



STATE OF MINNESOTA

DEPARTMENT OF COMMERCE

ST. PAUL, MINNESOTA

EXAMINATION REPORT

OF

PREFERREDONE COMMUNITY HEALTH PLAN

GOLDEN VALLEY, MINNESOTA

NAIC # 95724

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:

**PreferredOne Community Health Plan
NAIC # 95724
6105 Golden Hills Drive
Golden Valley, Minnesota 55146**

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 PreferredOne Community Health Plan, 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 blue ink, appearing to read 'Marie Dotseth', written over a horizontal line.

By: Marie Dotseth, M.H.A.,
Assistant Commissioner

Dated: 6/27/19

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

**PreferredOne Community Health Plan
NAIC # 95724
6105 Golden Hills Drive
Golden Valley, Minnesota 55146**

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: 0.27.19

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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 # 18-007. The examination of the Company was performed as a risk-focused examination of the PreferredOne Group ("Group") of companies as of December 31, 2017. 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 *NAIC 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 Maintenance Organizations on behalf of Health. Examination Order #18-007 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 as of December 31, 2014. This full-scope 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 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 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 presented within this Report of Examination.

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 Company.

The Company was audited annually, for the years 2015 through 2017, 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 reportable findings or recommendations as a result of this examination.

STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAMINATION

There were no reportable findings or recommendations as a result of the prior examination performed as of December 31, 2014.

COMPANY HISTORY

The Company was organized in December 1994 as a nonprofit Community Integrated Service Network under Minnesota Statutes §62N and licensed by the State of Minnesota to provide

comprehensive prepaid health care services per the provisions of the Minnesota Integrated Service Network Act.

On December 20, 1999, Health issued the Company a certificate of authority to operate as a not-for-profit health maintenance organization, under Minnesota Statutes §62D. The Company was formed by and through the contributions of two Minnesota nonprofit health service providers.

During the previous examination as of December 31, 2014, members of the Company were Fairview Health System ("FHS"), North Memorial Health Care ("NMHC") and PreferredOne Physicians Associates ("PPA").

On January 15, 2016, FHS executed stock purchase agreements with both NMHC and PPA, thereby becoming the 100% owner of all issued and outstanding stock of PreferredOne Administrative Services, Inc. ("PAS"), and the sole member of the Company. Through a Form A filing, FHS obtained all required and necessary approvals from Commerce to become the new sole member of the Company.

The Company filed Amended and Restated Bylaws, approved by Board of Directors on January 15, 2016. This document was filed to reflect the change in ownership by FHS.

As of December 31, 2017, there were in excess of thirty-five entities in the holding company including the Company. The Company and PreferredOne Insurance Company ("PIC") are the only insurance companies in the holding company, and both of these entities were included in the examination of the group.

CORPORATE RECORDS

The recorded minutes of the meetings held by the Members, 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 6105 Golden Hills Drive, Golden Valley, Minnesota.

MANAGEMENT AND CONTROL

The Company’s Amended and Restated Articles of Incorporation provide that management of the Company shall be vested in a Board of Directors (“Board”) consisting of not less than two Enrollee Directors and no fewer than three Non-Enrollee Directors. The Enrollee Directors shall constitute forty percent (40%) of the total number of Directors. The governance structure and risk management processes of the Group occurs 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, 2017:

Board of Directors

<u>Name</u>	<u>Business Affiliation</u>	<u>Director Since</u>
Patrick J. Belland	Fairview Ridges Hospital	2016
Daniel M. Fromm	FHS	2011
Patrick B. Herson, M.D.	Fairview Medical Services	2014
Andrea R. Samuelson	Director of Human Resources	2017
Corrine L. Stockwell	Finance/Administrative Assistant	2017

Pursuant to the Company’s Bylaws, the officers of the corporation shall consist of a Chairperson of the Board, a Vice Chairperson of the Board, a President, one or more Vice Presidents, a Secretary, and a Treasurer. The Chairperson and Vice Chairperson are elected by the Board

annually from among its members. The President, Vice President, Secretary, Treasurer and other officers as deemed necessary are elected by the Board.

The following principal officers were appointed and were serving as of December 31, 2017:

Officers

<u>Name</u>	<u>Title</u>
Daniel M. Fromm	Chair
Patrick J. Belland	Vice Chair
David P. Crosby	President and Chief Executive Officer
Debra J. Shoemaker	Senior Vice President, Secretary, Chief Legal Officer and General Counsel
Michael S. Umland	Senior Vice President, Treasurer and Chief Financial Officer
Robert J. Gadola	Privacy Officer
John M. Hofflander	Security Officer

The Company's Bylaws state that the Board may establish an Executive Committee of three or more members, an Enrollee Nominating Committee and one or more other committees as it deems advisable. The Company had the following committees as of December 31, 2017: Audit and Investment Committee; PCHP Compliance Committee; Credentialing Committee; Enrollee Nominating Committee; Quality Management Committee; Integrated Health Quality Management Subcommittee; and Pharmacy and Therapeutics Quality Management Subcommittee.

AFFILIATED COMPANIES

The sole member of the Company is FHS. The Company is managed through a Management Agreement by PAS (see the abbreviated organizational chart at the end of this report).

The following material agreement was in force between the Company and its affiliate:

Management Services Agreement

The Company pays PAS a management fee for all managerial services, including accounting, actuarial, claims and enrollment administration, customer service, Information systems, marketing, provider contracting, and other miscellaneous administrative services. For these services, the Company has agreed to pay PAS a management fee calculated on an enrollment basis.

TERRITORY AND PLAN OF OPERATION

At December 31, 2017, the Company was licensed only in the state of Minnesota as a health maintenance organization. The Company markets large and small group hospital, medical and dental coverages primarily through independent brokerage firms and agents.

REINSURANCE

The Company did not assume any premiums during the period under examination, but ceded premiums to mitigate its risk. The premiums ceded by the Company were ceded to American National Insurance Company, under the terms of a 2013 treaty, and the total premiums ceded under this agreement during 2017 totaled \$196,766. The Company utilized the services of Starline USA as its reinsurance broker during 2017.

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 Company with Commerce, are reflected in the following:

PREFERREDONE COMMUNITY HEALTH PLAN

Assets

December 31, 2017

Bonds	\$	2,350,491
Cash, cash equivalents and short-term investments		<u>816,638</u>
Subtotals, cash and invested assets	\$	<u>3,167,129</u>
Investment income due and accrued		15,845
Premiums and considerations:		
Uncollected premiums and agents' balances in the course of collection		16,214
Reinsurance:		
Amounts recoverable from reinsurers		400,999
Other amounts receivable under reinsurance		84,031
Health care and other amounts receivable		<u>10,082</u>
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	\$	3,694,300
From Separate Accounts, Segregated Accounts and Protected Cell Accounts		<u>0</u>
Total	\$	<u><u>3,694,300</u></u>

PREFERREDONE COMMUNITY HEALTH PLAN

Liabilities

December 31, 2017

Claims unpaid	\$	431,678
Premiums received in advance		115,660
General expenses due or accrued		46,490
Amounts due to parent, subsidiaries and affiliates		53,566
Aggregate write-ins for liabilities		80,333
Total Liabilities	\$	<u>727,727</u>

PREFERREDONE COMMUNITY HEALTH PLAN

Capital and Surplus

December 31, 2017

Aggregate write-ins for special surplus funds	\$	2,200
Gross paid in and contributed surplus		656,095
Unassigned funds (surplus)		<u>2,308,278</u>
Total Surplus	\$	<u><u>2,966,573</u></u>

PREFERREDONE COMMUNITY HEALTH PLAN
Statement of Revenue and Expenses
December 31, 2017

Member Months		8,405
Net premium income	\$	3,492,027
Total Revenues	\$	<u>3,492,027</u>
 Hospital and Medical:		
Hospital/medical benefits	\$	2,148,851
Other professional services		193,804
Outside referrals		(107,013)
Emergency room and out-of-area		149,802
Prescription drugs		1,596,638
Subtotal	\$	<u>3,982,082</u>
Less:		
Net reinsurance recoveries		903,691
Total hospital and medical	\$	<u>3,078,391</u>
Claims adjustment expenses		60,368
General administrative expenses		960,762
Total Underwriting Deductions	\$	<u>4,099,521</u>
Net underwriting gain or (loss)	\$	(607,494)
Net investment income earned		63,859
Net realized capital gains (losses)		51
Net investment gains (losses)	\$	<u>63,910</u>
Aggregate write-ins for other income or expenses		0
Net income or (loss) after capital gains tax and before all other federal income taxes	\$	(543,584)
Federal and foreign income taxes incurred		0
Net Income	\$	<u><u>(543,584)</u></u>

PREFERREDONE COMMUNITY HEALTH PLAN
Reconciliation of Capital and Surplus Account
December 31, 2017

Capital and surplus prior reporting year	\$	3,500,200
Net income or (loss)		(543,584)
Change in nonadmitted assets		9,957
Net change in capital and surplus for the year	\$	<u>(533,627)</u>
Capital and surplus end of reporting year	\$	<u><u>2,966,573</u></u>

PREFERREDONE COMMUNITY HEALTH PLAN
Comparative Analysis of Changes in Surplus
December 31, 2017

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

	Per Annual Statement	Per Examination	Change in Surplus
Capital and Surplus at December 31, 2017 per Company	\$2,966,573		
Assets:			
Total Assets	\$3,694,300	\$3,694,300	\$0
Liabilities:			
Total Liabilities	\$727,727	\$727,727	\$0
Capital and Surplus at December 31, 2017, per Examination		\$2,966,573	\$0

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, 2017, 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.

Merlinos & Associates, Inc. was contracted by ER to independently test reserves and review work papers provided by the Company and is in concurrence with these opinions.

Capital and Surplus

The capital and surplus amount of \$2,966,573 reported by the Company has been accepted for the purposes of this examination.

SUMMARY OF FINDINGS, COMMENTS, AND RECOMMENDATIONS

In addition to the Comments on Financial Statements noted in the previous section of this report, the following items were noted during the examination:

Compliance with Previous Directives

There were no reportable findings or recommendations as a result of the prior examination performed as of December 31, 2014.

Current Examination Comments and Recommendations

There are no corrective actions to be taken by the Company regarding findings in the examination as of December 31, 2017.

SUBSEQUENT EVENTS

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

OTHER SIGNIFICANT EVENTS

Effective April 5, 2019, Daniel M. Fromm, the Chair of the Company's Board, has resigned his position as Chair of the Company's board as well as his Director positions with the Company and PIC. Effective April 5, 2019, Andrea R. Samuelson became Chair of the Company's Board. Effective June 11, 2019, J. Hayes Batson became a Director of the Company.

CONCLUSION

As a result of this examination, the financial condition of PreferredOne Community Health Plan as of December 31, 2017 is summarized as follows:

Admitted assets	<u>\$3,694,300</u>
Liabilities	\$ 727,727
Capital and surplus	<u>2,966,573</u>
Total liabilities, capital and surplus	<u>\$3,694,300</u>

Per examination findings, the company met the minimum surplus requirements pursuant to Minnesota Statutes, §62D.04, Subdivision 4 as of December 31, 2017.

In addition to the undersigned, other representatives of Examination Resources, LLC, and Merlinos & Associates, Inc., 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



Grace Kelly, PIR
Assistant Chief Examiner
Minnesota Department of Commerce

