

Final
Report on the
Medical Loss Ratio Examination
of
Enterprise Life Insurance Company
(Fort Worth, Texas)
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

July 21, 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 Enterprise Life Insurance Company (the Company) for the 2013 reporting year, including 2012 data reported on that form. Following an exit conference, Enterprise Life 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 N. Whitefield'.

Christina Whitefield, Acting 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 Enterprise Life 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 minor 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 comply with various sections of 45 CFR Part 158, including ensuring proper reporting of market classifications of policies, ensuring that expenses for quality improvement activities (QIA) meet the regulatory definition, and properly reporting enrollment for all markets.

The examination findings and resultant recalculation of the Company's MLR did not result in any change to its reported MLRs for any of the markets or states in which it operates. As the recalculated MLRs continue to be presumed to meet or exceed the MLR standard of 80% in the individual and mini-med individual markets, there was no impact on the Company's rebate liability.

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, 2012 through December 31, 2013, including 2012 experience and claims run-out through March 31, 2014¹. 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 Summary of Recommendations section of this Report. The Company's corrective action was not reviewed

¹ Prior to 2012, the Company did not have any business to report that was subject to MLR reporting requirements.

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
6	Failure to assign correct market classifications to its policies consistent with the requirements of §158.220(a) – The Company incorrectly classified one individual policy as a mini-med individual policy and one mini-med individual policy as an individual policy.
7	Reporting of quality improvement activities (QIA) that did not meet the definition of a QIA expense as set forth in §158.150 – The Company incorrectly reported \$946 of expenses related to retrospective and concurrent utilization review as QIA in its 2013 MLR Annual Reporting Form.
7	Failure to properly report enrollment in accordance with §158.120 and the MLR Annual Reporting Form Filing Instructions – The Company failed to report enrollment information for the Other Health Business segment on its 2012 ² and 2013 MLR Annual Reporting Forms.

These findings did not result in any change to the Company's reported MLRs for the individual or mini-med individual markets for the 2013 reporting year. The two-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLR for 2013 for each state in which the Company reported business, are shown in the following tables. The amounts in the "As Recalculated" rows reflect the adjustments made as a result of the disallowed QIA expenses. Because the Company's experience in each of the states and markets in which it operates included fewer than 1,000 aggregate life-years, the experience is considered to be non-credible in each of its states and markets in accordance with §158.230(c)(3). According to §158.230(d), if an issuer's experience in a particular state and market is non-credible, the issuer's MLR is presumed to meet or exceed the applicable MLR standard. Consequently, the tables below show MLRs of 80% (equal to the applicable standard) for all states and markets.

Recalculated Individual and Mini-Med Market MLRs for the 2013 Reporting Year

Arizona

	Individual Market			Mini-Med Plans, Individual Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$696,646	\$1,309,400	80.0%	\$4,149	\$5,787	80.0%
As Recalculated	\$696,455	\$1,309,400	80.0%	\$4,148	\$5,787	80.0%
Difference	\$(191)	\$0	0.0%	\$(1)	\$0	0.0%

² Although the Examination was of the Company's 2013 MLR Annual Reporting Form and the 2012 data on that form, since an error was discovered during the Examination, the Company's actual 2012 Reporting Form was also reviewed.

Louisiana

	Individual Market			Mini-Med Plans, Individual Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$467,389	\$1,515,460	80.0%	\$73,458	\$122,621	80.0%
As Recalculated	\$467,168	\$1,515,460	80.0%	\$73,437	\$122,621	80.0%
Difference	\$(221)	\$0	0.0%	\$(22)	\$0	0.0%

Mississippi

	Individual Market			Mini-Med Plans, Individual Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$503,767	\$1,901,026	80.0%	\$206,861	\$364,637	80.0%
As Recalculated	\$503,484	\$1,901,026	80.0%	\$206,788	\$364,637	80.0%

Nebraska

	Individual Market			Mini-Med Plans, Individual Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$404,186	\$457,555	80.0%	\$437	\$9,539	80.0%
As Recalculated	\$404,035	\$457,555	80.0%	\$433	\$9,539	80.0%
Difference	\$(151)	\$0	0.0%	\$(4)	\$0	0.0%

The recalculated amounts did not impact the Company's rebate liability for the 2013 reporting year as the recalculated MLRs for the individual and mini-med individual markets continue to be presumed to meet or exceed the MLR standard of 80%. As explained above, the Company's MLRs are presumed to meet or exceed the applicable standards because its experience was non-credible in all states and markets where it was subject to MLR requirements in 45 CFR Part 158.

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a for-profit life insurer domiciled in Texas and is authorized to operate as a life and health insurer. The Company is not currently writing any new health business, but in 2012 it assumed the individual and mini-med individual business that was in run-off and written in the states of Arizona, Louisiana, Mississippi and Nebraska from its immediate parent, Freedom Life Insurance Company of America, through a 100% assumption reinsurance agreement. The Company was acquired by Freedom Life Insurance Company of America on December 11, 2012.

During the 2012 and 2013 MLR reporting years, the Company operated in the individual and mini-med individual markets that were subject to the MLR reporting requirements of 45 CFR Part 158. Prior to 2012, the Company did not have any business to report that was subject to MLR reporting requirements. As of December 31, 2013, the Company reported a total of 774 covered lives and \$2,877,082 in direct earned premium for policies subject to the MLR reporting and rebate requirements and a total of 774 covered lives and \$3,315,233 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 insurance, individual accident insurance, specified disease insurance and fixed indemnity insurance policies.

B. Management

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

Officers

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

Directors

<u>Name</u>
Patrick H. O'Neill
Benjamin M. Cutler
Konrad H. Kober
Billy L. Jacobs
Cynthia B. Koenig

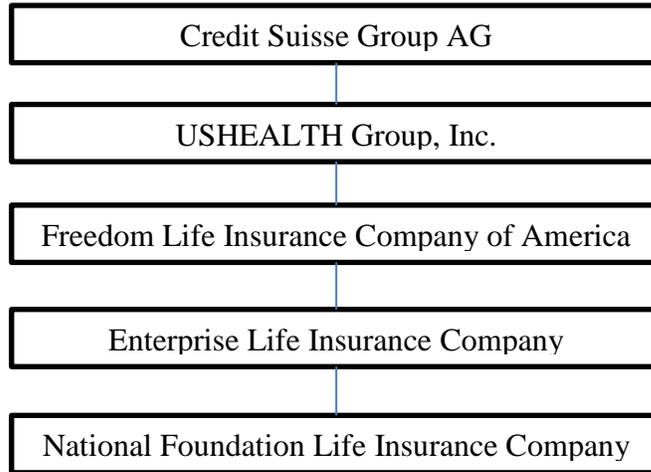
Company management and corporate-level personnel responsible for the preparation, submission and attestation of the 2013 MLR Annual Reporting Form were:

<u>Name</u>	<u>Title</u>
Konrad H. Kober	CEO Attester
Cynthia B. Koenig	CFO Attester

C. Ownership

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

Enterprise Life Insurance Company Organizational Chart 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 and Management Agreement with USHEALTH Administrators, LLC.
2. A Restated and Amended Tax-Sharing Agreement with USHEALTH Group, Inc., and its subsidiaries.

E. Reinsurance

Effective November 1, 2012, the Company entered into an assumption reinsurance agreement with its current parent, Freedom Life Insurance Company of America, whereby the Company assumed certain individual market major medical and mini-medical policies. Effective November 1, 2012, the Company entered into a 100% indemnity agreement with a former affiliate ceding credit life and accident and health policies. During 2012 and 2013, the Company had a coinsurance agreement with its current parent for individual accident, specified disease and fixed indemnity policies and various non-affiliated reinsurance agreements in place.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 300 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.

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.

VI. Examination Results

Except as noted in this report, the Company's 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 both years under Examination, the Company's experience was non-credible in all states and markets where it had business subject to the rebate requirements of 45 CFR Part 158, and thus the Company was not required to pay rebates to its enrollees.

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, small group, and individual market within each state.

Reporting Based on Market Classification

Incorrect Determination of Market Classification

Based on testing of the Company's individual policies, two policies in the sample of 85 policies were incorrectly classified. Based on the documentation that the Company provided, testing of the individual market policies revealed that one policy that should have been classified and reported as a mini-med individual policy (as the total annual policy limit was \$250,000) was instead reported as an individual policy, and testing of the mini-med individual market policies revealed one policy that should have been reported as an individual policy (as the total annual policy limit exceeded \$250,000). Certain Company policies contained coverage limitations that applied at the individual member level rather than at the overall, policy level. When determining the total annual limits of each policy, an issuer must take into consideration the limits per covered member and the actual number of individuals covered by the policy in order to determine whether the policy's benefit limit exceeds \$250,000. The two policies incorrectly classified and reported were properly reported at the time of policy issuance, but due to a subsequent change in the number

of individuals covered by each policy, the total annual benefit limits of each policy were different and required a reclassification of the market in which they were reported.

As noted above, the Company reported non-credible business in all states and market segments for 2013 because it had fewer than 1,000 aggregate life-years in every segment. The examination additionally confirmed that the sum of both the Company's individual and mini-med individual aggregate life-years was also below 1,000 in each state in which it operates. Therefore, even if the Company had misclassified all of its policies, its experience would remain non-credible and the Company would consequently continue to be presumed to have met or exceeded the MLR standard in all states and markets in which it operates. As there could be no impact on the Company's final MLR or rebate liability due to this error, no reallocation of earned premium and incurred claims was performed in connection with this finding.

Aggregation

Failure to Report Other Health Business Enrollment

The Company failed to report on its 2012 and 2013 MLR Annual Reporting Forms the number of policies and certificates, covered lives, groups, member months, and life-years for its Other Health Business segment, which consisted of credit disability policies that are in run-off. According to the MLR Annual Reporting Form Filing Instructions, Part 1, Lines 7.1, 7.2, 7.3, 7.4 and 7.5 should be completed for all markets, including those not subject to 45 CFR Part 158. This finding does not have any impact on the Company's MLR or cause a rebate to be due.

Other than the market classification and enrollment reporting errors noted above, 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

Other than the market classification reporting errors noted above, based upon 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 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

Some of the programs and expenses for quality improvement activities (QIA) that the Company reported did not meet the definition of a QIA, as defined by §158.150.

Incorrect Inclusion of Expenses Not Qualified as QIA

The Company incorrectly included in its 2013 MLR Annual Reporting Form expenses related to retrospective and concurrent utilization review as QIA. According to §158.150 (c)(7), expenditures that must not be reported as QIA include retrospective and concurrent utilization review. The amount of expenses inappropriately included in QIA totaled \$946 across the four

states where the Company operates, \$846 of which was allocated to the individual market and \$100 to the mini-med individual market.

Based upon substantive testing, all other QIA expenses were accurately reported and reasonably allocated among the Company's states and markets, as required by §158.170.

Earned Premium

Other than the market classification reporting errors noted above, based on substantive testing, earned premium was properly reported on a direct basis and the data elements underlying 2012 and 2013 premium as reported on the Company's 2013 MLR Annual Reporting Form were compliant with §158.130.

Taxes

Based on substantive testing, the taxes and regulatory fees excluded from 2012 and 2013 earned premium on the Company's 2013 MLR Annual Reporting Form complied with §158.161 and §158.162. Other than the market classification reporting errors noted above, based on substantive testing, taxes and regulatory fees were accurately reported and were reasonably allocated among the Company's markets, as required by §158.170. In its 2013 MLR Annual Reporting Form, the Company did not report federal income taxes, but reported that it allocated its other taxes to each market based on the percent of premium, which the examination confirmed.

B. Credibility-Adjusted MLR and Rebate Amount

Based upon 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 credibility-adjusted MLRs were calculated correctly in accordance with 45 CFR Part 158 and the applicable MLR Annual Reporting Form Filing Instructions. Because the Company's final MLRs were presumed to meet or exceed the applicable standards in both the individual and mini-med individual markets, no rebates were due for 2012 or 2013.

C. Rebate Disbursement and Notice

According to its 2012 and 2013 MLR Annual Reporting Forms, the Company did not owe any rebates as a result of the MLR calculation. Based upon substantive testing, the Company was not required to and did not issue any Notices for the 2012 or 2013 MLR reporting years.

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 Company informed CCIIO that the Texas Department of Insurance performed a financial examination of the Company in 2015-2016 covering January 1, 2010 through December 31, 2014. There were no findings as a result of the financial examination.

VII. Impact of Findings

The cumulative effect of all errors and findings did not impact MLR rebates since the incorrectly reported items did not change the fact that the Company's experience was non-credible in all of its states and markets. Therefore, the Company was presumed to meet or exceed the applicable MLR standards in all of its states and markets.

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. No post-December 31, 2013 significant events were brought to CCIIO's attention.

IX. Conclusion, Recommendations, and Company Responses

CCIIO has examined Enterprise Life 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 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 markets in which it operates.

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

Recommendation #1

The Company should adopt and implement procedures to ensure that all market classification determinations are made in compliance with the definitions contained in section 2791 of the PHS Act and the applicable requirements of 45 CFR Part 158 and related technical guidance.

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 section 2791 of the PHS Act and the applicable requirements of 45 CFR Part 158 and related technical guidance."

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 any expenses classified as quality improvement activities (QIA) meet the requirements of §158.150.

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 all amounts are properly reported in its MLR Annual Reporting Form in accordance with the MLR Annual Reporting Form Filing Instructions.

Company Response

“The Company has implemented procedures to ensure that all amounts related to other health business (specifically, the Company's credit disability insurance business) are reported in accordance with the MLR Annual Reporting Form Filing Instructions.”

CCIIO Reply

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

Recommendation #4

The Company should re-file its 2013 MLR Annual Reporting Form to rectify the errors and reflect the findings stated herein, adjusting both the current year (CY) and prior year (PY) columns as applicable. In the alternative, the Company should rectify the errors to reflect the findings stated herein in its 2015 MLR Annual Reporting Form. The Company should make the corrections in the prior year column of its 2015 MLR Annual Reporting Form (Part 3, Column PY2). Additionally, the Company should upload supplemental documentation with their 2015 MLR Annual Reporting Form noting that the discrepancy between the data reported on the 2013 MLR Annual Reporting Form and the corresponding prior year data reported on the 2015 MLR Annual Reporting Form resulted from CCIIO’s examination findings.

Company Response

“The Company agrees to rectify the discrepancies to reflect the findings stated in the report in its 2015 MLR Annual Reporting Form. The Company will make the corrections in the prior year column of its 2015 MLR Annual Reporting Form (Part 3, Column PY2). Additionally, the Company will provide supplemental documentation with its 2015 MLR Annual Reporting Form noting that the discrepancy between the data reported on the 2013 MLR Annual Reporting Form and the corresponding prior year data reported on the 2015 MLR Annual Reporting Form resulted from CCIIO's examination findings. The Company highlights the fact that none of the discrepancies impacted the Company's final MLR or rebate liability.”

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.