

EXAMINATION REPORT OF
MEDICAL ASSOCIATES HEALTH PLAN, INC.
DUBUQUE, IOWA
AS OF DECEMBER 31, 2019

Dubuque, Iowa
September 28, 2020

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa 50319

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an Examination has been made of the records, business affairs and financial condition of

MEDICAL ASSOCIATES HEALTH PLAN, INC.

DUBUQUE, IOWA

AS OF DECEMBER 31, 2019

at its Home Office located at 1605 Associates Drive Ste. 101, Dubuque, Iowa.

INTRODUCTION

Medical Associates Health Plan, Inc., hereinafter referred to as the “Company”, was last examined, as of December 31, 2014. The examination reported herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2015 to the close of business on December 31, 2019, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, 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 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 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.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

Medical Associates Clinic Health Plan (MACHP) was incorporated December 1, 1981 as a “nonprofit” corporation under the laws of Iowa. MAHP received its certificate of authority to operate as a HMO from the Iowa Insurance Division on July 1, 1982. MACHP was originally formed and sponsored by Medical Associates Clinic, P.C. (Clinic) located in Dubuque, Iowa.

The Company was incorporated September 2, 1986 as a “for profit” corporation under the laws of Iowa. The Company received its certificate of authority from the Iowa Insurance Division on August 1, 1987. The Company is authorized to engage in

the transactions and lawful purposes permitted under the Iowa Business Corporation Act including, but not limited to, all aspects of prepaid health care service business.

Operations of MACHP continued until August 1, 1987 under its original “nonprofit” status when all of the “nonprofit” corporation’s assets and liabilities were acquired and merged into the “for profit” Company.

In 2013, Medical Associates Realty (MAR) purchased 21% of the Company from the Clinic. The Company is a subsidiary of the Clinic, an Iowa corporation operating as a multi-specialty medical group, and MAR, with each owning 79% and 21%, respectively.

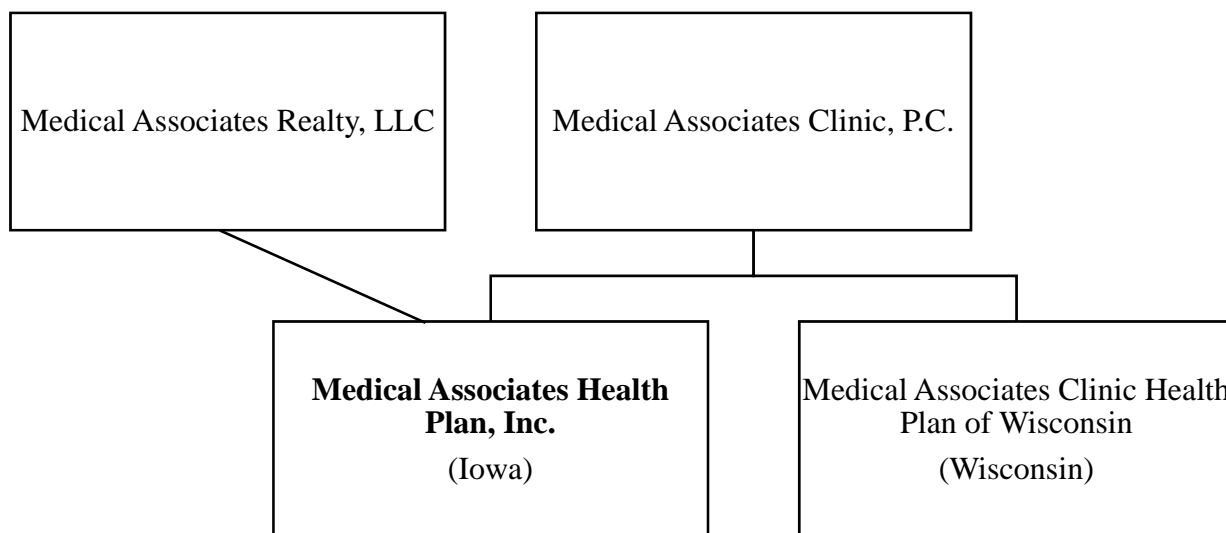
CAPITAL STOCK AND DIVIDENDS

The Amended Articles of Incorporation provide that the number of shares authorized is one million (1,000,000) shares, all of which shall be common stock and shall be without par value. At December 31, 2019, the Company had 60,500 shares of common stock issued and outstanding with a total stated value of \$605,000. The Company’s parents, Medical Associates Clinic P.C. own 79% and Medical Associates Realty, LLC owns 21% of the stock issued by the Company.

During the exam period, the Company did not declare or pay any dividends.

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined by Chapter 514B, Code of Iowa. A simplified organizational chart as of December 31, 2019, reflecting the ultimate parent and holding company system, is shown below.



MANAGEMENT AND CONTROL

Shareholders

The Bylaws prescribe that the annual meeting of the shareholders shall be held in Dubuque, Iowa or such other place as may be fixed from time to time by the Board of Directors, on the second Monday in March of each year or on such other date and time in any year within a period commencing on the 1st day of March and ending the 30th day of April, as the Board of Directors shall, by resolution, specify.

The Chairman or Vice Chairman may call special meetings of the shareholders. Special meetings of the shareholders may also be called by the Chairman at the written request of not fewer than ten percent of all the outstanding shares entitled to vote at the meeting.

Board of Directors

The Bylaws state that the business and affairs of the Company shall be managed by a Board of Directors consisting of not more than eleven directors. The number of Directors shall always be an odd number, of which the majority shall be physicians employed by The Medical Associates Clinic, P.C., and shall comply with any applicable laws of the State of Iowa. At least thirty percent of the Directors shall be enrollees of the Corporation’s Health Plan. Directors are elected at the annual meeting of the shareholders for a term of three years, and each Director shall be limited to a maximum of four terms, or twelve years, or until their successors are elected and qualified.

The Bylaws further provide that the annual meeting of the Board of Directors will be held on the second Monday in March in each year or within a period commencing on the 1st day of March and ending on the 30th day of April. The Chairman may call special meetings of the Board at any time. Special meetings may also be called by the Chairman or Vice Chairman whenever requested in writing by one-third of the directors then in office.

Any action required or permitted to be taken by the Board of Directors at any meeting of the Board of Directors or of any committee thereof, may be taken without meeting, if prior to such action a written consent thereto is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of the proceedings of the Board of such committee.

Elected directors at December 31, 2019 were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Mark Janes, M.D. Dubuque, Iowa	Vice-Chairman - Physician Medical Associates Clinic, P.C.	2020
John O’Connor Dubuque, Iowa	Attorney O’Connor Thomas Law Firm	2021
Andrea Ries, M.D. Dubuque, Iowa	Chairman - Physician Medical Associates Clinic, P.C.	2020
Laurie Garms, M.D. Dubuque, Iowa	Physician Medical Associates Clinic, P.C.	2020
Sarah Loetscher, M.D. Dubuque, Iowa	Physician Medical Associates Clinic, P.C.	2020
Jeffrey White, D.O. Dubuque, Iowa	Physician Medical Associates Clinic, P.C.	2020
Brad McClimon, M.D. Dubuque, Iowa	Physician Medical Associates Clinic, P.C.	2021

As of December 31, 2019, the Board consisted of only six physicians and one enrollee (another enrollee was added April of 2020). This is in violation of the Bylaws requirement of at least thirty percent of the Directors shall be enrollees of the Corporation’s Health Plan. The Company and Board are aware of the violation and is actively seeking to find another enrollee member.

Committees

The Bylaws prescribe that an Executive Committee shall be appointed annually by the Board of Directors and shall consist of three Board members. The Executive Committee shall have such powers and duties as shall be prescribed by law and the Board of Directors from time to time. Any vacancy occurring on the Executive Committee shall be filled by the Board of Directors.

Serving on the Executive Committee at December 31, 2019 were:

- Andrea Ries, M.D., Chairman
- Mark Janes, M.D., Vice Chairman
- Brad McClimon, M.D.

The Audit Committee shall be appointed annually by the Board of Directors and shall consist of three Board members that shall review and discuss issues relating to the annual audit performed by independent auditors. Members shall make recommendations to the Board regarding particular concerns, issues or findings relating to the audit.

Serving on the Audit Committee at December 31, 2019 were:

- Laurie Garms, M.D., Chair
- Sarah Loetscher, M.D.
- Rick Colpitts resigned in 2019, replaced by Lawrence Kukla in 2020.

The Investment Committee shall be appointed annually by the Board of Directors and shall consist of three Board members and shall review investments, current activity and market conditions. Members shall make recommendations to the Board regarding investments of the Company.

Serving on the Investment Committee at December 31, 2019 were:

- Mark Janes, M.D., Chair
- Brad McClimon, M.D.
- Andrea Ries, M.D.

The Governance Committee shall be appointed annually by the Chairman and shall consist of three board members. The Executive and Governance Committees began to meet together in 2019.

Serving on the Governance Committee at December 31, 2019 were:

- Brad McClimon, M.D., Chair
- Andrea Ries, M.D.
- Jan Hess, resigned in 2019, replaced by Mark Janes, M.D. in 2020.

Officers

The Bylaws prescribe that the officers of the corporation shall consist of a Chief Executive Officer, a Chief Medical Officer, a Secretary, and a Treasurer. The Board of Directors may appoint such other officers, assistant officers, and agents as it shall deem necessary, including but not limited to a Chief Financial Officer and a Chief Operating Officer, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors. Any two or more offices may be held by the same person. The officers of the Corporation shall be elected annually at the annual meeting of the Board of Directors.

Officers serving as of December 31, 2019 were as follows:

<u>Name</u>	<u>Title</u>
Andrea Ries, M.D	Chairman of the Board
Mark Janes, M.D.	Vice Chairman of the Board
John Tallent*	Chief Executive Officer

<u>Name</u>	<u>Title</u>
Zach Keeling*	Chief Operating Officer and Secretary
John Gonner	Chief Financial Officer and Treasurer
Dale Dreiling, M.D.**	Chief Medical Officer

*John Tallent will retire on December 31, 2020. Zach Keeling was appointed to be the new Chief Executive Officer. The Chief Operating Officer position will be deferred until filled.

**Dale Dreiling, M.D. retired March 1, 2020 and his position will be deferred until filled.

All salaries of the officers are provided by Medical Associates Clinic, P.C.

CONFLICT OF INTEREST STATEMENTS

The Company has a Conflict of Interest policy. The annual Conflict of Interest questionnaires were reviewed, and it was noted that each of the officers and directors had signed a questionnaire in each year of the exam period.

CORPORATE RECORDS

The minutes of the shareholder and Board of Directors meetings were reviewed for the period under examination. The meeting minutes of the Board appeared to adequately document its meetings and approval of Company transactions and events.

The Articles of Incorporation were not amended during the examination period.

The Bylaws were amended during the examination period in 2016. Revisions included:

- Changes to term limits
- Approval of the use of electronic appointment
- Approval to allow action by written consent
- Updates to Corporate governance that included changes in Committees and updated Officers' terms

The revised Bylaws were reviewed and approved by the Board of Directors.

The Board of Directors minutes were silent as to the review and acceptance of the Iowa Insurance Division's Examination Report as of December 31, 2014.

INTERCOMPANY AGREEMENTS

The following agreements are in effect between the Company and its affiliates:

The Company has a Guarantee Agreement with its parent. The Clinic has agreed to pay or assume certain expenses if at any time the Company defaults in the payment for services provided to enrollees. Such payments or assumptions of liabilities shall not exceed \$1,100,000 in the aggregate.

The Company has an Administrative Agreement with its parent. The Clinic provides all the staff necessary to carry out the administration of the Company consisting of bookkeeping, payroll, accounting and other functions. The Company reimburses the Clinic a sum equal to 135 percent of the combined base compensation of all persons assigned to the Company.

In an Agreement with its parent, any retroactive adjustments that result in additional amounts due to CMS are payable solely by the HMO provided the HMO maintains its applicable statutory net worth and financial reserve requirements. Otherwise, these amounts are paid by the parent. In addition, any retroactive adjustments that result in additional amounts received from CMS are payable to the parent.

Under the terms of a Data Processing Agreement with its parent, the Clinic agrees to provide data processing services to the Company. The Company reimburses the Clinic for this service based on a monthly rate per Company enrollee. Effective January 1, 2017, this agreement was replaced by an Equipment Lease Agreement. Under the terms of the Equipment Lease

Agreement with its parent, the Clinic agrees to lease to the Company equipment for a term beginning on January 1, 2017 which shall continue in effect until terminated by either party with sixty days' notice.

The Company and its affiliate, Medical Associates Clinic Health Plan of Wisconsin are both staffed by the same personnel and jointly conduct their business out of the same office. According to an agreement between the two parties, all administrative costs not directly attributable to either party are charged to each based on the percentage of gross premium revenue each company bears to the total combined gross premium revenue for each calendar month.

Through an Administrative Agreement with its affiliate, Preferred Health Choices, LLC (Health Choices), a Third Party Administrator (TPA) established to process claims for self-funded groups, the Company arranges for staff and other resources necessary to carry out the functions of the TPA. Expenses that are directly related to Health Choices or its programs are charged directly to Health Choices. All other costs are allocated based upon the ratio of persons covered by the plans administered by Health Choices bears to the total number of persons enrolled in the Company. Settlement of these expenses is to be made within sixty days following the last day of each month. This agreement shall continue indefinitely until terminated by either party with at least ninety days' notice. This agreement was amended and restated effective January 1, 2019.

The Company owns certain software for a computer system referred to as the AMISYS System and its affiliate, Medical Associates Clinic Health Plan of Wisconsin owns certain hardware for the AMISYS System. Under an agreement with Medical Associates Clinic Health Plan of Wisconsin, the cost of the AMISYS System is equitably allocated between the two companies based upon the percentage of gross premium revenue that each company bears to the total combined gross premium revenue for each calendar month. This agreement was terminated January of 2019.

The Company has a consolidated tax agreement with its parent. The Company's tax liability is computed as if it were filing a separate return. This agreement was terminated February of 2016.

The Company has a Participating Practitioner Agreement with its parent. Practitioners of the Clinic provides medical and hospital benefits to enrollees of the Company at a capitated rate. The agreement was revised with an effective date of January 1, 2019, and renews on January 1 of each following year.

FIDELITY BONDS AND OTHER INSURANCE

The Company's parent, Medical Associates Clinic P.C., maintains fidelity bond coverage up to \$5,000,000, which adequately covers the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company is identified as a named insured in the fidelity bond policy.

The Company also maintains Errors and Omissions Liability, Professional Liability, Commercial General Liability, along with an overall Aggregate Excess Limit of Liability in the amount of \$10,000,000.

EMPLOYEES' WELFARE

The Company does not have any direct employees. All services are provided under the Management Service Agreement with the parent, Medical Associates Clinic P.C.

REINSURANCE

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has one HMO Specific Excess Loss Reinsurance agreement with PartnerRe America Insurance Company effective January 1, 2019. PartnerRe America Insurance Company reinsures 90% of eligible charges in excess over \$400,000 deductible annually, for each member with no maximum for any one member. The agreement is renewed on an annual basis.

STATUTORY DEPOSIT

As of December 31, 2019, the book/adjusted carrying value of securities held in a special deposit in the state of Illinois for the benefit of all policyholders totaled \$318,957. The State of Iowa Insurance Division does not have a statutory deposit requirement.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Iowa and Illinois. The Company is authorized to transact business as a health maintenance organization.

GROWTH OF COMPANY

The following data, as taken from the office copies of the Company's filed annual statements for the years indicated, reflects the growth of the Company:

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Total Capital and Surplus</u>	<u>Net Premium Income</u>	<u>Member Months</u>
2015	\$32,164,075	\$14,026,434	\$18,137,641	\$77,040,938	283,165
2016	32,376,463	12,533,834	19,842,629	79,605,116	284,601
2017	33,891,052	13,130,581	20,760,471	82,732,181	288,080
2018	38,355,806	19,108,280	21,213,280	85,667,111	290,377
2019	40,479,058	18,745,695	21,753,695	87,291,584	300,139

MARKETING AND SALES

The Examiners reviewed the Company's advertising policies, procedures, and records of advertisements and marketing materials. All were found to be in compliance with state statutes and regulations.

COMPLAINTS

The Examiners reviewed the Company's complaint register and compliant handling process. To ensure the Company is appropriately logging complaints, the Examiners reconciled the Iowa Insurance Division's complaint list to the Company's complaint register without exception. The Examiners pulled a sample of 39 complaints received by the Company during the examination period to determine if the Company provided complete responses and took appropriate actions to address the complaint matters. The complaint register and samples were determined to be in compliance with Iowa Code statutes and regulations.

UNDERWRITING

The Examiners reviewed Company underwriting guidelines. It appeared all procedures and practices were in compliance with applicable statutes and regulations.

PRODUCER LICENSING AND APPOINTMENT

The Examiners reviewed the Company's appointment, termination, and license procedures. The Examiners confirmed appointed producers and terminated producers for 2019 against the state based system. Examiners found four producer terminations that were not entered into the state based system within 30 days in accordance with Iowa Administrative Code 191-10.17 (522B).

CLAIM PRACTICES

The Examiners reviewed the Company's claim handling policies and procedures. The Examiners reviewed a sample of 10 Covid-19 claims, 10 appealed claims, and 10 denied claims to verify proper handling and adherence to claim policies and procedures. It appeared all procedures were in compliance with applicable statutes and regulations and all claims were handled in accordance with applicable state statutes and regulations.

ACCOUNTS AND RECORDS

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Division of Insurance.

During the course of the examination, no statutory compliance issues were noted other than those disclosed above nor material aggregate surplus differences were identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2019.

SUBSEQUENT EVENTS

COVID-19 Pandemic

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Iowa Insurance Division will continue to monitor COVID-19 developments.

Officers

On October 5, 2020, the Board appointed Dr. Hendrick Schultz as the Chief Medical Officer.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2019.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 24,054,362		\$ 24,054,362
Common stocks	3,551,379		3,551,379
Cash & short term investments	7,248,684		7,248,684
Investment income due and accrued	234,099		234,099
Premiums and considerations:			
Uncollected premiums	205,244		205,244
Accrued retrospective premiums	181,550		181,055
Amounts recoverable from reinsurers	175,377		175,377
Amounts receivable relating to uninsured plans	2,270,000		2,270,000
Federal and foreign income tax recoverable	775,000		775,000
Net deferred tax asset	767,400	4,800	762,600
Electronic data processing equipment	49,672		49,672
Furniture and equipment	712	712	
Receivables from parent	206,451		206,451
Health care & other receivables	1,251,150	527,250	723,900
Aggregate write-ins:			
Other assets non-admitted	479,224	479,224	
Premium tax receivable	<u>40,741</u>		<u>40,741</u>
 Total Assets	 <u>\$ 41,491,044</u>	 <u>\$ 1,011,986</u>	 <u>\$ 40,479,058</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid		\$ 9,285,500
Accrued medical incentive pool and bonus amounts		2,498,540
Unpaid claims adjustment expenses		145,000
Aggregate health policy reserves		170,000
Premiums received in advance		2,085,794
General expenses due or accrued		1,002,822
Amounts due to parent		2,664,557
Risk adjustment payable - IL		<u>873,150</u>
 Total Liabilities		 <u>\$ 18,725,363</u>
 Health insurer tax		 \$ 903,000
Common capital stock		605,000
Contingency reserve		1,500,000
Unassigned funds (surplus)		<u>18,745,695</u>
 Total capital and surplus		 <u>\$ 21,753,695</u>
 Total liabilities, capital and surplus		 <u>\$ 40,479,058</u>

STATEMENT OF REVENUE AND EXPENSES

<u>Member Months</u>		<u>300,139</u>
<u>Revenues</u>		
Net premium income		\$ 87,291,584
Fee-for-service		<u>2,629,447</u>
Total Revenues		\$ 89,921,031
<u>Hospital and Medical</u>		
Hospital/medical benefits	\$ 42,915,672	
Outside referrals	13,034,825	
Emergency room and out of area	8,888,785	
Prescription Drugs	6,777,730	
Incentive pool, withhold adjustments and bonus amounts	8,808,377	
<u>Less</u>		
Net reinsurance recoveries	(785,521)	
Claims adjustment expenses	2,838,592	
General administrative expenses	<u>8,473,919</u>	
Total underwriting deductions		<u>90,952,379</u>
Net underwriting gain or (loss)		\$(1,031,348)
Net investment income earned	\$ 838,130	
Net realized capital gains (losses)	<u>40,106</u>	
Net investment gains (losses)		878,236
Net gain (loss) from balances charged off		(6,912)
Other revenue		<u>3,831</u>
Net income or (loss) before federal income tax		\$ (156,193)
Federal & foreign income taxes incurred		<u>(609,227)</u>
Net Income/loss		<u>\$ 453,034</u>

CAPITAL & SURPLUS ACCOUNT

Capital and surplus prior reporting year		<u>\$ 21,213,280</u>
<u>Gains and (losses) in surplus</u>		
Net income		453,034
Change in net unrealized capital gains		507,431
Change in net deferred income tax		(401,200)
Change in non-admitted assets		(18,851)
Miscellaneous adjustment		<u>1</u>
Net change in capital and surplus		<u>\$ 540,415</u>
Capital and surplus end of reporting year		<u>\$ 21,753,695</u>

STATEMENT OF CASH FLOWS

Cash from Operations

Premiums collected net of reinsurance	\$ 89,262,606	
Net investment income	1,075,569	
Miscellaneous income	<u>2,433,097</u>	
Total		\$ 92,771,272
Benefit and loss related payments	\$ 77,820,994	
Commissions, expenses paid, and aggregate write-ins	9,479,254	
Federal and foreign income taxes paid	<u>603,473</u>	
Total		<u>87,903,721</u>
Net cash from operations		<u>\$ 4,867,551</u>

Cash from Investments

Proceeds from investments sold, matured, or repaid:		
Bonds	\$ 4,868,359	
Stocks	<u>601,891</u>	
Total investment proceeds		\$ 5,470,249
Cost of investments acquired (long-term only):		
Bonds	\$ 4,708,811	
Stocks	625,229	
Miscellaneous applications	<u>1</u>	
Total investments acquired		<u>5,334,041</u>
Net cash from investments		<u>\$ 136,209</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>\$ (582,427)</u>	
Net cash from financing & misc. sources		<u>\$ (582,427)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	\$ 4,421,333	
Cash, cash equivalents and short term investments:		
Beginning of year	<u>2,827,351</u>	
End of year	<u>\$ 7,248,684</u>	

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

In addition to the undersigned, the following Iowa Insurance Division Examiners participated in the examination and preparation of this report:

Russ Bunger
Randy Guzman
Mick Jepsen
Jean Yohnke

A review of the information technology system was performed under the direction of Robert Panah, CFE, CISA of Assurity Resources.

A review of the Company's reserves was performed under the direction of Carl Harris, FSA, MAAA of Insurance Strategies Consulting, LLC.

Respectfully submitted,

/s/ Amanda Theisen
AMANDA THEISEN, CFE, PIR, MCM
Examiner-in-Charge
Insurance Division
State of Iowa