

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SAINT PAUL, MINNESOTA

REPORT OF EXAMINATION
OF
SANFORD HEALTH PLAN OF MINNESOTA
SIOUX FALLS, SD
NAIC#95725
AS OF
DECEMBER 31, 2012



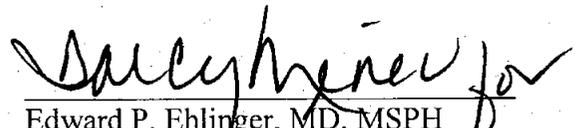
Protecting, maintaining and improving the health of all Minnesotans

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

SANFORD HEALTH PLAN OF MINNESOTA
SIOUX FALLS, SOUTH DAKOTA

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 Sanford Health Plan of Minnesota 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: _____

7/2/14



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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

**SANFORD HEALTH PLAN OF MINNESOTA
SIOUX FALLS, SOUTH DAKOTA**

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 60A.031. 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: 7/2/14

TABLE OF CONTENTS

SCOPE OF EXAMINATION	2
FINDINGS AND RECOMMENDATIONS	2
SUBSEQUENT EVENTS	2
COMPANY HISTORY	2
CORPORATE RECORDS	3
MANAGEMENT AND CONTROL	3
ORG CHART	4
RELATED PARTY AGREEMENTS & TRANSACTIONS	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE WELFARE	5
TERRITORY AND PLAN OF OPERATIONS	5
OPERATING RESULTS	ERROR! BOOKMARK NOT DEFINED.
CLAIMS EXPERIENCE	5
REINSURANCE	5
ACCOUNTS AND RECORDS	6
GENERAL	6
DESIGNATED CERTIFIED PUBLIC ACCOUNTANT	6
STATUTORY DEPOSITS	6
FINANCIAL STATEMENTS	6
COMMENTS ON FINANCIAL STATEMENT ITEMS	10
ACKNOWLEDGEMENT	10

June 24, 2014

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:

SANFORD HEALTH PLAN OF MINNESOTA
NAIC #95725
300 Cherapa Place, Suite 201
Sioux Falls, SD 57109-1110

The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The comprehensive examination of Sanford Health Plan of Minnesota (hereinafter referred to as "SHPMN" or "the Company") was conducted on behalf of the Minnesota Department of Health by the Minnesota Department of Commerce ("DOC"). The DOC Examination Order #13-005 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, as applicable to domestic state requirements.

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

Minnesota Statute 62D.041 requires a Health Maintenance Organization ("HMO") to have on deposit an amount equal to the larger of: 33 percent of all expenses incurred during the current calendar year or \$1,000,000, whichever is greater, as well as maintain certain risk-based capital levels. SHPMN did not meet the net worth or company-action risk-based capital requirements as of December 31, 2012. On February 15, 2013, SHMPMN received a capital infusion of \$1,000,000 from Sanford Health (SH) to satisfy the requirement.

COMPANY HISTORY

SHPMN is a taxable nonprofit HMO licensed to operate in Minnesota. SHPMN offers commercial and Medicare supplement products to approximately 800 members throughout Minnesota. SHPMN is a wholly owned subsidiary of SH. SH is a wholly owned subsidiary of Sanford, a fully integrated health care organization, providing clinical care to patients, research

and health care coverage. SHPMN has entered into contracts with physicians, hospitals and other health care providers pursuant to which such providers deliver medical care to its enrollees. SHPMN was incorporated on July 30, 1997 and began operations on January 1, 1998.

CORPORATE RECORDS

Minutes of Board of Directors meetings, covering the period of this examination, were reviewed and found to be in proper order. All significant actions taken by the Company during the examination period, including those mandated by statute, were addressed in the minutes.

MANAGEMENT AND CONTROL

SHPMN is overseen by a Board of Directors that reports up to the Board of Trustees at SH. Other than "consumer directors", Board members are elected by the SH Board of Trustees. 40% of the Board must consist of consumers elected by the enrollees of SHPMN. The Board meets quarterly, and consists of the following committees: nominating committee, credentialing committee, physician quality committee, and audit committee. The Board committees are joint committees with the Sanford Health Plan ("SHP") Board of Directors.

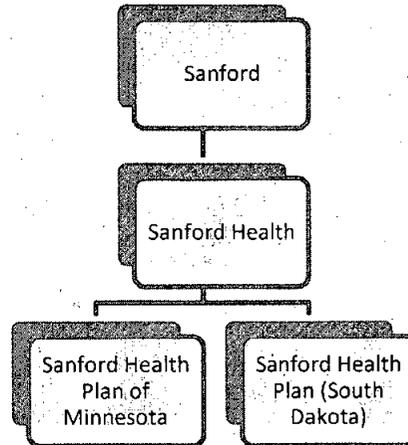
Board of Directors as of December 31, 2012

Kathrine Schnabel
David Link
Larry Heidebrink
Clayton VanBalen MD

Officers as of December 31, 2012

Kelby K. Krabbenhoft, CEO
David C. Link, Executive VP
Ruth A. Krystopolski, President
Cecily L. Tucker, CFO

Org Chart



Related Party Agreements & Transactions

Administrative services, including claims processing, marketing, quality assurance, financial accounting, insurance, legal, payroll and data processing are provided to SHPMN by Sanford Health Plan (“SHP”). Expenses are allocated quarterly to SHPMN based on a percentage of overall membership and are reported as administration expenses and claims adjustment expenses, as applicable. Total expenses allocated to SHPMN were \$126,169 and \$167,642 for 2012 and 2011, respectively.

SH provides certain corporate services for SHPMN, including accounts payable processing. SHPMN reimburses SH for accounts payable expenses processed for SHPMN on a monthly basis. Such administrative expenses were \$410,771 and \$332,682 for 2012 and 2011, respectively.

In December 2012 and February 2013, Sanford made capital infusions of \$600,000 and \$1,000,000, respectively, to satisfy SHPMN’s minimum capital requirements. There were no other capital infusions during the exam period.

FIDELITY BOND AND OTHER INSURANCE

The Company’s fidelity bond exceeds the minimum amount recommended by the NAIC.

The Company is a named insured on various corporate property and liability policies covering operational risks in the normal course of business.

EMPLOYEE WELFARE

SHPMN does not have any employees; all employees are employees of SHP. SH has retirement plans for qualified SHP employees for which SHPMN has no legal obligation. The benefits are based on the plans' provisions. SH makes contributions to the plans of approximately 2% of estimated salary costs.

TERRITORY AND PLAN OF OPERATIONS

SHPMN offers Commercial and Medicare Supplement products to approximately 800 members throughout Minnesota. SHPMN markets its products through local licensed insurance agents via a contracted partner, Great Plains Brokerage.

All operations are conducted in Sioux Falls, SD. There are no branch offices.

OPERATING RESULTS

During the exam period, SHPMN had the following results:

Year	Admitted Assets	Capital and Surplus	Net Premium Income	Net Income
2012	\$ 1,818,537	\$ 683,940	\$3,087,417	(\$1,243,508)
2011	\$ 1,904,963	\$ 1,334,573	\$3,195,217	(\$13,288)
2010	\$ 1,963,527	\$ 1,341,230	\$2,718,504	(\$365,735)

SHPMN has a loss of \$1,243,508 in 2012 due to a unique year of medium-to-large claims incurred for the commercial line of business for an overall loss ratio of 117.1%.

CLAIMS EXPERIENCE

The statutory reserves and related items as of year-end 2012 were reviewed and certified by the Company's Appointed Actuary, David O. Thoen, FSA, MAAA of Deloitte Consulting LLP.

The reserves established by the Company were reviewed for reasonableness by the examination actuary. The actuary determined the claims unpaid, unpaid claims adjustment expenses and aggregate health policy reserves presented in the 2012 annual statement appear reasonable.

REINSURANCE

SH has an HMO Excess Reinsurance Agreement with American National Insurance Company to which SHPMN is a party. The agreement limits the losses of eligible medical and hospital services on individual claims in excess of \$500,000 for any member per contract year up to

\$2,000,000 per member per year. Premiums ceded in 2012 were \$19,068. The Company does not assume any reinsurance.

