,000</u> |
| Total revenues | | 755,081,190 |
| Medical and hospital: | | |
| Hospital/medical benefits | \$532,036,094 | |
| Other professional services | 47,130,459 | |
| Emergency room and out-of-area | 33,664,612 | |
| Prescription drugs | 60,461,092 | |
| Incentive pool and withhold adjustments | <u>1,310,528</u> | |
| Subtotal | 674,602,785 | |
| Less | | |
| Net reinsurance recoveries | <u>5,236,780</u> | |
| Total medical and hospital | 669,366,005 | |
| Claims adjustment expenses | 19,495,922 | |
| General administrative expenses | 57,675,607 | |
| Total underwriting deductions | | <u>746,537,534</u> |
| Net underwriting gain or (loss) | | 8,543,656 |
| Net investment income earned | 1,730,676 | |
| Net realized capital gains or (losses) | <u>438,134</u> | |
| Net investment gains or (losses) | | 2,168,810 |
| Net gain or (loss) from agents' or premium balances charged off | | <u>(55,237)</u> |
| Net income or (loss) before federal income taxes | | 10,657,229 |
| Federal and foreign income taxes incurred | | <u>6,007,722</u> |
| Net Income (Loss) | | <u>\$ 4,649,507</u> |

**Unity Health Plans Insurance Corporation
Capital and Surplus Account
For the Four-Year Period Ending December 31, 2014**

| | 2014 | 2013 | 2012 | 2011 |
|--|-----------------------------|---------------------|-----------------------------|-----------------------------|
| Capital and surplus, beginning of year | \$55,826,460 | \$45,596,825 | \$38,778,825 | \$41,098,306 |
| Net income (loss) | 4,649,507 | (693,686) | (112,732) | 1,345,328 |
| Change in net unrealized capital gains/losses | (33,845) | (85,266) | (99,610) | 128,986 |
| Change in net deferred income tax | (2,297,581) | 1,015,310 | (2,716,666) | 1,675,626 |
| Change in nonadmitted assets | 997,144 | 2,803,022 | 1,851,800 | (5,469,420) |
| Cumulative effect of changes in accounting principles | | | 2,895,207 | |
| Surplus adjustments: Paid in | | 6,000,000 | 5,000,000 | |
| Write-ins for gains and (losses) in surplus: Write-in #1 | <u> </u> | <u>1,190,255</u> | <u> </u> | <u> </u> |
| Surplus, End of Year | <u>\$59,141,685</u> | <u>\$55,826,460</u> | <u>\$45,596,824</u> | <u>\$38,778,826</u> |

Unity Health Plans Insurance Corporation
Statement of Cash Flows
As of December 31, 2014

| | | |
|---|------------------|----------------------|
| Premiums collected net of reinsurance | | \$728,560,411 |
| Net investment income | | 2,272,520 |
| Miscellaneous income | | <u>1,497,565</u> |
| Total | | <u>732,330,496</u> |
| Less: | | |
| Benefit- and loss-related payments | \$679,346,869 | |
| Commissions, expenses paid and aggregate write-ins for deductions | 68,069,544 | |
| Federal and foreign income taxes paid (recovered) | | |
| \$0 net tax on capital gains (losses) | <u>6,588,787</u> | |
| Total | | <u>754,005,200</u> |
| Net cash from operations | | (21,674,704) |
| Proceeds from investments sold, matured or repaid: | | |
| Bonds | \$19,753,521 | |
| Miscellaneous proceeds | <u>361,567</u> | |
| Total investment proceeds | | 20,115,088 |
| Cost of investments acquired—long-term only: | | |
| Bonds | 21,029,372 | |
| Stocks | 1,600,310 | |
| Real estate | <u>50,790</u> | |
| Total investments acquired | | <u>22,680,472</u> |
| Net cash from investments | | (2,565,384) |
| Cash provided/applied: | | |
| Other cash provided (applied) | | <u>1,430,827</u> |
| Net change in cash, cash equivalents, and short-term investments | | |
| Cash, cash equivalents, and short-term investments: | | (22,809,261) |
| Beginning of year | | <u>62,871,018</u> |
| End of Year | | <u>\$ 40,061,757</u> |

Growth of Unity Health Plans Insurance Corporation

| Year | Assets | Liabilities | Capital and Surplus | Premium Earned | Medical Expenses Incurred | Net Income |
|------|---------------|--------------|---------------------|----------------|---------------------------|-------------|
| 2014 | \$143,128,056 | \$83,986,372 | \$59,141,684 | \$752,583,625 | \$669,366,005 | \$4,649,507 |
| 2013 | 154,862,854 | 99,036,394 | 55,826,460 | 636,586,149 | 589,839,949 | (693,686) |
| 2012 | 97,784,665 | 52,187,840 | 45,596,825 | 485,107,299 | 451,394,231 | (112,732) |
| 2011 | 80,187,138 | 41,408,313 | 38,778,825 | 400,877,732 | 364,589,819 | 1,345,328 |

| Year | Profit Margin | Medical Expense Ratio | Administrative Expense Ratio | Change in Enrollment |
|------|---------------|-----------------------|------------------------------|----------------------|
| 2014 | 0.6% | 89.1% | 10.2% | 11.3% |
| 2013 | (0.1) | 92.7 | 7.4 | 25.0 |
| 2012 | 0.0 | 92.9 | 8.3 | 23.1 |
| 2011 | 0.3 | 91.1 | 9.1 | 3.3 |

