

THE UNIVERSITY OF MICHIGAN  
**Regents Communication**

ACTION REQUEST

Subject: PHP Medicare Capital Contribution Request

Action

Requested: Approval to Provide Capital Contribution to PHP Medicare

Background:

The University of Michigan, through its academic medical center and clinical enterprise, Michigan Medicine and the University of Michigan Health (collectively “UM”), serves patients from across the state and beyond through a system of care that includes important relationships with other leading health systems, hospitals, and physicians. A strategic priority in expanding this statewide system of care is a greater presence in communities across the state.

In 2019, UM purchased a 25% interest in a new holding company of Physicians Health Plan (“PHP”) and its related health insurance business. PHP is a regional insurance company operated by Sparrow Health System (“Sparrow”) and Sparrow currently holds 65% ownership in PHP. Covenant Healthcare owns a 10% interest. Of note, UM will hold a 90% interest in PHP if the proposed member substitution transaction with Sparrow closes, as anticipated.

PHP Medicare is a wholly owned subsidiary of PHP and to qualify for and maintain authority to transact insurance in the state of Michigan, it is required to maintain capital and surplus in an amount determined adequate by the Michigan Department of Insurance and Financial Services (“DIFS”), taking into account the risk-based capital (RBC) requirements developed by the national association of insurance commissioners. RBC requirements are a statutory minimum level of capital that is generally based on two factors: (a) an insurance company’s size; and (b) the inherent riskiness of its financial assets and operations.

When creating PHP Medicare in 2020, DIFS required an RBC of 300%. The RBC for PHP Medicare at the end of September 2022 was 127%. Contributing factors for the shortfall are: (a) the impact of the COVID pandemic on health care costs and access to necessary care; and (b) access to primary care impacted both medical costs and the ability to implement complete and correct coding which negatively impacts revenue.

This September 2022 RBC shortfall initiated a regulatory action from DIFS, requiring a Risk Based Capital Plan that was submitted to DIFS on December 23, 2022. The Risk Based Capital Plan includes growing revenue by improving risk adjustment scores and maintaining star ratings quality performance, reducing utilization where appropriate, and providing the below capital contributions from the members in order to meet the RBC requirements. To satisfy the RBC

requirements, PHP Medicare issued a capital call (the “Capital Call”) to its members, consistent with the terms of the applicable operating agreements. The requested capital contributions by members are as follows:

Sparrow Health System	65%	\$10,075,000
UM Health	25%	\$ 3,875,000
Covenant Healthcare	10%	\$ 1,550,000

The above capital contributions are to be funded by February 15, 2023 and will allow maintenance of RBC as required by DIFS.

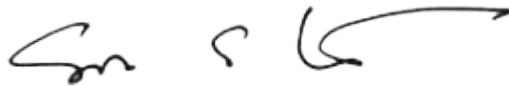
Accordingly, we request that the Board of Regents authorize the Executive Vice President for Medical Affairs and Dean of the Medical School and the Executive Vice President and Chief Financial Officer, and such other officers as they may designate (the “**Designated Officers**”) to: (a) execute and deliver any agreements and instruments required to complete the Capital Call, all as approved by the Designated Officers; (b) take any other actions necessary or desirable to consummate the Capital Call described in this action request and to meet the requirements outlined by DIFS as applicable to PHP; and (c) to obtain or make, as applicable, all governmental and third-party approvals, consents, notices and authorizations that may be necessary.

Respectfully submitted,



---

Marschall S. Runge  
Executive Vice President for Medical Affairs  
and Dean of the Medical School



---

Geoffrey S. Chatas  
Executive Vice President  
and Chief Financial Officer

February 2023