

Report of the Examination of
Quartz Health Insurance Corporation
Fitchburg, Wisconsin
As of December 31, 2022

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL.....	7
IV. AFFILIATED COMPANIES.....	9
V. REINSURANCE.....	14
VI. FINANCIAL DATA	16
VII. SUMMARY OF EXAMINATION RESULTS	26
VIII. CONCLUSION.....	29
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS	30
X. ACKNOWLEDGMENT.....	31



March 8, 2024

Honorable Nathan D. Houdek
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:

QUARTZ HEALTH INSURANCE CORPORATION
Fitchburg, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Quartz Health Insurance Corporation (QHIC or the company) was conducted in 2018 as of December 31, 2017. The current examination covered the intervening period ending December 31, 2022, and included a review of such subsequent transactions as deemed necessary to complete 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 insurance company 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. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

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.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the aggregate accident and health reserves, unpaid claims liability, and premium deficiency reserve. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

QHIC is a life, accident, and health insurance company. The company provides care through contracts with hospitals, clinics, and otherwise independent physicians operating out of their separate offices.

The company was incorporated on July 17, 1986, as Physicians Plus Insurance Corporation, as a for-profit network model HMO. The company commenced business on October 3, 1986. The company is incorporated under ch. 611, Wis. Stat., as a stock insurance corporation. Shown below is a summary of several corporate changes that occurred at the company.

December 31, 2013	Meriter Health Services, Inc., purchases 100% of PPIC stock.
February 1, 2014	Meriter Health Services, Inc. sold its shares to Iowa Health System, Inc. d/b/a UnityPoint Health (UPH), a provider of health-related services that operates in Iowa and Northern Illinois.
February 25, 2015	The s. 609.03, Wis. Stat., HMO restriction was removed, and PPIC is considered a life, accident, and health company thenceforth.
July 1, 2017	UPH entered into an Exchange Agreement with Gundersen Lutheran Health System, Inc. (GHS) and University Health Care, Inc. (UHC) in which PPIC stock was transferred to 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 Unity Health Insurance Corporation (Unity) and Gundersen Health Plan, Inc. (GHP).
May 20, 2019	The group officially changed the names of the three insurers to align with the Quartz name as follows: Unity Health Plans Insurance Corporation was renamed Quartz Health Benefit Plans Corporation; Gundersen Health Plan, Inc. was renamed Quartz Health Plan Corporation; and Physicians Plus Insurance Corporation was renamed Quartz Health Insurance Corporation.
February 10, 2022	Advocate Aurora Health, Inc. (AAH) and its subsidiary Aurora Health Care, Inc. (AHC) executed Phase 2 of the Exchange Agreement with GHS and UPH and whereby AHC becomes a stockholder of QHC. Each owner holds equity interest in QHC.
December 1, 2022	Bellin Health Systems (Bellin) and GHS entered into a Combination Agreement creating a new corporate entity above Bellin and GHS named Bellin Gundersen Health System, Inc. (BGHS) which has equity interest in QHC through the organizational structure. This new entity is not included in the abbreviated holding company chart shown later in this report.

QHIC rents its provider network from Quartz Health Solutions, Inc., (QHS) which includes health care systems that offer more than 2,700 primary care physicians (PCP) and over 12,600 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, QHIC currently separates its service area into two distinct operational areas: Dane County and the Regional service area. 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 four ancillary health care providers. Within the Regional portion of the service area, specifically in La Crosse County, GHS provides the majority of services. In the eastern region of the service area, Aurora 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.

QHIC currently offers a variety of commercial group plans in Northern Illinois including point of service (POS), preferred provider organization (PPO), and high deductible health plan (HDHP) that include deductible, copayment, and coinsurance products. In addition, the company has a Medicare Select product which is no longer marketed. At enrollment, POS 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. Members may self-refer to participating providers in both the Regional and Dane County operational areas.

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

In 2015, the company marketed individual plans, both on and off the federally facilitated health insurance exchange, and small group policies. Effective January 1, 2017, the company no longer offered products on the exchange.

In 2020, the company expanded business in the northern portion of the state of Illinois by agreeing to a reinsurance arrangement with QHBPC to assume its out of network POS group business in Illinois.

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

Plans may include deductibles, 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.

The company 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.

QHIC offers a preferred provider organization (PPO) program. The provider network is provided on a rental basis through a rented national provider network. The PPO is generally available as an accommodation to employers with their principal location in the company'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 QHIC service area.

In 2022, the company collected direct premium in the following states:

Illinois	\$ 236,509	8.0%
Wisconsin	<u>2,711,318</u>	<u>92.0</u>
Total	<u>\$ 2,947,827</u>	<u>100.0%</u>

The company's product offerings include preferred provider organization (PPO), point of service (POS), and Medicare Select benefit plans and services. The PPO and POS products are provided to commercial employers located in Illinois, and for employees located outside the traditional service area through a rented national provider network. Member access and benefits can vary each time they access health care services under the PPO and POS products. The Medicare Select benefit is provided for those members in Wisconsin who are Medicare-eligible and is a supplemental benefit for Medicare A and B coverage. In 2022, membership was made up of existing Medicare Select membership from 2021 as well as group PPO products in northern Illinois.

The following chart is a summary of premium income as reported by the company in 2022. During 2022, the company mainly wrote business in Wisconsin, with some in Illinois as well. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Comprehensive (hospital and medical)	\$ 236,509	\$144,686	\$50	\$ 381,145
Medicare supplement	2,725,446			2,725,446
Title XIX - Medicaid	<u>(14,128)</u>	<u> </u>	<u> </u>	<u>(14,128)</u>
Total All Lines	<u>\$2,947,827</u>	<u>\$144,686</u>	<u>\$50</u>	<u>\$3,092,463</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 12 members. The board of directors consists of four independent directors; three GHS directors; three UHC directors; one AHC director; and one UPH director. Directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group.

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

Name and Residence	Principal Occupation	Term Expires
Gerald Arndt Onalaska, WI	Retired - Gundersen Health System	2026
Michael Dolan, MD La Crosse, WI	Co-Chief Medical Officer – Gundersen Region Bellin and Gundersen Health System	2025
Heidi Eglash La Crosse, WI	Attorney	2026
Susan Erickson Sauk City, WI	Retired – UnityPoint Health	2026
William Farrell La Crescent, MN	Chief Business & Strategy Officer – Gundersen Health System	2024
Robert Flannery Waunakee, WI	Chief Financial Officer – UW Health	2025
Carey Gehl Middleton, WI	Vice President, Strategic Growth & Regional Relations – UW Health	2024
Kevin Hauser Richland Center, WI	Retired	2025
Alan Kaplan Waunakee, WI	Chief Executive Officer – UW Health	2026
Gerald Kember Black Earth, WI	Retired	2024
John Sickels Wausau, WI	Retired – Incredible Bank	2025
Rebekah Swain Fitchburg, WI	Group VP, Managed Health Strategy, Enterprise Advocate Health	2024

Officers of the Company

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

Name	Office
Christine Senty	President and CEO
Jeffrey Butcher	Senior Vice President, Treasurer, and CFO
David Hanekom	Senior Vice President, Chief Medical Officer
Kristie Breunig	Vice President, General Counsel, and Secretary
Jami Berger	Senior Vice President, Chief Clinical Officer
Jamie Stock-Retzloff	Assistant Secretary

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
Susan Erickson
Robert Flannery
Kevin Hauser

Nominating Committee

Carey Gehl, Chair
Rebekah Swain
William Ferrell
Jerry Kember
Susan Erickson

Finance Committee

Robert Flannery, Chair
Rebekah Swain
Susan Erickson
Alan Kaplan, MD
George Tervalon
Heidi Eglash
Michael Dolan, MD
Jodi Vitello (Non-voting member)
Gary Hovila (Non-voting member)
Steve Little (Non-voting member)

