Report

of the

Examination of

Unity Health Plans Insurance Corporation

Sauk City, Wisconsin

As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, *Governor*
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March 1, 2019

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

UNITY HEALTH PLANS INSURANCE CORPORATION
Sauk City, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Unity Health Plans Insurance Corporation (Unity or the company) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of an affiliated company domiciled in Minnesota, with Wisconsin acting in the capacity as the lead state for the coordinated examination. Representatives of Minnesota participated in the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurer to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Unity is described as a for-profit model health maintenance organization (HMO) insurer operating in the State of Wisconsin. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, comprehensive health care services performed by providers selected by the organization." Under the network model, the company provides care through contracts with hospitals, clinics, and otherwise independent physicians operating out of their separate offices.

The company was incorporated on October 31, 1983, as HMO of Wisconsin (HMOW), and commenced business January 1, 1984. Shown below is a summary of several corporate changes that occurred at the company.

November 1, 1994	United Wisconsin Services, Inc. (UWS) (a subsidiary of Blue Cross Blue Shield United of Wisconsin) acquired HMOW through a cash purchase of 100% of the stock of HMOW.
November 1, 1994	UWS acquired the insurance business of U-Care HMO, Inc., and HMOW assumed both the benefit and provider contracts of U-Care HMO, Inc.
April 1, 1995	The company changed its name to Unity Health Plans Insurance Corporation.
January 1, 2005	Unity was acquired by University Health Care, Inc. (UHC) as a wholly owned subsidiary. UHC is a tax-exempt membership corporation composed of the University of Wisconsin Medical Foundation (UWMF), University of Wisconsin School of Medicine and Public Health, and University of Wisconsin Hospitals and Clinics Authority (UWHCA).
May 1, 2016	UHC entered into an Exchange Agreement with Gundersen Health System, Inc. (GHS) in which common stock of Unity was transferred for membership rights of Gundersen Health Plan, Inc (GHP). Through this transaction, the company became an affiliate of GHP.
July 1, 2017	GHS, UHC, and Iowa Health System d/b/a UnityPoint Health (UPH), entered into an Exchange Agreement in which all of the common stock of Unity was transferred to Physicians Plus Insurance Corporation (PPIC) and PPIC became a wholly-owned subsidiary of Quartz Holding Company (QHC). UHC, UPH, and GHS hold the capital stock of QHC. Through this transaction, the company became part of the Quartz Group (Quartz) operating under the same umbrella as PPIC and GHP.

Unity rents its provider network from Quartz Health Solutions, Inc., (QHS) that includes health care systems that offer more than 2,100 primary care physicians (PCP) and in excess of 6,800 specialty physicians in a 51-county network service area. The company also contracted with 70 hospitals to provide inpatient services. Hospitals are reimbursed on a variety of payment terms. The contracts include hold-harmless provisions for the protection of policyholders. The agreements have a one-year term, with automatic renewal, and may be terminated by either party upon 180 days' prior written notice prior to the end of a term.

For specific networks or product lines, a subset of the network is utilized. For example, for state and local government members, Unity currently separates its service area into two distinct operational areas, Dane County and the regional service area. The Regional service area is made up of counties other than Dane County. Within Dane County, UW Health and UnityPoint Health – Meriter delivery systems provide the majority of the services with some additional services provided by non-UW Health entities for members selecting a PCP within Dane County. In the Regional portion of the company's service area, QHS contracts directly with hospitals, primary care, and specialty care providers and clinics as well as ancillary health care providers. Within the Regional portion of the service area, specifically in La Crosse County, GHS provides the majority of services. For non-state and local government members, the Regional and Dane County operational areas are combined into a single provider network.

Unity offers a variety of commercial group plans known as HMO, point of service (POS), preferred provider organization (PPO), and health savings account (HSA) that include deductible, copayment, and coinsurance products. In addition, the company offers individual HMO, Medicare Select, and Medicaid[1] coverages. Ninety-three percent of the company's business was in HMO products on December 31, 2017. At enrollment, HMO members are required to select a PCP. The physical location of the PCP determines the payment arrangement that follows. The PCP coordinates the member's medical care and is responsible for providing routine health care to that member. For state and local government members, Dane County members may self-refer to any participating provider within Dane County, while Regional members may self-refer to any participating provider

[1] Unity no longer participates in the Medicaid program as of January 1, 2018.

within the Regional network. All other members may self-refer to participating providers in both the Regional and Dane County operational areas. For those members who select the HMO product, Unity requires a member to obtain prior written authorization from the company for treatment from a non-participating provider (not under contract).

Payment to providers falls under various payment arrangements depending on PCP selection, location of the member, the provider of service, and type of service. Payment arrangements include capitation, per diems, diagnosis-related group (DRGs), discounted fee-for-service, and fee schedules. Virtually all payments, however, are part of an overall capitation arrangement under which GHS and UW Health are at risk for medical services provided.

