

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)

MDwise, Inc.)
1200 Madison Avenue, Suite 400)
Indianapolis, Indiana 46225)

Examination of MDwise, Inc.

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of MDwise, Inc., any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on August 12, 2014, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of MDwise, Inc. shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

October 10, 2014
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0040 8785 11

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COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
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MDwise, Inc.)
1200 Madison Avenue, Suite 400)
Indianapolis, Indiana)

Examination of MDwise, Inc.

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the MDwise, Inc. (hereinafter "Company") for the time period January 1, 2009 through December 31, 2013.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on July 18, 2014.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on August 12, 2014 and was received by the Company on August 15, 2014.

The Company did not file any objections.

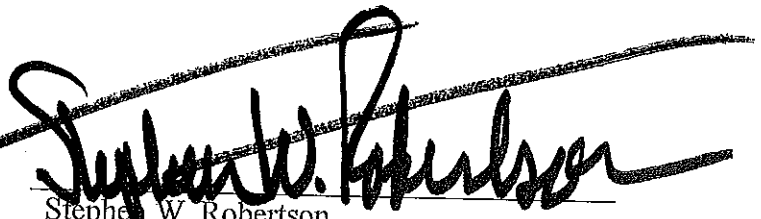
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the MDwise, Inc. as of December 31, 2013.
2. That the Examiner's Recommendations are reasonable and necessary in order for the MDwise, Inc. to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 10th day of October, 2014.

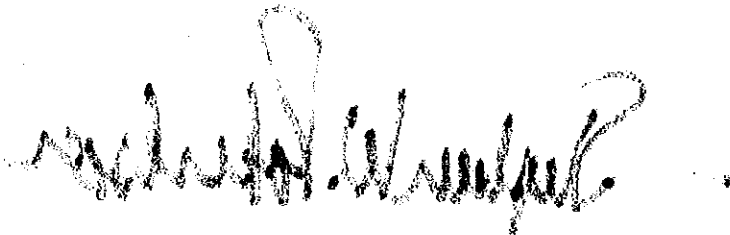

Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A handwritten signature in dark ink, appearing to be "Michael A. [unclear]". The signature is written in a cursive style and is positioned in the lower-left quadrant of the page.

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

MDWISE, INC.

NAIC Co. CODE 95807

NAIC GROUP CODE 4637

As of

December 31, 2013

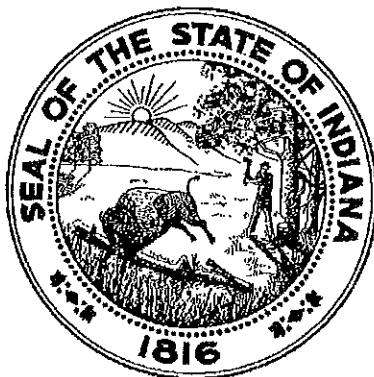


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STATE OF INDIANA

IDOI

MICHAEL R. PENCE, Governor

Indiana Department of Insurance

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

July 18, 2014

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3794, an examination has been made of the affairs and financial condition of:

MDwise, Inc.
1200 Madison Avenue, Suite 400
Indianapolis, Indiana 46225

hereinafter referred to as the "Company" or "MDwise", an Indiana domestic health maintenance organization. The examination was conducted at the corporate offices of the Company in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2013, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
1-800-622-4461

EXAMINATIONS/FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES/COMPANY RECORDS
(317) 232-1991

STATE HEALTH INSURANCE PROGRAM
1-800-332-4674

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2010. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2011 through December 31, 2013, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company 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 assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and Annual Statement instructions, when applicable to domestic state regulations.

Kirk Braunius, ASA, MAAA, of Merlinos & Associates, Inc., provided the actuarial services throughout the examination and conducted a review of the Company's loss reserves and loss adjustment expense reserves as of December 31, 2013.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company is a not-for-profit managed health care plan that began operations in 1994. On December 29, 2006, the Company purchased 100% of the stock of IU Health Plan, Inc. (IUHP). IUHP was merged with and into the Company as of January 1, 2007. The acquisition of IUHP resulted in the Company assuming IUHP's Indiana health maintenance organization (HMO) license.

The Company is jointly controlled by Indiana University Health, Inc., (IU Health) and Health and Hospital Corporation of Marion County, Indiana (HHC). The two (2) ultimate controlling parties are incorporated in the state of Indiana and are provider delivery system companies.