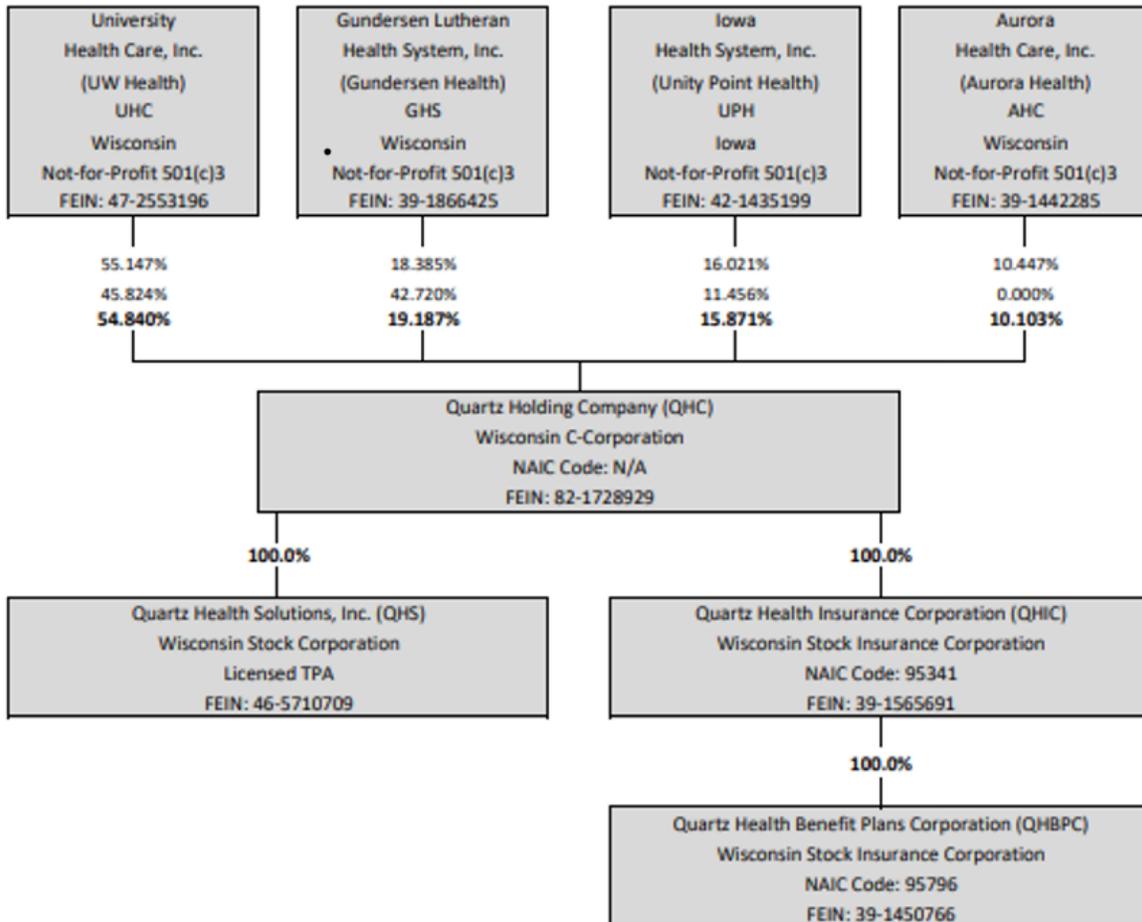
The company has no employees. Necessary staff is provided through a management agreement with QHS. Under the agreement, QHS agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains the accounting and financial records; recruits marketing, utilization review, and claims processing personnel; and provides or contracts for claims processing and management information systems (MIS). 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. The term of the agreement continues until the parties agree to terminate. 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.

IV. AFFILIATED COMPANIES

Quartz Health Insurance Corporation is a member of a holding company system. Its ultimate parents are UHC, GHS, UPH, and AHC. The abbreviated organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant follows the organizational chart.

**Holding Company Chart - Abbreviated
As of December 31, 2022**



University Health Care, Inc.

UHC is a not-for-profit corporation organized under Ch. 181, Wis. Stat. The University of Wisconsin Hospitals and Clinics Authority (“UWHCA”) and the University of Wisconsin Medical Foundation (“UWMF”) are equal members of UHC. UHC serves as a network development vehicle by developing regional programs and clinical centers and developing business relationships with other health care providers.

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, the parent of UHC, which includes the financial information of UHC.

As of December 31, 2022, UWHCA’s audited GAAP financial statements reported assets of \$109.3 million, liabilities of \$20.9 thousand, and net assets of \$109.3 million.

Gundersen Lutheran Health System, Inc.

Gundersen Lutheran Health System, Inc. located in La Crosse, Wisconsin, is the parent of Gundersen Lutheran Health System, an integrated health care system that provides comprehensive medical care to patients primarily in Wisconsin, as well as in Iowa and Minnesota.

As of December 31, 2022, GHS’s audited GAAP financial statements reported assets of \$2.2 billion, liabilities of \$0.7 billion, and net assets of \$1.5 billion. Operations for the 2022 year had a net loss of \$(0.1 billion) on a total revenue of \$1.5 billion.

Iowa Health System, Inc.

Iowa Health System is an Iowa nonprofit corporation formed in December 1994. Iowa Health System and its subsidiaries provide inpatient and outpatient care and physician services from 20 hospital facilities and various ambulatory service and clinic locations in Iowa, Illinois, and Wisconsin. Primary, secondary, and tertiary care services are provided to residents of Iowa, Illinois, Wisconsin, and adjacent states.

As of December 31, 2022, UPH’s audited GAAP financial statements reported assets of \$6.4 billion, liabilities of \$2.7 billion, and net assets of \$3.7 billion. Operations for the 2022 year produced excess revenue over expenses of \$(0.8 billion) on a total revenue of \$4.3 billion.

Aurora Health Care, Inc.

Advocate Aurora Health, Inc., a Delaware nonprofit corporation, owns and operates primarily not-for-profit healthcare facilities in Illinois and Wisconsin. Advocate Aurora Health, Inc. is the sole corporate member of Advocate Health Care Network, an Illinois not-for-profit corporation, and Aurora Health Care, Inc., a Wisconsin nonstock not-for-profit corporation.

As of December 31, 2022, AHC's audited GAAP financial statements reported assets of \$21.9 billion, liabilities of \$8.4 billion, and net assets of \$13.3 billion. Operations for the 2022 year produced excess revenue over expenses of \$(0.8 billion) on a total revenue of \$14.5 billion.

Quartz Holding Company

QHC operates as a shell company that exists for the sole purpose of holding ownership in QHIC and QHS.

Quartz Health Solutions, Inc.

QHS is a service organization that performs administrative and claims processing for the holding group and employers of self-funded group health plans.

Quartz Health Plan MN Corporation

Quartz Health Plan MN Corporation is a non-profit HMO established to provide comprehensive health care insurance for Minnesota insureds. QHPMC is licensed to write business for small and large group commercial and Medicare.

As of December 31, 2022, QHPMC's audited statutory financial statement reported assets of \$15.8 million, liabilities of \$9.9 million, and capital and surplus of \$5.9 million. Operations for 2022 produced a net income of \$26.3 thousand on revenues of \$38.8 million.

Quartz Health Plan Corporation

QHPC is a Ch. 613 not-for-profit service corporation operating under Wis. Stat. § 609.03(3), as a health maintenance organization insurer. QHPC has been a part of an insurance holding company system since its incorporation in 1995.

As of December 31, 2022, QHPC's audited statutory financial statement reported assets of \$88.6 million, liabilities of \$52.7 million, and capital and surplus of \$35.9 million. Operations for 2022 produced a net loss of \$(6.2 million) on revenues of \$390.6 million.

Quartz Health Benefit Plan Corporation

QHBPC is a Ch. 611 stock insurance corporation operating under Wis. Stat. § 609.03(3), as a health maintenance organization insurer. QHBPC has been a part of an insurance holding company system since its incorporation in 1983. QHBPC is a wholly owned subsidiary of Quartz Health Insurance Corporation, which is a wholly owned subsidiary of Quartz Holding Company.

As of December 31, 2022, QHBPC's audited statutory financial statement reported assets of \$304.4 million, liabilities of \$167.6 million, and capital and surplus of \$136.8 million. Operations for 2022 produced a net loss of \$(12.5 million) on revenues of \$1.6 billion.

