

EXAMINATION REPORT
of
Clear Spring Health (VA), Inc.
Park Ridge, Illinois
as of
December 31, 2019

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Clear Spring Health (VA), Inc. as of December 31, 2019, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 24th day of June 2021

A handwritten signature in black ink, appearing to read 'Scott A. White'.

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
April 17, 2020

Honorable Scott A. White
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

CLEAR SPRING HEALTH (VA), INC.

Park Ridge, Illinois

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

This is the first examination of the Company by representatives of the State Corporation Commission's Bureau of Insurance (Bureau). This examination covers the period from the date of initial licensing through December 31, 2019.

This examination was conducted in accordance with the NAIC Financial Condition Examiners' Handbook (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's 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.

The coordinated examination of Group One Thousand One, of which the Company is a member, was led by the Delaware Department of Insurance. The examination of the Company was conducted concurrently with the examination of the following insurers:

<u>Insurer</u>	<u>Domiciliary State</u>
Clear Spring Health Insurance Company	Arizona
Delaware Life Insurance Company	Delaware
DL Reinsurance Company	Delaware
Eon Health, Inc.	Georgia
Clear Spring Health of Illinois, Inc.	Illinois
Community Care Alliance of Illinois, Inc.	Illinois
Delaware Life Insurance Company of New York	New York
Lackawanna Casualty Company	Pennsylvania
Lackawanna National Insurance Company	Pennsylvania
Lackawanna American Insurance Company	Pennsylvania
Clear Spring Property and Casualty Company	Texas

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.

The examination report includes significant findings of fact 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 within the examination report but separately communicated to other regulators and/or the Company.

HISTORY

The Company was incorporated in the Commonwealth of Virginia effective November 8, 2018. The Company became licensed in Virginia as a health maintenance organization (HMO) pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on March 26, 2019.

CAPITAL AND SURPLUS

At December 31, 2019, the Company's capital and surplus was \$3,777,229. The Company has the authority to issue 5,000 shares of common capital stock with no par value. At December 31, 2019, 1,000 shares were issued and outstanding with a stated value of \$100, Gross paid in and contributed surplus of \$6,499,900 and Unassigned funds of (\$2,722,771).

CAPITAL AND SURPLUS REQUIREMENT

Section 38.2-4302 of the Code of Virginia states that a HMO licensed in Virginia shall maintain a minimum net worth requirement in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-210-60 A requires that a HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Company's uncovered expenses for the three-month period ending December 31, 2019 was \$0 the Company's minimum net worth requirement at December 31, 2019 was \$600,000.

MANAGEMENT AND CONTROL

The Company's bylaws provide that the business and affairs of the Company shall be managed by and under the direction of the Board of Directors (Board). The number of directors shall be three and are elected at the annual meeting of the Company's shareholders. Each director shall serve until the next annual shareholder's meeting or until a successor is elected and qualified.

The officers of the Company shall consist of a President and a Secretary. The Company may also have a Chairman of the Board, one or more Vice Presidents, a Treasurer, one or more Assistant Secretaries, and one or more Assistant Treasurers. The officers shall be elected annually by the Board. At December 31, 2019, the Board and the Officers of the Company were as follows:

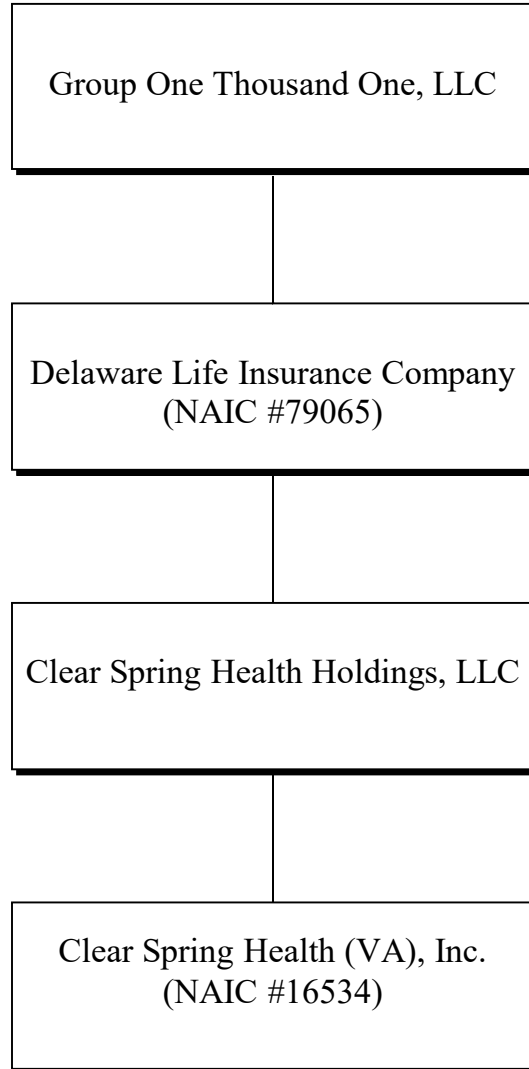
<u>Directors</u>	<u>Principal Occupation</u>
Arthur C. Carlos	President Clear Spring Health Holdings, LLC Park Ridge, Illinois
Michael S. Bloom	Senior Vice President and General Counsel Delaware Life Insurance Company Waltham, Massachusetts
Mark S. Wray	Chief Financial Officer Clear Spring Health Holdings, LLC Park Ridge, Illinois

Officers

Arthur C. Carlos	Chief Executive Officer, President
Mark S. Wray	Treasurer
Michael S. Bloom	Secretary

AFFILIATED COMPANIES

At December 31, 2019, the Company was a wholly-owned subsidiary of Clear Spring Health Holdings, LLC (Parent) which is a wholly-owned subsidiary of Delaware Life Insurance Company (DLIC). DLIC is a wholly-owned subsidiary of Group One Thousand One, LLC. By virtue of this ownership, the Company is a member of an insurance holding company system as defined in Section 38.2-1322 of the Code of Virginia. The following abbreviated organizational chart summarizes the Company's relationship within the holding company system:



TRANSACTIONS WITH AFFILIATES

Management Services Agreement

Effective March 31, 2019, the Company entered into a Management Services Agreement with Clear Spring Health Management Services, LLC (CSHMS). Pursuant to the provisions of the agreement, CSHMS shall provide the Company with management and administrative services to include provider relations, contract services, accounting, data processing, tax and auditing services. In addition, CSHMS shall provide functional support services including actuarial and risk management services, treasury services, information technology services, legal and compliance services, and purchasing. As compensation for these services, the Company shall reimburse CSHMS all direct and indirect allocable expenses incurred. In 2019, the Company incurred \$249,555 in expenses related to this agreement.

TERRITORY AND PLAN OF OPERATION

At December 31, 2019, the Company's service area, as reported in its 2019 Annual Statement, included the cities of Buena Vista, Colonial Heights, Covington, Danville, Emporia, Franklin, Galax, Harrisonburg, Hopewell, Lexington, Petersburg, Poquoson, Radford, Richmond, Roanoke, Salem, Staunton, and Waynesboro, and the counties of Alleghany, Amelia, Appomattox, Augusta, Bath, Caroline, Charles City, Chesterfield, Clarke, Craig, Cumberland, Dinwiddie, Essex, Franklin, Giles, Gloucester, Goochland, Greene, Greensville, Halifax, Hanover, Henrico, Highland, Isle of Wright, King and Queen, King William, Lunenburg, Madison, Mathews, Mecklenburg, Montgomery, Nelson, New Kent, Nottoway, Pittsylvania, Powhatan, Prince George, Pulaski, Rappahannock, Richmond, Roanoke, Rockbridge, Rockingham, Southampton, Surry, Sussex, and Warren.

Upon commencing operations, the Company will contract with the Centers for Medicare & Medicaid Services (CMS) to provide Medicare Advantage products to members who qualify. The Company will receive a monthly capitation fee from CMS based on each member's area of residence and risk classification.

Medical services will be provided by physicians in independent practice within the Company's service area. Each member will select a Primary Care Physician (PCP) from the list of the Company's primary providers. The PCP is the coordinator for all the member's health care needs. All specialty services, except for emergencies or urgent care, will require a referral from the PCP.

PROVIDER AGREEMENTS

Medical Services and Hospital Care

The Company has entered into agreements with numerous PCPs and specialist physicians to render, provide or arrange for the provision of covered health care services to members. The Company compensates participating physicians in accordance with current Medicare fee-for-service rates. Additionally, the Company has entered into agreements with a number of hospitals in its service area to provide covered hospital services to its members. The Company compensates these hospitals in accordance with current Medicare fee-for-service rates.

Other Health Care Services

The Company has entered into various ancillary service agreements. These agreements provide dental services, vision services, hearing services, mental health services, pharmacy services, laboratory services, home health care, physical therapy, durable medical equipment, fitness programs and other related covered health care services. Compensation is based on arrangements set forth in each contract.

BENEFITS

Upon commencing operations, general benefits available to the Company's Medicare Advantage members when provided by PCPs, specialist physicians and other professional providers and approved by the Company are as follows:

1. Inpatient and Outpatient Hospital Care
2. Physician Office Visits
3. Preventive Care
4. Emergency Care
5. Diagnostic Tests, Lab and Radiology Services
6. Hearing, Dental and Vision Services
7. Inpatient and Outpatient Mental Health Care
8. Skilled Nursing Facilities
9. Ambulance Services
10. Outpatient Rehabilitation
11. Home Health Care
12. Durable Medical Equipment

Exclusions generally include any services considered not reasonable and necessary according to the standards of Original Medicare; experimental medical and surgical procedures, equipment and medications; private hospital rooms; private duty nurses; cosmetic surgery; non-routine dental care; eyeglasses and routine eye examinations;

chiropractic care; and routine foot care. The above are general summaries of coverages and exclusions and are not intended to be all inclusive.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2019, the Bureau required the Company to maintain a minimum deposit of \$500,000 with the Treasurer of Virginia.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Company for the period ending December 31, 2019. Examination adjustments made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2019 have been incorporated into these financial statements and are noted in the Examiners' Changes in Surplus statement. Descriptions of the examination adjustments are included in the Recommendations for Corrective Action section of the report.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$546,816		\$546,816
Cash and short-term investments	<u>5,741,821</u>		<u>5,741,821</u>
Subtotals, cash and invested assets	\$6,288,637	\$0	\$6,288,637
Investment income due and accrued	<u>4,542</u>		<u>4,542</u>
Total assets	<u><u>\$6,293,179</u></u>	<u><u>\$0</u></u>	<u><u>\$6,293,179</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Aggregate health policy reserves	\$2,496,395	\$0	\$2,496,395
Amounts due to parent, subsidiaries, and affiliates	<u>19,555</u>	<u> </u>	<u>19,555</u>
Total liabilities	<u>\$2,515,950</u>	<u>\$0</u>	<u>\$2,515,950</u>
Common capital stock			\$100
Gross paid in and contributed surplus			6,499,900
Unassigned funds (surplus)			<u>(2,722,771)</u>
Total capital and surplus			<u>\$3,777,229</u>
Total liabilities, capital and surplus			<u><u>\$6,293,179</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	<u>XXX</u>	<u>\$0</u>
Total revenues	<u>XXX</u>	<u>\$0</u>
General administrative expenses		\$249,397
Increase in reserves for life and accident health contracts		<u>\$2,496,395</u>
Total underwriting deductions	<u>\$0</u>	<u>\$2,745,792</u>
Net underwriting loss	<u>XXX</u>	<u>(\$2,745,792)</u>
Net investment income earned		<u>\$23,021</u>
Net investment gains		<u>\$23,021</u>
Net loss before federal income taxes	XXX	(\$2,722,771)
Federal income taxes incurred	<u>XXX</u>	<u>0</u>
Net loss	<u>XXX</u>	<u>(\$2,722,771)</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2019</u>
Capital and surplus prior reporting year	<u>\$0</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS	
Net income (loss)	(\$2,722,771)
Change in nonadmitted assets	
Surplus adjustments:	
Paid in	<u>6,500,000</u>
Net change in capital and surplus	<u>\$3,777,229</u>
Capital and surplus end of reporting year	<u><u>\$3,777,229</u></u>