Enrollment and Utilization

| Year | Enrollment | Hospital Days/1,000 | Average Length of Stay |
|------|------------|---------------------|------------------------|
| 2014 | 167,426 | 218.8 | 4.1 |
| 2013 | 150,444 | 200.1 | 3.7 |
| 2012 | 120,321 | 194.4 | 3.6 |
| 2011 | 97,734 | 207.6 | 3.6 |

Per Member Per Month Information

| | 2014 | 2013 | Percentage Change |
|--|-----------------|-----------------|-------------------|
| Premiums: | | | |
| Commercial | \$409.74 | \$379.03 | 8.1% |
| Medicare | 172.79 | 158.05 | 9.3 |
| Medicaid | <u>151.76</u> | <u>191.17</u> | (20.6) |
| Expenses: | | | |
| Hospital/medical benefits | 272.65 | 266.56 | 2.3 |
| Other professional services | 24.15 | 23.13 | 4.4 |
| Outside referrals | | | |
| Emergency room and out-of-area | 17.25 | 16.52 | 4.4 |
| Other medical and hospital | 30.98 | 24.24 | 27.8 |
| Incentive pool and withhold adjustments | 0.67 | 0.57 | 17.3 |
| Less: Net reinsurance recoveries | <u>2.68</u> | <u>0.19</u> | 1,302.2 |
| Total medical and hospital | 343.03 | 335.37 | 2.3 |
| Claims adjustment expenses | 9.99 | 9.45 | 5.8 |
| General administrative expenses | 29.56 | 17.39 | 70.0 |
| Increase in reserves for accident and health contracts | _____ | <u>(0.09)</u> | (100.0) |
| Total underwriting deductions | <u>\$382.58</u> | <u>\$362.11</u> | 5.7% |

Unity has grown significantly during the past four years primarily due to advertising campaigns that focused on the relationship with the University of Wisconsin Medical Foundation and access to the doctors and staff at UW Health and the American Family Children's Hospital.

Variances in the administrative expense ratio are primarily due to Unity entering the Federal Health Care Exchange and the related costs involved due to the implementation of the Patient Protection and Affordable Care Act. These fees have greatly increased the administrative costs of the commercial line of business.

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, 2014, as modified for examination

adjustments is as follows:

| | | |
|--|---------------|----------------------|
| Assets | \$143,128,056 | |
| Less: | | |
| Special deposit | 7,566,199 | |
| Liabilities | 83,986,372 | |
| Investments in excess of maximum allowable by ch. 620, Wis. Stat. | 0 | |
| Examination adjustments | <u>0</u> | |
| Assets available to satisfy surplus requirements | | \$ 51,575,485 |
| Net premium earned | 752,583,625 | |
| Compulsory factor | <u>3%</u> | |
| Compulsory surplus | | <u>23,704,393</u> |
| Compulsory Surplus Excess/(Deficit) | | <u>\$ 27,871,092</u> |
| Assets available to satisfy surplus requirements | | \$135,561,857 |
| Compulsory surplus | \$ 23,704,393 | |
| Security factor | <u>118%</u> | |
| Security surplus | | <u>27,971,183</u> |
| Security Surplus Excess/(Deficit) | | <u>\$ 23,604,302</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 2014 with a deposit of \$7,566,199 with the State Treasurer.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

Summary of Current Examination Results

The examination resulted in no adverse comments or recommendations.

VIII. CONCLUSION

Unity Health Plans Insurance Corporation is described as a for-profit network model health maintenance organization (HMO) insurer. Under the network model, the company provides care through contracts with hospitals, clinics and otherwise independent physicians operating out of their separate offices. HMOs compete with traditional fee-for-service health care delivery.

Unity Health Plans Insurance Corporation was incorporated on October 31, 1983, and was acquired by University Health Care, Inc., as a wholly owned subsidiary on January 1, 2005. University Health Care, Inc., is a tax-exempt membership corporation composed of the University of Wisconsin Medical Foundation, University of Wisconsin School of Medicine and Public Health, and University of Wisconsin Hospitals and Clinics Authority.

The current examination resulted in no adverse or material findings and did not make any reclassification of account balances or adjustments to surplus as reported by the company in its year-end 2014 statutory financial statements.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examination resulted in no adverse comments or recommendations.

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 |
|------------------|------------------------------|
| Angelita Romaker | Insurance Financial Examiner |
| James Krueger | Insurance Financial Examiner |
| Vickie Ostien | Insurance Financial Examiner |
| David Jensen | IT Specialist |

Respectfully submitted,

Satinderjit K. Basra
Examiner-in-Charge