

Report of Examination of

Medical Mutual of Ohio
Cleveland, Ohio

As of December 31, 2014

Table of Contents

Subject	Page
Salutation	1
Description of Company.....	1
Scope of Examination.....	1
Management and Control:	
Board of Directors	2
Officers	3
Insurance Holding Company System	3
Territory and Plan of Operations	3
Significant Operating Results	4
Reinsurance and Premium Stabilization Programs	4
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus.....	5
Statement of Revenue and Expenses	7
Statement of Changes in the Capital and Surplus Account	8
Notes to Financial Statements:	
Investments	9
Claims Unpaid	9
Subsequent Events	9
Conclusion	9
Acknowledgement	10

Columbus, Ohio
May 6, 2016

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Medical Mutual of Ohio

an Ohio domiciled, mutual property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2009. The Department’s current examination covers the period from and including January 1, 2010 through December 31, 2014.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the Department 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.

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.

This examination report includes significant findings of fact, as mentioned in Section 3901.07 of the ORC 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.

For all years under examination, the Certified Public Accounting firm of Ernst & Young, LLP provided an unqualified opinion on the Statutory-Basis Financial Statements of the Company based on Statutory Accounting Principles. Representatives of the Department reviewed the independent auditors' report and supporting work papers during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Charles Bryan	Actuary, CAB Consulting LLC
Richard Chiricosta	Chairman, President and Chief Executive Officer, Medical Mutual of Ohio
Frederick DiSanto	Chairman and Chief Executive Officer, The Ancora Group
Terrance C. Z. Egger	Chief Executive Officer and Publisher, Philadelphia Media Network
Robert King, Jr.	Senior Advisor, First National Bank
Samuel Miller	Retired, Co-Chairman Emeritus, Forest City Enterprises
Dennis Roche	Senior Associate, Dorsey & Company
Greta Russell	Retired, Controller, The Ohio State University
David Young	Retired, Partner, Squire, Sanders & Dempsey

Officers

As of the examination date, the following executive and senior officers were serving in the designated position:

Name	Title
Richard Chiricosta	Chairman, President and Chief Executive Officer
Raymond Mueller	Treasurer and Chief Financial Officer
Steffany Larkins	Secretary and Chief of Staff

Insurance Holding Company System

The Company is the ultimate controlling person within an insurance holding company system as defined in Section 3901.32 of the ORC. The following schedule lists the Company's wholly-owned subsidiaries as of December 31, 2014.

Medical Mutual of Ohio
Medical Health Insuring Corporation of Ohio
MMO Agency Management, LLC
Talus Brokerage Services, LLC
Consumers Life Insurance Company
Medical Mutual Services, LLC

On December 30, 2014, the Company, as the sole shareholder, dissolved Carolina Care Plan, Inc. with the permission of the South Carolina Department of Insurance.

Territory and Plan of Operations

The Company is licensed to write business in the States of Georgia, Indiana, Michigan, North Carolina, Ohio, Pennsylvania, South Carolina, West Virginia and Wisconsin. The Company provides accident and health plans to individuals and employer groups in Ohio, Indiana and Michigan, although over 99% of net written premium is attributable to Ohio. Each contract outlines the coverage provided and renewal provisions.

Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, by business segments during 2014:

	Total	Comprehensive	Medicare Supplement	Dental and Vision	Other Health
Total revenue	<u>\$ 2,238,208</u>	<u>\$ 2,088,939</u>	<u>\$ 27,370</u>	<u>\$ 18,772</u>	<u>\$ 103,127</u>
Hospital and medical exp.	1,819,681	1,697,773	18,580	14,077	89,251
Claims adjustment expense	57,692	53,622	2,281	1,512	277
Administrative expenses	<u>273,395</u>	<u>261,609</u>	<u>5,074</u>	<u>1,156</u>	<u>5,556</u>
Underwriting deductions	<u>2,150,768</u>	<u>2,013,004</u>	<u>25,935</u>	<u>16,745</u>	<u>95,084</u>
Underwriting gain	<u>\$ 87,440</u>	<u>\$ 75,935</u>	<u>\$ 1,435</u>	<u>\$ 2,027</u>	<u>\$ 8,043</u>

