

**STATE OF MINNESOTA**  
**DEPARTMENT OF COMMERCE**  
**SAINT PAUL, MINNESOTA**

**CONSOLIDATED EXAMINATION REPORT**  
**OF**

**HEALTHPARTNERS, INC. NAIC #95766**  
**GROUP HEALTH PLAN, INC. NAIC #52628**

**MINNEAPOLIS, MINNESOTA**  
**AS OF**  
**DECEMBER 31, 2012**



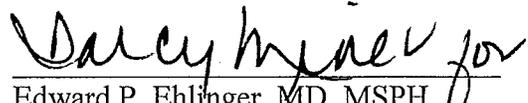
*Protecting, maintaining and improving the health of all Minnesotans*

The attached report of examination made of the condition and affairs as of December 31, 2012 of:

HEALTHPARTNERS INC.  
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: 5/27/14



MINNESOTA DEPARTMENT OF  
**COMMERCE**

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SAINT PAUL, MN 55101-2198  
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AN EQUAL OPPORTUNITY EMPLOYER

Pursuant to the authority vested in the Commissioner of Commerce of the State of Minnesota, Mike Rothman, being first duly sworn, upon his oath, deposes and says that a comprehensive examination was made of the affairs and financial condition of

**HEALTH PARTNERS INC.  
GROUP HEALTH PLAN INC.  
MINNEAPOLIS, MINNESOTA**

an insurance company authorized under the laws of the State of Minnesota. That, to the best of his information, knowledge and belief, the attached report of examination describes the affairs and financial condition of the above named company as of December 31, 2012 as determined by a comprehensive examination made in accordance with Minnesota Statutes Section 60D.14. The examination was completed by duly qualified examiners of the State of Minnesota representing the Midwestern Zone (III) of the National Association of Insurance Commissioners.

Due consideration has been given to the comments of the examiners regarding the operations of the above named company 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.

MIKE ROTHMAN  
Commissioner



By: Tim Vande Hey  
Deputy Commissioner

Dated: 5/29/2014

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*Protecting, maintaining and improving the health of all Minnesotans*

May 22, 2014

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

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

Dear Honorable Commissioners:

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

HEALTHPARTNERS, INC.  
GROUP HEALTH PLAN, INC.  
NAIC #95766 & 52628  
8170 33<sup>rd</sup> Avenue South, P.O. Box 1309  
Minneapolis, MN 55440

The following report of examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

The comprehensive examination of HealthPartners, Inc. (also known as "HealthPartners"), Group Health Plan, Inc. (also known as "Group Health") or collectively referred to as "the Company" was conducted on behalf of the Minnesota Department of Health by the Minnesota Department of Commerce (DOC). The Department of Commerce Examination Order #13-002 directed that the examination include a determination of the financial condition of the Company and a general review of its corporate affairs and insurance operations to determine compliance with statutes. The last examination was completed as of December 31, 2009. This examination covers the period January 1, 2010, through December 31, 2012. The examination included significant transactions and/or events occurring subsequent to December 31, 2012 that were noted during the course of this examination.

The examination was conducted in accordance with the *NAIC Financial Condition Examiners' Handbook* (Handbook). The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **FINDINGS AND RECOMMENDATIONS**

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

## **SUBSEQUENT EVENTS**

Effective January 1, 2013, the Company and Park Nicollet Health Services combined organizations under a single, consumer-governed board of directors for the benefit of its patients, members, and the community. Park Nicollet Health Services is a nonprofit, integrated healthcare system located in St. Louis Park, Minnesota, with more than 8,200 employees, including more than 1,000 physicians.

The Company is participating in Minnesota's health exchange, MNsure, beginning effective January 1, 2014.

## COMPANY HISTORY

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

HealthPartners was established by Group Health, its current 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. HealthPartners is a non-profit corporation operating under Minnesota Statutes, Chapter 317. HealthPartners was granted a license to operate as an HMO on April 1, 1984.

## CORPORATE RECORDS

Minutes of the Board of Directors meetings and select 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

### Board of Directors and Officers

HealthPartners 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 Group Health, one is provider elected and one is appointed by the CEO. Group Health'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 (HealthPartners), and 2) a physician appointed by the President of the Company.

