



STATE OF MINNESOTA

DEPARTMENT OF COMMERCE

SAINT PAUL, MINNESOTA

EXAMINATION REPORT

OF

SANFORD HEALTH PLAN OF MINNESOTA

SIoux FALLS, SOUTH DAKOTA

NAIC # 95725

AS OF

DECEMBER 31, 2015



Protecting, Maintaining and Improving the Health of All Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2015 of:

**SANFORD HEALTH PLAN OF MINNESOTA
NAIC #95725
300 Cherapa Place #201
Sioux Falls, South Dakota 57103**

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 Sanford Health Plan of 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, appearing to read 'Edward P. Ehlinger', written over a horizontal line. To the right of the signature, the word 'for' is written in a cursive script.

Edward P. Ehlinger, MD, MSPH
Commissioner

Dated: 07/14/2017

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

**SANFORD HEALTH PLAN OF MINNESOTA
NAIC #95725
300 Cherapa Place #201
Sioux Falls, South Dakota 57103**

a health maintenance 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, 2015 as determined by a comprehensive examination made in accordance with Minnesota Statutes Section 62D.024. 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 Life
Actuary

Dated: 6/21/17

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March 27, 2017

Honorable Mike Rothman
Commissioner of Commerce
Minnesota Department of Commerce
85 7th Place East, Suite 280
St. Paul, Minnesota 55101-2198

Honorable Edward Ehlinger, M.D.
Commissioner of Health
Minnesota Department of Health
625 N. Robert St.
St. Paul, Minnesota 55155-2538

Dear 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

SANFORD HEALTH PLAN OF MINNESOTA

NAIC #95725

300 Cherapa Place #201
Sioux Falls, South Dakota 57103

(hereinafter referred to as "SHPMN" or "the Company")

The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination of Sanford Health Plan of Minnesota (“SHPMN” or “the Company”) was a comprehensive multi-state 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 a financial examination of Health Maintenance Organizations on behalf of Health. The examination was conducted as a coordinated examination concurrently with the financial examination of Sanford Health Plan (“SHP”), by the state of South Dakota, with South Dakota serving as the lead state in the coordinated examination. Examination Order #16-012 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 last exam was completed as of December 31, 2012. This full-scope examination covers the three-year period from January 1, 2013, through December 31, 2015. In accordance with the Handbook, the examination included significant transactions and/or events occurring subsequent to December 31, 2015 that were noted during the course of this examination. Key activities of the Company which was reviewed as part of the examination included Investments, Premiums/Underwriting, Claims Processing, Related Parties/Affiliated Transactions, and Actuarial Items.

We conducted our examination in accordance with the Handbook as adopted by the National Association of Insurance Commissioners (NAIC), 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 SHPMN by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, 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 Company 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 Company’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 Company.

The Company was audited annually, for the years 2013 through 2015, by the accounting firm of Deloitte and Touche (D&T or the CPA). Among the procedures incorporated into this examination was a review of the annual audit work papers prepared by D&T. Certain work papers developed by the CPA were relied upon by the examiners and were incorporated into the examiners' work papers.

STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAM

The prior examination report contained no findings or adjustments.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in no reportable findings or recommendations.

COMPANY HISTORY

General

SHPMN was incorporated on July 30, 1997 and began operations on January 1, 1998. SHPMN is a taxable nonprofit HMO licensed to operate in Minnesota. It offers commercial and Medicare supplement products to approximately 600 members throughout Minnesota. SHPMN is a wholly owned subsidiary of Sanford Health, one of the largest fully integrated health care organizations in the nation with 43 hospitals, nearly 250 clinics, and 22 long term care facilities in nine states and three countries. Sanford Health provides clinical care to patients, research, and health care coverage. SHPMN has entered into contracts with physicians, hospitals and other health care providers pursuant to which such providers deliver medical care to its enrollees.

MANAGEMENT AND CONTROL

Corporate Governance

SHPMN is overseen by a Board of Directors that reports up to the Board of Trustees at Sanford Health. Other than "consumer directors", Board members are elected by the Sanford Health Board of Trustees. Board members elected and serving as of December 31, 2015, were as follows:

Name and Location

Principal Occupation

Clayton Gerald Van Balen MD
1305 W. 18th Street
Sioux Falls, SD 57105

Director, Enterprise Employee Health

Robert Bruse St. Michel
137 Main Avenue South
Rugby, ND 58368

Retail Store Owner, St. Michel Furniture, Inc.

