

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

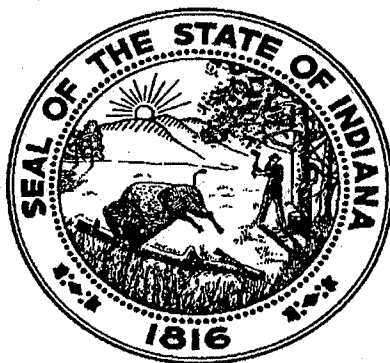
**OF**

**PHYSICIANS HEALTH PLAN OF NORTHERN INDIANA, INC.**

**NAIC Co. CODE 95436**

As of

December 31, 2008



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# STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

# IDOI

**INDIANA DEPARTMENT OF INSURANCE**  
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INDIANAPOLIS, INDIANA 46204-2787  
TELEPHONE: (317) 232-2385  
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CAROL CUTTER, Commissioner

October 1, 2009

Honorable Alfred W. Gross  
Chair, NAIC Financial Condition (E) Committee  
Commissioner, Virginia Bureau of Insurance  
State Corporation Commission  
1300 East Main Street  
Richmond, Virginia 23219

Honorable Carol Cutter  
Commissioner, Indiana Department of Insurance  
311 W. Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioners:

Pursuant to the authority vested in Appointment Number 3590, an examination has been made of the affairs and financial condition of:

**Physicians Health Plan of Northern Indiana, Inc.**  
**8101 West Jefferson Blvd.**  
**Fort Wayne, Indiana 46804**

an Indiana limited service health maintenance organization hereinafter referred to as the "Company". The examination was conducted at the Company's corporate offices in Fort Wayne, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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COMPANY COMPLIANCE  
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SECURITIES / COMPANY RECORDS  
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## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of the period ending December 31, 2005. The present examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2006 through December 31, 2008 and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the examination, the IDOI, by its representatives, relied upon the independent audit report and opinion contained therein rendered by BKD, LLP for the year ended December 31, 2008 and by Ernst & Young, LLP for the years ended December 31, 2007 and 2006. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the Annual Statement.

Jeffrey Beckley, FSA, MAAA, of Actuarial Options, LLC, a consulting actuary appointed by the IDOI, conducted a review of the Company's statutory reserves as of December 31, 2008. There were no actuarial adjustments or recommendations resulting from the review.

Additionally, Noble conducted a review of information systems controls. Although no material findings were noted, a detailed report of specific recommendations was provided to management.

The examination was conducted in conjunction with the examination of PHP Insurance Company of Indiana, Inc., a subsidiary, and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determination of liabilities, review of income and disbursement items, minutes, corporate documents, and other records to the extent deemed necessary.

## HISTORY

The Company was incorporated on April 8, 1983 and commenced operations on December 1, 1983. The Company is sponsored by independent physicians as a not-for-profit Indiana-certified and federally qualified health maintenance organization (HMO). The Company is authorized to provide services as a health maintenance organization, organized and operated pursuant to Article 13 of the Indiana Insurance Law. The Company is the parent of PHP Insurance Company of Indiana, Inc. (PHPIC), which was incorporated as a life insurance company on September 28, 2005 and commenced operations on May 1, 2006.

The Company's comprehensive health services are provided to the Company members by independent physicians, hospitals, pharmacies, and dentists, all of which contract with the Company. All operations are located in northern Indiana.

## CAPITAL AND SURPLUS

The Company has no capital stock. Member physicians are required to pay a one-time capital contribution. The Company is organized as a 501(c)(4), not-for-profit social welfare organization and provides no shareholder dividends.

## TERRITORY AND PLAN OF OPERATION

The Company is a not-for-profit managed care insurance company that offers effective medical coverage options to employers and individuals through a comprehensive local network of participating physicians, hospitals, pharmacies, and dentists in northern Indiana. Participating medical providers have contractual relationships through capital contributions, universal pricing, and a risk-sharing contingency reserve that can be used as additional funding based on plan experience. Non-participating providers are compensated using independent network arrangements or other discounted fee for service arrangements.

