



HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2002
of the Condition and Affairs of the

Physicians Health Plan of Southwest Michigan

NAIC Group Code..... 1334, (Current Period) (Prior Period) NAIC Company Code..... 52569 Employer's ID Number..... 38-3376063

Organized under the Laws of Michigan State of Domicile or Port of Entry Michigan Country of Domicile US

Licensed as Business Type Health Maintenance Organization

Is HMO Federally Qualified? Yes [] No [x]

Date Incorporated or Organized..... March 31, 2000 Date Commenced Business..... June 1, 2000

Statutory Home Office 106 Farmers Alley Suite 300 Kalamazoo MI 49005-1100
(Street and Number) (City or Town, State and Zip Code)

Address of Main Administrative Office 106 Farmers Alley Suite 300 Kalamazoo MI 49005-1100
(Street and Number) (City or Town, State and Zip Code) 269-341-7200
(Area Code) (Telephone Number)

Mail Address 106 Farmers Alley Suite 300 Kalamazoo MI 49005-1100
(Street and Number or P. O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records 106 Farmers Alley Suite 300 Kalamazoo MI 49005-1100
(Street and Number) (City or Town, State and Zip Code) 269-341-7200
(Area Code) (Telephone Number)

Internet Website Address www.phpiba.com

Statement Contact David Lee Vis 269-341-7311
(Name) (Area Code) (Telephone Number) (Extension)
dvis@ibahealth.com 269-341-6928
(E-Mail Address) (Fax Number)

Policyowner Relations Contact (City or Town, State and Zip Code) (Area Code) (Telephone Number) (Extension)

OFFICERS

Chief Executive Officer Kenneth Lee Taft Chief Financial Officer David Lee Vis Secretary Kenneth Lee Taft
President Ike David Kibbe

VICE PRESIDENTS

DIRECTORS OR TRUSTEES

Frank Joseph Sardone Kenneth Lee Taft Owen Mark Berow M.D. Richard Martin Gerstner M.D.
Abbe Jane Siver # David Vincent Copeland Dawn Joann Kline # Rosalie Novara #
Konrads Valentins Lubvas M.D.

State of..... Michigan
County of..... Kalamazoo

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

_____ (Signature) Kenneth Lee Taft (Printed Name) Chief Executive Officer	_____ (Signature) Kenneth Lee Taft (Printed Name) Secretary	_____ (Signature) David Lee Vis (Printed Name) Chief Financial Officer
---------------------------------------------------------------------------------------	-------------------------------------------------------------------------	------------------------------------------------------------------------------------

Subscribed and sworn to before me this

.....day of, 2003

- a. Is this an original filing? Yes [] No [X]
- b. If no: 1. State the amendment number 1
2. Date filed.....
3. Number of pages attached.....

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - CLAIMS INCURRED DURING THE YEAR

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Other
1. Payments during the year:									
1.1 Direct.....	55,836,664	20,229,364						35,607,300	
1.2 Reinsurance assumed.....	0								
1.3 Reinsurance ceded.....	(33,648)	(294,718)						261,070	
1.4 Net.....	55,870,312	20,524,082	0	0	0	0	0	35,346,230	0
2. Paid medical incentive pools and bonuses.....	907,564							907,564	
3. Claim liability December 31, current year from Part 2A:									
3.1 Direct.....	7,836,994	2,864,457						4,972,537	
3.2 Reinsurance assumed.....	0								
3.3 Reinsurance ceded.....	13,278	1,833						11,445	
3.4 Net.....	7,823,716	2,862,624	0	0	0	0	0	4,961,092	0
4. Claim reserve December 31, current year from Part 2D:									
4.1 Direct.....	0								
4.2 Reinsurance assumed.....	0								
4.3 Reinsurance ceded.....	0								
4.4 Net.....	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year.....	773,817	31,646						742,171	
6. Amounts recoverable from reinsurers December 31, current year.....	226,639	157,690						68,949	
7. Claim liability December 31, prior year from Part 2A:									
7.1 Direct.....	10,836,582	6,319,486						4,517,096	
7.2 Reinsurance assumed.....	0								
7.3 Reinsurance ceded.....	13,278	1,833						11,445	
7.4 Net.....	10,823,304	6,317,653	0	0	0	0	0	4,505,651	0
8. Claim reserve December 31, prior year from Part 2D:									
8.1 Direct.....	0								
8.2 Reinsurance assumed.....	0								
8.3 Reinsurance ceded.....	0								
8.4 Net.....	0	0	0	0	0	0	0	0	0
9. Accrued medical incentive pools and bonuses, prior year.....	794,760							794,760	
10. Amounts recoverable from reinsurers December 31, prior year.....	226,639	157,690						68,949	
11. Incurred benefits:									
11.1 Direct.....	52,837,076	16,774,335	0	0	0	0	0	36,062,741	0
11.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0
11.3 Reinsurance ceded.....	(33,648)	(294,718)	0	0	0	0	0	261,070	0
11.4 Net.....	52,870,724	17,069,053	0	0	0	0	0	35,801,671	0
12. Incurred medical incentive pools and bonuses.....	886,621	31,646	0	0	0	0	0	854,975	0

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The financial statements have been prepared on the basis of accounting practices prescribed or permitted by the Michigan Office of Financial and Insurance Services (OFIS) and the National Association of Insurance Commissioners. These practices differ in some respects from generally accepted accounting principles. Certain assets are considered non-admitted for statutory purposes and are excluded for the balance sheet. These non-admitted assets have been allocated to retained earnings in the financial statements.