CAPITAL AND SURPLUS

The Company had no stock authorized or outstanding as of December 31, 2013.

On January 1, 2007, the Company issued a subordinated surplus note to AmeriHealth Mercy of Indiana, LLC (AmeriHealth) to provide additional capital in an effort to meet the statutory net worth and risk-based capital requirements applicable to Indiana HMOs. Under the terms of the note, the Company is required to submit quarterly filings to the INDOI for approval of any increase to the note. There were no increases during the examination period. As of December 31, 2013, the amount of the surplus note issued to AmeriHealth totaled \$5,250,000.

TERRITORY AND PLAN OF OPERATION

MDwise generated operating revenues from Medicaid contracts with the state of Indiana, which began on January 1, 2011. The Company was granted a four (4) year contract with the state of Indiana through the Office of Medicaid Policy and Planning (OMPP) and the Office of Children's Health Insurance Program for the Hoosier Healthwise Program. The current contract term is January 1, 2011 through December 31, 2014. The contract includes two (2) extension options, each for a term of one (1) year, at the discretion of the OMPP. The current contract is a combination of the Hoosier Healthwise and Healthy Indiana Plan (HIP).

In addition, the Company was granted a Care Select contract beginning in 2007 for administrative services for the Aged, Blind, and Disabled population. The Company utilizes 100% capitation arrangements for all members which essentially passes all risks to provider networks.

The Company has been approved to become a Qualified Health Plan on the Indiana health exchange. The plan was available on the healthcare exchange on October 1, 2013, with coverage effective January 1, 2014.

GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Total Revenues</u>	<u>Net Income (Loss)</u>
2013	\$ 47,941,598	\$ 16,964,519	\$ 30,977,078	\$ 449,852,927	\$ (2,701,058)
2012	45,590,012	8,161,266	37,428,746	445,444,998	2,532,483
2011	44,013,352	8,727,211	35,286,141	435,853,997	2,337,088

As the Company entered the Indiana health exchange with coverage effective January 1, 2014, implementation expenses were incurred in 2013 in preparation for the exchange offering. In 2013, the Company incurred \$4.8 million in start-up expenses relating to the exchange product, which contributed to the increase in liabilities and net loss. A net profit of \$2.1 million was reported on the Medicaid business before the exchange expenses, which had no associated revenue in 2013.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of no less than six (6) directors. There shall be an equal number of representatives on the Board from each of the parent organizations, IU Health and HHC. Each director serves a term of two (2) years and may serve any number of consecutive or nonconsecutive terms.

The following is a listing of persons serving as directors at December 31, 2013, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Joan Victoria Castor Carmel, Indiana	Vice President, Government Affairs Indiana University Health, Inc.
Mike Edwards Indianapolis, Indiana	Associate Vice President Eskenazi Health
John Fitzgerald, MD, MBA Indianapolis, Indiana	Executive Associate Dean for Clinical Affairs Indiana University School of Medicine President and Chief Executive Officer Indiana University Health Physicians
Lisa Harris, MD Indianapolis, Indiana	Chief Executive Officer Eskenazi Health
Ryan Kitchell Zionsville, Indiana	Executive Vice President and Chief Financial Officer Indiana University Health, Inc.
James Parker Indianapolis, Indiana	President and Chief Executive Officer Indiana University Health Plans, Inc.
Daniel Sellers Indianapolis, Indiana	Chief Financial Officer and Treasurer Health and Hospital Corporation of Marion County Chief Research Officer Eskenazi Health
Jeff Sperring, MD Indianapolis, Indiana	Chief Executive Officer and President of Riley Hospital Indiana University Health, Inc.
Deborah Thompson Indianapolis, Indiana	Health Care Consultant Self-Employed, representing Eskenazi Health
Christopher Weaver, MD Indianapolis, Indiana	Chief Medical Officer Eskenazi Health

Officers

The Bylaws state that the elected officers of the Company shall consist of a President, a Secretary, a Treasurer, and such other officers as the Board may designate from time to time. Each officer shall be elected at the annual meeting of the Board beginning in 2011. Any two (2) or more offices may be held by the same person, except the President and Treasurer must be separate persons. The following is a list of key officers and their respective titles as of December 31, 2013:

<u>Name</u>	<u>Office</u>
Charlotte MacBeth	President
Katherine Wentworth	Secretary
Terry Cole	Treasurer

Corporate Governance

Corporate governance was evaluated through a review of the Company’s corporate governance guidelines, Executive Officer and Board member interviews, Board general meeting minutes, committee minutes, and other examination documentation. The corporate governance review followed the format provided by Exhibit M of the Handbook.

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have signed Conflict of Interest statements as required.

CORPORATE RECORDS

Articles of Incorporation

Effective December 14, 2011, the Articles of Incorporation were amended to update the MDwise address and to reflect the name change of one (1) of the parent organizations.

Bylaws

Effective December 14, 2011, the Bylaws were amended to reflect the name change of one (1) of the parent organizations, to reflect that the Chairman of the Board position rotates between the parent organizations every two (2) years, and to delete references to the Medicaid Operating Board and the Medicare Operating Board. It also directs the officers of the Company to be elected by the Board at the annual meeting occurring in odd numbered years and to hold office until the next officers’ election. The Executive Committee will act as the Audit Committee and perform the duties and obligations of the Audit Committee.

Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted. The Executive Committee meeting minutes for the examination period, and through the fieldwork date, were reviewed.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the Company and its parents as of December 31, 2013:

	NAIC Co. Code	Domiciliary State/Country
Indiana University Health, Inc.		IN
Health and Hospital Corporation of Marion County, Indiana		IN
MDwise, Inc.	95807	IN

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with Indiana Code (IC) 27-1-23-4.

Delivery System Agreements

MDwise is party to identical Delivery System Agreements with each of its parents, HHC and IU Health in connection with the HIP and Hoosier Healthwise programs. Under each agreement, HHC and IU Health agree to act as delivery systems with respect to managed care benefits. Benefits are provided by the delivery systems on a fully capitated basis and no risk remains with MDwise. The Delivery System Agreements were effective January 1, 2011. In 2013, total compensation due to HHC by MDwise pursuant to the Delivery System Agreement was \$47,013,788 plus the administrative fee withhold of \$2,869,983. Total compensation due to IU Health pursuant to the Delivery System Agreement was \$52,370,247 plus the total administrative fee withhold of \$3,185,362.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from fraudulent or dishonest acts by its employees through a fidelity bond issued by the Federal Insurance Company. The bond has blanket coverage of \$3,000,000. The amount meets the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2013, including, but not limited to, business automobile, directors' and officers' liability, employee theft, employers' liability, employment practices liability, and workers' compensation, among others.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Employees of MDwise are covered by a defined contribution pension plan sponsored by MDwise. Contributions of 6.75% of each employee's compensation are made to the plan each year for employees whose pay is equal to or less than the Federal Insurance Contributions Act (FICA) limit. For those employees whose compensation exceeds the FICA limit, an additional 3.75% contribution is made for their compensation in excess of the FICA limit. MDwise's contribution to the plan for the year ended December 31, 2013 was \$632,142. As of December 31, 2013, the plan balance was \$6,502,474.

STATUTORY DEPOSITS

The Company reported one (1) statutory deposit as of December 31, 2013. The deposit was held with the state of Indiana for the benefit of all policyholders and had a book value and fair value of \$500,000.

REINSURANCE

As all medical costs are covered under comprehensive capitated Delivery System Agreements, the Company limits the exposure of its delivery systems in the Hoosier Healthwise program through a reinsurance agreement with ACE American Insurance Company. This agreement provides for 80% reinsurance in excess of a specified deductible per member ranging from \$100,000 to \$200,000 based on the delivery system.

In addition to a specified deductible, which is stated in terms of per covered person, the agreement requires satisfaction of a minimum aggregated specific deductible. The aggregated specific deductible is the greater of \$250,000 or an amount calculated using a formula based on a per member per month basis. Once both the specific deductible and the aggregated specific deductible have been satisfied, the reinsurer will reimburse the Company subject to a maximum benefit per covered person per policy period of \$2,000,000. During 2013, the Company paid a premium of \$3,925,634 and reported losses of \$2,566,853.

The Company also limits the exposure of its delivery systems in the HIP program on a per member basis to a maximum capacity of no more than \$100,000 through a reinsurance agreement with ACE American Insurance Company. This agreement provides for 90% reinsurance in excess of a specified deductible per member. The maximum benefit per covered person per policy period is \$600,000. During 2013, the Company paid a premium of \$134,107 and reported losses of \$18,121.

