



DATE: October 7, 2020

TO: Amy J. Malm, Hearing Examiner

FROM: Steven J. Junior

SUBJECT: Acquisition of control of Quartz Health Plan Corporation by Advocate Aurora Health, Inc. and Aurora Health Care, Inc. (Case No. 20-C43722)

DESCRIPTION OF THE TRANSACTION

Overview

Advocate Aurora Health, Inc. and Aurora Health Care, Inc. intend to acquire control of between 15% and 20% of the Class A Membership Rights of Quartz Health Plan Corporation as a result of Aurora Health Care, Inc. becoming a member of Quartz Health Plan Corporation pursuant to an Exchange Agreement dated May 1, 2020, by and among Gundersen Lutheran Health System, Inc., University Health Care, Inc., Iowa Health System, Aurora Health Care, Inc., Quartz Holding Company, and Quartz Health Plan Corporation (hereinafter also, the “Exchange Agreement”).

Advocate Aurora Health, Inc. is a Delaware nonprofit corporation that operates as the ultimate parent entity of an integrated delivery system located primarily in Illinois and Wisconsin. Advocate Aurora Health, Inc. serves as the corporate member of both Aurora Health Care, Inc. and Advocate Health Care Network. Advocate Health Care Network and Aurora Health Care, Inc. are not-for-profit corporations that, prior to their combination with one another, operated health care systems located primarily in Illinois and Wisconsin, respectively. Advocate Aurora Health, Inc. also houses the leadership team for the integrated delivery system (e.g., the Board of Directors, the CEO and the executive leadership team).

The principal agreement effectuating the acquisition of control allows for three phases of acquisition of controlling, but minority stakes in membership rights and common stock in Quartz-branded companies. In phase 1, which is the sole subject of the Form A now under consideration, Advocate Aurora Health, Inc. and Aurora Health Care, Inc. intend to acquire control of Class A Membership Rights of Quartz Health Plan Corporation as a result of Aurora Health Care, Inc. becoming a member of Quartz Health Plan Corporation. The purpose of the phase 1 acquisition is to allow Advocate Aurora Health, Inc. and Aurora Health Care, Inc. to, as an owner of Quartz Health Plan Corporation, offer an Advocate Aurora Quartz Medicare Advantage Plan in certain specified counties in eastern Wisconsin and, at the option of Advocate Aurora Health, Inc., Cook and Lake counties in Illinois, served by hospitals, clinics, facilities and health care providers within the Advocate Aurora network. The acquisition is also to allow Advocate Aurora Health, Inc. and Aurora Health Care, Inc. to utilize the administrative skills and back office operations of Quartz Health Solutions, Inc. that they do not possess as a health care network, but need if they are to effectuate the Medicare Advantage Plan they wish to offer.

As part of phase 1, Aurora Health Care, Inc. will acquire between 15% and 20% of the Class A Membership Rights in Quartz Health Plan Corporation. Aurora Health Care, Inc. will assume 100% financial responsibility for the medical expense risk for the Advocate Aurora Quartz Medicare Advantage Plan in the agreed service area. To this end, Aurora Health Care, Inc. will work in good faith to negotiate and agree to a Risk Share Addendum to its Participating Provider Agreement.

In offering the Advocate Aurora Quartz Medicare Advantage Product, it is intended that, at all times, Quartz Health Plan Corporation will comply with the requirements of the National Association of

Insurance Commissioners and the OCI regarding risk-based capital (hereinafter also, "RBC"). The initial Class A Membership Rights will have all of the same economic rights as the class or classes of membership interests held by the existing members of Quartz Health Plan Corporation. Aurora Health Care, Inc. agrees to make whatever additional surplus contributions are necessary to maintain the RBC of Quartz Health Plan Corporation at a reasonable level requested by OCI, consistent with other Members, in support of the Advocate Aurora Quartz Medicare Advantage Plan. This can be expected to have the effect, over time, of Aurora Health Care, Inc. holding economic interests in Quartz Health Plan Corporation in excess of its 15% to 20% stake in the voting Class A Membership Rights. Any excess ownership interest will be held in a non-voting class of membership interests (Class B).

Scope of Wisconsin's Regulatory Concern

Section 611.72, Wis. Stat., requires the Office of the Commissioner of Insurance to approve a plan for acquisition of control if it finds, after a hearing, that the plan would not violate the law or be contrary to the interests of the insureds of any domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation.

