

Report of Examination of

**Medical Mutual of Ohio**  
Cleveland, Ohio

As of December 31, 2009

## Table of Contents

<b>Subject</b>	<b>Page</b>
Salutation .....	1
Description of Company .....	1
Scope of Examination .....	2
Management and Control:	
Board of Directors.....	3
Officers .....	3
Insurance Holding Company System.....	4
Territory and Plan of Operations .....	5
Significant Operating Results .....	5
Reinsurance.....	5
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus .....	7-8
Statement of Revenue and Expenses .....	9
Statement of Changes in the Capital and Surplus Account .....	10
Notes to Financial Statements:	
Investments .....	10
Claims Unpaid .....	10
Conclusion .....	11
Subsequent Events .....	11
Acknowledgement .....	11

Cleveland, Ohio  
December 17, 2010

Honorable Alfred W. Gross  
Commissioner  
Chairman, Financial Condition (E) Committee  
National Association of Insurance Commissioners  
Division of Insurance  
State of Virginia  
1300 East Main Street  
Richmond, Virginia 23219

Honorable Mary Jo Hudson  
Director  
Secretary, Midwestern Zone  
National Association of Insurance Commissioners  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Madam and Sir:

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 casualty insurance organization, hereinafter referred to as the (“Company.”) The examination was conducted at the Company’s administrative office located at 2060 East Ninth Street, Cleveland, Ohio.

A report of this examination is hereby respectfully submitted.

## **Scope of Examination**

The Department last examined the Company as of December 31, 2004. The current full scope examination covers the intervening period to and including December 31, 2009.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company's financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For each year during the period under examination, the Certified Public Accounting firm of Ernst & Young LLP ("E&Y") provided an unqualified opinion based on statutory accounting principles. Relevant work performed by E&Y during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

The Department's actuary was retained to review the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

## 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:

<u>Name</u>	<u>Principal Occupation</u>
Paul J. Beddia	Retired
Charles A. Bryan	President, CAB Consulting
Richard A. Chiricosta	President and Chief Executive Officer Medical Mutual of Ohio
Samuel H. Miller	Co-Chairman of the Board and Treasurer, Forest City Enterprises
James V. Patton	Retired
Dennis J. Roche	President, Positively Cleveland
Glenna L. Watson	Retired
Dennis L. Wojtanowski	Retired
David J. Young	Retired

### Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

<u>Name</u>	<u>Title</u>
Richard A. Chiricosta	President
Dennis P. Jancsy	Treasurer
Patrick J. Dugan	Secretary

## **Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following shows a chain of ownership of the insurance companies as of December 31, 2009:

- Medical Mutual of Ohio (Ohio)
  - Medical Health Insuring Corporation of Ohio (Ohio)
  - MMO Agency Management, LLC (Ohio)
    - Business Distribution Solution, LLC (Ohio), (52%)
    - Talus Brokerage Services, LLC (Ohio), (76%)
      - North Bay Insurance Agency, LLC (Ohio)
      - Cardinal Brokerage Insurance Agency, LLC (Ohio)
      - Celaris Cardinal Insurance Agency, LLC (Ohio)
      - Celaris ESP Insurance Agency, LLC (Ohio)
      - Employers Select Plan Agency, LLC (Ohio)
  - Medical Mutual Life Insurance Agency, Inc. (Ohio)
- Carolina Care Plan, Inc. (South Carolina)
- Consumers Life Insurance Company (Ohio)
- Medical Mutual Services, LLC (Ohio)
  - Antares Staffing, Inc. (Ohio)
  - Antares Staffing West, Inc. (Ohio)
  - SuperNet Network, LLC (Ohio)
    - Premier Health Systems, Inc. (South Carolina)
  - MMO Partners, LLC (Ohio), (50%)
  - Antares Staffing East, Inc. (Ohio)
  - 1<sup>st</sup> Medical Network, LLC (Georgia)
  - Antares Canada, Inc. (Ohio)
- SaveWell.com, Inc. (Delaware), (81%)

### Territory and Plan of Operations

The Company is licensed to write business in the States of Indiana, Michigan, Ohio and Pennsylvania.

#### Percentage of Business by Line (based on net premium income)

<u>Description</u>	<u>2009</u>
Comprehensive (hospital and medical)	92.1%
Other health	3.7%
Title XVIII – Medicare	2.5%
Medicare supplement	1.6%
Dental and vision	<u>0.1%</u>
Total	100.0%

### Significant Operating Results

The following schedule summarizes the operating results during the examination period:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Medical loss ratio	83.5%	81.9%	81.2%	80.9%	82.9%
Administrative expense ratio	<u>15.7%</u>	<u>14.8%</u>	<u>14.1%</u>	<u>14.3%</u>	<u>14.0%</u>
Combined ratio	<u>99.2%</u>	<u>96.7%</u>	<u>95.3%</u>	<u>95.2%</u>	<u>96.9%</u>

### Reinsurance (Dollars in Thousands)

Effective February 1, 2006, the Company entered into a quota share reinsurance agreement with Consumers Life Insurance Company (“CLIC”) to assume 80% of CLIC’s health business written from that date. The Company pays up to a 25.7% ceding allowance to CLIC pursuant to the agreement. The Company assumed the following premium and claims:

	Year Ended December 31	
	<u>2009</u>	<u>2008</u>
Assumed premium	\$ 48,050	\$ 52,392
Assumed claims	54,407	64,158

The Company maintains stop loss coverage of up to \$850 per covered person for health claims incurred in excess of \$1,650. In addition, for certain members, additional coverage exists of up to \$2,500 per covered person for claims incurred in excess of \$2,500.

### **Financial Statements**

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Plan's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Revenue and Expenses

Statement of Changes in the Capital and Surplus Account

**Statement of Assets  
December 31, 2009**

**Admitted Assets**

Bonds	\$ 767,252,538
Common stocks	121,385,993
Cash and short term investments	85,883,362
Other invested assets	<u>411,776,828</u>
Total cash and invested assets	1,386,298,721
Investment income due and accrued	7,334,662
Uncollected premiums and balances in the course of collection	10,737,881
Amounts recoverable from reinsurers	2,065,947
Current federal income tax recoverable and interest thereon	8,203,107
Net deferred tax asset	13,436,300
Guaranty funds receivable or on deposit	7,020,968
Health care and other amounts receivable	2,915,376
Aggregate write-ins for other than invested assets:	
Note receivable – Rose building	8,742,302
Cash surrender value – life insurance	7,645,992
Other assets	389,409
State tax recoverable	<u>61,121</u>
Total assets	<u>\$ 1,454,851,786</u>

**Statement of Liabilities, Capital and Surplus  
December 31, 2009**

**Liabilities**

Claims unpaid	\$ 205,317,000
Unpaid claims adjustment expenses	6,288,820
Aggregate health policy reserves	11,584,000
Premiums received in advance	63,472,976
General expenses due or accrued	77,386,625
Ceded reinsurance premiums payable	72,000
Amounts withheld or retained for the account of others	231,345
Remittances and items not allocated	1,179,367
Amounts due to parent, subsidiaries and affiliates	4,840,605
Aggregate write-in for other liabilities:	
Accrued postemployment benefit other than pension	25,204,588
Building lease liability	13,471,994
Other liabilities	7,407,993
Reinsurance payable	5,778,131
Unclaimed funds	4,253,049
Guaranty fund liability	6,700,000
Pension liability	<u>46,631,202</u>
Total liabilities	479,819,695

**Capital and Surplus**

Unassigned funds (surplus)	<u>975,032,091</u>
Total capital and surplus	<u>975,032,091</u>
Total liabilities, capital and surplus	<u>\$ 1,454,851,786</u>

**Statement of Revenue and Expenses  
As of December 31, 2009**

Net premium income	<u>\$ 1,979,336,977</u>
Total revenue	<u>1,979,336,977</u>
Hospital and medical benefits	1,045,368,650
Other professional services	96,174,136
Outside referrals	16,347,996
Emergency room and out-of-area	187,755,570
Prescription drugs	<u>256,211,001</u>
Subtotal	1,601,857,353
Net reinsurance recoveries	<u>(51,137,955)</u>
Total hospital and medical	1,652,995,308
Claims adjustment expenses	66,097,208
General administrative expenses	244,377,221
Increase in reserve for life and accident and health contracts	<u>(712,000)</u>
Total underwriting deductions	<u>1,962,757,737</u>
Net underwriting gain	<u>16,579,240</u>
Net investment income earned	35,493,522
Net realized capital gains (losses)	<u>(251,247)</u>
Net investment gains	<u>35,242,275</u>
Aggregate write-in for other income and expense:	
Other income, net of other expenses	<u>5,743,454</u>
Net income before federal income taxes	57,564,969
Federal income taxes incurred	<u>14,054,574</u>
Net income	<u>\$ 43,510,395</u>

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

<u>Capital and Surplus</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital & surplus, prior reporting period	\$ 910,979	\$ 879,850	\$ 752,939	\$ 622,586	\$ 533,650
Net income (loss)	43,510	76,367	100,204	91,077	58,072
Change in valuation basis of aggregate policy and claim reserve	7,060	-	-	-	-
Change in net unrealized capital gains and (losses) less capital gains tax	22,943	13,936	29,230	55,735	58,354
Change in net unrealized foreign exchange capital gain or (loss)	(1,542)	(447)	1,637	(75)	-
Change in net deferred income tax	(37,919)	61,037	38,073	57,684	26,200
Change in non-admitted asset	40,194	(80,125)	(42,233)	(124,976)	(41,802)
Change in surplus notes	-	(10,000)	-	-	-
Aggregate write-ins for gains or (losses) in surplus					
Increase in additional minimum pension liability	(10,193)	(29,639)	-		(11,888)
Decrease in additional minimum pension liability	=	=	=	50,908	=
Net change in capital and surplus	<u>64,053</u>	<u>31,129</u>	<u>126,911</u>	<u>130,353</u>	<u>88,936</u>
Capital and surplus, current year end	<u>\$ 975,032</u>	<u>\$ 910,979</u>	<u>\$ 879,850</u>	<u>\$ 752,939</u>	<u>\$ 622,586</u>

**Notes to Financial Statements**

**Investments**

The Company's investment portfolio consists primarily of investment grade bonds and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

**Claims Unpaid**

The Company had an outside actuary, Michael J. Cellini, Ph D, ASA, MAAA, certify the total reserves for the years covered by the examination.

The Department's actuary, Mary Miller, FCAS, MAAA, performed an independent calculation of the Company's 2009 claims unpaid and reviewed the Company's reserve calculation methodology. On the basis of this analysis, the reserves for claims unpaid and claims adjustment expenses unpaid were reasonable as of December 31, 2009.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Admitted Assets	<u>\$ 1,454,851,786</u>
Liabilities	\$ 479,819,695
Capital and Surplus	<u>975,032,091</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,454,851,786</u>

### Subsequent Events

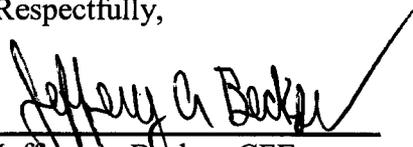
There are no subsequent events that would have a material impact on the financial position of the Company.

### Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Kim Somogyi, CPA; Louis F. Radecky, CPA (inactive); Edward J. Nagorny, CFE, CPA, JD; Floyd D. Meeks, AES, CFE, CPA; Dominik R. Ilc, AES, CFE; Vicky L. Hugo, AES, CFE, CPA; Jackie Bradley, CFE; Jeff A. Lehr, CFE; Mary D. Miller, FCAS, MAAA and Bradley Schroer.

Respectfully,

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

  
\_\_\_\_\_  
William C. Harrington, CFE, CPA (inactive)  
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, 2009.

Jeffery A. Becker      1/24/11  
Jeffery A. Becker, CFE      Date

William C. Harrington      1/24/2011  
William C. Harrington, CFE, CPA (inactive)      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/her knowledge and belief.

Subscribed and sworn to before me this 24 day of January, 2011.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2012~~  
My Commission Expires

State of Ohio  
County of Franklin

Personally appeared before me the above named William C. Harrington, 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/her knowledge and belief.

Subscribed and sworn to before me this 26 day of January, 2011.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2012~~  
My Commission Expires