

Final  
Report on the  
Medical Loss Ratio Examination  
of  
**Standard Life and Accident Insurance Company**  
**(Galveston, 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**

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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 Standard Life and Accident Insurance Company (the Company) for the 2013 reporting year, including 2012 and 2011 data reported on that form. Following an exit conference, Standard Life and Accident 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 Standard Life and Accident 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 one minor reporting error that caused it to not be fully compliant with the requirements of 45 CFR Part 158, but which does not impact consumer rebates. We recommend that the Company implement corrective actions to comply with 45 CFR Part 158, including ensuring the accuracy of the amounts reported on the MLR Annual Reporting Form. The examination did not result in any change to the Company's reported MLR for the individual market, the only market in which the Company operates.

## **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 market 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 Summary of 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 report amounts under the state where the contract was issued, as required by §158.120</b> – The Company inadvertently reported Other Health amounts under incorrect states on its 2013 MLR Annual Reporting Form.

The finding did not result in any change to the Company's reported MLR for the 2013 reporting year. The three-year adjusted, aggregated incurred claims and earned premium amounts for all states in which the Company offered coverage subject to 45 CFR Part 158, along with the corresponding rebate liability as reported by the Company, are shown in the following table. The Company filed an MLR Annual Reporting Form for 37 states, as it had operations in each of these states during the three-year examination period.<sup>1</sup>

#### **Re-calculated Individual Market Incurred Claims, Earned Premium and Rebates for the 2013 Reporting Year**

Individual Market			
	Incurred Claims	Earned Premiums	Rebates
As Filed	\$5,717,209	\$10,946,394	\$0
As Recalculated	\$5,717,209	\$10,946,394	\$0
Difference	\$0	\$0	\$0

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 recalculated amounts did not impact the Company's rebate liability for the 2013 reporting year, as the recalculated MLRs for the individual market continue to be presumed to meet or exceed the MLR standard of 80%.

### IV. Company Overview

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

The Company is a for-profit life, accident and health insurer domiciled in Texas. The Company primarily sells life and health insurance and annuities. As of 2010, the Company discontinued its health insurance policies that are guaranteed renewable, grandfathered plans.

During the 2011, 2012 and 2013 MLR reporting years, the Company had business subject to the MLR reporting requirements under 45 CFR Part 158 in the individual market in 37 states. As of December 31, 2013, the Company reported a total of 1,256 covered lives and \$2,673,718 in direct

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<sup>1</sup> Full, in-depth data review was performed only for select state and market segments, because the findings appeared to be consistent across states.

earned premium in policies subject to the MLR reporting and rebate requirements and a total of 152,180 covered lives and \$132,530,273 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 Medicare Supplement, cancer expense, limited benefit, long term care and nursing home care policies.

## **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>
George R. Ferdinandtsen	President and CEO
John M. Flippin	Secretary and Treasurer
John J. Dunn, Jr.	Vice President and CFO
William F. Carlton	Controller
Ronald J. Welch	Senior Vice President
Steve H. Schouweiler	Executive Vice President and COO
Clarence E. Tipton	Vice President and Actuary

### **Directors**

<b><u>Name</u></b>
George R. Ferdinandtsen
James E. Pozzi
Steven J. Schouweiler
Ronald J. Welch
John J. Dunn, Jr.

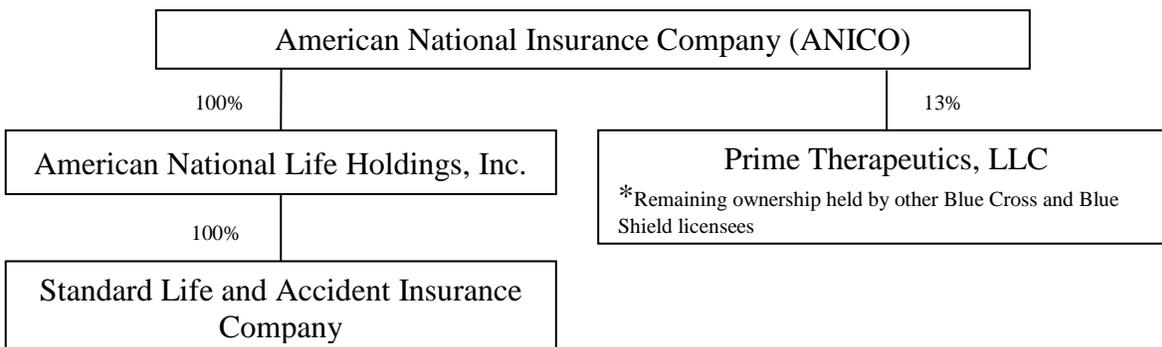
Company management and corporate-level personnel responsible for the preparation, submission and attestation of the 2013 MLR Annual Reporting Form were:

<b><u>Name</u></b>	<b><u>Title</u></b>
George R. Ferdinandtsen	CEO Attester
John J. Dunn, Jr.	CFO Attester

## **C. Ownership**

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

**Standard Life and Accident 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. A Service Agreement with ANICO, its ultimate parent, and ANICO’s other subsidiaries.
2. A Tax-Sharing Agreement with ANICO and its other subsidiaries.
3. An Automatic and Facultative Self-Administered Reinsurance Agreement with ANICO.

**E. Reinsurance**

During 2011, 2012, and 2013, the Company had excess-of-loss reinsurance agreements in place with several non-affiliated entities for hospital and medical services. The Company also had in place a facultative reinsurance agreement with ANICO. The Company did not assume any reinsurance.

**V. Accounts and Records**

The Company’s main administrative and financial reporting office is located at One Moody Plaza, Galveston, TX 77550. 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**

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'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 market, small group market and individual market within each state.

##### **Aggregation**

###### *Reporting of Other Health Business under Incorrect States*

During the examination, the Company discovered and notified the examiners that it had inadvertently reported its Other Health experience on the MLR Annual Reporting Forms for the incorrect states. The total nationwide amounts reported were accurate.

Other than the incorrect reporting of Other Health business 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**

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**

The expenses and programs for quality improvement activities (QIA) identified by the Company met the definition of a QIA in accordance with §158.150. Based upon substantive sample 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 state and market, as required by §158.170. The Company did not include any federal income tax amounts in the tax and regulatory fees reported on its 2013 MLR Annual Reporting Form.

### **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 final, 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, credibility-adjusted MLRs were presumed to exceed the applicable standards in the individual market in all states in which it operated, no rebates were due for 2011, 2012, or 2013.

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

According to its MLR Annual Reporting Forms, the Company did not owe any rebates for 2011, 2012 or 2013 as a result of the MLR calculations. Based on substantive testing, the Company timely issued the 2011 Notice (of no rebate) in accordance with §158.251 and 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 Texas Department of Insurance performed a financial examination of the Company in 2013 covering the period of January 1, 2011 through December 31, 2012. The financial examination did not result in any findings.

## **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, Summary of Recommendations, and Company Responses**

CCIIO has examined Standard Life and Accident 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 one minor requirement of 45 CFR Part 158. The effect of the examination finding and resultant recalculation of the Company's MLR did not result in any change to its reported MLR for any of the states or 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 amounts are accurately reported in its MLR Annual Reporting Form in accordance with the MLR Annual Reporting Form Filing Instructions, including reporting of Other Health business on the MLR Annual Reporting Form for the appropriate state.

*Company Response*

"The company agrees with the findings of the report, and has added the following procedures in response to its one recommendation:

1. The process whereby data from the Supplemental Health Care Exhibit populates the MLR support workbooks has been automated; and
2. Manual cross-checks of certain amounts reported in both the Supplemental Health Care Exhibit and the Medical Loss Ratio Report have been implemented. These cross-checks are performed for the Grand Total template and for the templates of the three largest states, as measured by earned premium. These cross-checks are done by market."

*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.