ACCOUNTS AND RECORDS

General

The Company's responses to the NAIC Information Technology Planning Questionnaire (ITPQ) were reviewed by the IT examiner. There were no deficiencies noted. Data center operations are located at the Company's home office facility in Sioux Falls, SD. The Company utilizes purchased vendor software packages for its general ledger and claims.

Designated Certified Public Accountant

The Company was audited annually by the accounting firm of Deloitte & Touche LLP in accordance with Minnesota Statutes, section 62D.08. The Company received an unqualified opinion in all years under exam. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination.

STATUTORY DEPOSITS

Minnesota Statute 62D.041 requires an HMO to have on deposit an amount equal to the larger of: 33 percent of all expenses incurred during the current calendar year or \$1,000,000, whichever is greater. SHPMN did not meet the requirement as of December 31, 2012. On February 15, 2013, SHMPMN received a capital infusion of \$1,000,000 from SH to satisfy the requirement.

FINANCIAL STATEMENTS

The financial statements consist of a statement of assets, liabilities, capital and surplus; a statement of operations; and a reconciliation of surplus for the period since the last exam. 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.

Sanford Health Plan of Minnesota
Assets, Liabilities, Capital and Surplus
December 31, 2012

ASSETS

Cash and short-term investments	\$1,818,523
Subtotals, cash and invested assets	1,818,523
Investment income due and accrued	15
Total Assets	<u>\$1,818,538</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$569,591
Unpaid claims adjustment expenses	10,000
Aggregate health policy reserves	282,000
Premiums received in advance	180,432
General expenses due or accrued	53,716
Amounts due to parent, subsidiaries and affiliates	38,858
Total Liabilities	<u>\$1,134,598</u>
Gross paid in and contributed surplus	2,759,398
Unassigned funds (surplus)	(2,075,458)
Total Capital and Surplus	683,940
Total Liabilities, Capital and Surplus	<u>\$1,818,538</u>

Sanford Health Plan of Minnesota
Statement of Revenue and Expenses
December 31, 2012

Member months	<u>10,161</u>
Net premium income	<u>\$3,087,417</u>
Total revenues	3,087,417
Hospital and Medical:	
Hospital/medical benefits	2,734,163
Other professional services	124,251
Outside referrals	299,822
Emergency room and out-of-area	9,139
Prescription drugs	<u>447,595</u>
Total Hospital and Medical	3,614,970
Claims adjustment expenses	75,304
General administrative expenses	438,461
Increase in reserves	<u>200,000</u>
Total underwriting deductions	<u>4,328,735</u>
Net underwriting gain or (loss)	(1,241,318)
Net investment income earned	<u>(2,189)</u>
Net income	<u><u>(\$1,243,508)</u></u>

Sanford Health Plan of Minnesota
 Reconciliation of Surplus
 December 31, 2012

<u>SURPLUS ACCOUNT</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and Surplus, December 31, previous year	\$1,334,573	\$1,341,230	\$1,706,313
Net income	(1,243,508)	(13,288)	(365,735)
Change in net deferred income tax	-	-	(180,000)
Change in non-admitted assets	(7,125)	6,631	180,652
Surplus adjustments:			
Paid in	600,000	-	-
Net change in surplus of the year	<u>(650,633)</u>	<u>(6,657)</u>	<u>(365,083)</u>
Surplus, December 31, current year	<u>\$683,940</u>	<u>\$1,334,573</u>	<u>\$1,341,230</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

There were no changes to the financial statements as a result of the examination.

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:

A handwritten signature in cursive script, appearing to read 'S. Carroll', written in black ink.

Susan L. Carroll, CFE
Examiner-in-Charge
Representing the State of Minnesota

After document is signed, return to: MPJ

Phone: 6/30/14

Health Policy, Information and Compliance Monitoring Division
Managed Care Systems Section
Golden Rule Building, Suite 300

	Last Name	Reviewed/Approved	Phone	Date
Sent from Executive Office				
Writer				
Support Staff (check format)				
Supervisor (check content)				
Section Manager				
Administrative Secretary				
✓ Division Director	<u>Murphy</u>	<u>✓</u>	<u>3700</u>	<u>7/2/14</u>
Assistant Commissioner				
Deputy Commissioner				
Commissioner				

Comments and Special Instructions:

Needs signature
note transfer of funds