

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

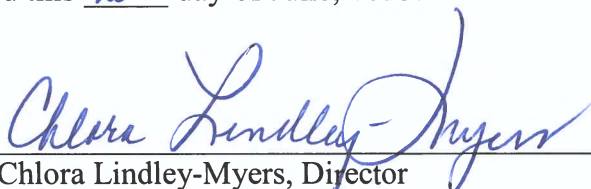
ORDER

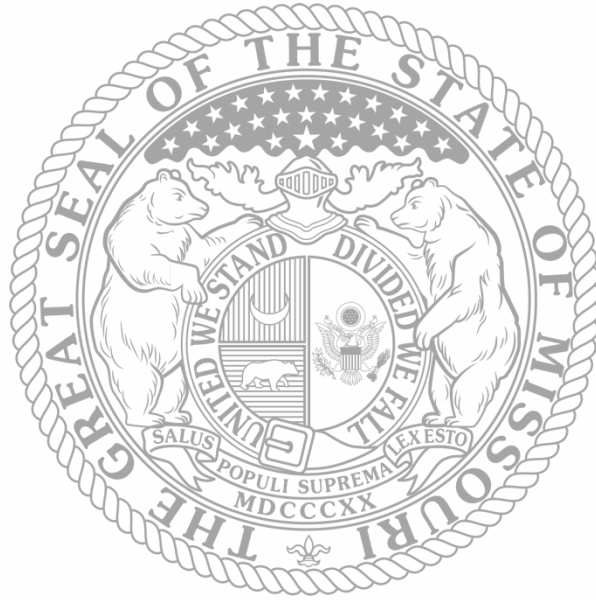
After full consideration and review of the report of the financial examination of Essence Healthcare, Inc. for the period ended December 31, 2021, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Essence Healthcare, Inc. as of December 31, 2021, be and is hereby ADOPTED as filed and for Essence Healthcare, Inc. to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 20th day of June, 2023.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

ESSENCE HEALTHCARE, INC.

AS OF
DECEMBER 31, 2021

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Saint Louis, MO
April 27, 2023

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

Essence Healthcare, Inc. (NAIC #11699)

hereinafter referred to as such, as EHI, or as the Company. Its administrative office is located at 13900 Riverport Drive, Saint Louis, MO 63043, telephone number 314-209-2780. The fieldwork for this examination began on April 19, 2022, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a multi-state financial examination of Essence Healthcare, Inc. The last examination of the Company by the Department covered the period of January 1, 2012 through December 31, 2016. The current examination covers the period of January 1, 2017 through December 31, 2021, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of management's compliance with Statutory Accounting Principles. 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 following the Company's financial statements.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to EHI included Capital and Surplus, Investments, Related Party, Reserves and Claim Handling and Underwriting. The examination also included a review and evaluation of information technology general controls.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

The Company was organized by American Multispecialty Group, Inc., a Missouri corporation d/b/a Esse Health, on January 30, 2003. On May 20, 2003, the Company received a certificate of authority to operate as a health maintenance organization (HMO) under Sections 354.400 – 354.636 RSMo (Health Maintenance Organizations).

In 2007, ownership of the Company was transferred to Essence Group Holdings Corporation (EGHC). In 2009, the Company reorganized from a limited liability partnership (LLP) to a corporation, Essence Healthcare, Inc. (EHI).

Mergers, Acquisitions, and Major Corporate Events

During the examination period, three entities were formed as wholly-owned subsidiaries of EHI; Essence Healthcare of Georgia, Inc., Essence Healthcare of Ohio, Inc., and Essence Healthcare PPO, Inc. (a MO-domiciled entity). The purpose of the new subsidiaries is to expand business to other territories. The new entities are expected to commence writing business in 2023.

Dividends and Capital Contributions

The Company paid the following dividends to its parent, Essence Group Holdings Corporation, during the current examination period.

<u>Year</u>	<u>Amount</u>
2017	\$ 13,223,146
2018	7,933,853
2019	0
2020	19,000,000
2021	28,600,000
Total	\$ 67,383,853

Surplus Notes

During the examination period, the Company made the following payments in relation to surplus notes issued to American Multispecialty Group, Inc.

	<u>Principal payments</u>	<u>Interest payments</u>	<u>Additional payments</u>
2017	\$ 500,000	\$ 359,398	\$ 0
2018	800,000	758,416	0
2019	3,050,000	2,238,800	839,975

Amounts denoted as “additional payments” were attributable to interest accrued as a result of interest rate changes from 2014 through the time the notes were paid in full in 2019. The Company had no surplus note balances as of December 31, 2021.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that are elected by the shareholder. The Company’s Bylaws specify that there shall be three directors. The Board of Directors elected and serving as of December 31, 2021, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Richard Hardy Jones Edina, MN	Chief Financial Officer Essence Healthcare, Inc.
Justin Jeremiah Lienemann Ballwin, MO	Chief Financial Officer Clayco
James Louis Starr Wildwood, MO	Chief Financial Officer PierianDx, Inc.

Senior Officers

The officers elected and serving, as of December 31, 2021, were as follows:

<u>Name</u>	<u>Office</u>
Richard Hardy Jones	Chief Executive Officer
Martha Butler	President
Gail Edson Halterman	Secretary

On March 9, 2022, the company held a board meeting, electing new officers and adding two directors. The officers elected and serving, as of March 9, 2022, who also signed the annual statement as of December 31, 2021, were as follows:

<u>Name</u>	<u>Office</u>
Umar Farooq	Executive Manager
Richard Hardy Jones	Chief Financial Officer & Treasurer
Gail Edson Halterman	Secretary

The two additional board members elected were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Martha Ellen Butler St. Louis, MO	Senior Vice President, Plan Operations Lumeris Holdings, LLC.
Jeff Carroll Chicago, IL	Chief Revenue Officer Lumeris Holdings, LLC.

Principal Committees

The Company Bylaws allow the Board of Directors to designate any committees. The following Committees were in existence as of December 31, 2021:

Compliance Committee

Erin Venable, Chairman
Richard Jones
Gail Halterman
Michael Fusco
Martha Butler
Lisa McGinnis
Gene Poisson
Kevin Davis
Aaron Vannatta
Cathy Linsin
Joel Andersen
R. Linda Meyerhoeffer
Jeff Brose

Quality Management Committee

Dr. Debbie Zimmerman, Chairman
Martha Butler
Amy Davis
Erin Venable
Dr. Kathleen Brunts
Dr. Thomas Hastings
Dr. Howard Hsu
Dr. Abry Houchin
Dr. Scott Frederick
Dr. Michael Fusco

Investment Committee

Justin Lienemann, Chairman
Richard Jones
Chris McGinnis
Craig Stebor

EHI does not have its own Audit Committee and relies on the Audit Committee of the Parent Company, EGHC.

