



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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, 2016, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration 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 findings, company history, corporate records, management and control, territory and plan of operations, reinsurance, accounts and records, financial statements, examination changes, comments on the financial statements, 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, 2016 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 27th day of November, 2017.

Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

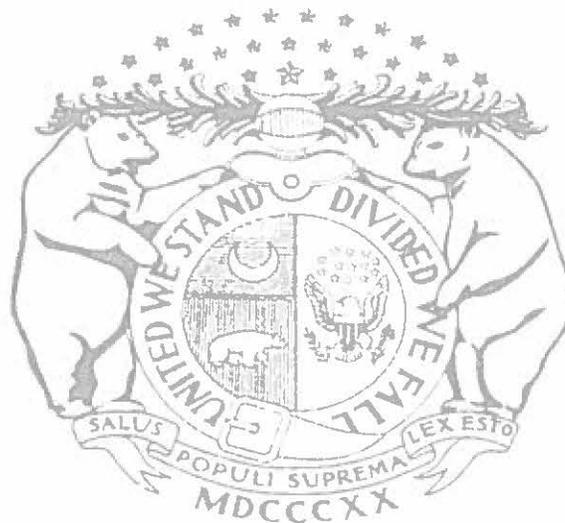


REPORT OF
FINANCIAL EXAMINATION

ESSENCE HEALTHCARE, INC.

As of:
DECEMBER 31, 2016

FILED
DEC 07 2017
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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August 24, 2017
Saint Louis, MO

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

Director Lindley-Myers:

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

Essence Healthcare, Inc.

hereinafter also referred to as the Company. The Company's main office is located at 13900 Riverport Drive, Maryland Heights, MO 63043; phone number (314) 209-2800. Examination fieldwork began on March 6, 2017, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed an examination of Essence Healthcare, Inc. The last examination of the Company was completed as of December 31, 2011. This examination covers the period of January 1, 2012, through December 31, 2016. This examination also includes material transactions or events occurring subsequent to December 31, 2016.

Procedures

This examination was conducted as a full scope, multi-state comprehensive examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). 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 identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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. 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. Key activities identified were: Investments; Claims Handling and Reserving; Premiums and Underwriting; Taxes; and Related Parties.

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 insurer 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 in the examination report but separately communicated to other regulators or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings resulting from the examination.

COMPANY HISTORY

General

The Company was organized as Essence, Inc. 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 2006, the Company's ownership was transferred from Esse Health to Essence Holding Company, LLC. Subsequently the Company's structure was changed to a limited liability partnership (LLP).

In 2007, Essence Holding Company, LLC contributed all of its membership interest in the Company to Essence Group Holdings Corporation. The Company merged into Essence Healthcare, LLP, which remained as the surviving entity.

Essence Healthcare, Inc. was incorporated in Missouri on November 12, 2008. On December 31, 2008, Essence Healthcare, LLP and Essence Healthcare, Inc. merged, with Essence Healthcare, Inc. remaining as the surviving entity.

Capital Stock

The Company is authorized to issue 30,000 shares of \$1.00 par value common stock. At year-end 2016, 100 shares were issued and outstanding, resulting in a common capital stock account balance of \$100.

Dividends

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

<u>Year</u>	<u>Amount</u>
2012	\$ 4,000,000
2013	25,700,000
2014	5,150,000
2015	955,000
2016	7,320,000
Total	<u>\$ 43,125,000</u>

Acquisitions, Mergers and Significant Corporate Events

On January 12, 2012, the Company dissolved its wholly-owned subsidiary, Essence Healthcare of Connecticut, Inc. No health care services had been provided by Essence Healthcare of Connecticut, Inc.

On February 24, 2012, the Company dissolved its wholly-owned subsidiary, Essence Healthcare of Ohio, Inc. No health care services had been provided by Essence Healthcare of Ohio, Inc.

On December 9, 2015, the Company dissolved its wholly-owned subsidiary, Essence Healthcare of New York, Inc., which ceased operating in 2012. As a result of the dissolution, the Company received \$3.0 million in cash and recognized a \$4.9 million loss on the Statement of Revenue and Expenses.

Surplus Debentures

During 2012, the Company repaid \$19.9 million in principal and \$1.665 million in interest to redeem surplus notes held by its parent, Essence Group Holdings Corporation. The Company's remaining surplus notes, detailed below, were issued to the Company's former parent, American Multispecialty Group, Inc. Principal and interest due under the notes are payable upon demand. However, payments may only be made from the Company's surplus profits and are subject to Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) approval.

