

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
ST. PAUL, MINNESOTA
EXAMINATION REPORT
OF
PRIMEWEST HEALTH
ALEXANDRIA, MINNESOTA
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:

**PrimeWest Health
3905 Dakota Street
Alexandria, MN 56308**

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 PrimeWest 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: March 17, 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

**PrimeWest Health
3905 Dakota Street
Alexandria, MN 56308**

a county based purchasing organization 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: March 17, 2020

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February 3, 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:

PrimeWest Health
3905 Dakota Street
Alexandria, MN 56308

(hereinafter referred to as "PWH" 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 #19-008. The examination of the Company was performed as a risk-focused examination 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 Commissioners 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 health plan companies on behalf of Health. Examination Order #19-008 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 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 Baker Tilly Virchow Krause, LLP. 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

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

PWH was created on December 1, 1998, under Minnesota Statutes §471.59 and in accordance with Minnesota Statutes §256B.692.

Under contracts with the Minnesota Department of Human Services (“DHS”) and the Center for Medicare and Medicaid Services (“CMS”), PWH is authorized to provide comprehensive health maintenance services to persons enrolled under public healthcare programs in each of the thirteen member counties, as noted in the Territory and Plan of Operation section below.

MANAGEMENT AND CONTROL

PWH is governed by the PrimeWest Health Joint Powers Board (Board), consisting of one primary representative County Commissioner and one alternate representative County Commissioner from each participating county. The alternate County Commissioner represents their county on the Board in the absence of the appointed County Commissioner representative. The alternate County Commissioner succeeds the representative County Commissioner when the representative County Commissioner ceases to participate or no longer meets the eligibility requirements of membership on the Board.

PWH's Chief Executive Officer and Chief Medical Director are ex-officio members of the Board. Each county is allowed only one vote on each PWH governance and operational matter requiring Board approval, authorization, or adoption. The Board meets on a monthly basis.

The Board consisted of the following thirteen County Commissioners as of December 31, 2018:

<u>Board Members:</u>	<u>County</u>
Richard Anderson	Beltrami
Brent Olson	Big Stone
John Nelson	Clearwater
Jerry Rapp	Douglas
Peter Hoff	Grant
Charlene Christianson	Hubbard
Ron Schimanski	McLeod
Mike Huberty	Meeker
Les Nath	Pipestone
Gordy Wagner	Pope
John Stahl	Renville
Jeanne Ennen	Stevens
David Salberg	Traverse

Committees of the Joint Powers Board of Directors

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

- Executive Committee
- Finance and Contracting Committee:
- Quality and Care Coordination Committee
- Compliance and Data Privacy & Security Oversight Committee
- Legislative Committee

Officers as of December 31, 2018

<u>Name</u>	<u>Position</u>
James Przybilla	Chief Executive Officer
Alexander Tava	Chief Financial Officer

TERRITORY AND PLAN OF OPERATION

PWH is authorized to provide comprehensive health maintenance services to persons enrolled under public healthcare programs in member counties under contracts with DHS and CMS. PWH had over 41,000 members as of December 31, 2018 and offered services in the following thirteen counties: Beltrami, Big Stone, Clearwater, Douglas, Grant, Hubbard, McLeod, Meeker, Pipestone, Pope, Renville, Stevens and Traverse. PWH offers the following programs to enrollees in its service area: Medical Assistance, MinnesotaCare, Minnesota Senior Care Plus, Minnesota Senior Health Options, Special Needs BasicCare and Medicare Parts C and D.

REINSURANCE

PWH has an excess of loss reinsurance coverage with IronShore Indemnity Inc. (“IronShore”) with a \$250,000 retention level. PWH retains 10% of losses in excess of \$200,000 up to \$2,000,000 per member per year. The agreement covers inpatient hospital services only. PWH ceded

approximately \$1,336,000 of premiums to IronShore in 2018. In 2019, the reinsurance agreement coverage was expanded to cover all types of service and the deductible increased to \$400,000.

Cirdan Health Systems and Consulting manages PWH's reinsurance program including large claim tracking, claim submission, contracting and renewals and regular assessments of reinsurance structure, value and performance.

PWH 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 PWH with Commerce, are reflected in the following:

**PRIMEWEST HEALTH
STATEMENT OF ASSETS
DECEMBER 31, 2018**

ASSETS	
Bonds	\$ 7,543,391
Properties occupied by company	5,008,856
Properties held for sale	517,617
Cash and short-term Investments	<u>74,251,531</u>
Cash and invested assets	\$ 90,321,395
Investment income due and accrued	165,544
Uncollected premiums and agents' balances	19,053,553
Amounts recoverable from reinsurers	801,411
Electronic data processing equipment and software	33,993
Furniture and equipment, including healthcare delivery assets	7,084
Healthcare and other amounts receivable	526,000
Total Assets	<u>\$ 110,908,980</u>

**PRIMEWEST HEALTH
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2018**

LIABILITIES	
Claims unpaid	\$ 29,078,942
Unpaid claims adjustment expense	325,000
Aggregate health policy reserves	2,059,266
Premiums received in advance	17,991,333
General Expenses due or accrued	2,337,018
Liabilities for amounts held under uninsured plans	791,304
Aggregate write-ins for liabilities	<u>1,543,702</u>
Total Liabilities	\$ 54,126,565
Gross Paid in and Contributed Surplus	\$ 3,500,001
Unassigned Funds	<u>53,282,414</u>
Surplus	\$ 56,782,415
TOTAL Liabilities and Surplus	<u>\$ 110,908,980</u>

**PRIMEWEST HEALTH
STATEMENT OF REVENUE AND EXPENSES
DECEMBER 31, 2018**

Member months	511,276
Net premium income	\$ 301,222,596
Aggregate write-ins for non-health care related revenues	<u>3,584,873</u>
Total Revenue	\$ 294,553,779
Hospital/medical benefits	\$ 304,807,469
Other professional services	192,393,033
Emergency room and out-of-area	9,443,678
Prescription drugs	39,973,337
Aggregate write-ins for other hospital and medical	<u>6,249,376</u>
Sub-total	\$ 291,924,184
Net reinsurance recoveries	<u>801,908</u>
Total hospital and medical	\$ 291,122,276
Claims adjustment expenses	\$ 12,299,766
General administrative expenses	10,596,822
Increase in reserves for life and accident and health contracts	<u>1,642,248</u>
Total Underwriting	\$ 315,661,112
Net underwriting gain	<u>(\$ 10,853,642)</u>
Net investment income earned	298,256
Net realized gains	(27,140)
NET INCOME	<u>(\$ 10,582,527)</u>

**PRIMEWEST HEALTH
RECONCILIATION OF CAPITAL AND SURPLUS
DECEMBER 31, 2018**

SURPLUS ACCOUNT	
Surplus, December 31, previous year	\$ 66,198,795
Net income	(10,852,527)
Change in nonadmitted assets	<u>1,166,147</u>
Change in surplus for year	(\$ 9,416,380)
Surplus as of 12/31/18	<u>\$ 56,782,415</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; however, process improvement recommendations were made.

SUBSEQUENT EVENTS

Effective January 1, 2020, PWH was composed of 24 counties. The following eleven counties were added: Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, Lincoln, Lyon, Nobles, Redwood, Swift, and Yellow Medicine. Expansion into the additional counties falls under County Based Purchasing Law, which does not require a procurement to service members in the expansion counties. This gives new enrollees in those counties a choice for health plan providers.

OTHER SIGNIFICANT EVENTS

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

CONCLUSION

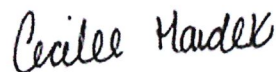
As a result of this examination, the financial condition of PrimeWest Health as of December 31, 2018 is summarized as follows:

Admitted assets	<u>\$110,908,980</u>
Liabilities	\$54,126,565
Capital and surplus	<u>56,782,415</u>
Total liabilities, capital, and surplus	<u>\$110,908,980</u>

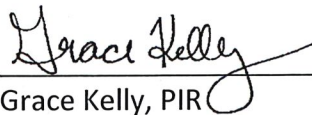
PWH met the minimum surplus requirements pursuant to Minnesota Statutes §256B.692 as of December 31, 2018.

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, PIR
Assistant Chief Examiner
Minnesota Department of Commerce