Corporate Records

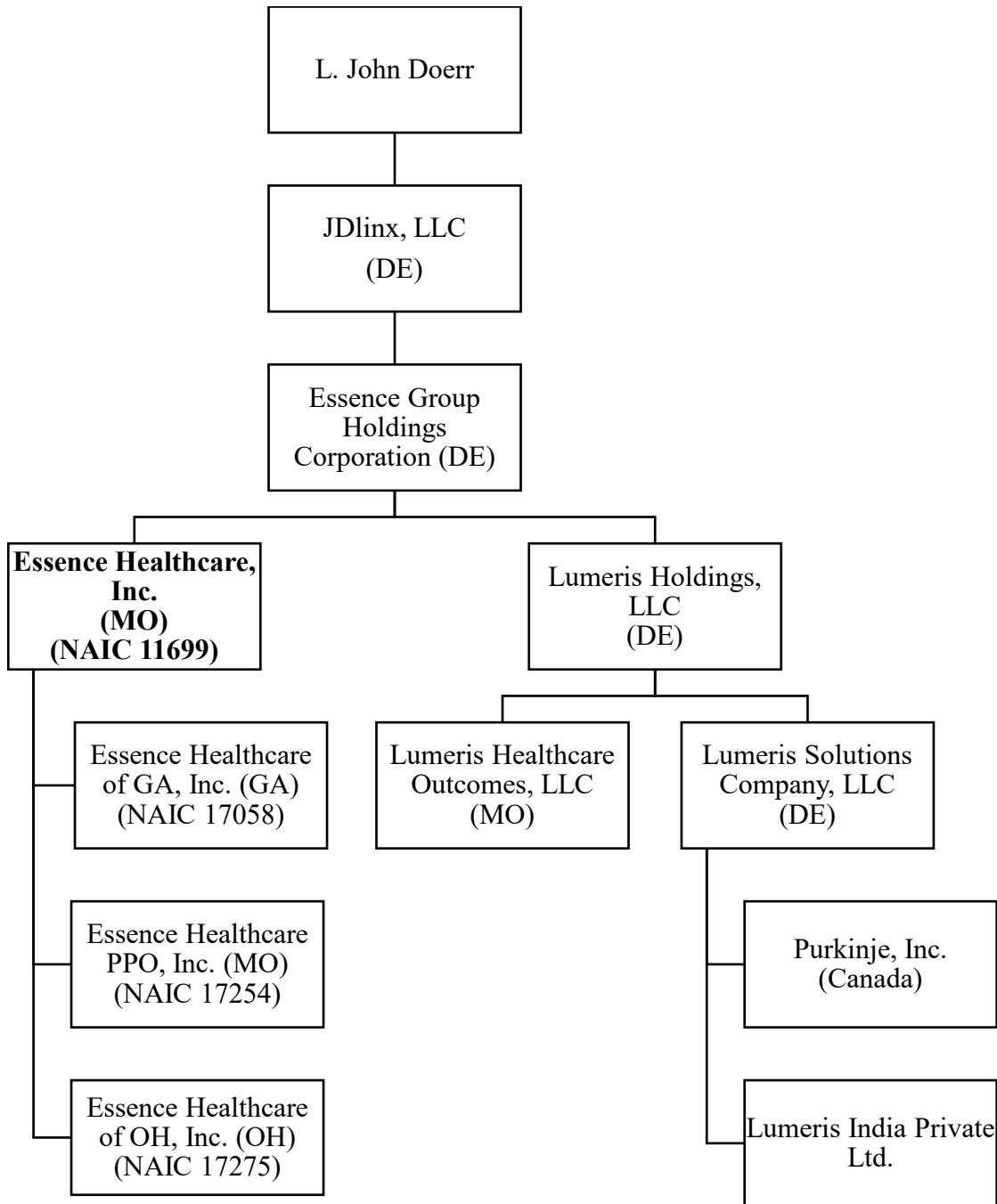
The Company's Articles of Incorporation and Bylaws were reviewed. There were no revisions to either document during the examination period. The meeting minutes of the EHI's Board of Directors and of EGHC's Audit Committee were reviewed for the period under examination.

Holding Company, Subsidiaries, and Affiliates

EHI is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). The Company is a wholly-owned subsidiary of Essence Group Holdings Corporation, which is owned by JDlinx, LLC. L. John Doerr, an individual, owns JDlinx, LLC, making Mr. Doerr the ultimate controlling entity in the holding company system.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group as of December 31, 2021. All subsidiaries are wholly-owned unless otherwise noted.



Intercompany Transactions

The following agreements represent significant contracts executed with affiliated entities that were in effect as of December 31, 2021. A brief description of these agreements are as follows:

Guaranty and Capital Contribution Agreement: On November 30, 2007, the Company entered into an agreement with EGHC for the parent to provide minimum capital requirements for EHI.

Tax Allocation Agreement: On December 17, 2009, the Company entered into an agreement with EGHC to share tax liability based on each company's performance.

Intercompany Services Agreement: On January 1, 2014, the Company entered into an agreement with Lumeris Healthcare Outcomes, LLC (LHO) to provide various administrative services for EHI.

Business Associate Agreement: On January 1, 2014, the Company entered into an agreement with LHO for them to provide various services with patient health information for EHI.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Missouri as a health maintenance organization under RSMo Chapter 354 (Health service corporations, health maintenance organizations and prepaid dental plans). At year-end 2021, the Company was also licensed in Illinois, Texas, and Washington. The Company only writes premiums in Missouri and Illinois. The Company offers Medicare Advantage and Medicare Part D plans under contract with the Centers for Medicare and Medicaid Services (CMS).

