



STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
ST. PAUL, MINNESOTA
EXAMINATION REPORT
OF
UCARE MINNESOTA
MINNEAPOLIS, MINNESOTA
NAIC # 52629
AS OF
DECEMBER 31, 2016



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, 2016, of:

**UCARE MINNESOTA
NAIC #52629
500 Stinson Boulevard NE
Minneapolis, MN 55413**

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 UCare, 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



By: Gilbert Acevedo
Assistant Commissioner

Dated: _____

4/25/2018

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

**UCARE MINNESOTA
NAIC #52629
500 Stinson Boulevard NE
Minneapolis, MN 55413**

an 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, 2016, 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.

JESSICA LOOMAN
Commissioner



By: Frederick Andersen
Acting Deputy Commissioner and Life Actuary

Dated: 4/26/18

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January 30, 2018

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

Honorable Jan Malcolm
Commissioner of Health
Minnesota Department of Health
625 N. Robert Street
St. Paul, MN 55155-2538

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

UCARE MINNESOTA
NAIC #52629
500 Stinson Boulevard NE
Minneapolis, MN 55413

(hereinafter referred to as UCare or the Company)

The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination was a comprehensive examination, 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 the Minnesota Department of Health. Examination Order #17-008 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 last exam was completed as of December 31, 2013. This full-scope examination covers the three-year period from January 1, 2014, through December 31, 2016. In accordance with the Handbook, the examination included significant transactions and/or events occurring subsequent to December 31, 2016, which were noted during the course of this examination. Key activities of the Company, which were reviewed as part of the examination, included investments, premiums and underwriting, reinsurance and reserves.

We conducted our examination in accordance with the NAIC Financial Condition Examiners 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 UCare 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 2014 through 2016, by the accounting firm of CliftonLarsonAllen (the CPA or CLA). Among the procedures incorporated into this

examination was a review of the annual audit work papers prepared by CLA. Certain work papers developed by the CPA were relied upon by us and were incorporated into the examiners' work papers.

STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAM

The prior examination contained no findings and no adjustments.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in no reportable finding or recommendations.

COMPANY HISTORY

The Company was established, in 1984, by the Department of Family Practice at the University of Minnesota Medical School. On September 22, 1989, the Minnesota Department of Health issued the Company a certificate of authority, in accordance with Minnesota Statutes, section 62D, to operate as a not-for-profit health maintenance organization.

The Company has a subsidiary, UCare Health, Inc. (formerly UCare Wisconsin). UCare Health is a nonprofit service insurance corporation licensed in the state of Wisconsin and Minnesota (licensed in November of 2012). The Company is also the parent of a wholly owned nonprofit corporation called, UCare Foundation, formed to support family medicine research and education through grants. UCare Foundation is not an insurance-related organization.

The Company did not receive any surplus contributions nor did it pay any dividends during the period under examination.

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 risks 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.

BOARD OF DIRECTORS AND OFFICERS

On December 31, 2016, the Board of Directors of the Company consisted of the following:

<u>Name</u>	<u>Title</u>
Macaran Baird M.D.*	Chair
Patricia Adam M.D.	Physician Director
Charity Bennett	Consumer Director
Mirella Ceja-Orozco	Consumer Director
Catherine Godlewski	Medical School/Dept. of Family Medicine Director
John Gross	Consumer Director
Peter Jay Kiedrowski	At-Large Director
Teresa McCarthy M.D.	Physician Director
Bert McKasy	Consumer Director
James Miller	Consumer Director
Peter Mitsch	Medical School/Dept. of Family Medicine Director
William Roberts M.D.	Physician Director
Lance Teachworth	Consumer Director
James Van Vooren M.D.	Physician Director
Michael Wootten M.D.	Physician Director

*Macaran Baird retired from the Board of Directors in October 2017; a permanent replacement was named at the time of his retirement. Refer to the Subsequent Events section below.

At December 31, 2016, the principal officers of the Company were:

<u>Name</u>	<u>Position</u>
James Eppel Jr**	President & CEO
Mark Traynor	Secretary
Beth Monsrud	Treasurer
Hilary Marden-Resnik	SVP Chief Administration Officer
Ghitiann Worcester	SVP Chief Marketing Officer
Lawrence Lee M.D.	Chief Medical Officer

**James Eppel Jr resigned in April 2017; a permanent replacement was named in October 2017. Refer to the Subsequent Events section below.

CORPORATE ORGANIZATION

The Company is the “Ultimate Controlling Person” within a Minnesota-domiciled holding company system. Refer to the organizational chart in Appendix A.

The downstream affiliated company is UCare Health, Inc., a Wisconsin domiciled non-profit service insurance corporation. The Company has no stockholders nor is it subject to the control of any other organization.

TERRITORY AND PLAN OF OPERATION

The Company is authorized in Minnesota as a health maintenance organization.

The Company contracts with the Minnesota Department of Human Services (“DHS”) and the Centers for Medicare and Medicaid Services (“CMS”) to provide health care services to qualified enrollees in certain DHS and CMS programs. The Company also offers individual benefit plans in conjunction with the Medicare Advantage Programs. The Company is certified in 79 counties throughout Minnesota, with the most significant enrollment in the Twin Cities metropolitan area.

The Company receives monthly capitation payments from DHS and CMS for enrollees in the government-sponsored plans. Medicare individual benefit plan premiums are billed directly to the contract holders.

The Company contracts out to third-party administrators the pharmacy, dental and behavioral

health aspects of the programs. The pharmacy and dental administrators also process and pay claims.

Beginning in 2014, the Company began offering commercial products through the state MNSure insurance exchange.

REINSURANCE

ASSUMED

The Company does not assume any business.

CEDED

The Company cedes excess scheduled risks on a per member per year basis to RGA Reinsurance Company, an A.M. Best "A+" rated reinsurance carrier that is authorized in the State of Minnesota. Under the terms of the agreement, RGA will reimburse the Company at 90% of the cost of each enrollee's annual inpatient services in excess of the deductible, up to a lifetime limitation of \$2,000,000 per enrollee.

During the exam period, the Company also participated in a transitional reinsurance program established by CMS to stabilize premiums in the individual market inside and outside of the exchange marketplace. This program reimbursed the Company at 50% the cost of each enrollee's annual medical and pharmacy services in excess of the deductible up to \$80,000. Reimbursement at 50% the cost above the deductible was subject to available funds in the National Reinsurance Pool. If funds were insufficient, reinsurance recoveries were reduced on a pro-rata basis.

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Capital and Surplus, and the related statutory Statement of Revenue and Expenses and Statement of Cash Flow for the year ended December 31, 2016. The financial statements are based on the statutory financial statements filed by the Company with Commerce and present the financial condition of the Company for the period ending December 31, 2016. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

UCARE MINNESOTA
Statement of Assets, Liabilities, Capital and Surplus
December 31, 2016

ASSETS	
Bonds	\$533,351,403
Common Stocks	100,094,081
Properties Occupied by the Company	24,560,642
Cash and Short-term Investments	<u>204,138,659</u>
Cash and Invested Assets	862,144,785
Investment Income Due and Accrued	2,133,333
Uncollected Premiums and Agents' Balances	8,633,482
Deferred Premiums, Agents' Balances, and Installments	43,734,996
Accrued Retrospective Premiums	123,408
Amounts Recoverable from Reinsurers	2,560,485
Amounts Receivable Relating to Uninsured Plans	8,039,024
Electronic Data Processing Equipment and Software	10,385,448
Health Care and Other Amounts Receivable	<u>775,094</u>
Total Assets	<u>\$938,530,055</u>
LIABILITIES	
Claims Unpaid	\$214,169,165
Accrued Medical Incentive Pool and Bonus Amounts	9,140,246
Unpaid Claims Adjustment Expenses	4,673,548
Aggregate Health Policy Reserves	68,744,566
Premiums Received in Advance	73,658,639
General Expenses Due or Accrued	27,415,978
Amounts Due to Parent, Subsidiaries, and Affiliates	278,877
Payable for Securities	596,536
Aggregate Write-ins for Liabilities	<u>23,691,299</u>
Total Liabilities	<u>\$422,368,854</u>
Unassigned Funds (Surplus)	<u>\$516,161,201</u>
Surplus	<u>\$516,161,201</u>
TOTAL	<u>\$938,530,055</u>

