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JUN 17 2019

NEBRASKA DEPARTMENT
OF INSURANCE

CERTIFICATION

June 17, 2019

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

HEARTLANDPLAINS HEALTH

2401 SOUTH 73RD STREET

OMAHA, NE 68124

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

HEARTLANDPLAINS HEALTH

2401 SOUTH 73RD STREET

OMAHA, NE 68124

dated as of December 31, 2017 verified under oath by the examiner-in-charge on
May 15, 2019 and received by the company on May 21, 2019, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 4TH day of June 2019.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read "Justin C. Schrader", is written over a horizontal line.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

HEARTLANDPLAINS HEALTH

as of

December 31, 2017



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Lincoln, Nebraska
April 17, 2019

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
1135 M Street, Suite 300
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

HEARTLANDPLAINS HEALTH

which has its Statutory Home Office located at

**2401 South 73rd Street
Omaha, NE 68124**

with its Principal Executive Office located at

**33820 Weyerhaeuser Way South
Federal Way, WA 98001**

(hereinafter also referred to as the “Company”) and the report of such examination is respectfully presented herein.

INTRODUCTION

The current financial condition examination covers the period beginning March 27, 2014 to the close of business on December 31, 2017, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, Arkansas, Iowa, Ohio, Tennessee, and Washington participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company's affiliates, QualChoice Advantage, Inc., QCA Health Plan, Inc., QualChoice Life & Health Insurance Company, Inc., HarvestPlains Health of IA, RiverLink Health, ClearRiver Health, and Soundpath Health.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Arkansas Insurance Department as the coordinating state and the Nebraska Department of Insurance, Iowa Insurance Division, Ohio Department of Insurance, Tennessee Department of Commerce and Insurance, and Washington State Office of the Insurance Commissioner. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the shareholder, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. The Certificate of Authority to conduct the business of insurance in the State of Nebraska was inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Ernst & Young, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2016 and 2017. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated on December 17, 2013 for the purpose of providing Medicare Advantage (MA) benefits to eligible individuals in the Company's Nebraska service area. The Company is licensed and exclusively operates in Nebraska. The Company does not engage in any commercial business.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the ‘Ultimate Controlling Person’, as reported in the 2017 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Catholic Health Initiatives

 QualChoice Health, Inc.

 QualChoice Health Plan Services, Inc.

 RiverLink Health of Kentucky, Inc.

 QualChoice Advantage, Inc.

 RiverLink Health

 StableView Health, Inc.

 HarvestPlains Health of Iowa

 Soundpath Health

 HeartlandPlains Health

 ClearRiver Health

 QualChoice Holdings, Inc.

 QCA Health Plan, Inc.

 QCA Insurance Agency, LLC

 QualChoice Life & Health

Corporate Member

Article IV, Section 4.1 of the By-Laws states that, “the sole member of the Corporation shall be QualChoice Health Plan Services Inc., a for-profit Colorado corporation.” The ultimate parent of the Company and the Corporate Member is Catholic Health Initiatives, which is a nonprofit Colorado corporation. Article IV Section 4.2 provides that, “the time, place, and frequency of meetings of the Corporate Member and notice thereof shall be determined by the Corporate Member in accordance with the Act...At the annual meeting of the Corporate Member, the President shall report on the activities and financial conditions of the Corporation and the Corporate Member may appoint directors of the Corporation.”

The Company's paid-in surplus is \$7,550,000. Capital contributions paid were \$3,300,000 in 2014, \$750,000 in 2015, \$1,500,000 in 2016, and \$2,000,000 in 2017.

Board of Directors

Article V, Section 5 of the By-Laws establishes, "...the business, property, affairs, and funds of the Corporation shall be managed, supervised, and controlled by the Board...The Board shall consist of no fewer than three members, with the exact number to be determined from time to time by the Board...Each member of the Board shall serve a term of three years...Directors of the Corporation shall be appointed by the Corporate Member at the annual meeting of the Corporate Member...An annual meeting of the Board shall be held in each year and at such time and place as shall be determined by the Board."

The following persons were serving as Directors at December 31, 2017:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Mark F. Bjornson Salem, Oregon	President & Chief Executive Officer QualChoice Health Plan Services, Inc.
Jennifer J. Boeff Inverness, Colorado	Vice President, Customer Business Solutions Catholic Health Initiatives
Charles W. Hanson Excelsior, Minnesota	Chief Financial Officer QualChoice Health Plan Services, Inc.
David A. Sorenson Minneapolis, Minnesota	Vice President, Chief Underwriting Officer QualChoice Health Plan Services, Inc.
Michael E. Stock Little Rock, Arkansas	Chief Executive Officer Qualchoice Health, Inc. (Commercial Line of Business)

The Directors are not paid for their Board service.

Officers

Article VI, Section 6.1 of the Company's By-Laws states that, "the Officers of the Corporation shall consist of a Chairperson of the Board, a Chief Executive Officer, a President, a

Chief Financial Officer, a Treasurer, a Secretary, and such other Officers as the Board or the President may from time to time determine.”

The following is a listing of Officers elected and serving the Company at December 31, 2017:

<u>Name</u>	<u>Office</u>
Steven C. Schramm	President, Chief Financial Officer & Treasurer
Mark F. Bjornson	Chairman, Chief Executive Officer
David A. Sorenson	Secretary
William N. Young MD	Chief Medical Officer

TRANSACTIONS WITH AFFILIATES

Administrative Services Agreement

Effective March 1, 2014 the Company entered in to an administrative services agreement with QualChoice Health Plan Services, Inc. (QHPS). Under the agreement QHPS provides certain services which are needed in the connection with the operations of the Company. These services include: customer service and provider relations, underwriting, premium collection and billing, accounting, investment management and actuarial services, marketing and sales, compliance, provider contracting and credentialing, payment of expenses on behalf of the Company, care management and utilization review, claims adjudication and management, complaints and grievances, policies and procedures, contracting and vendor oversight, information technology, pharmacy and pharmacy network, and delegation oversight and monitoring.

Administration fees are determined based upon a fixed percentage of total revenue earned by the Company during the calendar year. The fixed percentage shall not be less than twelve percent or greater than fifteen percent. Amounts are billed quarterly and due within 30 days of the Companies receipt of quarterly invoice.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in Nebraska. The Company provides Medicare Advantage policies in the state of Nebraska.

REINSURANCE

Ceded

The Company maintains excess of loss reinsurance coverage for Medicare Advantage expenses with Berkley Insurance Company. Under this agreement, the Company is reimbursed for 90% of the eligible expenses exceeding \$250,000 per member in each agreement year up to a maximum of \$5,000,000 per member per agreement year. The agreement became effective January 1, 2017 and terminated January 1, 2018.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Bonds	\$3,289,318	\$4,006,602	\$4,065,031	\$4,143,088
Admitted assets	3,317,219	4,361,605	4,591,181	5,513,263
Claims unpaid	0	518,399	1,079,016	780,732
Aggregate health policy reserves	0	969,740	953,131	323,113
Total liabilities	6,353	2,167,692	2,894,204	1,892,301
Capital and surplus	3,310,865	2,193,913	1,696,977	3,620,961
Premium income	0	3,485,958	6,178,000	5,679,642
Hospital/medical benefits	0	2,792,418	5,846,809	4,904,251
Prescription drugs	0	457,352	951,194	590,502
Net income	10,866	(1,866,953)	(1,966,547)	(44,464)

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2017

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$4,143,088		\$4,143,088
Cash and cash equivalents	<u>571,332</u>		<u>571,332</u>
Subtotal, cash and invested assets	\$4,714,420		\$4,714,420
Investment income due and accrued	17,466		17,466
Uncollected premiums and agents' balances in the course of collection	3,700		3,700
Accrued retrospective premiums	363,303		363,303
Receivable related to uninsured plans	46,274		46,274
Federal income tax recoverable	52,690	\$19,363	33,327
Net deferred tax asset	334	42	292
Receivable from parent, subsidiaries and affiliates	214		214
Health care and other amounts receivable	373,997	39,902	334,096
State tax receivable	<u>170</u>	<u> </u>	<u>170</u>
Totals	<u>\$5,572,569</u>	<u>\$59,306</u>	<u>\$5,513,263</u>
 <u>Liabilities, Surplus, and Other Funds</u>			
Claims unpaid			\$ 780,732
Unpaid claims adjustment expenses			1,649
Aggregate health policy reserves			323,113
Amounts due to parent, subsidiaries and affiliates			<u>786,807</u>
Total liabilities			<u>\$1,892,301</u>
Gross paid in and contributed surplus			\$7,550,000
Unassigned funds			<u>(3,929,039)</u>
Total capital and surplus			<u>\$3,620,961</u>
Totals			<u>\$5,513,263</u>

STATEMENT OF REVENUE AND EXPENSES – 2017

Net premium income	<u>\$5,679,642</u>
Hospital/medical benefits	\$4,904,251
Other professional services	87,577
Emergency room and out-of-area	70,979
Prescription drugs	590,502
Net reinsurance recoveries	<u>(90,700)</u>
Subtotal	\$5,562,609
Claims adjustment expense	\$ 108,980
General administrative expenses	766,002
Increase in reserves	<u>(630,018)</u>
Total underwriting deductions	<u>\$5,807,573</u>
Net underwriting loss	<u>\$ (127,931)</u>
Net investment income earned	59,791
Net realized capital loss	<u>\$ (9,184)</u>
Net investment gain	\$ 50,608
Net loss from agents' or premium balances charged off	(376)
Net income before federal income tax	(77,700)
Federal income tax	<u>(33,236)</u>
Net income	<u>\$ (44,464)</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and surplus, beginning	\$ <u>0</u>	\$ <u>3,310,866</u>	\$ <u>2,193,913</u>	\$ <u>1,696,977</u>
Net income	10,866	(1,866,953)	(1,966,547)	(44,464)
Change in net deferred income tax				334
Change in nonadmitted assets			(27,420)	(31,886)
Surplus paid in	3,300,000	750,000	1,500,000	2,000,000
Prior year tax correction	<u> </u>	<u> </u>	<u>(2,969)</u>	<u> </u>
Net change for the year	<u>\$3,310,866</u>	<u>\$(1,116,953)</u>	<u>\$ (496,936)</u>	<u>\$1,923,984</u>
Capital and surplus, ending	<u>\$3,310,866</u>	<u>\$ 2,193,913</u>	<u>\$1,696,977</u>	<u>\$3,620,961</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(3,929,039), as reported in the Company's 2017 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Board Review of Investments

The Board of Directors does not, on a quarterly basis, receive and review a summary report on the insurer's investment portfolio, investment activities, and investment practices engaged in under delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan. Therefore, the company is not in compliance with Section 44-5105 (3) of the Nebraska Insurance Statutes. It is recommended that the Board review investments quarterly in compliance with Section 44-5105 (3) of the Nebraska Insurance Statutes.

Schedule Y Presentation

NAIC Annual Statement Instructions for Schedule Y requires a chart or listing that presents the identities of and interrelationship between the parent, all affiliated insurers and reporting entities; and other affiliates, identifying all insurers and reporting entities as such and listing the Federal Employer's Identification Number for each. The chart included only the affiliated insurers for all entities. It is recommended that the Company include all reporting entities to Catholic Health Initiatives on Schedule Y of the Annual Statement and Form B of the Insurance Holding Company System Registration.

Inadequate Unpaid Claims Adjusting Expense Liability

NAIC Statements of Statutory Accounting Principles No. 55 requires that the liability for unpaid claim adjustment expenses (CAE) shall be established regardless of any payments made to third-party administrators, management companies or other entities except for capitated payments under managed care contracts. The CAE calculations provided by Catholic Health Initiatives demonstrate that the CAE provision as of 12/31/2017 for the Medicare Advantage companies reflects only the December 2017 Pharmacy Benefit Manager (PBM) administration fee that was unpaid as of 12/31/2017 and paid in early 2018. There was no CAE established for medical claims. It is recommended that a liability is established for unpaid claim adjustment expenses in future annual statements.

SUBSEQUENT EVENT

Discontinued Operations

The Company's Medicare Advantage program was discontinued December 31, 2018.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Board Review of Investments – It is recommended that the Board review investments quarterly in compliance with Section 44-5105 (3) of the Nebraska Insurance Statutes.

Schedule Y Presentation – It is recommended that the Company includes all reporting entities to Catholic Health Initiatives on Schedule Y of the Annual Statement.

Inadequate Unpaid Claims Adjusting Expense Liability – It is recommended that a liability is established for unpaid claim adjustment expenses in future annual statements.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Financial Examiners, Information Systems Specialists, and Actuarial Examiners with or contracted by Arkansas Insurance Department, Iowa Insurance Division, Ohio Department of Insurance, Tennessee Department of Commerce and Insurance, and Washington State Office of the Insurance Commissioner; participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Skyler Lawyer", written over a horizontal line.

Skyler Lawyer, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,
County of Lancaster,

Skylar Lawyer, being duly sworn, states as follows:

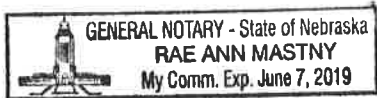
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Heartland Plains Health
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of the Heartland Plains Health was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

Skylar Lawyer
Examiner-in-Charge's Signature

Subscribed and sworn before me by Skylar Lawyer on this 15th day of May, 2019.

(SEAL)



Rae Ann Mastny
Notary Public

My commission expires _____ [date].