Steven Kenneth Watkins
PO Box 85210
Sioux Falls, SD 57118

President/CEO, Hot Stuff Foods

Larry Lee Heidebrink
PO Box 328
Adrian, MN 56110

Retired

Rich Gerald Adcock
2301 East 60th Street North
Sioux Falls, SD 57104

Chief Innovation Officer, Sanford Health

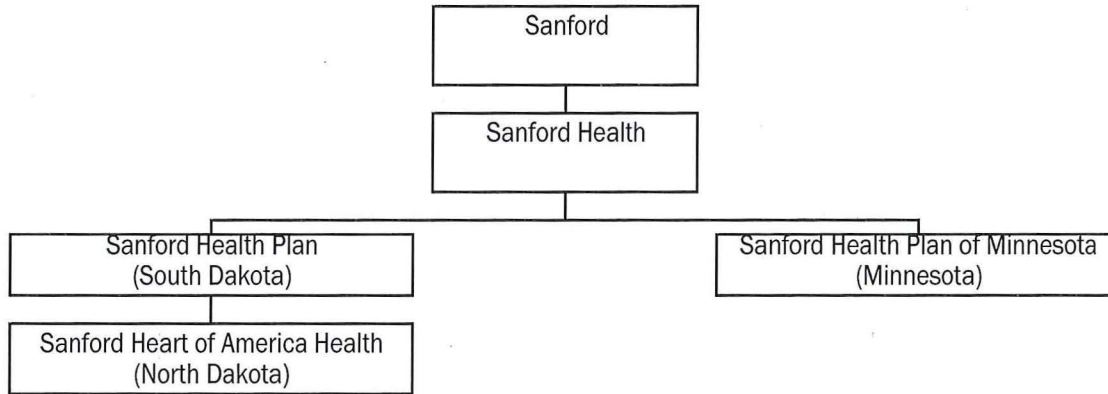
Officers as of December 31, 2015:

Kelby K. Krabbenhoft, Chief Executive Officer
Kirk J. Zimmer, President
Rich G. Adcock, Executive Vice President
Jeff D. Sandene, Chief Financial Officer*

* resigned effective January 13, 2017 and replaced by Regina M. Bergh, Vice President of Finance on April 11, 2017.

Corporate Structure

As previously noted, SHPMN is a wholly-owned subsidiary of Sanford Health. Other health plans in the group include Sanford Health Plan (SHP) and Sanford Heart of America Health Plan (SHAHP).



Related Party Agreements & Transactions

SHPMN received a capital infusion of \$900,000 from Sanford Health in 2015 to satisfy SHPMN's capital and surplus requirements.

Effective January 1, 1998, SHP agreed to provide administrative services, including claims processing, marketing, quality assurance, financial accounting, insurance, legal, payroll, and data processing, to SHPMN. Expenses are allocated monthly to SHPMN based on a percentage of overall membership and are reported as a reduction to general administrative expenses and claim adjustment expenses in the statutory-basis financial statements.

TERRITORY AND PLAN OF OPERATION

SHPMN offers comprehensive group health and Medicare Supplement products to approximately 600 members throughout Minnesota. Its products are marketed through local licensed agents, through a Sales Management Agreement with Great Plains Brokerage, Inc. All operations are conducted in Sioux Falls, South Dakota.

REINSURANCE

SHP, along with SHPMN and SHAHP, and the self-insured health plan of Sanford Health, collectively entered into a stop-loss reinsurance agreement with American National Insurance Company (ANIC), to limit losses on individual claims in excess of scheduled deductibles (\$250,000 or \$500,000) for eligible medical and hospital services of any

enrollee per contract year. Coinsurance is provided at 90% and the agreement provides for an experience refund of 50% of the profit, if any, calculated in accordance with a formula set forth in the agreement (deficits are not carried forward to subsequent calculations). ANIC is a Texas domiciled insurer that is authorized to transact business in Minnesota.

The reinsurance agreement with ANIC provides for risk transfer and among other provisions, contains insolvency, arbitration, continuation of coverage and coverage conversion provisions.

SHPMN does not assume any reinsurance.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the company with the Minnesota Department of Commerce and Minnesota Department of Health and present the financial condition of the company for the period ending December 31, 2015. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

SANFORD HEALTH PLAN OF MINNESOTA
Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2015
(in 000)

ASSETS	
Cash and short-term Investments	\$ 2,391
Cash and invested assets	\$ 2,391
Investment income due and accrued	0
Amounts recoverable from reinsurers	<u>101</u>
Total Assets	<u>\$ 2,493</u>
LIABILITIES	
Claims unpaid	\$ 463
Unpaid claims adjustment expense	9
Aggregate health policy reserves	73
Premiums received in advance	57
General Expenses due or accrued	145
Amounts due to parent, subsidiaries or affiliates	<u>29</u>
Total Liabilities	\$ 776
Gross Paid in and Contributed Surplus	\$ 4,659
Unassigned Funds	<u>(2,943)</u>
Surplus	\$ 1,716
Total Liabilities and Surplus	<u>\$ 2,493</u>

SANFORD HEALTH PLAN OF MINNESOTA
Statement of Operations
December 31, 2015
(in 000)

Member months	7
Net premium income	<u>\$ 2,618</u>
Total Revenue	<u>\$ 2,618</u>
Hospital/medical benefits	\$ 1,782
Other professional services	639
Outside referrals	144
Emergency room and out-of-area	114
Prescription drugs	<u>345</u>
Sub-total	<u>\$ 3,023</u>
Net reinsurance recoveries	<u>401</u>
Total hospital and medical	<u>\$ 2,621</u>
Claims adjustment expenses	\$ 53
General administrative expenses	351
Increase in reserves for life and accident and health contracts	<u>(8)</u>
Total Underwriting	<u>\$ 3,018</u>
Net underwriting gain (loss)	<u>\$ (400)</u>
Net investment income earned	<u>(3)</u>
NET INCOME	<u>\$ (403)</u>
SURPLUS ACCOUNT	
Surplus, December 31, previous year	\$ 1,228
Net income or (loss)	(403)
Change in non-admitted assets	(9)
Paid-in surplus	<u>900</u>
Change in surplus for year	<u>\$ 488</u>
Surplus as of 12/31/15	<u>\$ 1,716</u>

SANFORD HEALTH PLAN OF MINNESOTA
Statement of Cash Flow
December 31, 2015
(in 000)

Cash from operations:	
Premiums collected net of reinsurance	\$ 2,640
Net investment income or (loss)	(3)
Miscellaneous income	4
Total	\$ 2,641
Benefit and loss related payments	\$ 2,497
Commissions, expense paid and aggregate write-ins for deductions	396
Total	<u>\$ 2,892</u>
Net cash from operations	\$ (251)
Cash from investments:	
Bonds	\$ 0
Total investment proceeds	\$ 0
Cost of investments acquired:	
Bonds	\$ 0
Total investments acquired	\$ 0
Net cash from investments	<u>\$ 0</u>
Capital and Surplus paid in	\$ 900
Other cash provided (applied)	(3)
Net cash from financing and miscellaneous	<u>\$ 897</u>
Net change in cash, cash equivalents, and short-term investments	<u>\$ 646</u>
Cash and short-term investments:	
Beginning	\$ 1,745
Ending	<u>\$ 2,391</u>

SANFORD HEALTH PLAN OF MINNESOTA
Comparative Analysis of Changes in Surplus
December 31, 2015

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

	Per Annual Statement	Per Examination	Change in Surplus
Total Assets (in 000)	\$2,492,680	\$2,492,680	\$0
Total Liabilities (in 000)	\$776,419	\$776,419	\$0
Surplus (in 000) at December 31, 2015	\$1,716,261	\$1,716,261	\$0

SUBSEQUENT EVENTS

No significant subsequent events were noted.

CONCLUSION

As a result of this examination, the financial condition of Sanford Health Plan of Minnesota as of December 31, 2015 is summarized as follows:

Admitted assets	<u>\$2,492,680</u>
Liabilities	\$ 776,419
Surplus	<u>\$1,716,261</u>
Total liabilities and surplus	<u>\$2,492,680</u>

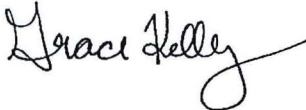
Per examination findings, the Plan met the minimum surplus requirements pursuant to Minnesota Statutes, Section 62D.042 as of December 31, 2015.

In addition to the undersigned, Grace Kelly, State of Minnesota Assistant Chief Examiner participated in this examination.

Respectfully submitted,



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



Grace Kelly, APIR
Assistant Chief Examiner
Minnesota Department of Commerce