According to its business plan, the company's current service area is comprised of the following counties:

Adams	Grant	Lafayette	Walworth	Monroe
Columbia	Green	Marquette	Waushara	Trempealeau
Crawford	Green Lake	Richland	Waukesha	
Dane	Iowa	Rock	Buffalo	
Dodge	Jefferson	Sauk	Jackson	
Fond du Lac	Juneau	Vernon	La Crosse	

The following basic health care coverages are provided by the insurance contracts:

Ambulance Services
Chiropractic Services
Diagnostic Services
Diabetic Treatment and Education
Durable Medical Equipment and Medical Supplies
Emergency Room Services
Hearing Exams and hearing aids
Home Health Care Services
Hospice
Inpatient Hospital Services
Outpatient Hospital Services
Kidney Disease Treatment (including Dialysis and Transplant)
Physician Services
Skilled Nursing Care
Therapy – Physical, Speech, Occupational, Cardiac Rehab
Temporomandibular Joint Treatment (TMJ)
Transplants
Urgent Care
Vision Care
Maternity and Newborn Benefits
Mental Health Service (Psychological and Chemical Dependency - AODA)
Oral Surgery (Specific Procedures Only)
Pharmaceutical Drugs

HMO plans may include deductible, coinsurance, and/or copayments on covered services. These out-of-pocket expense amounts vary by plan and are selected by each employer or individual policyholder. Services relating to behavioral health or alcohol and other drug abuse (AODA) coverage are covered in accordance with federal and state mental health parity laws.

In addition to HMO products, Unity offers a point of service (POS) plan. The POS plan covers services by participating providers as well as services by non-participating providers with two or three levels of benefits depending on the benefit plan design. Services may be subject to a copayment, deductible, or coinsurance based on the participating status of the provider.

The company offers a preferred provider organization (PPO) program. The provider network is provided on a rental basis through multi-plan PPO. The PPO is generally available as an accommodation to employers with their principal location in Unity's service area with employees who live outside of the service area. On a limited basis, the PPO is offered to members who reside within the Unity service area.

The company currently markets to groups and individuals and uses outside agencies and an internal sales staff to procure new business. The majority of agent commissions are paid in a range from $3.50 to $34.00 per contract per month. A small number of agents are paid commissions of up to 6% of premiums on new and renewal business or have a fixed annual fee.

The company uses an actuarially determined base rate as a beginning point in premium rate determination for new groups. The base rate is adjusted to reflect benefit, trend, geography, Standard Industrial Classification (SIC), administrative expense load, and demographics, including age and sex factors. The base rate is reviewed and adjusted semiannually for inflation and utilization factors. Adjustments may also be applied for claims experience and health status during the rating process.

The company uses an Adjusted Community Rating (ACR) methodology to determine group renewal rates. Depending on the size of the group, this methodology may include evaluation of a group's incurred claim experience and makes adjustments for any high-cost claims above the pooling point for current group enrollment levels and for any benefit changes made. Incurred claim

experience from a prior base period is trended to the current base period time frame. The current and prior years of incurred claims experience is melded by a weighting factor determined by total group size. A completion factor is applied to the incurred claims. The incurred claims are trended to the next contract year and blended with manual claims using a credibility factor determined by the number of member months of claims experience to yield projected claims for the next contract year. An administrative expense is added on to projected claims to obtain total premium needed for the next contract year. This methodology is reviewed and adjusted on at least an annual basis.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 11 members. The directors are elected during the annual shareholder meeting to serve a three-year term. Officers are elected by the board of directors during the annual shareholder meeting. Members of the company's board of directors may also be members of other boards of directors in the holding group. The internal board members currently receive no compensation for serving on the board. External board members are compensated through QHS. External board members are compensated as follows:

- Board meetings - $2,000 per quarterly meeting
- Phone conference and committee meetings - $300 per conference/meeting
- Special meetings or ad hoc committees - $300 per meeting
- Travel expenses are paid separately per IRS regulations

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert Flannery, Chair Waunakee, WI	SVP & Chief Financial Officer of UW-Health	2019
Gerald Arndt Onalaska, WI	Retired, Former Executive of GHS	2020
William J. Farrell La Crescent, MN	Sr. Vice President, Business Services of GHS	2021
Michael Dallman Waunakee, WI	SVP & Chief Strategy Officer of UW- Health President of University Health Care, Inc.	2021
Michael Dolan, MD La Crosse, WI	SVP & Medical COO of GHS	2019
Alan Kaplan, MD Verona, WI	Chief Executive Officer of UW-Health	2020
Heidi Eglash La Crosse, WI	Attorney, Eglash Law Office, LLC	2019
Kevin Hauser Richland Center, WI	President & Chief Executive Officer of Westby Co-op Credit Union	2020

Name and Residence	Principal Occupation	Term Expires
John C. Sickels Wausau, WI	Chief Banking Officer/President of River Valley Bank/River Valley Insurance	2021
Virginia Graves Fitchburg, WI	Black Spruce, Inc.	2020
Gerald R. Kember Black Earth, WI	Consultant, School Perceptions	2019

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2017 Compensation
Terry Bolz	President and Chief Executive Officer	$643,671
James Hiveley	VP, Chief Financial Officer, and Treasurer	406,195
Christine Senty	General Counsel, VP, and Secretary	396,253
Gary Lenth, MD	Chief Medical Officer and Executive VP	400,000

Note: The officers above also serve in a similar capacity for other affiliated entities within the holding group. The portion of executive compensation above reflects the total for the group.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Audit Committee
Gerald Arndt, Chair
Robert Flannery
Virginia Graves
Kevin Hauser

Human Resource Committee
John Sickels, Chair
Gerald Arndt
Michael Dallman
Gerald Kember

Finance Committee
Virginia Graves, Chair
Heidi Eglash
William Farrell
Robert Flannery
Alan Kaplan, MD
Jodilynn Vitello

Marketing Committee
John Sickels, Chair
Michael Dallman
Michael Dolan
Virginia Graves
Pamela Maas
Chris Roth

Quality Committee
Michael Dolan, Chair
Dan Ecklund
Jonathan Jaffery
Alan Kaplan
Gerald Kember
Gary Lenth
Mary Pak
Tim Size

The company has no employees. Necessary staff is provided through a management agreement with QHS. Under the agreement, QHS agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; provides or contracts for claims processing, and MIS. The company shall pay to QHS an advance payment up to 1/12th of the amount of the annual operating budget for services provided no later than the fifth business day of each month. No later than 30 days after the end of the calendar year, QHS shall submit to the company a statement of reimbursable expenses based on the actual cost of the services provided to the company. Within 30 days of receipt of the statement, the company shall either pay to QHS any outstanding balance or receive a refund of any excess payment. The company may terminate the agreement upon 30-days' written notice if the default of standards of performance continues 30 days after notice of such default.

Insolvency Protection for Policyholders

Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and

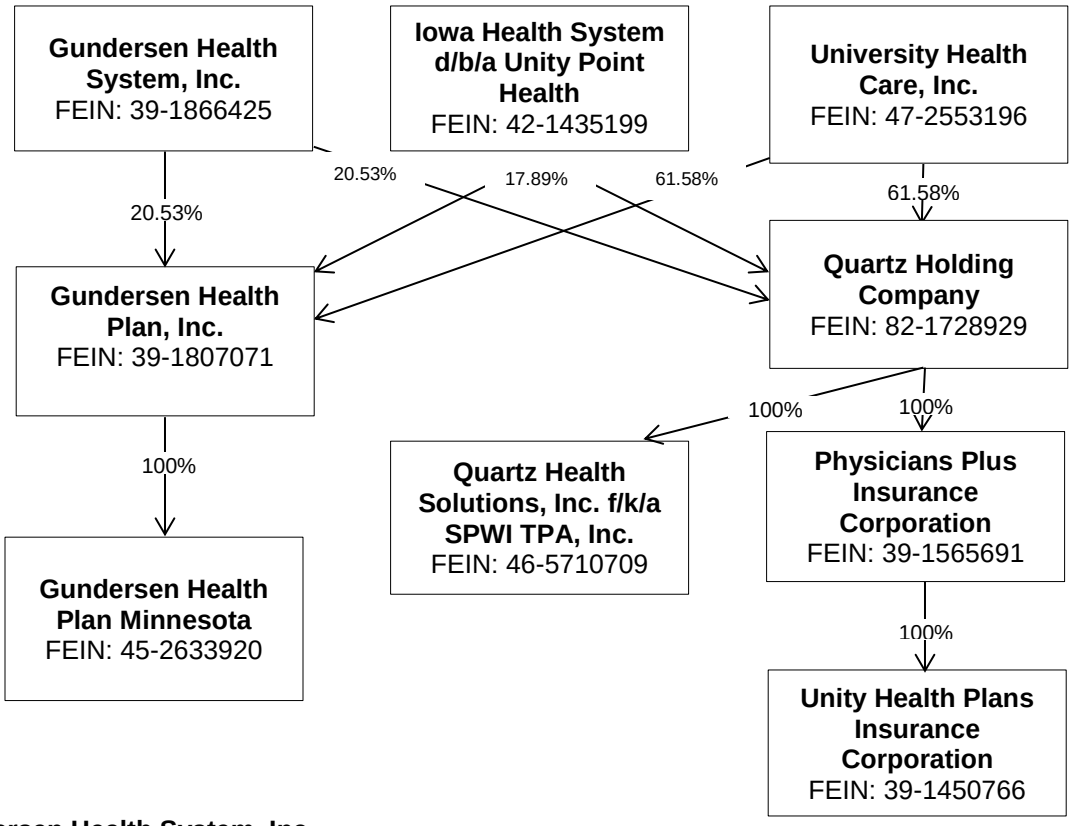
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The company has met this requirement through its reinsurance contract, as discussed in the Reinsurance section of this report.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parents are GHS (20.5%), UPH (17.9%), and UHC (61.6%). The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

Holding Company Chart
As of December 31, 2017



Gundersen Health System, Inc.

