



STATE OF MINNESOTA  
DEPARTMENT OF COMMERCE  
ST. PAUL, MINNESOTA  
REPORT OF EXAMINATION  
OF  
**HENNEPIN HEALTH**  
MINNEAPOLIS, MINNESOTA  
NAIC # 52627  
AS OF  
DECEMBER 31, 2017



*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, 2017, of:

**Hennepin Health**  
**NAIC #52627**  
**400 South 4<sup>th</sup> Street, Suite 201**  
**Minneapolis, Minnesota 55415**

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 Hennepin Health, 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: 5/3/2019

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

**Hennepin Health**  
**NAIC #52627**  
**400 South 4<sup>th</sup> Street, Suite 201**  
**Minneapolis, Minnesota 55415**

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, 2017, 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: 5/8/2019

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February 20, 2019

The Honorable Jan K. Malcolm  
Commissioner of Health  
State of Minnesota  
Department of Health  
625 Robert St. N  
PO Box 64975  
St. Paul, MN 55164-0975

The Honorable Steve Kelley  
Commissioner of Commerce  
State of Minnesota  
Department of Commerce  
85 7<sup>th</sup> Place East, Suite 280  
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 affairs and financial condition of:

**Hennepin Health**  
**NAIC #52627**  
**400 South 4<sup>th</sup> Street, Suite 201**  
**Minneapolis, Minnesota 55415**

hereinafter referred to as the "Company." Such Report of Examination is herewith respectfully submitted.



## SCOPE OF EXAMINATION

We have performed our full-scope risk-focused statutory financial condition examination of Hennepin Health (Company) pursuant to the Minnesota Department of Commerce (Commerce) Examination Order #18-006. The examination was conducted on behalf of the State of Minnesota Department of Health 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). 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 on behalf of Health. The last examination was completed as of December 31, 2014. This examination covers the period of January 1, 2015, through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) as adopted by the NAIC, 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 was identified, the impact of such adjustment is documented separately following the Company's financial statements presented within this Report of Examination.

This Report of Examination 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 Report of Examination but were separately communicated to other regulators and/or the Company.

RSM US LLP, an independent Certified Public Accountant (CPA), audited the Company's statutory financial statements annually, for the years 2015 through 2017. Among the procedures incorporated into this examination was a review of the annual audit work papers prepared by the CPA. Certain work papers developed by RSM US LLP were relied upon by the examiners and were incorporated into the examiners' work papers.

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

The prior examination of the Company resulted in no adverse regulatory findings, with no recommendations included in the Report of Examination as of December 31, 2014.

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, significant non-compliance findings or material changes to the financial statements as a result of examination procedures performed.

## **COMPANY HISTORY**

The Minnesota Department of Health issued Hennepin County, Minnesota (hereinafter referred to as the County) a certificate of authority on October 19, 1983, in accordance with Minnesota Statutes, section 62D, to operate a health maintenance organization (hereinafter referred to as an HMO). The County, a metropolitan governmental unit of the State of Minnesota, subsequently created Hennepin Health (then named Metropolitan Health Plan) as an enterprise fund within its governmental system which commenced business as an HMO on June 1, 1984. There is no separate legal entity for the HMO except as part of Hennepin County. The name was changed from Metropolitan Health Plan to Hennepin Health on September 2, 2016, to associate the HMO with the Hennepin Healthcare System brand name.

## **MANAGEMENT AND CONTROL**

### **CORPORATE GOVERNANCE**

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered or controlled. The Board of Directors and management are the principal players in the Company's corporate governance and are tasked with an organization's risk management activities and with establishing a controlled environment. The control environment represents an organization's first line of defense to mitigate all risks, including the risk of financial reporting errors.

Corporate governance is facilitated by the Company's Board of Directors, who are responsible for the control and management of the affairs, property, and interests of the Company. The Board appoints executive officers to conduct the day-to-day operations of the Company.

### **COMMISSIONERS**

The Hennepin County Board of Commissioners, which consisted of the following individuals at December 31, 2017, governs Hennepin Health:

<u>Name and Location</u>	<u>First Elected</u>	<u>Principal Occupation</u>
Mike Opat Robbinsdale, MN	1992	County Commissioner
Linda Higgins Minneapolis, MN	2012	County Commissioner
Marion Greene Minneapolis, MN	2014	County Commissioner, Board Chair
Peter McLaughlin Minneapolis, MN	1991	County Commissioner
Debbie Goettel Richfield, MN	2016	County Commissioner
Jan Callison Minnetonka, MN	2008	County Commissioner
Jeff Johnson Plymouth, MN	2009	County Commissioner

### **OFFICERS**

In accordance with the Company's bylaws, the board of commissioners appointed the following officers who were serving as of December 31, 2017:

<u>Name</u>	<u>Title</u>
Shannon Mayer*	Chief Executive Officer
Abdirahman Abdi	Chief Financial Officer
Marc Manley, MD	Medical Director
Mary Rowan	Director of Operations
Hillary Hume	Director of Clinical Innovation

\*Ms. Mayer resigned effective April 20, 2018, and was immediately replaced by Anne Kanyusik Yoakum, former Chief Compliance Officer, as Interim Chief Executive Officer. The County Board of Commissioners approved Ms. Yoakum's permanent appointment on October 28, 2018.



