



Protecting, maintaining and improving the health of all Minnesotans

May 30, 2013

Mitchell Ware, Financial Controller
Metropolitan Health Plan
400 South 4th Street, Suite 201
Minneapolis, MN 55415

Dear Mr. Ware:

Enclosed please find a copy of original Examination Report for Metropolitan Health Plans as of December 31, 2011, 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. Please return affidavits no later than 60 days.

If you have any questions or wish to discuss the Examination Report further, please feel free to contact Peter T. Foley II at 651-296-8541.

Sincerely,

A handwritten signature in cursive script, appearing to read "Edward P. Ehlinger", is written over a horizontal line.

Edward P. Ehlinger, MD, MSPH
Commissioner

Enc.

cc: Margie Pinedo, Minnesota Department of Commerce

AFFIDAVIT

STATE OF _____)

COUNTY OF _____)

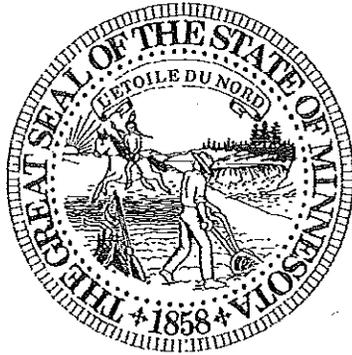
_____, being first duly sworn on oath, deposes and states that:

1. I am a member of the Board of Directors Metropolitan Health Plans, a Minnesota Corporation with its main home office 400 South 4th Street, Suite 201, Minneapolis, Minnesota 55415.

2. I have received a copy of the State of Minnesota, Department of Commerce Examination Report for Metropolitan Health Plans as of December 31, 2011 and related orders as adopted by the Commissioner of Health.

Subscribed and sworn to, before me,
this ____ day of _____, 2013.

Notary Public/Witness



STATE OF MINNESOTA
DEPARTMENT OF HEALTH
SAINT PAUL, MINNESOTA
REPORT OF EXAMINATION
OF
METROPOLITAN HEALTH PLAN
MINNEAPOLIS, MINNESOTA
NAIC # 52627
AS OF
DECEMBER 31, 2011



MINNESOTA
DEPARTMENT OF
COMMERCE

85 7th Place East, Suite 500
St. Paul, Minnesota 55101-2198
www.commerce.state.mn.us
651.296.4026 FAX 651.297.1959
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

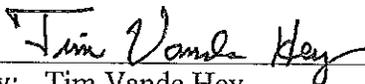
**METROPOLITAN HEALTH PLAN
MINNEAPOLIS, MINNESOTA**

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, 2011 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: May 30, 2013



Protecting, maintaining and improving the health of all Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2011 of:

METROPOLITAN HEALTH PLANS
Minneapolis, Minnesota

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

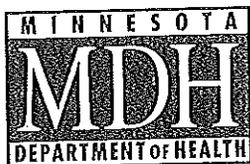
Due consideration has been given to the comments of the examiners regarding the operations of Metropolitan Health Plans and its financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.


Edward P. Ehlinger, MD, MSPH
Commissioner

Dated: 6/5/13

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Protecting, maintaining and improving the health of all Minnesotans

May 30, 2013

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, a comprehensive examination has been made of the books, records, business affairs and financial condition of:

METROPOLITAN HEALTH PLAN
NAIC # 52627
400 South 4th Street, Suite 201
Minneapolis, Minnesota 55415

The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination was a comprehensive examination, conducted by the Minnesota Department of Commerce, observing the guidelines and procedures in the NAIC Financial Condition Examiners' Handbook ("Handbook"). The Department of Commerce Examination Order 12-003 directed the examination to include a determination of the financial condition of MHP and a general review of its corporate affairs and insurance operations to determine compliance with Minnesota statutes.

This examination included a review of MHP's 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 covered the period January 1, 2009 through December 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The work papers of MHP's designated certified public accountant, for the audit year 2011, were reviewed and copies included as part of the examination files where utilized.

The Handbook requires that we 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.