GHS is a non-profit integrated healthcare system that provides comprehensive medical care to patients primary in Wisconsin, as well as in Iowa and Minnesota, by operating hospitals, clinics, health plans, long-term care facilities, ambulance services, a foundation, and an energy-producing company, in addition to providing medical and health/wellness education and community outreach, and conducting medical education and clinically based research.

As of December 31, 2017, the GHS's audited GAAP consolidated financial statement reported assets of $1.8 billion, liabilities of $600.5 million, and net assets of $1.2 billion. Operations for 2017 produced excess revenue over expenses of $124.6 million on revenues of $1.2 billion.

Unity Point Health

UPH is an Iowa non-profit corporation formed in December 1994. UPH and its subsidiaries provide inpatient and outpatient care and physician services from various hospital facilities and ambulatory service and clinic locations in Iowa, Illinois, and Wisconsin. Primary, secondary, and tertiary care services are provided to residents of Iowa, Illinois, and Wisconsin, as well as adjacent states.

As of December 31, 2017, UPH's GAAP audited consolidated financial statement reported assets of $5.6 billion, liabilities of $2.2 billion, and net assets of $3.4 billion. Operations for 2017 produced excess revenue over expenses of $229.5 million on revenues of $4.2 billion.

University Health Care, Inc.

UHC is a non-profit, tax-exempt corporation that serves as a network development vehicle by developing regional programs and clinical centers and developing business relationships with other health care providers. UHC's purpose is to support the missions of the University of Wisconsin Medical School, the University of Wisconsin Hospitals and Clinics Authority, and the University of Wisconsin Medical Foundation.

UHC is no longer an audited entity; therefore, the examination reviewed the consolidated GAAP financial information of UW Hospitals and Clinics Authority d/b/a UW Health, parent of UHC, which includes the financial information of UHC. As of June 30, 2017, UW-Health's GAAP audited financial statement reported assets of $2.9 billion, liabilities of $1.2 billion, and a net position of $1.7 billion. Operations for 2017 produced an increase in net position of $89.8 million on revenues of $2.5 billion.

Quartz Holding Company

QHC operates as a shell company that exists for the sole purposes of holding ownership in PPIC and QHS. As of December 31, 2017, the QHC's unaudited GAAP financial statement reported assets of $87.3 million, no liabilities, and equity of $87.3 million. QHC had no financial activity for 2017; however, it posted a net loss of $7.6 million which reflects the net impact from its two subsidiaries.

Quartz Health Solutions, Inc.

QHS is a service organization that performs administrative and claims processing for the holding group and for employers of self-funded group health plans. As of December 31, 2017, QHS's unaudited GAAP financial statement reported assets of $15.3 million, liabilities of $12.6 million, and equity of $2.7 million. Operations for 2017 produced a net loss of $1.9 million on revenues of $85.4 million.

Gundersen Health Plan Inc.

GHP is a nonstock, nonprofit HMO established to provide comprehensive health care insurance for Wisconsin, Illinois, and Iowa insureds, and the parent of Gundersen Health Plan Minnesota. GHP is licensed to write business for small and large group commercial, Medicare, Medicaid, and individual. As of December 31, 2017, GHP's audited statutory financial statement reported assets of $36.2 million, liabilities of $14.4 million, and capital and surplus of $21.8 million. Operations for 2017 produced a net loss of $0.8 million on revenues of $269.7 million.

Gundersen Health Plan Minnesota

Gundersen Health Plan Minnesota (GHP MN) is a non-profit HMO established to provide comprehensive health care insurance for Minnesota insureds. GHP MN is licensed to write business for small and large group commercial and Medicare. As of December 31, 2017, GHP MN's audited statutory financial statement reported assets of $2.4 million, liabilities of $0.5 million, and capital and surplus of $1.9 million. Operations for 2017 produced a net loss of $0.1 million on revenues of $8.1 million.

Physicians Plus Insurance Corporation

PPIC is a for-profit life, accident and health insurer in the states of Wisconsin and Illinois. In Wisconsin, PPIC is licensed to write business for individuals, small and large group commercial, and Medicare SELECT. As of December 31, 2017, PPIC's audited statutory financial statement reported assets of $122.7 million, liabilities of $44.4 million, and capital and surplus of $78.3 million. Operations for 2017 produced a net loss of $9.9 million on revenues of $240.5 million.