GROWTH OF COMPANY AND LOSS EXPERIENCE

The table below summarizes the Company's growth for the period under examination:

(\$000s omitted)

Year	Total Assets	Net Premiums Earned	Underwriting Gain (Loss)	Net Income (Loss)	Capital and Surplus	Ratio of Net Premiums to Surplus
2017	\$ 225,409	\$ 694,640	\$ 28,055	\$ 20,191	\$ 86,336	804.58%
2018	212,683	738,787	14,560	10,761	86,798	851.16%
2019	240,014	782,992	20,560	17,555	101,029	775.02%
2020	247,297	853,296	41,597	33,347	113,102	754.45%
2021	221,025	824,891	15,166	14,765	102,981	801.01%

The table below summarizes the Company's total revenues, incurred hospital and medical expenses, and medical loss ratios for the period under examination:

(\$000s omitted)

Year	Total Revenues	Total Hospital and Medical Benefits	Medical Loss Ratio
2017	\$ 694,640	\$ 586,360	84.4%
2018	738,787	615,494	83.3%
2019	782,992	657,519	84.0%
2020	853,296	705,473	82.7%
2021	824,891	715,886	86.8%

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2017	2018	2019	2020	2021
Direct Premiums Written	\$ 699,891	\$ 743,609	\$ 788,062	\$ 857,094	\$ 829,952
Reinsurance Ceded:					
Non-Affiliates	5,250	4,822	5,070	3,798	5,061
Net Premiums Written	\$ 694,640	\$ 738,787	\$ 782,992	\$ 853,296	\$ 824,891

Assumed Reinsurance

The Company did not assume any premiums during the period under examination.

Ceded Reinsurance

The Company entered into a reinsurance agreement with a non-affiliate, RGA Reinsurance Company (RGA), effective for calendar year 2021. The Company retains \$325,000 in losses per member for the agreement period and cedes 90% of the excess losses to RGA. Reinsurance limits are \$5 million per member for the agreement period.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, Ernst & Young, LLP, in Saint Louis, Missouri, performed the statutory audit of the Company for the years 2017 through 2021. Reliance was placed upon the CPA workpapers as deemed appropriate.

Actuarial Opinion

The Company's actuarial opinion regarding reserves and other actuarial items was issued by Daniel S. Pribe, FSA, MAAA, for all years in the examination period. Mr. Pribe is employed by Essence Healthcare, Inc. in Saint Louis, Missouri.

Consulting Actuary

Pursuant to a contract with the Department, Scott Garduno, FSA, MAAA of Taylor-Walker Consulting, LLC, reviewed the underlying actuarial assumptions and methodologies used by EHI to determine the adequacy of reserves and other actuarial items. Mr. Garduno determined that the Company made a reasonable provision for the reserves and other actuarial items that were reported in the statutory financial statements as of December 31, 2021.

Information Systems

In conjunction with this examination, Kim Dobbs, CFE, AES, CISA, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Essence Healthcare, Inc. for the period ending December 31, 2021. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2021

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 150,141,763	\$ 0	\$ 150,141,763
Stocks:			
Common Stocks	1,994,000	0	1,994,000
Cash, Cash Equivalents, and Short- Term Investments	34,332,414	0	34,332,414
Investment Income Due and Accrued	700,371	0	700,371
Premiums and Considerations:			
Uncollected Premiums and Agents' Balances in the Course of Collection	119,594	80,686	38,908
Accrued Retrospective Premiums	1,826,634	0	1,826,634
Reinsurance:			
Amounts Recoverable from Reinsurers	773,936	0	773,936
Amounts Receivable Relating to Uninsured Plans	7,004,279	0	7,004,279
Net Deferred Tax Asset	1,083,929	0	1,083,929
Receivables from Parent, Subsidiaries, and Affiliates	1,745,686	0	1,745,686
Health Care and Other Amounts Receivable	23,382,743	2,988,664	20,394,079
Aggregate Write-Ins for Other-Than- Invested Assets	1,749,355	760,504	988,851
TOTAL ASSETS	\$ 224,854,704	\$ 3,829,854	\$ 221,024,850

