

Report of Examination of

**Medical Health Insuring Corporation of Ohio**  
Cleveland, Ohio

As of December 31, 2009

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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 Health Insuring Corporation of Ohio**

an Ohio domiciled, for-profit health maintenance 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>
Richard A. Chiricosta	President and Chief Executive Officer, Medical Mutual of Ohio
Dennis P. Jancsy	Executive Vice President and Chief Financial Officer Medical Mutual of Ohio
Patrick J. Dugan	Executive Vice President and Chief Legal Officer Medical Mutual of Ohio
Steffany K. Matticola	Vice President, Individual and Small Group Sales and Chief Underwriter Medical Mutual of Ohio
Errol D. Brick	Executive Vice President and Chief Marketing Officer Medical Mutual of Ohio

### 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 Company is wholly owned by Medical Mutual of Ohio, a mutual casualty insurance organization. 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 State of Ohio.

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

<u>Description</u>	<u>2009</u>
Comprehensive (hospital and medical)	65.2%
Federal employees health benefits plan	34.6%
Medicare supplement	<u>0.2%</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	82.3%	90.7%	85.2%	80.6%	87.8%
Administrative expense ratio	<u>9.9%</u>	<u>9.5%</u>	<u>9.2%</u>	<u>9.0%</u>	<u>7.6%</u>
Combined ratio	<u>92.2%</u>	<u>100.2%</u>	<u>94.4%</u>	<u>89.6%</u>	<u>95.4%</u>

### **Reinsurance**

#### **Ceded**

The Company had no significant reinsurance contracts as of December 31, 2009.

### **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, Liabilities, Capital and Surplus**  
**December 31, 2009**

**Admitted Assets**

Bonds	\$ 71,701,663
Cash and short term investments	<u>9,532,760</u>
Total cash and invested assets	81,234,423
Investment income due and accrued	942,250
Uncollected premiums and balances in the course of collection	922,567
Net deferred tax asset	167,200
Total assets	<u>\$ 83,266,440</u>

**Liabilities**

Claims unpaid	\$ 3,678,000
Unpaid claims adjustment expenses	104,400
Premiums received in advance	389,795
General expenses due or accrued	241,842
Current federal income tax payable and interest thereon	3,373,800
Ceded reinsurance premiums payable	500
Amounts due to parent, subsidiaries and affiliates	591,124
Aggregate write-in for other liabilities:	
Drug administrative fee	<u>500</u>
Total liabilities	8,379,961

**Capital and Surplus**

Common capital stock	4,000,000
Gross paid in and contributed surplus	76,757,163
Unassigned funds	<u>(5,870,684)</u>
Total capital and surplus	74,886,479
Total liabilities, capital and surplus	<u>\$ 83,266,440</u>

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

Net premium income	<u>\$ 40,951,348</u>
Total revenue	<u>40,951,348</u>
Hospital and medical benefits	22,688,404
Other professional services	1,908,503
Outside referrals	568,346
Emergency room and out-of-area	2,370,622
Prescription drugs	<u>6,170,399</u>
Subtotal	33,706,274
Claims adjustment expenses	1,347,891
General administrative expenses	<u>2,700,057</u>
Total underwriting deductions	<u>37,754,222</u>
Net underwriting gain	<u>3,197,126</u>
Net investment income earned	3,303,999
Net realized capital gains	<u>117,237</u>
Net investment gains	<u>3,421,236</u>
Net income before federal income taxes	6,618,362
Federal income taxes incurred	<u>1,666,800</u>
Net income	<u>\$ 4,951,562</u>

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

<b><u>Capital and Surplus</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Capital & surplus, prior reporting period	\$ 70,092	\$ 67,026	\$ 57,320	\$ 48,341	\$ 42,439
Net income (loss)	4,951	3,377	9,258	8,851	6,114
Change in net deferred income tax	3,707	(776)	2,848	(2,090)	(1,400)
Change in non-admitted asset	(3,864)	465	(2,400)	2,218	1,188
Net change in capital and surplus	<u>4,794</u>	<u>3,066</u>	<u>9,706</u>	<u>8,979</u>	<u>5,902</u>
Capital and surplus, current year end	<u>\$ 74,886</u>	<u>\$ 70,092</u>	<u>\$ 67,026</u>	<u>\$ 57,320</u>	<u>\$ 48,341</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>\$83,266,440</u>
Liabilities	\$8,379,961
Capital and Surplus	<u>74,866,479</u>
Total Liabilities, Capital and Surplus	<u>\$83,266,440</u>

### **Subsequent Events**

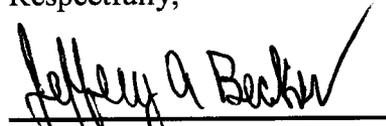
There are no subsequent events that would have a material impact on the financial position of the Company.

### **Acknowledgement**

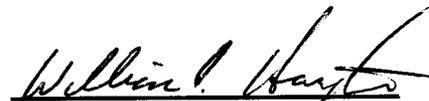
Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

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      William C. Harrington 1/26/2011  
Jeffery A. Becker, CFE      Date      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