Final

Report on the

Medical Loss Ratio Examination

of

Freedom Life Insurance Company of America
(Fort Worth, Texas)

for the

2013 MLR Reporting Year

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Center for Consumer Information & Insurance Oversight
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Washington, DC 20201

CENTERS FOR MEDICARE & MEDICAID SERVICES
CENTER FOR CONSUMER INFORMATION & INSURANCE OVERSIGHT

OVERSIGHT GROUP

March 27, 2019

In accordance with Title 45 of the Code of Federal Regulations (CFR), section 158.402, the Center for Consumer Information and Insurance Oversight (CCIIO) has completed an examination of the Medical Loss Ratio (MLR) Annual Reporting Form submitted by Freedom Life Insurance Company of America (the Company) for the 2013 reporting year, including 2013, 2012, and 2011 data reported on that form. Following an exit conference with the Company, the Company responded to each Finding and Recommendation. This final report, which will be made publicly available, incorporates the Company's response and CCIIO's evaluation of the response

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I. Executive Summary

The Center for Consumer Information and Insurance Oversight (CCIIO) has performed an examination of the 2013 Medical Loss Ratio (MLR) Annual Reporting Form for Freedom Life Insurance Company of America (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2013 MLR Annual Reporting Form contains some elements that are not fully compliant with the requirements of 45 CFR Part 158, but which do not impact consumer rebates. We recommend that the Company implement corrective actions to ensure that policies are accurately classified by market, expenses for quality improvement activities (QIA) meet the regulatory definition, the average deductible is calculated correctly, and rebates are properly allocated.

The examination findings and subsequent recalculation of the Company's MLRs resulted in an increase to its reported MLRs in six states in the individual market. In three of those six states, the higher MLRs continued to be above the applicable MLR standard and thus no rebates were due. In the other three states, the higher MLRs reduced the Company's rebate liability in the individual market for the 2013 Reporting Year. The recalculated rebate was $3,677 less than what the Company reported and paid in those states. The examination findings did not result in any change to the Company's reported MLRs for any of the other state market segments in which it had health insurance coverage subject to 45 CFR Part 158 in effect.

II. Scope of Examination

CCIIO examined the Company's 2013 MLR Annual Reporting Form to determine compliance with 45 CFR Part 158. Title 45 CFR Part 158 implements section 2718 of the Public Health Service Act (PHS Act). Section 2718 of the PHS Act, as added by the Patient Protection and Affordable Care Act, generally requires health insurance companies to submit to the Secretary of the U.S. Department of Health & Human Services (HHS) an annual report concerning premium revenue and expenses related to group and individual health insurance coverage issued. The federal MLR is the proportion of earned premium, less certain taxes and regulatory fees, expended by a company on clinical services and activities that improve health care quality in a given state and market, after adjustments for the credibility of the experience or other factors, where applicable, and calculated using the average of three consecutive years of data. Section 2718 also requires a company to provide rebates to consumers if it does not meet the MLR standard (generally, 80% in the individual and small group markets and 85% in the large group market).

This is the first examination of the Company's MLR Annual Reporting Form performed by CCIIO. The examination covered the reporting period of January 1, 2011 through December 31, 2013, including 2011, 2012 and 2013 experience and claims run-out through March 31, 2014. We conducted the examination in accordance with the CCIIO Medical Loss Ratio Examination Handbook (the Handbook). The Handbook sets forth the guidelines and procedures for planning and performing an examination to evaluate the validity and accuracy of the data elements and calculated amounts reported on the MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. The examination included assessing the principles used and significant estimates made by the Company, evaluating the reasonableness of expense allocations, and determining compliance with relevant statutory accounting standards, MLR regulations and guidance, and the MLR Annual Reporting Form Filing Instructions.

The Company's response to each finding appears after the finding in the Conclusion and Recommendations section of this Report. The Company's corrective action was not reviewed for proof of implementation or subjected to the procedures applied during the examination. CCIIO's response is based solely on a review of the Company's response. CCIIO reserves the right to review the actual implementation of the Company's corrective action for each finding and proposed action plan in future MLR Annual Reporting Forms, examinations or as otherwise may be appropriate.

III. Summary of Findings

Page	Findings
6	**Failure to assign the correct market classification in accordance with the definitions in §158.103 and the requirements in §158.120 –** In the sample tested, the Company incorrectly classified one policy as an individual market policy when it should have been reported as an individual mini-med market policy.
7	**Reporting of quality improvement activity (QIA) expenses that did not meet the definition of a QIA expense as set forth in §158.150 –** The Company improperly included expenses related to retrospective and concurrent utilization review in its QIA expenses.
8	**Failure to correctly calculate the average deductible in accordance with §158.232(c) –** The Company incorrectly computed the average deductible of its individual market policies, basing it on the number of covered lives as of December 31st for two consecutive years rather than the 3-year aggregation of life-years for each deductible level. In addition, the Company incorrectly determined the average per person deductible for policies with a family deductible.
8	**Failure to properly allocate *de minimis* rebates consistent with the requirements of §158.243 –** The Company incorrectly allocated the *de minimis* rebates on a pro rata basis, rather than dividing them equally, as required, among enrollees receiving a rebate in the state market segment.

The examination findings resulted in an increase of the Company's MLRs in the individual market for six states. In three of those states (Colorado, Illinois, and Wyoming), the reported MLRs were already above the MLR standard of 80% and therefore the Company continued to owe no rebate in those states. In the other three states (Georgia, South Carolina, and Tennessee), the recalculated MLRs are higher than the reported MLRs but continue to be below the MLR standard. The increase in the MLRs reduced the Company's rebate liability in those three states from $188,711 to $185,034.

There were four other states where the Company had partially credible experience in the individual market but the findings did not have an impact on the MLRs. The remaining states and markets (15 states in the individual market and 24 states in the individual mini-med market) were unaffected because the Company reported fewer than 1,000 life-years during the three year aggregation period and is therefore presumed to the meet the MLR standard in accordance with §158.230.

The following tables show the three-year aggregated numerator, denominator, credibility-adjusted MLR, and rebate liability for the 2013 reporting year in the six states with increased MLRs. The amounts in the "As Recalculated" row reflect the adjustments made as a result of the disallowed QIA expenses and correction of the deductible factor.

Recalculated Aggregate Individual Market MLRs[1] for the 2013 Reporting Year

Colorado

	Numerator	Denominator	MLR	Rebate
As Filed	$12,331,877	$11,485,728	111.9%	$0
As Recalculated	$12,331,877	$11,485,728	112.0%	$0
Difference	$0	$0	0.1%	$0

Georgia

	Numerator	Denominator	MLR	Rebate
As Filed	$1,106,894	$2,315,283	59.1%	$81,731
As Recalculated	$1,106,728	$2,315,283	59.3%	$80,949
Difference	($166)	$0	0.2%	($782)

Illinois

	Numerator	Denominator	MLR	Rebate
As Filed	$4,483,158	$5,841,600	84.1%	$0
As Recalculated	$4,482,970	$5,841,600	84.2%	$0
Difference	($188)	$0	0.1%	$0

South Carolina

	Numerator	Denominator	MLR	Rebate
As Filed	$1,521,587	$2,671,532	67.4%	$82.321
As Recalculated	$1,521,393	$2,671,532	67.5%	$81,668
Difference	($194)	$0	0.1%	($653)

Tennessee

	Numerator	Denominator	MLR	Rebate
As Filed	$3,070,472	$4,357,263	77.8%	$24,659
As Recalculated	$3,069,891	$4,357,263	78.0%	$22,418
Difference	($581)	$0	0.2%	($2,241)

Wyoming

[1] Some of the recalculated MLRs do not equal the numerator divided by the denominator due to the inclusion of a credibility adjustment, in accordance with §158.230.

	Numerator	Denominator	MLR	Rebate
As Filed	$2,766,164	$3,394,370	91.6%	$0
As Recalculated	$2,766,035	$3,394,370	91.8%	$0
Difference	($129)	$0	0.2%	$0

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a for-profit life insurer domiciled in Texas. The Company sells health insurance coverage in the individual market in 25 states and also sold individual mini-med products in all but one of those states. In addition, the Company sells excepted benefit products, such as individual accident insurance, specified disease insurance and fixed indemnity insurance, which are not subject to the MLR regulations at 45 CFR Part 158. As of the date of this report, the Company did not sell health insurance coverage in the small or large group markets.

During the 2011, 2012 and 2013 MLR reporting years, the Company operated in the individual and individual mini-med markets that were subject to the MLR reporting requirements of 45 CFR Part 158. As of December 31, 2013, the Company reported a total of 7,830 covered lives and $25,103,086 in direct earned premium for individual market and individual mini-med market policies, which are subject to the MLR reporting and rebate requirements, and a total of 171,017 covered lives and $115,182,498 in direct earned premium from all health lines of business. Lines of business not subject to the MLR regulations at 45 CFR Part 158 include credit accident and health, individual accident, specified disease and fixed indemnity policies.

B. Management

The corporate officers and board of directors of the Company as of December 31, 2013 were:

Officers

Name	Title
Benjamin M. Cutler	President
Cynthia B. Koenig	Treasurer
Patrick H. O'Neill	Secretary

Directors

Name

Benjamin M. Cutler
Billy L. Jacobs
Konrad H. Kober
Cynthia B. Koenig
Patrick H. O'Neill
Ricky Alton Watson

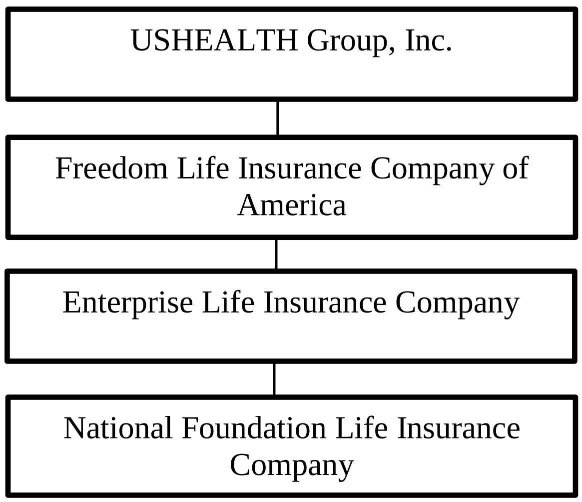
Company management and corporate-level personnel responsible for the preparation, submission and attestation of the 2013 MLR Annual Reporting Form were:

Name	Title
Troy A. McQuagge	CEO Attester
Cynthia B. Koenig	CFO Attester

C. Ownership

The Company is a member of an insurance holding group system.

Freedom Life Insurance Company of America
Organizational Chart[2] as of December 31, 2013



D. Agreements

As of December 31, 2013, the Company had entered into the following inter-company agreements that are pertinent to a review of its MLR Annual Reporting Form:

1. An Administrative Services Agreement with USHEALTH Administrators, LLC.
2. A restated and amended Tax Sharing Agreement with USHEALTH Group, Inc., and USHEALTH Group, Inc.'s subsidiaries.

E. Reinsurance

Effective April 1, 2000, the Company entered into a coinsurance agreement with its subsidiary, National Foundation Life Insurance Company ("NFL"), whereby the Company ceded certain major medical policies, including some policies that were 100% indemnity reinsured prior to March 23, 2010. Effective October 1, 2011, the Company entered into a 100% assumption

[2] This is an excerpt from the organization chart provided by the Company and includes only those entities whose relationship to the Company impacted the MLR examination.

reinsurance agreement with NFL, whereby the Company ceded certain major medical policies. Effective November 1, 2012, the Company entered into another 100% assumption reinsurance agreement with its subsidiary, Enterprise Life Insurance Company ("ELIC"), whereby the Company ceded certain major medical policies. The Company indicated that the experience for the policies underlying these three contracts was reported on the respective assuming companies' MLR Annual Reporting Forms in accordance with the MLR Annual Reporting Form Filing Instructions. During 2012 and 2013, the Company had a coinsurance agreement in place with ELIC for individual accident, specified disease, fixed indemnity policies. The Company also had various non-affiliated reinsurance agreements in place during the examination period.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 303 Burnett Street, Suite 200, Fort Worth, Texas 76012. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

VI. Examination Results

Except as noted in this report, based on the procedures performed, nothing came to our attention that would indicate that the Company's 2011, 2012, and 2013 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2011, 2012, and 2013 MLR Annual Reporting Forms were filed by or before the required due date.

During the 2011, 2012, and 2013, the Company had business subject to the reporting and rebate requirements of 45 CFR Part 158 in 25 states. During the 2013 MLR reporting year, the Company reported fewer than 1,000 life-years in 15 states in the individual market and all 24 states in the individual mini-med market, and is therefore presumed to meet or exceed the MLR standards in those states and markets in accordance with §158.230(d). Of the ten states where it reported 1,000 or more life-years in the individual market, the Company met or exceeded the MLR standard in four states and was required to and paid rebates to its enrollees in six states.

Based on the errors found during the examination, the MLRs for the 2013 MLR reporting year were recalculated but increased and therefore did not result in additional rebates owed.

A. MLR Data

Market Classification
The Company has adopted policies and procedures for determining market classification that are consistent with the definitions in §158.103 applicable to the 2011-2013 reporting years.

Incorrect Reporting of Market Classification
The Company did not consistently assign policies to the correct market classification. Based on testing of the Company's individual policies, one policy from a sample of 65 policies was incorrectly classified by the Company as an individual market policy. The policy had a total annual benefit limit of $100,000 and therefore should have been classified as an individual mini-

med policy. Consequently, the examiners reallocated $155 in incurred claims and $1,155 in earned premium from the individual market to the individual mini-med market.

Aggregation
Other than the market classification error noted above, based upon the procedures performed, nothing additional came to our attention that would indicate that the samples of policies, claims, and other items tested during the examination were not correctly assigned to the appropriate states, markets, and lines of business in accordance with §158.120.

Incurred Claims
Other than the market classification error noted above, based upon the procedures performed, including the validation of a sample of incurred claims (as defined by §158.140) reported by the Company, nothing additional came to our attention that would indicate that incurred claims were not accurately reported.

Claims Recovered Through Fraud Reduction Efforts
The Company did not report any recoveries of paid fraudulent claims, which §158.140(b)(2)(iv) allows as an adjustment to incurred claims up to the amount of fraud reduction expenses.

Quality Improvement Activities

Improper Inclusion of Expenses for Activities Not Qualified as QIA
The Company improperly included in its 2013 MLR Annual Reporting Form expenses related to retrospective and concurrent utilization review as QIA, which §158.150(c)(7) requires be excluded from QIA. The amount of expenses improperly included in QIA totaled $7,522, of which $7,113 was allocated to the individual market and $409 to the individual mini-med market.

Based upon the procedures performed, nothing additional came to our attention that would indicate that QIA expenses were not accurately reported and reasonably allocated among the Company’s states and markets, as required by §158.170.

Earned Premium
Other than the market classification error noted above, based upon the procedures performed, nothing additional came to our attention that would indicate that earned premium was not properly reported on a direct basis or that the data elements underlying the 2011, 2012, and 2013 premium as reported on the Company’s 2013 MLR Annual Reporting Form were not compliant with §158.130.

Taxes
Based upon the procedures performed, nothing came to our attention that would indicate that the taxes and regulatory fees excluded from 2011, 2012, and 2013 earned premium reported on the Company’s 2013 MLR Annual Reporting Form did not comply with §158.161 and §158.162, or were not accurately reported and reasonably allocated among the Company’s states and markets, as required by §158.170. On its 2013 MLR Annual Reporting Form, the Company reported that

it allocated its taxes and fees to each market based on actual assessments or the percent of premium, as applicable, which the examination confirmed.

F. Credibility-Adjusted MLR and Rebate Amount

Incorrect Calculation of the Average Deductible
The Company incorrectly calculated the average deductible for its policies in every state in which it had health insurance coverage in effect in the individual market for purposes of calculating the credibility adjustment. First, the Company incorrectly determined the per person deductible for policies with a family deductible. For such policies, the Company automatically calculated the per person deductible as the family deductible divided by two, instead of using the lesser of (a) the deductible applicable to each of the individual family members or (b) the overall family deductible for the subscriber and subscriber's family divided by two, as required by §158.232(c)(i). Second, the Company weighted each deductible level using the average of the covered lives in force as of December 31st of the current year and the prior year, instead of using the 3-year aggregation of life-years for each deductible level as required by §158.232(c)(ii). The Company did not elect to report a deductible factor or credibility adjustment in any state in the individual mini-med market.

Other than the use of incorrect average deductibles in the credibility adjustment calculation, the Company's credibility-adjusted MLRs were calculated using the correct formula in accordance with 45 CFR Part 158 and the applicable MLR Annual Reporting Form Filing Instructions. The examiners recalculated the Company's credibility adjustment in each state after correcting the average deductible. The recalculation resulted in a higher MLR than originally reported by the Company in six states in the individual market, and for three of those states, a corresponding reduction in rebate liability.

G. Rebate Disbursement and Notice

According to its 2011, 2012, and 2013 MLR Annual Reporting Form**s**, the Company reported rebates owed in the individual market in two, four, and six states, respectively. Based on the procedures performed, the Company timely issued rebates in accordance with §§158.240-158.244 and Notices of rebates in accordance with §158.250.

Incorrect Distribution of De Minimis Rebates
Based upon substantive testing, the Company failed to properly allocate *de minimis* rebates as set forth in §158.243. The Company allocated the *de minimis* rebates to enrollees that were receiving a rebate in the state market segment based on the pro rata portion of each of those enrollees' rebate to total rebates paid, rather than dividing the *de minimis* rebates evenly among all enrollees being paid a rebate in the state market segment as required by §158.243. The total amount of *de minimis* rebates for the Company in 2013 was $160. Among the five states with a *de minimis* rebate, the correct *de minimis* payment varied from $0.02 to $0.11 per enrollee for enrollees being paid rebates. The examiners did not request documentation from the Company to compute the exact amount of incorrect allocation at the enrollee level, as recalculation of *de minimis* rebate amounts payable to each enrollee is not within the scope of this examination.

H. Compliance with Previous Recommendations

The Company indicated that neither CCIIO nor any state regulatory entity has previously performed an examination of the Company's MLR processes and reporting. The Texas Department of Insurance performed a financial examination of the Company in 2015, covering the period January 1, 2011 through December 31, 2014. There were no findings noted in the examination report.

VII. Subsequent Events

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2013 MLR Annual Reporting Form. No post-December 31, 2013 significant events were brought to CCIIO's attention.

VIII. Conclusion, Recommendations, and Company Responses

CCIIO examined Freedom Life Insurance Company of America's 2013 MLR Annual Reporting Form to assess compliance with the requirements of 45 CFR Part 158. The examination involved determining the validity and accuracy of the data elements and calculated amounts reported on the 2013 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2013 MLR Annual Reporting Form contained some elements that were not fully compliant with the requirements of 45 CFR Part 158. The examination findings did not result in any additional MLR rebates owed in any state or market in which the Company operated, since recalculating the MLRs to correct for the incorrectly reported items resulted in a 0.1 to 0.2 percentage point MLR increase in the individual market in six states.

As a result of this examination, CCIIO recommends the following:

Recommendation #1
The Company should adopt and implement procedures to ensure that it accurately reports the market classification of its policies in accordance with the definitions in §158.103 and the requirements of §158.120.

Company Response
"The Company has amended its procedure for the determination of market classification so that all policies are properly classified in compliance with the definitions contained in §158.103 and the requirements of §158.120."

CCIIO Reply
CCIIO accepts the Company's response and the corrective action plan.

Recommendation #2
The Company should adopt and implement procedures to ensure that activities and expenses reported as QIA meet the requirements of §158.150. Alternatively, for the 2017 and later

reporting years, the Company may elect to report a standardized percentage of earned premium as QIA, in lieu of reporting the actual QIA expenses, in accordance with §158.221(b)(8).

Company Response
"The Company has amended its procedure and calculation so that any expenses classified as quality improvement activities (QIA) meet the requirements of Section 158.150."

CCIIO Reply
CCIIO accepts the Company's response and the corrective action plan.

Recommendation #3
The Company should adopt and implement procedures to ensure that it calculates the average deductible in accordance with §158.232(c), including correctly calculating the per person deductible for policies with a family deductible and weighting each deductible level using aggregate life-year experience. Alternatively, the Company may elect to use a deductible factor of 1.0 in lieu of calculating average deductibles.

Company Response
"The Company has amended its procedure and calculation to ensure that it calculates the average deductible in accordance with § 158.232(c)."

CCIIO Reply
CCIIO accepts the Company's response and the corrective action plan.

Recommendation #4
The Company should adopt and implement procedures to ensure that all *de minimis* rebates are evenly distributed among enrollees receiving rebates, as required by §158.243.

Company Response
"The Company has amended procedures for de minimis rebates so that such rebates are evenly distributed among enrollees receiving rebates as required by §158.243."

CCIIO Reply
CCIIO accepts the Company's response and the corrective action plan.

CCIIO thanks the Company and its staff for its cooperation with this examination.