Member physicians agree to a single, master fee schedule for comprehensive medical services and require professional fee retention of 20% on non-evaluation and management codes pending annual review. The master fee schedule is established by a committee of the Board of Directors that excludes medical provider and membership participation. Provider fee retention allows for the protection of capital, adverse utilization, and adverse inflationary trends while providing rate stabilization and recovery of full pricing pending review of final costs incurred for the plan. The release of contingency reserves is determined annually upon finalization of medical costs incurred and Board approval.

Primary sales efforts are focused on small to medium sized employer groups. The Company also offers a dental product and introduced an individual product in 2008 while expanding its service area into additional counties for a total of 40 counties served as of December 31, 2008.

## GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company as reported during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Net Premium Income</u>	<u>Net Income (Loss)</u>
2008	\$56,411,893	\$22,034,792	\$34,377,101	\$140,930,071	\$(5,373,667)
2007	64,389,997	22,085,338	42,304,659	128,559,724	1,489,937
2006	59,251,184	19,015,523	40,235,661	117,378,196	2,801,650

Admitted assets decreased approximately \$8 million from 2007 to 2008. This was primarily due to consumption of cash and bond maturities to fund operating losses and declines in equity investment values.

Capital and surplus decreased approximately \$8 million from 2007 to 2008. While net premium income increased \$12 million from 2007 to 2008, net income decreased \$6.9 million during the same period. The decrease in net income is a result of an increase in hospital/medical benefits of \$13.8 million and the negative impact of the economic crisis on the investment portfolio.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the Company is to have no less than ten (10) Directors and no more than twenty-one (21). The Board members are elected by the shareholder at the annual meeting or any special meeting. The Directors are comprised of Physician and Consumer Directors. The Physician Directors

must also be members of the Corporation and are to comprise no more than two-thirds (2/3) of the Directors. At least one-third (1/3) of the Directors shall be Consumer Directors.

<u>Name and Residence</u>	<u>Principal Occupation</u>
Jerry A. Dearth Grabill, IN	Physician First Care Family Physicians
Theresa A. Gutierrez Fort Wayne, IN	Physician Fort Wayne Pediatrics
Michael D. Larkin Fort Wayne, IN	Chief Underwriting Officer Leisure/Sports Specialists LLC
Donald F. Schenkel Fort Wayne, IN	Chairman Tower Financial
Andrew W. O'Shaughnessy Fort Wayne, IN	Physician Indiana Medical Associates
Michael R. DeWald, CPA Roanoke, IN	Retired
Andreanna L. Hodgini Fort Wayne, IN	Physician Family Practice
David E. Lentz Fort Wayne, IN	Physician Family Practice
Ron L. Sloan Kendallville, IN	Physician Family Practice
James C. Wehrenberg Fort Wayne, IN	Physician Summit Radiology
Peter P. Fettig Fort Wayne, IN	Retired
Karl R. LaPan Fort Wayne, IN	President and CEO Northeast Indiana Innovation Center
Fred L. Rasp Fort Wayne, IN	Physician Medical Group of Fort Wayne
David W. Stein Fort Wayne, IN	Physician Ear, Nose, and Throat Associates
Joseph P. Yurkanin Fort Wayne, IN	Anesthesiologist Preferred Anesthesia Consultants

## Officers

The Company officers consist of Board officers and executive officers. The Bylaws state that the officers of the Board of Directors are to consist of a Chairman, a Vice-Chairman, a Secretary, and a Treasurer. The officers are to be elected by the Board of Directors at its annual meeting. The Board officers shall hold office for one (1) year and/or until their successors are chosen and qualify. The executive officers are to consist of a President, Chief Executive Officer, and Medical Director and serve in such capacity until a successor is appointed. The President and Chief Executive Officer shall be appointed by the Board of Directors. The President and Chief Executive Officer may appoint a Medical Director, with the approval of the Board of Directors. The following is a list of the officers and their respective titles as of December 31, 2008:

<u>Name</u>	<u>Office</u>
Jay M. Gilbert	President and Chief Executive Officer
Phillip C. Wright	Medical Director
David W. Stein	Chairman
James C. Wehrenberg	Vice Chairman
Karl R. LaPan	Secretary
Michael R. DeWald	Treasurer
Gail M. Doran	Vice President of Operations

## CONFLICT OF INTEREST

The Company requires officers and Directors to review and sign conflict of interest statements annually. Per review of the signed statements, examiner noted that officers and Directors listed in the management and control section of this Report of Examination had not reviewed and signed their statements as of year-end. Conflict of interest statements were completed by all Directors, officers, and staff at the time they joined PHP; however, the Company has not been obtaining an annual update. The 2009 conflict of interest statements were completed at the May 2009 Board of Directors meeting or shortly thereafter.