### HealthPartners, Inc. Board of Directors at December 31, 2012

Anne Wynia, Chair	Barbara W. Kaufman
James. J. Malecha	Teresa Morrow
John. E. Gherty	Luz Maria Frias
Susan L. Hoyt	Christopher H. Tashjian, M.D.
Laura Schmaltz Oberst	Brain H. Rank, M.D
Eliot A. Seide	Matthew Smith
Gregory S. Strong	R. Jane Brown
Thomas Brinkso	

HealthPartners, Inc. Corporate Officers at December 31, 2012

Chuck Abrahamson Vice President, Network Management & Provider Relations  
Alan Abramson Senior Vice President & Chief Information Officer  
Scott Aebischer Sr. Vice President, Customer Service & Product Innovation  
Calvin Allen Sr. Vice President, Corporate Strategic Planning & Human Resources  
Babette Apland Senior Vice President, Health and Care Management  
Shannon Beaudin Klein Vice President, Marketing & Communications  
Dave Bergh Vice President, HealthPlan and Enterprise Systems  
Mary Brainerd President, Chief Executive Officer  
Rick Bruzek Vice President, Pharmacy Services  
Kathleen M. Cooney Executive Vice President, Chief Administrative Officer  
Patrick Courneya, MD Medical Director, Health Plan  
Bob Cumming Senior Vice President, Actuarial, Underwriting & Subsidiary Operations  
Tricia Dege Vice President, Finance and Planning  
Dave Dziuk Senior Vice President, Finance & Chief Financial Officer  
Forrest Flint Vice President, Dental Plan  
David Gesko, DDS Sr. Vice President & Dental Director  
Tim Haley Vice President, Broker Sales  
George Isham, MD, MS Senior Advisor  
Ken Holmen, MD Vice President, Medical Affairs & Chief Medical Officer  
Sue Knudson Vice President, Health Informatics  
Karen Kraemer Vice President, Disease and Case Management  
Kim LaReau Vice President, Information Systems & Technology, Care Delivery  
Nancy McClure Sr. Vice President, HealthPartners Medical Group & Clinics  
Frank McQuillan Vice President, Treasury & Real Estate  
Kevin Palattao Vice President, Clinic Patient Care Systems  
Nico Pronk, PhD. Vice President, Health Management Behavior Group  
Brian Rank, MD Medical Director, HealthPartners Medical Group & Clinics  
Megan Remark Sr. Vice President, Specialty Care and Operations  
Katie Sayre Sr. Vice President, Health Plan Operations & Government Programs  
Scott Schnuckle Sr. Vice President, Pharmacy & Business Development  
Doug Smith Sr. Vice President, Sales  
Sharon Stein Vice President, Health Behavior Group  
Liz Swanson Vice President, Human Resources  
Tobi Tanzer Vice President, Corporate Integrity  
Barbara E. Tretheway Senior Vice President, General Counsel  
Robert Van Why Sr. Vice President, Primary Care & Clinic Operations  
Andrea Walsh Executive Vice President, Chief Marketing Officer  
Beth Waterman Vice President, Health Improvement & Care Innovation  
Donna Zimmerman Sr Vice President, Government and Community Relations

Group Health Plan, Inc. Directors at December 31, 2012

Anne Wynia, Chair	Barbara Kaufman
Brian H. Rank, M.D	John E. Gherty
Gregory S. Strong	

