



Protecting, maintaining and improving the health of all Minnesotans

January 20, 2011

Kevin Brandt, Director Financial Reporting and Tax
HealthPartners, Inc. and Group Health Plan, Inc.
8170 33rd Avenue South
Minneapolis, MN 55440

Dear Mr. Brandt:

Enclosed please find a copy of original Examination Report for HealthPartners, Inc. and Group Health Plan, Inc. as of December 31, 2009, as prepared by the Minnesota Department of Commerce.

In accordance with Minnesota Statutes, § 62D.14, a copy of the Examination Report is also to be delivered to each member of the Board of Directors and executed affidavits should be forwarded to us for each Director.

A copy of an illustrated affidavit is enclosed for your information.

If you have any questions or wish to discuss the Examination Report further, please feel free to contact Jacqueline L. Gardner at 651-297-7030.

Sincerely,

A handwritten signature in black ink that reads "Edward P. Ehlinger" followed by a stylized flourish.

Edward P. Ehlinger, MD, MSPH
Commissioner

Enc.

cc: Margie Pinedo, Minnesota Department of Commerce

AFFIDAVIT

STATE OF _____)
)
COUNTY OF _____)

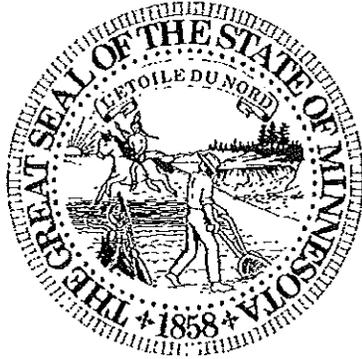
_____, being first duly sworn on oath, deposes and states that:

1. I am a member of the Board of Directors of HealthPartners, Inc. and Group Health Plan, Inc., a Minnesota Corporation with its main home office 8170 33rd Avenue South, Minneapolis, Minnesota 55440 .

2. I have received a copy of the State of Minnesota, Department of Commerce Examination Report for HealthPartners, Inc. and Group Health Plan, Inc. as of December 31, 2009 and related orders as adopted by the Commissioner of Health.

Subscribed and sworn to, before me,
this ____ day of _____, 2011.

Notary Public/Witness



STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
ST. PAUL, MINNESOTA

CONSOLIDATED EXAMINATION REPORT

OF

**HEALTHPARTNERS, INC.
GROUP HEALTH PLAN, INC.**

MINNEAPOLIS, MINNESOTA

AS OF

DECEMBER 31, 2009



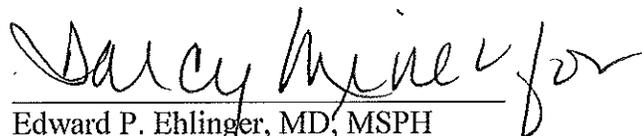
Protecting, maintaining and improving the health of all Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2009 of:

HEALTHPARTNERS, INC.
AND
GROUP HEALTH PLAN, INC.
Minneapolis, Minnesota

was recently completed by duly qualified examiners of the State of Minnesota.

Due consideration has been given to the comments of the examiners regarding the operations of HealthPartners, Inc. and Group Health Plan, Inc. and its financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.


Edward P. Ehlinger, MD, MSPH
Commissioner

Dated: 1/24/11

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Protecting, maintaining and improving the health of all Minnesotans

January 12, 2011

The Honorable Edward Ehlinger, MD, MPH
Commissioner of Health
State of Minnesota
Department of Health
85 7th Place East, Suite 400
St. Paul, Minnesota 55101

The Honorable Mike Rothman
Commissioner of Commerce
State of Minnesota
Department of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101

Dear Honorable Commissioners:

Pursuant to your instructions and the statutory requirements of the State of Minnesota, an examination has been made of the books, records, business affairs and financial condition of

HEALTHPARTNERS, INC.
8170 33rd Avenue South
Minneapolis, Minnesota 55440

GROUP HEALTH PLAN, INC.
8170 33rd Avenue South
Minneapolis, Minnesota 55440

The following examination report is respectfully submitted.

SCOPE OF EXAMINATION

The examination was a comprehensive examination, conducted by the Minnesota Department of Commerce, observing the applicable guidelines and procedures in the *NAIC Financial Condition Examiners' Handbook*. The Minnesota Department of Commerce Examination Order #10-006 directed that the examination include a determination of the financial condition of HealthPartners, Inc. (also known as "HealthPartners" or "HP"), Group Health Plan, Inc. (also known as "Group Health" or "GH") and a general review of their corporate affairs and insurance operations to determine compliance with statutes.

The examination was for the three-year period from January 1, 2007 through December 31, 2009. In accordance with the Examiners' Handbook, the examination included significant transactions and/or events occurring subsequent to December 31, 2009 that were noted during the course of this examination.

HP and GH were audited annually, for the year 2007 by the accounting firm of Deloitte & Touche LLP and for the years 2008 and 2009 by the accounting firm of KPMG LLP. Unqualified opinions were issued in each of the three years.

The examination included a review of the Companies' systems and internal control environment and an assessment of its risk exposure level and the adequacy of its current and planned surplus to support future operations.

The examination was conducted as a risk-focused examination. Information about the Companies' organizational structure, business strategies and control environment were utilized to develop the examination approach that would be most appropriate for the Company.

Risk Assessment

The Company's risks and management activities were evaluated based upon the NAIC's nine branded risk categories. The categories below represent a dynamic measure of the areas of risk judgmentally evaluated by the examination team to determine the Company's exposure to prospective risk that could potentially result in a hazardous financial condition. The Control Evaluation Level as indicated in the table below is defined in the Financial Condition Examiner's Handbook as:

- Strong Risk Management – Management effectively identifies and controls all material types of risk posed by the relevant activity.
- Moderate Risk Management – The insurer's risk management practices, although largely effective, may be lacking in some modest degree.
- Weak Risk Management – Risk management processes that are lacking in important ways and therefore, are a cause for above normal supervisory attention.