CASH FLOW**Cash from Operations**

Net investment income	\$19,132
Total	<u>\$19,132</u>
Commissions, expenses paid and aggregate write-ins for deductions	\$249,397
Total	<u>\$249,397</u>
Net cash from operations	<u>(\$230,265)</u>

Cash from Investments

Cost of investments acquired (long-term only):	
Bonds	<u>\$547,469</u>
Total investments acquired	<u>\$547,469</u>
Net cash from investments	<u>(\$547,469)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus	\$6,500,000
Other cash provided	<u>19,555</u>
Net cash from investments	<u>\$6,519,555</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$5,741,821
Cash, cash equivalents and short-term investments:	
Beginning of the year	<u>0</u>
End of the year	<u>\$5,741,821</u>

EXAMINERS' CHANGES IN CAPITAL AND SURPLUS

	<u>Company</u>	<u>Examiners</u>	<u>Increase (Decrease)</u>
<u>Capital:</u>			
Common capital stock	\$0	\$100	\$100
Gross paid in and contributed surplus	<u>6,500,000</u>	<u>6,499,900</u>	<u>(100)</u>
Examiners' change in capital and surplus			<u><u>\$0</u></u>
Total capital and surplus per the Company			\$3,777,229
Total capital and surplus per the Examiners			<u>3,777,229</u>
Net change in capital and surplus			<u><u>\$0</u></u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Accounts and Records

1. Common capital stock \$100

The above capital account is \$100 more than the amount reported by the Company in its 2019 Annual Statement. The increase is a result of the Company incorrectly reporting the value of its common capital stock outstanding at December 31, 2019.

2. Gross paid in and contributed surplus \$6,499,900

The above capital account is \$100 less than the amount reported by the Company in its 2019 Annual Statement. The decrease is a result of the Company incorrectly reporting the value of its outstanding common capital stock at December 31, 2019 as Gross paid in and contributed surplus.

SUBSEQUENT EVENT

Effective January 1, 2020, the Company contracted with CMS and commenced writing Medicare Advantage coverages.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Gerald Hicks II, AFE, and Ben MacKercher, CFE, participated in the work of the examination.

Respectfully submitted,

Kenneth G. Campbell

Kenneth G. Campbell, CFE
Assistant Chief Examiner



Suite 302
Park Ridge, IL 60068
www.clearspringhealthcare.com

June 22, 2021

Mr. David Smith
Chief Examiner
State Corporation Commission
Virginia Bureau of Insurance
1300 E. Main Street
Richmond, VA 23219

Dear Mr. Smith,

We are in receipt of your email dated May 27, 2021 providing a copy of the Draft Examination Report of Clear Spring Health (VA), Inc. for the year ended December 31, 2019.

We have reviewed the Examination Report and have no comments.

Regarding the Recommendation for Corrective Actions listed on Page 16 of the report, we acknowledge that there was an omission in the 2019 Annual Statement that resulted in not reporting the that \$100 of Common Stock issued by the Company. The failure to record the common stock balance resulting in an overstatement of Gross Paid in and Contributed Surplus of \$100. This omission was subsequently caught and corrected by the Company.

Please let us know if there is anything else needed in relation to this matter.

Yours truly,

A handwritten signature in black ink, appearing to read 'Arthur C. Carlos', with a long horizontal stroke extending to the right.

Arthur C. Carlos

President and Chief Executive Officer