Group Health Plan, Inc. Corporate Officers at December 31, 2012

Chuck Abrahamson Vice President, Network Management & Provider Relations  
Alan Abramson Senior Vice President & Chief Information Officer  
Scott Aebischer Sr. Vice President, Customer Service & Product Innovation  
Calvin Allen Sr. Vice President, Corporate Strategic Planning & Human Resources  
Babette Apland Senior Vice President, Health and Care Management  
Shannon Beaudin Klein Vice President, Marketing & Communications  
Dave Bergh Vice President, HealthPlan and Enterprise Systems  
Mary Brainerd President, Chief Executive Officer  
Rick Bruzek Vice President, Pharmacy Services  
Kathleen M. Cooney Executive Vice President, Chief Administrative Officer  
Patrick Courneya, MD Medical Director, Health Plan  
Bob Cumming Senior Vice President, Actuarial, Underwriting & Subsidiary Operations  
Tricia Dege Vice President, Finance and Planning  
Dave Dziuk Senior Vice President, Finance & Chief Financial Officer  
Forrest Flint Vice President, Dental Plan  
David Gesko, DDS Sr. Vice President & Dental Director  
Tim Haley Vice President, Broker Sales  
George Isham, MD, MS Senior Advisor  
Ken Holmen, MD Vice President, Medical Affairs & Chief Medical Officer  
Sue Knudson Vice President, Health Informatics  
Karen Kraemer Vice President, Disease and Case Management  
Kim LaReau Vice President, Information Systems & Technology, Care Delivery  
Nancy McClure Sr. Vice President, HealthPartners Medical Group & Clinics  
Frank McQuillan Vice President, Treasury & Real Estate  
Kevin Palattao Vice President, Clinic Patient Care Systems  
Nico Pronk, PhD. Vice President, Health Management Behavior Group  
Brian Rank, MD Medical Director, HealthPartners Medical Group & Clinics  
Megan Remark Sr. Vice President, Specialty Care and Operations  
Katie Sayre Sr. Vice President, Health Plan Operations & Government Programs  
Scott Schnuckle Sr. Vice President, Dental, Pharmacy & Business Development  
Doug Smith Sr. Vice President, Sales  
Sharon Stein Vice President, Health Behavior Group  
Liz Swanson Vice President, Human Resources  
Tobi Tanzer Vice President, Corporate Integrity  
Barbara E. Tretheway Senior Vice President, General Counsel  
Robert Van Why Sr. Vice President, Primary Care & Clinic Operations  
Andrea Walsh Executive Vice President, Chief Marketing Officer  
Beth Waterman Vice President, Health Improvement & Care Innovation  
Donna Zimmerman Sr Vice President, Government and Community Relations

Committees

The following were committees of both HealthPartners and Group Health at December 31, 2012:

Executive

Anne Wynia, Chair  
James Malecha  
Teresa Morrow  
Christopher Tashjian, M.D.  
Thomas Brinsko

Compensation

John Gherty, Chair  
Thomas Brinsko  
James Malecha  
Gregory Strong  
Carla Paulson (non-director)  
Anne Wynia  
Mary Brainerd

Finance & Audit

James Malecha, Chair  
Thomas Brinsko  
John Gherty  
Eliot Seide  
Matthew Smith  
Gregory Strong  
Anne Wynia  
Mary Brainerd

Governance

Barbara Kaufman, Chair  
Thomas Brinsko  
Luz Maria Frias  
Laura Schmaltz Oberst  
Eliot Seide  
Jean Jantzen (member-at-large)  
Anne Wynia  
Mary Brainerd

Health Transformation

Christopher Tashjian, M.D., Chair  
Barbara Kaufman  
Laura Schmaltz Oberst  
Brain Rank, M.D.  
Eliot Seide  
Matthew Smith  
Gregory Strong  
Anne Wynia  
Mary Brainerd

Quality

Brain Rank, M.D.  
Susan Hoyt  
Barbara Kaufman  
Teresa Morrow  
Laura Schmaltz Oberst  
Christopher Tashjian, M.D.  
Anne Wynia  
Mary Brainerd

Innovation in Products  
and Services

Luz Maria Frias, Chair  
Thomas Brinsko  
R. Jane Brown  
John Gherty  
Susan Hoyt  
James Malecha  
Teresa Morrow  
Anne Wynia  
Mary Brainerd

### Member Appeals

Teresa Morrow, Co-Chair  
R. Jane Brown, Co-Chair  
Thomas Brinsko  
Luz Maria Frias  
John Gherty  
Susan Hoyt  
Barbara Kaufman  
James Malecha  
Laura Schmaltz Oberst  
Eliot Seide  
Matthew Smith  
Gregory Strong  
Christopher Tashjian, M.D.  
Anne Wynia  
Richard Mesenburg (member-at-large)  
Sue Hancock (member-at-large)  
Raymond Ahrens (member-at-large)  
Mary Brainerd

### 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 Companies' internal controls resided primarily at the business unit and staff level, and was tested by the Companies' MAR function. 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.

### Organizational Chart

The organization chart of the Companies and their affiliates at December 31, 2012 can be found in the Appendix at the end of this report.

### Affiliated Companies

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

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 multiple states to write accident and health insurance and stop loss coverage.

HealthPartners Associates, Inc. (HPA) is a Minnesota corporation that employs the support staff and owns certain assets used at the various North Suburban Clinics. HPAI owns all of the stock of HPA.

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 various RiverWay Clinics.

HealthPartners Institute for Education and Research, (HPIER) is a non-profit organization incorporated in the State of Minnesota. HPIER is the result of the merger of HealthPartners Institute for Medical Education and HealthPartners Research Foundation in 2012 and provides funding for scientific and medical research as well as improvement and furtherance of medical education. HealthPartners, Inc. is the sole member of HPIER.

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, Stillwater Health Systems, and related entities.

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.

Capitol View Transitional Care Center (CVTCC) is a Minnesota nonprofit corporation. CVTCC 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 (RIHS) is a non-profit organization incorporated in the State of Minnesota. RIHS does business under the name of Integrated Home Care and provides home health care and hospice services. HPIR is its sole corporate member.

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.

Stillwater Health System (SHS) is a non-profit organization incorporated in the State of Minnesota that oversees the activities of the following Minnesota nonprofit corporations; Lakeview Memorial Hospital Association, Inc. (LMHA) which is a Minnesota licensed hospital,

Stillwater Medical Group which employs physicians and staff and operates physician clinics and Lakeview Memorial Hospital Foundation which provides fund raising support for LMHA.

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 Westfields Hospital, Hudson Hospital, and related organizations.

Westfields Hospital, Inc. (WH) is a non-profit organization incorporated in the State of Wisconsin. RHW and Group Health 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 Group Health 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.

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. RHW is the sole corporate members of WWEMS.

#### Inter-company Agreements

Group Health, a subsidiary of HealthPartners, provides management, administrative, and healthcare services to HealthPartners and HealthPartners Insurance Company through a Master Intercompany Agreement dated January 1, 2012; this agreement encompasses all related party transactions except taxes. The for-profit entities have a tax sharing agreement. HealthPartners and Group Health pay claims to Regions Hospital, Lakeview Memorial Hospital, Hudson Hospital and Westfields Hospital subsidiaries of HealthPartners, for providing hospital services to members of HealthPartners and Group Health.

### **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2012, HealthPartners Inc., its subsidiaries and affiliates, was 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.

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.

### **EMPLOYEE WELFARE**

All personnel of the Companies are employees of Group Health. Compensation and benefits paid to employees are allocated to the affiliated companies under the Master Intercompany Agreement.

Group Health 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.

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

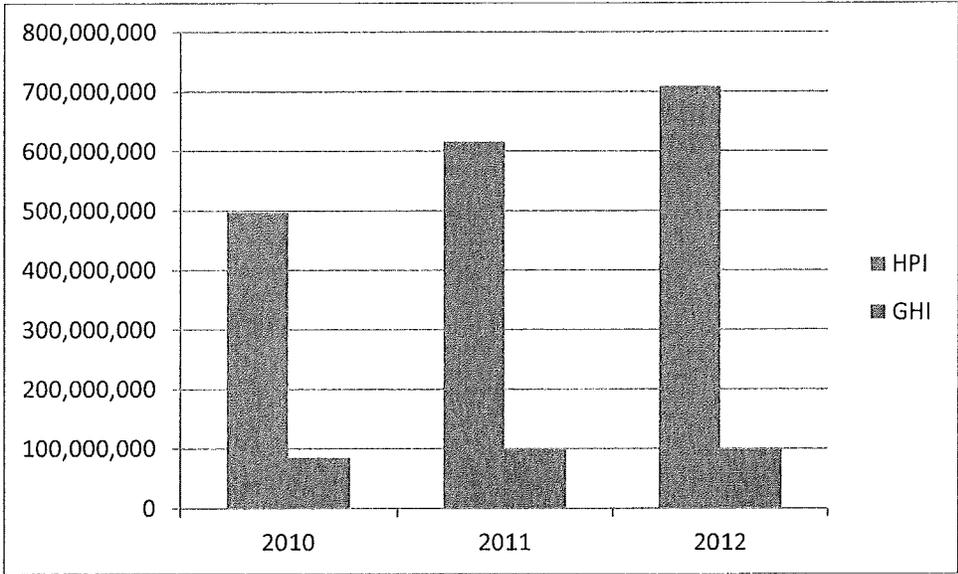
Group Health sponsors two qualified defined contribution plans under various sections of the Internal Revenue Code, which are the GHI 403(b)(7) Plan and the GHI 401(k) Plan. Employee balances in the GHI 403(b)(7) Plan were frozen, effective July 3, 1996. Eligible employees of GHI can contribute 1% to 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**

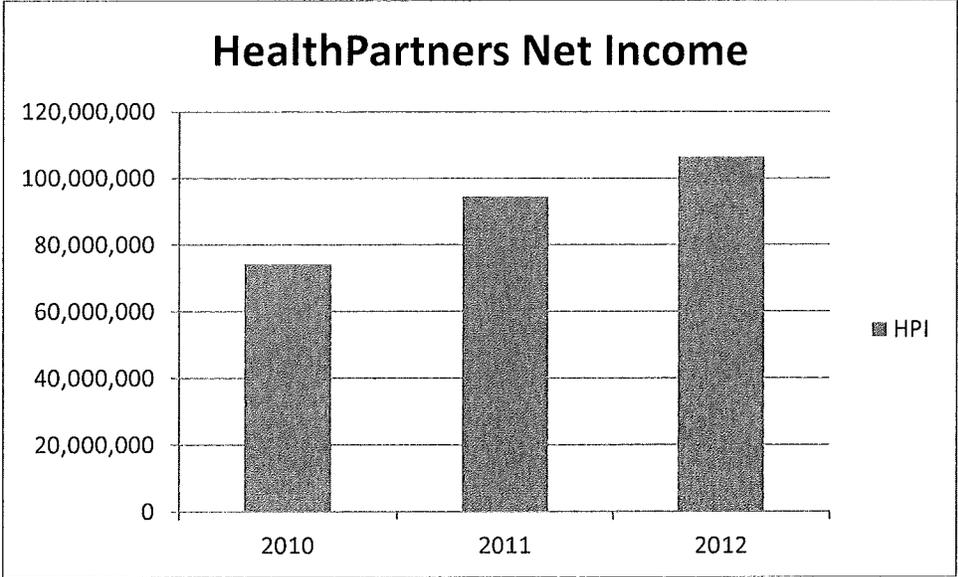
The Companies are licensed to write health coverage only in the State of Minnesota. HealthPartners, its subsidiaries and affiliates, comprise a health care delivery system that provides comprehensive group hospital, medical, dental and Medicare coverage and services to its members. These coverages and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

### **GROWTH OF THE COMPANY**

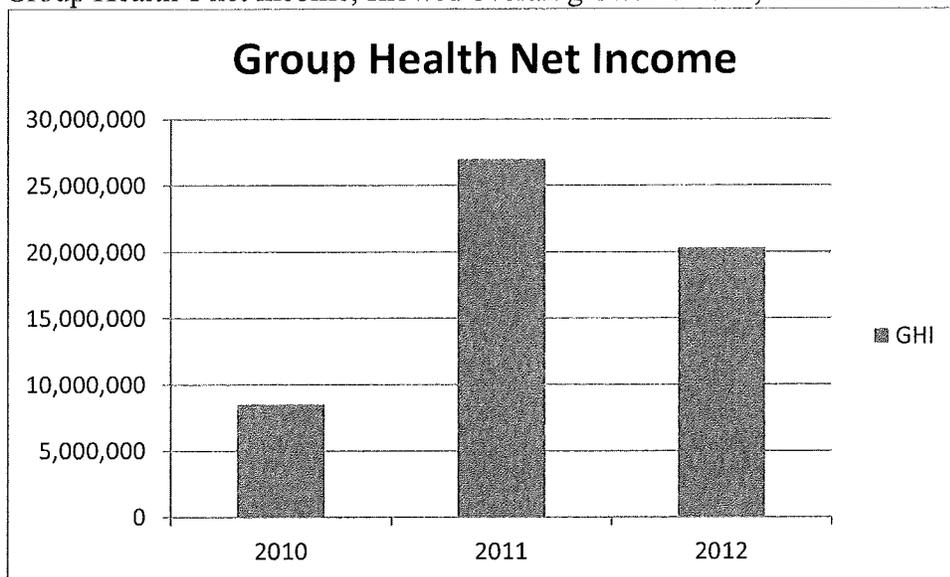
As seen in the chart below, HealthPartners capital and surplus had significant growth during the examination period, while Group Health had a slight increase in capital and surplus. HealthPartners' growth can also be attributed to the growth of its wholly-owned subsidiaries.



HealthPartners strong growth in net income contributed to its overall growth in capital and surplus.



Group Health's net income, showed overall growth as well, but declined slightly in 2012.



### **LOSS AND LOSS ADJUSTMENT EXPENSE RESERVING**

The examination actuary developed claim reserve projections and compared them to values carried by the Companies at December 31, 2012. These projections included 9 months of claim payment runout which is believed to provide a very accurate re-estimation of the December 31, 2012 claim reserve. The examination consisted of a review of the underlying data using procedures prescribed by the NAIC Financial Condition Examiners Handbook and other procedures as determined necessary to provide adequate validation of the data. Based on the procedures applied, the claim reserves appear to be conservative.

### **REINSURANCE**

HealthPartners and Group Health have stop-loss reinsurance agreements with RGA Reinsurance Company to limit insured and self-insured losses on individual claims with \$5,000,000 coverage after a \$3,000,000 deductible.

The active reinsurance agreements, at December 31, 2012, 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

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

The HealthPartners 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 Companies contracted for investment advisory services with Wells Fargo Institutional Trust Services, Galliard Capital Management, Stonebridge Capital Advisors and Chicago Equity Partners, LLC.

### EDP Systems

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

### Designated Independent Public Accountants

The Company was audited for the years ended 2010 through 2012 by the accounting firm of KPMG LLP in accordance with Minnesota Statutes, section 60A.1291. The Company received an unqualified statutory opinion in all three years.

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.

### 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.

### Safekeeping of Assets

Assets are held pursuant to a custodial agreement with Wells Fargo Institutional Trust Services.

The Company has a written investment policy that is reviewed and approved annually by the Board. Professional investment advisors manage the Company's investment portfolios under written agreements that are in accordance with the established investment policies. The Company's investment policy meets the guideline requirements of Minnesota Statutes, section 60A.112.

The Investment Committee reviews and authorizes the Company's investment transactions throughout the year.

### **STATUTORY DEPOSITS**

The statutory deposits for the Companies have been reported in the 2012 Annual Statement, Schedule E, Part 3. In accordance with Minnesota Statutes, section 62D.041, at December 31, 2012, amounts were deposited with the Minnesota Department of Health for Group Health of \$621,642 and HealthPartners of \$3,000,000.

### **FINANCIAL STATEMENTS**

The following are comparative statements of assets, liabilities, and surplus of the Companies for the years 2010 through 2012. The statements are followed by comparative statements of operations and reconciliations of surplus and other funds and cash flow for those years. The Company's Annual Statements are the source of these financial statements. The examiner reviewed and accepted the work of the certified public accounting firms that performed the audit work during the period under examination. The examiners have incorporated these statements into this report without adjustment.

**HEALTHPARTNERS, INC**  
**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**FOR PERIOD ENDING DECEMBER 31,**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Bonds	\$180,589,000	\$195,615,000	\$113,085,000
Stocks - Common	30,275,000	0	0
Cash and Short Term Investments	170,272,000	136,001,000	195,071,000
Other Invested Assets	6,633,000	8,242,000	9,783,000
Receivables for securities	13,000	30,000	0
Subtotals, Cash and Invested Assets	<u>\$387,782,000</u>	<u>\$339,888,000</u>	<u>\$317,939,000</u>
Investment Income Due and Accrued	864,000	1,173,000	806,000
Premiums and Considerations:			
Uncollected premiums & agents' balances in the course of collection	50,677,000	42,229,000	37,828,000
Amounts recoverable from reinsurers	0	0	0
Receivables from Affiliates	65,176,000	127,948,000	44,953,000
Health care and other amounts receivable	93,000	56,000	8,000
Aggregate write-ins for other than invested assets	362,148,000	299,085,000	242,948,000
Total Assets	<u><u>\$866,740,000</u></u>	<u><u>\$810,379,000</u></u>	<u><u>\$644,482,000</u></u>

**LIABILITIES, CAPITAL AND SURPLUS**

Unpaid claims	\$100,621,000	\$96,241,000	\$105,577,000
Unpaid claims adjustment expenses	2,287,000	2,186,000	2,398,000
Premiums received in advance	13,533,000	16,025,000	14,282,000
General expenses due and accrued	22,667,000	60,894,000	19,127,000
Aggregate write-ins for other liabilities	18,489,000	18,171,000	5,658,000
Total Liabilities	<u>\$157,597,000</u>	<u>\$193,517,000</u>	<u>\$147,042,000</u>
Aggregate write-ins for other than special surplus funds	243,713,000	233,304,000	205,877,000
Unassigned funds	465,430,000	383,558,000	291,563,000
Total Capital and Surplus	<u>\$709,143,000</u>	<u>\$616,862,000</u>	<u>\$497,440,000</u>
Total Liabilities, Capital and Surplus	<u><u>\$866,740,000</u></u>	<u><u>\$810,379,000</u></u>	<u><u>\$644,482,000</u></u>

**HEALTHPARTNERS, INC**  
**STATEMENT OF INCOME AND RECONCILIATION OF SURPLUS**  
**FOR PERIOD ENDING DECEMBER 31,**

<b><u>REVENUES</u></b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net premium revenue	\$1,370,126,000	\$1,345,461,000	\$1,512,222,000
Fee-for-service	1,198,000	497,000	22,000
Aggregate write-ins for other health care related revenue	7,871,000	6,104,000	7,092,000
Total Revenue	<u>\$1,379,195,000</u>	<u>\$1,352,062,000</u>	<u>\$1,519,336,000</u>

**EXPENSES**

Hospital/medical benefits	\$955,929,000	\$947,803,000	\$1,111,757,000
Other professional services	59,215,000	54,955,000	49,336,000
Prescription drugs	142,763,000	135,402,000	157,605,000
Net reinsurance recoveries	0	(46,000)	(1,049,000)
Total Hospital and Medical	<u>\$1,157,907,000</u>	<u>\$1,138,114,000</u>	<u>\$1,317,649,000</u>
Claims adjustment expenses	26,898,000	28,935,000	28,736,000
General administrative expenses	91,904,000	93,436,000	102,795,000
Total Underwriting Deductions	<u>\$1,276,709,000</u>	<u>\$1,260,485,000</u>	<u>\$1,449,180,000</u>
Net Underwriting gain	102,486,000	91,577,000	70,156,000
Net Investment gain	3,943,000	2,927,000	4,055,000
Net Income	<u>\$106,429,000</u>	<u>\$94,504,000</u>	<u>\$74,211,000</u>

**CAPITAL AND SURPLUS**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Capital and surplus prior-reporting period	\$616,862,000	\$497,440,000	\$386,554,000
Net Income	106,429,000	94,504,000	74,211,000
Change in net unrealized capital losses	443,000	489,000	(46,000)
Change in nonadmitted assets	(43,626,000)	(34,294,000)	(24,089,000)
Cumulative effect of change in accounting principles	0	0	0
Aggregate write-ins for gains or (losses) in surplus	29,035,000	58,723,000	60,810,000
Net Change in Capital and Surplus	<u>\$92,281,000</u>	<u>\$119,422,000</u>	<u>\$110,886,000</u>
Capital and surplus end of reporting period	<u>\$709,143,000</u>	<u>\$616,862,000</u>	<u>\$497,440,000</u>

**GROUP HEALTH PLAN, INC**  
**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**FOR PERIOD ENDING DECEMBER 31,**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Bonds	\$232,664,000	\$221,139,000	\$188,114,000
Common Stock	47,771,000	39,463,000	35,380,000
Properties occupied by the company	72,934,000	71,248,000	71,231,000
Other invested assets	5,274,000	2,900,000	3,000,000
Receivables for securities	31,000	674,000	0
Cash and Short Term Investments	42,098,000	100,893,000	70,892,000
Subtotals, Cash and Invested Assets	<u>\$400,772,000</u>	<u>\$436,317,000</u>	<u>\$368,617,000</u>
Investment Income Due and Accrued	956,000	1,191,000	1,242,000
Premiums and Considerations:			
Uncollected premiums & agents' balances in the course of collection	50,437,000	33,311,000	38,058,000
EDP equipment and software	30,297,000	26,621,000	23,632,000
Furniture and Equipment	8,729,000	9,148,000	6,215,000
Receivables from Affiliates	30,654,000	58,980,000	38,211,000
Health care and other amounts receivables	55,766,000	54,919,000	52,460,000
Aggregate write-ins for other than invested assets	28,532,000	26,737,000	23,782,000
Total Assets	<u><u>\$606,143,000</u></u>	<u><u>\$647,224,000</u></u>	<u><u>\$552,217,000</u></u>

**LIABILITIES, CAPITAL AND SURPLUS**

Unpaid claims	\$22,360,000	\$20,836,000	\$19,269,000
Unpaid claims adjustment expense	508,000	473,000	438,000
Premiums received in advance	14,704,000	10,179,000	14,942,000
General expenses due and accrued	157,986,000	177,523,000	192,319,000
Borrowed money	53,845,000	56,970,000	60,100,000
Payables to Affiliates	90,708,000	152,878,000	50,497,000
Aggregate write-ins for other liabilities	167,257,000	129,662,000	129,109,000
Total Liabilities	<u>\$507,368,000</u>	<u>\$548,521,000</u>	<u>\$466,674,000</u>
Surplus notes	0	0	0
Aggregate write-ins for other than special surplus funds	(148,765,000)	(128,513,000)	(114,677,000)
Unassigned funds	247,540,000	227,216,000	200,220,000
Total Capital and Surplus	<u>\$98,775,000</u>	<u>\$98,703,000</u>	<u>\$85,543,000</u>
Total Liabilities, Capital and Surplus	<u><u>\$606,143,000</u></u>	<u><u>\$647,224,000</u></u>	<u><u>\$552,217,000</u></u>

**GROUP HEALTH PLAN, INC**  
**STATEMENT OF INCOME AND RECONCILIATION OF SURPLUS**  
**FOR PERIOD ENDING DECEMBER 31,**

<u>REVENUES</u>	2012	2011	2010
Net premium revenue	\$404,774,000	\$405,834,000	\$338,668,000
Fee for service	509,827,000	476,932,000	442,928,000
Aggregate write-ins for other health care related revenue	53,834,000	48,339,000	43,425,000
Total Revenue	<u>\$968,435,000</u>	<u>\$931,105,000</u>	<u>\$825,021,000</u>
<u>EXPENSES</u>			
Hospital/medical benefits	\$681,693,000	\$639,169,000	\$564,981,000
Other professional services	92,189,000	85,358,000	82,783,000
Outside referrals	0	0	0
Emergency room and out-of-area	0	0	0
Prescription drugs	124,290,000	131,211,000	132,941,000
Net reinsurance recoveries	0	0	0
Total Hospital and Medical	<u>\$898,172,000</u>	<u>\$855,738,000</u>	<u>\$780,705,000</u>
Claims adjustment expenses	11,963,000	10,015,000	7,593,000
General administrative expenses	43,283,000	44,420,000	35,921,000
Total Underwriting Deductions	<u>\$953,418,000</u>	<u>\$910,173,000</u>	<u>\$824,219,000</u>
Net Underwriting gain or (loss)	15,017,000	20,932,000	802,000
Net Investment gain or (loss)	5,307,000	6,064,000	7,735,000
Net Income	<u>\$20,324,000</u>	<u>\$26,996,000</u>	<u>\$8,537,000</u>

<u>CAPITAL AND SURPLUS</u>	2012	2011	2010
Capital and surplus prior-reporting period	\$98,703,000	\$85,543,000	\$79,444,000
Net Income	20,324,000	26,996,000	8,537,000
Change in net unrealized capital gains(losses)	1,870,000	127,000	1,180,000
Change in nonadmitted assets <sup>1</sup>	104,736,000	(13,621,000)	(5,874,000)
Cumulative effect of change in accounting principles	(25,800,000)	0	0
Change in surplus notes	0	0	0
Aggregate write-ins for gains or (losses) in surplus <sup>1</sup>	(101,058,000)	(342,000)	2,256,000
Net Change in Capital and Surplus	<u>\$72,000</u>	<u>\$13,160,000</u>	<u>\$6,099,000</u>
Capital and surplus end of reporting period	<u>\$98,775,000</u>	<u>\$98,703,000</u>	<u>\$85,543,000</u>

<sup>1</sup> In 2012, the Plan adopted the recognition and disclosure provisions of SSAP No. 102, which requires recognition of a liability for the excess of projected benefit obligation over the fair value of plan assets. The Plan elected to recognize the entire transition of surplus impact at the adoption date of January 1, 2012.

The incremental impact of adopting the provisions of SSAP No. 102 on the Plan's statutory statements of admitted assets as of January 1, 2012 is presented in the following table:

	Before adoption of SSAP No. 102	2012 Transition adjustments	After adoption of SSAP No. 102
Prepaid pension asset	\$ 115,641,000	\$(115,641,000)	\$ -----
Nonadmitted prepaid pension asset	(115,641,000)	115,641,000	-----
Accrued pension liability	-----	142,637,000	142,637,000
Minimum pension liability	-----	(115,641,000)	(115,641,000)
Decrease to surplus	-----	(26,996,000)	(26,996,000)

## 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 Group Health and the obligated group, which included Group Health, HealthPartners, Regions Hospital, 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, 2012 was \$53,845.

## ACKNOWLEDGEMENT

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

In addition to the undersigned, examiners for Minnesota, represented by Risk & Regulatory Consulting, LLC participated in the examination.

Respectfully submitted:



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Jan M. Moenck, CFE, Examiner in Charge

APPENDIX

