



STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
ST. PAUL, MINNESOTA
EXAMINATION REPORT
OF
SANFORD HEALTH PLAN OF MINNESOTA
SIOUX FALLS, SOUTH DAKOTA
NAIC # 95725
AS OF
DECEMBER 31, 2018



Protecting, Maintaining and Improving the Health of All Minnesotans

The attached report of an examination made of the condition and affairs as of December 31, 2018, of:

**Sanford Health Plan of Minnesota
NAIC #95725
300 Cherapa Place #201
Sioux Falls, South Dakota 57103**

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 their 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.

Jan K. Malcolm
Commissioner

A handwritten signature in black ink that reads 'Marie Dotseth'.

By: Marie Dotseth, M.H.A.,
Assistant Commissioner

Dated: 06/19/2020

Pursuant to the authority vested in the Commissioner of Commerce of the State of Minnesota, Steve Kelley, 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
NAIC #95725
300 Cherapa Place #201
Sioux Falls, South Dakota 57103**

a Health Maintenance Organization (HMO) 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, 2018, 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 of Examination.

This Report of Examination is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

Steve Kelley
Commissioner



By: Grace Arnold
Deputy Commissioner

Dated: 06/19/2020

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April 21, 2020

The Honorable Jan K. Malcolm
Commissioner of Health
Minnesota Department of Health
625 North Robert Street
St. Paul, Minnesota 55155-2538

The Honorable Steve Kelley
Commissioner of Commerce
Minnesota Department of Commerce
85 7th Place East, Suite 280
St. Paul, Minnesota 55101-2198

Dear Commissioner:

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:

Sanford Health Plan of Minnesota
NAIC #95725
300 Cherapa Place #201
Sioux Falls, South Dakota 57103

(hereinafter referred to as "SHPMN" or the "Company")

Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

We have performed our risk-focused statutory financial condition examination of the Company pursuant to the Minnesota Department of Commerce Examination Order #19-009. The examination of the Company was performed as a risk-focused examination of SHPMN as of December 31, 2018. The examination was conducted on behalf of the State of Minnesota Department of Health (“Health”) by the State of Minnesota Department of Commerce (“Commerce”), observing the guidelines and procedures in the National Association of Insurance Commissions Financial Condition Examiners Handbook (“Handbook”). Pursuant to Minnesota Statutes §62D.24, Health and Commerce have entered into an Interagency Agreement whereby Commerce conducts a financial examination of Health regulated companies. Examination Order #19-009 directed that the examination include a determination of the Company’s financial condition and a general review of its corporate affairs and insurance operations to determine compliance with statutes. The last exam was completed as of December 31, 2015. This examination covered the period of January 1, 2016 through December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date.

We conducted our examination in accordance with the Handbook along with specific procedures defined by Commerce. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and 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.

The Company was audited annually, for the years 2016 through 2018, by the accounting firm of Deloitte and Touche. The Company received an unqualified opinion for all three years. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination.

This examination report includes significant findings of fact 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

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements during the examination.

STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAMINATION

The prior examination report contained no findings or adjustments.

COMPANY HISTORY

SHPMN was incorporated on July 30, 1997 and began operations on January 1, 1998. SHPMN is a wholly owned subsidiary of Sanford Health (“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.

MANAGEMENT AND CONTROL

SHPMN is overseen by a Board of Directors that reports up to the Board of Trustees at Sanford Health. Other than “consumer directors”, Board members are elected by the Sanford Health Board of Trustees. The Board shall consist of at least 40% consumer directors that are elected by enrollees of the corporation’s health insurance plan. At December 31, 2018, the SHPMN Board consisted of the following Directors:

Directors

Steve Watkins*
Kelby Krabbenhoft
Larry Heidebrink*
JoAnn Kunkel (Exofficio)

*Consumer Representative Board Member

Committees of the SHPMN Board

As of December 31, 2018, SHPMN’s Board had the following committees:

- Audit Committee
- Pharmacy & Therapeutics Committee
- Credentialing Committee
- Physician Quality Committee
- Quality Improvement Committee

Officers as of December 31, 2018

<u>Name</u>	<u>Position</u>
Kelby Krabbenhoft	Chief Executive Officer
Kirk Zimmer *	President, Health Plan
JoAnn Kunkel	Chief Financial Officer
Michael Coy	Interim Vice President, Finance

*Replaced by John Snyder in 2019

Related Party Agreements & Transactions

SHPMN received a capital infusion of \$1,300,000 from SH in 2019, which was recorded in 2018 as a receivable from parent, subsidiaries, and affiliates, and gross paid-in and contributed surplus to satisfy SHPMN's capital and surplus requirements.

Effective January 1, 1998, Sanford Health Plan ("SHP"), an affiliated entity, agreed to provide administrative services, including claims processing, marketing, quality assurance, financial accounting, insurance, legal, payroll, and data processing to SHPMN. Expenses are allocated monthly to SHPMN based on a percentage of overall membership and are reported as a reduction to general administrative expenses and claim adjustment expenses in the statutory-basis financial statements.

TERRITORY AND PLAN OF OPERATION

SHPMN offers comprehensive group health and Medicare Supplement products to approximately 900 members throughout Minnesota. Its products are marketed through local licensed agents, through a Sales Management Agreement with Great Plains Brokerage, Inc. All operations are conducted in Sioux Falls, South Dakota.

REINSURANCE

SHP, along with SHPMN, and Sanford Heart of America Health Plan, collectively entered into a stop-loss reinsurance agreement with American National Insurance Company ("ANIC"), to limit losses on individual claims in excess of \$250,000 for eligible medical and hospital services of any enrollee per contract year. The reinsurance agreement with ANIC provides for risk transfer and among other provisions, contains insolvency, arbitration, continuation of coverage and coverage conversion provisions. ANIC is a Texas domiciled insurer that is authorized to transact business in Minnesota.

SHPMN also entered into a stop-loss reinsurance agreement with Navigators Insurance Company to limit losses on individual claims in excess of \$3,250,000. Navigators Insurance Company is domiciled in New York and authorized to transact business in Minnesota.

SHPMN does not assume any reinsurance.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination a material 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 members of SHPMN with Commerce, are reflected in the following:

**SANFORD HEALTH PLAN OF MINNESOTA
STATEMENT OF ASSETS
DECEMBER 31, 2018**

ASSETS	
Cash and short-term Investments	<u>\$ 1,710,275</u>
Cash and invested assets	\$ 1,710,275
Investment income due and accrued	1,756
Uncollected premiums and agents' balances	1,799
Amounts recoverable from reinsurers	101,823
Receivables from parent, subsidiaries and affiliates	<u>1,300,000</u>
Total Assets	<u>\$ 3,115,653</u>

**SANFORD HEALTH PLAN OF MINNESOTA
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2018**

LIABILITIES	
Claims unpaid	\$ 538,506
Unpaid claims adjustment expense	17,000
Health Service Act	565,000
Premiums received in advance	9,007
General Expenses due or accrued	133,462
Amounts due parent, subsidiaries and affiliates	<u>44,709</u>
Total Liabilities	\$ 1,307,683
Gross paid in and contributed surplus	5,959,398
Unassigned Funds	<u>(4,151,429)</u>
Surplus	\$ 1,807,969
TOTAL Liabilities and Surplus	<u>\$ 3,115,653</u>

**SANFORD HEALTH PLAN OF MINNESOTA
STATEMENT OF REVENUE AND EXPENSES
DECEMBER 31, 2018**

Member months	9,400
Net premium income	<u>\$ 3,637,187</u>
Total Revenue	\$ 3,637,187
Hospital/medical benefits	\$ 1,580,457
Other professional services	1,093,835
Outside referrals	460,432
Emergency room and out-of-area	225,153
Prescription drugs	<u>339,034</u>
Sub-total	\$ 3,698,912
Net reinsurance recoveries	<u>(290,861)</u>
Total hospital and medical	\$ 3,408,051
Claims adjustment expenses	\$ 115,970
General administrative expenses	487,823
Increase in reserves for life and accident and health contracts	<u>540,000</u>
Total Underwriting deductions	<u>\$ 4,551,845</u>
Net underwriting loss	(\$ 914,658)
Net investment income earned	12,425
NET LOSS	<u><u>(\$ 902,233)</u></u>

**SANFORD HEALTH PLAN OF MINNESOTA
RECONCILIATION OF CAPITAL AND SURPLUS
DECEMBER 31, 2018**

CAPITAL & SURPLUS ACCOUNT	
Surplus, December 31, previous year	\$ 1,438,407
Net loss	(902,233)
Change in nonadmitted assets	(28,205)
Paid in surplus	<u>1,300,000</u>
Change in surplus for year	\$ 369,562
Surplus as of 12/31/18	<u>\$ 1,807,969</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

The examination actuary reviewed the summary of actuarial opinion, actuarial analysis and underlying supporting document, and data provided by the Company. The examination actuarial review indicates that the employed actuarial methodologies, applied assumptions and judgement, and the reserves recorded by the Company were sufficient.

SUBSEQUENT EVENTS

The following subsequent events were noted during the examination:

On November 8, 2019, a capital infusion of \$1 million was made to SHPMN from SH to bring the capitalization level above the statutory minimum requirement.

On March 11, 2020, The World Health Organization (“WHO”) declared the spreading coronavirus (“COVID-19”) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States (“U.S.”). The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. Commerce is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. Commerce and all insurance regulators with the assistance of National Association of Insurance Commissioners are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. Commerce has been in communication with SHPMN regarding the impact of COVID-19

on business operations and the financial position of SHPMN and no immediate action was deemed necessary at the time of this report.

OTHER SIGNIFICANT EVENTS

No other significant events were noted during the examination that would have a material impact on the examination report.

CONCLUSION

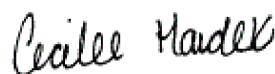
As a result of this examination, the financial condition of Sanford Health Plan of Minnesota as of December 31, 2018 is summarized as follows:

Admitted assets	<u>\$3,115,653</u>
Liabilities	\$1,307,683
Capital and surplus	<u>1,807,969</u>
Total liabilities, capital, and surplus	<u>\$3,115,653</u>

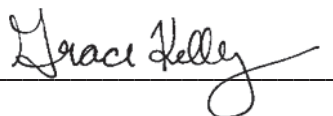
SHPMN met the minimum surplus requirements pursuant to Minnesota Statutes, §60A.07 as of December 31, 2018.

In addition to the undersigned, other representatives of Examination Resources, LLC and Taylor Walker Consulting, LLC., both appointed to represent the State of Minnesota, participated in this examination.

Respectfully submitted,



Cecilee Houdek, CPA CFE, MCM
Examiner-in-Charge
Examination Resources, LLC
Representing the State of Minnesota,
Department of Commerce



Grace Kelly, AFE, PIR
Assistant Chief Examiner
Minnesota Department of Commerce