Status of Prior Examination Findings

The examination included a review to determine the current status of any recommendations noted in the previous Report of Examination as of December 31, 2008. No recommendations were made in the previous examination report.

FINDINGS AND RECOMMENDATIONS

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

SUBSEQUENT EVENTS/CONTINGENT LIABILITIES

Effective January 1, 2012, MHP's Medicaid Expansion program contract with the Minnesota Department of Human Services (DHS) was terminated. Effective January 1, 2012, MHP

contracted with DHS to participate in an integrated health delivery network demonstration project.

No commitments or contingent liabilities were identified during the course of this examination that would be considered to be either outside the course of its normal business activities or significant to its financial stability.

COMPANY HISTORY

The Minnesota Department of Health (hereinafter referred to as MDH) issued Hennepin County, Minnesota (hereinafter referred to as the County) a certificate of authority on October 19, 1983, in accordance with Minnesota Statutes, section 62D, to operate a health maintenance organization (hereinafter referred to as an HMO). The County, a metropolitan governmental unit of the State of Minnesota, subsequently created MHP as an "enterprise fund" within its governmental system and commenced business as an HMO on June 1, 1984.

MANAGEMENT AND CONTROL

Commissioners and Officers

MHP is governed by the Hennepin County Board of Commissioners, serving as MHP's governing board, which consisted of the following seven individuals at December 31, 2011:

<u>Director</u>	<u>First Elected</u>
Randy Johnson - Chair	1979
Jan Callison	2008
Gail Dorfman	1999
Jeff Johnson	2008
Peter McLaughlin	1991
Mike Opat	1993
Mark Stenglein	1997

At December 31, 2011, the principal operating officers of MHP and their positions were as follows:

<u>Name</u>	<u>Position</u>
Karen A. Sturm	Interim Chief Executive Officer
Sandra L. Hvizdos	Chief Information Services Officer
Christine L. Reiten*	Director of Operations
Scott S. Schufman*	Chief Financial Officer
Susan E. Sommers	Director of Medical Administration
Linda G. Stein	Director of Network Management

*These individuals resigned their positions with MHP effective during the second quarter of 2012. These positions have not yet been filled.

Enterprise-Wide Risk Management

Risk assessment and management activities are under the direction of MHP's senior management. These activities are coordinated within the current corporate planning and budgeting processes through various management reporting functions.

Strategic Planning

MHP has a formal strategic planning program which is in process of being enhanced to include increased monitoring documentation and risk assessment considerations.

Conflict of Interest

The County has a conflict of interest policy in place which requires annual completion of conflict of interest statements by all MHP personnel and statements of economic interest by certain management personnel. The statements completed by MHP personnel, for the period under examination, were reviewed and no material conflicts were noted.

CORPORATE RECORDS

Articles of Incorporation and By-laws

MHP operates as an enterprise fund of the County and has no corporate structure. Therefore there are no Articles of Incorporation. The By-laws of MHP were not amended during the period under examination.

Executive Management Minutes

MHP's executive management meeting minutes were reviewed, for the period under examination. Pertinent discussions and actions taken were noted and applied during the course of the examination.

Policies, Procedures and Internal Controls

The County's internal audit department performs period reviews of MHP as directed by the County Board's audit committee. MHP's external auditors perform certain reviews of the corporate system of internal controls as part of the annual audits. Accountability for managing MHP's risk environment resides primarily at the corporate senior management level.

AFFILIATED ENTITIES

Hennepin County

The County is a political subdivision instrumentality of the State of Minnesota, which functions as a metropolitan governmental unit. MHP is an "enterprise fund" within the County.

The County acts as a guaranteeing organization for MHP. This guarantee provides that the County will fund any deficiencies in MHP's surplus in order to meet minimum regulatory surplus requirements. The County was not called on to fund any surplus deficiencies during the period under examination.

The County provides MHP with certain management and administration services on a cost basis. Included in these costs are certain allocated indirect costs. Administrative costs, not including personnel salaries and benefits, paid by MHP to the County were: 2011 - \$3.4 million, 2010 - \$2.5 million and 2009 - \$2.4 million.

Hennepin County Medical Center (HCMC)

HCMC is a public subsidiary corporation of the County. HCMC is a major health care provider utilized by MHP. Amounts incurred by MHP for health care services from HCMC were: 2011 - \$46 million, 2010 - \$33 million and 2009 - \$35 million. These amounts were respectively 34.6%, 27.6% and 31.0% of MHP's aggregate medical services expenditures for those years.

FIDELITY BOND AND OTHER INSURANCE

The County, which provides personnel staffing for MHP, maintains fidelity bond coverage with limits that are in excess of the minimum suggested NAIC guidelines. The County also carries general corporate insurance coverages as deemed necessary and proper.

EMPLOYEE BENEFITS

The County provides various group benefits to qualified MHP personnel. Qualified personnel are also eligible to participate in certain tax deferred retirement plans. MHP is allocated the costs of these programs for its personnel.

Neither MHP nor the County is a party to any employment contracts or deferred compensation plans involving any MHP personnel.

The County established a post retirement health program for qualifying employees in 1967. Eligibility requirements for benefits under this program include being retired from the County and being between the ages of 55 and 65. MHP carried a liability of \$1,082,000 at year end 2011 for this program.

STATUTORY & SPECIAL DEPOSITS

Minnesota Statutes, Section 62D.041 requires all domiciled HMO's to have on deposit, in a custodial account, funds for the protection of its insureds in the amount of at least 33% of the previous year's uncovered expenditures or \$500,000, whichever is greater. In lieu of this deposit requirement, MDH has allowed a guaranteeing entity to fund this deposit. The County, in January 1990 agreed, by resolution, to serve as the guaranteeing organization for MHP's required deposit. MDH subsequently approved the County as MHP's guaranteeing organization. MHP had no other restricted admitted asset balances at December 31, 2011.

TERRITORY AND PLAN OF OPERATION

MHP is authorized in Minnesota as a health maintenance organization.

MHP's current market servicing area includes the five Minnesota counties of Anoka, Carver, Dakota, Hennepin and Scott.

MHP contracts with the Minnesota Department of Human Services (DHS) and the Centers for Medicare and Medicaid Services (CMS) to provide health care services to qualified enrollees in certain DHS and CMS programs.

MHP receives monthly capitation payments from DHS and CMS for enrollees in the government sponsored plans.

MHP contracts out to third-party administrators the pharmacy and dental aspects of the programs. The pharmacy and dental administrators also process and pay claims.

MHP does not market its products through traditional insurance sales channels. Coverage is available to enrollees only through that person's eligibility for one of the aforementioned public programs.

Third Party Administrators

CaremarkPCS Health, L.L.C.

Caremark provides management and administrative services, for prescription drug benefit plans to MHP members. Administration, under this agreement, includes but is not limited to pharmacy network oversight, network contracting, formulary services, claims processing and customer service.

Delta Dental of Minnesota

Delta Dental of Minnesota provides administration of certain dental services, for members of MHP, through authorized Delta Dental providers. Administrative services include, but are not

limited to, access to Delta Dental network providers, claims processing, and customer service functions.

REINSURANCE

MHP reinsures on an excess of loss basis with a highly rated carrier. MHP currently retains the first \$300,000 of eligible expense risk per member per year. The excess of loss co-insurance provision is 90% for most exposures. The reinsurer's annual maximum risk per insured is \$2 million with an unlimited lifetime maximum risk.

The provisions of the reinsurance contract were reviewed and were found to comply with all reinsurance requirements of Minnesota Statutes.

MHP does not assume insured risk from any other company.

ACCOUNTS AND RECORDS

Systems/Operations Databases & Business Continuation

MHP's books and supporting records are processed and maintained on a combination of MHP and County software run on County EDP equipment.

MHP's regulatory reporting forms were reviewed for proper completion in accordance with Minnesota Rules 4685.1910, and the related NAIC Annual Statement Instructions. No material deviations were found.

MHP is subject to internal audit by the staff of the County, as directed by the County Board Audit Committee.

MHP in conjunction with the County has formal written plans for business continuation due to natural disaster or other event causing loss of part or all of its operating capacity. The plan outlines cover all significant necessary aspects of reasonable recovery.

Safekeeping of Assets and Investment Policy

All MHP investments are held in a County investment pool managed by County personnel. All MHP deposits and disbursements are processed through this pool. MHP receives monthly allocated interest based on its proportionate interest in the pool balance. The pool assets are currently made up of short-term US Government Agency mortgaged backed securities.

MHP is exempt from the investment policy provisions of Minnesota Statutes, sections 62D.045 and 60A.112 as it has a county as a guaranteeing organization.

Designated Independent Public Accountants

The books and records of MHP are audited annually by independent public accountants in accordance with Minnesota Statutes, section 62D.08. During the period under examination, the designated independent public accounting firm was McGladrey & Pullen, LLP. MHP received unqualified audit opinions in all examination years.

Loss Liabilities

The Minnesota Department of Commerce developed claim liability projections and compared them to values carried by MHP at December 31, 2011. 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 liabilities appear to be reasonably stated and have been accepted for the purposes of this report.

Federal and State Taxes

MHP is exempt from Federal income taxation under IRC section 501(c)(3) and is exempt from State income taxation under Minnesota Statutes section 290.05.

The Minnesota Department of Revenue determined in 2010 that MHP was subject to taxation at the rate of 1% on certain premium received from State government agency sources under Minnesota Statutes, Section 2971.05. MHP remitted payment of \$1,304,000 in January 2011, under a 2010 settlement agreement, to the State of Minnesota for premium taxes for the years 2009 and prior.

Risk Based Capital Ratio

MHP's total adjusted capital to authorized control level ratio increased from 136% in 2009 to 284% at the end of 2011. The County, as MHP's guaranteeing organization, is committed to making any necessary capital infusions to keep MHP's RBC ratio above action level.

FINANCIAL STATEMENTS

The following are MHP's reported statutory statements of admitted assets, liabilities and unassigned funds as of December 31, for the years 2009 through 2011, and the related statutory statements of operations and cash flows for the years then ended, as reported by MHP. The examiners have incorporated these statements into this report without adjustments.

Metropolitan Health Plan
 Statements of Assets, Liabilities, Surplus and Other Funds
 As of December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Admitted Assets</u>			
Properties Occupied by the Company	\$ 74,638	\$ 522,468	\$ 970,299
Cash and Short-Term Investments	40,508,990	24,510,059	16,512,478
Cash and Invested Assets	\$ 40,583,628	\$ 25,032,527	\$ 17,482,777
Uncollected Premiums	11,286,153	10,943,545	9,255,440
Recoverable from Reinsurers	435,723	448,338	0
Receivable from Uninsured Plans	0	0	118,409
Data Processing Equipment & Software	0	0	338,589
Healthcare Receivables	345,288	372,700	181,353
Total Admitted Assets	\$ 52,650,792	\$ 36,797,110	\$ 27,376,568
<u>Liabilities</u>			
Claims Unpaid	\$ 23,427,327	\$ 17,984,430	\$ 15,020,323
Unpaid Claim Adjustment Expenses	954,500	469,000	325,000
Aggregate Health Policy Reserves	6,005,392	4,227,678	4,227,678
General Expenses Due or Accrued	2,870,426	3,233,555	3,978,037
Liabilities Under Uninsured Plans	362,878	310,990	0
Total Liabilities	\$ 33,620,523	\$ 26,225,653	\$ 19,323,360
<u>Surplus</u>			
Unassigned Funds	\$ 19,030,269	\$ 10,571,457	\$ 8,053,208
Total Surplus	\$ 19,030,269	\$ 10,571,457	\$ 8,053,208
Total Liabilities and Surplus	\$ 52,650,792	\$ 36,797,110	\$ 27,376,568

Metropolitan Health Plan
 Statements of Income and Reconciliation of Surplus
 Years ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net Premium Income	\$ 163,784,478	\$ 141,582,197	\$ 140,025,116
Total Revenues:	\$ 163,784,478	\$ 141,582,197	\$ 140,025,116
Hospital/Medical Benefits	\$ 84,115,787	\$ 69,981,608	\$ 66,945,099
Other Professional Services	14,085,780	16,279,600	17,474,989
Emergency Room & Out of Area	5,131,207	2,730,537	3,099,699
Prescription Drugs	12,533,623	9,755,609	11,191,331
Aggregate Write-ins Other Hospital & Medical	15,798,972	15,548,390	14,326,621
Subtotal	\$ 131,665,369	\$ 114,295,744	\$ 113,037,738
Net Reinsurance Recoveries	370,708	659,268	8,500
Total Hospital and Medical	\$ 131,294,661	\$ 113,636,476	\$ 113,029,238
Claim Adjustment Exp. including Cost Containment	7,031,321	6,644,617	8,510,695
General Administrative Expenses	15,612,498	15,114,855	16,365,563
Increase in Reserves	1,854,305	4,145,695	0
Total Underwriting Deductions:	\$ 155,792,785	\$ 139,541,643	\$ 137,905,496
Net Underwriting Gain or (Loss)	\$ 7,991,693	\$ 2,040,554	\$ 2,119,619
Net Investment Income Earned	611,201	207,190	353,584
Net Income (Loss)	\$ 8,602,895	\$ 2,247,744	\$ 2,473,203
<u>Surplus Account</u>			
Surplus – Beginning of Year	\$ 10,571,457	\$ 8,053,208	\$ 4,770,865
Net Income (Loss)	8,602,895	2,247,744	2,473,203
Change in Non-admitted Assets	(144,083)	270,505	809,140
Net Change in Surplus for the Year	8,458,812	2,518,250	3,282,343
Surplus – End of Year	\$ 19,030,269	\$ 10,571,457	\$ 8,053,208

Metropolitan Health Plan
Statements of Cash Flows
Years ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Cash from Operations</u>			
Premiums Collected Net of Reinsurance	\$ 165,219,583	\$ 144,121,771	\$ 137,279,370
Net Investment Income	611,201	207,190	353,584
Total	165,830,784	144,328,961	137,632,954
Benefit and Loss Related Payments	127,693,453	115,266,403	116,358,091
Commissions and Expenses	22,469,559	21,930,556	24,413,790
Total	150,163,013	137,196,958	140,771,881
Net Cash from Operations	\$ 15,667,772	\$ 7,132,003	(\$ 3,138,927)
<u>Cash from Investments</u>			
Proceeds from Investments Sold, Matured or Repaid:			
Miscellaneous Proceeds	\$ 447,830	\$ 447,830	\$ 447,830
Total Investment Proceeds	\$ 447,830	\$ 447,830	\$ 447,830
Cost of Investments Acquired (Long-Term Only):			
Total Investments Acquired	\$ 0	\$ 0	\$ 0
Net Cash from Investments	\$ 447,830	\$ 447,830	\$ 447,830
<u>Cash from Financing and Miscellaneous Sources</u>			
Cash Provided (Applied):			
Other Cash Provided (Applied)	(116,671)	417,748	3,418,975
Net Cash from Financing & Misc. Sources	(\$ 116,671)	\$ 417,748	\$ 3,418,975
<u>Reconciliation of Cash & Short-Term Investments</u>			
Net Change in Cash and Short-Term Investments	\$ 15,998,931	\$ 7,997,581	\$ 727,878
Cash & Short-Term Investments:			
Beginning of Year	\$ 24,510,059	\$ 16,512,478	\$ 15,784,600
End of Year	\$ 40,508,990	\$ 24,510,059	\$ 16,512,478

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by the personnel of MHP during the course of this examination.

Participating in the examination were James Carr and Rick Theisen of the Minnesota Department of Commerce. The consulting firm of Examination Resources, LLC was retained to review the information systems environment.