THE KEY CONTRACTS

The following are the principal contracts that allow one to form an understanding of the proposed acquisition and each of these agreements are briefly summarized as follows:

Exchange Agreement

There is an Exchange Agreement by and among Gundersen Lutheran Health System, Inc., University Health Care, Inc., Iowa Health System, Aurora Health Care, Inc., Quartz Holding Company, and Quartz Health Plan Corporation dated as of May 1, 2020. The acquisition of control is effectuated by the Exchange Agreement. This agreement is briefly summarized as follows:

The Exchange Agreement contemplates three possible phases of investments by Aurora Health Care, Inc. into Quartz Health Plan Corporation and its affiliate, Quartz Holding Company, Inc. The transaction which is subject of this Form A represents only the first phase of these three phases (and accordingly this Form A relates only to Phase 1). The second phase under the Exchange Agreement will be the subject of a separate Form A filing. Absent circumstances that cannot be anticipated at this time, the third phase under the Exchange Agreement will not require a Form A filing. Advocate Aurora Health, Inc. and Aurora Health Care, Inc. are not obligated to exercise their option to proceed with either phase 2 or phase 3 under the Exchange Agreement.

At the closing of the phase 1 transaction, Aurora Health Care, Inc. will contribute \$5 million or such greater amount as is required to ensure that Aurora Health Care, Inc. receives 15% of the Class A Membership Rights of Quartz Health Plan Corporation, and in exchange, Quartz Health Plan Corporation will issue Class A Membership Rights of Quartz Health Plan Corporation to Aurora Health Care, Inc. such that Aurora Health Care, Inc. holds at least 15% of the Class A Membership Rights of Quartz Health Plan Corporation (on a fully diluted basis). As a result of the proposed transaction, Aurora Health Care, Inc. will acquire at least 15%, but not more than 20%, of the Class A Membership Rights of Quartz Health Plan Corporation, with the specific amount to be determined by the terms of the Exchange Agreement. Aurora Health Care, Inc.'s contribution will be made entirely in cash, the source of which will be its own operating funds.

Aurora Health Care, Inc. will not receive the power to appoint or designate any member of the board of directors of Quartz Health Plan Corporation in connection with phase 1.

The phase 1 Membership Agreements will provide Aurora Health Care, Inc. with certain management and consent rights with respect to Quartz Health Plan Corporation, whereby Aurora Health Care, Inc.'s written approval will be required before Quartz Health Plan Corporation takes certain actions.

In a phase 2 closing, Aurora Health Care, Inc. may, but is not obligated to, purchase 10% of the Class A Capital Stock of Quartz Holding Company. Any capital contributions that would otherwise cause Aurora Health Care, Inc. to own more than 20% of the voting Class A Capital Stock of Quartz Holding Company will instead result in the issuance of non-voting Class B Capital Stock, which would have an economic interest identical to that of the voting Class A Capital Stock. The phase 2 Membership Agreements will provide Aurora Health Care, Inc. with certain management and consent rights with respect to Quartz Health Plan Corporation and Quartz Holding Company and their respective subsidiaries:

Aurora Health Care, Inc. may, but is not obligated to, purchase additional Class A Membership Rights as necessary to bring its interest to 20% in Quartz Health Plan Corporation, and to purchase additional Class A Capital Stock of Quartz Holding Company as necessary to own a 20% stake. While it is possible for Aurora Health Care, Inc. to acquire the 20% level of voting power before the phase 3 Closing, the phase 3 closing would be required to secure the additional management and consent rights contemplated by a phase 3 closing. The phase 3 Membership Agreements will provide Aurora Health Care, Inc. with certain more extensive management and consent rights in addition to those conferred in phases 1 and 2.

The Exchange Agreement provides for a hard upper limit of 20% on each of the voting Class A Membership Rights of Quartz Health Plan Corporation and the voting Class A Capital Stock of Quartz Holding Company that may be controlled or owned by Aurora Health Care, Inc. There is no specified upper limit on Aurora Health Care, Inc.'s economic interests in Quartz Health Plan Corporation or Quartz Holding Company.

The distribution of ownership of Class A Membership Rights in Quartz Health Plan Corporation and of the capital stock of Quartz Holding Company currently and after each of Phases 1, 2, and 3 under the Exchange Agreement, using the ownership figures as of May 1, 2020, which is the date of the Form A, as a base, are as follows:

Current Ownership	Quartz Health Plan Corporation	Quartz Holding Company
University Health Care, Inc.	61.48%	61.48%
Gundersen Lutheran Health Systems, Inc.	20.49%	20.49%
Iowa Health System	18.03%	18.03%
Totals	<u>100.00%</u>	<u>100.00%</u>
Phase 1 Ownership	Quartz Health Plan Corporation	Quartz Holding Company
University Health Care, Inc.	52.26%	61.48%
Gundersen Lutheran Health Systems, Inc.	17.42%	20.49%
Iowa Health System	15.32%	18.03%
Aurora Health Care, Inc.	15.00%	0.00%
Totals	<u>100.00%</u>	<u>100.00%</u>
Phase 2 Ownership	Quartz Health Plan Corporation	Quartz Holding Company
University Health Care, Inc.	52.26%	55.33%
Gundersen Lutheran Health Systems, Inc.	17.42%	18.44%
Iowa Health System	15.32%	16.23%