Agreements with Affiliates:

Credentialing Agreement

QHS and QHIC have a Credentialing Delegation Agreement, effective January 1, 2023, where QHPC delegates credentialing services to QHS. The organization has a well-defined credentialing and recredentialing process for evaluating and selecting licensed independent practitioners to provide care to members. QHS ensures that this process is being followed and reviews the providers for credentialing and recredentialing purposes.

Management Services Agreement

QHS and QHIC have a Management Services Agreement, effective January 1, 2022, wherein QHS agrees to provide administrative and management services to QHIC, and QHIC agrees to be charged for those services by QHS. 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 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 or overpayment shall be settled within five business days after reconciliation has been performed based on the statement submitted by QHS.

Network Access Agreement

QHS, QHPC, QHPMC, QHIC, and QHBPC have a Network Access Agreement, effective January 1, 2022, under which QHS will maintain a network of contracted Participating Providers without any assumption of underwriting risk. In exchange, the licensed entities will make health services available to participants by contracting with QHS for its network of providers.

Pharmacy Network Access Agreement

QHS, QHPC, QHPMC, QHIC, and QHBPC have a Pharmacy Network Access Agreement that establishes the rental pharmacy network structure under which QHS maintains a pharmacy network and the licensed entities contract with QHS to utilize the established network. The company agrees to pay a fee per member per month to access the pharmacy network which is referred to as the “Quartz Network”.

Tax Sharing Agreement (State)

QHC, QHBPC, QHIC, QHPC, and QHS have a Tax Sharing Agreement to fairly allocate state tax and liabilities, credits, refunds, benefits, and similar items related to the consolidated state income tax return. Under the agreement, each party participates in a state income tax return filed on a consolidated basis. The method of allocation among the companies is based upon the separate return calculation with current credit for net losses. Final settlement for any return filed will be made no later than 30 days after the return is filed or in the exception of a return with a refund, within 30 days of receipt of the refund.

Tax Sharing Agreement (Federal)

QHC, QHBPC, QHIC, QHPC, and QHS have a Tax Sharing Agreement to fairly allocate federal tax liabilities, credits, refunds, benefits, and similar items related to the consolidated federal income tax return. Under the agreement, each party participates in a federal income tax return filed on a consolidated basis. The method of allocation among the companies is based upon the separate return calculation with current credit for net losses. Final settlement for any return filed will be made no later than 30 days after the return is filed or in the exception of a return with a refund, within 30 days of receipt of the refund.

Administrative Services Agreement

QHBPC and QHIC have an Administrative Services Agreement to jointly offer a Point of Service (POS) product, where QHBPC will assume risk for the in-network portion of the POS products offered to

small groups and large groups in the state of Illinois, and QHIC will assume risk for the indemnity portion, or out-of-network benefits. Under this agreement, QHBPC receives 70% of the gross premium and is responsible for HMO services, and QHIC receives 30% of the gross premium and is responsible for indemnity services received. Per the agreement, QHBPC administers all the benefits received under the policy. This agreement was entered into to ensure compliance with the Illinois Administrative Code regarding the sale of POS products.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination 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.

The company currently has reinsurance coverages under the contracts outlined below:

1. Reinsurer: Zurich American Insurance Company
Type: Excess of Loss Reinsurance
Scope: Membership service agreements pursuant to which the Reinsured retains financial responsibility for eligible health care services provided to the following Members:
University of Wisconsin (UW)/Meriter Risk Pool:
 - Commercial HMO/POS/PPO
 - Medicare Advantage (not including dual eligible)
 - Rockford, Illinois Commercial and Medicare Advantage (Not Including Dual Eligible)Gundersen Risk Pool:
Medicare Advantage (not including dual eligible)
Effective date: January 1, 2022
Retention: Gundersen Risk Pool
Medicare: \$600,000
UW/Meriter Risk Pool
Commercial: \$2,100,000
Medicare: \$575,000
Coverage: 90% coverage for amounts in excess of the company's retention for all covered services unless otherwise noted.
95% coverage for amounts in excess of the company's retention for Prescription Drugs related to fully implemented Summit ReSources Recommendation
Termination: The contract will terminate at the end of the contract period on December 31, 2022. 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.

2. Reinsurer:	Zurich American Insurance Company
Type:	Excess of Loss Reinsurance
Scope:	Membership service agreements pursuant to which the Reinsured retains financial responsibility for eligible health care services provided to the following Members: Gundersen Risk Pool: Commercial HMO/POS/PPO
Effective date:	January 1, 2022
Retention:	Covered services Matrix A - \$1,000,000 Covered services Matrix B - \$1,900,000
Coverage:	90% coverage for amounts in excess of the company's retention for all covered services unless otherwise noted. 95% coverage for amounts in excess of the company's retention for Prescription Drugs related to fully implemented Summit ReSources Recommendation
Termination:	The contract will terminate at the end of the contract period on December 31, 2022. 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.

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, 2022, 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 and the compulsory and security surplus calculation.

Quartz Health Insurance Corporation
Assets
As of December 31, 2022

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 2,209,285	\$	\$ 2,209,285
Stocks:			
Common stocks	136,813,319		136,813,319
Cash, cash equivalents, and short-term investments	3,087,815		3,087,815
Investment income due and accrued	7,374		7,374
Uncollected premiums and agents' balances in course of collection	1,152		1,152
Other amounts receivable under reinsurance contracts	27		27
Current federal and foreign income tax recoverable and interest thereon	325,794		325,794
Net deferred tax asset	1,239,497	787,718	451,779
Receivable from parent, subsidiaries and affiliates	150,812		150,812
Health care and other amounts receivable	40,943	11,120	29,823
Write-ins for other than invested assets:			
Prepaid expenses	3,661	3,661	
State income tax recoverable	<u>9,328</u>		<u>9,328</u>
Total Assets	<u>\$143,889,007</u>	<u>\$802,499</u>	<u>\$143,086,508</u>

Quartz Health Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2022

Claims unpaid		\$ 354,335
Unpaid claims adjustment expenses		14,479
Aggregate health policy reserves		22,723
Premiums received in advance		110,417
General expenses due or accrued		14,272
Remittance and items not allocated		520
State Income Tax Payable		1,233
Escheat Payable		<u>11,646</u>
 Total Liabilities		 529,625
 Common capital stock	 \$ 3,448,400	
Gross paid in and contributed surplus	158,174,533	
Unassigned funds (surplus)	<u>(19,066,050)</u>	
Total Capital and Surplus		<u>142,556,883</u>
 Total Liabilities, Capital and Surplus		 <u>\$143,086,508</u>

**Quartz Health Insurance Corporation
Statement of Revenue and Expenses
For the Year 2022**

Net premium income		\$3,092,463
Medical and Hospital:		
Hospital/medical benefits	\$ 400,986	
Outside referrals	1,553,814	
Emergency room and out-of-area	50,123	
Prescription drugs	<u>109,550</u>	
Total medical and hospital	2,114,473	
Claims adjustment expenses	173,801	
General administrative expenses	<u>563,420</u>	
Total underwriting deductions		<u>2,851,694</u>
Net underwriting gain or (loss)		240,769
Net investment gains or (losses)		60,984
Net income or (loss) before federal income taxes		301,753
Federal and foreign income taxes incurred		<u>(63,054)</u>
Net Income (Loss)		<u>\$ 364,807</u>

Quartz Health Insurance Corporation
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2022

	2022	2021	2020	2019	2018
Capital and surplus, beginning of year	\$113,915,300	\$125,355,849	\$113,231,617	\$100,100,941	\$77,369,616
Net income (loss)	364,807	118,504	494,602	1,150,140	2,762,078
Change in net unrealized capital gains/losses	5,323,246	(11,553,687)	12,664,272	10,973,078	2,793,125
Change in net deferred income tax	(136,098)	(172,718)	424,100	1,124,213	
Change in nonadmitted assets	286,295	167,352	(1,029,097)	(116,755)	439,861
Surplus adjustments: Paid in	22,803,333				15,765,000
Dividends to stockholders			(429,645)		
Correction error in previously filed financial statement					971,263
Capital and Surplus, End of Year	<u>\$142,556,883</u>	<u>\$113,915,300</u>	<u>\$125,355,849</u>	<u>\$113,231,617</u>	<u>\$100,100,943</u>

Quartz Health Insurance Corporation
Statement of Cash Flow
For the Year 2022

Premiums collected net of reinsurance		\$3,084,025
Net investment income		58,724
Total		3,142,749
Less:		
Benefit- and loss-related payments	\$ 2,227,922	
Commissions, expenses paid and aggregate write-ins for deductions	1,246,270	
Total		<u>3,474,192</u>
Net cash from operations		(331,443)
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	\$ 200,000	
Net gains (losses) on cash, cash equivalents, and short-term investments	(761)	
Total investment proceeds		199,239
Cost of Investments Acquired—Long-term Only:		
Bonds	199,398	
Stocks	<u>24,803,333</u>	
Total investments acquired		<u>25,002,731</u>
Net cash from investments		(24,803,492)
Cash Provided for/Applied from Financing and Miscellaneous Sources:		
Capital and paid-in surplus, less treasury stock	22,803,333	
Other cash provided (applied)	<u>22,555</u>	
Net cash from financing and miscellaneous sources		<u>22,825,888</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(2,309,047)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>5,396,862</u>
End of Year		<u>\$ 3,087,815</u>

Growth of Quartz Health Insurance Corporation

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2022	\$143,086,508	\$ 529,625	\$142,556,883	\$ 3,092,463	\$ 2,114,473	\$ 364,807
2021	114,926,625	1,011,325	113,915,300	3,042,293	2,191,568	118,504
2020	127,355,744	1,999,985	125,355,849	3,653,600	2,594,691	494,602
2019	115,159,341	1,927,724	113,231,617	4,315,480	2,357,656	1,150,140
2018	133,139,398	33,038,457	100,100,941	192,960,115	169,783,493	2,762,078
2017	121,751,440	44,381,825	77,369,616	240,742,205	229,201,191	(9,954,871)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2022	11.6%	68.4%	23.8%	-10.0%
2021	3.8	72.0	25.3	-9.7
2020	13.3	71.0	24.1	-9.7
2019	26.0	60.6	22.8	-96.5
2018	1.4	86.0	12.0	-41.5
2017	-4.1	95.8	10.5	-2.1

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2022	913	0.0	0.0
2021	1,014	3,084.7	11.5
2020	1,123	2,914.0	12.1
2019	1,244	2,204.7	9.5
2018	35,461	234.1	3.2
2017	60,591	257.5	3.6

Per Member Per Month Information

	2022	2021	Percentage Change
Premiums:			
Commercial	\$1241.51	\$243.17	-30.8%
Medicare Supplement	246.25	228.39	7.8
Net Premium Income	<u>271.86</u>	<u>243.17</u>	11.8%
Expenses:			
Hospital/medical benefits	35.25	160.36	-78.0
Other professional services	0.00	3.91	-100.0
Outside referrals	136.60	0.00	100.0
Emergency room and out-of-area	4.41	10.76	-59.0
Prescription Drugs	<u>9.63</u>	<u>0.15</u>	<u>6,537.2</u>
Total medical and hospital	185.89	175.17	6.1
Claims adjustment expenses	15.28	14.32	6.7
General administrative expenses	49.53	47.18	5.0
Total underwriting deductions	<u>\$250.70</u>	<u>\$236.67</u>	<u>5.9%</u>

Membership declined each of the last five years, with enrollment decreasing from 35,461 members at the end of 2018 to 913 members at the end of 2022. The company saw positive financial results with a positive net income every year over the last five years. Premiums earned decreased from \$193.0 million at the end of 2018 to \$3.1 million at the end of 2022 with medical expenses also decreasing from \$170.0 million at the end of 2018 to \$2.1 million at the end of 2022. The decrease in business starting in 2018 was due to the transfer of business between licenses with the business going to QHBPC. During the same time, the company saw capital and surplus increase from \$100.1 million to \$142.6 million. The significant decrease in business including membership, premiums written, and medical expenses is due to the assumption of the majority of the business by QHBPC an affiliate at the end of 2018. With the decreased business the company has seen a small positive net income each year which is primarily Medicare Supplement business.

**Quartz Health Insurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2022**

Assets		\$143,086,508
Less security surplus excess of insurance subsidiaries		67,206,122
Less liabilities		<u>529,625</u>
Adjusted surplus		72,949,686
Annual premium:		
Individual life and health	\$2,725,446	
Factor	<u>15%</u>	
Total		\$408,817
Group life and health	381,145	
Factor	<u>10%</u>	
Total		38,115
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 70,949,686</u>
Adjusted surplus (from above)		\$72,949,686
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)		<u>2,800,000</u>
Security Surplus Excess (Deficit)		<u>\$ 70,149,686</u>

Reconciliation of Capital and Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2022, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific recommendations in the previous examination report. The actions taken by the company as a result of the recommendations were as follows:

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

Action—Compliance.

2. 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.

Action—Compliance.

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

Action—Compliance.

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.

Premium Deficiency Reserve

A review of the company's premium deficiency reserve (PDR) calculation determined that the company is not calculating its PDR in accordance with Statement of Statutory Accounting Principle (SSAP) No. 54-*Individual and Group Accident and Health Contracts*. The review determined that the company is not separating blocks of business in the PDR analysis when they are credible. In addition, the company also must ensure that it is not offsetting losses in segments of business with gains in other segments unless it is confirmed that the profitable business can absorb the indirect expenses of the unprofitable business. It is recommended that blocks of business should be segmented when credible in calculating the premium deficiency reserve in accordance with *SSAP No. 54—Individual and Group Accident and Health Contracts*.

Actuarial Memorandum Premium Deficiency Reserve

A review of the company's Actuarial Memorandum disclosed that the company is not providing sufficient documentation regarding the premium deficiency reserve calculation. The company should provide adequate documentation so that a reviewing actuary practicing in the same field could evaluate the work performed. The documentation should show the analysis from the basic data to the conclusions and include adequate information to support the calculation. It is recommended that an explanation in the actuarial memorandum include sufficient documentation to show analysis from the basic data to the conclusion so an actuary in the same field can evaluate the work performed.

Information Technology

During the course of the examination, a review was made of the company's general controls over its information systems. The review resulted in certain findings, which were presented in a management comment letter. It is recommended that the company comply with the recommendations made in the management comment letter.

VIII. CONCLUSION

QHIC is a life, accident, and health insurance company. The company provides care through contracts with hospitals, clinics, and otherwise independent physicians operating out of their separate offices. QHIC currently offers a variety of commercial group plans in Northern Illinois including point of service (POS), preferred provider organization (PPO), and high deductible health plan (HDHP) that include deductible, copayment, and coinsurance products.

At the end of 2022, the company reported total net assets of \$143.1 million, total liabilities of \$0.5 million, and total capital and surplus of \$142.6 million. Compulsory capital and surplus of \$70.9 million satisfied the compulsory and security surplus requirement at year-end 2022.

The prior examination resulted in three recommendations, all of which have been complied with. The current examination resulted in three recommendations, which are outlined in Section IX below.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 31 - Premium Deficiency Reserve—It is recommended that the company comply with *SSAP No. 54—Individual and Group Accident and Health Contracts* when determining if a premium deficiency reserve is necessary for each line of business written.
2. Page 31 - Actuarial Memorandum Premium Deficiency Reserve—It is recommended that an explanation in the actuarial memorandum include sufficient documentation to show analysis from the basic data to the conclusion so an actuary in the same field can evaluate the work performed.
3. Page 32 - Information Technology—It is recommended that the company comply with the recommendations in the management comment letter.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are 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
Yi Xu	Insurance Financial Examiner
Benjamin Marquardt	Insurance Financial Examiner
Jacob Luebke	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Nicholas Hartwig, AFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist and ACL Specialist

Respectfully submitted,



Gabriel Gorske, CFE
Examiner-in-Charge