

STATE OF MINNESOTA
DEPARTMENT OF HEALTH
SAINT PAUL, MINNESOTA

EXAMINATION REPORT

OF

GUNDERSEN HEALTH PLAN MINNESOTA

LA CROSSE, WISCONSIN

NAIC # 14202

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:

GUNDERSEN HEALTH PLAN MINNESOTA
La Crosse, Wisconsin

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 Gundersen Health Plan 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.

A handwritten signature in black ink, which appears to read "Edward P. Ehlinger for", is written over a horizontal line.

Edward P. Ehlinger, MD, MSPH
Commissioner

Dated: 6/10/16

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

**GUNDERSEN HEALTH PLAN MINNESOTA
LA CROSSE, WISCONSIN**

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.24. 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: Frederick Andersen
Acting Deputy Commissioner and Chief
Life Actuary

Dated: _____

6/14/16

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April 25, 2016

Honorable Edward Ehlinger, M.D.
Commissioner of Health
State of Minnesota
Department of Health
85 7th Place East, Suite 400
St. Paul, Minnesota 55101-2198

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

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

Gundersen Health Plan Minnesota
NAIC #14202
1900 South Avenue
La Crosse, WI 54601

(hereinafter referred to as Gundersen or the Plan)

The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination was a comprehensive examination, conducted by the State of Minnesota Department of Commerce (hereinafter referred to as Commerce), observing the guidelines and procedures in the NAIC Financial Condition Examiners Handbook (hereinafter referred to as the Handbook). The Examination was conducted by representatives of Commerce on behalf of the Minnesota Department of Health (hereinafter referred to as Health). Pursuant to Minn. Stat. 62D.24 Health and Commerce have entered into an Interagency Agreement whereby Commerce conducts financial examination of Health Maintenance Organizations on behalf of Health. Examination Order #15-012 directed that the examination include a determination of the Plan's financial condition and a general review of its corporate affairs and insurance operations to determine compliance with statutes. This was the first full scope financial examination of the Plan since its incorporation in 2012. This full-scope examination covers the three-year period from January 1, 2012, through December 31, 2014. In accordance with the Examiners' Handbook, the examination included significant transactions and/or events occurring subsequent to December 31, 2014 that were noted during the course of this examination. Key activities of the Plan which were reviewed as part of the examination included Investments, Related Party and Reserving.

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 62D.14 along with specific procedures defined by Commerce. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of Gundersen 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 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 Plan were considered in accordance with the risk-focused examination process. This may include 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 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 Plan's financial statements.

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.), are not included within the examination report but separately communicated to other regulators and/or the Plan.

The Plan was audited annually, for the years 2012 through 2014, by the accounting firm of Ernst & Young (the CPA or E&Y). Among the procedures incorporated into this

examination was a review of the annual audit workpapers prepared by E&Y. Certain workpapers developed by the CPA were relied upon by the examiners and were incorporated into the examiners' workpapers.

STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAM

This is the first financial examination of Gundersen; there are no outstanding issues to report.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in no reportable findings or recommendations.

COMPANY HISTORY OF THE PLAN

Gundersen Health Plan Minnesota was organized as a nonprofit health maintenance organization pursuant to Minnesota Statutes Chapter 62D. The Plan was licensed in 2011 to provide comprehensive health care insurance in four Minnesota counties bordering Wisconsin.

MANAGEMENT AND CONTROL

Corporate Governance

Corporate governance is facilitated by the Plan's Board of Directors and officers.

Board of Directors and Officers

Per the By-Laws, the number of directors constituting the Board of Directors shall be five (5) but may be increased or decreased, as determined by the Board of Directors in compliance with these By Laws from time to time. The directors shall be divided into two classes:

- Three (3) of the directors shall be physicians, employees or representative of the Gundersen Lutheran Health Plan
- Two (2) of the directors shall be independent persons working and residing in the Corporation's service area

At December 31, 2014, the Board of Director's consisted of the following individuals:

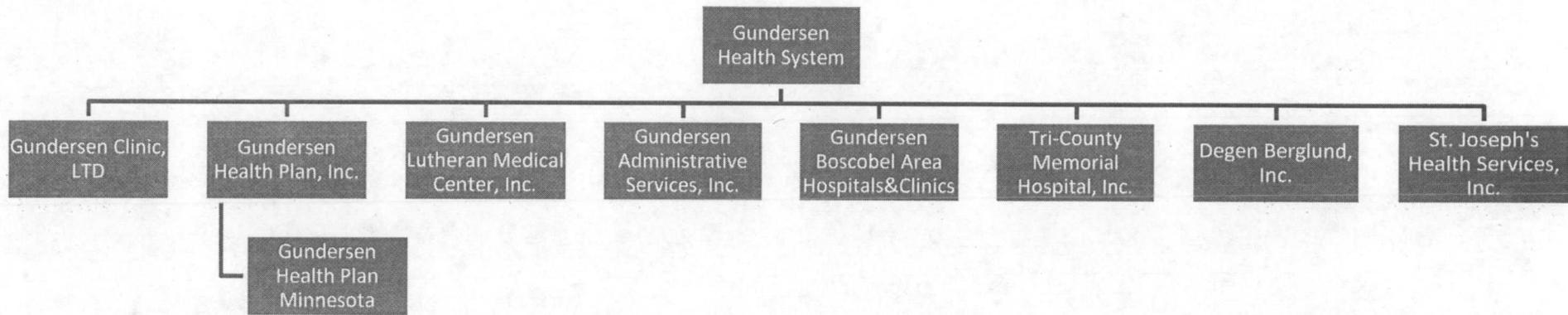
Individual	Board Position	Principal Occupation
Scott Kniprath	President	Regional Executive Director - Gundersen Health Systems
Joe Caron	Secretary	Medical Doctor - Gundersen Health Systems
Gary Lenth	Member	CEO & Medical Director - Gundersen Health Plan
Eric Bartleson	Community Board Member	Retired Educator
Douglas Hubbard	Community Board Member	Retired Business Manager
Dara Bartels	Non-member; Treasurer	Executive Director of Finance - Gundersen Health Systems

At December 31, 2014, the principal officers of the Plan were:

<u>Name</u>	<u>Position</u>
Gary Lenth	CEO
Scott Kniprath	President of the Board
Joseph Caron	Secretary of the Board
Dara Bartels	Treasurer of the Board

Corporate Organization

Gundersen Health Plan Minnesota is directly controlled by its parent, Gundersen Health Plan. The Plan is also a member of a holding company system, Gundersen Health System, which is the ultimate controlling parent. The organizational chart on the next page depicts the relationships among the affiliates in the group.



TERRITORY AND PLAN OF OPERATION

The Plan started its operations in 2012 with a commercial insurance product and added Medicare Advantage plus Part D prescription drug coverage in 2013. In 2014, the Plan launched an individual commercial fee-for-service product off the Federal Health Insurance Exchange. In the same year, the Commercial Small Group product was changed from a capitated basis to a fee-for-service basis.

The Plan contracts with its primary providers, Gundersen Clinic, Inc. and Gundersen Lutheran Medical Center, Inc. to provide medical services under a premium capitation basis for its Medicare and Commercial Large Group products. Since the health care services covered by the Plan are primarily paid on a capitated basis, the majority of insurance risk is transferred to these related parties.

REINSURANCE

There were two reinsurance programs in effect as of December 31, 2014.

An agreement was in place with Munich RE, effective January 1, 2014, providing protection for larger risks. Gundersen retained the first \$650,000 of medical and hospital expenses per member for the contract period. Munich RE paid 50% of the losses incurred in excess of the retention. The contract was subject to a \$2 million per member per term period.

In addition, the Affordable Care Act (ACA) Transitional Reinsurance Program was effective in 2014. Individual line of business claims over \$45,000, after cost share reduction and maximum out-of-pocket adjustments, were eligible for reimbursement from the Center for Medicare and Medicaid Services (CMS) up to \$250,000 per member.

FINANCIAL STATEMENTS

The following includes the Plan's statutory Statement of Assets, Liabilities, Surplus and Other Funds, and the related statutory Statement of Operations and Reconciliations of Surplus and Other Funds, and Statement of Cash Flows for the year ended December 31, 2014. The financial statements are based on the statutory financial statements filed by the Plan with the Minnesota Department of Health and present the financial condition of the Plan for the period ending December 31, 2014. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

GUNDERSEN HEALTH PLAN MINNESOTA
Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2014

ASSETS	
Bonds	\$ 550,461
Cash and Short-term Investments	<u>961,387</u>
Cash and Invested Assets	1,511,848
Investment income due and accrued	268
Uncollected premiums and agents balances	5,728
Accrued retrospective premiums	3,751
Amounts recoverable from reinsurers	60,918
Amounts receivable relating to uninsured plans	78,083
Receivables from parent, subsidiaries and affiliates	<u>25,208</u>
Total Assets	<u>\$ 1,685,804</u>
LIABILITIES	
Claims unpaid	\$ 16,994
Premiums received in advance	67,927
General expenses due or accrued	26,655
Amounts due to parent, subsidiaries and affiliates	27,500
Liability for amounts held under uninsured plans	<u>144</u>
Total Liabilities	<u>\$ 139,220</u>
Gross paid in and contributed surplus	\$ 1,550,000
Unassigned funds (surplus)	<u>(3,416)</u>
Surplus	<u>1,546,584</u>
TOTAL	<u>\$ 1,685,804</u>

GUNDENSEN HEALTH PLAN MINNESOTA
Statement of Revenue and Expenses
December 31, 2014

Net premium income	<u>\$4,069,997</u>
Hospital and Medical:	
Hospital/Medical benefits	\$3,196,719
Outside referrals	53,069
Emergency room and out-of-area	102,881
Prescription drugs	298,599
Aggregate write-in for other hospital and medical	<u>169,483</u>
Subtotal	\$3,820,751
Less: Net reinsurance recoveries	<u>60,918</u>
Total Hospital and Medical	\$3,759,833
Claims adjustment expenses	103,518
General administrative expenses	143,064
Total underwriting deductions	<u>4,006,415</u>
Net underwriting gain	63,582
Net investment income earned	<u>708</u>
 NET INCOME	 <u>\$ 64,290</u>
 CAPITAL & SURPLUS ACCOUNT	
Capital & Surplus, December 31, previous year	<u>\$1,501,567</u>
Net income	64,290
Change in nonadmitted assets	<u>(19,273)</u>
Change in surplus for year	<u>(45,017)</u>
Capital & Surplus as of 12/31/14	<u>\$ 1,546,584</u>

GUNDERSEN HEALTH PLAN MINNESOTA
Statement of Cash Flow
December 31, 2014

Cash from operations:	
Premiums collected net of reinsurance	\$ 4,113,618
Net investment income	<u>1,249</u>
Total	<u>\$ 4,114,867</u>
Benefits and loss related payments	3,964,466
Commissions and Expenses paid	230,889
Total	<u>\$ 4,195,355</u>
Net cash from operations	<u>\$ (80,488)</u>
Cash from investments:	0
Cash from financing and miscellaneous	
Other cash applied	<u>\$ (30,497)</u>
Net cash from financing and miscellaneous	<u>\$ (30,497)</u>
Net change in cash, cash equivalents and short-term investments	\$ (110,985)
Cash and short-term investments:	
Beginning	<u>1,072,372</u>
Ending	<u>\$ 961,387</u>

GUNDERSEN HEALTH PLAN MINNESOTA
Comparative Analysis of Changes in Surplus
December 31, 2014

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

	Per Annual Statement	Per Examination	Change in Surplus	
Total Assets	\$1,685,804	\$1,685,804	\$	-0-
Total Liabilities	\$ 139,220	\$ 139,220	\$	-0-
Surplus at December 31, 2014	\$ 1,546,584	\$ 1,546,584	\$	-0-

EXAMINATION NOTES TO THE FINANCIAL STATEMENTS

Basis of Presentation

The financial statements of the Plan have been prepared in conformity to accounting practices prescribed or permitted by Health.

SUBSEQUENT EVENTS

Due to significant losses in the individual and small group blocks of business in 2015, a capital infusion was necessary. The Plan received a capital infusion of \$1,100,000 from its parent on December 15, 2015.

Gundersen ceased offering its individual product as of January 1, 2016 due to low enrollment in 2014 and 2015.

As of January 1, 2016 Gundersen moved from a "fee-for-service" to a capitated model for its small group product.

The Plan's parent, Gundersen Health Plan, announced a planned merger with Unity Health Insurance, an affiliate of UW Health. This merger has been submitted to the states of Wisconsin and Minnesota for approval and is expected to close in May, 2016. This will not result in any significant impact to the operations or financial condition of Gundersen.

Gundersen's Audited Financial Statements as of December 31, 2015 contained adjustments, which were made based upon subsequently available paid claims data, to increase the IBNR claim reserve by \$140,000 and also increase rebates by \$12,000, resulting in an overall reduction of net income by \$128,000.

CONCLUSION

As a result of this examination, the financial condition of Gundersen as of December 31, 2014 is summarized as follows:

Admitted assets	\$1,685,804
Liabilities	\$ 139,220
Surplus	\$1,546,584
Total liabilities and surplus	\$1,685,804

Per examination findings, the Plan met the minimum surplus requirements pursuant to Minnesota Statutes, Section 62D.042 as of December 31, 2014.

In addition to the undersigned, Tom Hayden, IT Specialist, David Wolfe, Actuary, Dean Cross, Examiner (all from Risk and Regulatory Consulting), and Grace Kelly of the Minnesota Department of Commerce participated in this examination.

Respectfully submitted,



Jan Moenck CFE, Examiner-in-Charge
Representing the State of Minnesota,
Department of Commerce