Financial Statements and Supplementary Information - Statutory Basis

Wisconsin Collaborative Insurance Company

*Years Ended December 31, 2021 and 2020*
*With Reports of Independent Auditors*

**_Wisconsin Collaborative Insurance Company_**

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Years Ended December 31, 2021 and 2020

## Contents

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## Report of Independent Auditors

Board of Directors
Wisconsin Collaborative Insurance Company

### Opinion

We have audited the statutory basis financial statements of Wisconsin Collaborative Insurance Company (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in capital and surplus and cash flow for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

*Unmodified Opinion on Statutory Basis of Accounting*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

*Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company at December 31, 2021 and 2020, or the results of its operations or its cash flows for the years then ended.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*

As described in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices described in

Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

April 14, 2022

## *Wisconsin Collaborative Insurance Company*

# Balance Sheets - Statutory Basis

| | December 31 | |
|---|---|---|
| | **2021** | **2020** |
| | *(In Thousands)* | |
| **Admitted assets** | | |
| Cash and invested assets: | | |
| Cash, cash equivalents and short-term investments | **$ 20,358** | $ 31,011 |
| Bonds | **20,069** | 239 |
| Total cash and invested assets | **40,427** | 31,250 |
| Accrued investment income | **3** | 2 |
| Premiums receivable | **447** | 450 |
| Amounts recoverable from reinsurers | **—** | 107 |
| Amounts receivable relating to uninsured plans | **2,842** | 1,471 |
| Current federal income tax recoverable | **1,245** | 1,694 |
| Net deferred tax asset | **1,780** | 2,017 |
| Health care and other receivables | **30** | — |
| Total admitted assets | **$ 46,774** | $ 36,991 |
| **Liabilities and capital and surplus** | | |
| Liabilities: | | |
| Unpaid claims and claims adjustment expenses | **$ 6,718** | $ 7,770 |
| Aggregate policy reserves | **—** | 1,211 |
| Premiums received in advance | **133** | 449 |
| Accounts payable and accrued expenses | **1,123** | 410 |
| Payable to affiliates | **1,482** | 120 |
| Remittances and items not allocated | **484** | 462 |
| Liability for amounts held under uninsured plans | **855** | 583 |
| Other liabilities | **341** | 898 |
| Total liabilities | **11,136** | 11,903 |
| Capital and surplus: | | |
| Common stock, $1 par value, 40,000,000 shares authorized, 3,000,000 issued and outstanding | **3,000** | 3,000 |
| Additional paid-in surplus | **29,646** | 29,646 |
| Unassigned surplus (deficit) | **2,992** | (7,558) |
| Total capital and surplus | **35,638** | 25,088 |
| Total liabilities and capital and surplus | **$ 46,774** | $ 36,991 |

*See accompanying notes.*

## *Wisconsin Collaborative Insurance Company*

## Statements of Operations - Statutory Basis

| | Year Ended December 31 | |
|---|---|---|
| | **2021** | **2020** |
| | *(In Thousands)* | |
| **Premium income** | **$ 64,158** | $ 60,954 |
| **Benefits and expenses:** | | |
| Claims and claims adjustment expenses | **52,539** | 56,557 |
| Operating expenses | **329** | 2,503 |
| Change in reserves for accident and health contracts | **(1,211)** | 1,211 |
| Total benefits and expenses | **51,657** | 60,271 |
| **Net underwriting gain (loss)** | **12,501** | 683 |
| **Investment gains (losses):** | | |
| Net investment income (losses) | **125** | 72 |
| Net realized capital gains (losses), net of taxes (benefits) | **(1)** | — |
| Total net investment gains (losses) | **124** | 72 |
| **Income (loss) before federal income taxes** | **12,625** | 755 |
| Federal income taxes (benefits) | **2,400** | 956 |
| **Net income (loss)** | **$ 10,225** | $ (201) |

*See accompanying notes.*

## *Wisconsin Collaborative Insurance Company*

# Statements of Changes in Capital and Surplus - Statutory Basis

| | Common Stock | Additional Paid-in Surplus | Unassigned Surplus (Deficit) | Special Surplus Funds | Total Capital and Surplus |
|---|---|---|---|---|---|
| | | | *(In Thousands)* | | |
| Balance as of January 1, 2020 | $ 3,000 | $ 29,646 | $ (10,671) | $ 1,059 | $ 23,034 |
| Net income (loss) | — | — | (201) | — | (201) |
| Change in net deferred income tax | — | — | 153 | — | 153 |
| Change in nonadmitted assets | — | — | 2,102 | — | 2,102 |
| Change in special surplus funds for ACA health insurer fee | — | — | 1,059 | (1,059) | — |
| Balance as of December 31, 2020 | $ 3,000 | $ 29,646 | $ (7,558) | $ — | $ 25,088 |
| Net income (loss) | **—** | **—** | **10,225** | **—** | **10,225** |
| Change in net deferred income tax | **—** | **—** | **(369)** | **—** | **(369)** |
| Change in nonadmitted assets | **—** | **—** | **694** | **—** | **694** |
| Balance as of December 31, 2021 | **$ 3,000** | **$ 29,646** | **$ 2,992** | **$ —** | **$ 35,638** |

*See accompanying notes.*

## *Wisconsin Collaborative Insurance Company*

Statements of Cash Flow - Statutory Basis

| | Year Ended December 31 | |
|---|---|---|
| | **2021** | **2020** |
| | *(In Thousands)* | |
| **Operating activities:** | | |
| Premiums collected | **$ 63,845** | $ 60,651 |
| Investment income received | **297** | 79 |
| Claims and claims adjustment expenses paid | **(53,182)** | (53,327) |
| General administrative and miscellaneous expenses paid | **(6,166)** | 4,938 |
| Federal income taxes (paid) recovered | **(1,950)** | (2,050) |
| Net cash provided by (used in) operating activities | **2,844** | 10,291 |
| | | |
| **Investment activities:** | | |
| Proceeds from investments sold, matured or repaid | **(1)** | — |
| Cost of investments acquired | **(20,000)** | — |
| Net cash provided by (used in) investment activities | **(20,001)** | — |
| | | |
| **Financing or miscellaneous activities:** | | |
| Net transfers from (to) affiliates | **5,897** | (454) |
| Other | **607** | 2,853 |
| Net cash provided by (used in) financing or miscellaneous activities | **6,504** | 2,399 |
| | | |
| Change in cash, cash equivalents and short-term investments | **(10,653)** | 12,690 |
| Cash, cash equivalents and short-term investments at beginning of year | **31,011** | 18,321 |
| Cash, cash equivalents and short-term investments at end of year | **$ 20,358** | $ 31,011 |

*See accompanying notes.*

*(Dollars In Thousands)*

## 1. Nature of Operations and Significant Accounting Policies

Wisconsin Collaborative Insurance Company (the "Company") is a Wisconsin domiciled stock insurance company that markets and underwrites hospitalization, surgical and medical, major medical, and prescription drugs for group accounts in the State of Wisconsin. The Company is licensed to write business in Wisconsin as a health company and also provides administrative services for certain other health plans. The Company operates as a licensee of the Blue Cross and Blue Shield Association ("BCBSA"). The Company is owned 55% by Crossroads Acquisition Corp. ("Crossroads"), an indirect wholly-owned subsidiary of Anthem, Inc. ("Anthem"), a publicly traded company, and 45% by Advocate Aurora Health, Inc. ("Advocate"), a Wisconsin non-stock not-for profit corporation with hospitals, medical clinics, doctors and pharmacies located primarily in Wisconsin and Illinois.

### Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI"). The OCI has adopted the Statement of Statutory Accounting Principles ("SSAP") found in the National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* ("NAIC SAP") as a component of prescribed accounting practices. Additionally, the OCI has adopted certain prescribed accounting practices that differ from those found in NAIC SAP, which impact the Company; specifically, the nonadmission of receivables from affiliates. The OCI has the right to permit other specific practices that deviate from prescribed practices. The Company employed no permitted practices in preparing the accompanying statutory financial statements.

A reconciliation of the Company's statutory capital and surplus as of December 31, 2021 and 2020 between practices prescribed by the OCI and NAIC SAP along with reference of SSAP are shown below:

| | SSAP No. | 2021 | 2020 |
|---|---|---|---|
| Statutory capital and surplus, OCI | **XXX** | **$ 35,638** | $ 25,088 |
| State prescribed practices: | | | |
| Nonadmitted affiliated receivable balances, pursuant to Insurance 9.10 of the Wisconsin Administrative Code, effective March 1, 2000 | **4, 25** | **4,440** | 3,829 |
| Statutory capital and surplus, NAIC SAP basis | **XXX** | **$ 40,078** | $ 28,917 |

For the years ended December 31, 2021 and 2020, there are no differences between the Company's net income under NAIC SAP and practices prescribed by the OCI.

Various statutory accounting principles differ from U.S. generally accepted accounting principles ("GAAP"). The more significant differences from GAAP, applicable to the Company, are as follows:

*Investments:* Investments in bonds are reported at amortized cost or fair value based on their NAIC rating. Changes in value in investments carried at fair value are included in unassigned surplus. Other than temporary impairments ("OTTI") of bonds result in a permanent write-down in the carrying value of the investment. For GAAP, investments in bonds designated at purchase as available-for-sale are reported at fair value with unrealized holding gains and losses, net of tax, reported as a separate component of capital and surplus. Impairments of bonds are reflected in a valuation allowance, which is adjusted for improvements in the fair value of the investment.

*Premiums receivable:* Premiums receivable are recorded at the billed amount and reduced by any amounts not deemed collectible. Generally, amounts aged ninety days and older are nonadmitted assets, with the exception of government receivables. For GAAP, these amounts are recorded at the billed amount and are reported net of a valuation allowance based upon historical collection trends and management's judgment on the expected collectability of these accounts.

*Nonadmitted assets:* Certain assets designated as nonadmitted, including deferred federal income taxes in excess of certain statutory limits, prepaid expenses, receivables from parents, intangible assets other than goodwill, certain health care and other receivable balances, and certain premium receivable balances are excluded from the balance sheets by a direct charge to unassigned surplus. These nonadmitted assets totaled $10,644 and $11,338 at December 31, 2021 and 2020, respectively. For GAAP, these amounts are carried as assets, net of a valuation allowance, if necessary.

*Income taxes:* Statutory deferred tax assets are subject to certain statutory limitations with amounts in excess of these limitations being nonadmitted. Changes in deferred taxes are recognized as a separate component of gains and losses in unassigned surplus ("Change in net deferred income tax"). State income taxes are included as a component of operating expenses but are not considered in the computation of deferred taxes. In addition, income taxes on investment realized gains and losses are reported as a component of net realized capital gains (losses). For GAAP, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years and a valuation allowance is established for deferred tax assets estimated to be unrealizable. Excluding the tax impact of unrealized investment gains and losses and certain other items, the change in deferred income taxes is recorded in the statements of operations. State income taxes are considered in the computation of deferred taxes and are included as a component of income tax expense. Income taxes on investment realized gains and losses are included as a component of income tax expense.

*Statements of cash flow:* Cash, cash equivalents and short-term investments in the statements of cash flow represent cash balances, and investments with initial maturities of less than one year and more than three months at the date of acquisition. If in the aggregate the Company has a negative cash balance, it is reported as a negative asset and not as a liability. For GAAP, the corresponding captions of cash and cash equivalents include cash balances and investments with initial maturities of three months or less. Short-term investments are reported separately, and negative cash balances are reported separately as liabilities.

*Uninsured accident and health plans*: The Company provides administrative services to various customers on an uninsured basis. Administrative fees earned under these arrangements are deducted from operating expenses. For GAAP, these administrative fees are reported as revenue in the statements of operations.

*Reinsurance:* Any reinsurance balance amounts deemed to be uncollectible are written off through a charge to operations. In addition, a liability for reinsurance balances is provided for unsecured policy reserves ceded to reinsurers not authorized to assume such business. Changes to the liability are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible is established through a charge to earnings. Claim and policy liabilities ceded to reinsurers are reported as reductions of the related reserves rather than as assets, as would be required under GAAP.

The effects of the foregoing variances from GAAP on the accompanying statutory financial statements have not been determined but are presumed to be material.

Other significant accounting policies are as follows:

**Use of Estimates**

Preparation of statutory financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Investments**

Bonds not backed by loans are stated at amortized cost, with amortization of premium or discount calculated based on the modified scientific method, using lower of yield to call or yield to maturity. Non-investment grade bonds are stated at the lower of cost or fair value.

The Company holds five SVO-Identified bond exchange-traded funds ("ETFs") and has made an irrevocable decision to report these ETFs as bonds valued using the systematic value approach to amortize or accrete the investment in a manner that represents the expected cash flows from the underlying bond holdings. Systematic valuation has been consistently applied to these ETFs held at December 31, 2021 and previous periods.

Unrealized losses on non-investment grade bonds are reflected directly in unassigned surplus, net of federal income taxes, unless there is deemed to be an other-than-temporary decline in value, in which case the loss is charged to income. Realized gains and losses on investments sold are determined using the specific identification method and are included in net realized capital gains (losses), net of taxes (benefits). Investment income is not accrued on bonds with interest payments in default.