<u>Date Issued</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Face</u>	<u>Carrying Value</u>
12/31/2003	1/1/2018	6.00%	\$ 500,000	\$ 811,555
6/15/2004	1/1/2018	6.00%	1,500,000	2,403,668
9/30/2004	1/1/2018	6.00%	600,000	988,237
12/31/2004	1/1/2018	6.00%	750,000	1,268,055
3/31/2005	1/1/2018	6.00%	500,000	865,800
12/31/2005	1/1/2018	6.00%	300,000	558,809
3/31/2006	1/1/2018	6.00%	200,000	373,372
Totals:			<u>\$4,350,000</u>	<u>\$ 7,269,496</u>

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were no changes to the articles of incorporation or the bylaws during the current examination period.

The minutes of the meetings of the Board of Directors were reviewed for the period under examination. The minutes of the meetings appear to reflect proper approval of the significant transactions and corporate events for the current examination period.

MANAGEMENT AND CONTROL

Board of Directors

Management of the Company is vested in a board of three (3) directors authorized by the bylaws. Directors serving at December 31, 2016, were as follows:

<u>Name</u>	<u>Address</u>	<u>Affiliation</u>
Richard Jones	St. Louis, MO	President, Essence Healthcare, Inc.
James Starr	St. Louis, MO	Chief Financial Officer, Essence Healthcare, Inc.
Thomas Doerr	St. Louis, MO	Director, Innovation Research, Lumeris, Inc.

Officers

Officers serving at December 31, 2016, were as follows:

<u>Name</u>	<u>Position</u>
Richard Jones	President
James Starr	Treasurer
Gail Halterman	Secretary

Audit Committee

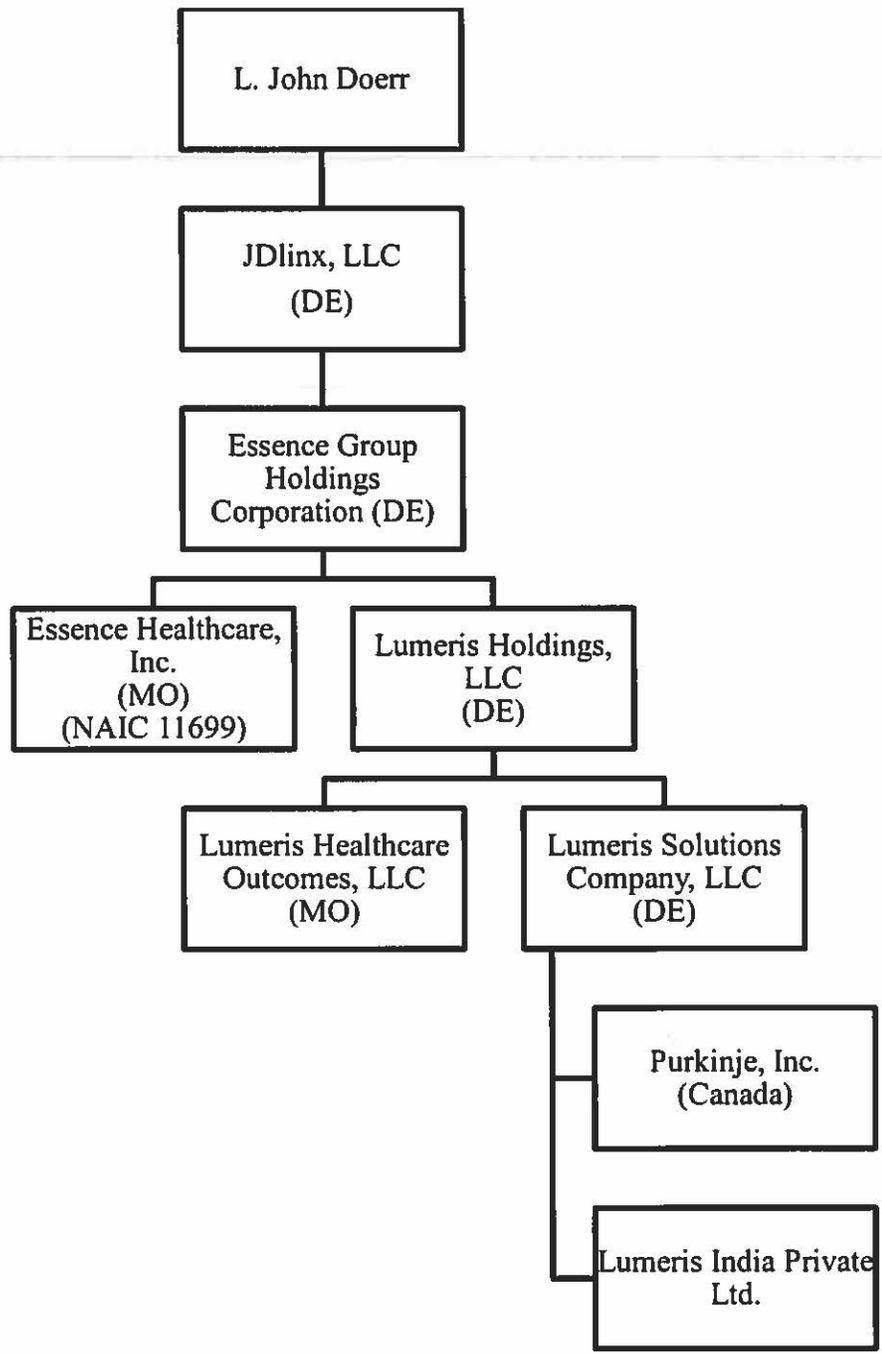
The Company does not have an Audit Committee. The Company relies upon the Audit Committee of its parent, Essence Group Holdings Corporation, to comply with the requirements of Section 375.1030 RSMo (Annual audit required, report filed, when--extensions granted, when--audit committee required, when.)