Category	<u>Risk Definition</u>	<u>Control Evaluation</u> <u>Level</u>	<u>Observation</u>
Pricing/Underwriting	Pricing and underwriting practices are inadequate to provide for risks assumed.	Strong	Actuarial staff is responsible for developing pricing and is involved in the Underwriting process.
Reserving	Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.	Moderately Strong	The Company uses the developmental method with adjustments to estimate the Unpaid Claim Liabilities (UCL). An additional margin is maintained over and above the UCL.
Operational	Operational problems such as inadequate information systems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses.	Moderately Strong	The Company has an Internal Audit Department which is responsible for evaluating the adequacy and effectiveness of the Company's internal controls. The Company has established a function to perform testing associated with the NAIC Model Audit Rule for Management's Report of Internal Control over Financial Reporting.
Strategic	Inability to implement appropriate business plans, to make decisions, to allocate resources or to adapt to changes in the business environment will adversely affect competitive position and financial condition.	Strong	Strategies and goals are established, tracked, and appear to be met.

Category	<u>Risk Definition</u>	<u>Control Evaluation</u> <u>Level</u>	<u>Observation</u>
Credit	Amounts actually collected or collectible are less than those contractually due.	Moderately Strong	The Company collects premium in advance and will cancel coverage and/or deny payment of claim if premiums are not paid. Past due accounts are closely monitored.
Market	Movement in market rates or prices such as interest rates, foreign exchange rates, or equity prices adversely affect the reported and/or market value of investments.	Moderately Strong	The Company has a conservative investment portfolio.
Liquidity	Inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.	Strong	The Company has a strong level of control over its liquidity.
Legal	Non-conformance with laws, rules, regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operates will result in a disruption in business and financial loss.	Strong	The Company has a strong process for staying abreast of, and implementing, changing laws and regulations as they apply to health entities.
Reputational	Negative publicity, whether true or not, causes a decline in the customer base, costly litigation, and/or revenue reductions.	Strong	The company actively protects its corporate identity to create and maintain positive name recognition.

Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company has an internal audit department and a Sarbanes-Oxley function; certain internal audit and Sarbanes-Oxley workpapers were reviewed and relied upon in connection with this examination.

FINDINGS AND RECOMMENDATIONS

The examination did not result in any reportable findings and recommendations.

SUBSEQUENT EVENTS

There were no significant events occurring subsequent to the examination date up to the date of this report.

COMPANY HISTORY

GH was established as a staff-model managed care system in 1957. In 1965, GH formed a non-profit corporation under Minnesota Statutes Chapter 317. GH was granted a certificate of authority to operate as a health maintenance organization under the 1973 Health Maintenance Act.

HP was established by GH, its subsidiary, in 1984 under the name GroupCare, Inc. The corporate name was changed to HealthPartners, Inc. in 1993 following the 1992 merger with MedCenters Health Plan, Inc. HP is a non-profit corporation operating under Minnesota Statutes Chapter 317. HP was granted a license to operate as an HMO on April 1, 1984.

The Companies provide health care services and coverage to approximately 351,000 (298,000 HP and 53,000 GH) members throughout Minnesota. These services are provided through a network of owned and controlled Medical and Dental Centers, physician groups, hospitals and related health care providers located primarily in the Minneapolis-Saint Paul metropolitan area.

CORPORATE RECORDS

Minutes of the Annual Member meetings, Board of Directors meetings and Board Committee meetings, covering the period of this examination, were reviewed and found to be in proper order. All significant actions taken by the Companies during the examination period, including those mandated by statute, were addressed in the Companies' minute books.

MANAGEMENT AND CONTROL

Corporate Governance

Corporate Governance for the Company is facilitated by the joint HealthPartners/Group Health Board and executive management of Group Health.

Board of Directors and Officers

HP's By-laws provide that its Board of Directors shall be comprised of at least fifteen but not more than twenty-one persons. Ten Directors are member elected, three are member elected Directors of GH, one is provider elected and one is appointed by CEO.

GH's By-laws provide that its Board of Directors shall be comprised of five voting Directors, consisting of three member elected Directors and two Directors that are 1) the Chair of the Corporate Member (HP), and 2) a physician appointed by the President of the Corporation.

At December 31, 2009, the joint GH/HP Board's consisted of the following Directors:

<u>Name</u>	<u>Year First Elected</u>	<u>Principal Occupation</u>
James J. Malecha	2008	President, Egan Company
Thomas R. Brinsko	2004	President and CEO of the YMCA of Greater St. Paul
Margaret A. Lund	2003	Managing Director, Midwest MN Community Development Corporation
Barbara W. Kaufman	2004	Retired, Former Executive Director of Genesis II for Women
LaMont Boykins ¹	2006	VP Training and Development, Ameriprise Financial, Inc.
R. Jane Brown	2004	Retired, Former Executive Director, Second Harvest Heartland
John E. Gherty	2006	Retired, Former President and CEO of Land O'Lakes, Inc.
Laura Schmaltz Oberst	2008	Regional VP/SVP & Manager, Wells Fargo Bank
Teresa M. Morrow	2006	SVP Communications and Community Relations, Bremer Bank
Brian Rank, M.D.	1997	Medical Director, HealthPartners, Inc.
Eliot A. Seide	2005	Executive Director, AFSCME MN Council 5
Luz Maria Frias	2009	Director, Human Rights & Equal Economic Opportunity Dept, City of St. Paul
Christopher Tashjian	1997	MD, Western Wisconsin Medical Associates
Willie Mae Wilson	2001	Retired, Former President & CEO, St Paul Urban

¹ Effective 1/1/10, LaMont Boykins resigned from the Board of Directors. He was replaced by Greg Strong.