In accordance with SSAP No. 26R, *Bonds*, it is the Company's policy to assess for OTTI when fair value falls below amortized cost and record an OTTI when it becomes probable that the Company will be unable to collect all amounts due according to the contractual terms of the security in effect at the date of acquisition.

**Health Care Receivables**

Health care receivables represent amounts related to pharmacy rebate receivables and other health care related receivables other than premiums. Pharmacy rebate receivables are recorded when earned, based upon actual rebate receivables and an estimate of receivables based upon current utilization of specific pharmaceuticals and provider contract terms. Health care receivables are subject to various admittance tests based on the nature of the receivable balance. Health care receivables relating to insured plans are reported in health care and other receivables. Health care receivables that are not for insured plans are included in amounts receivable relating to uninsured plans on the statutory balance sheets.

**Other Intangible Assets**

Intangible assets are fully nonadmitted and amortized using the straight-line method over ten years. Intangible asset accumulated amortization was $5,833 and $4,630 in 2021 and 2020, respectively. Intangible asset amortization expense is reported with operating expenses.

**Unpaid Claims and Claims Adjustment Expenses**

Unpaid claims and claims adjustment expenses include management's best estimate of amounts based on historical claim development patterns and certain individual case estimates. The established liability considers health benefit provisions, business practices, economic conditions and other factors that may materially affect the cost, frequency and severity of claims. Reserves for unpaid claims and claims adjustment expenses are based on assumptions and estimates, and while management believes such estimates are reasonable, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and changes in estimates are incorporated into current operating results.

There were no significant changes in methodologies and assumptions used in calculating the liability for unpaid claims and claims adjustment expenses.

**Premium Deficiency Reserves**

Premium deficiency reserves are established for the amount of the anticipated claims and claims adjustment expenses that have not been previously expensed in excess of the recorded unearned premium reserve and future premiums on existing policies. The Company does not use anticipated investment income as a factor in the premium deficiency reserve calculation. The Company did not record premium deficiency reserves as of December 31, 2021. The Company recorded premium deficiency reserves of $1,211 as of December 31, 2020 in aggregate policy reserves.

**Revenue Recognition**

Premiums are earned over the coverage term of the related insurance policies and reinsurance contracts. Unearned premium reserves, included in aggregate policy reserves, are established to cover the unexpired portion of premiums written and collected, and are computed by pro rata methods for direct business, and are based on reports received from ceding companies for reinsurance assumed. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. The premiums paid by policyholders prior to the effective date are recorded in the balance sheets as premiums received in advance and subsequently recorded to income as earned during the coverage period. Premium rates for certain lines of business are subject to approval by the OCI.

In response to the COVID-19 pandemic, the Company provided premium credits to members enrolled in select individual and fully insured employer health plans. In addition, individuals in stand-alone and group dental plans also received a credit. There were no premium credits in 2021. For December 31, 2020, premium credits of $598, were received by these policyholders and are netted against premium income on the statement of operations.

At December 31, 2021 and 2020, the Company reported admitted assets of $3,289 and $1,921, respectively, in premiums receivable and amounts receivable relating to uninsured plans. Based upon the Company’s experience, any uncollectible receivables are not expected to exceed $5,803 that was nonadmitted at December 31, 2021; therefore, no additional provision for uncollectible amounts has been recorded. The potential for any additional loss is not believed to be material to the Company’s financial condition.

**Reinsurance**

Reinsurance premiums and claims and claims adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Certain premiums and benefits are ceded to other insurance companies under various reinsurance contracts. These reinsurance contracts limit the Company’s exposure to losses within its capital resources. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. Uncollected premiums receivable and unpaid claims are reported net of reinsurance amounts ceded to other insurers. A liability for reinsurance balances is provided for unsecured policy reserves ceded to reinsurers not authorized to assume such business. Changes to the liability are credited or charged directly to unassigned surplus.

**Retrospectively Rated Contracts**

The Company sells policies where premiums vary based on loss experience or premium stabilization programs. Premium income includes an adjustment for retrospectively rated refunds based on an estimate of incurred claims. A retrospectively rated contract is one that has the final policy premium calculated based on the loss experience of the insured during the term of the policy (including loss development after the term of the policy). Retrospectively rated refunds include Medical loss ratio (“MLR”) rebates per the Affordable Care Act (“ACA”). Accrued retrospective premiums are reported in premiums receivable. Reserves for rate credits or policy rating refunds are reported in aggregate policy reserves.

The Company uses estimates to report in the statutory financial statements to determine the receivable and reserve amounts for these arrangements based on estimates and assumptions at the financial statement date and regulations and guidance available that is subject to change prior to settlement. Accordingly, the Company’s use of estimates and assumptions in the preparation of the statutory financial statements and related footnote disclosures may differ from actual results.

All of the Company’s premiums written in 2021 and 2020 are subject to retrospective rating features, including MLR rebate regulations.

**Uninsured Accident and Health Plans**

The Company provides administrative services to various customers on an uninsured basis. Under these arrangements, the customer retains the risk of funding payments for health benefits provided, and the Company may be subject to credit risk of the customer from the time of the Company’s claim payment until the Company receives the claim reimbursement. In accordance with SSAP No. 47, *Uninsured Plans*, these claims payments and subsequent reimbursements are excluded from the Company’s statutory statements of operations. Administrative fees for administering these arrangements are recognized as administrative services are performed and recorded as a reduction to operating expenses.

**Federal Income Taxes**

The Company’s Federal Income Tax return is a separate filing. The Company is owned by two unrelated entities and is not includable in either consolidated return. Thus, no tax sharing agreement is in place for federal income taxes.

Deferred tax assets (“DTA”) are limited to an amount equal to the sum of: (1) federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year; (2) depending on the Company’s Authorized Control Level (“ACL”) Risk Based Capital (“RBC”) ratio exclusive of the DTA, the lesser of (a) the amount of gross DTAs expected to be realized within three years after the application of (1) or 15% of surplus, if the ratio is greater than 300%, (b) the amount of gross DTAs expected to be realized within one year after the application of (1) or 10% of surplus, if the ratio is between 200% and 300%, or (c) if the ratio is below 200%, no DTA can be realized; and (3) the amount of gross DTAs, after the application of (1) and (2), that can be offset against gross deferred tax liabilities (“DTL”). DTAs in excess of these limitations are nonadmitted.

Deferred taxes do not include amounts for state taxes. Changes in DTAs and DTLs are recognized as a separate component of gains and losses in surplus (“Change in net deferred income tax”).

**Health Insurer Fee**

ACA Section 9010 imposed a mandatory annual fee on health insurers that write certain types of health insurance on U.S. risks for each calendar year beginning on or after January 1, 2014. The annual fee is allocated to health insurers based on the ratio of the amount of an insurer’s premium written during the preceding calendar year to the amount of health insurance for all U.S. health risk for those certain lines of business that were written during the preceding calendar year. This fee is non-deductible for income tax purposes. The health insurer fee is reported in operating expenses in the same year it is paid. The health insurer fee to be paid in the following year is segregated in special surplus funds until the beginning of the year in which it is to be paid. The health insurer fee was temporarily suspended for 2019 and resumed in 2020. The health insurer fee has been permanently eliminated, beginning in 2021.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

*(Dollars In Thousands)*

**2. Investments**

A summary of the Company's investments in bonds is as follows:

| | | | Gross Unrealized Losses | | |
|---|---|---|---|---|---|
| ***December 31, 2021*** | **Statement Value** | **Gross Unrealized Gains** | **Less Than 12 Months** | **12 Months or Greater** | **Fair Value** |
| States, territories and political subdivisions | **$ 233** | **$ 9** | **$ —** | **$ —** | **$ 242** |
| Industrial and miscellaneous | **19,836** | **123** | **(86)** | **—** | **19,873** |
| Total bonds | **$ 20,069** | **$ 132** | **$ (86)** | **$ —** | **$ 20,115** |
| ***December 31, 2020*** | | | | | |
| States, territories and political subdivisions | $ 239 | $ 14 | $ — | $ — | $ 253 |
| Total bonds | $ 239 | $ 14 | $ — | $ — | $ 253 |

The statement and fair values of bonds at December 31, 2021, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations.

| | **Statement Value** | **Fair Value** |
|---|---|---|
| Due after one through five years | **$ 233** | **$ 242** |
| Due after ten years | **19,836** | **19,873** |
| | **$ 20,069** | **$ 20,115** |

Investments with a statement value of $233 and $239 were on deposit with the OCI at December 31, 2021 and 2020, respectively.

A significant judgment in the valuation of investments is the determination of when an other-than-temporary decline in value has occurred. The Company follows a consistent and systematic process for recognizing impairments on securities that sustain other-than-temporary declines in value. The Company has established a committee responsible for the impairment review process. The decision to impair a security incorporates both quantitative criteria and qualitative information.

The impairment review process considers a number of factors, including but not limited to (a) the length of time and the extent to which a security's fair value has been less than statement value; (b) the financial condition and near term prospects of the issuer; (c) the intent to sell, and the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in value; (d) whether the debtor is current on interest and principal payments; (e) the reasons for the decline in value (i.e., credit event compared to liquidity, general credit spread widening, currency exchange rate or interest rate factors) and (f) general market conditions and industry or sector specific factors. For securities that are deemed to be other-than-temporarily impaired, the security is adjusted to its fair value or present value of its discounted cash flows, and the resulting losses are recognized in net realized gains or losses in the statutory statements of operations. The new cost basis of the impaired securities is not increased for future recoveries in fair value. The Company did not recognize OTTI on securities for the years ended December 31, 2021 and 2020.

_(Dollars In Thousands)_

A summary of unaffiliated investments with unrealized losses along with the related fair value, aggregated by the length of time that investments have been in a continuous unrealized loss position, is as follows:

| | December 31, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | **Number of Securities** | **Fair Value** | **Gross Unrealized Loss** | **Number of Securities** | **Fair Value** | **Gross Unrealized Loss** |
| Bonds: | | | | | | |
| Less than 12 months | **2** | **$ 10,080** | **$ (86)** | — | $ — | $ — |
| 12 months or greater | **—** | **—** | **—** | — | — | — |
| Total bonds | **2** | **$ 10,080** | **$ (86)** | — | $ — | $ — |

The Company's bond portfolio is sensitive to interest rate fluctuations, which impact the fair value of individual securities. Unrealized losses on bonds reported above were primarily caused by the effects of the interest rate environment and the widening of credit spreads on certain securities. The Company currently has the ability and intent to hold these securities until their full cost can be recovered. Therefore, the Company does not believe the unrealized losses represent an OTTI as of December 31, 2021 or 2020.

## 3. Fair Value

Assets and liabilities recorded at fair value in the statutory balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are as follows:

| Level Input | Input Definition: |
|---|---|
| Level I | Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date. |
| Level II | Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date. |
| Level III | Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. |

At December 31, 2021 and 2020, the Company did not have any assets or liabilities measured and reported at fair value.

Fair values of bonds are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs, for the determination of fair value and to facilitate fair value measurements and disclosures. Level II securities primarily include United States government securities, corporate securities, securities from states, municipalities and political subdivisions, residential mortgage-backed securities and certain other asset-backed securities. For securities not actively traded, the pricing services may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. For certain investments in bonds, primarily corporate debt securities, the valuation methodologies may incorporate broker quotes or discounted cash flow analyses using assumptions for inputs such as expected cash flows, benchmark yields, credit spreads, default rates and prepayment speeds that are not observable in the markets. These securities are designated Level III.

The Company has controls in place to review the pricing services' qualifications and procedures used to determine fair values. In addition, the Company periodically reviews the pricing services' pricing methodologies, data sources and pricing inputs to ensure the fair values obtained are reasonable.

There were no securities reported at fair value on the statutory balance sheets using Level III inputs during the years ended December 31, 2021 and 2020. There were no transfers between levels during the years ended December 31, 2021 and 2020. The Company's policy is to recognize transfers between levels, if any, as of the beginning of the reporting period.

*(Dollars In Thousands)*

The following table summarizes the fair value of financial instruments by types:

| December 31, 2021 | | | | | |
|---|---|---|---|---|---|
| **Type of Financial Instrument** | **Aggregate Fair Value** | **Admitted Assets** | **Level I** | **Level II** | **Level III** |
| Bonds | **$ 20,115** | **$ 20,069** | **$ 19,873** | **$ 242** | **$ —** |

| December 31, 2020 | | | | | |
|---|---|---|---|---|---|
| **Type of Financial Instrument** | **Aggregate Fair Value** | **Admitted Assets** | **Level I** | **Level II** | **Level III** |
| Bonds | $ 253 | $ 239 | $ — | $ 253 | $ — |

The Company has no investments measured at net asset value.

## 4. Unpaid Claims and Claims Adjustment Expenses

The following table provides a reconciliation of the beginning and ending balances for unpaid claims and claims adjustment expenses:

| | **2021** | **2020** |
|---|---|---|
| Balances at January 1 | **$ 7,770** | $ 4,664 |
| Incurred (redundancies) related to: | | |
| Current year | **54,755** | 56,999 |
| Prior years | **(2,216)** | (442) |
| Total incurred | **52,539** | 56,557 |
| Paid related to: | | |
| Current year | **48,090** | 49,316 |
| Prior years | **5,501** | 4,135 |
| Total paid | **53,591** | 53,451 |
| Balances at December 31 | **$ 6,718** | **$ 7,770** |

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled. Liabilities at any year end are continually reviewed and re-estimated as information regarding actual claim payments becomes known. This information is compared to the originally established year end liability. The negative amounts reported for incurred claims related to prior years are due to claims being settled for amounts less than originally estimated. This experience is primarily attributable to actual medical cost experience that differs from that assumed at the time the liability was established. The impact from COVID-19 on healthcare utilization and medical claims submission patterns has increased estimation uncertainty on our incurred but not reported liability at December 31, 2021. Slowdowns in claims submission patterns and increases in utilization levels for COVID-19 testing and treatment during the fourth quarter of 2021 are the primary factors that lead to the increased estimation uncertainty. The favorable development recognized in 2021 resulted primarily from trend factors in late 2020 developing more favorably than originally expected as well as a smaller but significant contribution from completion factor development.

*(Dollars In Thousands)*

The Company took into account estimated anticipated subrogation and other recoveries in its determination of the liability for unpaid claims based on historical recovery patterns.

**5. Reinsurance**

The effects of reinsurance on net premiums are as follows:

| | Year ended December 31 | |
|---|---|---|
| | **2021** | **2020** |
| Direct premiums | **$ 65,020** | $ 62,107 |
| Ceded premiums | **(862)** | (1,153) |
| Net premiums | **$ 64,158** | $ 60,954 |

The effects of reinsurance on claims and claims adjustment expenses in the accompanying financial statements as follows:

| | Year ended December 31 | |
|---|---|---|
| | **2021** | **2020** |
| Direct claims and claims adjustment expenses | **$ 52,625** | $ 56,543 |
| Ceded claims and claims adjustment expenses | **(86)** | 14 |
| Net claims and claims adjustment expenses | **$ 52,539** | $ 56,557 |

*(Dollars In Thousands)*

## 6. Federal Income Taxes

The Company has a current federal income tax recoverable (payable) of of $1,245 and $1,694 as of December 31, 2021 and 2020, respectively.

The components of net deferred tax assets (liabilities) at December 31 are as follows:

| | 2021 | | |
|---|---|---|---|
| | **Ordinary** | **Capital** | **Total** |
| Gross deferred tax assets | **$ 2,842** | **$ 34** | **$ 2,876** |
| Gross deferred tax liabilities | **—** | **—** | **—** |
| Net deferred tax asset before admissibility test | **$ 2,842** | **$ 34** | **$ 2,876** |

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101, *Income Taxes* ("SSAP No. 101") as of December 31, 2021 is:

| | | | |
|---|---|---|---|
| Admitted pursuant to paragraph 11.a. | **$ 1,614** | **$ —** | **$ 1,614** |
| Admitted pursuant to paragraph 11.b. | **137** | **29** | **166** |
| Admitted pursuant to paragraph 11.c. | **—** | **—** | **—** |
| Admitted deferred tax asset | **1,751** | **29** | **1,780** |
| Deferred tax liability | **—** | **—** | **—** |
| Net admitted deferred tax asset | **1,751** | **29** | **1,780** |
| Nonadmitted deferred tax asset | **$ 1,091** | **$ 5** | **$ 1,096** |

| | 2020 | | |
|---|---|---|---|
| | **Ordinary** | **Capital** | **Total** |
| Gross deferred tax assets | $ 3,245 | $ — | $ 3,245 |
| Gross deferred tax liabilities | — | — | — |
| Net deferred tax asset before admissibility test | $ 3,245 | $ — | $ 3,245 |

*(Dollars In Thousands)*

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 as of December 31, 2020 is:

| | Ordinary | Capital | Total |
|---|---|---|---|
| Admitted pursuant to paragraph 11.a. | $ 1,856 | $ — | $ 1,856 |
| Admitted pursuant to paragraph 11.b. | 161 | — | 161 |
| Admitted pursuant to paragraph 11.c. | — | — | — |
| Admitted deferred tax asset | 2,017 | — | 2,017 |
| Deferred tax liability | — | — | — |
| Net admitted deferred tax asset | 2,017 | — | 2,017 |
| Nonadmitted deferred tax asset | $ 1,228 | $ — | $ 1,228 |

The change in the amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 during 2021 is:

| | Ordinary | Capital | Total |
|---|---|---|---|
| Admitted pursuant to paragraph 11.a. | $ (242) | $ — | $ (242) |
| Admitted pursuant to paragraph 11.b. | (24) | 29 | 5 |
| Admitted pursuant to paragraph 11.c. | — | — | — |
| Admitted deferred tax asset | (266) | 29 | (237) |
| Deferred tax liability | — | — | — |
| Net admitted deferred tax asset | (266) | 29 | (237) |
| Nonadmitted deferred tax asset | $ (137) | $ 5 | $ (132) |

| | 2021 | 2020 |
|---|---|---|
| Ratio percentage used to determine recovery period and threshold limitation amount | **914 %** | 637 % |
| Amount of adjusted capital and surplus used to determine recovery period and threshold limitations | **$ 33,858** | $ 23,072 |

*(Dollars In Thousands)*

The impact of tax planning strategies is as follows:

| | 2021 | | 2020 | | Change | |
|---|---|---|---|---|---|---|
| | **Ordinary** | **Capital** | **Ordinary** | **Capital** | **Ordinary** | **Capital** |
| Adjusted gross deferred tax assets amount | **$ 2,842** | **$ 34** | $ 3,245 | $ — | $ (403) | $ 34 |
| Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies | **0.00 %** | **0.00 %** | 0.00 % | 0.00 % | 0.00 % | 0.00 % |
| Net admitted adjusted gross deferred tax assets amount | **$ 1,751** | **$ 29** | $ 2,017 | $ — | $ (266) | $ 29 |
| Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies | **0.00 %** | **0.00 %** | 0.00 % | 0.00 % | 0.00 % | 0.00 % |

The Company's tax planning strategies do not include the use of reinsurance.

The components of deferred income taxes are as follows:

| | December 31 | | |
|---|---|---|---|
| | **2021** | **2020** | **Change** |
| Deferred tax assets: | | | |
| Ordinary: | | | |
| Accrued future expenses | **$ 47** | $ 192 | $ (145) |
| Amortization | **1,503** | 1,640 | (137) |
| Accounts receivable | **1,230** | 1,104 | 126 |
| Claims discount reserve | **20** | 27 | (7) |
| Premium deficiency reserves | **—** | 254 | (254) |
| Other insurance reserves | **21** | 1 | 20 |
| Unearned premium reserve | **6** | 19 | (13) |
| Other adjustments | **15** | 8 | 7 |
| Subtotal | **2,842** | 3,245 | (403) |
| Nonadmitted deferred tax assets | **1,091** | 1,228 | (137) |
| Admitted ordinary deferred tax assets | **1,751** | 2,017 | (266) |
| Capital: | | | |
| Investments in securities | **34** | — | 34 |
| Subtotal | **34** | — | 34 |
| Nonadmitted deferred tax assets | **5** | — | 5 |
| Admitted capital deferred tax assets | **29** | — | 29 |
| Admitted deferred tax assets | **$ 1,780** | $ 2,017 | $ (237) |

*(Dollars In Thousands)*

The changes in deferred tax assets and deferred tax liabilities are as follows:

| | December 31 | | |
|---|---|---|---|
| | **2021** | **2020** | **Change** |
| Total deferred tax assets | **$ 2,876** | $ 3,245 | $ (369) |
| Total deferred tax liabilities | **—** | — | — |
| Net deferred tax asset | **$ 2,876** | $ 3,245 | (369) |
| Tax effect of unrealized gains (losses) | | | — |
| Change in net deferred income tax | | | $ (369) |

The Company has no repatriation transition tax or alternative minimum tax credit.

The Company's income tax expense and change in deferred income taxes differs from the amount obtained by applying the federal statutory income tax rate of 21% for the years ended December 31, 2021 and 2020 as follows:

| | **2021** | **2020** |
|---|---|---|
| Tax expense (benefit) computed using the federal statutory rate | **$ 2,651** | $ 159 |
| ACA health insurer fee | **—** | 232 |
| Change in nonadmitted assets | **118** | 412 |
| Total | **$ 2,769** | $ 803 |
| | | |
| Federal income taxes expense (benefit) | **$ 2,400** | $ 956 |
| Change in net deferred income taxes | **369** | (153) |
| Total statutory income taxes | **$ 2,769** | $ 803 |

At December 31, 2021, the Company has no operating loss carryforwards or tax credit carryforwards.

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

| | **Ordinary** | **Capital** | **Total** |
|---|---|---|---|
| **2021** | $ 2,402 | $ — | $ 2,402 |
| **2020** | 954 | — | 954 |
| **2019** | N/A | — | — |

The Company's federal income tax return is a separate filing. No owner has the required 80% to include them in a consolidated return. Thus, no tax sharing agreement is in place for federal income taxes. As of December 31, 2021, the statute of limitations of the 2018, 2019, 2020 and 2021 tax years remain open.

**7. Health Insurer Fee**

The Company's portion of the annual health insurance industry fee paid during 2020 was $1,106 and is included in operating expenses. This payment was based on $57,565 of premium written subject to assessment under ACA Section 9010 as of December 31, 2019. The Company had no premiums written subject to assessment under ACA Section 9010 and did not record special surplus funds on the balance sheet as of December 31, 2020 due to the permanent elimination of this assessment, beginning in 2021.

**8. Capital and Surplus**

The OCI requires the Company to maintain a minimum surplus as set forth in the state statutes. In addition, the State of Wisconsin has adopted RBC requirements as specified by the NAIC. Under those requirements, the amount of surplus to be maintained is determined based on various risk factors. The Company also is required to maintain certain capital and liquidity levels in conjunction with its BCBSA licensing. At December 31, 2021 and 2020, the Company’s capital and surplus exceeded all regulatory requirements.

Under Wisconsin statutes, the Company is limited in the amount of dividends that can be declared without regulatory approval. The OCI must approve any dividend that, together with all dividends declared during the preceding three years, exceeds the lesser of 10% of statutory surplus existing at the end of the prior calendar year and a limitation based on net income less realized capital gains. Also, any dividend paid from other than earned surplus shall be considered an extraordinary dividend and will need approval of the Wisconsin Insurance Commissioner. The Company may pay $3,564 in dividends during 2022 without prior approval.

There was no portion of unassigned surplus (deficit) representing cumulative unrealized gains (losses), net of taxes, at December 31, 2021 and 2020.

## 9. Contingencies

***Litigation and regulatory proceedings***

Blue Cross Blue Shield Antitrust Litigation

Anthem Inc. ("Anthem") is a defendant in multiple lawsuits that were initially filed in 2012 against the BCBSA and Blue Cross and/or Blue Shield licensees ("Blue Plans") across the country. Cases filed in twenty-eight states were consolidated into a single, multi-district proceeding captioned *In re Blue Cross Blue Shield Antitrust Litigation* that is pending in the United States District Court for the Northern District of Alabama (the "Court"). Generally, the suits allege that the BCBSA and the Blue plans have conspired to horizontally allocate geographic markets through license agreements, best efforts rules that limit the percentage of non-Blue revenue of each plan, restrictions on acquisitions, rules governing the BlueCard® and National Accounts program and other arrangements in violation of the Sherman Antitrust Act ("Sherman Act"), and related state laws. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers.

In April 2018, the Court issued an order on the parties' cross motions for partial judgement, determining that the defendants' aggregation of geographic market allocations and output restrictions are to be analyzed under a per se standard of review, and the BlueCard® program and other alleged Section 1 Sherman Act violations are to be analyzed under the rule of reason standard of review. The Court also found that there remain genuine issues of material fact as to whether defendants operate as a single entity with regard to the enforcement of the Blue Cross Blue Shield trademarks. In April 2019, plaintiffs filed motions for class certification, which defendants opposed.

The BCBSA and Blue plans have approved a settlement agreement and release (the "Subscriber Settlement Agreement"), with the subscriber plaintiffs. If approved by the Court, the Subscriber Settlement Agreement will require defendants to make a monetary settlement payment, Anthem's portion of which is estimated to be $594,000 and will contain certain non-monetary terms including (i) eliminating the "national best efforts" rule in the BSBSA license agreements (which rule limits the percentage of non-Blue revenue permitted for each Blue plan) and (ii) allowing for some large national employers with self-funded benefit plans to request a bid for insurance coverage from a second Blue plan in addition to the local Blue plan. As of December 31, 2021, the liability balance accrued for Anthem's estimated payment obligation was $507,000, net of payments made.

In November 2020, the Court issued an order preliminarily approving the Subscriber Settlement Agreement, following which members of the subscriber class were provided notice of the Subscriber Settlement Agreement and an opportunity to opt out of the class. All terms of the Subscriber Settlement Agreement are subject to final approval by the Court. The deadlines for objections to the settlement as well as the deadline for those who wish to opt-out from the settlement was in July 2021 and a small number of subscribers submitted valid opt outs by the deadline. The claims deadline was in November 2021 and in excess of eight thousand claims were submitted. A final hearing was held in October 2021. The Court took the request for final approval under advisement and requested supplemental briefing that has been submitted. If the Court grants approval of the Subscriber Settlement Agreement, and after all appellate rights have expired or have been exhausted in a manner that affirms the Court's final order and judgment, the defendants' payment and non-monetary obligations under the Subscriber Settlement Agreement will become effective.

In October 2020, after the Court lifted the stay as to the provider litigation, provider plaintiffs filed a renewed motion for class certification, which defendants opposed. In March 2021, the Court issued an order terminating the pending motion for class certification until the Court determines the standard of review applicable to the providers' claims. In May 2021, the defendants and provider plaintiffs filed renewed standard of review motions which are now fully briefed. In June 2021, the parties filed summary judgment motions not critically dependent on class certification which are now fully briefed. No decision has been rendered. Anthem intends to continue to vigorously defend the provider suit, which they believe is without merit; however, its ultimate outcome cannot be presently determined.

***Other Contingencies***

From time to time, the Company is party to various legal proceedings, many of which involve claims for coverage encountered in the ordinary course of business. The Company, like HMOs and health insurers, generally exclude certain healthcare and other services from coverage under their HMO, PPO and other plans. The Company is, in the ordinary course of business, subject to the claims of their enrollees arising out of decisions to restrict or deny reimbursement for uncovered services. The loss of even one such claim, if it results in a significant punitive damage award, could have a material adverse effect on the Company. In addition, the risk of potential liability under punitive damage theories may increase significantly the difficulty of obtaining reasonable reimbursement of coverage claims.

In addition to the lawsuits described above, the Company is also involved in other pending and threatened litigation of the character incidental to their business, and is from time to time involved as a party in various governmental investigations, audits, reviews and administrative proceedings. These investigations, audits, reviews and administrative proceedings include routine and special inquiries by state insurance departments, state attorneys general, the U.S. Attorney General and subcommittees of the U.S. Congress. Such investigations, audits, reviews and administrative proceedings could result in the imposition of civil or criminal fines, penalties, other sanctions and additional rules, regulations or other restrictions on the Company's business operations. Any liability that may result from any one of these actions, or in the aggregate, could have a material adverse effect on the Company's financial position or results of operations.

*(Dollars In Thousands)*

The Company has no other known material contingencies.

### 10. Uninsured Accident and Health Plans

The net gain (loss) from operations from administrative service contract ("ASC") plans was:

| | ASC Uninsured Plans | Uninsured Portion of Partially Insured Plans | Total ASC |
|---|---|---|---|
| **For the year ended December 31, 2021** | | | |
| Gross reimbursement for medical costs incurred | **$ 396,417** | **$ —** | **$ 396,417** |
| Gross administrative fees earned | **22,648** | **—** | **22,648** |
| Gross expenses incurred (claims and administrative) | **(410,875)** | **—** | **(410,875)** |
| Net gain (loss) from operations | **$ 8,190** | **$ —** | **$ 8,190** |
| **For the year ended December 31, 2020** | | | |
| Gross reimbursement for medical costs incurred | $ 331,503 | $ — | $ 331,503 |
| Gross administrative fees earned | 19,825 | — | 19,825 |
| Gross expenses incurred (claims and administrative) | (345,479) | — | (345,479) |
| Net gain (loss) from operations | $ 5,849 | $ — | $ 5,849 |

The receivables from uninsured plans at December 31 are as follows:

| Receivable from | Related to | 2021 | 2020 |
|---|---|---|---|
| Uninsured plans | Uninsured business, not including pharmaceutical rebate receivables | **$ 2,801** | $ 1,471 |

Advocate is also an uninsured customer of the Company and paid net administrative fees to the Company of $9,851 and $9,893 in 2021 and 2020, respectively.

*(Dollars In Thousands)*

## 11. Health Care Receivables

Pharmaceutical rebate receivables consist of reasonably estimated and billed amounts. Amounts not collected within 90 days of the invoice or confirmation date are nonadmitted. Total admitted and nonadmitted pharmaceutical rebates receivables at December 31 are as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Admitted** | **Nonadmitted** | **Admitted** | **Nonadmitted** |
| Pharmaceutical rebate receivables, reported in health care and other receivables | **$ 30** | **$ —** | $ — | $ 199 |
| Pharmaceutical rebate receivables, reported in amounts receivable relating to uninsured plans | **41** | **—** | — | 138 |
| Total pharmaceutical rebate receivables | **$ 71** | **$ —** | $ — | $ 337 |

Admitted pharmaceutical rebate receivables at December 31, 2021 and 2020, include $71 and $0, respectively, due from IngenioRx, Inc., an affiliated company.

Claim overpayment receivables consist of amounts that have been invoiced and meet the setoff conditions. Amounts that have not been invoiced and do not meet the setoff conditions are nonadmitted. Total admitted and nonadmitted claim overpayment receivables at December 31 are as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Admitted** | **Nonadmitted** | **Admitted** | **Nonadmitted** |
| Claim overpayment receivables, reported in health care and other receivables | $ — | **$ 29** | $ — | $ 160 |
| Claim overpayment receivables, reported in amounts receivable relating to uninsured plans | — | **182** | — | 200 |
| Total claim overpayment receivables | $ — | **$ 211** | $ — | $ 360 |

## 12. Related Party Transactions

The Company has entered into administrative services agreements with its affiliates. Pursuant to these agreements, various administrative, management and support services are provided to or provided by the Company. The expenses related to these administrative management and support services are allocated to or allocated by the Company in an amount equal to the direct and indirect costs and expenses incurred in providing these services. Costs include expenses such as salaries, benefits, information technology, pharmacy benefits management services, advertising, consulting services, rent, utilities, accounting, underwriting, and product development, which support the operations of the Company. These costs are allocated based on various utilization statistics.

The Company is party to a cash concentration agreement with Anthem subsidiaries. Under this agreement, any of Anthem's subsidiaries may be designated as a cash manager to handle the collection and/or payment of funds on behalf of the Company. Conversely, the Company may be designated as a cash manager to handle the collection and/or payment of funds on behalf of Anthem subsidiaries. Cash services covered under this agreement include the collection of premiums and other revenue, the collection of benefit and administrative expense reimbursements, the payment of policy benefits, payroll expense, operating expense, and accounts payable disbursements.

Net payments to Anthem and Anthem subsidiaries pursuant to the above administrative service agreements were $19,136 and $18,902 in 2021 and 2020, respectively, and are included in operating expenses and claims and claims adjustment expenses in the statutory statements of operations. In addition, Advocate provides medical management services to the Company and paid Advocate $627 and $674 in 2021 and 2020, respectively.

At December 31, 2021, the Company reported no amounts due from affiliates. At December 31, 2020, the Company reported $4,535 due from parents, which was nonadmitted per OCI prescribed practice discussed in Note 1. At December 31, 2021 and 2020, the Company reported $1,482 and $120 due to parents, respectively. The receivable and payable balances represent intercompany transactions that will be settled in accordance with the settlement terms of the intercompany agreement.