Holding Company, Subsidiaries and Affiliates

The Company is part 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 holding company system at December 31, 2016. All subsidiaries are wholly-owned unless otherwise noted.



Affiliated Transactions

The Company enters into agreements with affiliates. Agreements in effect at year-end 2016 are described below:

Guaranty Agreement

- Parties:** The Company and Essence Group Holdings Corporation (EGHC)
- Effective:** November 30, 2007
- Terms:** Under the agreement, EGHC agrees to provide capital to the Company to maintain the greater of a minimum risk-based capital authorized control level ratio (RBC) of 250% or 2% of annual premiums at each year end. The agreement guarantees a minimum RBC of 250% at each quarter end.
- Rates:** There are no rates associated with this agreement.
- Fees:** No capital was provided under this agreement in 2016.

Tax Allocation Agreement

- Parties:** The Company and EGHC
- Effective:** April 1, 2009
- Terms:** Under the agreement, the Company pays EGHC an estimated quarterly tax payment as determined by EGHC's chief financial officer based on the Company's tax liability if filing separately.
- Rates:** There are no rates associated with this agreement.
- Fees:** The Company incurred costs of \$20 million in 2016.

Intercompany Services Agreement

- Parties:** The Company and Lumeris Healthcare Outcomes, LLC (LHO)
- Effective:** January 1, 2014
- Terms:** LHO provides the Company with management and administrative services as detailed in the agreement.
- Rates:** The Company pays LHO a monthly fee equal to the number of enrollees multiplied by the per-member-per-month fee set forth in the budget LHO presents to the Company. Within fifteen days of month-end, LHO determines the actual costs it incurred in providing services. True-up adjustments between actual and budgeted costs are paid within ten days.
- Fees:** The Company incurred net costs of \$51.8 million in 2016.

TERRITORY AND PLAN OF OPERATIONS

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 2016, the Company was also licensed in Illinois 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).

REINSURANCE

General

The Company uses excess-of-loss reinsurance to limit its exposure on health care services claims. Premiums reported during the current examination period were as follows. All amounts are in thousands (000s):

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Direct Premiums Written	\$438,131	\$416,378	\$439,149	\$556,015	\$662,287
Reinsurance Ceded	<u>(5,451)</u>	<u>(4,545)</u>	<u>(3,384)</u>	<u>(3,530)</u>	<u>(5,077)</u>
Net Premiums	<u>\$432,680</u>	<u>\$411,833</u>	<u>\$435,765</u>	<u>\$552,485</u>	<u>\$657,210</u>

Ceded

At year-end 2016, the Company had an agreement in place with Munich Reinsurance America, Inc. (Munich Re). Under the agreement, Munich Re reimburses the Company for 90% of eligible expenses in excess of \$275,000. The agreement has a \$3 million per-member-per-agreement-period limit. The agreement also covers a small subset of providers with \$75,000 retention. During the current examination period, the Company paid \$22 million in ceded premiums and recovered \$16 million in ceded losses. 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 agreement.

ACCOUNTS AND RECORDS

General

Through 2015, the Company used Microsoft Navision for financial reporting. Effective January 1, 2016, the Company transitioned its financial reporting system from Navision to NetSuite. Premiums and claims are processed using FACETS.

Independent Accountants

For each year under examination, the Company's financial statements were audited by the certified public accounting firm of Ernst and Young LLP. The audit workpapers were reviewed and used in the course of the examination as deemed appropriate.

Actuarial Opinion

For each year under examination, reserves and related actuarial items were reviewed and certified by the Company's Appointed Actuary, Herbert Olson, FSA, MAAA.

Consulting Actuary

Pursuant to a contract with the Department, Scott Garduno, FSA, MAAA of Taylor-Walker Consulting LLC, reviewed the underlying actuarial assumptions and actuarial methods used in determining the adequacy of reserves and related liabilities. He found that the Company fairly and adequately represented its financial position with respect to the actuarial liabilities.