UCARE MINNESOTA
Statement of Revenue and Expenses
December 31, 2016

Net Premium Income	\$1,686,189,115
Aggregate Write-Ins for Other Health Care Related Revenues	41,157
Aggregate Write-Ins for Other Non-Health Revenues	446,624
Total Revenues	1,686,676,896
Hospital/Medical Benefits	732,350,100
Other Professional Services	487,445,309
Outside Referrals	74,140,729
Emergency Room and Out-of-Area	89,418,051
Prescription Drugs	186,184,967
Aggregate Write-Ins for Other Hospital and Medical	(1,060,000)
Incentive Pool, Withhold Adjustments and Bonus Amounts	<u>8,950,221</u>
Subtotal	1,577,429,377
Net Reinsurance Recoveries	<u>3,973,734</u>
Total Hospital/Medical	1,573,455,643
Claims Adjustment Expenses, including Cost Containment Expenses	44,068,975
General Administrative Expenses	117,935,795
Increase in Reserves	<u>(5,464,525)</u>
Total Underwriting Deductions	1,729,995,888
Net Underwriting Gain (Loss)	(43,318,992)
Net Investment Income Earned	17,895,634
Net Realized Capital Gains (Losses)	799,333
Net Investment Gains (Losses)	18,694,967
Net Gain (Loss) from Agents' or Premium Balances	(371,388)
Aggregate Write-Ins for Other Income or Expenses	<u>(51,862)</u>
NET INCOME	<u>(\$25,047,275)</u>
SURPLUS ACCOUNT	
Surplus, December 31, Previous Year	<u>\$546,356,335</u>
Net Income (Loss)	(25,047,275)
Change in Net Unrealized Capital Gains (Losses)	1,599,789
Change in Non-Admitted Assets	<u>(6,747,648)</u>
Change in Surplus for the Year	<u>(30,195,134)</u>
Surplus, December 31, Current Year	<u>\$516,161,201</u>

UCARE MINNESOTA
Statement of Cash Flow
December 31, 2016

Cash from Operations:	
Premiums Collected Net of Reinsurance	\$1,790,889,242
Net Investment Income	19,293,715
Miscellaneous Income	<u>487,781</u>
Total	<u>\$1,810,670,738</u>
Benefit and Loss Related Payments	1,753,519,353
Commissions and Expenses Paid	183,943,373
Total	<u>\$1,937,462,726</u>
Net Cash from Operations	<u>(\$126,791,988)</u>
Cash from Investments:	
Bonds	\$416,358,746
Total Investment Proceeds	<u>\$416,358,746</u>
Cost of Investments Acquired (Long-Term Only):	
Bonds	\$438,677,379
Stocks	13,234,082
Real Estate	2,129,013
Miscellaneous Applications	<u>800,274</u>
Total Investments Acquired	<u>\$454,840,748</u>
Net Cash from Investments	<u>\$(38,482,002)</u>
Cash from Financing and Miscellaneous Sources:	
Other Cash Provided (Applied)	<u>(9,439,815)</u>
Net Cash from Financing and Miscellaneous Sources	<u>(9,439,815)</u>
Reconciliation of Cash, Cash Equivalents and Short-Term Investments:	
Net Change in Cash, Cash Equivalents and Short-Term Investments	(174,713,805)
Cash, Cash Equivalents and Short-Term Investments:	
Beginning of Year	378,852,464
End of Year	204,138,659

UCARE MINNESOTA
 Comparative Analysis of Changes in Surplus
 December 31, 2016

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	\$938,530,055	\$938,530,055	\$ -0-
Total Liabilities	\$422,368,854	\$422,368,854	\$ -0-
Surplus at December 31, 2016	\$516,161,201	\$516,161,201	\$ -0-

SUBSEQUENT EVENTS

The following changes to management and the Board of Directors were noted subsequent to the exam period:

- On April 17, 2017, Jim Eppel left the Company to pursue other opportunities. As of April 11, 2017, Mark Traynor, SVP and Chief Legal Officer, was appointed Interim President and CEO. On October 11, 2017, Mark Traynor was named permanent President and CEO.
- On April 10, 2017, Deborah Cashin, VP/CIO left the Company for personal reasons. On July 31, 2017, Dave Albright was hired and currently serves as VP/CIO.
- On October 4, 2017, Macaran Baird M.D. retired from the Board of Directors. James Pacala M.D. replaced him at the time of his retirement.

CONCLUSION

As a result of this examination, the financial condition of UCare as of December 31, 2016 is summarized as follows:

Admitted assets	\$938,530,055
Liabilities	\$422,368,854
Surplus	\$516,161,201
Total liabilities and surplus	\$938,530,055

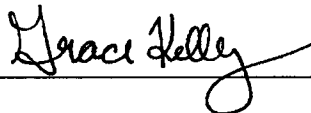
Per examination findings, the Company met the minimum surplus requirements pursuant to Minnesota Statutes, Section 62D.24 as of December 31, 2016.

In addition to the undersigned, Phil McMurray, IT Examiner, Tricia Matson, Peer Review Actuary, Shumei Kuo, Lead Actuary, Nan Nguyen, Actuarial Consultant, Jennifer Danz, Examination Staff, and Jan Moenck, Exam Oversight (all from Risk and Regulatory Consulting, LLC) participated in this examination.

Respectfully submitted,



Amber L. Kinney, CPA, CFE, CISA
Examiner-in-Charge
Risk and Regulatory Consulting, LLC
Representing the State of Minnesota,
Department of Commerce



Grace Kelly, APIR
Assistant Chief Examiner
Minnesota Department of Commerce

Appendix A