Cash and Cash Equivalents – Short-term investments with maturity of three months or less at the time of purchase are reported as cash equivalents.

Property and Equipment - Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided on a straight-line basis, over the estimated useful lives of the property, which range from 3 to 15 years.

Claims Payable – Accrued medical claims and related expenses (hospitalization and other outside medical services) include amounts billed and not paid and an estimate of costs incurred for unbilled services provided to the balance sheet date.

Premiums – Premiums are recognized in the period in which the members are entitled to health care services. Premiums billed and collected in advance are recorded as unearned premiums.

Use of Estimates – The statutory basis financial statements have been prepared in accordance with the accounting practices prescribed or permitted by the CIS, which is a comprehensive basis of accounting other than generally accepted accounting principles, and requires the use of certain estimates, the most significant of which related to incurred but unreported claims for medical services. Actual results could differ from these estimates.

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

The state of Michigan has adopted codification effective January 1, 2003.

3. BUSINESS COMBINATIONS AND GOODWILL

Not applicable.

4. DISCONTINUED OPERATIONS

Not applicable.

5. INVESTMENTS

Not applicable.

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

The company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets.

7. INVESTMENT INCOME

All income due or accrued has been included in the filing.

8. DERIVATIVE INSTRUMENTS

Not applicable.

9. INCOME TAXES

PHPSWM is not subject to income taxes.

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES

Bronson Healthcare Group, Inc. contributed capital of \$1,350,450 to PHPSWM.

PHPSWM members obtain medical services from Bronson Hospital, which is part of the PHPSWM provider network. As a result, medical service expenses include approximately \$12,300,000 of claims for 2002. Additionally, related parties of Bronson Practice Management and Bronson Vicksburg Hospital had medical services expense of approximately \$812,000 and \$240,000 respectively.

PHPSWM has a management agreement with IBA Health and Life Assurance Company for certain administrative expenses. Payments for these services were \$4,363,384 during 2002.

PHPSWM is a partner with 1/3 ownership of the PHP Shared Services, L.L.C. The purpose of the PHP Shared Services, L.L.C. is to facilitate statewide contracting and to achieve economies to obtain health maintenance organization management and other required services. Payments for these services were \$279,688 during 2002.

NOTES TO FINANCIAL STATEMENTS

11. DEBT

Not applicable.

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTRETIREMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

Not applicable

13. CAPITAL AND SURPLUS, SHAREHOLDERS' DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATIONS

Not applicable.

14. CONTINGENCIES

In the ordinary course of operations, PHSWM is subject to various litigation matters related to health benefits provided to its subscribers. Although the outcome of these matters cannot be determined, it is management's opinion that disposition of these proceeds will not have a material adverse effect on the financial position or the results of operations.

15. LEASES

There are no lease obligations.

16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

Not applicable.

17. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

Not applicable.

18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED A&H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

There are no gains and losses from uninsured accident and health plans or partially insured plans.

19. DIRECT PREMIUM WRITTEN PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATORS

Not applicable.

20. OTHER ITEMS

PHPSWM elected to use rounding in reporting amounts in the statement.

21. SUBSEQUENT EVENTS

There are no subsequent events to December 31, 2002 that require disclosure.

22. REINSURANCE

Not applicable.

23. RETROSPECTIVELY RATED CONTRACTS

Not applicable.

24. SALVAGE AND SUBROGATION

Due to the type of business being written with this license, the Company has no salvage. As of December 31, 2002 and 2001 the company had no specific accruals established for outstanding subrogation, as it is considered a component of the actuarial calculations used to develop the estimates of incurred but not yet reported claims.

25. CHANGE IN INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Reserves for incurred claims attributable to insured events of prior years has decreased by \$11.4 million from \$11.6 million in 2001 to \$.2 million in 2002. Included in this decrease, PHSWM experienced \$4.4 million of favorable prior year claim development on its policies.

26. ORGANIZATION AND OPERATION

Organization

Physicians Health Plan of Southwest Michigan (PHPSWM) is a non-profit health maintenance organization under the laws of the State of Michigan and is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS

PHPSWM is also a wholly controlled subsidiary of Bronson Healthcare Group, Inc. (Bronson).

Contractual Agreements:

Medical Services - PHPSWM has contractual agreements with independent physicians, hospitals, pharmacies, and others to provide comprehensive medical services to enrollees and their eligible dependents. Contracts with participating physicians allow for either capitation payments or interim reimbursement for health care services at less than 100% of their allowable fees. The balance of remaining portion of allowable fees is recorded as contingency reserves, and included in claims payable on the statement of Liabilities and Net Worth.

The aggregate amount of contingency reserves to ultimately be returned to physicians is established by the PHPSWM Board of Directors, which bases this decision on a number of factors including regulatory and financial criteria such as required reserve levels. The PHPSWM board of directors has approved 100 percent of the 2002 contingency reserve to be returned to providers.

Administrative services - PHPSWM has an administrative services agreement with United Healthcare Service (UHS) which covers management services that are system dependent (i.e. billing, enrollment, claims processing and accounting). The agreement expires December 31, 2005. These services fees paid to UHS by PHPSWM are calculated based on a determined dollar amount per member per month. PHPSWM withholds a portion of the service fee, which may be paid contingent upon UHS's performance under the terms of the agreement. Fees for 2002 were approximately \$3,600,000.

27. **MINIMUM NET WORTH REQUIREMENTS**

Under the laws of the State of Michigan, PHPSWM is required to maintain a minimum net worth. Net worth must be the greater of \$1,500,000 or 4% of premium revenue or 3 months' of uncovered expenditures. Also Section 3551 (4) states that the commissioner shall take into account the risk-based capital requirements as developed by the NAIC in order to determine compliance with Section 403 under this section. PHPSWM has net worth of approximately \$7,500,000 and is in compliance with the capital and surplus requirements at year-end 2002.

The State of Michigan further requires health maintenance organizations (HMO's) to maintain positive working capital defined as current assets less current liabilities. PHPSWM has positive working capital of approximately \$2,100,000 when measured using the statutory basis of accounting.

In addition, the State of Michigan requires PHPSWM to provide a statutory deposit. The deposit amount must be the greater of \$100,000 or 5% of annual premium revenue up to a \$1,000,000 maximum. As of December 31, 2002, PHPSWM has approximately \$1,100,000 to meet the required level for statutory deposits. PHPSWM is in compliance with the statutory deposit requirements.

GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force?	Yes []	No [X]
1.2 If yes, indicate premium earned on U.S. business only	\$.....	0
1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?	\$.....	0
1.31 Reason for excluding		
<hr/>		
1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.	\$.....	0
1.5 Indicate total incurred claims on all Medicare Supplement insurance.	\$.....	0
1.6 Individual policies:		
Most current three years:		
1.61 Total premium earned	\$.....	0
1.62 Total incurred claims	\$.....	0
1.63 Number of covered lives	.....	0
All years prior to most current three years:		
1.64 Total premium earned	\$.....	0
1.65 Total incurred claims	\$.....	0
1.66 Number of covered lives	.....	0
1.7 Group policies:		
Most current three years:		
1.71 Total premium earned	\$.....	0
1.72 Total incurred claims	\$.....	0
1.73 Number of covered lives	.....	0
All years prior to most current three years:		
1.74 Total premium earned	\$.....	0
1.75 Total incurred claims	\$.....	0
1.76 Number of covered lives	.....	0
2.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits?	Yes []	No [X]
2.2 If yes, give particulars:		
<hr/>		
3.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and departments been filed with the appropriate regulatory agency?	Yes [X]	No []
3.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?	Yes []	No [X]
4.1 Does the reporting entity have stop-loss reinsurance?	Yes [X]	No []
4.2 If no, explain:		
<hr/>		
4.3 Maximum retained risk (see instructions):		
4.31 Comprehensive medical	\$.....	190,000
4.32 Medical only	\$.....	0
4.33 Medicare supplement	\$.....	0
4.34 Dental	\$.....	0
4.35 Other limited benefit plan	\$.....	0
4.36 Other	\$.....	0
5. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements: <u>Plan carried coordination of benefits coverage for insolvency as a rider to its stop-loss agreement. Provider contracts contain language stating that in no event, including insolvency of Payor, shall the Provider seek payment from the Member or persons acting on behalf of the Member for Health Services eligible for reimbursement under this Agreement.</u>		
6.1 Does the reporting entity set up its claim liability for provider services on a service data base?	Yes [X]	No []
6.2 If no, give details:		
<hr/>		
7. Provide the following information regarding participating providers:		
7.1 Number of providers at start of reporting year	.....	1,110
7.2 Number of providers at end of reporting year	.....	1,156
8.1 Does the reporting entity have business subject to premium rate guarantees?	Yes []	No [X]
8.2 If yes, direct premium earned:		
8.21 Business with the rate guarantees between 15-36 months	\$.....	0
8.22 Business with rate guarantees over 36 months	\$.....	0
9.1 Does the reporting entity have Bonus/withhold arrangements in its provider contracts?	Yes [X]	No []
9.2 If yes:		
9.21 Maximum amount payable bonuses	\$.....	0
9.22 Amount actually paid for year bonuses	\$.....	0
9.23 Maximum amount payable withholds	\$.....	703,397
9.24 Amount actually paid for year withholds	\$.....	0
10. List service areas in which reporting entity is licensed to operate:		
<div style="border: 1px solid black; padding: 2px; display: inline-block; text-align: center;">1 Name of Service Area</div>		
<u>Kalamazoo, Allegan, Berrien, Barry, Branch, Calhoun, Cass, St. Joseph, Van Buren</u>		