

Final  
Report on the  
Medical Loss Ratio Examination  
of  
**Time Insurance Company**  
(Milwaukee, Wisconsin)  
for the  
2013 MLR Reporting Year

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



**OVERSIGHT GROUP**

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December 2, 2016

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 Time Insurance Company (the Company) for the 2013 reporting year, with 2012 and 2011 data reported on that form. Following an exit conference, Time Insurance Company responded to each finding and recommendation. This final report, which will be made publicly available, incorporates those responses and CCIIO's evaluation of them.

A handwritten signature in blue ink that reads "Christina A. Whitefield".

Christina A. Whitefield, Director  
Medical Loss Ratio Division  
Office of Oversight  
Center for Consumer Information and Insurance Oversight  
Centers for Medicare & Medicaid Services  
US Department of Health and Human Services

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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 Time Insurance Company (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. We recommend that the Company implement corrective actions to review its methodologies and assumptions for developing its direct claims liability and properly report the portion of its direct claims liability attributable to contingent benefit and lawsuit reserves.

## **II. Scope of Examination**

CCIIO examined the Company's 2013 MLR Annual Reporting Form to determine compliance with 45 CFR Part 158. 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 Affordable Care Act, generally requires health insurance companies to submit to the Secretary an annual report on their MLRs. The MLR is the proportion of premium revenue expended by a company on clinical services and activities that improve health care quality in a given state and market. 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 and 2012 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 any 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 Key Findings

Page	Summary of Key Findings
5	<b>Failure to properly report contingent benefit and litigation reserve as required by §158.140 and the MLR Annual Reporting Form Instructions</b> – the Company reported its litigation reserve as a part of its direct claims liability for all years under examination, rather than in Part 2, Line 2.13, as required by the MLR Annual Reporting Form Filing Instructions.

This finding did not result in any change to the Company’s reported MLRs for the individual, small group, or large group markets for the 2013 reporting year.<sup>1</sup> The three-year adjusted, aggregated incurred claims and earned premium amounts for all of the states and markets in which the Company offered coverage subject to 45 CFR Part 158, along with the corresponding rebate amounts, as reported by the Company, are shown in the following table. The Company filed an MLR Annual Reporting Form for 49 states, as well as the District of Columbia, as it had operations in each of these states and the District of Columbia during the three-year examination period.<sup>2</sup>

#### Recalculated Incurred Claims, Earned Premium, and Rebates for the 2013 Reporting Year

	Individual Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	\$621,719,047	\$866,837,460	\$24,748,250
As Recalculated	\$621,719,047	\$866,837,460	\$24,748,250
Difference	\$0	\$0	\$0

	Small Group Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	\$116,059,606	\$140,279,166	\$1,091,791
As Recalculated	\$116,059,606	\$140,279,166	\$1,091,791
Difference	\$0	\$0	\$0

	Large Group Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	\$6,317,248	\$8,379,515	\$0
As Recalculated	\$6,317,248	\$8,379,515	\$0
Difference	\$0	\$0	\$0

<sup>1</sup> Unless otherwise noted, hereinafter, references to the individual market include mini-med plans. Individual mini-med plans must meet an 80% MLR standard.

<sup>2</sup> Complete, in-depth data review was performed only for select state and market segments, because the Company’s reporting appeared to be consistent across states.

	Mini-Med Plans, Individual Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	\$13,512,964	\$31,696,155	\$211,513
As Recalculated	\$13,512,964	\$31,696,155	\$211,513
Difference	\$0	\$0	\$0

#### **IV. Company Overview**

##### **A. Description, Territory, and Plan of Operation**

The Company is a for-profit accident and health insurance company domiciled in the state of Wisconsin that sells life insurance, health insurance and related products. During the 2011, 2012 and 2013 MLR reporting years, the Company operated in the individual, small group and large group markets that were subject to the MLR reporting requirements under 45 CFR Part 158, in all states except New York. As of December 31, 2013, the Company reported a total of 401,106 covered lives and \$1,047,192,296 in direct earned premium from policies subject to MLR reporting and rebate requirements and a total of 871,277 covered lives and \$1,357,236,322 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 life, short-term medical and fixed indemnity health insurance.

##### **B. Management**

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

##### **Officers**

<b><u>Name</u></b>	<b><u>Title</u></b>
Adam D. Lamnin	President and Chief Executive Officer
Mark D. Berquist	Treasurer and Chief Financial Officer
Jennifer M. Kopps-Wagner	Secretary
Brian N. Rees	Actuary
Steven J. Cain	Senior Vice President
Scott G. Krienke	Senior Vice President
Charles R. Steele	Senior Vice President
Christopher A. Dowler	Senior Vice President
David F. Oury	Senior Vice President
Steven M. Dziedzic	Senior Vice President
John J. Rogers III	Senior Vice President

##### **Directors**

<b><u>Name</u></b>
Mark D. Berquist
Jennifer M. Kopps-Wagner
Adam D. Lamnin

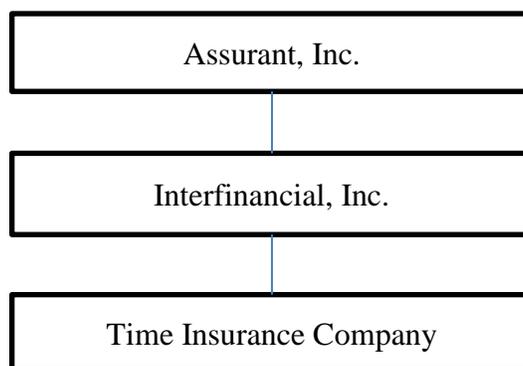
Company management and corporate-level personnel responsible for the preparation, submission and attestation of the 2013 MLR Annual Reporting Form were:

<u>Name</u>	<u>Title</u>
Adam D. Lamnin	CEO Attester
Mark D. Berquist	CFO Attester

### C. Ownership

The Company is a member of an insurance holding group system. Assurant, Inc., a publicly traded company, is the ultimate controlling entity of the Company.

**Assurant, Inc.**  
**Organizational Chart<sup>3</sup> as of December 31, 2013**



### D. Agreements

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

1. An Administrative Services Agreement with its affiliate, Union Security Insurance Company.
2. A Shared Services Management Agreement with its ultimate parent, Assurant, Inc. and its other subsidiaries.
3. A Network Access Agreement with Dental Health Alliance, LLC.
4. A Tax-Sharing Agreement with Assurant, Inc. and its other subsidiaries.

### E. Reinsurance

During 2011, 2012 and 2013, the Company had reinsurance agreements in place with various non-affiliated insurance entities. None of the reinsurance agreements in place had an impact on the amounts reported in the Company's MLR Annual Reporting Form.

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<sup>3</sup> 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.

## **V. Accounts and Records**

The Company's main administrative and financial reporting office is located at 501 West Michigan Street, Milwaukee, Wisconsin, 53203. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

Except as noted below, the procedures performed did not identify any errors or irregularities in the data reported on the MLR Annual Reporting Form with regard to rebates and the provision of notices for the 2013 reporting year.

## **VI. Examination Results**

Except as noted in this report, the Company's 2011, 2012 and 2013 MLR Annual Reporting Forms were filed on the form and in the manner prescribed by the Secretary by or before the required due date.

During all three years under Examination, the Company filed an MLR Annual Reporting Form for 49 states plus the District of Columbia. During the 2013 MLR reporting year, the Company met the MLR standard in 139 of its 172 state and market segments and was required to pay rebates to its enrollees: in 21 states in the individual market; in nine states in the mini-med individual market; and, in three states in the small group market.

### **A. MLR Data**

#### **Market Classification Policies and Procedures**

The Company has adopted policies and procedures for determining group size and market classification that are consistent with the requirements of §158.220, which stipulates that an issuer's MLR must be calculated separately for the large group market, small group market and individual market within each State.

#### **Aggregation**

The samples of policies, claims and other items tested during the examination were correctly assigned to the appropriate states, markets, and lines of business in accordance with §158.120.

#### **Incurred Claims**

##### *Failure to Properly Report Contingent Benefit and Litigation Reserve*

The Company reported \$202,121 as litigation reserve as a part of its direct claim liability, rather than reporting that amount separately in Part 2, Line 2.13 of its 2013 MLR Annual Reporting Form, as required by the MLR Annual Reporting Form Filing Instructions for the 2013 MLR reporting year. According to the Instructions, a company does not need to separately report a data element in the 12/31 column of the MLR Annual Reporting Form that is not reported separately in the issuer's financial statement filing to the state regulatory authority. However, the Instructions also indicate that a company must report such amounts in the 3/31 column of its MLR Annual

Reporting Form. This error did not impact the MLR calculation or the Company's rebate liability for 2013.

#### *Methodology for Estimating the Direct Claims Liability*

We note that, based on a comparison of the direct claims liability reported on the 2011 and 2012 MLR Annual Reporting Forms and the true-up of the 2011 and 2012 claims as reported by the Company in subsequent years, it appears that the Company's estimates of the direct claims liability in many, although not all, states consistently exceeded the actual amounts subsequently paid by the Company in the individual market. Specifically, the analysis of the 2011 and 2012 claims development as of March 31, 2014 indicates that the direct claims liability reported by the Company on the 2011 and 2012 MLR Annual Reporting Forms for the individual market ultimately exceeded the actual claims payments in the majority of states where the Company incurred claims. However, the Company did not adjust its methodology to reflect these claims development trends and lower the estimate of the 2013 direct claims liability on its 2013 MLR Annual Reporting Form. We note that utilizing a methodology that consistently overestimates the direct claims liability could result in overstatement of incurred claims.

Other than the direct claims liability issues noted above, based on substantive testing and validation of the incurred claims (as defined by §158.140) reported by the Company, incurred claims were accurately reported.

#### **Claims Recovered through Fraud Reduction Efforts**

The Company accurately reported recoveries of paid fraudulent claims, which §158.140(b) allows as an adjustment to incurred claims, up to the amount of fraud reduction expenses.

#### **Quality Improvement Activities**

The expenses and programs for quality improvement activities (QIA) identified by the Company met the definition of a QIA in §158.150. Based on substantive testing, QIA expenses were accurately reported and reasonably allocated among the Company's states and markets, as required by §158.170.

#### **Earned Premium**

Based on substantive testing, earned premium was properly reported on a direct basis and the data elements underlying 2011, 2012 and 2013 premium as reported on the Company's 2013 MLR Annual Reporting Form were compliant with §158.130.

#### **Taxes**

Based upon substantive testing, the taxes and regulatory fees excluded from 2011, 2012 and 2013 earned premium on the Company's 2013 MLR Annual Reporting Form complied with §158.161 and §158.162. Also based on substantive testing, taxes and regulatory fees were accurately reported and were reasonably allocated among the Company's states and markets, as required by §158.170 and in accordance with its federal income tax allocation agreement with Assurant, Inc. In its 2013 MLR Annual Reporting Form, the Company reported that it allocated its federal and state taxes to each state and market based on taxable income, which the examination confirmed.

## **B. Credibility-Adjusted MLR and Rebate Amount**

Based on substantive testing, the Company correctly applied the credibility adjustment when the Company calculated and reported its MLRs, in accordance with §158.221. The Company's final, credibility-adjusted MLRs were calculated correctly in accordance with 45 CFR Part 158 and the applicable MLR Annual Reporting Form Filing Instructions. Based on substantive testing, the Company's rebate amounts were correctly calculated and reported in accordance with §158.240.

## **C. Rebate Disbursement and Notice**

According to its 2011, 2012 and 2013 MLR Annual Reporting Forms, the Company owed rebates in the individual market in all three years and in the individual, mini-med and small group markets in 2012 and 2013. Based on substantive testing, the Company timely issued rebates and notices in accordance with §§158.240-250 and timely issued the 2011 Notice (of no rebate) in accordance with §158.251.

## **D. 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 Office of the Commissioner of Insurance of Wisconsin performed a financial examination of the Company in 2014 covering the period January 1, 2009 through December 31, 2013. The financial examination resulted in four findings, none of which appear to impact the Company's federal MLR calculation or reporting.

## **VII. Impact of Findings**

The cumulative effect of all errors and findings did not impact MLR rebates since recalculating the MLR to correct for the incorrectly reported contingent benefit and litigation reserve item did not cause the Company's MLR in any state and market to fall below the applicable MLR standard, or below the MLR utilized to pay rebates in state/markets that were already below the applicable MLR standard.

## **VIII. Subsequent Events**

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2013 MLR Annual Reporting Form. The Company informed CCIIO that the Company's parent, Assurant, Inc., announced in June 2015 that it was exiting all of the health insurance markets and would stop selling health insurance policies, effective the same month. This includes the health operations of the Company as well as various other affiliates.

## **IX. Conclusion, Recommendations, and Company Responses**

CCIIO has examined Time Insurance Company's 2013 MLR Annual Reporting Form to assess the Company's 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. The Company's 2013 MLR Annual Reporting Form did not comply with some of the requirements of 45 CFR Part 158. The effect of the examination findings and resultant recalculation of the Company's MLR did not result in any change to its reported MLR for any of the states and markets in which it operates.

As a result of this examination, we recommended the following:

### **Recommendation #1**

For future reporting years, the Company should report its litigation reserve in Part 2, Line 2.13, as required by the MLR Annual Reporting Form Filing Instructions.

#### *Company Response*

"The Company has reported for 2015, and will report for future reporting years, its litigation reserve in Part 2, Line 2.13 (or as otherwise directed by the MLR Annual Reporting Form Filing Instructions)."

#### *CCIIO Reply*

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

### **Recommendation #2**

The Company should review its methodologies and assumptions for developing the direct claims liability reported in the 3/31 column of its MLR Annual Reporting Form to be more consistent with the prior years' actual claims run-out through the most recent valuation date, including eliminating any unnecessary or inappropriate margin of conservatism for potential claims payments past March 31 of the year following the reporting year.

#### *Company Response*

"The company has removed for 2015, and will remove for future reporting years, any explicit reserve margin in the direct claims liability in the 3/31 column of its MLR Forms. Additionally, the company will annually review the MLR Direct claim reserve methodology and assumptions and will make appropriate adjustments to eliminate unnecessary margins."

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