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, 2012 and 2013, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2011 through December 31, 2013, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

MDWISE, INC.
Assets
As of December 31, 2013

	Per Examination*
Bonds	\$ 27,216,598
Stocks:	
Common stocks	354,433
Cash, cash equivalents and short-term investments	31,890,820
Subtotals, cash and invested assets	59,461,851
Investment income due and accrued	251,854
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	2,521,952
Electronic data processing equipment and software	449,976
Aggregate write-ins for other than invested assets	(14,744,035)
Totals	\$ 47,941,598

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

MDWISE, INC.
Liabilities, Capital and Surplus
As of December 31, 2013

	Per Examination*
Premiums received in advance	\$ 755,411
General expenses due or accrued	5,710,675
Amounts withheld or retained for the account of others	65,372
Liability for amounts held under uninsured plans	505,528
Aggregate write-ins for other liabilities	9,927,534
TOTAL liabilities	16,964,519
Surplus notes	5,250,000
Unassigned funds (surplus)	25,727,078
TOTAL Capital and Surplus	30,977,078
TOTAL Liabilities, Capital and Surplus	\$ 47,941,598

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

MDWISE, INC.
Statement of Revenue and Expenses
For the Year Ended December 31, 2013

	Per Examination*
Member Months	3,417,155
Net premium income	\$ 449,852,927
TOTAL Revenues	449,852,927
Hospital and Medical:	
Hospital/medical benefits	298,267,161
Other professional services	35,433,082
Emergency room and out-of-area	25,237,544
Prescription drugs	60,000
Aggregate write-ins for other hospital and medical	4,528,363
TOTAL Hospital and Medical	363,526,150
Claims adjustment expenses	80,359,455
General administrative expenses	9,297,418
TOTAL Underwriting Deductions	453,183,023
Net underwriting gain or (loss)	(3,330,096)
Net investment income earned	678,576
Net realized capital gains (losses)	(49,538)
Net investment gains (losses)	629,038
Net income (loss)	\$ (2,701,058)

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

MDWISE, INC.
Capital and Surplus Account Reconciliation

	2013	2012	2011
Capital and surplus prior reporting year*	\$ 37,428,746	\$ 35,286,141	\$ 37,879,620
Net income or (loss)	(2,701,058)	2,532,483	2,337,088
Change in net unrealized cap. gains (losses) less capital gains tax	-	(224,838)	(30,930)
Change in nonadmitted assets	(3,750,609)	9,883	88,436
Change in surplus notes	-	-	(4,000,000)
Surplus adjustments:			
Paid in	-	-	(842,273)
Aggregate write-ins for gains or (losses) in surplus	-	(174,924)	(145,798)
Net change in capital and surplus	<u>(6,451,667)</u>	<u>2,142,604</u>	<u>(2,593,478)</u>
Capital and surplus end of reporting year	<u>\$ 30,977,079</u>	<u>\$ 37,428,745</u>	<u>\$ 35,286,142</u>

*Ending surplus for 2011 and 2012 do not agree to beginning surplus for 2012 and 2013, respectively, due to rounding

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2013, based on the results of this examination.

SUBSEQUENT EVENTS

On March 27, 2014, a new affiliate, MDwise Marketplace, Inc., was formed and organized as a not-for-profit corporation. The purpose of this affiliate is to segregate the Company's Medicaid and exchange business. An application for a certificate of authority to operate as an HMO has been filed with the Indiana Department of Insurance.

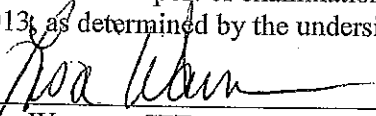
AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Merlino & Associates, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of MDwise, Inc., as of December 31, 2013.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of MDwise, Inc. as of December 31, 2013, as determined by the undersigned.

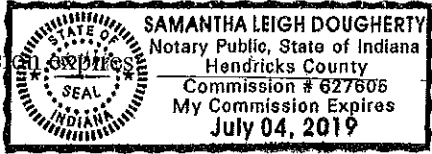
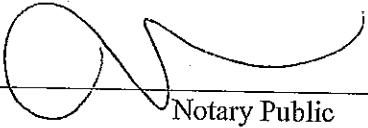


Lisa Warrum, CFE
Noble Consulting Services, Inc.

State of: Indiana
County of: Marion

On this 18 day of July, 2014, before me personally appeared, Lisa Warrum, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commiss  
Notary Public