Liz Swanson	Vice President, Human Resources
Tobi Tanzer	Vice President, Corporate Integrity
Marcus Thygeson, MD	Vice President and Associate Medical Director, Consumer Health Solutions
Michael Trangle, MD	Associate Medical Director, Behavioral Health
Barbara Tretheway	Senior Vice President & General Counsel
Robert Van Why	Senior Vice President, Primary Care & Clinic Operations
Tom von Sternberg, MD	Associate Medical Director, HealthPartners Medical Group
Andrea Walsh	Executive Vice President & Chief Marketing Officer
Beth Waterman	Vice President, Health Improvement & Care Innovation
Donna Zimmerman	Vice President, Government & Community Relations

Committees

At 12-31-09 the joint Group Health/HealthPartners Board had the following Committee structure and membership:

Executive Committee

Thomas Brinsko, Chair
 Margaret Lund, Vice Chair
 Barbara Kaufman, Treasurer
 Christopher Tashjian, Secretary
 Ann Wynia
 Teresa Morrow

Finance & Audit Committee

Barbara Kaufman, Chair
 Mary Brainerd, Ex-Officio
 Thomas Brinsko, Ex-Officio
 Luz Maria Frias
 James Malecha
 LaMont Boykins
 Willie Mae Wilson
 Laura Oberst

Governance Committee

Teresa Morrow, Chair
 Mary Brainerd, Ex-Officio
 Thomas Brinsko, Ex-Officio
 Luz Maria Frias
 Margaret Lund
 Jean Jantzen (non-director)

Health Care Transformation Committee

Christopher Tashjian, Chair
 Mary Brainerd, Ex-Officio
 Tom Brinsko, Ex-Officio
 R. Jane Brown
 Barbara Kaufman
 Laura Oberst
 Brian Rank
 Eliot Seide
 Ann Wynia

Innovation in Products & Services

Teresa Morrow, Chair
 Mary Brainerd, Ex-Officio
 Thomas Brinsko, Ex-Officio
 LaMont Boykins
 Luz Maria Frias
 Jack Gherty
 Margaret Lund
 James Malecha
 Willie Mae Wilson

Quality

R. Jane Brown, Chair
 Mary Brainerd, Ex-Officio
 Thomas Brinsko, Ex-Officio
 John Gherty
 Margaret Lund
 Ann Wynia
 Teresa Morrow
 Brian Rank
 Eliot Seide
 Christopher Tashjian

Member Appeals

James Malecha, Co-Chair
Willie Mae Wilson, Co-Chair
Mary Brainerd, Ex-Officio
Thomas Brinsko
R. Jane Brown
Luz Maria Frias
John Gherty
Laura Oberst
Barbara Kaufman
Teresa Morrow
Eliot Seide
Ann Wynia
LaMont Boykins
Margaret Lund

Compensation

John Gherty, Chair
Mary Brainerd, Ex-Officio
Thomas Brinsko, Ex-Officio
Barbara Kaufman
James Malecha
Susan DeNuccio (non-director)
Carla Paulson (non-director)

Enterprise-Wide Risk Management

Enterprise-wide risk management is performed at the HealthPartners, Inc. level through an Enterprise Risk Committee. HealthPartners Enterprise Risk Management Steering Committee is a senior management committee that is intended to review and coordinate operational and clinical risk management activities through joint reporting of legal issues, compliance issues, internal audit review results and clinical risk management issues. The committee also receives reports on the organization's business continuity plans and the business insurance programs.

Strategic Planning

Strategic planning is performed at the HealthPartners Inc. level. Strategic plans are developed for a running three-year period and include financial and non-financial strategies and goals. Tactical planning and budgeting is performed on an annual basis and provides greater detail to the current year's strategic plan. The strategic and tactical plans are presented to, and approved by, the Board on at least an annual basis.

Conflict of Interest

Annually, each Director and Officer of the Company received a Conflict of Interest Questionnaire to disclose any conflicts of interest. The report to the Company's Board of Directors for the years under examination reflects no material conflicts of interest.

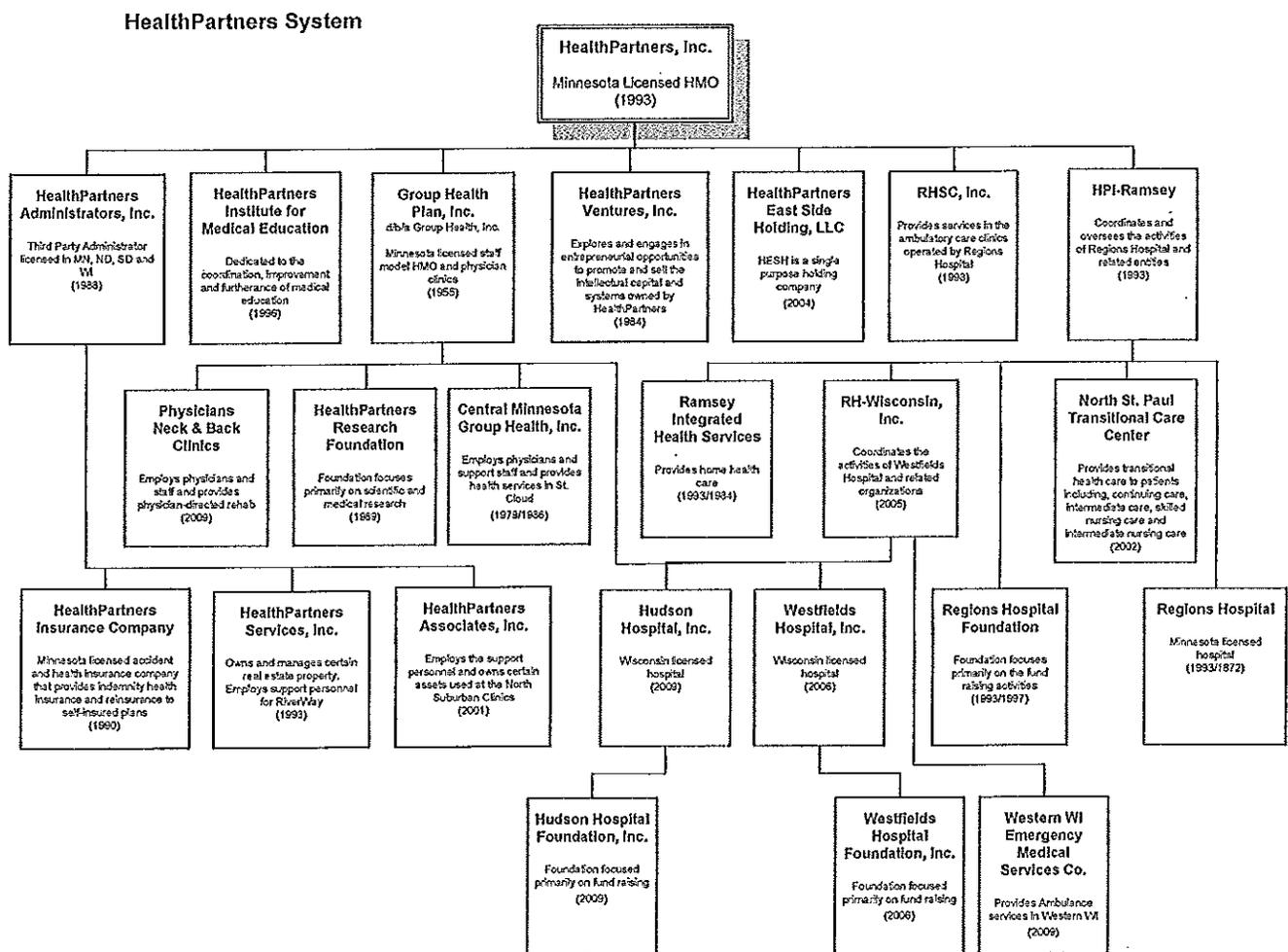
Policies, Procedures and Internal Controls

The examination team observed that during the examination period accountability for managing the Company's risks resided primarily at the business unit and staff level. Internal controls were established by the various business and staff units within the framework of management's internal control structure, and were evaluated throughout the examination period by internal and external auditors. The internal and external auditors report internal control findings to the Audit Committee. The internal audit department tracks management's progress on significant audit issues. In 2007 the Company began adoption of the NAIC Model Audit Rule relating to Management's Report of Internal Control over Financial Reporting.

AFFILIATED COMPANIES

Organization Chart

The organization chart of the Companies and their affiliates at December 31, 2009 are as follows:



REVISED November 2009

Affiliated Companies

HealthPartners, Inc, (HP), is a Minnesota-licensed network model health maintenance organization. HP is a non-profit organization incorporated in the State of Minnesota. HP is the parent organization of a family of health care organizations; collectively these organizations provide health care financing, acute hospital care, physician services, dental services, pharmacy services, home care and hospice services, transitional care services, health research and medial and professional educational services.

Central Minnesota Group Health, Inc. (CMGH), is a non-profit organization incorporated in the State of Minnesota. It provides health services in St. Cloud.

HealthPartners Administrators, Inc. (HPAI) is a taxable non-profit corporation in the State of Minnesota. It is a licensed third-party administrator in the states of Minnesota, Wisconsin and North Dakota. HealthPartners is the sole shareholder of HPAI.

HealthPartners Associates, Inc, (HAI), is a Minnesota corporation that employs the support staff and owns certain assets used at the North suburban Clinics. HealthPartners Administrators, Inc. owns all of the stock of HAI.

HealthPartners Institute for Medical Education, (IME), is a non-profit organization incorporated in the State of Minnesota. IME is dedicated to the improvement and furtherance of medical education. HealthPartners is its sole member.

HealthPartners Research Foundation, (HPRF), is a non-profit organization incorporated in the State of Minnesota. HPRF is the result of the merger of Ramsey Foundation and Group Health Research Foundation in 1998 and provides funding for scientific and medical research. Group Health Plan, Inc. is the sole member of HPRF.

HealthPartners Services, Inc. (HPSI), is a stock company incorporated in the State of Minnesota. HPAI owns 100% of the stock of HPSI. HPSI owns and manages real estate and employs the support staff for the RiverWay Clinics.

HealthPartners Ventures, Inc. (HPV), is a stock company incorporated in the State of Minnesota. HealthPartners owns 100% of the stock of HPV. HPV explores and engages in entrepreneurial opportunities to promote and sell the intellectual capital and systems owned and developed by the HealthPartners system.

HPI-Ramsey, Inc. (HPIR), is a non-profit organization incorporated in the State of Minnesota. HealthPartners is the sole member of HPIR. HPIR co-ordinates and oversees the activities of Regions Hospital and related entities.

North St. Paul Transitional Care Center is a Minnesota nonprofit corporation. The Center provides transitional care for individuals that are able to be discharged from a hospital but are not yet ready to be discharged home. Its sole corporate member is HPIR.

Ramsey Integrated Health Services (IHC), is a non-profit organization incorporated in the State of Minnesota. This entity does business under the name of Integrated Home Care (IHC) and provides home health care and hospice services. HPIR is its sole corporate member.

Regions Hospital (RH) is a non-profit organization incorporated in the State of Minnesota. HPIR is the sole member of RH. RH is a Minnesota licensed hospital.

Regions Hospital Foundation, (RHF), is a Minnesota nonprofit corporation which focuses on fund raising activities in support of Regions Hospital. Its sole corporate member is HPIR.

RHSC, Inc is a Minnesota nonprofit corporation which employs health care providers and support staff who provide services in the ambulatory care clinics operated by Regions. Its sole corporate member is HealthPartners, Inc.

HealthPartners Insurance Company (HPIC), is a stock insurance company incorporated in the State of Minnesota. HPAI is the sole shareholder of HPIC capital stock. HPIC is licensed in Minnesota and South Dakota to write accident and health insurance.

Group Health Plan, Inc, (GH), was established as a staff-model managed care system in 1957 and subsequently was formed as a non-profit corporation and was granted a certificate of authority to operate as an HMO.

RH-Wisconsin, Inc. (RHW) is a non-stock organization incorporated in the State of Wisconsin. HPIR is the sole corporate member of RHW. RHW coordinates the activities of WH and related organizations.

Westfields Hospital, Inc. (WH) is a non-profit organization incorporated in the State of Wisconsin. RHW and GH are the corporate members of WH. WH is a Wisconsin licensed hospital.

Westfields Hospital Foundation, Inc. (WHF) is a Wisconsin non-profit organization which focuses on fund raising activities in support of WH. WH is the sole corporate member of WHF.

Hudson Hospital, Inc. (HH) is a non-profit organization incorporated in the State of Wisconsin. RHW and GH are the corporate members of HH. HH is a Wisconsin licensed hospital.

Hudson Hospital Foundation, Inc. (HHF) is a Wisconsin non-profit organization which focuses on fund raising activities in support of HH. HH is the sole corporate member of HHF,

Physicians Neck and Back Clinics, PA (PNBC) has applied for a non-profit corporation status incorporated in the State of Minnesota. PNBC specializes in non-surgical treatment of patients suffering from chronic spinal disorders through evidence based proprietary rehabilitation programs.

HealthPartners East Side Holding, LLC. (HESH) is a Delaware Limited Liability Corporation qualified to do business in Minnesota. HESH is a single purpose real estate holding company. HP is the sole corporate member of HESH.

Western Wisconsin Emergency Medical Services Co. (WWEMS), is a Wisconsin non-profit organization which provides ambulance and emergency medical services for the benefit of communities of HP affiliated hospitals in western Wisconsin.

Intercompany Agreements

The Companies were a party to two significant intercompany agreements during the period under examination. The agreements were as follows:

Health Care Expense/Management & Administration Expense Allocation Agreements

These agreements, effective January 1, 1994, provide for the monthly allocation to affiliated companies of certain expenses incurred by GH in the administration of affiliate business. Payment of allocated amounts is to be made on a monthly basis.

As part of GH's administration of affiliate business, premium collections are made by GH, on behalf of certain affiliates. These collections are deposited in GH operating accounts with credit being given to the appropriate affiliate inter-company account.

FIDELITY BOND AND OTHER INSURANCE

Fidelity Bond

At December 31, 2009, HealthPartners Inc., its subsidiaries and affiliates, was an insured under a financial institution blanket bond with a cumulative coverage limit exceeding the NAIC suggested minimum for affiliated companies of similar size and exposure. The Company is appropriately bonded and meets the NAIC guidelines for suggested amount of Fidelity Bond Coverage.

The Companies are named insureds on professional liability policies with excess per claim and annual aggregate limits. This coverage supplements the Companies' self-insured coverage. The Companies fund their self-insurance based on actuarial evaluations.

The Companies are named insureds on various corporate property and liability policies covering risks in the normal course of business.

Other Insurance

HealthPartners, Inc., its subsidiaries and affiliates, are named insureds for Property, Comprehensive General Liability and Employee Coverage, Managed Care and Professional Liability, Directors and Officers Liability and an Umbrella Policy. This coverage supplements the Companies self-insured coverage.

PENSION AND INSURANCE PLANS

All personnel of the Companies are employees of GH. All compensation and benefits paid to employees are allocated to the affiliated companies under the Health Care Expense Allocation Agreement and Management and Administration Expense Allocation Agreements.

GH has a defined benefit, noncontributory pension plan covering employees age 21 and over with a minimum of one year of service. Retirement plans are a function of both years of service and the level of compensation. The retirement plan was closed to new employees effective January 1, 2008.

GH sponsors a defined benefit plan that provides post-retirement medical and dental benefits to employees.

GH sponsors two qualified defined contribution plans under various sections of the Internal Revenue Code, which are the GHI 403(b)(7) Plan and the GHI 401(k) Plan. Employee balances in the GHI 403(b)(7) Plan were frozen, effective July 3, 1996. Eligible employees of GH can contribute 1% to 50% of annual compensation up to the maximum dollar limits established by the Internal Revenue Service with GHI matching the participants' contribution up to 7.5% of their salary.

TERRITORY AND PLAN OF OPERATIONS

The Companies are licensed to write health coverage only in the State of Minnesota.

HP, its subsidiaries and affiliates comprise a health care delivery system that provides comprehensive group hospital, medical, dental and Medicare coverage and services to its members. These coverages and services are provided through a network of owned and contracted provider groups. The Company distributes its products through a network of independent agents.

REINSURANCE

HealthPartners and Group Health have stop-loss reinsurance agreements with Ace American Insurance Company to limit losses on individual claims. The policies reinsure 100% of that portion of eligible hospital and medical services of a member risk in excess of \$2,000,000 for all products. The reinsurance policies carry a \$6,000,000 per member annual maximum benefit. In 2009, HealthPartners ceded \$258,000 in premiums; significantly less than 1% of direct written premiums in 2009. Group Health ceded \$14,000 in premiums in 2009; significantly less than 1% of direct written premiums in 2009.

The active reinsurance agreements, at December 31, 2009, to which the Companies were a party, were found to properly transfer risk to the reinsurer.

The Companies did not assume risk from any insurer during the period under examination.

ACCOUNTS AND RECORDS

General

GH performed the administration of claims and premium processing for all affiliates during the examination period.

The HP Finance Division performed the accounting functions for the company. The Company's books and records are maintained on a GAAP basis and adjustments are made for statutory reporting purposes.

The Company contracted for investment advisory services with Wells Fargo Institutional Trust Services, Voyager Asset Management, Inc., Advantus Capital Management, Inc., Galliard Capital Management, World Asset Management, Inc., NorthShore Advisors, LLC, and Loomis Sayles and Company, Inc.

EDP Systems

Financial and operational data is processed electronically on systems owned and operated by GH. An evaluation of the EDP systems controls found no material deficiencies.

Annual Statement Preparation

The Annual Statements were reviewed for proper completion in accordance with Minnesota Rule 4685.1910 and the related NAIC Annual Statement Instructions. It appears that the Company is in compliance.

Investment Policy

HealthPartners and Group Health have written investment policies that are reviewed and approved annually by the Board of Directors. Professional investment advisors manage the Company's investment portfolios under written agreements that are in accordance with the established investment policies.

Safekeeping of Assets

All investment securities of the Company, with the exception of investments in subsidiaries, are maintained in custodial accounts with major national banks. Securities representing the Company's interests in subsidiaries are maintained in the Company's offices. The custodial agreements were reviewed and were found to meet Minnesota statutory requirements and NAIC guidelines.

The Company was not involved in securities lending activities during the period under examination.

Designated Independent Public Accountants

The books and records of the Companies were audited annually by independent public accountants in accordance with Minnesota Statutes §62D.08. During the period under examination, Deloitte and Touche, LLP (2007) and KPMG, LLP (2008-2009) were the designated independent public accountant for the Companies.

The applicable work papers of KPMG, LLP were reviewed and where appropriate, certain procedures performed by the auditors were relied upon in this examination. In those instances, the work papers documenting the work of the auditors were copied for inclusion into the work papers of this examination.

Claim Reserves

The Minnesota Department of Commerce developed claim reserve projections and compared them to values carried by the Companies at December 31, 2009. The examination consisted of review of the underlying data using procedures prescribed by the NAIC Financial Condition Examiners Handbook and other procedures as determined necessary by the Department actuary to provide adequate validation of the data. Based on the procedures applied, the claim reserves appear to be reasonably stated and have been accepted for the purposes of this report.

Taxation

The Companies are exempt from Federal income taxation under IRS Code Section 501(c)(3) and 501(c)(4). Minnesota statutes also exempt the Companies from state income taxation.

STATUTORY DEPOSITS

Per MN statute 60D.041, each HMO shall deposit with an organization or trustee acceptable to the Commissioner through which a custodial or controlled account is utilized, bankable funds in the amount required. Special deposits for the benefit of policyholders for 2009 Health Partners and Group Health are adequate per statutes and properly deposited with custodian.

FINANCIAL STATEMENTS

The following are comparative statements of assets, liabilities, surplus and other funds of the Company as of December 31, 2007 through 2009 as prepared by the Company and audited by the accounting firms of Deloitte and Touche, LLP (2007) and KPMG, LLP (2008-2009). Comparative statements of operations and reconciliation of surplus and other funds and cash flow for those years follow the statements. Failure of columns to add to the totals reflected in this report is due to rounding. The examination team reviewed and accepted the work of the Designated Certified Public Accountant related to these financial statements. The examiners have incorporated these statements into this report without adjustment.

HealthPartners, Inc.
Statements of Assets, Liabilities and Net Worth
For Years Ending December 31,

ASSETS	2009	2008	2007
Bonds	\$114,730,000	\$92,142,000	\$91,751,000
Cash and Short Term Investments	135,210,000	139,222,000	125,103,000
Other Invested Assets	0	0	20,000,000
Subtotals, Cash and Invested Assets	<u>\$249,940,000</u>	<u>\$231,364,000</u>	<u>\$236,854,000</u>
Investment Income Due and Accrued	718,000	817,000	1,872,000
Premiums and Considerations:			
Uncollected premiums & agents' balances in the course of collection	53,575,000	38,458,000	36,618,000
Amounts recoverable from reinsurers	298,000	0	404,000
Receivables from Affiliates	36,183,000	43,028,000	88,413,000
Aggregate write-ins for other than invested assets	204,218,000	177,391,000	134,044,000
Total Assets	<u>\$544,932,000</u>	<u>\$491,058,000</u>	<u>\$498,205,000</u>
LIABILITIES, CAPITAL AND SURPLUS			
Unpaid claims	\$113,250,000	\$108,792,000	\$116,434,000
Unpaid claims adjustment expenses	2,572,000	2,471,000	2,644,000
Premiums received in advance	19,714,000	17,444,000	0
General expenses due and accrued	18,745,000	21,351,000	31,167,000
Aggregate write-ins for other liabilities	4,097,000	5,586,000	3,216,000
Total Liabilities	<u>\$158,378,000</u>	<u>\$155,644,000</u>	<u>\$153,461,000</u>
Aggregate write-ins for other than special surplus funds	157,154,000	54,602,000	97,769,000
Unassigned funds	229,400,000	280,812,000	246,975,000
Total Capital and Surplus	<u>\$386,554,000</u>	<u>\$335,414,000</u>	<u>\$344,744,000</u>
Total Liabilities, Capital and Surplus	<u>\$544,932,000</u>	<u>\$491,058,000</u>	<u>\$498,205,000</u>

HealthPartners, Inc.
Statements of Revenues, Expenses and Net Worth
For Years Ending December 31,

<u>REVENUES</u>	2009	2008	2007
Net premium revenue	\$1,584,279,000	\$1,633,222,000	\$1,577,538,000
Aggregate write-ins for other health care related revenue	6,461,000	7,265,000	6,814,000
Total Revenue	<u>\$1,590,740,000</u>	<u>\$1,640,487,000</u>	<u>\$1,584,352,000</u>
<u>EXPENSES</u>			
Hospital/medical benefits	\$1,192,339,000	\$1,217,023,000	\$1,167,868,000
Other professional services	64,343,000	61,819,000	55,684,000
Prescription drugs	166,336,000	191,668,000	196,352,000
Net reinsurance recoveries	(298,000)	0	0
Total Hospital and Medical	<u>\$1,422,720,000</u>	<u>\$1,470,510,000</u>	<u>\$1,419,904,000</u>
Claims adjustment expenses	32,085,000	28,761,000	34,808,000
General administrative expenses	103,909,000	110,898,000	104,009,000
Total Underwriting Deductions	<u>\$1,558,714,000</u>	<u>\$1,610,169,000</u>	<u>\$1,558,670,000</u>
Net Underwriting gain	32,026,000	30,318,000	25,682,000
Net Investment gain	3,964,000	5,019,000	8,907,000
Net Income	<u>\$35,990,000</u>	<u>\$35,337,000</u>	<u>\$34,589,000</u>

HealthPartners, Inc.
Statement of Capital and Surplus
For Years Ending December 31,

<u>CAPITAL AND SURPLUS</u>	2009	2008	2007
Capital and surplus prior-reporting period	\$335,414,000	\$344,744,000	\$296,981,000
Net Income	35,990,000	35,337,000	34,589,000
Change in nonadmitted assets	(41,303,000)	300,000	(4,275,000)
Change in net unrealized capital losses	(794,000)	0	0
Cumulative effect of change in accounting principles	1,391,000	0	0
Aggregate write-ins for gains or (losses) in surplus	55,856,000	(44,967,000)	17,449,000
Net Change in Capital and Surplus	<u>\$51,140,000</u>	<u>(\$9,330,000)</u>	<u>\$47,763,000</u>
Capital and surplus end of reporting period	<u>\$386,554,000</u>	<u>\$335,414,000</u>	<u>\$344,744,000</u>

HealthPartners, Inc.
Statements of Cash Flows
For Years Ending December 31,

	2009	2008	2007
Cash from Operations			
Premiums collected net of reinsurance	\$1,571,432,000	\$1,648,826,000	\$1,590,167,000
Net investment income	3,663,000	8,633,000	7,808,000
Miscellaneous income	6,461,000	7,265,000	6,814,000
Benefits and loss related payments	(1,418,560,000)	(1,477,748,000)	(1,412,475,000)
Commissions, expenses pd, Agg Write-ins for deductions	(138,499,000)	(149,648,000)	(121,535,000)
Net Cash from Operations	<u>\$24,497,000</u>	<u>\$37,328,000</u>	<u>\$70,779,000</u>
Cash from Investments			
Proceeds from Investments sold, matured or repaid:			
Bonds	\$77,670,000	\$63,536,000	\$66,321,000
Stocks	0	0	0
Miscellaneous proceeds	0	20,000,000	0
Total Investment Proceeds	<u>77,670,000</u>	<u>\$83,536,000</u>	<u>\$66,321,000</u>
Cost of Investments Acquired:			
Bonds	(99,261,000)	(66,486,000)	(75,601,000)
Other invested assets	0	0	0
Total Investments Acquired	<u>(\$99,261,000)</u>	<u>(\$66,486,000)</u>	<u>(\$75,601,000)</u>
Net Cash from Investments	(\$21,591,000)	\$17,050,000	(\$9,280,000)
Cash from Financing and Miscellaneous Sources			
Other cash (applied) provided	(6,918,000)	(40,259,000)	7,090,000
Net Cash from Financing and Miscellaneous Sources	<u>(\$6,918,000)</u>	<u>(\$40,259,000)</u>	<u>\$7,090,000</u>
Net change in cash and short-term investments	<u>(4,012,000)</u>	<u>14,119,000</u>	<u>68,589,000</u>
Cash and Short -Term Investments:			
Beginning of year	139,222,000	125,103,000	56,514,000
End of year	\$135,210,000	\$139,222,000	\$125,103,000

Group Health Plan, Inc.
Statements of Assets, Liabilities and Net Worth
For Years Ending December 31,

ASSETS	2009	2008	2007
Bonds	\$188,021,000	\$164,705,000	\$168,200,000
Common Stock	28,170,000	19,977,000	22,787,000
Properties occupied by the company	69,605,000	68,468,000	66,614,000
Cash and Short Term Investments	25,256,000	44,290,000	60,317,000
Subtotals, Cash and Invested Assets	<u>\$311,052,000</u>	<u>\$297,440,000</u>	<u>\$317,918,000</u>
Investment Income Due and Accrued	1,288,000	1,499,000	1,582,000
Premiums and Considerations:			
Uncollected premiums & agents' balances in the course of collection	34,260,000	9,288,000	19,607,000
EDP equipment and software	22,453,000	20,592,000	25,398,000
Furniture and Equipment	7,914,000	6,459,000	9,081,000
Receivables from Affiliates	45,075,000	20,636,000	29,951,000
Health care and other amounts receivables	50,706,000	49,386,000	48,023,000
Aggregate write-ins for other than invested assets	20,097,000	19,110,000	24,726,000
Total Assets	<u>\$492,845,000</u>	<u>\$424,410,000</u>	<u>\$476,286,000</u>

LIABILITIES, CAPITAL AND SURPLUS

Unpaid claims	\$21,608,000	\$18,677,000	\$14,410,000
Unpaid claims adjustment expense	491,000	424,000	329,000
Premiums received in advance	11,446,000	5,889,000	59,040,000
General expenses due and accrued	164,670,000	91,780,000	73,757,000
Borrowed money	63,075,000	65,895,000	68,580,000
Payables to Affiliates	30,252,000	52,473,000	92,371,000
Aggregate write-ins for other liabilities	121,859,000	113,485,000	106,555,000
Total Liabilities	<u>\$413,401,000</u>	<u>\$348,623,000</u>	<u>\$415,042,000</u>
Surplus notes	0	0	20,000,000
Aggregate write-ins for other than special surplus funds	(110,018,000)	(11,773,000)	(39,197,000)
Unassigned funds	189,462,000	87,560,000	80,441,000
Total Capital and Surplus	<u>\$79,444,000</u>	<u>\$75,787,000</u>	<u>\$61,244,000</u>
Total Liabilities, Capital and Surplus	<u>\$492,845,000</u>	<u>\$424,410,000</u>	<u>\$476,286,000</u>

Group Health Plan, Inc.
Statements of Revenues, Expenses and Net Worth
For Years Ending December 31,

<u>REVENUES</u>	2009	2008	2007
Net premium revenue	\$366,240,000	\$210,481,000	\$135,574,000
Fee for service	434,296,000	440,361,000	407,087,000
Aggregate write-ins for other health care related revenue	40,601,000	36,638,000	35,185,000
Total Revenue	\$841,137,000	\$687,480,000	\$577,846,000
<u>EXPENSES</u>			
Hospital/medical benefits	\$575,998,000	\$465,203,000	\$395,441,000
Other professional services	72,433,000	78,387,000	68,807,000
Outside referrals	0	0	0
Emergency room and out-of-area	0	0	0
Prescription drugs	136,331,000	96,025,000	93,755,000
Net reinsurance recoveries	0	0	0
Total Hospital and Medical	\$784,762,000	\$639,615,000	\$558,003,000
Claims adjustment expenses	8,235,000	6,191,000	4,998,000
General administrative expenses	36,980,000	34,020,000	22,105,000
Total Underwriting Deductions	\$829,977,000	\$679,826,000	\$585,106,000
Net Underwriting gain or (loss)	11,160,000	7,654,000	(7,260,000)
Net Investment gain or (loss)	7,743,000	(536,000)	12,748,000
Net Income	\$18,903,000	\$7,118,000	\$5,488,000

Group Health Plan, Inc.
Statement of Capital and Surplus
For Years Ending December 31,

<u>CAPITAL AND SURPLUS</u>	2009	2008	2007
Capital and surplus prior-reporting period	\$75,787,000	\$61,244,000	\$60,241,000
Net Income	18,903,000	7,118,000	5,488,000
Change in net unrealized capital gains(losses)	868,000	(870,000)	(12,000)
Change in nonadmitted assets	(20,970,000)	(53,326,000)	(7,637,000)
Cumulative effect of change in accounting principles	2,220,000	0	0
Change in surplus notes	0	(20,000,000)	0
Aggregate write-ins for gains or (losses) in surplus	2,636,000	81,621,000	3,164,000
Net Change in Capital and Surplus	\$3,657,000	\$14,543,000	\$1,003,000
Capital and surplus end of reporting period	\$79,444,000	\$75,787,000	\$61,244,000

Group Health Plan, Inc.
Statements of Cash Flows
For Years Ending December 31,

	2009	2008	2007
Cash from Operations			
Premiums collected net of reinsurance	\$346,825,000	\$167,649,000	\$150,577,000
Net investment income	8,080,000	11,305,000	12,367,000
Miscellaneous income	474,897,000	475,636,000	443,561,000
Benefits and loss related payments	(781,831,000)	(635,348,000)	(558,192,000)
Commissions, expenses pd, Agg Write-ins for deductions	27,742,000	(22,093,000)	(51,229,000)
Net Cash from Operations	<u>\$75,713,000</u>	<u>(\$2,851,000)</u>	<u>(\$2,916,000)</u>
Cash from Investments			
Proceeds from Investments sold, matured or repaid:			
Bonds	\$109,424,000	\$105,504,000	\$112,975,000
Stocks	1,188,000	27,150,000	10,145,000
Net gains(losses) on cash and short-term investments	0	(2,348,000)	0
Miscellaneous proceeds	0	0	8,273,000
Total Investment Proceeds	<u>\$110,612,000</u>	<u>\$130,306,000</u>	<u>\$131,393,000</u>
Cost of Investments Acquired:			
Bonds	(131,340,000)	(108,867,000)	(120,544,000)
Stocks	(11,296,000)	(20,005,000)	(1,610,000)
Other invested assets	(8,157,000)	(9,611,000)	(8,380,000)
Total Investments Acquired	<u>(\$150,793,000)</u>	<u>(\$138,483,000)</u>	<u>(\$130,534,000)</u>
Net Cash from Investments	<u>(\$40,181,000)</u>	<u>(\$8,177,000)</u>	<u>\$859,000</u>
Cash from Financing and Miscellaneous Sources			
Surplus notes, capital notes	\$0	(\$20,000,000)	\$0
Borrowed funds	(2,820,000)	(2,685,000)	(2,565,000)
Other cash (applied) provided	(51,746,000)	17,686,000	5,521,000
Net Cash from Financing and Miscellaneous Sources	<u>(\$54,566,000)</u>	<u>(\$4,999,000)</u>	<u>\$2,956,000</u>
Net change in cash and short-term investments	<u>(\$19,034,000)</u>	<u>(\$16,027,000)</u>	<u>\$899,000</u>
Cash and Short -Term Investments:			
Beginning of year	44,290,000	60,317,000	59,418,000
End of year	\$25,256,000	\$44,290,000	\$60,317,000

CONTINGENCIES AND COMMITMENTS

The Companies are not involved in litigation that is considered outside the normal course of operations.

Health Care Facility Revenue Bonds – Series 2003 were issued by the Housing and Redevelopment Authority of the City of St. Paul (“HRA”) and the City of Minneapolis on behalf of the Group Health and the obligated group, which included Group Health, HealthPartners, Regions, HPAI and HPIC. The group’s gross revenue is pledged toward the repayment of the bonds. The amount outstanding on these bonds at December 31, 2009 was \$63,075,000.

Hospital Facility Revenue Bonds – Series 1998, 2006 were issued by the HRA on behalf of Regions. Payment of the principal and interest on these bonds are the joint obligation of the obligated group. The amount outstanding on these bonds at December 31, 2006 was \$41,686,000 and \$181,724,000, respectively.

ACKNOWLEDGEMENT

Acknowledgment is hereby made of the courtesy and cooperation extended by personnel of the Company during the course of the examination.