LIABILITIES, CAPITAL AND SURPLUS

As of December 31, 2021

Claims Unpaid	\$ 50,978,968
Accrued Medical Incentive Pool and Bonus Amounts	35,686,339
Unpaid Claims Adjustment Expenses	1,120,591
Aggregate Health Policy Reserves	11,901,807
Premiums Received in Advance	12,044
General Expenses Due or Accrued	1,335,660
Current Federal and Foreign Income Tax Payable and Interest Thereon	147,723
Liability for Amounts Held Under Uninsured Plans	16,422,893
Aggregate Write-Ins for Other Liabilities	437,627
TOTAL LIABILITIES	\$ 118,043,652
Common Capital Stock	\$ 100
Gross Paid-In and Contributed Surplus	18,424,787
Unassigned Funds (Surplus)	84,556,311
TOTAL CAPITAL AND SURPLUS	\$ 102,981,198
TOTAL LIABILITIES AND SURPLUS	\$ 221,024,850

STATEMENT OF REVENUE AND EXPENSES

For the Year Ended December 31, 2021

Net Premium Income	\$ 824,890,534
Total Revenue	\$ 824,890,534
Hospital/Medical Benefits	\$ 496,195,840
Other Professional Services	33,655,281
Outside Referrals	49,655,880
Emergency Room and Out-of-Area	12,938,809
Prescription Drugs	82,142,406
Incentive Pool, Withhold Adjustments, and Bonus Amounts	43,319,770
Net Reinsurance Recoveries	2,021,868
Claims Adjustment Expenses	24,265,524
General Administrative Expenses	69,573,188
Total Underwriting Deductions	\$ 809,724,830
Net Underwriting Gain (Loss)	\$ 15,165,704
Net Investment Income Earned	3,288,287
Net Realized Capital Gains	317,364
Net Investment Gain (Loss)	\$ 3,605,651
Net Gain (Loss) from Agents' or Premium Balances Charged Off	(212,650)
Net Income (Loss) After Capital Gains Tax and Before All Other Federal Income Taxes	\$ 18,558,705
Federal and Foreign Income Taxes Incurred	3,793,901
NET INCOME (LOSS)	\$ 14,764,804

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2021 to December 31, 2021

(\$000's omitted)

	2021	2020	2019	2018	2017
Capital and Surplus, Beginning of Year	\$ 113,102	\$ 101,029	\$ 86,798	\$ 86,336	\$ 81,424
Net Income (Loss)	14,765	33,347	17,555	10,761	20,191
Change in Net Unrealized Capital Gains (Losses)					
Less Capital Gains Tax	1	20	28	(40)	3
Change in Net Deferred Income Tax	(1,118)	144	555	311	(99)
Change in Nonadmitted Assets	4,831	(937)	(2,358)	(1,335)	(1,960)
Change in Surplus Notes		(1,500)	(3,524)	(2,694)	448
Dividends to Stockholders	(28,600)	(19,000)		(7,934)	(13,223)
Aggregate Write-Ins for Gains (Losses) in Surplus	0	0	1,974	1,394	(448)
Net Change in Capital and Surplus	(10,121)	12,074	14,230	462	4,911
Capital and Surplus, End of Year	\$ 102,981	\$ 113,102	\$ 101,029	\$ 86,798	\$ 86,336

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

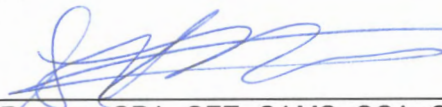
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Essence Healthcare, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Ken Tang, CFE and Michael Borawski, CFE (Fraud), examiners for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of Saint Louis)

I, Scott Reeves, CPA, CFE, CAMS, CCA, CSCD, CHE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Essence Healthcare, Inc., its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Scott Reeves, CPA, CFE, CAMS, CCA, CSCD, CHE
Examiner-In-Charge
Missouri Department of Commerce and Insurance

Sworn to and subscribed before me this 17th day of MAY, 2023.

My commission expires: 12/28/2026 Susan Cox

Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Michael R. Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance