

Report of Examination of
Medical Benefits Mutual Life Insurance Company
Newark, Ohio

As of December 31, 2013

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Columbus, Ohio
March 20, 2015

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

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of the

Medical Benefits Mutual Life Insurance Company

an Ohio domiciled, mutual, life insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 1975 Tamarack Road, Newark, Ohio.

Scope of Examination

The Company was last examined by the Department as of December 31, 2008. The current examination covers the period of January 1, 2009 through and including December 31, 2013.

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 years covered by the examination, the certified public accounting firm of Wilson, Shannon & Snow, Inc. (“CPA”) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by CPA during its annual audit of the

Company was reviewed during the examination and incorporated into the examination work papers.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and profit-sharing plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

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 |
|-------------------------|--------------------------------------------------------------------------------------------|
| J. Scott Cantley | Marietta Memorial Hospital, President and Chief Executive Officer |
| Charles Daniel Delawder | The Park National Bank, Chairman |
| Nancy Shrider Dix | Retired |
| Douglas James Freeman | Medical Benefits Mutual Life Insurance Company, Chairman and Chief Executive Officer |
| Kurt Jeffrey Harden | Medical Benefits Mutual Life Insurance Company, President and Treasurer |
| Richard Merrill Main | Moundbuilders General Dentistry, Dentist |
| Clark Arthur Morrow | Morrow & Erhard Co., LPA, Attorney At Law |

Officers

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

| Name | Title |
|-------------------------------|--------------------------------------------------------|
| Douglas James Freeman | Chief Executive Officer |
| Kurt Jeffrey Harden | President and Treasurer |
| Clark Arthur Morrow | Secretary |
| Caroline Fischer Rouse Fraker | Vice President of Compliance and Chief Privacy Officer |
| Lori Kane | Vice President of Administrative Services |
| Rose McEntire | Vice President and Chief Security Officer |
| Cara Delcher | Vice President of Quality Systems |
| John Edward Nydegger, Jr. | Vice President of Finance and Controller |

Territory

The Company is licensed to transact business in the following states:

| | | | | |
|----------------|---------|----------------|-----------|---------------|
| Arkansas | Indiana | Kansas | Michigan | Missouri |
| North Carolina | Ohio | South Carolina | Tennessee | West Virginia |

Reinsurance

The Company reinsures its fully insured medical policies under two separate reinsurance programs, both renewed effective October 1st of each year. Both are first dollar policies offering reinsurance above the respective specific limitation amounts through multiple layers of coverage. The first program is the Group Medical Excess of Loss Reinsurance Agreement which reinsures their “Legacy” health insurance policies and the second is the Specific and Aggregate Medical Excess of Loss Reinsurance Agreement which reinsures their “Community Health Plan” policies.

The Company reinsures its life and accidental death and dismemberment insurance policies under two separate levels of reinsurance, both renewed effective January 1st of each year. The first is a traditional life reinsurance policy which reimburses first dollar over a set amount. This policy is underwritten by Hannover Life Reassurance Company of America. The second is a catastrophic policy providing reinsurance for multiple catastrophic events. This policy is underwritten by Sirius International Insurance Corporation through RMG Specialty Underwriters.

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 Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Summary of Operations
Statement of Changes in the Surplus Account

Statement of Assets
December 31, 2013

| | |
|-----------------------------------------------------------------------|----------------------|
| Admitted assets | |
| Bonds | \$ 7,818,609 |
| Preferred stocks | 500 |
| Common stocks | 5,281,819 |
| Properties occupied by the company | 2,365,382 |
| Cash and short-term investments | <u>1,772,948</u> |
| Total cash and invested assets | 17,239,258 |
| Investment income due and accrued | 42,531 |
| Uncollected premiums and agents' balances in the course of collection | 26,865 |
| Amounts recoverable from reinsurers | 163 |
| Amounts receivable relating to uninsured plans | 1,234,205 |
| Current federal income tax recoverable and interest thereon | 320,000 |
| Net deferred tax asset | 519,000 |
| Electronic data processing equipment and software | 20,660 |
| Receivable from parent, subsidiaries and affiliates | 1,249,241 |
| Health care and other amounts receivable | 78,971 |
| Aggregate write-ins for other than invested assets: | |
| Cash surrender value of officers life insurance | <u>642,491</u> |
| Total Admitted Assets | <u>\$ 21,373,385</u> |

Statement of Liabilities, Surplus and Other Funds
December 31, 2013

| | |
|----------------------------------------------------------------------------------------------------|----------------------|
| Liabilities, Surplus and other funds: | |
| Contract claims – life | 60,000 |
| Contract claims – accident and health | 3,891,819 |
| Premiums and annuity considerations for life and accident and health contracts received in advance | 158,155 |
| Interest maintenance reserve | (1,316) |
| Commissions to agents due or accrued-life contracts | 78,068 |
| General expenses due or accrued | 2,813,864 |
| Taxes, licenses and fees due or accrued | 16,984 |
| Amounts withheld or retained by Company as agent or trustee | 5,000 |
| Asset valuation reserve | 922,535 |
| Payable to parent, subsidiaries and affiliates | 222,147 |
| Liability for amounts held under uninsured plans | 1,856,828 |
| Aggregate write-ins for liabilities: | |
| Claims adjustment liability | 70,000 |
| Liability for amounts held for employee claims reserve | <u>190,000</u> |
| Total Liabilities | 10,284,084 |
| Unassigned funds | <u>11,089,301</u> |
| Total Liabilities and Surplus | <u>\$ 21,373,385</u> |