## 13. Subsequent Events

On October 29, 2021, the Company's parent, Crossroads, requested approval from the OCI to purchase all of the Company's shares owned by Advocate. On January 26, 2022, OCI approved the purchase of the Company's shares owned by Advocate by Crossroads. The purchase of the Company's shares by Crossroads occurred on February 1, 2022 at which time the Company became wholly owned by Crossroads.

Management of the Company has evaluated all other events occurring after December 31, 2021 through April 14, 2022 the date the financial statements were available to be issued, to determine whether any event required either recognition or disclosure in the financial statements. It was determined there were no events that require recognition or disclosure in the financial statements through the date.

# Supplementary Information

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Building a better working world

## Report of Independent Auditors on Supplementary Information

Board of Directors
Wisconsin Collaborative Insurance Company

We have audited the statutory basis financial statements of Wisconsin Collaborative Insurance Company as of and for the years ended December 31, 2021 and 2020, and have issued our report thereon dated April 14, 2022, which contained an adverse opinion with respect to conformity with U.S. generally accepted accounting principles and an unmodified opinion with respect to conformity with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### Restriction on Use

This report is intended solely for the information and use of the Company and state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

April 14, 2022

## *Wisconsin Collaborative Insurance Company*

# Summary Investment Schedule - Statutory Basis

*(Dollars In Thousands)*

December 31, 2021

| | Gross Investment Holdings | | Admitted Assets as Reported in the Annual Statement | | | |
|---|---|---|---|---|---|---|
| | Amount | Percentage of Gross Investment Holdings | Amount | Securities Lending Reinvested Collateral Amount | Total | Percentage of Total Admitted Invested Assets |
| Long-Term Bonds: | | | | | | |
| U.S. states, territories and possessions, etc. guaranteed | $ 233 | 0.6 % | $ 233 | $ — | $ 233 | 0.6 % |
| SVO identified funds | 19,836 | 49.0 % | 19,836 | — | 19,836 | 49.0 % |
| Total long-term bonds | 20,069 | 49.6 % | 20,069 | — | 20,069 | 49.6 % |
| Cash, cash equivalents and short-term investments: | | | | | | |
| Cash | 20,358 | 50.4 % | 20,358 | — | 20,358 | 50.4 % |
| Total cash, cash equivalents and short-term investments | 20,358 | 50.4 % | 20,358 | — | 20,358 | 50.4 % |
| Total invested assets | $ 40,427 | 100.0 % | $ 40,427 | $ — | $ 40,427 | 100.0 % |

## *Wisconsin Collaborative Insurance Company*

# Investment Risks Interrogatories - Statutory Basis

*(Dollars In Thousands)*

December 31, 2021

1. The Company's total admitted assets as reported on Page 2 of the Annual Statement are: $ 46,774

2. Ten largest exposures to a single issuer/borrower/investment:

| | Investment | Description of Exposure | | Amount | Percentage of Total Admitted Assets |
|---|---|---|---|---|---|
| 2.01 | State of Wisconsin | Bonds | $ | 233 | 0.5 % |
| 2.02 | | | $ | — | 0.0 % |
| 2.03 | | | $ | — | 0.0 % |
| 2.04 | | | $ | — | 0.0 % |
| 2.05 | | | $ | — | 0.0 % |
| 2.06 | | | $ | — | 0.0 % |
| 2.07 | | | $ | — | 0.0 % |
| 2.08 | | | $ | — | 0.0 % |
| 2.09 | | | $ | — | 0.0 % |
| 2.10 | | | $ | — | 0.0 % |

3. The Company's total admitted assets held in bonds by NAIC designation are:

| | Bonds | | Amount | Percentage of Total Admitted Assets |
|---|---|---|---|---|
| 3.01 | NAIC - 1 | $ | 3,051 | 6.5 % |
| 3.02 | NAIC - 2 | $ | 17,018 | 36.4 % |
| 3.03 | NAIC - 3 | $ | — | 0.0 % |
| 3.04 | NAIC - 4 | $ | — | 0.0 % |
| 3.05 | NAIC - 5 | $ | — | 0.0 % |
| 3.06 | NAIC - 6 | $ | — | 0.0 % |

The Company has no investments in preferred stock at December 31, 2021.

4. The Company has no assets held in foreign investments.

5. The Company has no assets held in foreign investments.

6. The Company has no assets held in foreign investments.

7. The Company has no assets held in foreign investments.

8. The Company has no assets held in foreign investments.

9. The Company has no assets held in foreign investments.

## *Wisconsin Collaborative Insurance Company*

Investment Risks Interrogatories - Statutory Basis (continued)

*(Dollars In Thousands)*

10. The Company has no assets held in foreign investments.

11. The Company has no assets held in Canadian investments.

12. The Company has no assets held in investments with contractual sales restrictions.

13. The Company has no assets held in equity interests.

14. The Company does not hold nonaffiliated, privately placed equities.

| | Ten Largest Fund Managers | Total Invested | Diversified | Non-Diversified |
|---|---|---|---|---|
| 14.06 | BlackRock Inc | $ 11,216 | $ 11,216 | $ — |
| 14.07 | State Street Corp | 5,802 | 5,802 | — |
| 14.08 | JPMorgan Chase & Co | 2,818 | 2,818 | — |
| 14.09 | | — | — | — |
| 14.10 | | — | — | — |
| 14.11 | | — | — | — |
| 14.12 | | — | — | — |
| 14.13 | | — | — | — |
| 14.14 | | — | — | — |
| 14.15 | | — | — | — |

15. The Company does not hold general partnership interests.

16. The Company has no investments in mortgage loans.

17. The Company has no investments in mortgage loans.

18. The Company has no investments in real estate.

19. The Company has no potential exposure for mezzanine real estate loans.

20. The Company has no assets subject to securities lending, repurchase agreements, reverse repurchase agreements, dollar repurchase agreements and dollar reverse repurchase agreements.

21. The Company held no admitted assets for warrants not attached to other financial instruments, options, caps and floors.

22. The Company held no admitted assets with potential exposure for collars, swaps and forwards.

23. The Company held no admitted assets with potential exposure for futures contracts.

**Note-Basis of Presentation**

The accompanying supplemental schedules present selected statutory financial information as of December 31, 2021 and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' *Annual Statement Instructions* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual,* and agrees to or is included in the amounts reported in the Wisconsin Collaborative Insurance Company's 2021 Annual Statement as filed with the Office of the Commissioner of Insurance of the State of Wisconsin.

The Company has not identified any reinsurance contracts entered into, renewed or amended on or after January 1, 1996 that would require disclosure in the supplemental schedule of life and health reinsurance disclosures as required under SSAP No. 61R, *Life, Deposit-Type and Accident and Health Reinsurance*.

Captions or amounts that are not applicable have been omitted.