

# Best's Rating Report



[Back to Top](#)



**Wellmark®  
BlueCross  
BlueShield**

An Independent Licensee of the Blue Cross and Blue Shield Association

<b>WELLMARK, INC.</b>	<b>A</b>
<b>WELLMARK OF SOUTH DAKOTA, INC.</b>	<b>A</b>
<b>WELLMARK HEALTH PLAN OF IOWA, INC.</b>	<b>A</b>



**A**

# Best's Rating Report

## Ultimate Parent: Wellmark Inc

**WELLMARK, INC.**  
1331 Grand Avenue  
Des Moines, IA 50309-2565  
Web: www.wellmark.com

Tel.: 515-376-4500  
AMB#: 068347  
Ultimate Parent#: 068347

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NAIC#: 88848  
FEIN#: 42-0318333

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the company and its major affiliated life/health companies, the company is assigned a Best's Financial Strength Rating of A (Excellent). The company's Financial Size Category is Class XII.

### RATING RATIONALE

The following text is derived from the report of Wellmark Group.

**Rating Rationale:** The rating of Wellmark Inc. (Wellmark) and its subsidiaries, Wellmark of South Dakota, Inc., and Wellmark Health Plan of Iowa, Inc., reflects all three companies' market positions in Iowa and South Dakota, earnings growth, low operational costs, and strong level of capitalization. The offsetting factors are aggregate membership losses, economic and competitive challenges in the marketplace, and its investment portfolio exposure to equity market volatility.

Wellmark's position as a leading carrier in the Iowa and South Dakota markets remains. Larger national carriers and smaller provider-owned plans do compete in these markets; however, competitors have a smaller share in both markets. Despite the economic challenges in the marketplace, Wellmark's operational performance improved over the near term, reversing a trend of losses over the prior three periods. Much of the turnaround is due to pricing above cost trend in its fully insured products and the lower utilization rates leading to decreased year-over-year benefit expenses. Additionally, the company has very good cost controls in place and is among the lowest administrative cost Blue plans with administrative cost ratios averaging below ten percent. The underwriting results through March 31, 2011, were favorable with consolidated statutory operational gains of \$52.0 million. Wellmark's capitalization improved in 2010, driven by the strong operational gains. The level of health risk-based capital improved in 2010, and the current levels are adequate to support its business and investment risks.

In 2010, membership on a consolidated basis slightly declined. The enrollment declines were mainly in Wellmark's small group lines and large group ASO, where both competitive and economic pressures have had negative impacts. Furthermore, Wellmark reported membership decline in its dental line of business. The decline is mainly driven by competitive pressure from a dominant dental carrier. Although Wellmark has effectively reduced its equity holdings to a mix of sixty-five percent fixed income securities to approximately thirty-two percent equities, the weight of equities still remains elevated for a health care company. A.M. Best is concerned that further market volatility may negatively affect investment returns, and Wellmark's weight in equities increases the company's investment risks. A.M. Best does acknowledge that Wellmark's capital levels may be sufficient to withstand heavy equity market deterioration and that the company has lowered its exposure to equities.

**Best's Financial Strength Rating: A**

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
05/27/11	A	06/16/08	A g
06/25/10	A g	06/01/07	A g
05/19/09	A g	06/20/06	A g

### KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital & Surplus	Net Premiums Written	Total Revenues	Net Income
2006	1,612,922	1,073,457	1,961,904	1,984,841	136,583
2007	1,634,309	1,059,765	2,071,627	2,132,272	14,086
2008	1,338,628	809,257	2,022,522	2,055,928	-177,927
2009	1,452,723	880,454	2,124,967	2,120,764	-146
2010	1,595,890	1,005,427	2,207,539	2,219,597	73,671

### CORPORATE OVERVIEW

Wellmark, Inc. (Wellmark) is a mutual company that provides health benefit plans to over 2.1 million members in the Iowa and South Dakota markets. The company offers Blue Cross & Blue Shield branded (blue brand) PPO and managed indemnity plans via Wellmark Blue Cross & Blue Shield of Iowa and Wellmark Blue Cross & Blue Shield of South Dakota. Health maintenance organization (HMO) and point of service (POS) plans are available in Iowa through Wellmark Health Plan of Iowa, Inc. (WHPI), a blue branded HMO. The BlueCard Preferred Provider Organization (PPO) network provides value to the blue brand by providing access to the national Blue Cross & Blue Shield network.

Wellmark also owns subsidiaries that complement its core health care business. They are: First Administrators, Inc., a third-party administrator providing health care claims and administrative services to self-funded business and insured associations; Midwest Benefit Consultants, Inc., a general insurance agency. Wellmark is also the sole member of The Wellmark Foundation, which provides grants to fund local projects or research in Iowa and South Dakota. These projects focus on improving the quality of health care in Iowa and South Dakota. In 2009, Wellmark sold its life and health subsidiary Wellmark Community Insurance, Inc., which held licenses in 30 states.

### CORPORATE STRUCTURE

AMB#	COMPANY NAME	DOMICILE	% OWN
068347	Wellmark Inc	IA	
064385	Wellmark Health Plan of Iowa	IA	100.00
060207	Wellmark of South Dakota Inc	SD	100.00

### BUSINESS REVIEW

The following text is derived from the report of Wellmark Group.

Wellmark, Inc (Wellmark) and its subsidiaries have a strong market presence in their respective states. No other competing health insurer has a substantial market share in either state. Wellmark's membership declined slightly in 2009 and 2010, mainly due to economic pressures in the marketplace. The company's large membership base provides a competitive edge when contracting with providers, permitting it to create large networks in both states and is the only health insurer to offer PPO coverage throughout the state of Iowa. Another significant competitive advantage is a diverse product line designed to meet the needs of small and large employers as well as those of individuals. The company's health operations are defined by five segments: large group, small group, individual under age 65, individual over age 65 and Federal Employees Health Benefit Program (FEP). In addition, the company offers Medicare Advantage/Prescription Drug Plan (PDP) products.

THE LARGE GROUP segment consists of employer groups of 51 employees or more and comprises more than 60% of the enrollment in Iowa and 30% of the membership in South Dakota. Self-funding is available to groups with 100 employees or more. Fully insured products are available to all groups within this segment. Product offerings to groups of 51 - 100 employees are standardized while larger groups can have more customized benefits.

THE SMALL GROUP segment is comprised of employer groups under 51 employees and represents 9% of the membership in Iowa and 18% in South Dakota. Groups in this segment are more regulated by the Iowa and South Dakota Insurance Divisions than larger employer groups. Product offerings are standardized and are available on a fully insured basis only. The enrollment trend in this segment had grown in low double digit increases over the past few years as a result of more favorable pricing; however the small group market has been economically challenged and this has resulted in a decline of enrollment during the past two years. Further membership losses are expected in the near term due to the expected tepid economic recovery.

Back to Top

# Best's Rating Report



Back to Top

THE INDIVIDUAL UNDER AGE 65 segment is moderately regulated by the Iowa Insurance Division with a requirement to include a specific guaranteed issue product. The company offers a variety of plans to individuals and families including PPO and managed indemnity. This segment comprises approximately 15% of the members in Iowa and 22% in South Dakota. In 2010 the enrollment in this segment increased in Iowa, while the South Dakota membership was relatively stable. The increase in the under age 65 membership Iowa was a result of more groups dropping coverage as well as growing layoffs in both states which pushed individuals to seek coverage outside their employer. In order to retain those members, Wellmark introduced new individual products, such as Blue Basics, a low cost option designed for younger (19-29) demographics.

THE INDIVIDUAL OVER AGE 65 segment offers several of the Medicare Supplement plans standardized by the federal government. The availability of these plans varies by state. This segment represents approximately 13% of the enrollment in both Iowa and 15% South Dakota.

THE FEDERAL EMPLOYEE PROGRAM (FEP) segment represents 3% of the membership in Iowa and 13% in South Dakota. Wellmark offers both the FEP standard PPO and the basic PPO benefit plan which are part of the national Blue Cross & Blue Shield Federal Employee Program.

MEDICARE ADVANTAGE/PDP products are offered by Wellmark Blue Cross Blue Shield of Iowa and Wellmark Blue Cross Blue Shield of South Dakota. Enrollment in both MA Part D and the Medicare PPO products is modest in terms of total consolidated enrollment. After initially growing from the point of introduction in 2006, enrollment has declined slightly in the past two years following product pricing modifications.

Wellmark markets its products through multiple distribution channels, including brokers, direct sales representatives, telemarketers and the Internet. Brokers produce a majority of sales to groups with less than 250 employees and individuals under age 65. Direct sales representatives produce a majority of sales to groups with over 250 employees. In addition, telemarketers and the Internet produce a significant amount of sales to individuals, both under and over age 65. The company also maintains a strong affiliation with the Iowa and South Dakota Farm Bureaus, distribution systems which market Wellmark insurance products to individuals and small groups in rural areas.

Wellmark has developed considerable sophistication in medical management. The company utilizes systems to help identify high-risk cases early. An advanced early warning system provides an opportunity for case management intervention by identifying individuals that are driving cost and clinical utilization within a population. The Episode Risk Grouping (ERG) is a sophisticated methodology that identifies members that are at risk for high dollar claims by analyzing facility, doctor and pharmacy claims for an individual for single and combinations of medical conditions.

Wellmark's market share in health products has provided a solid foundation from which its product layering strategy is promoted. Other products offered in conjunction with health are: dental, group life, pension, accidental death & dismemberment (AD&D), long and short-term disability and long term care products. Many of the ancillary products sold are either underwritten by another insurance carrier or products developed through a joint venture.

## PREMIUM AND RESERVE ANALYSIS

Direct Premiums (000)	2010	2009	2008	2007	2006
Comp (med & hosp)	1,437,257	1,367,739	1,296,422	1,394,640	1,327,215
Dental	26,856	27,321	25,966	23,184	21,017
Vision	479	531	430	394	...
FEHBP	195,360	201,024	191,900	169,986	159,407
Medicare	32,394	28,930	30,199	26,025	2,377
Medicare supplement	329,036	307,262	299,022	281,836	285,144
Other health	186,156	192,160	178,582	172,663	164,554
Total	2,207,539	2,124,967	2,022,522	2,068,727	1,959,714
Reins Assumed Prens (000)	2010	2009	2008	2007	2006
Comp (med & hosp)	...	...	...	2,900	2,190
Total	...	...	...	2,900	2,190

Net Premiums & Deposits (000)	2010	2009	2008	2007	2006
Comp (med & hosp)	1,437,257	1,367,739	1,296,422	1,397,540	1,329,404
Dental	26,856	27,321	25,966	23,184	21,017
Vision	479	531	430	394	...
FEHBP	195,360	201,024	191,900	169,986	159,407
Medicare	32,394	28,930	30,199	26,025	2,377
Medicare supplement	329,036	307,262	299,022	281,836	285,144
Other health	186,156	192,160	178,582	172,663	164,554
Total	2,207,539	2,124,967	2,022,522	2,071,627	1,961,904

**Geographical breakdown of direct premium writings (\$000):** Iowa, \$2,196,081 (99.5%); other jurisdictions, \$11,458 (0.5%).

## EARNINGS

The following text is derived from the report of Wellmark Group.

Wellmark Group's consolidated earnings are generated primarily through its Wellmark, Inc. (d/b/a Blue Cross Blue Shield of Iowa) health insurance operations and managed care operations through its subsidiary Wellmark Health Plan of Iowa, Inc. in the Iowa health care market. Furthermore, Wellmark of South Dakota, Inc. contributes earnings from its medical operations in the South Dakota market (d/b/a Blue Cross and Blue Shield of South Dakota).

Wellmark, Inc. reported underwriting gains of \$14.1 million in 2010 after reporting losses for the past three years. The improvement in underwriting results was attributable to pricing initiatives and broad-based utilization decline, which resulted in an overall decline in the medical loss ratio of 400 basis points. Furthermore as a result of cost saving initiatives, the administrative expense ratio declined by 80 basis points year over year as well. For 2010, net investment income was fairly consistent with 2009 at \$24 million and realized capital gains declined slightly to \$39 million, both which when combined with the improvement in underwriting results led to a net income of \$73.7 million in 2010 after break even results in 2009 and net losses in excess of \$100 million in 2008.

During 2010, statutory underwriting earnings improved in the majority of product lines except for other health. The driver of the improvement in underwriting was the comprehensive (hospital and medical) line of business, which reported a \$90 million year over year improvement, although it still reported an underwriting loss of \$2.6 million. For the comprehensive line of business, the medical loss ratio declined by more than 500 basis points to 87.2% and the administrative expense ratio declined by 130 basis points. Furthermore, the Medicare Supplement earnings improved significantly as well from \$4.9 million in 2009 to \$18.8 million for 2010, driven by a 350 basis point decline in the loss ratio and a 50 basis point decline in the administrative expense ratio. The improvement in earnings has continued into 2011. Through the three months ended March 31, 2011, Wellmark, Inc. reported statutory underwriting gains of \$32.7 million and net income of \$50.7 million, driven by a continuation of favorable medical trends and lower administrative expenses.

Wellmark Health Plan of Iowa, Inc.'s underwriting earnings improved in 2010 to \$35.9 million due to a 550 basis point decline in the medical loss ratio and a 120 basis point improvement in the administrative expense ratio. The decline in the medical loss ratio resulted from broad-based utilization decline while the decrease in the administrative expense ratio was attributable to cost saving initiatives. Additionally, net income reported as of December 31, 2010 was favorable at \$29.4 million. These results include realized gains of \$2.1 million. This favorable trend of earnings continued into the first quarter of 2011 as the company reported underwriting gains of almost \$12 million and net income of \$9.2 million.

Wellmark of South Dakota, Inc. (WSD) reported an underwriting gain of \$10.7 million in 2010 after three consecutive years of losses. The improvement in underwriting earnings is the result of pricing initiatives taken as well as broad-based utilization decline. The combination of these resulted in a 640 basis point decline in the medical loss ratio. In addition, the administrative expense ratio declined by 70 basis points due to cost saving actions.

# Best's Rating Report



Back to Top

The largest improvement was experienced in the comprehensive segment which reported a statutory underwriting gain of \$4.7 million after a \$35.5 million loss in 2009. This turnaround was driven by a 960 basis point decline in the loss ratio and a 100 basis point reduction in the administrative expense ratio. Due to the favorable underwriting results, a higher amount of realized capital gains and a slightly lower level of investment income, WSD reported net income of \$28.4 million in 2010 after reporting net losses in 2008 and 2009. This favorable trend of earnings has continued into the first quarter 2011, as WSD reported underwriting gains of \$7.3 million and net income of \$6.1 million for the period ending March 31, 2011.

## PROFITABILITY TESTS

Year	Ben Paid to NPW & FFS	Comm & Exp to NPW & FFS	NOG to Tot Assets	NOG to Tot Rev	Operating Return on Equity	Net Yield	Total Return
2006	83.3	13.7	6.1	4.6	9.2	2.34	8.42
2007	86.4	15.3	0.3	0.2	0.5	2.75	4.47
2008	87.1	16.0	-0.8	-0.5	-1.2	2.99	-16.56
2009	89.7	14.5	-4.1	-2.7	-6.7	2.10	12.85
2010	85.7	13.7	2.3	1.5	3.6	1.89	10.89

## PROFITABILITY ANALYSIS

Net Underwriting Gain (000)	2010	2009	2008	2007	2006
Comp (med & hosp)	-2,631	-94,131	-62,426	-7,188	61,603
Dental	67	-1,061	-324	475	1,613
Vision	109	101	100	10	...
FEHBP	790	1,203	963	1,535	1,334
Medicare	4,130	3,859	3,542	-1,409	-203
Medicare supplement	18,762	4,941	7,454	4,080	13,293
Other health	-6,727	-2,921	-12,679	-31,304	-17,125
Other non-health	-379	-409	-367	-521	-794
Total	14,121	-88,419	-63,737	-34,322	59,722

## CAPITALIZATION

The following text is derived from the report of Wellmark Group.

Wellmark Group (Wellmark) is more than adequately capitalized in support of its business risks. The level of capitalization improved in 2010 after several consecutive years of decline. The improvement is attributable to improvement in net income and unrealized gains that contributed to a 12% growth in capital & surplus which outpaced the 3.7% increase in net premiums written. Wellmark's level of authorized control level risk based capital (RBC) has increased to more than 750% in 2010 from 696% in 2009.

Additionally, the company has invested heavily in a new home office. While capital was not materially affected; principal plus interest payments began on March 31, 2011 on the \$125.0 million note. Principal payments of \$3.0 million per quarter plus an interest rate reset on a regular short-term basis based on one-month LIBOR plus 1.8% are included in the terms of the note. Interest rate reset is offset by fixed rate swap the company has with US Bank and interest rate fluctuations are effectively hedged. A.M. Best remains concerned about the effect of the equity market volatility on the company's financial position and the economic conditions in both markets; however Wellmark's capital levels are sufficient to withstand a drop in the equity markets should a market decline occur.

## LEVERAGE TESTS

Year	Liabilities to Assets	NPW to Capital	Debt to Capital & Surplus	Equity PMPM	C&S to Total Assets	Months Reserves
2006	33.4	1.8	...	73.36	66.6	6.8
2007	35.2	2.0	...	70.31	64.8	6.0
2008	39.5	2.5	...	50.00	60.5	4.7
2009	39.4	2.4	...	54.06	60.6	4.8
2010	37.0	2.2	...	66.15	63.0	5.5

Current BCAR: 260

## SOURCES OF CAPITAL GROWTH (\$000)

Year	Net Gain	Realized Capital Gains	Unrealized Capital Gains	Other Changes	Change in C&S
2006	91,196	45,388	35,917	-18,643	153,856
2007	4,908	9,178	15,305	-43,083	-13,692
2008	-11,241	-166,686	-91,865	19,283	-250,508
2009	-56,561	56,415	63,059	8,284	71,197
2010	34,380	39,291	73,972	-22,669	124,974

## INVESTMENTS AND LIQUIDITY

The following text is derived from the report of Wellmark Group.

Wellmark Group (Wellmark) incorporates an investment strategy that is considered aggressive for a health insurance company. Equity holdings, excluding investment in subsidiaries, comprised 41% of invested assets, at year-end 2010. However, in 2011 Wellmark rebalanced its portfolio and the percentage of investments allocated to equities is expected to decline to slightly more than 30% from 50% a few years ago. While A.M. Best remains concerned about the large percentage invested in equities and the potential impact this exposure could have to the company's balance sheet, should the stock market experience further decline, however A.M. Best does recognize the shift in investment strategy with lower exposure to the equity markets.

Risk from the equity exposure is somewhat offset by allocation to low-risk securities within the rest of the portfolio. The bond portfolio is distributed between U.S. Government Securities; States Territories and Possessions; Political subdivision of States, Territories and Possessions; Special Revenue; and Industrial and Miscellaneous with 98% ranked NAIC class 1 or class 2. Additionally, about 45% of the total bond investments are due to mature in five years or less. There was an increase in real estate holdings during 2010 as Wellmark completed construction of its new headquarters. The remainder invested assets are held in cash, cash equivalents, and marketable investment securities.

Wellmark's liquidity is enhanced by its access to three lines of credit of a maximum of \$75.0 million in available financing, which provides additional operational and financial flexibility. As of December 31, 2010, no amounts were outstanding on the line of credit.

## LIQUIDITY TESTS

Year	Current Liquidity	Overall Liquidity	Premium Receivable Turnover (months)	Cash to Claims & Payables	Claims to NPE	Health Avg Clms Pay Period (days)	Tot Health IBNR Pay Period (days)
2006	178.4	299.0	0.4	656.5	11.0	48.3	33.1
2007	162.5	284.5	0.4	585.5	11.5	48.8	33.0
2008	132.1	252.9	0.3	442.6	11.5	48.3	37.7
2009	158.2	253.9	0.4	506.1	11.0	45.1	35.5
2010	146.0	270.3	0.4	501.3	11.4	48.9	39.0

## INVESTMENT YIELDS

Year	Net Yield	Bonds	Stocks	Mort-gages	Cash & Short Term	Real Estate Gross	Real Estate Net	Invest. Exp. Ratio
2006	2.34	4.66	1.24	...	40.15	25.40	19.55	18.73
2007	2.75	5.12	1.47	...	39.77	27.66	21.96	14.48
2008	2.99	5.51	1.61	...	7.97	12.54	9.52	17.21
2009	2.10	5.73	1.30	...	0.72	10.12	8.10	27.51
2010	1.89	4.92	1.22	...	0.40	9.87	5.93	26.57

## INVESTMENT DATA

Current Year Distribution of Bonds by Maturity

	Years					Yrs-Avg Maturity
	0-1	1-5	5-10	10-20	20+	
Government	0.3	3.9	3.6	0.8	3.5	12
Gov't Agencies & Muni	1.4	6.6	7.7	10.0	8.9	13
Industrial & Misc	22.0	12.1	8.5	5.0	5.7	6
Total	23.7	22.6	19.8	15.8	18.1	9

# Best's Rating Report



Back to Top

	2010	2009	2008	2007	2006
<b>Bonds (000)</b>	431,569	353,696	334,008	463,788	450,323
US Government	14.6	13.7	6.1	7.6	17.8
Foreign Government	0.1	0.4	0.1	0.5	1.0
Foreign - All Other	4.5	4.5	6.0	4.8	2.4
State/Special Rev. - US	43.0	41.8	51.2	56.0	47.5
Public Utilities - US	...	...	2.9	2.3	4.2
Industrial & Misc - US	37.8	39.7	33.6	28.8	27.1
Private Issues	3.3	1.7	2.0	2.6	1.7
Public Issues	96.7	98.3	98.0	97.4	98.3
<b>Bond Quality (%)</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Class 1	88.0	88.6	84.1	86.7	88.0
Class 2	10.0	10.8	14.5	11.7	10.5
Class 3	1.8	0.4	0.5	0.9	0.8
Class 4	0.2	0.1	0.2	0.5	0.5
Class 5	0.0	0.1	0.5	0.2	0.1
Class 6	0.1	0.1	0.2	...	...
<b>Real Estate (000)</b>	99,750	24,666	40,840	12,135	12,694
Property Occupied by Co	90.5	100.0	100.0	100.0	100.0
Property Held for Sale	9.5	...	...	...	...
<b>Stocks (000)</b>	789,698	739,206	654,824	930,199	937,177
Unaffiliated Common	63.6	72.3	67.7	73.7	76.3
Affiliated Common	37.6	29.8	34.8	27.1	24.6
Unaffiliated Preferred	0.7	0.4	0.5	0.6	0.4
<b>Other Inv Assets (000)</b>	42,047	89,494	39,227	20,615	23,507
Cash	-99.9	-42.4	-73.1	-99.9	-99.9
Short-Term	248.9	141.8	169.0	209.6	208.1
Schedule BA Assets	0.2	0.1	0.2	14.6	19.2
All Other	7.5	0.5	4.0	12.3	11.1

## HISTORY

**Date Incorporated:** 09/19/1939 **Date Commenced:** 10/01/1939

**Domicile:** IA

Wellmark is the result of three Iowa-based Blue plans merging in 1989 and incorporating as IASD Health Service Corporation. The present title was adopted during 1997.

During 1996, South Dakota Blue Shield was merged with Wellmark's Blue Cross operations in South Dakota and a stock subsidiary entitled Wellmark of South Dakota, Inc. was formed. The South Dakota subsidiary conducts business as Wellmark Blue Cross and Blue Shield of South Dakota.

## MANAGEMENT

**Officers:** Chairman of the Board, President and Chief Executive Officer, John D. Forsyth; Executive Vice President and Treasurer, David S. Brown; Executive Vice Presidents, Marcelle J. Chickering, Ellen J. Gaucher, George B. Hanna, Laura J. Jackson; Secretary, Francis J. Stork; Actuary, Patricia L. Huffman.

**Directors:** Thomas M. Cink, M.D., Melanie C. Dreher, John D. Forsyth, Daryl K. Henze, William C. Hunter, Paul E. Larson, Angeline Marie Lavin, Kenton K. Moss, M.D., Terrence J. Mulligan, David G. Neil.

## REGULATORY

An examination of the financial condition was made as of December 31, 2006 by the Insurance Department of Iowa. The 2010 annual independent audit of the company was conducted by Ernst & Young, LLP. The annual statement of actuarial opinion is provided by Patricia Lou Huffman, Actuary.

**Territory:** The company is licensed in Iowa and South Dakota.

## FINANCIAL INFORMATION BALANCE SHEET (\$000) - December 31, 2010

Assets		Liabilities	
*Total bonds	431,569	Claims payable	251,362
*Total preferred stocks	5,702	Unpaid claims adj expense	6,865
*Total common stocks	783,996	Accrued med incent pool	9,117
Real estate	99,750	Advance premiums	102,434
Cash & short-term inv	38,781	Comm taxes expenses	76,248
Premis and consids due	68,714	Uninsured A&H plans	32,901
Accrued invest income	4,442	Health policy reserves	44,836
Uninsured A&H plans	51,172	Other liabilities	66,700
Other assets	111,764	Total Liabilities	590,463
		Unassigned surplus	1,005,427
<b>Assets</b>	<b>1,595,890</b>	<b>Total</b>	<b>1,595,890</b>

\*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.

## SUMMARY OF OPERATIONS (\$000)

Premiums	2,200,524	Hospital/medical services	1,415,478
Net investment income	24,143	Other prof services	121,165
Other revenues	-5,070	Outside referrals	14,742
		Emerg rm & out of area	19,068
		Prescription drugs	304,770
		Incent pool & whld adj.	9,568
		Less reinsur exp net recover	-267
		Administrative	199,904
		Other expenses	101,441
<b>Total</b>	<b>2,219,597</b>	<b>Total</b>	<b>2,186,403</b>
Income (loss) .....			33,194
Provision for FIT .....			-1,186
Net gain from operations after federal income taxes .....			34,380

## SUMMARY OF MANAGED CARE OPERATIONS

Year	Enrollment (000's)	Utilization (Per 1,000 members)			Participating Physicians
		Total Members	Member Months	Physician Visits	
2006	1,241	14,632	3,202	204	5,493
2007	1,271	15,072	3,176	196	5,695
2008	1,357	16,186	2,871	173	5,929
2009	1,343	16,286	2,908	168	6,027
2010	1,250	15,200	3,032	176	6,126

# Best's Rating Report

Ultimate Parent: Wellmark Inc

## WELLMARK OF SOUTH DAKOTA, INC.

1601 West Madison Street  
Sioux Falls, SD 57104  
Web: www.wellmark.com

Tel.: 605-373-7200  
AMB#: 060207  
Ultimate Parent#: 068347

Fax: 605-361-5898  
NAIC#: 60128  
FEIN#: 42-1459204

## KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital & Surplus	Net Premiums Written	Total Revenues	Net Income
2006	265,919	149,975	471,848	480,744	23,668
2007	278,046	157,247	503,077	518,322	6,771
2008	243,339	124,663	544,816	549,255	-26,918
2009	277,427	119,466	579,101	574,545	-12,676
2010	309,034	149,032	600,299	603,173	28,367

## BUSINESS REVIEW

Wellmark of South Dakota Inc. (WSD) is a stock life insurance company. It is wholly-owned by Wellmark, Inc., its parent company, and operates as Wellmark Blue Cross Blue Shield of South Dakota. WSD operates as an independent licensee of the Blue Cross Blue Shield Association and carries the names and marks throughout the state of South Dakota. The company's membership is approximately 206,000.

WSD offers a broad range of products and services, which include a diversified mix of managed care products, preferred provider organization (PPO) products, and traditional indemnity benefits. Furthermore, WSD offers Medicare Supplement and is also a plan sponsor of Medicare Advantage PPO and Medicare Part D prescription drug plans. The company markets products to wide range of enrollees, which include large groups, mid-sized groups, small groups and individual members. The company also provides services to administrative services only (ASO), self-insured employer sponsored health plans. The services provided include claims processing, provider network access, and other related administrative services.

The following text is derived from the report of Wellmark Group.

Wellmark, Inc (Wellmark) and its subsidiaries have a strong market presence in their respective states. No other competing health insurer has a substantial market share in either state. Wellmark's membership declined slightly in 2009 and 2010, mainly due to economic pressures in the marketplace. The company's large membership base provides a competitive edge when contracting with providers, permitting it to create large networks in both states and is the only health insurer to offer PPO coverage throughout the state of Iowa. Another significant competitive advantage is a diverse product line designed to meet the needs of small and large employers as well as those of individuals. The company's health operations are defined by five segments: large group, small group, individual under age 65, individual over age 65 and Federal Employees Health Benefit Program (FEP). In addition, the company offers Medicare Advantage/Prescription Drug Plan (PDP) products.

THE LARGE GROUP segment consists of employer groups of 51 employees or more and comprises more than 60% of the enrollment in Iowa and 30% of the membership in South Dakota. Self-funding is available to groups with 100 employees or more. Fully insured products are available to all groups within this segment. Product offerings to groups of 51 - 100 employees are standardized while larger groups can have more customized benefits.

THE SMALL GROUP segment is comprised of employer groups under 51 employees and represents 9% of the membership in Iowa and 18% in South Dakota. Groups in this segment are more regulated by the Iowa and South Dakota Insurance Divisions than larger employer groups. Product offerings are standardized and are available on a fully insured basis only. The enrollment trend in this segment had grown in low double digit increases over the past few years as a result of more favorable pricing; however the small group market has been economically challenged and this has resulted in a decline of enrollment during the past two years. Further membership losses are expected in the near term due to the expected tight economic recovery.

THE INDIVIDUAL UNDER AGE 65 segment is moderately regulated by the Iowa Insurance Division with a requirement to include a specific guaranteed issue product. The company offers a variety of plans to individuals and families including PPO and managed indemnity. This segment comprises approximately 15% of the members in Iowa and 22% in South Dakota. In 2010 the enrollment in this segment increased in Iowa, while the South Dakota membership was relatively stable. The increase in the under age 65 membership Iowa was a result of more groups dropping coverage as well as growing layoffs in both states which pushed individuals to seek coverage outside their employer. In order to retain those members, Wellmark introduced new individual products, such as Blue Basics, a low cost option designed for younger (19-29) demographics.

## BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the life/health members of Wellmark Group, which operate under a group structure, this group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class XII which is the Financial Size Category of the parent.

## RATING RATIONALE

**Rating Rationale:** The group rating has been extended to Wellmark of South Dakota Inc. as this entity is Wellmark Inc.'s operating entity in South Dakota.

The following text is derived from the report of Wellmark Group.

The rating of Wellmark Inc. (Wellmark) and its subsidiaries, Wellmark of South Dakota, Inc., and Wellmark Health Plan of Iowa, Inc., reflects all three companies' market positions in Iowa and South Dakota, earnings growth, low operational costs, and strong level of capitalization. The offsetting factors are aggregate membership losses, economic and competitive challenges in the marketplace, and its investment portfolio exposure to equity market volatility.

Wellmark's position as a leading carrier in the Iowa and South Dakota markets remains. Larger national carriers and smaller provider-owned plans do compete in these markets; however, competitors have a smaller share in both markets. Despite the economic challenges in the marketplace, Wellmark's operational performance improved over the near term, reversing a trend of losses over the prior three periods. Much of the turnaround is due to pricing above cost trend in its fully insured products and the lower utilization rates leading to decreased year-over-year benefit expenses. Additionally, the company has very good cost controls in place and is among the lowest administrative cost Blue plans with administrative cost ratios averaging below ten percent. The underwriting results through March 31, 2011, were favorable with consolidated statutory operational gains of \$52.0 million. Wellmark's capitalization improved in 2010, driven by the strong operational gains. The level of health risk-based capital improved in 2010, and the current levels are adequate to support its business and investment risks.

In 2010, membership on a consolidated basis slightly declined. The enrollment declines were mainly in Wellmark's small group lines and large group ASO, where both competitive and economic pressures have had negative impacts. Furthermore, Wellmark reported membership decline in its dental line of business. The decline is mainly driven by competitive pressure from a dominant dental carrier. Although Wellmark has effectively reduced its equity holdings to a mix of sixty-five percent fixed income securities to approximately thirty-two percent equities, the weight of equities still remains elevated for a health care company. A.M. Best is concerned that further market volatility may negatively affect investment returns, and Wellmark's weight in equities increases the company's investment risks. A.M. Best does acknowledge that Wellmark's capital levels may be sufficient to withstand heavy equity market deterioration and that the company has lowered its exposure to equities.

**Best's Financial Strength Rating: A g**

**Outlook: Stable**

## FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
05/27/11	A g	06/16/08	A g
06/25/10	A g	06/01/07	A g
05/19/09	A g	06/20/06	A g

Back to Top

# Best's Rating Report



Back to Top

THE INDIVIDUAL OVER AGE 65 segment offers several of the Medicare Supplement plans standardized by the federal government. The availability of these plans varies by state. This segment represents approximately 13% of the enrollment in both Iowa and 15% South Dakota.

THE FEDERAL EMPLOYEE PROGRAM (FEP) segment represents 3% of the membership in Iowa and 13% in South Dakota. Wellmark offers both the FEP standard PPO and the basic PPO benefit plan which are part of the national Blue Cross & Blue Shield Federal Employee Program.

MEDICARE ADVANTAGE/PDP products are offered by Wellmark Blue Cross Blue Shield of Iowa and Wellmark Blue Cross Blue Shield of South Dakota. Enrollment in both MA Part D and the Medicare PPO products is modest in terms of total consolidated enrollment. After initially growing from the point of introduction in 2006, enrollment has declined slightly in the past two years following product pricing modifications.

Wellmark markets its products through multiple distribution channels, including brokers, direct sales representatives, telemarketers and the Internet. Brokers produce a majority of sales to groups with less than 250 employees and individuals under age 65. Direct sales representatives produce a majority of sales to groups with over 250 employees. In addition, telemarketers and the Internet produce a significant amount of sales to individuals, both under and over age 65. The company also maintains a strong affiliation with the Iowa and South Dakota Farm Bureaus, distribution systems which market Wellmark insurance products to individuals and small groups in rural areas.

Wellmark has developed considerable sophistication in medical management. The company utilizes systems to help identify high-risk cases early. An advanced early warning system provides an opportunity for case management intervention by identifying individuals that are driving cost and clinical utilization within a population. The Episode Risk Grouping (ERG) is a sophisticated methodology that identifies members that are at risk for high dollar claims by analyzing facility, doctor and pharmacy claims for an individual for single and combinations of medical conditions.

Wellmark's market share in health products has provided a solid foundation from which its product layering strategy is promoted. Other products offered in conjunction with health are: dental, group life, pension, accidental death & dismemberment (AD&D), long and short-term disability and long term care products. Many of the ancillary products sold are either underwritten by another insurance carrier or products developed through a joint venture.

## PREMIUM AND RESERVE ANALYSIS

Direct Premiums (000)	2010	2009	2008	2007	2006
Comp (med & hosp)	395,064	379,651	353,007	325,187	310,070
Vision	341	366	283	259	...
FEHBP	121,270	116,248	115,440	100,075	91,763
Medicare	8,604	8,168	7,530	7,503	494
Medicare supplement	57,220	54,655	50,427	48,835	48,416
Other health	17,800	20,012	18,129	21,217	21,104
<b>Total</b>	<b>600,299</b>	<b>579,101</b>	<b>544,816</b>	<b>503,077</b>	<b>471,848</b>

Net Premiums & Deposits (000)	2010	2009	2008	2007	2006
Comp (med & hosp)	395,064	379,651	353,007	325,187	310,070
Vision	341	366	283	259	...
FEHBP	121,270	116,248	115,440	100,075	91,763
Medicare	8,604	8,168	7,530	7,503	494
Medicare supplement	57,220	54,655	50,427	48,835	48,416
Other health	17,800	20,012	18,129	21,217	21,104
<b>Total</b>	<b>600,299</b>	<b>579,101</b>	<b>544,816</b>	<b>503,077</b>	<b>471,848</b>

**Geographical breakdown of direct premium writings (\$000):** South Dakota, \$600,299 (100.0%).

## EARNINGS

Wellmark of South Dakota (WSD) reported an underwriting gain of \$10.7 million in 2010 after three consecutive years of losses. The improvement in underwriting earnings is the result of pricing initiatives taken as well as broad-based utilization taken. The combination of these resulted in a 640 basis point decline in the medical loss ratio. In addition, the administrative expense ratio declined by 60 basis points due to cost saving actions.

The largest improvement was experienced in the commercial segment which reported a statutory underwriting gain of \$4.7 million after a \$35.5 million loss in 2009. This turnaround was driven by a 960 basis point decline in the loss ratio and a 100 basis point reduction in the administrative expense ratio.

Due to the favorable underwriting results as well as a higher amount of realized capital gains and a slightly lower level of investment income, WSD reported net income of \$28.4 million in 2010 after reporting net losses in 2008 and 2009. This favorable trend of earnings has continued into the first quarter 2011, as WSD reported underwriting gains of \$7.3 million and net income of \$6.1 million for the period ending March 31, 2011.

The following text is derived from the report of Wellmark Group.

Wellmark Group's consolidated earnings are generated primarily through its Wellmark, Inc. (d/b/a Blue Cross Blue Shield of Iowa) health insurance operations and managed care operations through its subsidiary Wellmark Health Plan of Iowa, Inc. in the Iowa health care market. Furthermore, Wellmark of South Dakota, Inc. contributes earnings from its medical operations in the South Dakota market (d/b/a Blue Cross and Blue Shield of South Dakota).

Wellmark, Inc. reported underwriting gains of \$14.1 million in 2010 after reporting losses for the past three years. The improvement in underwriting results was attributable to pricing initiatives and broad-based utilization decline, which resulted in an overall decline in the medical loss ratio of 400 basis points. Furthermore as a result of cost saving initiatives, the administrative expense ratio declined by 80 basis points year over year as well. For 2010, net investment income was fairly consistent with 2009 at \$24 million and realized capital gains declined slightly to \$39 million, both which when combined with the improvement in underwriting results led to a net income of \$73.7 million in 2010 after break even results in 2009 and net losses in excess of \$100 million in 2008.

During 2010, statutory underwriting earnings improved in the majority of product lines except for other health. The driver of the improvement in underwriting was the comprehensive (hospital and medical) line of business, which reported a \$90 million year over year improvement, although it still reported an underwriting loss of \$2.6 million. For the comprehensive line of business, the medical loss ratio declined by more than 500 basis points to 87.2% and the administrative expense ratio declined by 130 basis points. Furthermore, the Medicare Supplement earnings improved significantly as well from \$4.9 million in 2009 to \$18.8 million for 2010, driven by a 350 basis point decline in the loss ratio and a 50 basis point decline in the administrative expense ratio. The improvement in earnings has continued into 2011. Through the three months ended March 31, 2011, Wellmark, Inc. reported statutory underwriting gains of \$32.7 million and net income of \$50.7 million, driven by a continuation of favorable medical trends and lower administrative expenses.

Wellmark Health Plan of Iowa, Inc.'s underwriting earnings improved in 2010 to \$35.9 million due to a 550 basis point decline in the medical loss ratio and a 120 basis point improvement in the administrative expense ratio. The decline in the medical loss ratio resulted from broad-based utilization decline while the decrease in the administrative expense ratio was attributable to cost saving initiatives. Additionally, net income reported as of December 31, 2010 was favorable at \$29.4 million. These results include realized gains of \$2.1 million. This favorable trend of earnings continued into the first quarter of 2011 as the company reported underwriting gains of almost \$12 million and net income of \$9.2 million.

Wellmark of South Dakota, Inc. (WSD) reported an underwriting gain of \$10.7 million in 2010 after three consecutive years of losses. The improvement in underwriting earnings is the result of pricing initiatives taken as well as broad-based utilization decline. The combination of these resulted in a 640 basis point decline in the medical loss ratio. In addition, the administrative expense ratio declined by 70 basis points due to cost saving actions.

The largest improvement was experienced in the comprehensive segment which reported a statutory underwriting gain of \$4.7 million after a \$35.5 million loss in 2009. This turnaround was driven by a 960 basis point decline in the loss ratio and a 100 basis point reduction in the administrative expense ratio. Due to the favorable underwriting results, a higher amount of realized

# Best's Rating Report



Back to Top

capital gains and a slightly lower level of investment income, WSD reported net income of \$28.4 million in 2010 after reporting net losses in 2008 and 2009. This favorable trend of earnings has continued into the first quarter 2011, as WSD reported underwriting gains of \$7.3 million and net income of \$6.1 million for the period ending March 31, 2011.

## PROFITABILITY TESTS

Year	Ben Paid to NPW & FFS	Comm & Exp to NPW & FFS	NOG to Tot Assets	NOG to Tot Rev	Operating Return on Equity	Net Yield	Total Return
2006	84.6	12.0	7.9	4.1	14.4	3.93	7.64
2007	89.1	12.8	1.5	0.8	2.7	4.15	4.97
2008	89.8	12.9	-1.2	-0.6	-2.3	4.59	-10.72
2009	93.4	12.0	-6.6	-3.0	-14.1	4.18	11.04
2010	87.0	11.2	6.9	3.4	15.1	2.89	7.09

## PROFITABILITY ANALYSIS

Net Underwriting Gain (000)	2010	2009	2008	2007	2006
Comp (med & hosp)	4,671	-35,590	-13,678	-4,571	17,227
Vision	34	29	50	-6	...
FEHBP	-398	-267	-20	24	1
Medicare	1,193	838	-463	-462	-110
Medicare supplement	2,069	1,283	-1,055	-1,536	578
Other health	2,854	2,926	529	-2,986	-1,867
Other non-health	288	279	292	233	51
Total	10,712	-30,502	-14,345	-9,305	15,880

## CAPITALIZATION

The level of capitalization grew for Wellmark of South Dakota, Inc. (WSD) in 2010 after several years of decline. The improvement was due to the turnaround in operating performance and net income as well as a lower level of premium growth in 2010 compared with 2009. The amount of capital is more than adequate to support its business risks and the rating. The level of authorized control level risk-based capital was 782% at year-end 2010 compared with 606% at year-end 2009.

The following text is derived from the report of Wellmark Group.

Wellmark Group (Wellmark) is more than adequately capitalized in support of its business risks. The level of capitalization improved in 2010 after several consecutive years of decline. The improvement is attributable to improvement in net income and unrealized gains that contributed to a 12% growth in capital & surplus which outpaced the 3.7% increase in net premiums written. Wellmark's level of authorized control level risk based capital (RBC) has increased to more than 750% in 2010 from 696% in 2009.

Additionally, the company has invested heavily in a new home office. While capital was not materially affected; principal plus interest payments began on March 31, 2011 on the \$125.0 million note. Principal payments of \$3.0 million per quarter plus an interest rate reset on a regular short-term basis based on one-month LIBOR plus 1.8% are included in the terms of the note. Interest rate reset is offset by fixed rate swap the company has with US Bank and interest rate fluctuations are effectively hedged. A.M. Best remains concerned about the effect of the equity market volatility on the company's financial position and the economic conditions in both markets; however Wellmark's capital levels are sufficient to withstand a drop in the equity markets should a market decline occur.

## LEVERAGE TESTS

Year	Liabilities to Assets	NPW to Capital	Debt to Capital & Surplus	Equity to PMPM	C&S to Total Assets	Months to Reserves
2006	43.6	3.1	...	66.85	56.4	3.9
2007	43.4	3.2	...	67.52	56.6	3.6
2008	48.8	4.4	...	52.41	51.2	2.7
2009	56.9	4.8	...	49.37	43.1	2.4
2010	51.8	4.0	...	64.47	48.2	3.1

Current BCAR: 260

## SOURCES OF CAPITAL GROWTH (\$000)

Year	Net Gain	Realized Capital Gains	Unrealized Capital Gains	Other Changes	Change in C&S
2006	19,507	4,161	4,096	420	28,184
2007	4,176	2,594	-610	1,112	7,273
2008	-3,233	-23,685	-11,060	5,394	-32,584
2009	-17,252	4,576	9,287	-1,808	-5,197
2010	20,221	8,146	1,909	-710	29,566

## INVESTMENTS AND LIQUIDITY

Wellmark of South Dakota, Inc. (WSD) investment strategy follows that of parent Wellmark, Inc. (Wellmark) and is managed by Wellmark Inc.'s leadership team. Investments held by WSD were comprised of a mix of fixed income securities of fifty-six percent of the portfolio and approximately twenty-nine percent held in equities, with the remainder in cash and short-term instruments as of December 31, 2010. The fixed income securities are nearly all investment grade or 97% of total invested assets. The exposure to equities has improved slightly and comprised almost 34% of the portfolio as of December 31, 2009 and has declined further to 24.5% as of March 31, 2011. The decline is a change in the investment strategy to rebalance the portfolio with a lower exposure to equities.

WSD maintains adequate liquidity capabilities. The company reported cash from operations of \$19.7 million at year-end 2010 and \$15.9 million was reported as of March 31, 2011.

The following text is derived from the report of Wellmark Group.

Wellmark Group (Wellmark) incorporates an investment strategy that is considered aggressive for a health insurance company. Equity holdings, excluding investment in subsidiaries, comprised 41% of invested assets, at year-end 2010. However, in 2011 Wellmark rebalanced its portfolio and the percentage of investments allocated to equities is expected to decline to slightly more than 30% from 50% a few years ago. While A.M. Best remains concerned about the large percentage invested in equities and the potential impact this exposure could have to the company's balance sheet, should the stock market experience further decline, however A.M. Best does recognize the shift in investment strategy with lower exposure to the equity markets.

Risk from the equity exposure is somewhat offset by allocation to low-risk securities within the rest of the portfolio. The bond portfolio is distributed between U.S. Government Securities; States Territories and Possessions; Political subdivision of States, Territories and Possessions; Special Revenue; and Industrial and Miscellaneous with 98% ranked NAIC class 1 or class 2. Additionally, about 45% of the total bond investments are due to mature in five years or less. There was an increase in real estate holdings during 2010 as Wellmark completed construction of its new headquarters. The remainder invested assets are held in cash, cash equivalents, and marketable investment securities.

Wellmark's liquidity is enhanced by its access to three lines of credit of a maximum of \$75.0 million in available financing, which provides additional operational and financial flexibility. As of December 31, 2010, no amounts were outstanding on the line of credit.

## LIQUIDITY TESTS

Year	Current Liquidity	Overall Liquidity	Premium Receivable Turnover (months)	Cash to Claims & Payables	Claims to NPE	Health Avg Clms Pay Period (days)	Tot Health IBNR Pay Period (days)
2006	169.8	229.4	0.5	439.5	11.3	48.8	32.8
2007	170.5	230.2	0.5	384.1	12.4	51	32.7
2008	126.2	205.0	0.6	266.6	12.9	52.7	30.8
2009	137.2	175.6	0.7	307.1	12.6	49.5	32.8
2010	147.4	193.1	0.8	403.8	10.6	44.8	28.7

# Best's Rating Report



Back to Top

## INVESTMENT YIELDS

Year	Net Yield	Bonds	Stocks	Mortgages	Cash & Short Term	Real Estate		Invest. Exp. Ratio
						Gross	Net	
2006	3.93	5.15	2.11	...	3.64	32.10	27.77	7.95
2007	4.15	5.44	2.27	...	3.87	33.42	29.93	8.84
2008	4.59	6.38	2.52	...	1.82	35.22	30.91	10.31
2009	4.18	6.46	2.37	...	0.26	34.39	29.86	9.18
2010	2.89	4.43	2.47	...	0.06	30.85	24.96	14.22

## INVESTMENT DATA

Current Year Distribution of Bonds by Maturity

	Years					Yrs-Avg Maturity
	0-1	1-5	5-10	10-20	20+	
Government	0.7	4.4	6.0	0.6	6.9	13
Gov't Agencies & Muni	0.6	2.5	3.8	9.1	13.7	17
Industrial & Misc	18.9	11.3	12.6	3.6	5.4	6
<b>Total</b>	<b>20.1</b>	<b>18.2</b>	<b>22.4</b>	<b>13.3</b>	<b>25.9</b>	<b>11</b>

	2010	2009	2008	2007	2006
<b>Bonds (000)</b>	<b>146,519</b>	<b>106,880</b>	<b>110,641</b>	<b>132,991</b>	<b>131,794</b>
US Government	21.8	39.2	13.8	17.0	25.0
Foreign Government	0.3	0.4	0.4	2.7	4.3
Foreign - All Other	7.0	7.0	6.3	4.8	3.0
State/Special Rev. - US	36.4	16.8	41.2	44.9	38.3
Public Utilities - US	...	...	2.1	1.8	2.9
Industrial & Misc - US	34.6	36.5	36.3	28.8	26.5
Private Issues	1.8	2.3	4.4	4.5	3.0
Public Issues	98.2	97.7	95.6	95.5	97.0

Bond Quality (%)	2010	2009	2008	2007	2006
Class 1	89.1	87.9	80.5	83.0	86.2
Class 2	7.9	9.6	13.0	11.2	8.0
Class 3	2.1	1.1	2.2	2.7	3.0
Class 4	0.6	0.7	0.9	2.2	2.5
Class 5	0.2	0.5	2.5	1.0	0.4
Class 6	0.2	0.2	0.8	...	...

	2010	2009	2008	2007	2006
<b>Real Estate (000)</b>	<b>1,595</b>	<b>1,411</b>	<b>1,437</b>	<b>1,529</b>	<b>1,597</b>
Property Occupied by Co	100.0	100.0	100.0	100.0	100.0

	2010	2009	2008	2007	2006
<b>Stocks (000)</b>	<b>75,141</b>	<b>74,857</b>	<b>59,467</b>	<b>79,106</b>	<b>79,705</b>
Unaffiliated Common	98.5	99.3	99.4	98.4	99.5
Unaffiliated Preferred	1.5	0.7	0.6	1.6	0.5
<b>Other Inv Assets (000)</b>	<b>37,647</b>	<b>39,448</b>	<b>15,839</b>	<b>30,766</b>	<b>23,829</b>
Cash	0.6	9.3	28.1	18.0	20.7
Short-Term	89.1	90.2	71.7	78.1	73.8
All Other	10.4	0.5	0.2	3.9	5.5

## HISTORY

**Date Incorporated:** 07/19/1996 **Date Commenced:** 08/01/1996

**Domicile:** SD

Originally incorporated as South Dakota Health Services Company, the present title was adopted during 1997.

During 1996, South Dakota Blue Shield was merged with Wellmark's Blue Cross operations in South Dakota and a stock subsidiary currently entitled Wellmark of South Dakota, Inc. was formed. The South Dakota subsidiary conducts business as Wellmark Blue Cross and Blue Shield of South Dakota.

## MANAGEMENT

**Officers:** President, Philip M. Davis; Secretary, Francis (Frank) J. Stork; Treasurer, David S. Brown; Actuary, Patricia L. Huffman.

**Directors:** Thomas M. Cink, M.D., Melanie C. Dreher, John D. Forsyth, Daryl K. Henze, William C. Hunter, Paul E. Larson, Angeline M. Lavin, Kenton K. Moss, Terrence J. Mulligan, David G. Neil.

## REGULATORY

An examination of the financial condition is being made as of December 31, 2009 by the Insurance Department of South Dakota. The 2010 annual independent audit of the company was conducted by Ernst & Young, LLP. The annual statement of actuarial opinion is provided by Patricia Lou Huffman, Actuary.

**Territory:** The company is licensed in South Dakota.

## FINANCIAL INFORMATION BALANCE SHEET (\$000) - December 31, 2010

Assets	Liabilities		
*Total bonds	146,519	Claims payable	63,249
*Total preferred stocks	1,144	Unpaid claims adj expense	1,614
*Total common stocks	73,997	Accrued med incnt pool	3,078
Real estate	1,595	Advance premiums	25,194
Cash & short-term inv	33,748	Comm taxes expenses	2,632
Prems and consids due	38,012	Payable to affiliate	21,505
Accrued invest income	1,077	Payable for securities	11,753
Other assets	12,942	Health policy reserves	25,389
		Other liabilities	5,586
		Total Liabilities	160,001
		Common stock	400
		Paid in & contrib surpl	30,793
		Unassigned surplus	117,840
<b>Assets</b>	<b>309,034</b>	<b>Total</b>	<b>309,034</b>

\*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.

## SUMMARY OF OPERATIONS (\$000)

Premiums	596,009	Hospital/medical services	403,466
Net investment income	6,923	Other prof services	26,656
Other revenues	241	Outside referrals	6,757
		Emerg rm & out of area	7,840
		Prescription drugs	70,724
		Incent pool & whld adj.	2,948
		Less reinsur exp net recover	-124
		Administrative	47,475
		Other expenses	19,549
<b>Total</b>	<b>603,173</b>	<b>Total</b>	<b>585,538</b>
Income (loss) .....			17,635
Provision for FIT .....			-2,586
Net gain from operations after federal income taxes .....			20,221

## SUMMARY OF MANAGED CARE OPERATIONS

Year	Total Members	Enrollment (000's)	Utilization (Per 1,000 members)		
			Member Months	Physician Visits	Hospital Days
2006	188	2,244	5,036	289	1,470
2007	198	2,329	5,003	288	1,497
2008	199	2,378	5,118	284	1,524
2009	200	2,420	5,158	285	1,578
2010	190	2,312	5,177	284	1,636

# Best's Rating Report

Ultimate Parent: Wellmark Inc

## WELLMARK HEALTH PLAN OF IOWA, INC.

1331 Grand Avenue  
Des Moines, IA 50309-2901  
Web: www.wellmark.com

Tel.: 515-376-4500  
AMB#: 064385  
Ultimate Parent#: 068347

Fax: 515-376-9054  
NAIC#: 95531  
FEIN#: 42-1455449

### KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital & Surplus	Net Premiums Written	Total Revenues	Net Income
2006	106,175	55,294	267,847	270,833	10,001
2007	160,255	75,152	359,558	364,207	18,882
2008	150,440	79,536	403,673	409,630	7,199
2009	154,763	97,289	295,275	300,874	13,975
2010	190,388	127,556	322,444	327,838	29,386

### BUSINESS REVIEW

Wellmark Health Plan of Iowa, Inc. (WHPI) is a health maintenance organization (HMO), and is wholly owned by Wellmark, Inc., its parent company. Wellmark, Inc. purchased all outstanding shares of the company during 2010. WHPI operates as an independent licensee of the Blue Cross Blue Shield Association and carries the names and marks throughout the state of Iowa. The company's membership is approximately 265,000 and has grown by 11.6% since 2008.

WHPI contracts for the delivery of health care to policyholders with hospitals, physician hospital organizations, physicians, skilled nursing facilities, and other organizations. The company markets products to wide range of enrollees, which include large groups, mid-sized groups, small groups and individual members. WHPI offers a variety of managed care products that include HMO and point-of-service (POS) products, and provides services to administrative services only (ASO), self-insured employer sponsored health plans. The services provided include claims processing, provider network access, and other related administrative services.

The following text is derived from the report of Wellmark Group.

Wellmark, Inc (Wellmark) and its subsidiaries have a strong market presence in their respective states. No other competing health insurer has a substantial market share in either state. Wellmark's membership declined slightly in 2009 and 2010, mainly due to economic pressures in the marketplace. The company's large membership base provides a competitive edge when contracting with providers, permitting it to create large networks in both states and is the only health insurer to offer PPO coverage throughout the state of Iowa. Another significant competitive advantage is a diverse product line designed to meet the needs of small and large employers as well as those of individuals. The company's health operations are defined by five segments: large group, small group, individual under age 65, individual over age 65 and Federal Employees Health Benefit Program (FEP). In addition, the company offers Medicare Advantage/Prescription Drug Plan (PDP) products.

THE LARGE GROUP segment consists of employer groups of 51 employees or more and comprises more than 60% of the enrollment in Iowa and 30% of the membership in South Dakota. Self-funding is available to groups with 100 employees or more. Fully insured products are available to all groups within this segment. Product offerings to groups of 51 - 100 employees are standardized while larger groups can have more customized benefits.

THE SMALL GROUP segment is comprised of employer groups under 51 employees and represents 9% of the membership in Iowa and 18% in South Dakota. Groups in this segment are more regulated by the Iowa and South Dakota Insurance Divisions than larger employer groups. Product offerings are standardized and are available on a fully insured basis only. The enrollment trend in this segment had grown in low double digit increases over the past few years as a result of more favorable pricing; however the small group market has been economically challenged and this has resulted in a decline of enrollment during the past two years. Further membership losses are expected in the near term due to the expected tepid economic recovery.

THE INDIVIDUAL UNDER AGE 65 segment is moderately regulated by the Iowa Insurance Division with a requirement to include a specific guaranteed issue product. The company offers a variety of plans to individuals and families including PPO and managed indemnity. This segment comprises approximately 15% of the members in Iowa and 22% in South Dakota. In 2010 the enrollment in this segment increased in Iowa, while the South Dakota membership was relatively stable. The increase in the under age 65 membership Iowa was a result of more groups dropping coverage as well as growing layoffs in both states which pushed individuals to seek coverage outside their employer. In order to retain those members, Wellmark introduced new individual products, such as Blue Basics, a low cost option designed for younger (19-29) demographics.

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the life/health members of Wellmark Group, which operate under a group structure, this group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class XII which is the Financial Size Category of the parent.

### RATING RATIONALE

**Rating Rationale:** The group rating has been extended to Wellmark Health Plan of Iowa as this entity provides Wellmark Inc. with rate flexibility and product diversification.

The following text is derived from the report of Wellmark Group.

The rating of Wellmark Inc. (Wellmark) and its subsidiaries, Wellmark of South Dakota, Inc., and Wellmark Health Plan of Iowa, Inc., reflects all three companies' market positions in Iowa and South Dakota, earnings growth, low operational costs, and strong level of capitalization. The offsetting factors are aggregate membership losses, economic and competitive challenges in the marketplace, and its investment portfolio exposure to equity market volatility.

Wellmark's position as a leading carrier in the Iowa and South Dakota markets remains. Larger national carriers and smaller provider-owned plans do compete in these markets; however, competitors have a smaller share in both markets. Despite the economic challenges in the marketplace, Wellmark's operational performance improved over the near term, reversing a trend of losses over the prior three periods. Much of the turnaround is due to pricing above cost trend in its fully insured products and the lower utilization rates leading to decreased year-over-year benefit expenses. Additionally, the company has very good cost controls in place and is among the lowest administrative cost Blue plans with administrative cost ratios averaging below ten percent. The underwriting results through March 31, 2011, were favorable with consolidated statutory operational gains of \$52.0 million. Wellmark's capitalization improved in 2010, driven by the strong operational gains. The level of health risk-based capital improved in 2010, and the current levels are adequate to support its business and investment risks.

In 2010, membership on a consolidated basis slightly declined. The enrollment declines were mainly in Wellmark's small group lines and large group ASO, where both competitive and economic pressures have had negative impacts. Furthermore, Wellmark reported membership decline in its dental line of business. The decline is mainly driven by competitive pressure from a dominant dental carrier. Although Wellmark has effectively reduced its equity holdings to a mix of sixty-five percent fixed income securities to approximately thirty-two percent equities, the weight of equities still remains elevated for a health care company. A.M. Best is concerned that further market volatility may negatively affect investment returns, and Wellmark's weight in equities increases the company's investment risks. A.M. Best does acknowledge that Wellmark's capital levels may be sufficient to withstand heavy equity market deterioration and that the company has lowered its exposure to equities.

**Best's Financial Strength Rating: A g**

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
05/27/11	A g	06/16/08	A g
06/25/10	A g	06/01/07	A g
05/19/09	A g	06/20/06	A g

Back to Top

# Best's Rating Report



Back to Top

THE INDIVIDUAL OVER AGE 65 segment offers several of the Medicare Supplement plans standardized by the federal government. The availability of these plans varies by state. This segment represents approximately 13% of the enrollment in both Iowa and 15% South Dakota.

THE FEDERAL EMPLOYEE PROGRAM (FEP) segment represents 3% of the membership in Iowa and 13% in South Dakota. Wellmark offers both the FEP standard PPO and the basic PPO benefit plan which are part of the national Blue Cross & Blue Shield Federal Employee Program.

MEDICARE ADVANTAGE/PDP products are offered by Wellmark Blue Cross Blue Shield of Iowa and Wellmark Blue Cross Blue Shield of South Dakota. Enrollment in both MA Part D and the Medicare PPO products is modest in terms of total consolidated enrollment. After initially growing from the point of introduction in 2006, enrollment has declined slightly in the past two years following product pricing modifications.

Wellmark markets its products through multiple distribution channels, including brokers, direct sales representatives, telemarketers and the Internet. Brokers produce a majority of sales to groups with less than 250 employees and individuals under age 65. Direct sales representatives produce a majority of sales to groups with over 250 employees. In addition, telemarketers and the Internet produce a significant amount of sales to individuals, both under and over age 65. The company also maintains a strong affiliation with the Iowa and South Dakota Farm Bureaus, distribution systems which market Wellmark insurance products to individuals and small groups in rural areas.

Wellmark has developed considerable sophistication in medical management. The company utilizes systems to help identify high-risk cases early. An advanced early warning system provides an opportunity for case management intervention by identifying individuals that are driving cost and clinical utilization within a population. The Episode Risk Grouping (ERG) is a sophisticated methodology that identifies members that are at risk for high dollar claims by analyzing facility, doctor and pharmacy claims for an individual for single and combinations of medical conditions.

Wellmark's market share in health products has provided a solid foundation from which its product layering strategy is promoted. Other products offered in conjunction with health are: dental, group life, pension, accidental death & dismemberment (AD&D), long and short-term disability and long term care products. Many of the ancillary products sold are either underwritten by another insurance carrier or products developed through a joint venture.

## PREMIUM AND RESERVE ANALYSIS

	2010	2009	2008	2007	2006
Direct Premiums (000)					
Comp (med & hosp)	322,444	295,275	403,673	362,458	270,037
Total	322,444	295,275	403,673	362,458	270,037
Reins Ceded Prens (000)					
Comp (med & hosp)	...	...	...	2,900	2,190
Total	...	...	...	2,900	2,190
Net Premiums & Deposits (000)					
Comp (med & hosp)	322,444	295,275	403,673	359,558	267,847
Total	322,444	295,275	403,673	359,558	267,847

**Geographical breakdown of direct premium writings (\$000):** Iowa, \$322,444 (100.0%).

## EARNINGS

Wellmark Health Plan of Iowa underwriting earnings improved in 2010 to \$35.9 million due to a 550 basis point decline in the medical loss ratio and a 120 basis point improvement in the administrative expense ratio. The decline in the medical loss ratio resulted from broad-based utilization decline while the decrease in the administrative expense ratio was attributable to cost saving initiatives. Additionally, net income reported as of December 31, 2010 was favorable at \$29.4 million. These results include realized gains of \$2.1 million. This favorable trend of earnings continued into the first quarter 2011 as the company reported underwriting gains of almost \$12 million and net income of \$9.2 million.

The following text is derived from the report of Wellmark Group.

Wellmark Group's consolidated earnings are generated primarily through its Wellmark, Inc. (d/b/a Blue Cross Blue Shield of Iowa) health insurance operations and managed care operations through its subsidiary Wellmark Health Plan of Iowa, Inc. in the Iowa health care market. Furthermore, Wellmark of South Dakota, Inc. contributes earnings from its medical operations in the South Dakota market (d/b/a Blue Cross and Blue Shield of South Dakota).

Wellmark, Inc. reported underwriting gains of \$14.1 million in 2010 after reporting losses for the past three years. The improvement in underwriting results was attributable to pricing initiatives and broad-based utilization decline, which resulted in an overall decline in the medical loss ratio of 400 basis points. Furthermore as a result of cost saving initiatives, the administrative expense ratio declined by 80 basis points year over year as well. For 2010, net investment income was fairly consistent with 2009 at \$24 million and realized capital gains declined slightly to \$39 million, both which when combined with the improvement in underwriting results led to a net income of \$73.7 million in 2010 after break even results in 2009 and net losses in excess of \$100 million in 2008.

During 2010, statutory underwriting earnings improved in the majority of product lines except for other health. The driver of the improvement in underwriting was the comprehensive (hospital and medical) line of business, which reported a \$90 million year over year improvement, although it still reported an underwriting loss of \$2.6 million. For the comprehensive line of business, the medical loss ratio declined by more than 500 basis points to 87.2% and the administrative expense ratio declined by 130 basis points. Furthermore, the Medicare Supplement earnings improved significantly as well from \$4.9 million in 2009 to \$18.8 million for 2010, driven by a 350 basis point decline in the loss ratio and a 50 basis point decline in the administrative expense ratio. The improvement in earnings has continued into 2011. Through the three months ended March 31, 2011, Wellmark, Inc. reported statutory underwriting gains of \$32.7 million and net income of \$50.7 million, driven by a continuation of favorable medical trends and lower administrative expenses.

Wellmark Health Plan of Iowa, Inc.'s underwriting earnings improved in 2010 to \$35.9 million due to a 550 basis point decline in the medical loss ratio and a 120 basis point improvement in the administrative expense ratio. The decline in the medical loss ratio resulted from broad-based utilization decline while the decrease in the administrative expense ratio was attributable to cost saving initiatives. Additionally, net income reported as of December 31, 2010 was favorable at \$29.4 million. These results include realized gains of \$2.1 million. This favorable trend of earnings continued into the first quarter of 2011 as the company reported underwriting gains of almost \$12 million and net income of \$9.2 million.

Wellmark of South Dakota, Inc. (WSD) reported an underwriting gain of \$10.7 million in 2010 after three consecutive years of losses. The improvement in underwriting earnings is the result of pricing initiatives taken as well as broad-based utilization decline. The combination of these resulted in a 640 basis point decline in the medical loss ratio. In addition, the administrative expense ratio declined by 70 basis points due to cost saving actions.

The largest improvement was experienced in the comprehensive segment which reported a statutory underwriting gain of \$4.7 million after a \$35.5 million loss in 2009. This turnaround was driven by a 960 basis point decline in the loss ratio and a 100 basis point reduction in the administrative expense ratio. Due to the favorable underwriting results, a higher amount of realized capital gains and a slightly lower level of investment income, WSD reported net income of \$28.4 million in 2010 after reporting net losses in 2008 and 2009. This favorable trend of earnings has continued into the first quarter 2011, as WSD reported underwriting gains of \$7.3 million and net income of \$6.1 million for the period ending March 31, 2011.

## PROFITABILITY TESTS

Year	Ben Paid to NPW & FFS	Comm & Exp to NPW & FFS	NOG to Tot Assets	NOG to Tot Rev	Operating Return on Equity	Net Yield	Total Return
2006	86.5	8.9	10.7	3.7	20.0	4.01	5.63
2007	84.9	8.5	12.8	4.7	26.2	4.01	4.86
2008	88.3	7.5	9.5	3.6	19.1	4.43	-3.27
2009	87.4	8.2	8.0	4.0	13.7	4.51	8.47
2010	81.9	7.0	15.8	8.3	24.2	3.74	7.06

# Best's Rating Report



Back to Top

## PROFITABILITY ANALYSIS

Net Underwriting Gain (000)	2010	2009	2008	2007	2006
Comp (med & hosp)	33,223	9,969	13,364	20,677	10,177
Other health	2,616	3,258	3,496	3,048	2,317
Other non-health	21	20	12	11	12
Total	35,860	13,247	16,871	23,736	12,507

## CAPITALIZATION

The level of capitalization improved for Wellmark Health Plan of Iowa, Inc. (WHPI) in 2010 and 2009 as a result of strong operational gains. WHPI's compounded capital growth over the past five years is 23% supported by consistent operational returns over that period compared with 3.3% compounded net premiums written growth rate during the same period. The amount of capital is more than adequate to support its business risks.

The following text is derived from the report of Wellmark Group.

Wellmark Group (Wellmark) is more than adequately capitalized in support of its business risks. The level of capitalization improved in 2010 after several consecutive years of decline. The improvement is attributable to improvement in net income and unrealized gains that contributed to a 12% growth in capital & surplus which outpaced the 3.7% increase in net premiums written. Wellmark's level of authorized control level risk based capital (RBC) has increased to more than 750% in 2010 from 696% in 2009.

Additionally, the company has invested heavily in a new home office. While capital was not materially affected; principal plus interest payments began on March 31, 2011 on the \$125.0 million note. Principal payments of \$3.0 million per quarter plus an interest rate reset on a regular short-term basis based on one-month LIBOR plus 1.8% are included in the terms of the note. Interest rate reset is offset by fixed rate swap the company has with US Bank and interest rate fluctuations are effectively hedged. A.M. Best remains concerned about the effect of the equity market volatility on the company's financial position and the economic conditions in both markets; however Wellmark's capital levels are sufficient to withstand a drop in the equity markets should a market decline occur.

## LEVERAGE TESTS

Year	Liabilities to Assets	NPW to Capital	Debt to Capital & Surplus	Equity PMPM	C&S to Total Assets	Months Reserves
2006	47.9	4.8	...	50.83	52.1	2.6
2007	53.1	4.8	...	53.42	46.9	2.7
2008	47.1	5.1	...	53.75	52.9	2.5
2009	37.1	3.0	...	91.15	62.9	4.1
2010	33.0	2.5	...	115.05	67.0	5.3

Current BCAR: 260

## SOURCES OF CAPITAL GROWTH (\$000)

Year	Net Gain	Realized Capital Gains	Unrealized Capital Gains	Other Changes	Change in C&S
2006	10,061	-60	1,284	-1,283	10,002
2007	17,117	1,765	-773	1,750	19,858
2008	14,771	-7,572	-3,243	427	4,383
2009	12,134	1,841	3,104	674	17,753
2010	27,257	2,129	2,707	-1,826	30,267

## INVESTMENTS AND LIQUIDITY

Wellmark Health Plan of Iowa, Inc. (WHPI) investment strategy follows that of parent Wellmark, Inc. and is managed by Wellmark Inc.'s leadership team. Investments held by WHPI are slightly less aggressive than Wellmark Inc.'s, which include a mix of fixed income securities at almost 63% of the portfolio and approximately 22% equities, with the remainder in cash and short-term instruments as of December 31, 2010. The fixed income securities are all investment grade, and have been completely maintained in the highest quality levels since 2007.

WHPI maintains adequate liquidity capabilities. Cash from operations totaled \$27.8 million in 2010 and \$23.1 million was reported as of March 31, 2011.

The following text is derived from the report of Wellmark Group.

Wellmark Group (Wellmark) incorporates an investment strategy that is considered aggressive for a health insurance company. Equity holdings, excluding investment in subsidiaries, comprised 41% of invested assets, at year-end 2010. However, in 2011 Wellmark rebalanced its portfolio and the percentage of investments allocated to equities is expected to decline to slightly more than 30% from 50% a few years ago. While A.M. Best remains concerned about the large percentage invested in equities and the potential impact this exposure could have to the company's balance sheet, should the stock market experience further decline, however A.M. Best does recognize the shift in investment strategy with lower exposure to the equity markets.

Risk from the equity exposure is somewhat offset by allocation to low-risk securities within the rest of the portfolio. The bond portfolio is distributed between U.S. Government Securities; States Territories and Possessions; Political subdivision of States, Territories and Possessions; Special Revenue; and Industrial and Miscellaneous with 98% ranked NAIC class 1 or class 2. Additionally, about 45% of the total bond investments are due to mature in five years or less. There was an increase in real estate holdings during 2010 as Wellmark completed construction of its new headquarters. The remainder invested assets are held in cash, cash equivalents, and marketable investment securities.

Wellmark's liquidity is enhanced by its access to three lines of credit of a maximum of \$75.0 million in available financing, which provides additional operational and financial flexibility. As of December 31, 2010, no amounts were outstanding on the line of credit.

## LIQUIDITY TESTS

Year	Current Liquidity	Overall Liquidity	Premium Receivable Turnover (months)	Cash to Claims & Payables	Claims to NPE	Health Avg Clms Pay Period (days)	Tot Health IBNR Pay Period (days)
2006	176.1	208.7	0.1	310.1	10.6	45.4	36.3
2007	183.3	188.3	0.0	405.6	9.9	43.2	34.5
2008	151.4	212.2	0.0	303.3	10.3	42.8	34.3
2009	199.2	269.3	0.0	422.0	9.9	41.8	33.4
2010	265.0	303.0	0.0	645.4	8.0	36.2	28.9

## INVESTMENT YIELDS

Year	Net Yield	Bonds	Stocks	Mortgages	Cash & Short Term	Real Estate Gross	Real Estate Net	Invest. Exp. Ratio
2006	4.01	5.01	1.95	...	3.31	...	...	4.55
2007	4.01	4.86	1.95	...	3.13	...	...	3.26
2008	4.43	5.29	2.42	...	2.97	...	...	4.67
2009	4.51	5.56	2.26	...	0.45	...	...	4.84
2010	3.74	5.04	2.27	...	0.16	...	...	4.44

## INVESTMENT DATA

Current Year Distribution of Bonds by Maturity

	Years					Yrs-Avg Maturity
	0-1	1-5	5-10	10-20	20+	
Government	...	3.4	10.5	0.3	5.9	12
Gov't Agencies & Muni	0.5	2.2	2.1	2.3	2.3	12
Industrial & Misc	24.2	15.9	17.9	4.5	8.1	7
Total	24.7	21.5	30.5	7.0	16.3	8

	2010	2009	2008	2007	2006
Bonds (000)	105,406	86,635	100,704	85,762	55,077
US Government	24.8	21.2	20.6	29.8	32.9
Foreign - All Other	5.7	7.5	9.9	4.5	2.8
State/Special Rev. - US	11.7	10.5	18.8	26.7	17.9
Public Utilities - US	...	...	4.2	3.9	5.6
Industrial & Misc - US	57.8	60.8	46.5	35.1	40.9
Private Issues	0.5	0.1	0.3	0.1	0.7
Public Issues	99.5	99.9	99.7	99.9	99.3

# Best's Rating Report



Back to Top

Bond Quality (%)	2010	2009	2008	2007	2006
Class 1	90.0	87.1	85.6	93.4	93.5
Class 2	10.0	12.9	14.4	6.6	6.0
Class 3	...	...	...	...	0.5
Class 6	0.0	0.0	0.0	...	...
Stocks (000)	2010	2009	2008	2007	2006
Unaffiliated Common	36,291	25,447	20,388	25,113	17,382
	100.0	100.0	100.0	100.0	100.0
Other Inv Assets (000)	2010	2009	2008	2007	2006
Cash	26,065	11,890	5,496	35,179	16,564
Short-Term	1.5	24.2	62.5	13.3	16.5
All Other	95.3	75.7	37.5	86.5	83.5
	3.2	0.1	...	0.2	...

## HISTORY

Date Incorporated: 03/13/1996 Date Commenced: 01/01/1997

Domicile: IA

## MANAGEMENT

**Officers:** President, Timothy R. Weber; Secretary, Michele A. Druker; Treasurer, David S. Brown; Actuary, Patricia L. Huffman.

**Directors:** Ron J. Corbett, Douglas P. Cropper, David J. Fisher, Douglas D. Laird, Kenton K. Moss, M.D.

## REGULATORY

An examination of the financial condition was made as of December 31, 2006 by the Insurance Department of Iowa. The 2010 annual independent audit of the company was conducted by Ernst & Young, LLP. The annual statement of actuarial opinion is provided by Patricia L. Huffman.

**Territory:** The company is licensed in Iowa.

## FINANCIAL INFORMATION BALANCE SHEET (\$000) - December 31, 2010

Assets	Liabilities
*Total bonds	Claims payable
*Total common stocks	Accrued med incent pool
Cash & short-term inv	Advance premiums
Premis and consids due	Comm taxes expenses
Accrued invest income	Payable to affiliate
Uninsured A&H plans	Uninsured A&H plans
Other assets	Health policy reserves
	Other liabilities
	Total Liabilities
	Common stock
	Unassigned surplus
Assets	Total

\*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.

## SUMMARY OF OPERATIONS (\$000)

Premiums	322,438	Hospital/medical services	198,102
Net investment income	5,400	Other prof services	15,342
		Outside referrals	1,955
		Emerg rm & out of area	2,576
		Prescription drugs	43,126
		Incent pool & whld adj.	2,934
		Administrative	14,974
		Other expenses	7,569
Total	327,838	Total	286,579
Income (loss)			41,259
Provision for FIT			14,002
Net gain from operations after federal income taxes			27,257

## SUMMARY OF MANAGED CARE OPERATIONS

Year	Enrollment (000's)	Utilization (Per 1,000 members)			Participating Physicians
		Total Members	Member Months	Physician Visits	
2006	96	1,088	5,255	203	5,320
2007	120	1,407	5,317	186	5,307
2008	124	1,480	1,985	192	5,558
2009	93	1,067	5,163	181	5,685
2010	90	1,109	5,003	177	6,406

# Best's Rating Report



Back to Top

## Why is this *Best's*<sup>®</sup> Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Best's Financial Strength Ratings are assigned according to the following scale:

### Secure Best's Financial Strength Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

### Vulnerable Best's Financial Strength Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

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