



STATE OF MINNESOTA  
DEPARTMENT OF COMMERCE  
ST. PAUL, MINNESOTA  
EXAMINATION REPORT  
OF  
MEDICA HEALTH PLANS  
MINNETONKA, MINNESOTA  
NAIC # 52626  
AS OF  
DECEMBER 31, 2020

The attached report of an examination made of the condition and affairs as of December 31, 2020, of:



*Protecting, Maintaining and Improving the Health of All Minnesotans*

**Medica Health Plans  
NAIC # 52626  
401 Carlson Parkway  
Minnetonka, MN 55305**

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 Medica Health Plans, 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 MALCOLM  
Commissioner

A handwritten signature in black ink, appearing to read 'Diane Rydrych', written over a horizontal line.

By: Diane Rydrych  
Acting Assistant Commissioner of  
Health

Dated: 6/24/2022

Pursuant to the authority vested in the Commissioner of Commerce of the State of Minnesota, Grace Arnold, being first duly sworn, upon her oath, deposes and says that a comprehensive examination was made of the affairs and financial condition of

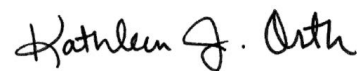
**Medica Health Plans  
NAIC # 52626  
401 Carlson Parkway  
Minnetonka, MN 55305**

insurance company authorized under the laws of the State of Minnesota. That, to the best of her information, knowledge, and belief, the attached Report of Examination describes the affairs and financial condition of the above-named company as of December 31, 2020, 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 of Examination.

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

Grace Arnold Commissioner



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By: Kathleen Orth  
Director of Insurance  
Solvency/ Chief Examiner

Dated: June 24, 2022

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April 26, 2022

The Honorable Grace Arnold  
Commissioner of Commerce  
Minnesota Department of Commerce  
85 7<sup>th</sup> 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:

**Medica Health Plans  
NAIC # 52626  
401 Carlson Parkway  
Minnetonka, MN 55305**

(hereinafter referred to as 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 No. 21-008. The examination of the Company was performed as a coordinated risk-focused examination of the Medica Group (“Group”) of companies as of December 31, 2020. The examination was conducted on behalf of the State of Minnesota Department of Health (“Health”) the State of Minnesota Department of Commerce (“Commerce”, observing the guidelines and procedures in the *NAIC Financial 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 Maintenance Organizations (“HMO”) on behalf of Health. Examination Order No. 21-008 directed that the examination includes 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 Company’s last examination was completed by Commerce as of December 31, 2017. This full-scope examination covers the period of January 1, 2018, through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date. The examination was conducted in conjunction with affiliated entity Medica Insurance Company.

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 prospective risks of the Group, 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 Group 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

examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact as mentioned in Minnesota Statutes §62D.14, 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 the Group.

The Group was audited annually, for the years 2018 through 2020, by the accounting firm of RSM US, LLP ("RSM"). Among the procedures incorporated into this examination was a review of the annual audit work papers prepared by RSM. Certain work papers developed by RSM were relied upon by the examiners and were incorporated into the examiners' work papers.

### **SUMMARY OF SIGNIFICANT FINDINGS**

#### **Current Examination Findings**

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements noted as a result of this examination.

### **STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAMINATION**

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements noted as a result of the prior examination.

### **COMPANY HISTORY**

The Company is a non-profit corporation subject to the provisions of Chapter 317A of the Minnesota Statutes and is exempted from Federal tax pursuant to Section 501 (c) (4) of the Internal Revenue Code of 1986. The Company was granted a certificate of authority to operate as an HMO under the 1973 Health Maintenance Act.

The Company was created by Physicians Health Plan of Greater Minneapolis, a Minnesota non-profit corporation incorporated on December 30, 1974, for the purpose of operating as a health maintenance organization. Since incorporation, the Company has undergone several name changes. The Company merged with HealthSpan Health Systems Corporation on July 27, 1994, to form Allina Health System, and the Company became a first-tier subsidiary of Allina Health System. Control of the Company transferred to Medica Holding Company (“MHC”), a Minnesota non-profit corporation incorporated on December 13, 2001, effective April 30, 2002.

As of December 31, 2020, there were eleven entities in the holding company group including the Company. The Company, Medica Insurance Company (MN) and Medica Health Plans Wisconsin (WI) are the only insurance entities in the holding company, and all three entities were included in this examination.

#### **CORPORATE RECORDS**

The recorded minutes of the meetings held by the Shareholders, Board and committees were reviewed for the Company for the period under examination. The minutes adequately documented approved company transactions, in accordance with the Board’s 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, investments, reserves and other key components of financial statements. The primary location of the corporate records is the Company’s offices at 401 Carlson Parkway, Minnetonka, Minnesota.