Agreements with Affiliates:

GHS, UHC, and UPH have an Exchange Agreement, effective April 6, 2017 which outlines various transactions that are to take place subsequent to the closing of the agreement. GHS, UHC, and UPH each own a certain number of shares of the common stocks of QHC and become members of GHP.

QHC has a Stockholders Agreement with GHS, UPH, and UHC, effective July 1, 2017, in connection to the Exchange Agreement which governs the affairs of QHC and outlines the rights and obligations of the "Owners." The agreement covers topics such as capital contributions and distributions including mandatory capital contributions to QHC in the event of a capital deficiency, restrictions on the transfers of equity interests, corporate governance, disputes, and other miscellaneous items.

GHP has a Members Agreement with GHS, UPH, and UHC, which was amended and restated effective July 1, 2017, in connection with the Exchange Agreement, in which GHS, UPH, and UHC are the only members of GHP. The agreement also covers topics such as capital contributions and distributions including mandatory capital contributions to GHP to meet the statutory minimum capital requirements, risk pools and service area expansion, corporate governance, disputes, and other miscellaneous items.

GHS, UHC, and UPH have Stock Transfer Power Agreements, effective April 6, 2017, in connection to the Exchange Agreement in which all three entities became the owners of the capital stock of QHC after the close of the transaction discussed in the Exchange Agreement.

PPIC and Unity have Interested Parties Agreements with QHC, GHS, UPH, and UHC, effective July 1, 2017, in connection to the Exchange Agreement, which governs the affairs of QHC and outlines the rights and obligations of the "Owners." The agreement covers topics such as capital contributions and distributions, including mandatory capital contributions to PPIC to meet the statutory minimum capital requirements, risk pools and service area expansion, corporate governance, disputes, and other miscellaneous items.

The company has a Management Agreement with QHS, effective July 1, 2017, in connection with the Exchange Agreement, which supersedes all prior management and administrative

agreements between the company and its affiliates. Under the terms of the agreement, QHS is to provide management and administrative services to the company, which includes; but is not limited to, actuarial services, underwriting, human resource, legal, accounting, sales/marketing, claims management/settlement, employees, provider contracting, and network management. In return for the services provided, the company will pay to QHS an advance payment equal to 1/12th of the annual operating budget no later than the fifth day of each month. Within 30 days following the calendar year-end, QHS shall submit to the company a statement reflecting the actual costs of services that have been provided to the company for the year. Any under/overpayment shall be settled within five business days after reconciliation has been performed based on the statement submitted by QHS.

PPIC has an Employee Lease Agreement with QHS, effective July 1, 2017, until December 31, 2017, in connection to the Exchange Agreement in which PPIC leased all of its employees to QHS. QHS remitted payment to PPIC on a monthly basis for all expenses incurred related to the employment of the leased employees. All employees leased under this agreement are leased to other affiliates in the holding group as part of the Management Agreement between QHS and its affiliates. As of January 1, 2018, all PPIC employees became QHS employees.

Unity has a Lease Agreement with QHS, effective January 1, 2017, in which Unity leases its real property located at 840 Carolina Street, Sauk City, Wisconsin, to QHS. QHS pays a minimum annual rent payment of $628,800 to Unity in equal monthly installments ($52,400 per month). Other costs associated with the real property such as real estate taxes, costs of repair and maintenance, insurance, and personal property taxes shall be paid by QHS as additional rent to the minimum rent.

Unity has a Trademark License Agreement with GHS, effective January 1, 2017, in which GHS grants Unity with a royalty-free, non-exclusive license to use the names and trademarks of GHS to market, advertise, and promote certain health insurance plans as identified in the agreement.

GHP has a Management Agreement with GHP MN, effective January 1, 2017. Under the terms of the agreement, GHP provides management and administrative services to GHP MN, which include; but are not limited to, actuarial services, underwriting, human resource, legal, accounting, sales/marketing, claims management/settlement, employees, provider contracting, and network management. GHP shall provide GHP MN an invoice for the expenses no later than five business

days following the end of each month. GHP MN shall pay the amount due within 10 business days following receipt of the invoice.

In addition to the agreements noted above, QHS holds provider agreements with UHC and GHS. QHS has a network access agreement with PPIC, Unity, GHP, and GHP MN to rent out the provider network. QHS also facilitates risk-sharing agreements with affiliated providers and GHP, Unity, and PPIC in which fixed fees and capitated rates are established to reduce the company's exposure to large claims but QHS does not take on any risk.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Ceding Contracts

1. Reinsurer: Zurich American Insurance Company

   Type: Excess of Loss

   Effective date: January 1, 2019

   Retention: <u>Gundersen Risk Pool:</u>
   Commercial - $1,250,000
   Medicaid - $500,000
   Medicare - $500,000

   <u>UW/Meriter Risk Pool:</u>
   Commercial - $1,750,000
   Medicaid - $575,000
   Medicare - $500,000

   Coverage: 90% of net losses in excess of the company's retention

   Termination: The contract will terminate at the end of the contract period on December 31, 2019. Either party may elect to terminate the contract, in part or in whole, prior to the expiration date by providing a 30-days' notice to the other party. Any losses incurred on or after the termination date are not covered under the contract.

The reinsurance policy noted above has an endorsement containing the following insolvency provisions:

1. Zurich American Insurance Company will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.

2. Zurich American Insurance Company will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to plan by that member or on his behalf.

   Zurich American Insurance Company's maximum aggregate liability is limited to $5,000,000 for all members together, all contracts, and all agreement periods, combined.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2017, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the company for the period under examination.

Unity Health Plans Insurance Corporation
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 72,818,655	$	$ 72,818,655
Stocks:			
Common stocks	7,974,630		7,974,630
Real estate:			
Properties occupied by the company	1,076,270		1,076,270
Cash, cash equivalents and short-term investments	58,642,737		58,642,737
Investment income due and accrued	514,003		514,003
Uncollected premiums and agents' balances in the course of collection	7,451,123	547,463	6,903,660
Accrued retrospective premiums and contracts subject to redetermination	13,909,456		13,909,456
Amounts recoverable from reinsurers	1,685,238		1,685,238
Amounts receivable relating to uninsured plans	32,000		32,000
Current federal and foreign income tax recoverable and interest thereon	1,073,127		1,073,127
Net deferred tax asset	1,188,121		1,188,121
Furniture and equipment, including health care delivery assets	352,835	352,835	
Receivables from parent, subsidiaries and affiliates	141	141	
Health care and other amounts receivable	4,132,128	28,086	4,104,042
Write-ins for other than invested assets:			
Prepaid expense	98,463	98,463	
State income tax receivable	230,384		230,384
Total Assets	$171,179,311	$1,026,988	$170,152,323

Unity Health Plans Insurance Corporation
Liabilities and Net Worth
As of December 31, 2017

Claims unpaid		$ 80,096,214
Accrued medical incentive pool and bonus payments		1,728,090
Unpaid claims adjustment expenses		3,128,858
Premiums received in advance		20,990,564
General expenses due or accrued		1,571,673
Remittance and items not allocated		89,181
Amounts due to parent, subsidiaries and affiliates		1,807,703
Payable for securities		557,827
Aggregate write-ins for other liabilities (including $0 current)		527,412
Total Liabilities		110,497,522
Common capital stock	$ 1,000	
Gross paid in and contributed surplus	34,680,582	
Aggregate write-ins for other than special surplus funds	16,471,948	
Unassigned funds (surplus)	8,501,271	
Total capital and surplus		59,654,801
Total liabilities, capital and surplus		$170,152,323

Unity Health Plans Insurance Corporation
Statement of Revenue and Expenses
As of December 31, 2017

Net premium income		$960,716,464
Aggregate write-ins for other health care related revenues		44,792
Aggregate write-ins for other non-health revenues		(8,050)
Total revenues		960,753,206
Medical and Hospital:		
Hospital/medical benefits	$700,516,661	
Other professional services	44,404,099	
Emergency room and out-of-area	48,844,510	
Prescription drugs	94,316,718	
Incentive pool and withhold adjustments	1,170,620	
Subtotal	889,252,608	
Less		
Net reinsurance recoveries	3,310,910	
Total medical and hospital	885,941,698	
Non-health claims		
Claims adjustment expenses	27,517,592	
General administrative expenses	52,207,059	
Increase in reserves for life and accident and health contracts	(6,000,000)	
Total underwriting deductions		959,666,349
Net underwriting gain or (loss)		1,086,857
Net investment income earned	1,784,145	
Net realized capital gains or (losses)	(70,755)	
Net investment gains or (losses)		1,713,390
Net gain or (loss) from agents' or premium balances charged off		(262,780)
Net income or (loss) before federal income taxes		2,537,467
Federal and foreign income taxes incurred		1,853,399
Net Income (Loss)		$ 684,068

Unity Health Plans Insurance Corporation
Capital and Surplus Account
For the Three-Year Period Ending December 31

	2017	2016	2015
Capital and surplus, beginning of year	$61,318,193	$54,068,798	$59,141,684
Net income (loss)	684,068	(7,994,650)	(4,652,720)
Change in net unrealized capital gains/losses	(21,461)	102,564	(490,392)
Change in net deferred income tax	(6,316,817)	2,828,168	870,830
Change in nonadmitted assets	3,990,818	(2,588,670)	(800,604)
Capital changes:			
Paid in		14,634,000	
Write-ins for gains and (losses) in surplus:			
SPWI		267,980	
Surplus, end of year	$59,654,801	$61,318,190	$54,068,798

Unity Health Plans Insurance Corporation
Statement of Cash Flow
For the Year 2017

Premiums collected net of reinsurance			$957,358,122
Net investment income			2,371,108
Miscellaneous income			431,268
Total			960,160,498
Less:			
Benefit- and loss-related payments		$850,647,321	
Commissions, expenses paid and aggregate write-ins for deductions		87,171,418	
Federal and foreign income taxes paid (recovered) $0 net tax on capital gains (losses)		5,798,008	
Total			943,616,747
Net cash from operations			16,543,751
Proceeds from investments sold, matured or repaid:			
Bonds	$20,720,700		
Stocks	5,000,000		
Miscellaneous proceeds	8,307		
Total investment proceeds		25,729,007	
Cost of investments acquired—long-term only:			
Bonds	22,592,360		
Stocks	155,131		
Real estate	8,971		
Miscellaneous applications	214,478		
Total investments acquired		22,970,940	
Net cash from investments			2,758,067
Cash provided/applied:			
Other cash provided (applied)			3,341,103
Net change in cash, cash equivalents, and short-term investments			22,642,921
Cash, cash equivalents, and short-term investments:			
Beginning of year			35,999,816
End of year			$ 58,642,737

Growth of Unity Health Plans

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2017	$170,152,323	$110,497,522	$59,654,801	$960,753,206	$885,941,698	$ 684,068
2016	167,416,533	106,098,340	61,318,193	863,534,584	767,720,906	(7,994,650)
2015	148,223,414	94,154,616	54,068,798	829,904,664	745,159,453	(4,652,720)
2014	143,128,056	83,986,372	59,141,684	755,081,190	669,366,005	4,649,507

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2017	0.1%	91.6%	8.3%	9.4%
2016	-0.9	89.6	10.6	5.8
2015	-0.6	90.0	10.3	5.3
2014	0.6	89.1	10.2	11.3

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2017	204,017	208.7	4.0
2016	186,489	218.7	3.9
2015	176,257	207.4	3.6
2014	167,426	218.8	4.0

Per Member Per Month Information

	2017	2016	Percentage Change
Premiums:			
Commercial	$430.13	$416.86	3.2%
Medicare Supplement	170.92	170.71	0.1
Medicaid	153.84	160.51	-4.2
Net premium income	405.24	392.26	3.3
Expenses:			
Hospital/medical benefits	295.49	270.56	9.2
Other professional services	18.73	24.56	-23.7
Emergency room and out-of-area	20.60	17.54	17.4
Prescription drugs	39.78	38.22	4.1
Incentive pool and withhold adjustments	0.49	0.49	0.6
Less: net reinsurance recoveries	1.40	2.55	-45.2
Total medical and hospital	373.70	348.83	7.1
Claims adjustment expenses	11.61	12.03	-3.6
General administrative expenses	22.02	29.67	-25.8
Increase in reserves for accident and health contracts	(2.53)	2.73	-192.8
Total underwriting deductions	$404.80	$393.26	2.9

During the examination period, the company's total admitted assets increased 14.8% from $148.2 million in 2015 to $170.2 million in 2017, and total liabilities increased by 17.4% from $94.2 million in 2015 to $110.5 million in 2017, and surplus increased by10.3% from $54.1 million in 2015 to $59.7 million in 2017. The company incurred consecutive net losses in 2015 and 2016 and had a small profit in 2017 attributable to the 2017 moratorium on the Health Insurer Fee offset by integration expenses related to the GHP/PPIC/Unity transactions. As shown above, the company's enrollment had an increasing trend year-over-year as the company obtained additional commercial members. During the two prior years, enrollment growth appear to be organic; however, some of the growth in 2017 was related the holding group moving commercial members from other affiliates into the company in an effort to consolidate business. More consolidation is expected in subsequent years therefore further enrollment changes are expected.

As previously mentioned, the company incurred net losses in 2016 and 2015. The losses incurred during 2016 are related to an increase in administrative expenses due to new staff additions, integration expenses related to the GHP/Unity transactions, the use of consultants for various corporate projects, increased utilization in the wellness programs, increase in agent commissions due to growth, and a $6 million premium deficiency reserve related to expected additional costs related to the GHP/Unity transaction. The losses incurred in 2015 appeared to be related to high medical loss ratio of 99% in the individual federal exchange business, additional staffing obtained in response to the growing Marketplace membership, an increase in the ACA fee due to premium growth, and additional costs for consultants, purchased services and legal fees to handle various projects. Over the course of the examination period, the company has received capital contributions from its parent entities to meet the required statutory surplus levels.

Financial Requirements

The financial requirements for an HMO under s. Ins 9.04, Wis. Adm. Code, are as follows:

		Amount Required
1.	Minimum capital or permanent surplus	Either: $750,000, if organized on or after July 1, 1989 or $200,000, if organized prior to July 1, 1989

2. Compulsory surplus — The greater of $750,000 or:

   If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months;

   If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months

3. Security surplus — The greater of:

   140% of compulsory surplus reduced by 1% of compulsory surplus for each $33 million of additional premiums earned in excess of $10 million

   or

   110% of compulsory surplus

Covered liabilities are those due to providers who are subject to statutory hold-harmless provisions.

The company's calculation as of December 31, 2017, is as follows:

Assets			$170,152,323
Less:			
Special deposit			10,707,965
Liabilities			110,497,522
Assets available to satisfy surplus requirements			48,946,836
Net premium earned			
HMO business	$947,156,184		
Factor	3%		
Total		$28,414,685	
Incidental indemnity	13,560,280		
Factor	10%		
Total		1,356,028	
Compulsory surplus			29,770,713
Compulsory surplus excess (deficit)			$ 19,176,123
Assets available to satisfy surplus requirements			$48,946,836
Compulsory surplus			29,770,713
Security factor			112%
Security surplus			33,343,198
Security surplus excess (deficit)			$15,603,638

In addition, there is a special deposit requirement equal to the lesser of the following:

1. An amount necessary to maintain a deposit equaling 1% of premium written in this state in the preceding calendar year;

2. One-third of 1% of premium written in this state in the preceding calendar year.

The company has satisfied this requirement for 2017 with a deposit of $10.7 million with the State Treasurer.

Reconciliation of Capital and Surplus per Examination

No exam adjustment or reclassification resulted from the examination. The capital and surplus reported at December 31, 2017, of $59,654,801 is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Affiliated Transaction Disclosures

Review of the company's Annual Statement, Notes to the Financial Statements, and Footnote #10 revealed the company failed to properly disclose the capital contributions received from its parent entities during the examination period as required by the NAIC Annual Statement Instructions - Health. In addition, the company failed to properly disclose the transactions in its Holding Company Registration Forms B & C, Item 5, (e) – Transactions and Agreements as required under s. Ins 40.03 (3) (c) (3), Wis. Adm. It is recommended that the company properly disclose its material affiliated transactions in accordance with the NAIC Annual Statement Instructions - Health and s. Ins 40.03 (3) (c) 3, Wis. Adm.

Business Continuity Plan

As the company increases its reliance on third-party service providers, it is critical that the company assess the potential impact of business disruption from its third-party service providers and develop a back-up plan to alleviate this exposure as part of the company's business continuity plan. It is recommended that the company include critical third-party operations in its business impact analysis and risk assessment for its business continuity plan.

Other Information Technology Recommendations

The examination noted other areas where IT controls could be further strengthened, which were presented in a letter to management dated March 1, 2019. It is recommended that the company strengthen its IT control environment as specifically described in the management letter dated March 1, 2019.

VIII. CONCLUSION

Unity is a for-profit HMO insurer operating in the State of Wisconsin. The company writes business for individuals (including ACA), commercial small and large groups, and Medicare Select.

At the end of 2017, the company reported total net assets of $170.2 million, total liabilities of $110.5 million, and total capital and surplus of $59.7 million. Adjusted capital and surplus of $48.9 million satisfied the compulsory and security surplus requirement at year-end 2017. The company also satisfied the special deposit requirement with the State of Wisconsin with a $10.7 million deposit with the State Treasurer.

During 2015 and 2016, the company incurred net losses. The 2015 losses were the result of a high MLR for the individual federal exchange business, and an increase in administrative related expenses due to growth. Losses in 2016 were associated with the GHP/Unity transaction, a premium deficiency reserve related to anticipated losses in subsequent years, and other administrative expenses. The losses incurred by the company were offset by capital contributions from the parent entities to keep the company above the statutory minimum surplus requirement. In addition, under the terms of the Interested Parties Agreement, the parent entities shown in Section IV of the exam report are obligated to provide mandatory funding to the company should it fall below the statutory minimum surplus requirement.

The prior examination did not result in any recommendations. The current examination resulted in three recommendations, which are outlined in Section IX below.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - Affiliated Transaction Disclosures—It is recommended that the company properly disclose its material affiliated transactions in accordance with the NAIC Annual Statement Instructions - Health and s. Ins 40.03 (3) (c) 3, Wis. Adm.

2. Page 29 - Business Continuity Plan—It is recommended that the company include critical third-party operations in its business impact analysis and risk assessment for its business continuity plan.

3. Page 29 - Other Recommendations—It is recommended that the company strengthen its IT control environment as specifically described in the management letter dated March 1, 2019.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
James Krueger	Insurance Financial Examiner
Mark Prodoehl	Insurance Financial Examiner
Sheng Vang	Insurance Financial Examiner
Jerry DeArmond, CFE	Loss Reserve Specialist
Eleanor Lu	IT Specialist
Karl Albert, CFE	Workpaper Specialist
Robert McLaughlin, CFE	ACL Specialist

Respectfully submitted,

Kongmeng Yang
Examiner-in-Charge