

**Report on Examination**  
**of**  
**MedAmerica Insurance Company**  
**of Florida**

**Orlando, Florida**

**as of**

**December 31, 2013**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of MedAmerica Insurance Company of Florida as of December 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation  
February 25, 2015

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## SCOPE OF EXAMINATION

We have completed a financial condition examination of MedAmerica Insurance Company of Florida (the "Company"), a single-state insurer domiciled in Florida. The examination covered the period of January 1, 2011 through December 31, 2013 and took place primarily in the Company's Rochester, New York office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2010. Our examination of the Company was part of a coordinated financial condition examination of the Excellus Health Plan, Inc. ("EHP") group of companies by the states of New York, Pennsylvania and Florida. The group examination was coordinated by the New York Department of Financial Services. A substantial portion of the Company examination work was conducted by Noble Consulting Services, Inc. on behalf of the Office.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and 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.

## **COMPANY HISTORY**

The Company was incorporated in Florida on March 29, 2007 and licensed by the Office as an insurer on June 14, 2007. It was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, Florida Statutes ("F.S.").

### **Dividends and Capital Contributions**

The Company received a \$1.0 million capital contribution from its parent MedAmerica Insurance Company ("MAPA") in 2013. It did not receive capital contributions in 2011 or 2012. The Company did not distribute dividends during the period examined.

## **CORPORATE RECORDS**

We reviewed the minutes of meetings held by the Company's shareholder and board of directors, and by its audit, finance, governance, subsidiary, and executive committees. The Board's approval of Company transactions, including authorization of its investments as required by Section 625.304, F.S., was recorded in the minutes of its meetings.

## **MANAGEMENT AND CONTROL**

The Company was wholly owned by MAPA, a Pennsylvania insurer owned by MedAmerica, Inc. which was wholly owned by EHP, a New York insurer. EHP was wholly owned by Lifetime Healthcare, Inc. ("Lifetime"), a New York holding company.

The Company's senior officers, directors, and members of principal board committees were:

#### Senior Officers

Name	Title
William L. Naylor	Acting President and SVP of Finance
Stephen R. Sloan	Secretary
Dorothy A. Coleman	Treasurer and Chief Financial Officer
Christopher C. Booth	Chief Executive Officer

#### Board of Directors

Name	Location
Hermes L. Ames III	Menands, New York
Jennifer C. Balbach	Buffalo, New York
Christopher C. Booth	Pittsford, New York
Natalie L. Brown	Barneveld, New York
Randall L. Clark	East Amherst, New York
John G. Doyle, Jr.	Ontario, New York
Marianne W. Gaige	Holland Patent, New York
William H. Goodrich	Fariport, New York
Austin T. Hildebrandt	Webster, New York
Thomas Y. Hobart, Jr.	East Amherst, New York
Dennis P. Kessler	Rochester, New York
Joseph F. Kumath, M.D.	Rochester, New York
Patrick A. Mannion	Fayetteville, New York
Alfred D. Matt	Clinton, New York
Colleen E. O'Leary, M.D.	Manlius, New York
Thomas E. Rattmann	Vestal, New York
Charles H. Stuart	Rochester, New York
George F. T. Yancey, Jr.	Rochester, New York

**Audit Committee**

Hermes L. Ames, III  
Natalie L. Brown  
Austin T. Hildebrandt  
Patrick A. Mannion  
George F. T. Yancey, Jr.

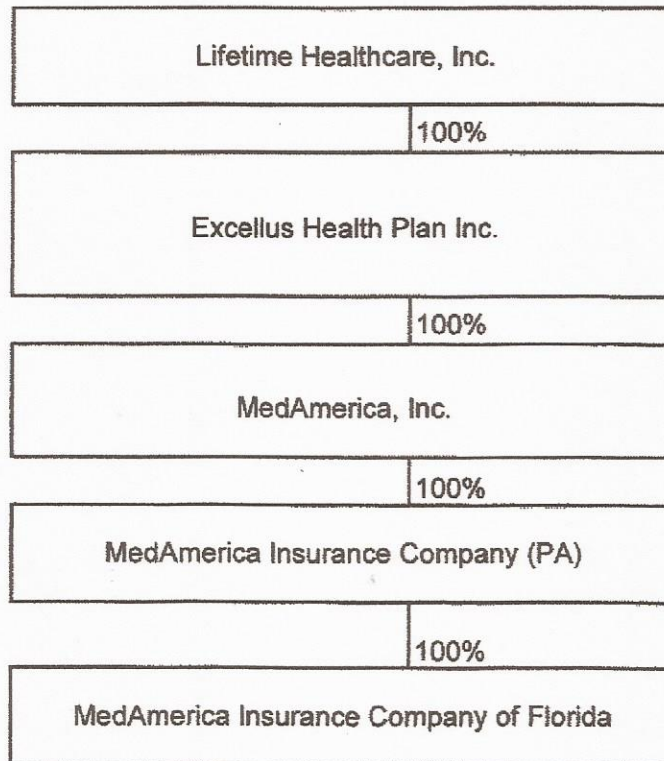
**Finance and Investments Committee**

Hermes L. Ames, III  
Randall L. Clark  
John G. Doyle, Jr.  
Austin T. Hildebrandt  
Patrick A. Mannion

Patrick A. Mannion  
Thomas E. Rattmann  
George F. T. Yancey Jr.

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code, on April 1, 2014.

**MedAmerica Insurance Company of Florida**  
**Abbreviated Organizational Chart**  
**December 31, 2013**



#### Investment Advisor Agreement

The Company executed an investment management agreement with Income Research & Management ("Manager") effective June 9, 2009 and amended January 11, 2012. The Manager warranted it is registered as an investment advisor under the Investment Advisors Act of 1940. This agreement authorizes the Manager, on behalf of the Company, as its agent and attorney-in-fact without consent or consultation to issue instructions to purchase, sell or trade any security in the account and generally perform any other act to carry out its obligation under this agreement. The agreement may be terminated by either party by written notice to all parties, effective 30 days after such notice.

#### Tax Allocation Agreement

The Company executed a tax allocation agreement with Lifetime effective January 1, 2007. The agreement stipulates that during the existence of the agreement, the parties agree to file federal corporate income tax returns on a consolidated basis to the extent permitted by the Internal Revenue Code. The agreement sets forth standards for allocation, payment and settlement procedures. The agreement will remain in force until such time the parties mutually agree to termination or the consolidated group fails to file a corporate income tax return. The Agreement shall be governed by and construed under the laws of the State of New York.

#### Supervising General Agent Agreement

The Company executed a supervising general agent agreement with Excellus Insurance Agency, Inc. ("Agent") effective December 14, 2007. The Agent, a company owned by Excellus Ventures, Inc., was engaged by the Company to recruit, train and supervise agents in the solicitation of long-term care products. The agreement will automatically terminate upon expiration of the agent's license or with 30 days written notice by either party to the other specifying the termination date. Amendments to the agency agreement were subsequently executed with

effective dates on September 1, 2009 adding new policy forms. All other terms and conditions remained intact.

#### Capital Support Agreement

The Company became party to a capital support agreement ("CSA") effective June 28, 2010 pursuant to which EHP agreed to make an investment in one or more of the MedAmerica companies in the event a certain trigger event occurs as defined in the CSA. EHP agreed to take any and all action necessary to ensure that the Company and each affiliated long-term care insurance company have sufficient liquid assets for the timely payment of amounts due on policies issued by such long-term care insurance companies on or after that date. This requires that for each calendar year after December 31, 2010, the cash and invested assets of each long-term care insurance company, shown on the annual statement must be more than disabled life reserves for policies subject to the agreement. No contributions have been required from EHP to satisfy the CSA as of or during the years ended December 31, 2013, 2012, 2011, or 2010.

#### Business Association Agreement

The Company became party to an addendum of a business association agreement with MAPA effective November 18, 2013. The agreement is intended to comply with the then-current requirements applicable to business associates under the implementing regulations relating to privacy, security and breach notification and enforcement at 45 Code of Federal Regulations Parts 160-64 for the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996. The agreement replaced the original business association agreement dated March 9, 2010.

#### Long-Term Care Service Agreement

The Company entered into a long-term care services agreement with MAPA effective April 1, 2007. Pursuant to the agreement, MAPA will provide services to the Company. The term of the initial agreement was five years and automatically renews for one year on each anniversary from the initial effective date, unless termination notice is given 180 days in advance.

#### **FIDELITY BONDS AND OTHER INSURANCE**

The Company was a listed insured under a fidelity bond policy held by the parent EHP with coverage of \$10,000,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$200,000.

#### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of EHP performed functions on behalf of the Company. EHP provided various benefits to eligible employees of the Company including defined benefit pension plans, health care, life insurance, and participation in a 401(k) savings plan.

#### **TERRITORY AND PLAN OF OPERATION**

The Company provided long-term care insurance products through licensed agents and brokers. It was authorized to transact insurance solely in the State of Florida.

### COMPANY GROWTH

The Company reported the following for years 2011 through 2013:

*(Dollars in millions)*

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net premiums	\$ 3.2	\$ 3.6	\$ 4.2
Total revenue	\$ 4.0	\$ 4.5	\$ 5.3
Net income (loss)	\$ (0.6)	\$ (0.6)	\$ (0.4)
Admitted assets	\$ 16.3	\$ 19.7	\$ 23.3
Liabilities	\$ 13.6	\$ 17.7	\$ 20.9
Paid in Surplus	\$ 0.0	\$ 0.0	\$ 1.0
Capital and surplus	\$ 2.7	\$ 2.0	\$ 2.4

### STATUTORY DEPOSIT

The following security was deposited with the State of Florida in the amount of \$119,130 as required by Section 624.411, F.S.

**MedAmerica Insurance Company of Florida**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2013**

<b>Admitted Assets</b>	<b>As Reported</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$ 21,725,574	\$ -	\$ 21,725,574
Cash, cash equivalents and short-term investments	1,044,415	-	1,044,415
Receivables for securities	2	-	2
Investment income due and accrued	334,084	-	334,084
Uncollected premiums and agents' balances	131,123	-	131,123
Current income tax recoverable	68,974	-	68,974
<b>Total admitted assets</b>	<b>\$ 23,304,172</b>	<b>\$ -</b>	<b>\$ 23,304,172</b>
<b>Liabilities</b>			
Aggregate reserve for accident and health contracts	\$ 19,870,473	\$ -	\$ 19,870,473
Contract claims: Accident and health	36,286	-	36,286
Premiums and annuity considerations received in advance	70,442	-	70,442
Interest maintenance reserve	437,395	-	437,395
Commissions to agents due or accrued	4,236	-	4,236
General expenses due or accrued	176,441	-	176,441
Taxes, licenses and fees due or accrued	16,669	-	16,669
Asset valuation reserve	93,342	-	93,342
Payable to parent, subsidiaries and affiliates	105,400	-	105,400
Aggregate write-ins for other liabilities	86,245	-	86,245
<b>Total liabilities</b>	<b>20,896,929</b>	<b>-</b>	<b>20,896,929</b>
<b>Capital and Surplus</b>			
Common capital stock	\$ 15,000	\$ -	\$ 15,000
Gross paid in and contributed surplus	5,485,000	-	5,485,000
Unassigned funds (deficit)	(3,092,757)	-	(3,092,757)
<b>Total capital and surplus</b>	<b>2,407,243</b>	<b>-</b>	<b>2,407,243</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 23,304,172</b>	<b>\$ -</b>	<b>\$ 23,304,172</b>

**MedAmerica Insurance Company of Florida**  
**Summary of Operations**  
**(As reported by the Company)**  
**For The Year Ended December 31, 2013**

Premiums and annuity considerations	\$ 4,193,455
Net investment income	1,076,008
Amortization of interest maintenance reserve	29,068
<b>Total revenues</b>	<b>5,298,531</b>
Disability benefits and benefits under accident and health contracts	752,152
Increase in aggregate reserves for life and accident and health contracts	3,162,290
	3,914,442
Commissions on premiums, annuity considerations and deposit-type contract funds	1,044,724
General insurance expenses	708,000
Insurance taxes, licenses and fees, excluding federal income taxes	109,804
	<b>5,776,970</b>
Net gain from operations before dividends to policyholders and federal income taxes	(478,439)
Federal and foreign income taxes incurred	(104,726)
Net gain from operations before capital gains and losses	(373,713)
Net realized capital gains (losses)	(1,103)
<b>Net income</b>	<b>\$ (374,816)</b>

**MedAmerica Insurance Company of Florida**  
**Statement of Changes in Capital and Surplus**  
**For The Three Years Ended December 31, 2013**

Capital and surplus - December 31, 2010	\$ 3,338,834
Net income (loss)	(568,149)
Change in net deferred income tax	(83,004)
Change in nonadmitted assets and related items	(111,227)
Change in asset valuation reserve	(14,485)
Aggregate write-ins for gains and losses in surplus	90,156
Capital and surplus - December 31, 2011	2,652,125
Net income (loss)	(623,310)
Change in net deferred income tax	20,011
Change in nonadmitted assets	(61,949)
Change in asset valuation reserve	(20,596)
Capital and surplus - December 31, 2012	1,966,281
Net income (loss)	(374,816)
Change in net deferred income taxes	(546,393)
Change in nonadmitted assets	375,770
Change in asset valuation reserve	(23,458)
Paid in surplus adjustment	1,000,000
Aggregate write-ins for gains and losses in surplus	9,859
	2,407,243
Examination adjustments	-
Capital and surplus - December 31, 2013	\$ 2,407,243

**MedAmerica Insurance Company of Florida**  
**Comparative Analysis of Changes in Capital & Surplus**  
**December 31, 2013**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

**Capital & surplus, December 31, 2013 - per annual statement** **\$ 2,407,243**

	<u>As Reported</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital &amp; Surplus</u>
Total assets	\$ 23,304,172	\$ 23,304,172	\$ -
Total liabilities	\$20,896,929	\$20,896,929	\$ -
Net change in capital and surplus			<u>0</u>

**Capital & surplus, December 31, 2013 - per examination** **\$ 2,407,243**

### **SUBSEQUENT EVENTS**

On August 1, 2014, the chief information officer position held by Wheeler Coleman was eliminated. Currently, there are five individuals who are collectively and collaboratively working together to oversee the IT operations of the Company. Those individuals include the VP & Chief Application Officer, the VP of Requirements and Strategic Business Projects, the Chief Technical Officer, the VP & Chief Production Officer and the VP & Chief Integration Officer.

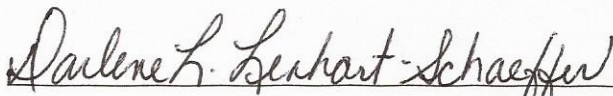
## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of MedAmerica Insurance Company of Florida consistent with the insurance laws of the State of Florida.

At December 31, 2013, the Company's capital and surplus was \$2,407,243 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, Kerry Krantz, Actuary and Noble Consulting Services, Inc. participated in the examination.

Respectfully submitted,

  
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Darlene L. Lenhart-Schaeffer, CFE, CISA, APIR  
Financial Examiner/Analyst Supervisor