Information Systems

In conjunction with this examination, Andrew Balas, CFE, AES, CPA, 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 the Company for the period ending December 31, 2016. The accompanying Comments on Financial Statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items" section. 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 Annual Statement item.

Assets

	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$ 127,710,819	\$ -	\$ 127,710,819
Common stocks	6,380,894	-	6,380,894
Cash, cash equivalents and short-term investments	40,726,390	-	40,726,390
Investment income due and accrued	528,742	-	528,742
Uncollected premiums	2,215,179	81,669	2,133,510
Amounts recoverable from reinsurers	1,075,828	-	1,075,828
Amounts receivable relating to uninsured plans	1,962,521	-	1,962,521
Net deferred tax asset	1,291,027	180,378	1,110,649
Electronic data processing equipment and software	2,983	1,023	1,960
Furniture and equipment	2,261	1,131	1,130
Health care and other amounts receivable	12,638,915	1,805,921	10,832,994
Other receivable	(20)	-	(20)
State income tax refund	511,559	-	511,559
Totals	<u>\$ 195,047,098</u>	<u>\$ 2,070,122</u>	<u>\$ 192,976,976</u>

Liabilities, Capital and Surplus

Claims unpaid	\$ 52,089,941
Accrued medical incentive pool and bonus amounts	44,741,853
Unpaid claims adjustment expenses	1,297,524
Aggregate health policy reserves	152,363
Premiums received in advance	74,029
General expenses due or accrued	530,017
Current federal and foreign income tax payable	3,861,490
Amounts due to parent, subsidiaries and affiliates	460,694
Liability for amounts held under uninsured plans	8,226,549
Unclaimed property	<u>117,928</u>
Total Liabilities	111,552,388
Common capital stock	100
Gross paid in and contributed surplus	18,424,787
Surplus notes	7,269,496
Unassigned funds (surplus)	<u>55,730,205</u>
Total Capital and Surplus	81,424,588
Total Liabilities, Capital and Surplus	<u>\$ 192,976,976</u>

Statement of Revenues and Expenses

Member months	721,889
Net premium income	<u>\$ 657,209,184</u>
Total revenues	657,209,184
Hospital/medical benefits	361,679,149
Other professional services	21,648,967
Outside referrals	32,927,279
Emergency room and out-of-area	11,770,818
Prescription drugs	54,273,866
Incentive pool, withhold adjustments and bonus amounts	63,492,562
Net reinsurance recoveries	<u>(3,656,250)</u>
Total hospital and medical	542,136,391
Claims adjustment expenses	15,477,415
General administrative expenses	<u>61,210,670</u>
Total underwriting deductions	618,824,476
Net underwriting gain	38,384,708
Net investment income earned	1,959,475
Net realized capital gains	<u>(63,272)</u>
Net investment gains	1,896,203
Net income (pre-tax)	40,280,911
Federal and foreign income taxes incurred	<u>17,386,258</u>
Net income	<u><u>\$ 22,894,653</u></u>

Reconciliation of Surplus

Capital and surplus, prior reporting year	\$ 65,348,072
Net income	22,894,653
Change in net unrealized capital gains	75,243
Change in net deferred income tax	(134,708)
Change in nonadmitted assets	561,328
Change in surplus notes	422,320
Dividends to stockholders	(7,320,000)
Surplus note interest	<u>(422,320)</u>
Net change in capital and surplus	16,076,516
Capital and surplus, end of reporting year	<u><u>\$ 81,424,588</u></u>

EXAMINATION CHANGES

There were no changes to the financial statements resulting from the examination.

COMMENTS ON FINANCIAL STATEMENTS

There were no comments on the financial statements resulting from the examination.

SUBSEQUENT EVENTS

On December 1, 2016, the Company requested permission to pay an extraordinary dividend in the amount of \$2.9 million. The Department approved the extraordinary dividend on January 10, 2017. The Company paid extraordinary dividends of \$2 million on January 23, 2017, and \$900,000 on March 24, 2017.

On March 20, 2017, the Company requested permission to pay an extraordinary dividend in the amount of \$1.75 million. The Department approved the extraordinary dividend on April 19, 2017. The Company paid extraordinary dividends of \$1 million on April 26, 2017, and \$750,000 on May 17, 2017.

On May 18, 2017, the Company requested permission to pay an extraordinary dividend in the amount of \$3.75 million. The Department approved the extraordinary dividend on June 2, 2017. The Company paid an extraordinary dividend of \$2.9 million on June 8, 2017.

SUMMARY OF RECOMMENDATIONS

There were no recommendations resulting from the examination.