## CORPORATE RECORDS

### Articles of Incorporation and Bylaws

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

### Minutes

The minutes from the Board of Directors meetings were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the meetings of the Board were held in accordance with the Company's Bylaws.

## AFFILIATED COMPANIES

### Organizational Structure

An organization chart depicting the Company's relationship with its parent and other insurance affiliates, as of December 31, 2008 is presented as follows:

Physicians Health Plan of Northern Indiana, Inc. (NAIC 95436)	IN
PHP Holding Company	IN
PHP Managemnt Systems, Inc.	IN
PHP Insurance Company of Indiana, Inc. (NAIC 12331)	IN

### Affiliated Agreement

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed and not disapproved with the IDOI as required, in accordance with IC 27-1-23-4.

### Management Agreement

The Company has a Management Agreement with PHP Management Systems, Inc. (PHPMSI). This agreement states that the Company shall provide to PHPMSI comprehensive managerial services necessary for day-to-day operations. These services include, but are not limited to, access to the Company's information systems, accounting and financial analysis services, medical management services, utilization review services, provider contracting services, claims administrative services, and other general administrative services.

PHPMSI shall pay a fee of \$500 a month, in addition to a fee of 10% of brokerage revenue for the general agency business services provided. The Company is reimbursed for all allocable costs incurred for managerial services. Any additional services increasing the expenses above compensation would be billed to PHPMSI in addition to the administration fee agreed upon by both parties.

In addition to the general agency fees, the Company also receives a monthly amount equal to (a) 90% of TPA fees earned by PHPMSI plus (b) 90% of network access fees earned by PHPMSI. The Company calculates the actual fee due and invoices PHPMSI the difference between the actual amount and the estimates paid, per the agreement. The Company received \$329,847 for services provided under this agreement in 2008.

### Management Services Agreement

The Company has a Management Services Agreement with PHPIC. This agreement states that the Company shall provide to PHPIC comprehensive managerial services necessary for day-to-day operations. These services include, but are not limited to, access to the Company's information systems, accounting and financial analysis services, medical management services, utilization review services, provider contracting services, claims administrative services, and other general administrative services.

The Company is reimbursed for all allocable costs incurred for managerial services to support PHPIC's business. The Company may add a reasonable margin for such costs. In no circumstance may the total charges exceed the greater of (a) allocable costs plus fifteen percent (15%) of (b) fair market value of the services provided. The Company received \$47,503 for services provided under this agreement in 2008.



### **FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by employees through a fidelity bond issued by Federal Insurance Company. The bond provides coverage of \$2,000,000 with a retention amount of \$50,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2008 including, but not limited to, directors and officer's liability, errors and omissions liability, workers' compensation, umbrella liability, property and general liability, and crime related policies.

### **STATUTORY AND SPECIAL DEPOSITS**

The Company reported a statutory deposit for the State of Indiana with a book value of \$4,082,252 and a fair value of \$4,435,504 at December 31, 2008.

### **REINSURANCE**

The need for reinsurance is limited to serve the statutory requirements of IC 27-13-16, which requires an HMO to have a plan for receivership that allows for the continuation of benefits after the date of receivership. In October 2005, the Company placed securities in trust in an account jointly owned by the Company and the IDOI. As a result, the Company eliminated the insolvency provision agreement with Munich American Reassurance Company effective January 1, 2006. The securities in the trust account of \$3.94 million exceed the cost of continued benefits of \$3.12 million.

### **RESERVES**

J. Michael Crooks, a Member of the American Academy of Actuaries, was appointed by the Board of Directors to review the loss reserves, actuarial liabilities, and related items included in the Annual Statement of the Company as prepared for filing with state regulatory officials as of December 31, 2008.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves, actuarial liabilities, and related items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, listings and summaries of policies and contracts and other liabilities in force prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The 2008 opinion stated that the balances of claims unpaid and unpaid claims adjustment expense 1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles, except that consideration of the adequacy of the Company's reserves and related actuarial items in conjunction with the assets which support them has not been performed; 2) are based on actuarial assumptions which product reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions; 3) meet the requirements of the insurance laws of the State of Indiana; 4) are

computed on the basis of actuarial assumptions and actuarial methods consistent in all material respects with those used in computing the corresponding items in the Annual Statement of the preceding year-end; 5) include provisions, in the aggregate, for all actuarial reserves and related statement items which should be established, and; 6) make good and sufficient provision for all unpaid claims and other actuarial liabilities of the Company under the terms of its contracts and agreements, incorporating an appropriate level of conservatism to cover the potential development of moderately adverse claims experience.

During the examination, it was determined that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2008 and 2007 were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2006 through December 31, 2008 were agreed to each year's independent audit report without exception.

**PHYSICIANS HEALTH PLAN OF NORTHERN INDIANA, INC.**

**FINANCIAL STATEMENTS**

Assets

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Assets:</b>				
Bonds	\$ 34,771,960	\$ -	\$ 34,771,960	\$ 39,602,976
Stocks:				
Common Stocks	9,351,195	-	9,351,195	11,489,991
Real Estate:				
Properties occupied by the company	2,146,961	-	2,146,961	2,190,390
Cash, cash equivalents and short-term investments	7,578,671	-	7,578,671	8,823,515
Subtotals, cash and invested assets	\$ 53,848,787	\$ -	\$ 53,848,787	\$ 62,106,872
Investment income due and accrued	494,068	-	494,068	572,589
Uncollected premiums and agents' balances in the course of collection	273,122	-	273,122	359,432
Accrued retrospective premiums	529,562	-	529,562	36,158
Reinsurance:				
Amounts recoverable from reinsurers	641	-	641	104,220
Current federal and foreign income tax recoverable and interest thereon	19,482	-	19,482	19,482
Electronic data processing equipment and software	167,908	-	167,908	304,509
Receivables from parent, subsidiaries and affiliates	151,447	-	151,447	152,640
Health care and other amounts receivable	859,880	-	859,880	734,095
Aggregate write-ins for other than invested assets	66,996	-	66,996	-
<b>Total assets</b>	<b>\$ 56,411,893</b>	<b>\$ -</b>	<b>\$ 56,411,893</b>	<b>\$ 64,389,997</b>

**PHYSICIANS HEALTH PLAN OF NORTHERN INDIANA, INC.**

**FINANCIAL STATEMENTS**

**Liabilities, Capital and Surplus**

	<b>As of December 31, 2008</b>			<b>December 31,</b>
	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>Prior Year</b>
<b>Liabilities:</b>				
Claims unpaid	\$ 15,704,783	\$ -	\$ 15,704,783	\$ 15,084,298
Unpaid claims adjustment expenses	412,020	-	412,020	413,893
Aggregate health policy reserves	962,953	-	962,953	-
Aggregate health claim reserves	42,954	-	42,954	190,073
Premiums received in advance	2,883,724	-	2,883,724	3,676,569
General expenses due or accrued	2,009,925	-	2,009,925	2,692,895
Amounts withheld or retained for the account of others	18,433	-	18,433	27,610
<b>Total liabilities</b>	<b>\$ 22,034,792</b>	<b>\$ -</b>	<b>\$ 22,034,792</b>	<b>\$ 22,085,338</b>
Gross paid in and contributed surplus	\$ 2,150,100	\$ -	\$ 2,150,100	\$ 2,087,100
Unassigned funds (surplus)	32,227,001	-	32,227,001	40,217,559
<b>Total capital and surplus</b>	<b>\$ 34,377,101</b>	<b>\$ -</b>	<b>\$ 34,377,101</b>	<b>\$ 42,304,659</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 56,411,893</b>	<b>\$ -</b>	<b>\$ 56,411,893</b>	<b>\$ 64,389,997</b>

**PHYSICIANS HEALTH PLAN OF NORTHERN INDIANA, INC.**

**FINANCIAL STATEMENTS**

**Statement of Revenue and Expenses**

	<b>As of December 31, 2008</b>			
	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
Member Months	536,686	-	536,686	513,255
Net premium income	\$ 140,930,071	\$ -	\$ 140,930,071	\$ 128,559,724
Aggregate write-ins for other non-health revenues	31,102	-	31,102	19,220
<b>Total revenues</b>	<b>\$ 140,961,173</b>	<b>\$ -</b>	<b>\$ 140,961,173</b>	<b>\$ 128,578,944</b>
<b>Hospitals and Medical:</b>				
Hospital/medical benefits	\$ 104,614,109	\$ -	\$ 104,614,109	\$ 90,829,261
Other professional services	617,960	-	617,960	351,148
Prescription drugs	20,724,043	-	20,724,043	18,486,878
Aggregate write-ins for other hospital and medical	-	-	-	57,204
Subtotal	\$ 125,956,112	\$ -	\$ 125,956,112	\$ 109,724,491
Less: Net reinsurance recoveries	193,954	-	193,954	532,795
<b>Total hospital and medical</b>	<b>\$ 125,762,158</b>	<b>\$ -</b>	<b>\$ 125,762,158</b>	<b>\$ 109,191,696</b>
Claims adjustment expenses	5,028,448	-	5,028,448	5,110,121
General administrative expenses	15,879,729	-	15,879,729	15,732,072
<b>Total underwriting deductions</b>	<b>\$ 146,670,335</b>	<b>\$ -</b>	<b>\$ 146,670,335</b>	<b>\$ 130,033,889</b>
<b>Net underwriting gain or (loss)</b>	<b>\$ (5,709,162)</b>	<b>\$ -</b>	<b>\$ (5,709,162)</b>	<b>\$ (1,454,945)</b>
Net investment income earned	\$ 2,380,069	\$ -	\$ 2,380,069	\$ 2,530,133
Net realized capital gains (losses)	(2,046,641)	-	(2,046,641)	386,072
<b>Net investment gains</b>	<b>\$ 333,428</b>	<b>\$ -</b>	<b>\$ 333,428</b>	<b>\$ 2,916,205</b>
Aggregate write-ins for other income or expenses	\$ 2,067	\$ -	\$ 2,067	\$ 28,677
Net income or (loss) after capital gains tax and before all other federal income taxes	\$ (5,373,667)	\$ -	\$ (5,373,667)	\$ 1,489,937
Federal and foreign income taxes incurred	-	-	-	-
<b>Net income</b>	<b>\$ (5,373,667)</b>	<b>\$ -</b>	<b>\$ (5,373,667)</b>	<b>\$ 1,489,937</b>
<b>Capital and Surplus Account:</b>				
Capital and surplus prior-reporting year	\$ 42,304,659	\$ -	\$ 42,304,659	\$ 40,235,661
Net income or (loss)	\$ (5,373,667)	\$ -	\$ (5,373,667)	\$ 1,489,937
Change in net unrealized capital gains (losses)	(3,066,258)	-	(3,066,258)	19,355
Change in nonadmitted assets	449,367	-	449,367	456,206
Surplus adjustments : paid in	63,000	-	63,000	103,500
<b>Net change in capital and surplus</b>	<b>\$ (7,927,558)</b>	<b>\$ -</b>	<b>\$ (7,927,558)</b>	<b>\$ 2,068,998</b>
<b>Capital and surplus end of reporting year</b>	<b>\$ 34,377,101</b>	<b>\$ -</b>	<b>\$ 34,377,101</b>	<b>\$ 42,304,659</b>

### **COMMENTS ON THE FINANCIAL STATEMENTS**

There were no recommended adjustments to surplus as of December 31, 2008 based on the results of this examination.

### **OTHER SIGNIFICANT ISSUES**

There were no other significant issues.

### **SUBSEQUENT EVENTS**

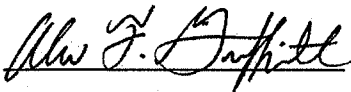
There were no significant subsequent events noted after year end December 31, 2008.

### **MANAGEMENT REPRESENTATION**

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

## CONCLUSION

The preceding report of examination of **Physicians Health Plan of Northern Indiana, Inc.** as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, James Kattman, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of **Physicians Health Plan of Northern Indiana, Inc.**



**Alan T. Griffith, CFE**  
**Examinations Manager**  
**Indiana Department of Insurance**