Reinsurance and Premium Stabilization Programs

The Company participates in three Premium Stabilization Programs that went into effect on January 1, 2014 as authorized by the Affordable Care Act (“ACA.”) They include the Transitional Reinsurance Program, Temporary Risk Corridors Program, and Permanent Risk Adjustment Program. The Company accounts for the Premium Stabilization Programs in accordance with Statement of Statutory Accounting Principles (“SSAP”) No. 107, Accounting for the Risk Sharing Provisions of the ACA.

SSAP No. 107 requires that estimates of amounts owed or due for the Permanent Risk Adjustment Program be reflected as an adjustment to earned premium if sufficient data is available to make an estimate. Since sufficient data was not available as of December 31, 2014, no amounts were recognized in the accompanying financial statements related to the Permanent Risk Adjustment Program.

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, 2014. The Department made no adjustments to the Company’s surplus as a result of the examination.

Statement of Assets, Liabilities, Capital and Surplus
December 31, 2014

Assets

Bonds	\$ 899,770,940
Common stocks	224,677,819
Cash, and short-term investments	179,889,832
Other invested assets	<u>332,866,778</u>
Subtotal, cash and invested assets	1,637,205,369
Investment income due and accrued	7,059,398
Uncollected premiums in course of collection	606,709
Amounts recoverable from reinsurers	25,391,966
Net deferred tax asset	35,223,497
Guaranty funds receivable or on deposit	6,306,188
Receivable from parent, subsidiaries and affiliates	15,989,830
Health care and other amounts receivable	23,937,934
Aggregate write-ins for other than invested assets:	
Note receivable – Rose building	5,503,188
Cash surrender value – life insurance	8,700,356
Other assets	233,608
Other receivables	<u>751,202</u>
Total Admitted Assets	<u>\$ 1,766,909,245</u>

Liabilities, Capital and Surplus

Claims unpaid	\$ 207,088,792
Accrued medical incentive pool and bonus amounts	5,014,000
Unpaid claims adjustment expenses	4,931,612
Aggregate health policy reserves	245
Premiums received in advance	73,797,948
General expenses due or accrued	103,148,785
Current federal income taxes incurred	3,361,457
Remittances and items not allocated	1,372,740
Payable for securities	500,000
Aggregate write-ins for other liabilities:	
Accrued postemployment benefits other than pension	53,119,872
Building lease liability	8,456,668
Other liabilities	16,137,702
Unclaimed funds	4,477,613
Guaranty fund liability	<u>5,600,000</u>
Total Liabilities	<u>487,007,434</u>
Aggregate write-ins for special surplus funds:	
Estimated 2015 health insurer fee	43,203,000
Unassigned funds (surplus)	<u>1,236,698,811</u>
Total Capital and Surplus	<u>1,279,901,811</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,766,909,245</u>

**Statement of Revenue and Expenses
For the Year Ended December 31, 2014**

Net premium income	\$ 2,238,112,320
Change in unearned premium reserves and reserves for rate credits	<u>95,813</u>
Total revenues	<u>2,238,208,133</u>
Hospital and medical benefits	1,204,706,726
Other professional services	105,738,722
Outside referrals	14,368,842
Emergency room and out-of-area	231,531,722
Prescription drugs	287,228,009
Incentive pool, withhold adjustments and bonus amounts	5,255,065
Less net reinsurance recoveries	<u>(29,148,100)</u>
Total hospital and medical	1,819,680,986
Claims adjustment expenses	57,692,301
General administrative expense	<u>273,394,712</u>
Total underwriting deductions	<u>2,150,767,999</u>
Net underwriting gain	87,440,134
Net investment gain	30,190,307
Other income (expense)	<u>(2,876,641)</u>
Net income after capital gains tax and before federal income taxes	<u>114,753,800</u>
Federal income taxes incurred	<u>17,454,481</u>
Net Income	<u>\$ 97,299,319</u>

Statement of Changes in the Capital and Surplus Account
(Reported in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and surplus, prior year-end	\$ 1,221,804	\$ 1,133,561	\$ 1,120,901	\$ 1,065,326	\$ 975,032
Net income (loss)	97,299	97,740	43,418	66,235	(25,427)
Change in net unrealized capital gains	(46,989)	(12,547)	(19,636)	(5,051)	12,299
Change in net unrealized foreign exchange capital gain	-	-	-	-	21
Change in net deferred income tax	10,260	4,162	(33,819)	(249,568)	(12,386)
Change in non-admitted assets	918	9,546	22,895	243,959	75,955
Cumulative effect of changes in accounting principles	-	-	(2,480)	-	-
Aggregate write-ins for gains (losses)					
Decrease in additional minimum pension liability	-	-	-	-	39,832
Correction of error	-	-	2,282	-	-
Transition impact – SSAP No. 92 Accounting for postretirement benefits	-	(15,052)	-	-	-
(Increase)Decrease in unrecognized postretirement benefit costs	<u>(3,390)</u>	<u>4,394</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in capital and surplus	<u>58,098</u>	<u>88,243</u>	<u>12,660</u>	<u>55,575</u>	<u>90,294</u>
Capital and surplus, current year-end	<u>\$ 1,279,902</u>	<u>\$ 1,221,804</u>	<u>\$ 1,133,561</u>	<u>\$ 1,120,901</u>	<u>\$ 1,065,326</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Claims Unpaid

The Company's Board of Directors appointed Michael J. Cellini, FCA, ASA, MAAA, Senior Manager and Consulting Actuary with the firm Ernst & Young, LLP, to render the Company's Statement of Actuarial Opinion ("Opinion"). The Opinion for year end 2014 was unqualified.

The Department's actuary, Thomas Botsko, ACAS, MAAA, performed an independent calculation of the Company's 2014 claims unpaid and reviewed the Company's reserve calculation methodology. Based on the results of the analysis, Mr. Botsko concluded the Company's claims unpaid fall within a reasonable range of estimates at December 31, 2014.

Subsequent Events

On January 1, 2016 and 2015, the Company recorded estimated liabilities and corresponding expenses related to the ACA Health Insurer Fee in the amount of \$37,641,000 and \$43,203,000, respectively. The estimates were based on \$1,999,369,000 and \$2,112,558,000 of assessable premiums written in 2015 and 2014, respectively, and the estimates are included in special surplus at December 31, 2015 and 2014. In 2015 and 2014, the Company paid \$39,708,000 and \$33,152,000, respectively, for the Health Insurer Fee which are included in general administrative expenses within Statements of Operations.

The Company announced on March 1, 2016, it will acquire up to 105,000 members in the group and individual health insurance units of HealthSpan Integrated Care and HealthSpan, Inc.

Conclusion

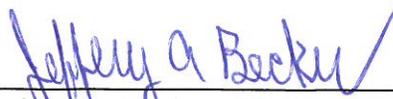
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Admitted Assets	<u>\$ 1,766,909,245</u>
Liabilities	487,007,434
Capital and Surplus	<u>1,279,901,811</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,766,909,245</u>

Acknowledgement

In addition to the aforementioned and undersigned, Kim Somogyi, AFE, CPA; Bryan Radecky, CFE, CPA; Methuselah Nyangoro, AES, CFE, CPA, of the Department, participated in this examination.

Respectfully,



Jeffery A. Becker, CFE
Examiner-in-Charge
Office of Risk Assessment
Ohio Department of Insurance



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2014.

Jeffery A Becker 5/12/16
Examiner-in-Charge Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 12th day of May, 2016.

[Signature]
(Notary Public)

No expiration
My Commission Expires



Darcy A. Moulin
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.

Jeffery K Ebert 5/12/2016
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Jeffrey K. Ebert, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 12th day of May, 2016.

[Signature]
(Notary Public)

No expiration
My Commission Expires



Darcy A. Moulin
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.