Aurora Health Care, Inc.	<u>15.00%</u>	<u>10.00%</u>
Totals	<u>100.00%</u>	<u>100.00%</u>

Phase 3 Ownership	Quartz Health Plan Corporation	Quartz Holding Company
University Health Care, Inc.	49.18%	49.18%
Gundersen Lutheran Health Systems, Inc.	16.40%	16.40%
Iowa Health System	14.42%	14.42%
Aurora Health Care, Inc.	<u>20.00%</u>	<u>20.00%</u>
Totals	<u>100.00%</u>	<u>100.00%</u>

The Exchange Agreement has been amended to reset the date of the phase 1 closing, which was originally required to take place on or before July 1, 2020.

Confidentiality, Nondisclosure Agreement

There is a Confidentiality and Nondisclosure Agreement made and entered into March 12, 2019 by and between Quartz Health Solutions, Inc. and Advocate Aurora Health, Inc. The purpose of this agreement is to maintain the confidentiality of non-public and confidential information exchanged among the parties to this agreement and their respective affiliates. Quartz Health Solutions, Inc. and Advocate Aurora Health, Inc. and each of their respective officers, attorneys, accountants, and other authorized representatives agree to maintain the confidentiality of the subject matter of the discussions relating to the proposed transaction and to use any confidential information exchanged among the parties solely for the purpose of determining the desirability of the proposed transaction and for no other purpose. Each authorized representative of the parties agrees not to disclose any confidential information or summaries of confidential information other than to other authorized representatives of the parties whose responsibility it is to assist in evaluating the proposed transaction, except to the extent that such information (i) was already known to such authorized representative when received; (ii) hereafter becomes lawfully obtainable from other sources which have not breached confidentiality obligations owed to the parties; (iii) is required to be disclosed by a party in any document required to be filed by any government agency; or (iv) is information to which the owner of the confidential information has consented in writing in writing to the disclosure thereof.

Upon receipt of a written request by one party from the other, such party shall return all copies of confidential information which, at the time of receipt of such notice, are in such party's possession. The parties agree to cooperate with one another in maintaining the confidentiality of each other's non-public and confidential information, including but not limited to obtaining protective orders from courts of competent jurisdiction.

This agreement is governed and interpreted under Wisconsin law.

Implementation Agreement

There is an Implementation Agreement effective January 15, 2020 made by and between Advocate Aurora Health, Inc. and Quartz Health Solutions, Inc. The purpose of this agreement is to have the parties cooperate to have an Advocate Aurora Health Quartz Medicare Advantage Plan operational for member attribution and enrollment as of the start of the annual Medicare open enrollment period in 2020 with beneficiary coverage beginning on January 1, 2021 in the following Wisconsin counties: Brown, Calumet, Kenosha, Kewaunee, Manitowoc, Milwaukee, Ozaukee, Sheboygan, Racine, Walworth, Washington, Waukesha, and Winnebago.

Aurora Health Care, Inc. will assume 100% financial responsibility for the medical expense risk for the Advocate Aurora Health Quartz Medicare Advantage Plan in the agreed service area. Aurora Health

Care, Inc. will work in good faith to negotiate and agree to a Risk Share Addendum to its Participating Provider Agreement.

Each of the parties agree to take all practicable steps to ensure that each party will comply with all applicable laws, regulations, and the Medicare Managed Care Manual and Health Plan Management System memos. Each party agrees to protect one another's proprietary information.

This agreement shall be implemented and construed in accordance with the laws of the state of Wisconsin except to the extent superseded by federal law.

OBSERVATIONS BASED ON REVIEW OF DOCUMENTS AND ON INQUIRIES

Format and Informational Sufficiency of the Form A

The Form A filing was prepared in a format that complies with s. Ins 40.02, Wis. Adm. Code. The information contained in the filing and in the supplementary information obtained by OCI in connection with review of this filing is sufficient for OCI to make a decision concerning the proposed plan.

Legality and Fairness of the Proposed Plan

My review of the Form A included a review of the following documents:

1. Exchange Agreement by and among Gundersen Lutheran Health System, Inc.; University Health Care, Inc., Iowa Health System, Aurora Health Care, Inc., Quartz Holding Company, and Quartz Health Plan Corporation dated as of May 1, 2020
2. Post-Closing Organizational Chart of Quartz Health Plan Corporation and its Affiliates
3. Organizational Chart of Applicants and their Affiliates
4. Advocate Aurora Health, Inc.'s 2019 Financial Statements
5. Advocate Aurora Health, Inc.'s 2018 Fiscal Year Financial Statements
6. Aurora Health Care, Inc.'s 2015, 2016 and 2017 Financial Statements
7. Three-year Financial Projections for Quartz Health Plan Corporation
8. Biographical Affidavits from 20 directors and officers of Advocate Aurora Health, Inc. and Aurora Health Care, Inc.
9. Buyers' Disclosure Schedules to the Exchange Agreement dated May 1, 2020
10. Sellers' Disclosure Schedules to the Exchange Agreement dated May 1, 2020
11. 2015 Exchange Agreement by and between Gundersen Lutheran Health System, Inc. and University Health Care, Inc.
12. 2017 Exchange Agreement by and between Gundersen Lutheran Health System, Inc., University Health Care, Inc., and Iowa Health System
13. 2017 QHC Stockholders Agreement (also attached as Exhibit K to the 2017 Exchange Agreement)
14. Implementation Agreement effective January 15, 2020 made by and between Advocate Aurora Health, Inc. and Quartz Health Solutions, Inc.
15. Risk Based Capital Agreement entered into January 15, 2020 by and between Aurora Health Care, Inc. and Quartz Health Plan Corporation
16. Confidentiality, Nondisclosure Agreement made and entered into March 12, 2019 by and between Quartz Health Solutions, Inc. and Advocate Aurora Health, Inc.
17. Participating Provider Agreement first effective on January 1, 2020 by and between Quartz Health Solutions, Inc. and Aurora Health Care, Inc. on behalf of itself and its controlled affiliates
18. Forecast for Additional Medicare Advantage Enrollees
19. Future Plans for Wisconsin Collaborative Insurance Company

- 20. Quartz Market Data for Eastern Wisconsin
- 21. Quartz Health Plan Corporation Service Area Expansion/Specified Providers

My review of the Exchange Agreement and the other principal agreements supporting the proposed transaction is evidenced by the summary presented earlier in this memorandum. Review of the business plan is evidenced by the narrative in the section of this memorandum captioned, "Future Plans after the Change in Control". Review of the acquirers' financial condition is summarized in the section of this memorandum captioned, "Financial Soundness of Prospective Affiliates".

This review of the Form A and the component agreements of the proposed plan, with due consideration to supplementary information filed in response to examiner inquiries, discloses no basis for denial of the application on a point of law.

I can find no basis on which execution of the proposed transactions disclosed in the Form A should not be regarded as reasonable and fair to each participating insurer and to each participating insurer's policyholders, within the scope of Wisconsin's regulatory concern.

Satisfaction of Licensing Requirements Maintained

Execution of the transactions disclosed in the Form A according to the plan indicated would have no effect on the ability of Quartz Health Plan Corporation or any other participating insurer to maintain their existing licenses to write the lines of insurance for which they are presently licensed.

Effect on Competition within the Wisconsin Insurance Marketplace

Advocate Aurora Health, Inc., indirectly, and Aurora Health Care, Inc., directly, own 45% of the common stock of Wisconsin Collaborative Insurance Company, with the other 55% ultimately owned by Anthem, Inc. through its indirectly wholly owned subsidiary Crossroads Acquisition Corporation. In 2019, Wisconsin Collaborative Insurance Company reported direct premiums written in Wisconsin of \$57,802,925. In 2019, Quartz Health Plan Corporation reported direct premiums written in Wisconsin of \$242,891,271.

In 2019, direct written premium volume written on an admitted basis, for all lines and for both domestic and nondomestic insurance companies was as follows:

Health	\$19,754,137,456
Life/Annuity	12,162,082,721
Property/Casualty	10,828,496,727
Title	188,846,359
Risk Retention Group	<u>11,899,936</u>
Total	<u>\$42,945,463,199</u>

As of December 31, 2019, the number of licensed domestic and nondomestic insurers in Wisconsin totaled 1,953 as follows:

Company Type	Domestic	Nondomestic	Combined
Property/Casualty	164	840	1,004
Life/Annuity	16	367	383
Health	52	41	93
Fraternal	5	39	44
Title	0	21	21
Risk Retention Groups	0	0	0
All Other	<u>98</u>	<u>310</u>	<u>408</u>
Totals	<u>335</u>	<u>1,618</u>	<u>1,953</u>

Health insurance can be written by the following types of insurers: Health, Life/Annuity. Property/Casualty, and Fraternal. The number of licensed domestic and nondomestic insurers in Wisconsin that actually wrote health insurance on an admitted basis during 2019 was as follows:

Company Type	Domestic	Nondomestic	Combined
Life/Annuity	12	234	246
Health	45	19	64
Property/Casualty	5	48	53
Fraternal	<u>4</u>	<u>18</u>	<u>22</u>
Totals	<u>66</u>	<u>319</u>	<u>385</u>

As a result of an acquisition of control of Quartz Health Plan Corporation, on the basis of admitted health insurance premium volume, the market share controlled by Advocate Aurora Health, Inc. and Aurora Health Care, Inc. will increase from 0.29% to 1.52%.