## **TERRITORY AND PLAN OF OPERATION**

Hennepin Health provides healthcare services to eligible Minnesota Medicaid recipients in an Accountable Care Organization (ACO) capacity. Through a collaboration agreement with Hennepin Healthcare System, Inc., also known as Hennepin County Medical Center (HCMC), Hennepin County Human Services and Public Health Department (HSPHD), and NorthPoint Health & Wellness Clinic (collectively referred to as the ACO Partners) members are provided with both health and social services.

As the HMO, Hennepin Health provides comprehensive coverage to enrolled recipients and their dependents who are eligible for state-funded health programs including Prepaid Medical Assistant Program (PMAP), MinnesotaCare (MNCare) and Special Needs Basic Care (SNBC). Funding is provided through capitation payments received through a contract with the State of Minnesota's Department of Human Services (DHS). The PMAP/MNCare contract includes a risk-sharing arrangement between the ACO Partners and Hennepin Health.

## **REINSURANCE**

Reinsurance coverage for inpatient claims is provided under a reinsurance agreement with a major international carrier whose fees are charged at a fixed rate per member, per month. The Company retains the first \$400,000 of risk per each PMAP-Adults without children and SNBC Medicare member and \$350,000 per each PMAP-Families with children and MNCare member per year. The reinsurer covers a scheduled percentage of the excess risk to a lifetime maximum of \$2,000,000 per member.

## **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 is documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company 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.)

**HENNEPIN HEALTH  
ASSETS  
AS OF DECEMBER 31, 2017**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Real estate - properties occupied by the company	\$ 1,166,163	\$ -	\$ 1,166,163
Cash and short-term investments	<u>85,429,218</u>	-	<u>85,429,218</u>
Cash and invested assets	<u>86,595,381</u>	-	<u>86,595,381</u>
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	17,688,769	-	17,688,769
Amounts recoverable from reinsurers	65,397	-	65,397
Furniture and equipment	665,575	-	665,575
Health care and other amounts receivable	1,724,471	1,145,371	579,100
Prepaid expense	<u>19,451</u>	<u>19,451</u>	<u>-</u>
<b>TOTAL</b>	<u>\$ 106,759,044</u>	<u>\$ 1,164,822</u>	<u>\$ 105,594,222</u>

**HENNEPIN HEALTH  
LIABILITIES, SURPLUS, AND OTHER FUNDS  
AS OF DECEMBER 31, 2017**

Claims unpaid	\$ 31,214,159
Accrued medical incentive pool and bonus amounts	11,836,234
Unpaid claims adjustment expenses	1,135,000
Premiums received in advance	17,941,158
General expenses due or accrued	<u>3,667,283</u>
Total liabilities	<u>65,793,834</u>
Unassigned funds	<u>39,800,388</u>
TOTAL	<u>\$ 105,594,222</u>

**HENNEPIN HEALTH  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

Member Months	307,304
Net premium income	<u>\$ 231,463,693</u>
Hospital and Medical	
Hospital/medical benefits	127,310,261
Other professional services	10,464,214
Emergency room and out-of-area	13,688,004
Prescription drugs	30,248,882
Other hospital and medical	5,596,636
Incentive pool, withhold adjustments and bonus amounts	<u>12,304,861</u>
Subtotal	<u>199,612,858</u>
Less:	
Net reinsurance recoveries	<u>65,397</u>
Total Hospital and Medical	199,547,461
Claims adjustment expenses, including \$5,878,930 cost containment	13,842,223
General administrative expenses	<u>13,948,523</u>
Total Underwriting Deductions	<u>227,338,207</u>
Net underwriting gain	<u>4,125,486</u>
Net investment income earned	<u>648,044</u>
Net investment gains	<u>648,044</u>
 NET INCOME	 <u><u>\$ 4,773,530</u></u>



**HENNEPIN HEALTH  
CAPITAL AND SURPLUS  
AS OF DECEMBER 31, 2017**

Capital and surplus, December 31, 2016		\$ 34,566,999
Net income	\$ 4,773,530	
Change in nonadmitted assets	459,859	
Change in surplus as regards policyholders for the year		<u>5,233,389</u>
Capital and surplus, December 31, 2017		<u><u>\$ 39,800,388</u></u>

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

No examination adjustments to the financial statements or commentary were deemed necessary as a result of the examination.

Per examination findings, the Company met the minimum surplus requirements pursuant to Minnesota Statutes, Chapter 62D as of December 31, 2017.

## **SUBSEQUENT EVENTS**

There were no matters or events identified subsequent to December 31, 2017, through the date of this report that would materially affect the financial statements or operations of the Company.

## ACKNOWLEDGMENTS

In addition to the undersigned, representatives of INS Services, Inc. also participated in this examination.

Respectfully submitted,

*Cheryl Plozizka*

Cheryl Plozizka, CPA, CFE, ARM-E  
Examiner-in-Charge  
INS Regulatory Insurance Services, Inc.  
Representing the State of Minnesota,  
Department of Commerce