#### **MANAGEMENT AND CONTROL**

The Company’s Articles of Incorporation provide that management shall be vested in a Board consisting of not less than five nor more than the maximum number of Directors determined in the Bylaws. The Company’s Amended and Restated Bylaws provide that the management of the Company shall be vested in a Board consisting of no more than fifteen directors. The governance structure and risk management processes occur at the legal entity level. As such, each company in



the Group has its own Board and committees. The Company indicated the following individuals were serving as Directors on December 31, 2020:

**Board of Directors**

<u>Name</u>	<u>Business Affiliation</u>	<u>Director Since</u>
John D. Buck	Corporate executive	2001
Peter H. Kelly, M.D.	Medical Director	2001
John W. Naylor	President	2017
John M. Stanoch	Retired District Court Judge	2016
Esther M. Tomjanovich*	Retired Associate Supreme Court Justice	2001
Mary J. Twinem	Retired corporate executive	2017

\* Resigned from the Company's Board of Directors effective December 31, 2021.

Pursuant to the Company's Bylaws, the officers of the corporation shall consist of a President, a Secretary, a Treasurer, a Chairperson, a Vice Chairperson of the Board, and other officers the sole shareholder deems necessary. The Chairperson and Vice Chairperson are elected by the Board annually from among its members. The President, Secretary, Treasurer and other officers as deemed necessary are appointed by the President of the sole shareholder.

The following principal officers were appointed by the respective Board for each company in the Company and were serving as of December 31, 2020:

**Officers**

<u>Name</u>	<u>Title</u>
John W. Naylor	President
David H. Ellenbogen	Secretary
Mark L. Baird	Treasurer

The Company's Bylaws allow its Board to establish committees of two or more people who need not be Directors to act on its behalf as they deem necessary. As a member of the holding company, the Company is subject to the following MHC committees as of December 31, 2020:

Audit Committee; Community & Public Affairs Committee; Finance Committee, Governance Committee, Personnel & Compensation Committee; and Technology Committee. The Company also has an Independent Medical Committee.

### **AFFILIATED COMPANIES**

The Company is a member of an insurance holding company system. Control of the Company is maintained by its members and is managed by a Board and executive officers. The “ultimate controlling person” in the holding company system is MHC (see organizational chart at the end of this report) and is subject to the registration requirements of Minnesota Statutes, Section 60D.

The following material agreements were in force between the Company and its affiliates:

#### **Administrative Services Agreement**

The Company entered into an Administrative Services Agreement between the Company and MIC effective January 1, 2002. Pursuant to the terms of the agreement, the Company provides administrative services for MIC, including provider relations, provider network development, management and contracting, medical management, communications, finance, sales and marketing member service, human resources, facilities planning, purchasing services, print and telecommunication services, mail distribution, payroll, accounts payable, controllership functions, underwriting, cash management, and bank account management.

In addition to the agreement identified above, the Company paid a \$55,000,000 dividend to its parent during 2018.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2020, the Company was authorized to do business as a health insurance company in the States of Minnesota, North Dakota and South Dakota. Premiums were written in Minnesota and North Dakota during 2020, with approximately 99.7 percent of the premiums written being Minnesota premiums.

## **REINSURANCE**

The Company did not assume any premiums during the period under examination. The state of North Dakota enacted a law designed to stabilize premiums for those buying policies on the individual market by partially reimbursing insurers for high-cost claims effective for the year ended December 31, 2020. The Company receives 75 percent reimbursement for those member claims in the corridor from \$100,000 to \$1,000,000. As of December 31, 2020, the amount owed to the Company as part of this program was approximately \$1,152,000.

## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an 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 companies with Commerce, are reflected in the following: (Note: Failure of the columns to add to the totals reflected in this Report of Examination is due to rounding.)

## MEDICA HEALTH PLANS

### Assets

December 31, 2020

Bonds	\$	291,885,339
Stocks:		
Common stocks		150,194,484
Real Estate:		
Properties occupied by the company		76,182,101
Cash, cash equivalents and short-term investments		51,900,874
Other invested assets		33,424,832
Receivables for securities		2,145,601
Subtotals, cash and invested assets	\$	605,733,231
Investment income due and accrued		1,488,625
Premiums and considerations:		
Uncollected premiums and agents' balances in the course of collection		29,311,576
Accrued retrospective premiums and contracts subject to redetermination		29,527,325
Reinsurance:		
Amounts recoverable from reinsurers		1,151,595
Amounts receivable relating to uninsured plans		9,024,562
Electronic data processing equipment and software		4,304,570
Receivables from parent, subsidiaries and affiliates		12,370,972
Health care and other amounts receivable		10,016,934
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	\$	702,929,390
From Separate Accounts, Segregated Accounts and Protected Cell Accounts		0
Total	\$	<u>702,929,390</u>

**MEDICA HEALTH PLANS**  
 Liabilities, Capital and Surplus  
 December 31, 2020

Claims unpaid	\$	130,438,833
Accrued medical incentive pool and bonus amounts		16,567,681
Unpaid claims adjustment expenses		519,862
Aggregate health policy reserves		34,500,000
Premiums received in advance		1,855,191
General expenses due or accrued		73,072,134
Current federal and foreign income tax payable and interest thereon		5,980
Remittances and items not allocated		3,109,924
Amounts due to parent, subsidiaries and affiliates		8,238,534
Payable for securities		7,708,249
Liability for amounts held under uninsured plans		1,944,398
Aggregate write-ins for liabilities		146,915
Total Liabilities	\$	278,107,701
Unassigned funds (surplus)	\$	424,821,689
Total capital and surplus	\$	424,821,689
Total liabilities, capital and surplus	\$	702,929,390

**MEDICA HEALTH PLANS**  
Statement of Revenue and Expenses  
December 31, 2020

Member Months	855,628
Net premium income	\$ 1,152,768,988
Change in unearned premium reserves and reserve for rate credits	(11,550,000)
Aggregate write-ins for other health care related revenues	399,206
Total Revenues	<u>\$ 1,141,618,194</u>
 <b>Hospital and Medical:</b>	
Hospital/medical benefits	\$ 869,055,146
Other professional services	3,624,281
Emergency room and out-of-area	40,590,859
Prescription drugs	79,868,305
Incentive pool, withhold adjustments and bonus amounts	15,470,653
Subtotal	<u>\$ 1,008,609,244</u>
<b>Less:</b>	
Net reinsurance recoveries	1,151,595
Total hospital and medical	1,007,457,649
Claims adjustment expenses including cost containment expenses	7,238,849
General administrative expenses	68,279,641
Total Underwriting Deductions	<u>\$ 1,082,976,139</u>
Net underwriting gain or (loss)	\$ 58,642,055
Net investment income earned	12,038,961
Net realized capital gains (losses)	6,835,556
Net investment gains (losses)	<u>\$ 18,874,517</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	\$ 77,516,572
Federal and foreign income taxes incurred	(23,842)
Net Income	<u><u>\$ 77,540,414</u></u>

**MEDICA HEALTH PLANS**  
Reconciliation of Capital and Surplus Account  
December 31, 2020

Capital and surplus prior reporting year	\$ 346,613,155
Net income or (loss)	77,540,414
Change in net unrealized capital gains	19,210,092
Change in net deferred income tax	(18,541,972)
Net change in capital and surplus for the year	<u>\$ 78,208,534</u>
Capital and surplus end of reporting year	<u><u>\$ 424,821,689</u></u>



**MEDICA HEALTH PLANS**  
 Comparative Analysis of Changes in Surplus  
 December 31, 2020

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

	<b>Per Annual Statement</b>	<b>Per Examination</b>	<b>Change in Surplus</b>
Capital and Surplus at December 31, 2020 per Company	\$424,861,689		
Assets:			
Total Assets	\$702,929,390	\$702,929,390	\$0
Liabilities:			
Total Liabilities	\$278,107,701	\$278,107,701	<u>\$0</u>
Capital and Surplus at December 31, 2020, per Examination		\$424,821,689	<u>\$0</u>

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

### **Assets**

There were no adjustments to assets during this examination.

### **Liabilities, Capital, and Surplus**

#### **Loss Reserves**

An actuary, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet, as of December 31, 2020, included provisions 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.

Taylor-Walker Consulting, LLC was contracted by Examination Resources to independently test reserves and review work papers provided by the company and concurs with the opinion.

#### **Capital and Surplus**

The capital and surplus amount of \$424,821,689 reported by the Company has been accepted for the purposes of this examination.

### **SUBSEQUENT EVENTS**

MHC entered into a joint venture with SSM Health Care Corporation (“SSM”) on December 1, 2021, creating MS Community JV, LLC; which includes the legal entities Dean Health Insurance, Inc., Dean Health Plan, Inc., SSM Health Insurance Company, and Dean Health Services Company, LLC; and MS Community NFP JV, LLC; which includes the legal entity SSM Health Plan; (collectively “MSJV”). Fifty-five percent of the outstanding shares of MSJV are owned by MHC and 45 percent are owned by SSM.

### **OTHER SIGNIFICANT EVENTS**

On March 11, 2020, The World Health Organization declared the spreading coronavirus (“COVID-19”) outbreak a pandemic. On March 13, 2020, United States (“U.S.”) President Donald J. Trump declared the coronavirus pandemic a national emergency in the 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 affect 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 NAIC 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 the Group regarding the impact of COVID-19 on business operations and the financial position of the Company and no immediate action was deemed necessary at the time of this report.

## CONCLUSION

As a result of this examination, the financial condition of Medica Health Plans as of December 31, 2020 is summarized as follows:

Admitted assets	<u>\$702,929,390</u>
Liabilities	\$278,107,701
Capital and surplus	<u>424,821,689</u>
Total liabilities, capital and surplus	<u>\$702,929,390</u>

Per examination findings, the company met the minimum surplus requirements pursuant to Minnesota Statutes, §62D.042 as of December 31, 2020.

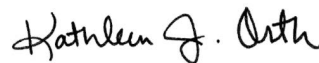
In addition to the undersigned, other representatives of Examination Resources, LLC, and Taylor-Walker Consulting LLC, all appointed to represent the State of Minnesota, participated in this examination.

Respectfully submitted,



Scott R. Kalna, CFE, AMCM  
Examiner-in-Charge  
Examination Resources, LLC

Representing the State of Minnesota,  
Department of Commerce



Kathleen Orth  
Director of Insurance Solvency/Chief Examiner  
Minnesota Department of Commerce

**APPENDIX**

**ORGANIZATIONAL CHART as of DECEMBER 31, 2020**