In 2019, twenty-five health maintenance organizations wrote \$10,457,111,190 in direct premiums written in Wisconsin. This represents 52.9% of the \$19,754,137,456 in health insurance premiums written in Wisconsin in 2019. The market share distribution was as follows:

NAIC No.	HMO Name	Direct Premiums Written	HMO Market Share
15926	Aspirus Arise Health Plan of Wisconsin, Inc.	105,229,229	1.01%
12248	Care Wisconsin Health Plan, Inc. – Trilogy Health Insurance, Inc.	166,308,108	1.59%
13739	Children’s Community Health Plan, Inc.	345,913,553	3.30%
10756	Community Care Health Plan, Inc.	90,791,783	0.87%
95693	Compcare Health Services Insurance Corporation	835,933,686	7.99%
96156	Dean Health Plan, Inc.	1,386,308,098	13.26%
95192	Group Health Cooperative of Eau Claire	148,437,367	1.42%
95311	Group Health Cooperative of South Central Wisconsin	400,859,519	3.83%
96628	Health Tradition Health Plan, Inc.	20,869,632	0.20%
95342	Humana Wisconsin Health Organization Insurance Corporation	386,689,379	3.70%
11695	Independent Care Health Plan	305,983,589	2.93%
96822	Managed Health Services Insurance Corporation, Inc.	133,519,872	1.28%
95232	Medica Community Health Plan	81,209,536	0.78%
95782	Medical Associates Clinic Health Plan of Wisconsin, Inc., The	24,153,816	0.23%
12159	MercyCare HMO, Inc.	101,703,094	0.97%
12007	Molina Healthcare of Wisconsin, Inc.	214,323,035	2.05%
95737	Network Health Plan	379,919,472	3.63%
95796	Quartz Health Benefit Plans Corporation	1,413,842,097	13.52%
95341	Quartz Health Insurance Corporation	3,878,681	0.04%
95101	Quartz Health Plan Corporation	242,891,271	2.32%
96881	Security Health Plan of WI, Inc.	1,326,651,926	12.69%
12834	Trilogy Health Insurance, Inc.	31,524,167	0.30%
95710	UnitedHealthcare of Wisconsin, Inc.	2,180,010,314	20.85%
16569	WellCare Health Plans of Wisconsin, Inc.	0	0.00%
15929	Wisconsin Collaborative Insurance Company	57,802,925	0.55%

10159	WPS Health Plan, Inc.	<u>72,357,041</u>	<u>0.69%</u>
Total Direct Premiums Written		<u>\$10,457,111,190</u>	<u>100.00%</u>

As a result of an acquisition of control of Quartz Health Plan Corporation, on the basis of HMO premium volume alone, the market share controlled by Advocate Aurora Health, Inc. and Aurora Health Care, Inc. will increase from 0.55% to 2.87%.

The proposed transaction will not create a monopoly or substantially lessen competition in any type or line of insurance in Wisconsin as a result of the acquisition of control of Quartz Health Plan Corporation by Advocate Aurora Health, Inc. and Aurora Health Care, Inc.

Future Plans after the Change in Control

The principal purpose of the acquisition that is the subject of the Form A dated May 1, 2020 and the phase 1 acquisition of the Exchange Agreement is to introduce an Advocate Aurora Quartz Medicare Advantage Product by combining the health care network capabilities of Advocate Aurora Health, Inc. and its affiliates with the insurance management capabilities of Quartz Health Solutions, Inc. Quartz Health Plan Corporation's business plan will be amended to expand its service area into certain Wisconsin counties served by Aurora Health Care, Inc.'s hospitals and other providers, and to reflect the offering of the Advocate Aurora Health Quartz Medicare Advantage product; that amendment has been filed by Quartz Health Plan Corporation directly with the Office of the Commissioner of Insurance.

There will be no changes in the officers or directors of Quartz Health Plan Corporation as a result of the proposed transaction, and all current officers and directors of Quartz Health Plan Corporation will continue to serve in their present roles after the closing. Terry Bolz, the recent former President and Chief Executive Officer of Quartz Health Plan Corporation, has had plans to retire this year and has delayed his retirement due to COVID. Mark J. Selna, M.D. assumed the role of President and Chief Executive Officer of Quartz Health Plan Corporation and its Quartz branded affiliates on August 31, 2020. Terry Bolz will remain with the Quartz branded entities as a consultant until January 2, 2021 to assist in closing the transaction and to assure a smooth transition to Dr. Selna's leadership.

Apart from the business plan amendments described, Advocate Aurora Health, Inc. and Aurora Health Care, Inc. have no current plans or proposals to cause Quartz Health Plan Corporation to declare an extraordinary dividend, to liquidate, to sell any of its assets, to merge it with any person or persons or to make any other material change in its business operations, corporate structure or management.

Under the Exchange Agreement, Advocate Aurora Health, Inc. and Aurora Health Care, Inc. will make whatever capital contributions are necessary to support the growth in premium volume associated with the Advocate Aurora Quartz Medicare Advantage product in order for Quartz Health Plan Corporation to maintain a reasonable risk-based capital position. While Aurora Health Care, Inc.'s ownership of Class A Membership Rights in Quartz Health Plan Corporation is limited to 20% under the Exchange Agreement, there is no established upper limit on its economic interests. Any investments in excess of that represented by a 20% interest in the Class A Membership Rights will be represented by issuance of a non-voting class of Class B membership interests that would have parity in economic interests to the voting Class A Membership Rights.

Following the acquisition of control, Quartz Health Plan Corporation's board of directors will consist of the following people:

Name and Residence	Principal Occupation
Gerald E. Arndt Onalaska, Wisconsin	Retired Senior Vice President, Business Services Gundersen Health System, Inc.

Michael E. Dallman Waunakee, Wisconsin	Senior Vice President and Chief Strategy Officer, UW-Health and President of University Health Care, Inc.
Michael J. Dolan, M.D. LaCrosse, Wisconsin	Executive Vice President and Chief Medical Officer Gundersen Health System, Inc.
Heidi M. Eglash LaCrosse, Wisconsin	Attorney Eglash Law Office, LLC
Vacant seat due to death of James A. Falck	
William J. Farrell III La Crescent, Minnesota	Senior Vice President and Chief Business Strategy Officer Gundersen Health System, Inc.
Robert W. Flannery Waunakee, Wisconsin	Senior Vice President and Chief Financial Officer UW-Health
Virginia L. Graves Madison, Wisconsin	Retired Principal The Management Group
Kevin R. Hauser Richland Center, Wisconsin	President and Chief Executive Officer Westby Co-op Credit Union
Alan S. Kaplan, M.D. Verona, Wisconsin	Chief Executive Officer UW-Health
Gerald R. Kember Black Earth, Wisconsin	Public School Research Consultant School Perceptions

Following the acquisition of control, it is anticipated that the officers of Quartz Health Plan Corporation will be as follows:

Name	Office
Mark J. Selna, M.D.	President and Chief Executive Officer
Gary J. Lenth, M.D.	Chief Medical Officer and Executive Vice President
Kyle P. Brua	Senior Vice President of Finance and Chief Actuary
James L. Hiveley	Vice President, Treasurer and Chief Financial Officer
Christine C. Senty	General Counsel, Vice President and Secretary

Financial Soundness of Prospective Affiliates

As of December 31, 2019, according to its consolidated audited financial statements, Advocate Aurora Health, Inc. reported total assets of \$18,933,369,000, total liabilities of \$7,234,705,000, total net assets of \$11,698,644,000, and revenue in excess of expenses, attributable to controlling interest, of \$1,485,948,000. Operating income for 2019 was \$481,070,000 on total revenue of \$12,805,423,000. The Chicago office of Ernst & Young LLP conducted the audit and issued a clean opinion on these financial statements.

According to Note No. 15 to the Financial Statements, the total financial assets available to the management of Advocate Aurora Health, Inc. as of December 31, 2019 was \$8,642,389,000.

On April 1, 2018, Advocate Aurora Health, Inc. became the sole corporate member of Advocate Health Care Network and Aurora Health Care, Inc. The affiliation of Advocate Health Care Network and Aurora Health Care, Inc. was formed in furtherance of the parties' common and unifying charitable health care mission to promote and improve the quality and expand the scope and accessibility of affordable health care related services for the communities they serve. The affiliation was accounted for as a merger in accordance with accounting principles generally accepted in the United States. The merger was accounted for by applying the carryover method.

The holding company system controlled by Advocate Aurora Health, Inc. (the "Advocate Aurora System") is comprised of various not-for-profit and for-profit entities, and the primary activities are the delivery of health care services and the provision of goods and services ancillary thereto.

The Advocate Aurora System provides a continuum of care through its 26 acute care hospitals, an integrated children's hospital and a psychiatric hospital, primary and specialty physician services, outpatient centers, physician office buildings, pharmacies, rehabilitation and home health and hospice care in northern and central Illinois and eastern Wisconsin.

On April 1, 2019, Advocate Aurora Health, Inc. became the sole corporate member of Bay Area Medical Center through the acquisition of the remaining 51% interest in the Bay Area Medical Center and its results have been fully consolidated into the consolidated financial statements of the Advocate Aurora Health, Inc. as of this date.

The Advocate Aurora System provides health care services without charge to patients who meet the criteria of its charity care policies. Charity care services are not reported as patient service revenue because payment is not anticipated while the related costs to provide the health care are included in operating expenses. Charity care is provided to patients who meet the criteria established under the applicable financial assistance policy. Qualifying patients can receive up to 100% discounts from charges and extended payment plans.

The Advocate Aurora System's cost of providing charity care was \$153,307,000 for the year ended December 31, 2019 and \$101,192,000 for the nine months ended December 31, 2018, as determined using total cost to charge ratios. In addition to the provision of charity care, the Advocate Aurora System provides significant financial support to its communities to sustain and improve health care services. These activities, the cost of which have not been distinctly and separately quantified in the Financial Statements, include:

- The unreimbursed cost of providing care to patients covered by the Medicare and Medicaid programs.
- The cost of providing services that are not self-sustaining, for which patient service revenues are less than the costs required to provide the services. Such services benefit uninsured and low-income patients, as well as the broader community, but are not expected to be financially self-supporting.
- Other community benefits include the unreimbursed costs of community benefits programs and services for the general community, not solely for those demonstrating financial need, including the unreimbursed cost of medical education, health education, immunizations for children, support groups, health screenings and fairs.

Quartz Health Plan Corporation was incorporated under the name Gundersen Lutheran Health Plan, Inc. on March 13, 1995 and commenced business on September 1, 1995. It was organized as a nonstock, nonprofit health maintenance organization under Chapter 613 of the Wisconsin Statutes to provide comprehensive health insurance. Quartz Health Plan MN Corporation is a wholly controlled subsidiary of Quartz Health Plan Corporation.

As of December 31, 2019, the audited statutory financial statements of Quartz Health Plan Corporation reported total admitted assets of \$54,719,744, total liabilities of \$34,089,077, unassigned surplus of \$20,630,667, and net income of \$740,341.

In 2017, Gundersen Lutheran Health System, Inc. d/b/a Gundersen Health System, University Health Care, Inc., and Iowa Health System d/b/a UnityPoint Health, entered into an exchange agreement pursuant to which these three nonprofit health systems share membership and equity interests in Quartz Health Plan Corporation and Quartz Holding Company. Quartz Holding Company is the sole owner of Quartz Health Insurance Corporation and Quartz Health Solutions, Inc. Quartz Health Insurance Corporation is the sole stockholder of Quartz Health Benefit Plans Corporation.

In 2017, the Quartz brand was introduced and is a family of companies composed of Quartz Health Plan Corporation, Quartz Health Plan MN Corporation, Quartz Holding Company, Quartz Health Solutions, Inc., Quartz Health Insurance Corporation, and Quartz Health Benefit Plans Corporation. In addition to providing third-party administrative services for self-funded plans, Quartz Health Solutions, Inc. also provides management services to all of the Quartz-branded insurance companies.

The financial condition of Advocate Aurora Health, Inc. and Aurora Health Care, Inc. individually, and their holding company system taken as a whole, are unlikely to jeopardize the financial stability of any participating domestic or nondomestic insurer, or to prejudice the interests of their respective Wisconsin policyholders.

Change in Control

Completion of the transactions proposed in the Form A will result in a change in control for Quartz Health Plan Corporation. The plan would result in the sale of at least 15% of the outstanding Membership Rights of Quartz Health Plan Corporation to Aurora Health Care, Inc. and, by extension, to Aurora Health Care, Inc.'s ultimate controlling person, Advocate Aurora Health, Inc.

Competence and Integrity of Prospective Management

After the closing of phase 1 under the Exchange Agreement, there will be no changes in the officers or directors of Quartz Health Plan Corporation as a result of the proposed transaction, and all current officers and directors of Quartz Health Plan Corporation will continue to serve in their present roles after the closing.

Advocate Aurora Health, Inc. and Aurora Health Care, Inc. provided copies of biographical reports for their officers and directors.

The Board of Directors of Advocate Aurora Health, Inc. at the time of this review were as follows:

Name and Residence	Principal Occupation
James H. Skogsbergh Hinsdale, Illinois	President and Chief Executive Officer Advocate Aurora Health
John W. Daniels, Jr. Mequon, Wisconsin	Chairman Emeritus Quarles & Brady LLP
Michele Baker Richardson, J.D. Chicago, Illinois	Founder, President and Chief Executive Officer Higher Education Advocates, LLC

David B. Anderson Highland Park, Illinois	Chief Executive Officer HCE International, LLC
Joanne B. Bauer South Chatham, Massachusetts	Retired President for Health Care Kimberly-Clark Corporation
Thomas M. Bolger Elm Grove, Wisconsin	Retired President and Chief Executive Officer Johnson Financial Group
Lynn Y. Crump-Caine Sandy Springs, Georgia	Executive Mentor Merryck & Co.
Joanne M. Disch Miramar Beach, Florida	Chair of Board Chamberlain University
Mark M. Harris Western Springs, Illinois	Senior Attorney The Boeing Company
Charles A. Harvey Milwaukee, Wisconsin	Retired Vice President and Chief Diversity Officer Johnson Controls, Inc.
K. Richard Jakle Elgin, Illinois	Retired Chairman, President and Chief Executive Officer Elgin Broadcasting Company, Inc. and Fox Valley Broadcasting, Inc.
John F. Timmer Chicago, Illinois	Retired Senior Vice President and Chief Credit Officer First National Bank of Brookfield
Richard A. Weiss Winter Park, Florida	Retired Partner Foley & Lardner LLP

The officers of Advocate Aurora Health, Inc. at the time of this review were as follows:

Name	Office
John W. Daniels, Jr.	Chairperson
Michele Baker Richardson	Vice Chairperson
James H. Skogsbergh	President and Chief Executive Officer
Dominic J. Nakis	Treasurer and Chief Financial Officer
Michael H. Lappin	Secretary and Chief Integration Officer

The Board of Directors of Aurora Health Care, Inc. at the time of this review were as follows:

Name and Residence	Principal Occupation
Nannette M. Gardetto Mequon, Wisconsin	President The EveryDayGood Foundation
Robert C. Figueroa Waukesha, Wisconsin	Manager Tri City National Bank
Marcia E. F. Drame River Hills, Wisconsin	Senior Director The Northwestern Mutual Life Insurance Company

Janet Krejci
Milwaukee, Wisconsin

Dean and Professor
Marquette University College of Nursing

Michael L. Morgan
Milwaukee, Wisconsin

Retired Senior Vice President – Administration
University of Wisconsin System

The officers of Advocate Aurora Health, Inc. at the time of this review were as follows:

Name	Office
Nannette M. Gardetto	Chairperson
Michael H. Lappin	Secretary
Dominic J. Nakis	Treasurer
Michael M. Grebe	Assistant Secretary
Rachelle R. Hart	Assistant Secretary
Michael Kerns	Assistant Secretary
H. James Slinkman, Jr.	Assistant Secretary
James W. Doheny	Assistant Treasurer
Steven E. Huser	Assistant Treasurer
Leslie K. Lenzo	Assistant Treasurer
Nanine M. Nelson	Assistant Treasurer

Review of the composition of the board of directors and management of Advocate Aurora Health, Inc. and Aurora Health Care, Inc. discloses no basis for disapproval of the Form A.

Summary of Observations

1. The Form A filing was prepared in a format that complies with s. Ins 40.02, Wis. Adm. Code. The information contained in the Form A filing and its supplements are sufficient to the transaction.
2. The plan would not violate the law or be contrary to the interests of Quartz Health Plan Corporation or any participating nondomestic insurer or their respective Wisconsin policyholders.
3. After the acquisition of control, neither Quartz Health Plan Corporation nor any participating nondomestic insurer will experience a change that would cause it to become unable to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed.
4. The proposed transaction will not create a monopoly or substantially lessen competition in any type or line of insurance in Wisconsin.
5. The financial condition of Advocate Aurora Health, Inc. and Aurora Health Care, Inc. individually, and their holding company system taken as a whole, are unlikely to jeopardize the financial stability of any participating domestic or nondomestic insurer, or to prejudice the interests of their respective Wisconsin policyholders.
6. The plan results in a change in control for Quartz Health Plan Corporation. There are no plans or proposals to liquidate the domestic stock insurance corporation, Quartz Health Plan Corporation, to sell its assets (other than investment portfolio transactions in the ordinary course of business), or to consolidate or merge it with any person. The anticipated business, corporate structure, and management following the acquisition has been described in the Form A and its supplements, but such plans are subject to additional change and development. The plan does not appear to be

adverse to Quartz Health Plan Corporation or any participating nondomestic insurer, or their respective policyholders, or to conflict with the public interest.

7. The competence and integrity of the persons who would control the operation of Quartz Health Plan Corporation, a participating domestic insurer, and Quartz Health Plan MN Corporation, a participating nondomestic insurer licensed only in Minnesota, are such that it is in the interest of their respective Wisconsin policyholders and of the public to permit the proposed plan.

RECOMMENDATION

Based on the Petitioners consent to the Stipulation and Order for Case No. 20-C43722, which has already been given, I recommend that the plan for the acquisition of control of Quartz Health Plan Corporation by Advocate Aurora Health, Inc. and Aurora Health Care, Inc. be approved.