

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SAINT PAUL, MINNESOTA
EXAMINATION REPORT
OF
UCARE MINNESOTA
MINNEAPOLIS, MINNESOTA
NAIC # 52629
AS OF
DECEMBER 31, 2013



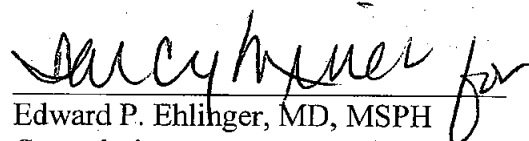
Protecting, maintaining and improving the health of all Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2013 of:

UCARE MINNESOTA
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 UCare 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: 6/22/15

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

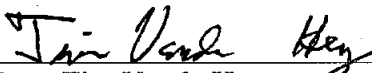
**UCARE MINNESOTA
MINNEAPOLIS, MINNESOTA**

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, 2013 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: Tim Vande Hey
Deputy Commissioner

Dated: 6/24/2015

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June 22, 2015

Honorable Mike Rothman
Commissioner of Commerce
State of Minnesota
85 7th Place East, Suite 500
St. Paul, Minnesota 55101-2198

Dr. Edward Ehlinger
Commissioner of Health
State of Minnesota
625 North Robert Street
St. Paul, Minnesota 55155-2538

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:

UCARE MINNESOTA
NAIC #52629
500 Stinson Boulevard NE
Minneapolis, MN 55413

The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of UCare Minnesota, (UCare or "the Plan"). This Risk-Focused Statutory Financial Condition Examination of the Companies was conducted pursuant to the Department of Commerce Examination Order # 14-013. 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 was completed for UCare as of December 31, 2010. This full scope examination covers the period of January 1, 2011 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook), as adopted by the National Association of Insurance Commissioners NAIC, and in conformity with Minnesota Statute Section 62D.14. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Plan by obtaining information about the Plan, including corporate governance, identifying and assessing inherent risks within the Plan, 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 Plan were considered in accordance with the risk-focused examination process.

During this examination, assets were verified and/or valued and liabilities were determined, or estimated as necessary, for the period ending December 31, 2013. Both assets and liabilities were reviewed with consideration given to Minnesota Statutes.

Key functional activities were identified, along with the specific risks and the impact of existing risk mitigation strategies within the Plan. The following key activities were identified by obtaining information during the planning process:

- Pricing/Premiums
- Investments
- Reinsurance
- Claims/Reserving

Among the procedures incorporated into this examination was a review of the annual audit workpapers prepared by CliftonLarsonAllen (CLA), the Plan's independent certified public accountants (CPAs). Certain workpapers developed by the CPAs were relied upon by the examiners and were incorporated into the examiners' workpapers.

This report on examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAMS

There were no reportable findings in the prior examination.

HISTORY OF THE PLAN

General

The Plan was established, in 1984, by the Department of Family Practice at the University of Minnesota Medical School. On September 22, 1989, the Minnesota Department of Health issued the Plan a certificate of authority, in accordance with Minnesota Statutes, section 62D, to operate as a not-for-profit health maintenance organization.

CORPORATE RECORDS

The recorded minutes of the meetings held by the Boards of Directors were reviewed for the period under examination. The minutes adequately documented approved transactions, in accordance with the Board of Directors 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.

There were no amendments to the Articles or Bylaws during the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The Plan's Board of Directors consisted of fifteen members, as required by its By-laws. The Board is comprised of seven members from the University of Minnesota Medical School's Department of Family Medicine and Community Health, one member appointed by the Dean of the University of Minnesota, one member elected by the Board and six enrollee members nominated by the Board's Governance Committee and elected by UCare's enrolled membership. The Board's Governance Committee is appointed by the Chairperson of the Plan's Board of Directors.

The Plan is in compliance with the Minnesota Statutes, section 62D.06 as to limitations on the number of directors practicing in the delivery of health services.

Directors are appointed to serve terms varying in length depending on classification type of the director. There are no limits on the number of terms that a director may serve nor are there any age limitations with the exception that enrollee directors are limited to no more than three consecutive terms.

The following individuals were serving as Directors at December 31, 2013:

<u>Director</u>	<u>First Elected</u>	<u>Principal Business Affiliation</u>
Macaran Baird, M.D. -Chair	2002	Chair, Dept of Family Medicine –U of M
Patricia Adam, M.D.	2008	Practicing Physician
William Brombach*	2006	Enrollee Member
Kimberly Carter	2009	Enrollee Member
Catherine Godlewski	2003	Financial Officer –Dept of Family Medicine
John Gross	2013	Enrollee Member
P. Jay Kiedrowski	2007	Senior Fellow-U of M Humphrey Institute
Teresa McCarthy, M.D.	2000	Practicing Physician
Bert McKasy	2011	Enrollee Member
James Miller	2009	Enrollee Member
Peter Mitsch	2004	Dir. Financial Services –U of M Medical School
William Roberts, M.D.	2007	Practicing Physician
Sharon Shonka	2007	Enrollee Member
James Van Vooren, M.D.	2000	Practicing Physician
Michael Wootten, M.D.	2009	Practicing Physician

* Mr. Brombach retired at the August 6, 2014 Board Meeting and was replaced by Lance Teachworth.

Committees of the Board of Directors

Executive Committee:

Macaran Baird, M.D., Chair
William Brombach
Teresa McCarthy, M.D.
James Van Vooren, M.D.
P. Jay Kiedrowski

Finance & Audit Committee:

James Van Vooren, M.D., Chair
P. Jay Kiedrowski
Bert McKasy
Peter Mitsch
William Roberts, M.D.

Compensation Committee:

Peter Mitsch, Chair
Macaran Baird, M.D.
William Brombach
Sharon Shonka
John Gross

Governance Committee:

Teresa McCarthy, M.D., Chair
Patricia Adam, M.D.
James Miller
Catherine Godlewski

Fund Council:

Jennifer Welsh, M.D., Chair
Kimberly Carter
Nancy Feldman

P. Jay Kiedrowski
Michael Wootten, M.D.

Executive Officers

The principal operating officers and their positions were as follows:

<u>Name</u>	<u>Position</u>
Nancy J. Feldman	President and Chief Executive Officer
Mark Traynor	Senior Vice President, General Counsel & Secretary
Beth A. Monsrud	Senior Vice President, Chief Financial Officer & Treasurer
Russel J. Kuzel, M.D., MMM	Senior Vice President & Chief Medical Officer
Hilary Marden-Resnik	Senior Vice President Administration and Chief Administrative Officer
Edith D. Dorsey	Senior Vice President Operations
Thomas Mahowald	Senior Vice President Product Management & Development
Ghitiann Worcester	Senior Vice President Public Affairs & Marketing

Conflict of Interest Procedures

The Plan has an established procedure for the disclosure of any material interest or affiliation on the part of any officer, director or employee, which is in, or is likely to conflict with his or her official duties. Annually, each officer, director and senior employee completes a questionnaire disclosing any material conflicts of interest. All questionnaires were completed and appropriately reviewed.

AFFILIATED COMPANIES

The Plan is the "ultimate controlling person" of a holding company system and is subject to certain filing requirements of Minnesota Statutes, section 60D. The downstream affiliated company is UCare Health, Inc. (UCH), a Wisconsin domiciled non-profit service insurance corporation. The Plan has no stockholders nor is it subject to the control of any other organization.

UCH, formed in December 2006, provides medical services to qualified enrollees of the CMS Medicare Advantage program in twenty six western Wisconsin counties. The State of Wisconsin issued UCH a certificate of authority on March 5, 2007.

The Plan has a 100% controlling interest in UCH. The Plan provided UCH with start-up capital of a \$2 million cash contribution and an additional \$3 million in exchange for a surplus note. The Plan made additional cash contributions to UCH of \$2.5 million and \$9 million in 2009 and 2011 respectively. The Plan also issued a second surplus note to UCH for \$10.0 million in 2013. The Plan carries its investment in UCH, on an equity basis, as a Non-Admitted Asset.

Affiliated Agreements

Administrative Services Agreement

The Plan and UCH entered into an administration agreement effective June 7, 2007. The Plan has

agreed to provide all personnel, marketing, management and administrative needs of UCH. As compensation for these services, the Plan is reimbursed for all direct costs and an allocation of indirect costs paid and/or incurred on behalf of UCH.

Related Parties

Minnesota Health Information Exchange

The Plan participated in the formation of Minnesota Health Information Exchange, LLC (MnHIE), a Delaware domiciled company, formed September 7, 2007. MnHIE was formed to offer various electronic health information exchange capabilities and services, within Minnesota and adjacent geographic areas, to a variety of potential participants. In 2011, MnHIE agreed to transfer its remaining assets to Community Health Information Collaborative and discontinue all operations. The Plan no longer has an ownership interest in MnHIE.

Medical Education and Research Contributions

The Plan has made periodic contributions to help fund family medicine education and medical research at the University of Minnesota Medical School's Department of Family Medicine and Community Health (Department). Certain Plan Board members are affiliated with the department, which is the recipient of these contributions.

University of Minnesota Physicians

UCare has primary and specialty care contracts with University of Minnesota Physicians (UMP) clinics. One member of UCare's Board is a member of the UMP Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

The Plan's fidelity bond provides limits of coverage that are in excess of the minimum suggested NAIC guidelines. The Plan has further protected its interests and property by maintaining coverage for general liability, crime and property exposures.

EMPLOYEE WELFARE

The Plan provides certain employee benefits to selected personnel as follows:

Post Retirement Health Plan

The Plan established an early retirement health program for qualifying employees, effective July 1, 2006. The program covers retired employees, between the ages of 55 and 64, having at least 10 years of service with the Plan.

Supplemental Executive Benefit Plan

The Plan established a non-qualified Supplemental Executive Benefit Plan, effective August 1, 2002, covering Plan executive management personnel, as selected by the Board of Directors. The plan administrator is the Plan. The program includes deferred compensation and disability components. The plan also includes split dollar flexible premium variable universal life policies. The plan is funded by the general assets of the Plan.

Incentive Bonus Plan

The Plan has established an annual incentive bonus program for all personnel.

Executive Employment Contract

The Plan has one employment contract, with the President and CEO. Provisions of this contract include, but are not limited to: retirement and severance provisions, incentive compensation and confidentiality considerations.

STATUTORY OR SPECIAL DEPOSITS

The Plan met the requirements of Minnesota Statutes, section 62D.041, as of December 31, 2013, for deposits to be held in the event of insolvency. The Plan had no other restricted admitted asset balances.

TERRITORY AND PLAN OF OPERATION

The Plan is authorized in Minnesota as a health maintenance organization.

The Plan 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. The Plan also offers individual benefit plans in conjunction with the Medicare Advantage Programs.

The Plan receives monthly capitation payments from DHS and CMS for enrollees in the government sponsored plans. Medicare individual benefit plan premiums are billed directly to the contract holders.

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

Beginning in 2014, the Plan began offering commercial products through the state MNSure insurance exchange.

GROWTH OF THE PLAN

The following exhibit shows operating trends as reported in UCare's filed Annual Statements for the examination period:

Year	Admitted Assets	Liabilities	Capital and Surplus	Net Premiums Written	Net Income (Loss)
2011	\$626,053,763	\$304,120,490	\$321,933,273	\$1,750,490,236	\$33,931,168
2012	\$781,322,299	\$393,587,761	\$387,743,538	\$2,247,406,229	\$70,709,972
2013	\$856,414,331	\$413,178,666	\$443,235,665	\$2,440,728,780	\$47,183,896

RESERVES AND LOSS EXPERIENCE

Jennifer Linn FSA, MAAA, of Optum, is the actuary appointed by the Plan to provide a Statement of Actuarial Opinion as of December 31, 2013. Ms. Linn provided an unqualified opinion that the reserves met the requirements of the insurance laws of Minnesota, were computed in accordance with accepted actuarial standards and principles, and made reasonable provision for all contract obligations of the Plan. Based on the reserve calculations of the independent actuary retained by the Commerce for examination purposes, it was determined that the reserves and the related liabilities at December 31, 2013, appear to make reasonable provisions for the Companies' obligations.

REINSURANCE

The Plan cedes excess scheduled risks on a per member per year basis to RGA Reinsurance Company, an "A+" rated reinsurance carrier that is authorized in the State of Minnesota. During the period under examination, reinsured coverage was on a 90% coinsurance basis for amounts in excess of \$600,000. The maximum liability of the reinsurer, per member per contract year and per lifetime, is \$2,000,000.

The Plan does not assume insured risk.

ACCOUNTS AND RECORDS

General

The internal control structure was discussed with management through questionnaires, interviews and a review of the work performed by the Plan's independent external auditors.

The NAIC provides a questionnaire covering the evaluation of the controls in Electronic Data Processing (EDP) systems. The Plan's response was reviewed by computer audit specialists of the exam team who evaluated the adequacy of the EDP controls.

Annual Statement Preparation

The Plan uses an automated general ledger system. At December 31, 2013, the Plan appropriately accrued for various payables and receivables through year-end. Trial balances were traced to the general ledger, adjusting entries and supporting documents as well as to the 2013 Annual Statement.

Safekeeping of Assets

The Plan is party to a custodial agreement with Wells Fargo for the safekeeping of its invested assets. The indemnity language contained in the agreements meets the minimum requirements of the NAIC.

The Plan has an investment policy that is reviewed annually for compliance with stated policies. There were no exceptions noted for the years under examination.

Designated Certified Public Accountants

The books and records of the Companies are audited annually by independent certified public accountants in accordance with Minnesota Statutes, section 62D.08. During the period under examination, CliftonLarsonAllen was the designated certified public accountant for the Plan.

FINANCIAL STATEMENTS

The following pages contain financial statements showing the Companies' financial position as of December 31, 2013. There were no adjustments to the financial statements made as a result of the examination.

UCare Minnesota
Statements of Admitted Assets, Liabilities, and Capital and Surplus
As of December 31, 2013

Admitted Assets

Bonds	\$ 445,092,884
Common Stock	52,941,074
Cash and Short Term Investments	207,706,423
Cash and Invested Assets	<u>\$ 705,740,381</u>
Investment Income Due and Accrued	1,780,003
Uncollected Premiums	19,240,608
Deferred Premiums	119,748,085
Amounts Recoverable from Reinsurers	183,844
Receivable from Uninsured Plans	2,265,374
Electronic Data Processing Equipment & Software	6,073,591
Furniture & Equipment	174,839
Receivable from Affiliates	1,023,228
Aggregate Write-ins for other than Invested Assets	184,378
Total Admitted Assets	<u><u>\$ 856,414,331</u></u>

Liabilities

Claims Unpaid	\$ 273,900,152
Accrued Medical and Incentive Pools	20,293,852
Unpaid Claim Adjustment Expense	5,972,644
Aggregate Health Policy Reserves	45,046,900
Premiums Received in Advance	4,274,362
General Expenses Due or Accrued	34,820,588
Amounts Held for the Account of Others	68,546
Payable for Securities	2,574,074
Aggregate Write-ins for Liabilities	26,227,548
Total Liabilities	<u><u>\$ 413,178,666</u></u>

Capital and Surplus

Unassigned Funds	\$ 443,235,665
Total Capital and Surplus	<u>\$ 443,235,665</u>
Total Liabilities, Capital and Surplus	<u><u>\$ 856,414,331</u></u>

UCare Minnesota
Statement of Revenues and Expenses
December 31, 2013

REVENUES	
Net Premium Income	\$ 2,440,728,780
Aggregate write-ins for other health care related revenues	(27,518,252)
Aggregate write-ins for other non-health revenues	(162)
Total Revenues	<u>\$ 2,413,210,366</u>
HOSPITAL AND MEDICAL EXPENSES	
Hospital/Medical Benefits	\$ 1,167,975,865
Other Professional Services	660,466,305
Outside Referrals	20,921,507
Emergency Room & Out of Area	97,241,964
Prescription Drugs	233,415,502
Incentive Pool, Withhold Adjustments & Bonus Amounts	15,563,776
Subtotal	<u>\$ 2,195,584,919</u>
Net Reinsurance Recoveries	\$ (2,559,069)
Total Hospital and Medical Expenses	<u>\$ 2,193,025,850</u>
Claim Adjustment Expenses, including \$29,283,314 of cost containment expenses	\$48,979,167
General Administrative Expenses	131,168,339
Increase in reserves for Life and Accident and Health Contracts	(38,286)
Total Underwriting Deductions	<u>\$ 2,373,135,070</u>
Net Underwriting Gain or Loss	<u>\$ 40,075,296</u>
Net Investment Income Earned	\$ 6,343,801
Net Realized Capital Gain or Loss	978,806
Net Investment Gains or Losses	<u>\$ 7,322,607</u>
Net Gain or Loss from Agents or Premium Balances Charged Off	\$(202,007)
Aggregate Write-ins for Other Income or Expenses	(12,000)
Net Income/Loss	<u><u>\$ 47,183,896</u></u>

UCare Minnesota
Capital and Surplus Account
December 31, 2013

Capital and Surplus prior reporting year	\$ 387,734,538
Net Income (Loss)	\$ 47,183,896
Change in Net Unrealized Capital Gains (Losses)	5,261,493
Change in Non-admitted Assets	3,055,738
Net Change in Surplus	<u>\$ 55,501,127</u>
Capital and Surplus End of Reporting Year	<u>\$ 443,235,665</u>

UCare Minnesota
Comparative Analysis of Changes in Surplus
December 31, 2013

	Per Annual Statement	Per Examination	Change in Surplus
Surplus at December 31, 2013, per Company	\$ 443,235,665		
Assets:			
Total Assets	\$ 856,414,331	\$ 856,414,331	-
Liabilities:			
Total Liabilities	\$ 413,178,666	\$ 413,178,666	-
Surplus at December 31, 2013, per Examination		\$ 443,235,665	-

COMMENTS ON FINANCIAL STATEMENT ITEMS

Assets

There were no adjustments to assets during this examination.

Liabilities, Capital and Surplus

Reserves

\$345,213,548

An actuary appointed by the board of Directors rendered an opinion that the amounts carried in the balance sheet, as of December 31, 2013, include provision 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.

Risk & Regulatory Consulting, LLC was appointed by Commerce to test reserves and review workpapers provided by the Company and is in concurrence with this opinion.

Capital and Surplus

\$443,235,665

The amount reported by the Company of \$443,235,665 has been accepted for the purposes of this examination.

SUBSEQUENT EVENTS

UCare Foundation was established in February, 2014. Prior to the creation of UCare Foundation, grants were made through the UCare Fund of the University of MN Medical Foundation.

UCare restated its Bylaws on March 4, 2014. The Bylaws were restated to remove the Minnesota Fund Council to add the Compliance Committee.

On June 14, 2014, Nancy Feldman, UCare CEO, announced her plans to retire in 2015. Jim Eppel was announced as UCare's next CEO on March 5, 2015.

A capital infusion, through issuance of a surplus note, was contributed to UCare Health in August 2014.

CONTINGENT LIABILITIES

At December 31, 2013 UCare established a contingency accrual of \$22,500,000 for Government Premiums determined to be at risk related to CMS audit processes associated with Medicare risk scores.

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 **UCare Minnesota** as of December 31, 2013 is summarized as follows:

Admitted assets	<u>\$856,414,331</u>
Liabilities	<u>413,178,666</u>
Capital and surplus	<u>443,235,665</u>
Total liabilities, capital and surplus	<u>\$856,414,331</u>

In addition to the undersigned, other representatives of Risk & Regulatory Consulting, LLC were appointed to represent the State of Minnesota and participated in the examination.

Respectfully submitted,



Jan M Moenck, CFE
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the State of Minnesota,
Department of Commerce