Summary of Operations
December 31, 2013

| | |
|----------------------------------------------------------------------------------------------------------------------|-----------------------|
| Premiums and for life and accident and health contracts | \$ 19,721,384 |
| Net investment income | 316,373 |
| Amortization of interest maintenance reserve | (168) |
| Aggregate write-ins for miscellaneous income | |
| Miscellaneous | 2,500,056 |
| Fee income | <u>86,320</u> |
| Total premiums and other revenues | <u>22,623,965</u> |
| | |
| Death benefits | 71,872 |
| Disability benefits and benefits under accident and health contracts | <u>19,830,601</u> |
| Total benefits paid or provided | 19,902,473 |
| | |
| Commissions on premiums | 1,518,749 |
| General insurance expenses | 5,084,640 |
| Insurance taxes, licenses and fees | <u>473,384</u> |
| Total insurance expenses and other deductions | <u>26,979,246</u> |
| | |
| Net loss from operations after dividends to policyholders and before federal income taxes | (4,355,281) |
| Federal income taxes incurred | <u>(1,490,909)</u> |
| Net loss from operations after dividends to policyholders and federal income taxes and before realized capital gains | <u>(2,864,372)</u> |
| Net realized capital gains | <u>45,070</u> |
| Net loss | <u>(\$ 2,819,302)</u> |

Statement of Changes in the Surplus Account

| | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|----------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Surplus, December 31, previous year | \$ 14,579,280 | \$ 13,974,216 | \$ 13,828,147 | \$ 13,997,021 | \$ 13,379,568 |
| Net income from operations | (2,819,302) | 125,157 | (98,289) | (619,281) | 737,540 |
| Change in net unrealized capital gains | 412,181 | 269,708 | 327,404 | 722,287 | (86,956) |
| Change in net deferred income tax | - | 117,000 | - | - | - |
| Change in nonadmitted assets | (1,006,960) | 185,314 | (72,799) | (108,954) | 18,489 |
| Change in asset valuation reserve | (75,898) | (92,115) | (10,247) | (162,926) | (51,620) |
| Net change in surplus for the year | <u>(3,489,979)</u> | <u>605,064</u> | <u>146,069</u> | <u>(168,874)</u> | <u>617,453</u> |
| Surplus December 31, current year | <u>\$ 11,089,301</u> | <u>\$ 14,579,280</u> | <u>\$ 13,974,216</u> | <u>\$ 13,828,147</u> | <u>\$ 13,997,021</u> |

Summary of Examination Changes

There were no changes made as a result of this examination.

Notes to the Financial Statements

Investments

The Company's investment portfolio consists of bonds, stocks and cash and is compliant with Section 3907.14 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles.

Unpaid Claims

Unpaid claims and claims adjustment expenses represent management's best estimate of amounts based on historical claim development patterns as well as emerging medical cost trends. The Company's Board of Directors appointed outside actuary Ben Brandon, FSA, MAAA, of United Health Actuarial Services, render a Statement of Actuarial Opinion ("Opinion"). Mr. Brandon prepared an Actuarial Memorandum supporting the Opinion in conjunction with the preparation of the Company's December 31, 2013, Annual Statement.

Thomas Botsko, ACAS, MAAA, the Department's Property and Casualty Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the Company's reserves. On the basis of his analysis, Mr. Botsko determined the reserves presented in the December, 2013 Annual Statement is consistent with requirements in Ohio law, and furthermore, that the reserves and related items held by the Company are reasonable and sufficient.

Subsequent Events

There are no material subsequent events.

Conclusion

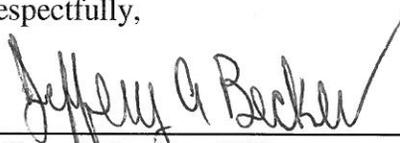
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

| | |
|----------------------------------------|----------------------|
| Total Admitted Assets | <u>\$ 21,373,385</u> |
| Liabilities | \$ 10,284,084 |
| Unassigned Funds | <u>11,089,301</u> |
| Total Liabilities and Unassigned Funds | <u>\$ 21,373,385</u> |

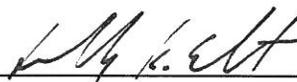
Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: David Finkler, AES, CISA, CPA; Methuselah Nyangoro, CISA, CFE, CPA and Kim Somogyi, AES, CPA.

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, 2013.

Jeffery A. Becker 3/27/2015 [Signature] 3/27/2015
Examiner-In-Charge Date Assistant Chief Examiner Date

State of OHIO
County of FRANKLIN

Personally appeared before me the above named, Jeffrey 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 27 day of March, 2015.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires

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/her knowledge and belief.

Subscribed and sworn to before me this 27 day of March, 2015.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires