



STATE OF MINNESOTA
DEPARTMENT OF HEALTH
ST. PAUL, MINNESOTA

EXAMINATION REPORT
OF
MEDICA HEALTH PLANS
MINNETONKA MINNESOTA

NAIC # 52626

AS OF
DECEMBER 31, 2014



Protecting, maintaining and improving the health of all Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2014 of:

MEDICA HEALTH PLANS
MINNETONKA, 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 Medica Health Plans 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.

A handwritten signature in black ink, which appears to read "Edward P. Ehlinger", is written over a horizontal line. To the right of the signature, the word "for" is written in a cursive script.

Edward P. Ehlinger, MD, MSPH
Commissioner

Dated: 6/16/16

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

**MEDICA HEALTH PLANS
MINNETONKA, 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, 2014 as determined by a comprehensive examination made in accordance with Minnesota Statutes Section 62D.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: Fred Andersen, FSA, MAAA
Acting Deputy Commissioner and Chief
Life Actuary

Dated: 6/20/16

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May 3, 2016

The Honorable Edward Ehlinger, M.D.
Commissioner of Health
Minnesota Department of Health
625 N. Robert St.
St. Paul, Minnesota 55155-2538

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

Dear Commissioners:

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

Medica Health Plans
NAIC #52626
401 Carlson Parkway
Minnetonka, MN 55305

hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state risk-focused statutory financial condition examination of the Company pursuant to the Department of Commerce Examination Order # 15-005. The examination was conducted by representatives of the Minnesota Department of Commerce (Commerce), on behalf of the Minnesota Department of Health (Health). Pursuant to Minn. Stat. 62D.24 Health and Commerce have entered into an Interagency Agreement whereby Commerce conducts financial examinations of Health Maintenance Organizations on behalf of Health.

The last examination of the Company was completed as of December 31, 2011. This full-scope examination covers the period of January 1, 2012 through December 31, 2014, including any material transactions and/or events occurring subsequent to the examination date.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) along with specific procedures defined by the Commerce. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. 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 following the Company's financial statements.

During this examination, assets were verified and/or valued and liabilities were determined, or estimated as necessary, for the period ending December 31, 2014. Both assets and liabilities were reviewed with consideration given to Minnesota Statutes.

The Company was audited annually, for the years 2012 through 2014, by the accounting firm of RSM US LLP (RSM) (f/k/a McGladrey LLP). Among the procedures incorporated into this examination was a review of the annual audit work papers prepared by RSM. Certain work papers developed by RSM were relied upon by the examiners and were incorporated into the examiners' work papers.

This examination report includes significant findings of fact as mentioned in Minnesota Statutes 62D.14, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements as a result of this examination.

Reinsurance Credits:

Review of the 2014 Annual Statements indicated that the liability ceded by Medica Insurance Company (MIC) to the Company under the reinsurance treaty was \$30,307,414. While reviewing the calculation methodology and the controls over the calculation process, it was discovered that the reinsurance reserves amount is incorrect. The Company acknowledged the error and notified us that the correct amount should have been \$6,453,419 ceded by MIC and assumed by the Company. This difference is shown in the "Assets" and "Liabilities" sections of this report.

Prior Examination Findings

There were no reportable findings or recommendations as a result of the prior examination performed as of December 31, 2011, which was filed as a public document on March 12, 2013.

COMPANY HISTORY

The Company is a non-profit corporation subject to the provisions of Chapter 317A of the Minnesota Statutes and is exempted from Federal tax pursuant to Section 501 (c) (4) of the Internal Revenue Code of 1986.

The Company was created by Physicians Health Plan of Greater Minneapolis, a Minnesota non-profit corporation incorporated on December 30, 1974, for the purpose of operating as a health maintenance organization. Since incorporation, the Company has undergone several name changes. The Company merged with HealthSpan Health Systems Corporation on July 27, 1994, to form Allina Health System, and the Company became a first-tier subsidiary of Allina Health System. Control of the Company transferred to Medica Holding Company (MHC), a Minnesota non-profit corporation incorporated on December 13, 2001, effective April 30, 2002.

CORPORATE RECORDS

The recorded minutes of the meetings held by the Members and Board of Directors (Board) were reviewed for the Company for the period under examination. The minutes adequately documented approved Company transactions, in accordance with the Board's powers and authority, including the election or appointment of directors and officers, approval of the investment policy, investment transactions, and other corporate actions. The minutes also documented discussions of cash position, reserves and other key components of financial statements. The primary location of the corporate records is 401 Carlson Parkway, Minnetonka, Minnesota.

MANAGEMENT AND CONTROL

The Company's bylaws state that the Board of Directors shall consist of no more than fifteen directors, with at least forty percent of the Board being consumer directors. The terms of the directors are three year terms and shall be staggered so that the terms of one or more directors expire each year.

The Company indicated the following individuals were serving as Directors at December 31, 2014:

Directors

<u>Director</u>	<u>Business Affiliation</u>	<u>Director Since</u>
John D. Buck	Chair – CEO, Whitefish Ventures	2001
Peter H. Kelly, M.D.	Surgeon, HealthEast Surgery Care	2001
Earl D. Stratton	Retired Executive Vice President and Chief Information Officer	2009
David M. Tilford	President and Chief Executive Officer Medica Insurance Company	2005
Esther M. Tomljanovich	Retired Associate Supreme Court Justice	2001

Principal officers of the Company are elected by the President of the voting member. The following officers were elected and were serving as of December 31, 2014:

Officers

<u>Name</u>	<u>Title</u>
David M. Tilford	President
James P. Jacobson	Secretary
Mark L. Baird	Treasurer

The Company's bylaws allow its Board to establish committees of two or more people who need not be Directors to act on its behalf as they deem necessary. As a member of the holding company, the Company is subject to the following MHC committees as of December 31, 2014: Audit Committee; Community & Public Affairs Committee; Finance Committee, Governance Committee, Personnel & Compensation Committee; and Technology Committee. The Company also has an independent Medical Committee.

AFFILIATED COMPANIES

The Company is a member of an insurance holding company system, and is managed and operated by MHC (see organizational chart in the appendix at the end of this report) and is subject to the registration requirements of Minnesota Statutes, Section 60D.

The Examination reviewed the Company's Annual Statement filings and affiliates Form B filings, and identified the affiliated agreements. The following material related party transactions that occurred during the period under examination were identified:

2012 Transactions:

- The Company allocated \$86,336,972 to MIC, \$46,141,841 to Medica Self Insured (MSI), and \$12,866,592 to Medica Health Management (MHM) under the terms of an administrative services agreement
- The Company assumed \$436,433,762 from MIC under the terms of a 2009 reinsurance agreement
- The Company ceded \$2,306,258 to MIC under the terms of a 2009 reinsurance agreement

2013 Transactions:

- The Company allocated \$90,787,223 to MIC, \$43,281,172 to MSI, and \$12,462,733 to MHM under the terms of an administrative services agreement
- The Company assumed \$535,382,785 from MIC under the terms of a 2009 reinsurance agreement
- The Company ceded \$2,822,556 to MIC under the terms of a 2009 reinsurance agreement

2014 Transactions:

- The Company allocated \$95,349,069 to MIC, \$52,735,727 to MSI, \$16,695,701 to MHM, and \$3,214,357 to Medica Health Plans of Wisconsin (MHPW) under the terms of an administrative services agreement
- The Company assumed \$292,027,806 from MIC under the terms of a 2009 reinsurance agreement
- The Company ceded \$1,625,703 to MIC under the terms of a 2009 reinsurance agreement

The Company participated in the following material agreements, not including reinsurance agreements, which were in-force between the Company and its affiliates during the period under examination:

Administrative Services Agreements:

- Administrative Services Agreement between the Company and MIC effective January 1, 2002.
- Administrative Services Agreement between the Company and MHPW effective January 1, 2002.
- Administrative Services Agreement between the Company and MSI effective January 1, 2002.
- Administrative Services Agreement between the Company and MHM effective January 1, 2007.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company was licensed in the states of Minnesota, North Dakota and South Dakota. Premiums were written in all three states with approximately 99% of the premiums written being Minnesota premiums.

The Company is a tax-exempt health maintenance corporation authorized to provide prepaid comprehensive health maintenance services in the State of Minnesota, The Company is also an approved carrier for MNSure beginning in 2014.

REINSURANCE

The Company is involved in both ceded and assumed reinsurance with other companies for the purpose of diversifying risk and limiting exposure on larger risks. To the extent that the assuming companies become unable to meet their obligations under these treaties, the Company remains contingently liable to its policyholders for the portion reinsured. To minimize its exposure to significant losses from the reinsurer insolvencies, the Company evaluates the financial condition of the reinsurer and monitors concentrations of credit risk.

Assumed

During 2014, the Company assumed \$292,027,806 of premiums from affiliate MIC under the terms of a reinsurance agreement that was effective August 1, 2009. Additionally, the Company assumed \$4,371,983 of premiums from Delta Dental of Minnesota pursuant to an agreement that was effective January 1, 1997.

Ceded

The Company ceded an immaterial amount of premiums during 2014. The Company ceded \$1,625,703 to affiliate MIC pursuant to the terms of an August 1, 2009 agreement, and \$170,867 of premiums to RGA pursuant to an agreement that became effective January 1, 2014.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment was identified, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with Health, are reflected in the following:

(Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

**Medica Health Plans
Assets
December 31, 2014**

	<u>Per Company</u>	<u>Per Examination</u>
Bonds	\$ 239,255,006	\$ 239,255,006
Stocks:		
Common stocks	67,792,507	67,792,507
Real estate:		
Properties occupied by the company	88,878,924	88,878,924
Cash, cash equivalents and short-term investments	252,164,847	252,164,847
Other invested assets	33,250,000	33,250,000
Receivables for securities	28,902	28,902
Subtotals, cash and invested assets	<u>\$ 681,370,186</u>	<u>\$ 681,370,186</u>
Investment income due and accrued	1,373,987	1,373,987
Premiums and considerations:		
Uncollected premiums and agents' balances in the course of collection	91,352,485	91,352,485
Reinsurance:		
Amounts recoverable from reinsurers	1,477,145	1,477,145
Funds held or deposited with reinsurance companies	30,307,414	6,453,419
Amounts receivable relating to uninsured plans	4,618,360	4,618,360
Current federal and foreign income tax recoverable and interest thereon	1,513,670	1,513,670
Electronic data processing equipment and software	5,479,823	5,479,823
Receivables from parent, subsidiaries and affiliates	8,335,039	8,335,039
Health care and other amounts receivable	<u>31,083,628</u>	<u>31,083,628</u>
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>\$ 856,911,737</u>	<u>\$ 833,057,742</u>
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0
Totals	<u><u>\$ 856,911,737</u></u>	<u><u>\$ 833,057,742</u></u>

**Medica Health Plans
Liabilities, Capital and Surplus
December 31, 2014**

	<u>Per Company</u>	<u>Per Examination</u>
Claims unpaid	\$ 160,057,498	\$ 160,057,498
Accrued medical incentive pool and bonus amounts	7,235,777	7,235,777
Unpaid claims adjustment expenses	5,060,070	5,060,070
Aggregate health policy reserves, including the liability of \$0 for medical loss ratio rebate per the Public Health Service Act	4,800,000	4,800,000
Premiums received in advance	30,307,414	6,453,419
General expenses due or accrued	116,304,149	116,304,149
Ceded reinsurance premium payable	35,196,379	35,196,379
Remittances and items not allocated	255,725	255,725
Amounts due to parent, subsidiaries and affiliates	228,365	228,365
Payable for securities	1,920,213	1,920,213
Funds held under reinsurance treaties	359,945	359,945
Liability for amounts held under uninsured plans	4,646	4,646
Aggregate write-ins for other liabilities	35,082,791	35,082,791
Total Liabilities	\$ 396,812,972	\$ 372,958,977
Unassigned funds (surplus)	460,098,765	460,098,765
Total Capital and Surplus	\$ 460,098,765	\$ 460,098,765
Total Liabilities, Capital and Surplus	\$ 856,911,737	\$ 833,057,742

**Medica Health Plans
Summary of Operations
December 31, 2014**

	<u>Uncovered</u>	<u>Total</u>
Member Months	xxx	1,999,298
Net premium income	xxx	\$ 1,719,567,619
Total revenues	xxx	<u>\$ 1,719,567,619</u>
 Hospital and Medical:		
Hospital/medical benefits	\$ 30,546,087	\$ 1,018,202,889
Other professional services		22,822,987
Emergency room and out-of-area	2,684,804	89,493,455
Prescription drugs		177,946,220
Incentive pool, withhold adjustments and bonus amounts		6,605,574
Subtotal	<u>\$ 33,230,891</u>	<u>\$ 1,315,071,125</u>
 Less:		
Net reinsurance recoveries		-264,038,206
TOTAL Hospital and Medical	<u>\$ 33,230,891</u>	<u>\$ 1,579,109,331</u>
Claims adjustment expenses, including \$1,458,279 cost containment expenses		21,898,377
General administrative expenses		82,622,973
Increase in reserves for life and accident and health contracts		4,800,000
TOTAL Underwriting Deductions	<u>\$ 33,230,891</u>	<u>\$ 1,688,430,681</u>
Net underwriting gain or (loss)	xxx	\$ 31,136,938
Net investment income earned		14,256,710
Net realized capital gains (losses) less capital gains taxes of \$0		1,684,543
Net investment gains (losses)	<u>\$ 33,230,891</u>	<u>\$ 15,941,253</u>
Net income, after capital gains tax and before all other federal income taxes	xxx	\$ 47,078,191
Federal and foreign income taxes incurred	xxx	167,494
Net income (loss)	xxx	<u><u>\$ 46,910,697</u></u>

**Medica Health Plans
Capital and Surplus Account
December 31, 2014**

Capital and surplus prior reporting year	\$ 404,514,013
Net income or (loss)	46,910,697
Change in net unrealized capital gains (losses)	4,286,713
Change in nonadmitted assets	4,387,342
Net change in capital and surplus	<u>\$ 55,584,752</u>
Capital and surplus end of reporting year	<u><u>\$ 460,098,765</u></u>

**Medica Health Plans
Comparative Analysis of Changes in Surplus
December 31, 2014**

The following is a reconciliation of capital and surplus between the amount reported by the Company and as determined by examination:

	Per Annual Statement	Per Examination	Change in Surplus
Capital and Surplus at December 31, 2014 per Company	\$460,098,765		
Assets:			
Total Assets	\$856,911,737	\$833,057,742	-\$23,853,995
Liabilities:			
Total Liabilities	\$396,812,972	\$372,958,977	\$23,853,995
Capital and Surplus at December 31, 2014, per Examination		\$460,098,765	\$0

COMMENTS ON FINANCIAL STATEMENT ITEMS

Assets

Funds Held or Deposited with Reinsurance Companies

As identified under the "Summary of Significant Findings" section of this report, it was discovered that the reinsurance reserves balance reported is incorrect. The Company acknowledged the error and notified us that the correct amount reported to funds held under reinsurance treaties should have been \$6,453,419 or \$23,853,995 less than the liability reported. The offset to this entry is a decrease to aggregate health claims reserves in the same amount.

Liabilities, Capital and Surplus

Loss Reserves

An actuary appointed by the Board rendered an opinion that the amounts carried in the balance sheet, as of December 31, 2014, include provisions for all actuarial reserves and related statement items which should be established, and meet the requirements of the insurance law and regulation of the State of Minnesota and are at least as great as the minimum aggregate amounts required by the State.

Merlinos & Associates, Inc. was appointed by Commerce to independently test reserves and review workpapers provided by the Company and is in concurrence with this opinion.

Aggregate Health Claims Reserves

As identified under the "Summary of Significant Findings" section of this report, it was discovered that the reinsurance reserves balance reported is incorrect. The Company acknowledged the error and notified us that the correct amount reported to aggregate health claims reserves should have been \$6,453,419 or \$23,853,995 less than the liability reported. The offset to this entry is a decrease to funds held or deposited with reinsurance companies in the same amount.

Surplus

The amount reported by the Company of \$460,098,765 has been accepted for the purposes of this examination.

SUMMARY OF FINDINGS, COMMENTS AND RECOMMENDATIONS

In addition to the Comments on Financial Statements noted in the previous section of this report, the following items were noted during the examination:

Compliance with Previous Directives

There were no reportable findings or recommendations made in the 2011 Examination Report issued for the Company.

Current Examination Comments and Recommendations

There are no other items of interest or corrective actions to be taken by the Company regarding findings in the examination as of December 31, 2014.

SUBSEQUENT EVENTS

There were no subsequent events noted that would have a material impact on the Company's operations, financial statements or management oversight, or that would require additional disclosures.

CONCLUSION

As a result of this examination, the financial condition of **Medica Health Plans** as of December 31, 2014 is summarized as follows:

Admitted assets	<u>\$833,057,742</u>
Liabilities	\$372,958,977
Capital and surplus	<u>460,098,765</u>
Total liabilities, capital and surplus	<u>\$833,057,742</u>

Per examination findings, the Company met the minimum surplus requirements pursuant to Minnesota Statutes, Section 62D.04 subdivision 4 as of December 31, 2014.

In addition to the undersigned, other representatives of Examination Resources, LLC, Wisconsin Office of the Commissioner of Insurance, and Merlinos & Associates, Inc., all appointed to represent the State of Minnesota, participated in this examination.

Respectfully submitted,



Scott R. Kalna, CFE, MCM
Examiner-in-Charge
Examination Resources, LLC
Representing the State of Minnesota,
Department of Commerce

APPENDIX
ORGANIZATIONAL CHART as of DECEMBER 31, 2014

